WEBSTER FINANCIAL CORP
Form 10-Q
November 05, 2018

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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 September 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 every Interactive Data File required to be submitted 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 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 October 31, 2018 was 92,236,627.

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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 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) | September 30, 2018 (Unaudited) | December 31, 2017 |
|---|---|---|
| **Assets:** | | |
| Cash and due from banks | $222,234 | $231,158 |
| Interest-bearing deposits | 99,746 | 25,628 |
| Investment securities available-for-sale, at fair value | 2,823,953 | 2,638,037 |
| Investment securities held-to-maturity (fair value of $4,164,359 and $4,456,350) | 4,332,458 | 4,487,392 |
| Federal Home Loan Bank and Federal Reserve Bank stock | 133,740 | 151,566 |
| Loans held for sale, fair value option | 17,137 | 20,888 |
| Loans and leases | 18,321,019 | 17,523,858 |
| Allowance for loan and lease losses | (211,832) | (199,994) |
| Loans and leases, net | 18,109,187 | 17,323,864 |
| Deferred tax assets, net | 92,910 | 92,630 |
| Premises and equipment, net | 128,507 | 130,001 |
| Goodwill | 538,373 | 538,373 |
| Other intangible assets, net | 26,726 | 29,611 |
| Cash surrender value of life insurance policies | 539,923 | 531,820 |
| Accrued interest receivable and other assets | 281,423 | 286,677 |
| Total assets | $27,346,317 | $26,487,645 |
| **Liabilities and shareholders' equity:** | | |
| Deposits: | | |
| Non-interest-bearing | $4,231,505 | $4,191,496 |
| Interest-bearing | 17,766,118 | 16,802,233 |
| Total deposits | 21,997,623 | 20,993,729 |
| Securities sold under agreements to repurchase and other borrowings | 564,488 | 643,269 |
| Federal Home Loan Bank advances | 1,441,884 | 1,677,105 |
| Long-term debt | 225,957 | 225,767 |
| Accrued expenses and other liabilities | 300,167 | 245,817 |
| Total liabilities | 24,530,119 | 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 | 1,114,848 | 1,122,164 |
| Retained earnings | 1,761,036 | 1,595,762 |
| Treasury stock, at cost (1,536,554 and 1,658,526 shares) | (74,096) | (70,430) |
| Accumulated other comprehensive loss, net of tax | (131,564) | (91,531) |
| Total shareholders' equity | 2,816,198 | 2,701,958 |
| Total liabilities and shareholders' equity | $27,346,317 | $26,487,645 |

*See accompanying Notes to Condensed Consolidated Financial Statements.*

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| *(In thousands, except per share data)* | **2018** | **2017** | **2018** | **2017** |
| **Interest Income:** | | | | |
| Interest and fees on loans and leases | $215,448 | $181,130 | $616,488 | $523,394 |
| Taxable interest and dividends on investments | 47,646 | 43,819 | 142,361 | 136,167 |
| Non-taxable interest on investment securities | 5,061 | 5,765 | 15,428 | 17,103 |
| Loans held for sale | 208 | 307 | 498 | 826 |
| Total interest income | 268,363 | 231,021 | 774,775 | 677,490 |
| **Interest Expense:** | | | | |
| Deposits | 24,397 | 16,760 | 62,778 | 44,874 |
| Securities sold under agreements to repurchase and other borrowings | 3,084 | 3,847 | 10,722 | 10,970 |
| Federal Home Loan Bank advances | 7,685 | 6,894 | 23,437 | 22,543 |
| Long-term debt | 2,825 | 2,616 | 8,288 | 7,748 |
| Total interest expense | 37,991 | 30,117 | 105,225 | 86,135 |
| Net interest income | 230,372 | 200,904 | 669,550 | 591,355 |
| Provision for loan and lease losses | 10,500 | 10,150 | 32,000 | 27,900 |
| Net interest income after provision for loan and lease losses | 219,872 | 190,754 | 637,550 | 563,455 |
| **Non-interest Income:** | | | | |
| Deposit service fees | 40,601 | 38,321 | 121,911 | 113,519 |
| Loan and lease related fees | 10,782 | 6,346 | 24,111 | 19,898 |
| Wealth and investment services | 8,412 | 7,750 | 24,738 | 22,900 |
| Mortgage banking activities | 1,305 | 2,421 | 3,684 | 8,038 |
| Increase in cash surrender value of life insurance policies | 3,706 | 3,720 | 10,921 | 10,943 |
| Impairment loss on investment securities recognized in earnings | — | — | — | (126) |
| Other income | 7,478 | 7,288 | 24,040 | 18,267 |
| Total non-interest income | 72,284 | 65,846 | 209,405 | 193,439 |
| **Non-interest Expense:** | | | | |
| Compensation and benefits | 96,640 | 88,395 | 284,457 | 262,288 |
| Occupancy | 14,502 | 14,744 | 45,489 | 46,957 |
| Technology and equipment | 24,553 | 22,580 | 73,019 | 66,646 |
| Intangible assets amortization | 961 | 1,002 | 2,885 | 3,085 |
| Marketing | 4,052 | 4,045 | 12,493 | 14,101 |
| Professional and outside services | 4,930 | 4,030 | 14,099 | 11,813 |
| Deposit insurance | 9,694 | 6,344 | 30,098 | 19,701 |
| Other expense | 23,451 | 20,683 | 68,317 | 65,435 |
| Total non-interest expense | 178,783 | 161,823 | 530,857 | 490,026 |
| Income before income tax expense | 113,373 | 94,777 | 316,098 | 266,868 |
| Income tax expense | 13,700 | 30,281 | 54,518 | 81,322 |
| Net income | 99,673 | 64,496 | 261,580 | 185,546 |
| Preferred stock dividends and other | (2,213) | (2,070) | (6,540) | (6,284) |
| Earnings applicable to common shareholders | $97,460 | $62,426 | $255,040 | $179,262 |
| | | | | |
| **Earnings per common share:** | | | | |
| Basic | $1.06 | $0.68 | $2.77 | $1.95 |
| Diluted | 1.06 | 0.67 | 2.77 | 1.94 |

*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 September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| *(In thousands)* | **2018** | **2017** | **2018** | **2017** |
| **Net income** | $99,673 | $64,496 | $261,580 | $185,546 |
| **Other comprehensive (loss) income (OCL) OCI, net of tax:** | | | | |
| Total securities available-for-sale | (13,811 ) | 872 | (50,481 ) | 1,847 |
| Total derivative instruments | 1,635 | 1,111 | 5,837 | 2,921 |
| Total defined benefit pension and other postretirement benefit plans | 2,548 | 1,001 | 4,611 | 3,127 |
| Other comprehensive (loss) income, net of tax | (9,628 ) | 2,984 | (40,033 ) | 7,895 |
| Comprehensive income | $90,045 | $67,480 | $221,547 | $193,441 |

*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 | — | — | — | 261,580 | — | — | 261,580 |
| Other comprehensive loss, net of tax | — | — | — | — | — | (40,033) | (40,033) |
| Common stock dividends/equivalents $0.92 per share | — | — | 99 | (85,002) | — | — | (84,903) |
| Series F preferred stock dividends $995.3125 per share | — | — | — | (5,906) | — | — | (5,906) |
| Series F preferred stock dividends accrued adjustment | — | — | — | 22 | — | — | 22 |
| Stock-based compensation | — | — | (1,541) | 2,426 | 7,713 | — | 8,598 |
| Exercise of stock options | — | — | (5,308) | — | 7,418 | — | 2,110 |
| Stock units conversion to shares | — | — | (566) | (6,484) | 7,050 | — | — |
| Common shares acquired from stock compensation plan activity | — | — | — | — | (13,689) | — | (13,689) |
| Common stock repurchase program | — | — | — | — | (12,158) | — | (12,158) |
| Series F preferred stock issuance adjustment | (19) | — | — | — | — | — | (19) |
| **Balance at September 30, 2018** | $ 145,037 | $ 937 | $ 1,114,848 | $ 1,761,036 | $ (74,096) | $ (131,564) | $ 2,816,198 |

| *(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 | — | — | — | 185,546 | — | — | 185,546 |
| Other comprehensive income, net of tax | — | — | — | — | — | 7,895 | 7,895 |
| Common stock dividends/equivalents $0.77 per share | — | — | 124 | (71,096) | — | — | (70,972) |
| Series E preferred stock dividends $1,200.00 per share | — | — | — | (6,072) | — | — | (6,072) |
| Stock-based compensation | — | — | — | 1,887 | 9,070 | — | 10,957 |
| Exercise of stock options | — | — | (2,376) | — | 7,677 | — | 5,301 |
| Common shares acquired from stock compensation plan activity | — | — | — | — | (9,295) | — | (9,295) |
| Common stock repurchase program | — | — | — | — | (11,585) | — | (11,585) |
| **Balance at September 30, 2017** | $ 122,710 | $ 937 | $ 1,123,685 | $ 1,535,585 | $ (75,032) | $ (69,098) | $ 2,638,787 |

*See accompanying Notes to Condensed Consolidated Financial Statements.*

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

| | Nine months ended September 30, | |
|---|---|---|
| *(In thousands)* | **2018** | **2017** |
| **Operating Activities:** | | |
| Net income | $261,580 | $185,546 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan and lease losses | 32,000 | 27,900 |
| Deferred tax expense (benefit) | 13,138 | (3,241) |
| Depreciation and amortization | 28,991 | 28,060 |
| Amortization of premium/discount on earning assets and funding, net | 38,905 | 33,338 |
| Stock-based compensation | 8,598 | 9,050 |
| Gain on sale, net of write-down, on foreclosed and repossessed assets | (745) | (551) |
| Write-down, net on premises and equipment | 295 | 218 |
| Impairment loss on investment securities recognized in earnings | — | 126 |
| Increase in cash surrender value of life insurance policies | (10,921) | (10,943) |
| Gain from life insurance policies | (1,453) | — |
| Mortgage banking activities | (3,684) | (8,038) |
| Proceeds from sale of loans held for sale | 147,105 | 262,029 |
| Origination of loans held for sale | (141,699) | (227,435) |
| Net decrease in derivative contract assets net of liabilities | 130,250 | 11,235 |
| Net increase in accrued interest receivable and other assets | (9,506) | (19,405) |
| Net increase in accrued expenses and other liabilities | 3,529 | 12,386 |
| Net cash provided by operating activities | 496,383 | 300,275 |
| **Investing Activities:** | | |
| Net (increase) decrease in interest-bearing deposits | (74,118) | 2,469 |
| Purchases of available for sale investment securities | (760,575) | (305,309) |
| Proceeds from maturities and principal payments of available for sale investment securities | 445,704 | 695,595 |
| Purchases of held-to-maturity investment securities | (283,770) | (887,240) |
| Proceeds from maturities and principal payments of held-to-maturity investment securities | 414,487 | 525,499 |
| Net proceeds of Federal Home Loan Bank stock | 17,826 | 58,306 |
| Alternative investments return of capital, net | 231 | 107 |
| Net increase in loans | (826,400) | (446,454) |
| Proceeds from loans not originated for sale | 674 | 7,445 |
| Proceeds from life insurance policies | 4,271 | 746 |
| Proceeds from the sale of foreclosed and repossessed assets | 7,046 | 5,651 |
| Proceeds from the sale of premises and equipment | — | 2,182 |
| Additions to premises and equipment | (25,481) | (20,034) |
| Proceeds from redemption of other assets | — | 7,581 |
| Net cash used for investing activities | (1,080,105) | (353,456) |

*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**

| (In thousands) | Nine months ended September 30, 2018 | 2017 |
|---|---|---|
| **Financing Activities:** | | |
| Net increase in deposits | 1,003,445 | 1,551,987 |
| Proceeds from Federal Home Loan Bank advances | 5,225,000 | 9,245,000 |
| Repayments of Federal Home Loan Bank advances | (5,460,221) | (10,580,218) |
| Net decrease in securities sold under agreements to repurchase and other borrowings | (78,781) | (46,624) |
| Dividends paid to common shareholders | (85,002) | (70,732) |
| Dividends paid to preferred shareholders | (5,906) | (6,072) |
| Exercise of stock options | 2,110 | 5,301 |
| Common stock repurchase program | (12,158) | (11,585) |
| Common shares purchased related to stock compensation plan activity | (13,689) | (9,295) |
| Net cash provided by financing activities | 574,798 | 77,762 |
| Net (decrease) increase in cash and due from banks | (8,924) | 24,581 |
| Cash and due from banks at beginning of period | 231,158 | 190,663 |
| Cash and due from banks at end of period | $222,234 | $215,244 |
| | | |
| **Supplemental disclosure of cash flow information:** | | |
| Interest paid | $104,861 | $85,242 |
| Income taxes paid | 51,237 | 78,832 |
| **Noncash investing and financing activities:** | | |
| Transfer of loans and leases to foreclosed properties and repossessed assets | $5,548 | $6,503 |
| Transfer of loans from loans and leases to loans-held-for-sale | 482 | — |

*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 September 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.***

Reclassification of certain loans under existing and modified FDIC loan category classifications resulted in an obligation for additional FDIC premiums for the period June 30, 2015 through December 31, 2017. An initial accrual of approximately $7.2 million was made in the second quarter to establish an expected liability at June 30, 2018. During the third quarter, the Company made a $10.0 million payment to the FDIC to resolve its obligation.

**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 held within the portfolio. The Update accelerates the Company's recognition of premium amortization on those debt securities.

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.

***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.

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) - Recognition and Measurement of Financial Assets and Financial Liabilities.***

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. 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.

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**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. 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract***
The Update aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The updated guidance also requires an entity to amortize the capitalized implementation costs as an expense over the term of the hosting arrangement and to present in the same income statement line item as the fees associated with the hosting arrangement.

This Update is effective for the Company on January 1, 2020, with early adoption permitted. The Company does not intend to early adopt this Update. The Company will apply the amendments in this update prospectively to all implementation costs incurred after the date of adoption. The Company does not expect this Update to have a material impact on its consolidated financial statements.

***ASU No. 2018-14, Compensation-Retirement Benefits - Defined Benefit Plan - General (Subtopic 715-20) - Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans***
The Update modifies the disclosure requirements for defined benefit pension plans and other postretirement plans. This updated guidance will be effective for the Company on January 1, 2021. The Company does not expect this Update to have a material impact on its consolidated financial statements.

***ASU No. 2018-13, Fair Value Measurement (Topic 820) - Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement***
The Update modifies the disclosure requirements on fair value measurements. The updated guidance will no longer require entities to disclose the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy. However, it will require public companies to disclose changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 measurements. This Update is effective for the Company on January 1, 2020, and earlier adoption is permitted. The Company does not expect this Update to have a material impact on its consolidated financial statements.

***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 consolidated 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 consolidated financial statements.

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***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 required resources, use of existing and new models, and data availability. The Company expects that the new credit models will include additional assumptions used to calculate credit losses over the estimated life of the financial assets and will include expected future changes in macroeconomic conditions. The Company contracted with system solution providers and is in the process of implementing the selected solutions that will be used to run its credit loss models.

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 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. During Q3 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, January 1, 2019 for the Company, as the date of initial application of the new leases standard and recognize cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. 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. 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.

**SEC's Final Rule on Disclosure Update and Simplification**

The Securities and Exchange Commission (the "SEC") recently adopted the Final Rule, Disclosure Update and Simplification, that amends certain of the SEC's disclosure requirements to reduce redundant, duplicative, or outdated disclosures due to changes in U.S. GAAP, International Financial Reporting Standards, or changes in technology or the business environment. While most of the amendments included in the SEC's Final Rule eliminate certain disclosure requirements, one amendment will require expanded interim disclosures for stockholders' equity and which would include disclosures of dividends per share for each class of share rather than only for common stock, as well as disclosure for changes in stockholders' equity in interim periods. This Final Rule will be effective for all filings submitted on or after November 5, 2018. However, after the issuance of the Final Rule, the SEC published an interpretation that provides an extended transition period for companies to comply with the new interim disclosure requirement. The Company will comply with the new interim disclosure requirement when it files its first quarter 2019 Form 10-Q and does not expect the new disclosure requirement to have a material impact on its financial statements.

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## 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, 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 September 30, 2018 and December 31, 2017, the aggregate carrying value of the Company's tax credit-finance investments were $30.0 million and $33.5 million, respectively. At September 30, 2018 and December 31, 2017, unfunded commitments have been recognized, totaling $10.7 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 September 30, 2018 and December 31, 2017, the aggregate carrying value of the Company's other investments in VIEs were $16.4 million and $13.8 million, respectively, and the total exposure of the Company's other investments in VIEs, including unfunded commitments, were $28.7 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 September 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 | $9,215 | $ — | $(1) | $9,214 | $1,247 | $ — | $— | $1,247 |
| Agency CMO | 254,549 | 79 | (8,162) | 246,466 | 308,989 | 1,158 | (3,814) | 306,333 |
| Agency MBS | 1,466,973 | 641 | (57,883) | 1,409,731 | 1,124,960 | 2,151 | (19,270) | 1,107,841 |
| Agency CMBS | 610,411 | — | (39,862) | 570,549 | 608,276 | — | (20,250) | 588,026 |
| CMBS | 404,104 | 850 | (52) | 404,902 | 358,984 | 2,157 | (74) | 361,067 |
| CLO | 127,743 | 202 | (284) | 127,661 | 209,075 | 910 | (134) | 209,851 |
| Single issuer-trust preferred | — | — | — | — | 7,096 | — | (46) | 7,050 |
| Corporate debt | 56,032 | 361 | (963) | 55,430 | 56,504 | 797 | (679) | 56,622 |
| Available-for-sale | $2,929,027 | $ 2,133 | $(107,207) | $2,823,953 | $2,675,131 | $ 7,173 | $(44,267) | $2,638,037 |
| **Held-to-maturity:** | | | | | | | | |
| Agency CMO | $218,351 | $ 143 | $(9,192) | $209,302 | $260,114 | $ 664 | $(4,824) | $255,954 |
| Agency MBS | 2,535,043 | 8,256 | (110,035) | 2,433,264 | 2,569,735 | 16,989 | (37,442) | 2,549,282 |
| Agency CMBS | 672,505 | — | (28,222) | 644,283 | 696,566 | — | (10,011) | 686,555 |
| Municipal bonds and notes | 684,587 | 804 | (26,487) | 658,904 | 711,381 | 8,584 | (6,558) | 713,407 |
| CMBS | 221,969 | 380 | (3,746) | 218,603 | 249,273 | 2,175 | (620) | 250,828 |
| Private Label MBS | 3 | — | — | 3 | 323 | 1 | — | 324 |
| Held-to-maturity | $4,332,458 | $ 9,583 | $(177,682) | $4,164,359 | $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 September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (In thousands) | 2018 | 2017 | 2018 | 2017 |
| Beginning balance | $1,103 | $3,231 | $1,364 | $3,243 |
| Reduction for investment securities called | (281) | (1,028) | (542) | (1,166) |
| Additions for OTTI not previously recognized in earnings | — | — | — | 126 |
| Ending balance | $822 | $2,203 | $822 | $2,203 |

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 September 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:** | | | | | | | |
| U.S. Treasury Bills | $9,214 | $(1) | $— | $— | 2 | $9,214 | $(1) |
| Agency CMO | 108,055 | (2,046) | 123,570 | (6,116) | 43 | 231,625 | (8,162) |
| Agency MBS | 632,866 | (13,665) | 751,739 | (44,218) | 185 | 1,384,605 | (57,883) |
| Agency CMBS | 28,075 | (1,074) | 542,474 | (38,788) | 37 | 570,549 | (39,862) |
| CMBS | 68,695 | (52) | — | — | 14 | 68,695 | (52) |
| CLO | 41,156 | (143) | 15,009 | (141) | 3 | 56,165 | (284) |
| Single issuer-trust preferred | — | — | — | — | — | — | — |
| Corporate debt | 8,862 | (72) | 17,157 | (891) | 5 | 26,019 | (963) |
| Available-for-sale in an unrealized loss position | $896,923 | $(17,053) | $1,449,949 | $(90,154) | 289 | $2,346,872 | $(107,207) |
| **Held-to-maturity:** | | | | | | | |
| Agency CMO | $31,749 | $(959) | $155,428 | $(8,233) | 26 | $187,177 | $(9,192) |
| Agency MBS | 757,451 | (20,783) | 1,467,605 | (89,252) | 274 | 2,225,056 | (110,035) |
| Agency CMBS | 43,474 | (697) | 600,808 | (27,525) | 57 | 644,282 | (28,222) |
| Municipal bonds and notes | 343,560 | (11,463) | 216,401 | (15,024) | 272 | 559,961 | (26,487) |
| CMBS | 160,047 | (3,256) | 17,152 | (490) | 21 | 177,199 | (3,746) |
| Held-to-maturity in an unrealized loss position | $1,336,281 | $(37,158) | $2,457,394 | $(140,524) | 650 | $3,793,675 | $(177,682) |

| | 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:** | | | | | | | |
| U.S. Treasury Bills | $— | $— | $— | $— | — | $— | $— |
| 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) |

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**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 are impaired as of September 30, 2018. 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 September 30, 2018.

***Available-for-Sale Securities***

***Agency CMO.*** There were unrealized losses of $8.2 million on the Company's investment in Agency CMO at September 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 $57.9 million on the Company's investment in residential mortgage-backed securities issued by government agencies at September 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 $39.9 million on the Company's investment in commercial mortgage-backed securities issued by government agencies at September 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 $52 thousand on the Company's investment in CMBS at September 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 September 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 $284 thousand on the Company's investments in CLO at September 30, 2018 compared to $134 thousand unrealized losses at December 31, 2017. Unrealized losses remained insignificant while principal balances decreased from December 31, 2017. Contractual cash flows for the bonds continue to perform as expected.

***Corporate debt.*** There were unrealized losses of $963 thousand on the Company's corporate debt portfolio at September 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. Contractual cash flows for the bonds continue to perform as expected.

***Held-to-Maturity Securities***

***Agency CMO.*** There were unrealized losses of $9.2 million on the Company's investment in Agency CMO at September 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 $110.0 million on the Company’s investment in residential mortgage-backed securities issued by government agencies at September 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.

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***Agency CMBS.*** There were unrealized losses of $28.2 million on the Company's investment in commercial mortgage-backed securities issued by government agencies at September 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.

***Municipal bonds and notes.*** There were unrealized losses of $26.5 million on the Company's investment in municipal bonds and notes at September 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 $3.7 million on the Company's investment in CMBS at September 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 nine months ended September 30, 2018 and 2017.

**Contractual Maturities**

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

| | At September 30, 2018 | | | |
|---|---|---|---|---|
| | Available-for-Sale | | Held-to-Maturity | |
| *(In thousands)* | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in one year or less | $29,730 | $29,750 | $6,352 | $6,378 |
| Due after one year through five years | 31,012 | 31,092 | 4,244 | 4,272 |
| Due after five through ten years | 276,583 | 276,143 | 40,016 | 39,933 |
| Due after ten years | 2,591,702 | 2,486,968 | 4,281,846 | 4,113,776 |
| Total debt securities | $2,929,027 | $2,823,953 | $4,332,458 | $4,164,359 |

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 September 30, 2018, the Company had a carrying value of $1.1 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 $2.5 billion at September 30, 2018 and $2.4 billion 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 September 30, 2018 | At December 31, 2017 |
|---|---|---|
| Residential | $ 4,415,063 | $ 4,490,878 |
| Consumer | 2,441,181 | 2,590,225 |
| Commercial | 6,174,396 | 5,368,694 |
| Commercial Real Estate | 4,771,325 | 4,523,828 |
| Equipment Financing | 519,054 | 550,233 |
| Loans and leases (1) (2) | $ 18,321,019 | $ 17,523,858 |

(1) *Loans and leases include net deferred fees and net premiums/discounts of $13.6 million and $20.6 million at September 30, 2018 and December 31, 2017, respectively.*

(2) *At September 30, 2018 the Company had pledged $7.1 billion of eligible residential, consumer, and commercial loans as collateral to support borrowing capacity at the Federal Home Loan Bank (FHLB) of Boston and the Federal Reserve Bank (FRB) of Boston.*

## Loans and Leases Aging

The following tables summarize the aging of loans and leases:

| | At September 30, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| *(In thousands)* | 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 | $ 9,023 | $ 5,510 | $ — | $ 49,469 | $ 64,002 | $ 4,351,061 | $ 4,415,063 |
| Consumer: | | | | | | | |
| Home equity | 9,519 | 3,442 | — | 35,174 | 48,135 | 2,165,340 | 2,213,475 |
| Other consumer | 1,819 | 898 | — | 1,490 | 4,207 | 223,499 | 227,706 |
| Commercial: | | | | | | | |
| Commercial non-mortgage | 659 | 543 | 147 | 55,040 | 56,389 | 5,148,962 | 5,205,351 |
| Asset-based | — | — | — | 1,029 | 1,029 | 968,016 | 969,045 |
| Commercial real estate: | | | | | | | |
| Commercial real estate | 2,715 | 35 | — | 7,254 | 10,004 | 4,564,320 | 4,574,324 |
| Commercial construction | — | — | — | — | — | 197,001 | 197,001 |
| Equipment financing | 1,371 | 3,617 | — | 3,339 | 8,327 | 510,727 | 519,054 |
| Total | $ 25,106 | $ 14,045 | $ 147 | $ 152,795 | $ 192,093 | $ 18,128,926 | $ 18,321,019 |

| | At December 31, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| *(In thousands)* | 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 $4.3 million and $2.8 million for the three months ended September 30, 2018 and 2017, respectively, and $7.9 million and $6.4 million for the nine months ended September 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 September 30, 2018 | Residential | Consumer | Commercial | Commercial Real Estate | Equipment Financing | Total |
|---|---|---|---|---|---|---|
| **ALLL:** | | | | | | |
| Balance, beginning of period | $19,007 | $31,759 | $95,340 | $55,833 | $5,383 | $207,322 |
| Provision (benefit) charged to expense | 407 | 474 | 5,686 | 4,146 | (213) | 10,500 |
| Charge-offs | (874) | (4,863) | (740) | (1,922) | (136) | (8,535) |
| Recoveries | 133 | 1,827 | 431 | 143 | 11 | 2,545 |
| Balance, end of period | $18,673 | $29,197 | $100,717 | $58,200 | $5,045 | $211,832 |

| (In thousands) At or for the three months ended September 30, 2017 | Residential | Consumer | Commercial | Commercial Real Estate | Equipment Financing | Total |
|---|---|---|---|---|---|---|
| **ALLL:** | | | | | | |
| Balance, beginning of period | $18,427 | $42,488 | $79,964 | $52,402 | $6,297 | $199,578 |
| (Benefit) provision charged to expense | (348) | (41) | 12,166 | (2,129) | 502 | 10,150 |
| Charge-offs | (585) | (6,197) | (3,002) | (749) | (121) | (10,654) |
| Recoveries | 280 | 1,894 | 466 | 10 | 79 | 2,729 |
| Balance, end of period | $17,774 | $38,144 | $89,594 | $49,534 | $6,757 | $201,803 |

| (In thousands) At or for the nine months ended September 30, 2018 | 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 | 1,316 | 2,967 | 17,596 | 10,678 | (557) | 32,000 |
| Charge-offs | (2,545) | (14,844) | (7,869) | (2,039) | (246) | (27,543) |
| Recoveries | 844 | 4,884 | 1,457 | 154 | 42 | 7,381 |
| Balance, end of period | $18,673 | $29,197 | $100,717 | $58,200 | $5,045 | $211,832 |
| Individually evaluated for impairment | $4,319 | $1,428 | $10,491 | $1,544 | $15 | $17,797 |
| Collectively evaluated for impairment | $14,354 | $27,769 | $90,226 | $56,656 | $5,030 | $194,035 |
| **Loan and lease balances:** | | | | | | |
| Individually evaluated for impairment | $105,600 | $39,808 | $104,353 | $9,767 | $6,489 | $266,017 |
| Collectively evaluated for impairment | 4,309,463 | 2,401,373 | 6,070,043 | 4,761,558 | 512,565 | 18,055,002 |
| Loans and leases | $4,415,063 | $2,441,181 | $6,174,396 | $4,771,325 | $519,054 | $18,321,019 |

| (In thousands) At or for the nine months ended September 30, 2017 | 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 | (4,436) | 6,847 | 21,905 | 2,987 | 597 | 27,900 |
| Charge-offs | (1,940) | (18,273) | (5,321) | (951) | (425) | (26,910) |
| Recoveries | 924 | 4,337 | 1,105 | 21 | 106 | 6,493 |
| Balance, end of period | $17,774 | $38,144 | $89,594 | $49,534 | $6,757 | $201,803 |
| Individually evaluated for impairment | $4,925 | $1,689 | $10,844 | $290 | $38 | $17,786 |
| Collectively evaluated for impairment | $12,849 | $36,455 | $78,750 | $49,244 | $6,719 | $184,017 |
| **Loan and lease balances:** | | | | | | |
| Individually evaluated for impairment | $116,706 | $46,224 | $85,385 | $18,199 | $3,642 | $270,156 |
| Collectively evaluated for impairment | 4,382,735 | 2,520,759 | 5,262,918 | 4,446,718 | 563,135 | 17,176,265 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Loans and leases | $4,499,441 | $2,566,983 | $5,348,303 | $4,464,917 | $566,777 | $17,446,421 |

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**Impaired Loans and Leases**

The following tables summarize impaired loans and leases:

| | At September 30, 2018 | | | | |
|---|---|---|---|---|---|
| *(In thousands)* | Unpaid Principal Balance | Total Recorded Investment | Recorded Investment No Allowance | Recorded Investment With Allowance | Related Valuation Allowance |
| Residential | $ 115,959 | $ 105,600 | $ 66,484 | $ 39,116 | $ 4,319 |
| Consumer - home equity | 45,299 | 39,808 | 30,924 | 8,884 | 1,428 |
| Commercial : | | | | | |
| Commercial non-mortgage | 117,223 | 103,324 | 65,968 | 37,356 | 10,491 |
| Asset-based | 1,074 | 1,029 | 1,029 | — | — |
| Commercial real estate | 12,239 | 9,767 | 2,561 | 7,206 | 1,544 |
| Equipment financing | 6,536 | 6,489 | 6,164 | 325 | 15 |
| Total | $ 298,330 | $ 266,017 | $ 173,130 | $ 92,887 | $ 17,797 |

| | 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 | 11,994 | 11,226 | 6,387 | 4,839 | 272 |
| 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 September 30, | | | | | | Nine months ended September 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 | $ 107,618 | $ 923 | $ 301 | $ 118,841 | $ 1,027 | $ 285 | $ 109,948 | $ 2,852 | $ 819 | $ 118,065 | $ 3,133 | $ 986 |
| Consumer - home equity | 40,722 | 292 | 238 | 46,753 | 341 | 246 | 42,622 | 876 | 738 | 45,972 | 998 | 808 |
| Commercial: | | | | | | | | | | | | |
| Commercial non-mortgage | 94,618 | 847 | — | 81,816 | 249 | — | 87,603 | 2,257 | — | 64,932 | 704 | — |
| Asset based | 1,095 | — | — | 4,279 | — | — | 809 | — | — | 4,279 | — | — |
| Commercial real estate: | | | | | | | | | | | | |
| Commercial real estate | 11,222 | 30 | — | 20,249 | 96 | — | 10,497 | 164 | — | 20,647 | 329 | — |
| Commercial construction | — | — | — | 828 | — | — | — | — | — | 831 | 12 | — |
| Equipment financing | 6,337 | 41 | — | 4,895 | 30 | — | 4,907 | 112 | — | 5,031 | 168 | — |
| Total | $ 261,612 | $ 2,133 | $ 539 | $ 277,661 | $ 1,743 | $ 531 | $ 256,386 | $ 6,261 | $ 1,557 | $ 259,757 | $ 5,344 | $ 1,794 |

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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 September 30, 2018 | At December 31, 2017 | At September 30, 2018 | At December 31, 2017 | At September 30, 2018 | At December 31, 2017 |
| (1) - (6) Pass | $5,742,170 | $5,048,162 | $4,561,901 | $4,355,916 | $499,167 | $525,105 |
| (7) Special Mention | 188,905 | 104,594 | 105,778 | 62,065 | 1,574 | 8,022 |
| (8) Substandard | 236,246 | 206,883 | 103,646 | 105,847 | 18,313 | 17,106 |
| (9) Doubtful | 7,075 | 9,055 | — | — | — | — |
| Total | $6,174,396 | $5,368,694 | $4,771,325 | $4,523,828 | $519,054 | $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, may also be evaluated as credit quality indicators. 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 September 30, 2018 | At December 31, 2017 |
|---|---|---|
| Accrual status | $ 145,219 | $ 147,113 |
| Non-accrual status | 95,154 | 74,291 |
| Total recorded investment of TDRs | $ 240,373 | $ 221,404 |
| | | |
| Specific reserves for TDRs included in the balance of ALLL | $ 16,338 | $ 12,384 |
| Additional funds committed to borrowers in TDR status | 2,926 | 2,736 |

For the portion of TDRs deemed to be uncollectible, Webster charged off $1.1 million and $0.4 million for the three months ended September 30, 2018 and 2017, respectively, and $6.3 million, and $3.0 million for the nine months ended September 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 September 30, | | | | Nine months ended September 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 | 1 | $ 20 | — | $ — | 1 | $ 20 | 9 | $ 1,390 |
| Adjusted Interest Rate | — | — | — | — | — | — | 2 | 335 |
| Maturity/Rate Combined | 4 | 440 | 4 | 570 | 7 | 716 | 9 | 1,416 |
| Other [2] | 3 | 356 | 6 | 1,357 | 16 | 2,798 | 32 | 5,471 |
| Consumer - home equity | | | | | | | | |
| Extended Maturity | 1 | 148 | 2 | 158 | 3 | 341 | 8 | 822 |
| Adjusted Interest Rate | — | — | 1 | 247 | — | — | 1 | 247 |
| Maturity/Rate Combined | 3 | 170 | 2 | 399 | 6 | 618 | 13 | 3,212 |
| Other [2] | 5 | 258 | 12 | 839 | 30 | 1,951 | 55 | 3,733 |
| Commercial non - mortgage | | | | | | | | |
| Extended Maturity | 4 | 537 | — | — | 7 | 622 | 8 | 813 |
| Maturity/Rate Combined | 8 | 8,185 | 8 | 299 | 10 | 8,236 | 13 | 9,153 |
| Other [2] | 8 | 10,585 | — | — | 17 | 39,328 | 1 | 4 |
| Commercial real estate | | | | | | | | |
| Extended Maturity | — | — | — | — | 2 | 97 | — | — |
| Maturity/Rate Combined | — | — | — | — | 1 | 245 | — | — |
| Other [2] | — | — | — | — | 1 | 5,111 | — | — |
| Total TDRs | 37 | $ 20,699 | 35 | $ 3,869 | 101 | $ 60,083 | 151 | $ 26,596 |

*(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.*

Loans and leases modified as TDRs within the previous 12 months and for which there was a payment default, consisted of 1 residential loan with an recorded investment of $241 thousand and 1 residential loan with an recorded investment $248 thousand for the three months ended September 30, 2018 and 2017, respectively, and 2 residential loans with an recorded investment of $261 thousand and 1 residential loan with an recorded investment $248 thousand for the nine months ended September 30, 2018 and 2017, respectively.

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

| *(In thousands)* | At September 30, 2018 | At December 31, 2017 |
|---|---|---|
| (1) - (6) Pass | $ 12,733 | $ 8,268 |
| (7) Special Mention | 334 | 355 |
| (8) Substandard | 74,822 | 53,050 |
| (9) Doubtful | 7,075 | — |
| Total | $ 94,964 | $ 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 September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|
| *(In thousands)* | **2018** | **2017** | **2018** | **2017** |
| Beginning balance | $674 | $843 | $872 | $790 |
| Provision (benefit) charged to expense | 18 | 25 | (172) | 78 |
| Repurchased loans and settlements charged off | (10) | (18) | (18) | (18) |
| Ending balance | $682 | $850 | $682 | $850 |

The following table provides information for mortgage banking activities:

| | **Three months ended September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|
| *(In thousands)* | **2018** | **2017** | **2018** | **2017** |
| **Residential mortgage loans held for sale:** | | | | |
| Proceeds from sale | $57,042 | $88,691 | $147,105 | $262,029 |
| Loans sold with servicing rights retained | 51,014 | 79,690 | 130,740 | 239,357 |
| | | | | |
| Net gain on sale | 1,051 | 1,979 | 2,732 | 4,356 |
| Ancillary fees | 463 | 682 | 1,275 | 2,091 |
| Fair value option adjustment | (209) | (240) | (323) | 1,591 |

The Company has retained servicing rights on residential mortgage loans totaling $2.5 billion at September 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 September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|
| *(In thousands)* | **2018** | **2017** | **2018** | **2017** |
| Beginning balance | $23,341 | $24,708 | $25,139 | $24,466 |
| Additions | 1,428 | 2,576 | 3,878 | 7,063 |
| Amortization | (2,125) | (2,144) | (6,373) | (6,389) |
| Ending balance | $22,644 | $25,140 | $22,644 | $25,140 |

Loan servicing fees, net of mortgage servicing rights amortization, were $0.3 million and $0.2 million for the three months ended September 30, 2018 and 2017, respectively, and $0.9 million and $0.6 million for the nine months ended September 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 $674 thousand for certain commercial loans and $7.4 million for certain residential loans for the nine months ended September 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:

| | At September 30, 2018 | | | At December 31, 2017 | | |
|---|---|---|---|---|---|---|
| *(In thousands)* | 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 | $ (10,283) | $ 11,717 | $ 22,000 | $ (8,610) | $ 13,390 |
| HSA Bank - Customer relationships | 21,000 | (5,991) | 15,009 | 21,000 | (4,779) | 16,221 |
| Total other intangible assets | $ 43,000 | $ (16,274) | $ 26,726 | $ 43,000 | $ (13,389) | $ 29,611 |

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

| *(In thousands)* | |
|---|---|
| Remainder of 2018 | $ 962 |
| 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 September 30, 2018 | At December 31, 2017 |
|---|---|---|
| **Non-interest-bearing:** | | |
| Demand | $ 4,231,505 | $ 4,191,496 |
| **Interest-bearing:** | | |
| Health savings accounts | 5,599,596 | 5,038,681 |
| Checking | 2,587,679 | 2,736,952 |
| Money market | 2,376,649 | 2,209,492 |
| Savings | 4,106,942 | 4,348,700 |
| Time deposits | 3,095,252 | 2,468,408 |
| Total interest-bearing | 17,766,118 | 16,802,233 |
| Total deposits | $ 21,997,623 | $ 20,993,729 |
| | | |
| Time deposits and interest-bearing checking, included in above balances, obtained through brokers | $ 938,092 | $ 898,157 |
| Time deposits, included in above balance, that exceed the FDIC limit | 506,955 | 561,512 |
| Deposit overdrafts reclassified as loan balances | 1,761 | 2,210 |

The scheduled maturities of time deposits are as follows:

| *(In thousands)* | At September 30, 2018 |
|---|---|
| Remainder of 2018 | $ 683,421 |
| 2019 | 1,771,721 |

| | |
|---|---|
| 2020 | 437,240 |
| 2021 | 125,265 |
| 2022 | 49,295 |
| Thereafter | 28,310 |
| Total time deposits | $ 3,095,252 |

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## Note 8:Borrowings

Total borrowings of $2.2 billion at September 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 September 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 | $264,488 | 0.29% | $288,269 | 0.17% |
| Original maturity of greater than one year, non-callable | 100,000 | 2.50 | 300,000 | 3.10 |
| Total securities sold under agreements to repurchase | 364,488 | 0.89 | 588,269 | 1.66 |
| Fed funds purchased | 200,000 | 2.25 | 55,000 | 1.37 |
| Securities sold under agreements to repurchase and other borrowings | $564,488 | 1.37 | $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 September 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 | $948,731 | 2.18 % | $1,150,000 | 1.48 % |
| After 1 but within 2 years | 259,295 | 1.79 | 103,026 | 1.81 |
| After 2 but within 3 years | 75,000 | 1.51 | 215,000 | 1.73 |
| After 3 but within 4 years | 150,049 | 3.27 | 200,000 | 2.06 [(1)] |
| After 4 but within 5 years | 193 | 1.69 | 170 | — |
| After 5 years | 8,616 | 2.64 | 8,909 | 2.65 [(1)] |
| FHLB advances and overall rate | $1,441,884 | 2.19 | $1,677,105 | 1.61 [(1)] |
| | | | | |
| Aggregate carrying value of assets pledged as collateral | $6,773,182 | | $6,402,066 | |
| Remaining borrowing capacity | 3,018,052 | | 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 September 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 | (638 ) | (727 ) |
| Debt issuance cost on senior fixed-rate notes | (725 ) | (826 ) |
| Long-term debt | $ 225,957 | $ 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 September 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 September 30, 2018 | | | | Nine months ended September 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 | $(64,617) | $(10,814) | $(46,505) | $(121,936) | $(27,947) | $(15,016) | $(48,568) | $(91,531) |
| (OCL) OCI before reclassifications | (13,811) | 197 | — | (13,614) | (50,481) | 1,620 | — | (48,861) |
| Amounts reclassified from AOCL | — | 1,438 | 2,548 | 3,986 | — | 4,217 | 4,611 | 8,828 |
| Net current-period OCI/(OCL) | (13,811) | 1,635 | 2,548 | (9,628) | (50,481) | 5,837 | 4,611 | (40,033) |
| Ending balance | $(78,428) | $(9,179) | $(43,957) | $(131,564) | $(78,428) | $(9,179) | $(43,957) | $(131,564) |

| | Three months ended September 30, 2017 | | | | Nine months ended September 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 | $(14,501) | $(15,258) | $(42,323) | $(72,082) | $(15,476) | $(17,068) | $(44,449) | $(76,993) |
| OCI/(OCL) before reclassifications | 872 | (34) | — | 838 | 1,847 | (445) | — | 1,402 |
| Amounts reclassified from AOCL | — | 1,145 | 1,001 | 2,146 | — | 3,366 | 3,127 | 6,493 |
| Net current-period OCI | 872 | 1,111 | 1,001 | 2,984 | 1,847 | 2,921 | 3,127 | 7,895 |
| Ending balance | $(13,629) | $(14,147) | $(41,322) | $(69,098) | $(13,629) | $(14,147) | $(41,322) | $(69,098) |

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

| *(In thousands)* | Three months ended September 30, | | Nine months ended September 30, | | Associated Line Item in the Condensed Consolidated Statements of Income |
|---|---|---|---|---|---|
| **AOCL Components** | **2018** | **2017** | **2018** | **2017** | |
| **Derivative instruments:** | | | | | |
| Cash flow hedges | $(1,932) | $(1,810) | $(5,664) | $(5,316) | Total interest expense |
| Tax benefit | 494 | 665 | 1,447 | 1,950 | Income tax expense |
| Net of tax | $(1,438) | $(1,145) | $(4,217) | $(3,366) | |
| **Defined benefit pension and other postretirement benefit plans:** | | | | | |
| Amortization of net loss | $(3,431) | $(1,587) | $(6,209) | $(4,959) | (1) |
| Tax benefit | 883 | 586 | 1,598 | 1,832 | Income tax expense |
| Net of tax | $(2,548) | $(1,001) | $(4,611) | $(3,127) | |

*(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 September 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Actual | | Minimum Requirement | | Well Capitalized | |
| *(Dollars in thousands)* | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| *Webster Financial Corporation* | | | | | | |
| CET1 risk-based capital | $2,215,456 | 11.23 % | $887,910 | 4.5 % | $1,282,537 | 6.5 % |
| Total risk-based capital | 2,652,270 | 13.44 | 1,578,507 | 8.0 | 1,973,133 | 10.0 |
| Tier 1 risk-based capital | 2,360,493 | 11.96 | 1,183,880 | 6.0 | 1,578,507 | 8.0 |
| Tier 1 leverage capital | 2,360,493 | 8.89 | 1,061,977 | 4.0 | 1,327,471 | 5.0 |
| *Webster Bank* | | | | | | |
| CET1 risk-based capital | $2,137,249 | 10.84 % | $887,232 | 4.5 % | $1,281,558 | 6.5 % |
| Total risk-based capital | 2,351,706 | 11.93 | 1,577,302 | 8.0 | 1,971,628 | 10.0 |
| Tier 1 risk-based capital | 2,137,249 | 10.84 | 1,182,977 | 6.0 | 1,577,302 | 8.0 |
| Tier 1 leverage capital | 2,137,249 | 8.05 | 1,061,427 | 4.0 | 1,326,784 | 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 $220 million during the nine months ended September 30, 2018 compared to $80 million during the nine months ended September 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 $98.6 million and $82.3 million at September 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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(In thousands, except per share data)* | 2018 | 2017 | 2018 | 2017 |
| **Earnings for basic and diluted earnings per common share:** | | | | |
| Net income | $99,673 | $64,496 | $261,580 | $185,546 |
| Less: Preferred stock dividends | 1,968 | 2,024 | 5,884 | 6,072 |
| Net income available to common shareholders | 97,705 | 62,472 | 255,696 | 179,474 |
| Less: Earnings applicable to participating securities | 245 | 46 | 656 | 212 |
| Earnings applicable to common shareholders | $97,460 | $62,426 | $255,040 | $179,262 |
| | | | | |
| **Shares:** | | | | |
| Weighted-average common shares outstanding - basic | 91,959 | 92,125 | 91,912 | 92,003 |
| Effect of dilutive securities: | | | | |
| Stock options and restricted stock | 243 | 372 | 303 | 403 |
| Warrants | 6 | 6 | 6 | 6 |
| Weighted-average common shares outstanding - diluted | 92,208 | 92,503 | 92,221 | 92,412 |
| | | | | |
| **Earnings per common share:** | | | | |
| Basic | $1.06 | $0.68 | $2.77 | $1.95 |
| Diluted | 1.06 | 0.67 | 2.77 | 1.94 |

Potential common shares from non-participating restricted stock, of 97 thousand and 80 thousand for the three months ended September 30, 2018 and 2017, respectively, and 54 thousand and 61 thousand for the nine months ended September 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 September 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 | $4,951 | $— | $— | $325,000 | $2,770 | $— | $— |
| **Not designated as hedging instruments:** | | | | | | | | |
| Positions subject to a master netting agreement (1) | | | | | | | | |
| Interest rate derivatives (2) | 3,852,438 | 13,226 | 76,789 | 215 | 2,791,760 | 5,977 | 721,048 | 1,968 |
| Mortgage banking derivatives (3) | 52,067 | 223 | 3,063 | 7 | 28,497 | 421 | 39,230 | 110 |
| Other | 24,879 | 199 | 23,927 | 435 | 7,914 | 258 | 30,328 | 419 |
| Positions not subject to a master netting agreement (4) | | | | | | | | |
| Interest rate derivatives | 677,679 | 3,090 | 3,242,821 | 83,142 | 1,366,299 | 23,009 | 2,146,518 | 25,631 |
| RPAs | 84,702 | 19 | 100,294 | 43 | 93,713 | 80 | 116,882 | 111 |
| Other | 6,918 | 300 | 2,517 | 47 | — | — | 2,073 | 184 |
| Total not designated as hedging instruments | 4,698,683 | 17,057 | 3,449,411 | 83,889 | 4,288,183 | 29,745 | 3,056,079 | 28,423 |
| Gross derivative instruments, before netting | $5,023,683 | 22,008 | $3,449,411 | 83,889 | $4,613,183 | 32,515 | $3,056,079 | 28,423 |
| Less: Legally enforceable master netting agreements | | 586 | | 586 | | 2,245 | | 2,245 |
| Less: Cash collateral posted | | 17,709 | | — | | 6,704 | | — |
| Total derivative instruments, after netting | | $3,713 | | $83,303 | | $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; $2.7 billion and $1.9 billion for asset derivatives and $47 million and $595 million for liability derivatives at September 30, 2018 and December 31, 2017, respectively, with related fair values of approximately zero.*

*(3) Notional amounts include mandatory forward commitments of $33.0 million, while notional amounts do not include approved floating rate commitments of $9.1 million, at September 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 September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (In thousands) | 2018 | 2017 | 2018 | 2017 |
| **Designated as cash flow hedging instruments:** | | | | |
| Interest rate derivatives (1) | $1,667 | $1,928 | $5,158 | $5,953 |
| **Not designated as hedging instruments:** | | | | |
| Interest rate derivatives (2) | $1,623 | $2,955 | $7,372 | $5,850 |
| RPAs | 22 | 51 | 117 | 157 |
| Mortgage banking derivatives | (26) | (219) | (95) | (1,886) |
| Other (2) | (226) | (756) | 1,113 | (1,748) |
| Total not designated as hedging instruments (2) (3) | $1,393 | $2,031 | $8,507 | $2,373 |

*(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 of 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 $264 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 September 30, 2018, the remaining unamortized loss on the termination of cash flow hedges is $10.1 million. Over the next twelve months, the Company estimates that $4.3 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**

Non-cleared 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 September 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 | $4,951 | $ — | $ 4,951 | $ — | $2,770 | $ 91 | $ 2,679 | $ — |
| Non-hedge accounting | 13,425 | 586 | 12,758 | 81 | 6,222 | 2,154 | 4,025 | 43 |
| Total assets | $18,376 | $ 586 | $ 17,709 | $ 81 | $8,992 | $ 2,245 | $ 6,704 | $ 43 |
| **Derivative instrument losses:** | | | | | | | | |
| Hedge accounting | $— | $ — | $ — | $ — | $— | $ — | $ — | $ — |
| Non-hedge accounting | 651 | 586 | — | 65 | 2,387 | 2,245 | — | 142 |
| Total liabilities | $651 | $ 586 | $ — | $ 65 | $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 $80.0 million in net margin collateral received from financial counterparties or the derivative clearing organization at September 30, 2018, comprised of $36.3 million in initial margin posted, $98.2 million in settlement-to-market received, and $18.1 million in collateral-to-market received. 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 $3.1 million at September 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 $31.7 million at September 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,) 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. The change in value of derivative assets and liabilities attributable to credit risk was not significant during the reported periods.

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.

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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 September 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 | $17,137 | $17,288 | $(151) | $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 unadjusted market prices in active markets 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 September 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 September 30, 2018, these alternative investments had a remaining unfunded commitment of $1.1 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 September 30, 2018 | | | | |
|---|---|---|---|---|---|
| *(In thousands)* | **Level 1** | **Level 2** | **Level 3** | **NAV** | **Total** |
| **Financial assets held at fair value:** | | | | | |
| U.S. Treasury Bills | $9,214 | $— | $ — | $— | $9,214 |
| Agency CMO | — | 246,466 | — | — | 246,466 |
| Agency MBS | — | 1,409,731 | — | — | 1,409,731 |
| Agency CMBS | — | 570,549 | — | — | 570,549 |
| CMBS | — | 404,902 | — | — | 404,902 |
| CLO | — | 127,661 | — | — | 127,661 |
| Single issuer-trust preferred | — | — | — | — | — |
| Corporate debt | — | 55,430 | — | — | 55,430 |
| Total available-for-sale investment securities | 9,214 | 2,814,739 | — | — | 2,823,953 |
| Gross derivative instruments, before netting (1) | 498 | 21,510 | — | — | 22,008 |
| Originated loans held for sale | — | 17,137 | — | — | 17,137 |
| Investments held in Rabbi Trust | 4,930 | — | — | — | 4,930 |
| Alternative investments | — | — | — | 2,073 | 2,073 |
| Total financial assets held at fair value | $14,642 | $2,853,386 | $ — | $2,073 | $2,870,101 |
| **Financial liabilities held at fair value:** | | | | | |
| Gross derivative instruments, before netting (1) | $462 | $83,427 | $ — | $— | $83,889 |

| | 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 $3.6 million at September 30, 2018. No reduction for impairments, or adjustments due to observable price changes, was identified during the three or nine months ended September 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 primarily consists of commercial loans with observable inputs and is classified within Level 2. On the occasion that these loans should 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 $5.3 million at September 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.

At September 30, 2018, there were no significant assets measured at fair value on a non-recurring basis.

**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.

***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.

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***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 and subsequently measured under the amortization method. Mortgage servicing assets are subject to impairment testing and considered to be recognized at fair value when they are recorded at below cost. Amortization, and impairment charges, if any, 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 September 30, 2018** | | **At December 31, 2017** | |
|---|---|---|---|---|
| *(In thousands)* | **Carrying Amount** | **Fair Value** | **Carrying Amount** | **Fair Value** |
| **Assets:** | | | | |
| Level 2 | | | | |
| Held-to-maturity investment securities | $4,332,458 | $4,164,359 | $4,487,392 | $4,456,350 |
| Level 3 | | | | |
| Loans and leases, net | 18,109,187 | 17,913,452 | 17,323,864 | 17,211,619 |
| Mortgage servicing assets | 22,644 | 48,661 | 25,139 | 45,309 |
| **Liabilities:** | | | | |
| Level 2 | | | | |
| Deposit liabilities | $18,902,371 | $18,902,371 | $18,525,321 | $18,525,321 |
| Time deposits | 3,095,252 | 3,067,487 | 2,468,408 | 2,455,245 |
| Securities sold under agreements to repurchase and other borrowings | 564,488 | 564,396 | 643,269 | 644,084 |
| FHLB advances | 1,441,884 | 1,439,155 | 1,677,105 | 1,678,070 |
| Long-term debt (1) | 225,957 | 229,336 | 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 September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| *(In thousands)* | Pension Plan | SERP | Other Benefits | Pension Plan | SERP | Other Benefits |
| Service cost | $— | $— | $ — | $12 | $— | $ — |
| Interest cost on benefit obligations | 1,857 | 35 | 20 | 1,829 | 96 | 19 |
| Expected return on plan assets | (3,178) | — | — | (3,074) | — | — |
| Amortization of prior service cost | — | — | — | — | — | — |
| Recognized net loss | 1,160 | 2,271 | — | 1,466 | 136 | (15) |
| Net periodic benefit cost | $(161) | $2,306 | $ 20 | $233 | $232 | $ 4 |

| | Nine months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| *(In thousands)* | Pension Plan | SERP | Other Benefits | Pension Plan | SERP | Other Benefits |
| Service cost | $— | $— | $ — | $37 | $— | $ — |
| Interest cost on benefit obligations | 5,577 | 201 | 59 | 5,486 | 281 | 69 |
| Expected return on plan assets | (9,538) | — | — | (9,222) | — | — |
| Amortization of prior service cost | — | — | — | — | — | — |
| Recognized net loss | 3,480 | 2,729 | — | 4,398 | 561 | — |
| Net periodic benefit cost | $(481) | $2,930 | $ 59 | $699 | $842 | $ 69 |

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 $2.7 million and $3.0 million for the three months ended September 30, 2018 and 2017, respectively, and $8.6 million and $9.1 million for the nine months ended September 30, 2018 and 2017, respectively, related to restricted stock awards, was recognized in the accompanying Condensed Consolidated Statements of Income.

At September 30, 2018 there was $16.4 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 nine months ended September 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 | 145,382 | 58.36 | 75,707 | 55.82 | — | — |
| Vested restricted stock awards (1) | 129,445 | 44.80 | 55,112 | 46.08 | — | — |
| Forfeited | 8,041 | 52.53 | 13,847 | 51.19 | — | — |
| Exercised options | — | — | — | — | 180,247 | 11.71 |
| Outstanding and exercisable, at September 30, 2018 | 215,696 | 51.91 | 85,664 | 53.19 | 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 September 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.

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. A $10.0 million charge related to additional FDIC premiums pertaining to prior periods' deposit insurance assessments and related interest is included in the Corporate and Reconciling category for the nine months ended September 30, 2018. 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 September 30, 2018 | $10,327,878 | $71,172 | $8,730,295 | $ 8,216,972 | $27,346,317 |
| 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 September 30, 2018 | | | | |
|---|---|---|---|---|---|
| *(In thousands)* | Commercial Banking | HSA Bank | Community Banking | Corporate and Reconciling | Consolidated Total |
| Net interest income (expense) | $ 91,243 | $ 36,731 | $ 101,952 | $ 446 | $ 230,372 |
| Provision (benefit) for loan and lease losses | 8,207 | — | 2,293 | — | 10,500 |
| Net interest income (expense) after provision for loan and lease losses | 83,036 | 36,731 | 99,659 | 446 | 219,872 |
| Non-interest income | 18,305 | 22,159 | 26,848 | 4,972 | 72,284 |
| Non-interest expense | 44,506 | 30,753 | 95,769 | 7,755 | 178,783 |
| Income (loss) before income tax expense | 56,835 | 28,137 | 30,738 | (2,337) | 113,373 |
| Income tax expense (benefit) | 13,981 | 7,316 | 6,117 | (13,714) | 13,700 |
| Net income (loss) | $ 42,854 | $ 20,821 | $ 24,621 | $ 11,377 | $ 99,673 |

| | Three months ended September 30, 2017 | | | | |
|---|---|---|---|---|---|
| *(In thousands)* | Commercial Banking | HSA Bank | Community Banking | Corporate and Reconciling | Consolidated Total |
| Net interest income (expense) | $ 81,925 | $ 26,713 | $ 96,859 | $ (4,593) | $ 200,904 |
| Provision (benefit) for loan and lease losses | 12,073 | — | (1,923) | — | 10,150 |
| Net interest income (expense) after provision for loan and lease losses | 69,852 | 26,713 | 98,782 | (4,593) | 190,754 |
| Non-interest income | 13,207 | 19,371 | 27,079 | 6,189 | 65,846 |
| Non-interest expense | 38,339 | 27,222 | 92,478 | 3,784 | 161,823 |
| Income (loss) before income tax expense | 44,720 | 18,862 | 33,383 | (2,188) | 94,777 |
| Income tax expense (benefit) | 14,363 | 6,006 | 10,605 | (693) | 30,281 |
| Net income (loss) | $ 30,357 | $ 12,856 | $ 22,778 | $ (1,495) | $ 64,496 |

| | Nine months ended September 30, 2018 | | | | |
|---|---|---|---|---|---|
| *(In thousands)* | Commercial Banking | HSA Bank | Community Banking | Corporate and Reconciling | Consolidated Total |
| Net interest income (expense) | $ 264,353 | $ 104,920 | $ 302,782 | $ (2,505) | $ 669,550 |
| Provision for loan and lease losses | 26,300 | — | 5,700 | — | 32,000 |
| Net interest income (expense) after provision for loan and lease losses | 238,053 | 104,920 | 297,082 | (2,505) | 637,550 |
| Non-interest income | 48,662 | 67,710 | 78,421 | 14,612 | 209,405 |
| Non-interest expense | 128,730 | 93,488 | 287,795 | 20,844 | 530,857 |
| Income (loss) before income tax expense | 157,985 | 79,142 | 87,708 | (8,737) | 316,098 |
| Income tax expense (benefit) | 38,864 | 20,577 | 17,454 | (22,377) | 54,518 |
| Net income | $ 119,121 | $ 58,565 | $ 70,254 | $ 13,640 | $ 261,580 |

| | Nine months ended September 30, 2017 | | | | |
|---|---|---|---|---|---|
| *(In thousands)* | Commercial Banking | HSA Bank | Community Banking | Corporate and Reconciling | Consolidated Total |
| Net interest income (expense) | $ 239,118 | $ 76,339 | $ 286,351 | $ (10,453) | $ 591,355 |
| Provision (benefit) for loan and lease losses | 29,562 | — | (1,662) | — | 27,900 |
| Net interest income (expense) after provision for loan and lease losses | 209,556 | 76,339 | 288,013 | (10,453) | 563,455 |
| Non-interest income | 39,163 | 58,392 | 80,516 | 15,368 | 193,439 |
| Non-interest expense | 113,767 | 84,211 | 281,979 | 10,069 | 490,026 |
| Income (loss) before income tax expense | 134,952 | 50,520 | 86,550 | (5,154) | 266,868 |
| Income tax expense (benefit) | 41,125 | 15,395 | 26,374 | (1,572) | 81,322 |
| Net income (loss) | $ 93,827 | $ 35,125 | $ 60,176 | $ (3,582) | $ 185,546 |

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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 September 30, 2018 | | | | |
|---|---|---|---|---|---|
| *(In thousands)* | **Commercial Banking** | **HSA Bank** | **Community Banking** | **Corporate and Reconciling** | **Consolidated Total** |
| ***Major Revenue Streams*** | | | | | |
| Deposit service fees | $3,211 | $21,294 | $ 16,107 | $ (11 ) | $ 40,601 |
| Wealth and investment services | 2,577 | — | 5,843 | (8 ) | 8,412 |
| Other income | — | 865 | 352 | — | 1,217 |
| Revenue from contracts with customers | 5,788 | 22,159 | 22,302 | (19 ) | 50,230 |
| Non-interest income within the scope of other GAAP topics | 12,517 | — | 4,546 | 4,991 | 22,054 |
| Total non-interest income | $18,305 | $22,159 | $ 26,848 | $ 4,972 | $ 72,284 |

| | Three months ended September 30, 2017 | | | | |
|---|---|---|---|---|---|
| *(In thousands)* | **Commercial Banking** | **HSA Bank** | **Community Banking** | **Corporate and Reconciling** | **Consolidated Total** |
| ***Major Revenue Streams*** | | | | | |
| Deposit service fees | $3,119 | $18,658 | $ 16,435 | $ 109 | $ 38,321 |
| Wealth and investment services | 2,471 | — | 5,288 | (9 ) | 7,750 |
| Other income | — | 713 | 216 | — | 929 |
| Revenue from contracts with customers | 5,590 | 19,371 | 21,939 | 100 | 47,000 |
| Non-interest income within the scope of other GAAP topics | 7,617 | — | 5,140 | 6,089 | 18,846 |
| Total non-interest income | $13,207 | $19,371 | $ 27,079 | $ 6,189 | $ 65,846 |

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| | Nine months ended September 30, 2018 | | | | |
|---|---|---|---|---|---|
| *(In thousands)* | Commercial Banking | HSA Bank | Community Banking | Corporate and Reconciling | Consolidated Total |
| ***Major Revenue Streams*** | | | | | |
| Deposit service fees | $9,613 | $65,112 | $ 47,079 | $ 107 | $ 121,911 |
| Wealth and investment services | 7,703 | — | 17,060 | (25) | 24,738 |
| Other income | — | 2,598 | 1,485 | — | 4,083 |
| Revenue from contracts with customers | 17,316 | 67,710 | 65,624 | 82 | 150,732 |
| Non-interest income within the scope of other GAAP topics | 31,346 | — | 12,797 | 14,530 | 58,673 |
| Total non-interest income | $48,662 | $67,710 | $ 78,421 | $ 14,612 | $ 209,405 |

| | Nine months ended September 30, 2017 | | | | |
|---|---|---|---|---|---|
| *(In thousands)* | Commercial Banking | HSA Bank | Community Banking | Corporate and Reconciling | Consolidated Total |
| ***Major Revenue Streams*** | | | | | |
| Deposit service fees | $9,012 | $56,176 | $ 48,046 | $ 285 | $ 113,519 |
| Wealth and investment services | 7,288 | — | 15,638 | (26) | 22,900 |
| Other income | — | 2,216 | 603 | — | 2,819 |
| Revenue from contracts with customers | 16,300 | 58,392 | 64,287 | 259 | 139,238 |
| Non-interest income within the scope of other GAAP topics | 22,863 | — | 16,229 | 15,109 | 54,201 |
| Total non-interest income | $39,163 | $58,392 | $ 80,516 | $ 15,368 | $ 193,439 |

***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 September 30, 2018 | At December 31, 2017 |
|---|---|---|
| Commitments to extend credit | $ 5,683,275 | $ 5,567,687 |
| Standby letter of credit | 185,859 | 195,902 |
| Commercial letter of credit | 36,393 | 43,200 |
| Total credit-related financial instruments with off-balance sheet risk | $ 5,905,527 | $ 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 September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (In thousands) | 2018 | 2017 | 2018 | 2017 |
| Beginning balance | $2,596 | $2,544 | $2,362 | $2,287 |
| Provision charged to expense | 28 | — | 262 | 257 |
| Ending balance | $2,624 | $2,544 | $2,624 | $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 September 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, September 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, except as identified below. The sale of six banking center locations closed on October 5, 2018. Deposits of approximately $105 million were transfered with the banking centers, while the Company retained lending and investment services relationships.

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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 nine months ended September 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 September 30, 2018 | 2017 | At or for the nine months ended September 30, 2018 | 2017 |
|---|---|---|---|---|
| **Earnings:** | | | | |
| Net interest income | $230,372 | $200,904 | $669,550 | $591,355 |
| Provision for loan and lease losses | 10,500 | 10,150 | 32,000 | 27,900 |
| Total non-interest income | 72,284 | 65,846 | 209,405 | 193,439 |
| Total non-interest expense | 178,783 | 161,823 | 530,857 | 490,026 |
| Net income | 99,673 | 64,496 | 261,580 | 185,546 |
| Earnings applicable to common shareholders | 97,460 | 62,426 | 255,040 | 179,262 |
| **Share Data:** | | | | |
| Weighted-average common shares outstanding - diluted | 92,208 | 92,503 | 92,221 | 92,412 |
| Diluted earnings per common share | $1.06 | $0.67 | $2.77 | $1.94 |
| Dividends and dividend equivalents declared per common share | 0.33 | 0.26 | 0.92 | 0.77 |
| Dividends declared per preferred share | 328.13 | 400.00 | 995.31 | 1,200.00 |
| Book value per common share | 28.96 | 27.34 | 28.96 | 27.34 |
| Tangible book value per common share *(non-GAAP)* | 22.83 | 21.16 | 22.83 | 21.16 |
| **Selected Ratios:** | | | | |
| Net interest margin | 3.61 % | 3.30 % | 3.54 % | 3.27 % |
| Return on average assets *(annualized basis)* | 1.47 | 0.98 | 1.30 | 0.95 |
| Return on average common shareholders' equity *(annualized basis)* | 14.74 | 9.95 | 13.05 | 9.67 |
| CET1 risk-based capital | 11.23 | 10.99 | 11.23 | 10.99 |
| Tangible common equity ratio *(non-GAAP)* | 7.86 | 7.55 | 7.86 | 7.55 |
| Return on average tangible common shareholders' equity *(annualized basis) (non-GAAP)* | 18.88 | 12.99 | 16.81 | 12.71 |
| Efficiency ratio *(non-GAAP)* | 57.41 | 59.18 | 58.29 | 60.62 |

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 September 30, | |
|---|---|---|
| *(Dollars and shares in thousands, except per share data)* | **2018** | **2017** |
| **Tangible book value per common share (non-GAAP):** | | |
| Shareholders' equity (GAAP) | $2,816,198 | $2,638,787 |
| Less: Preferred stock (GAAP) | 145,037 | 122,710 |
| Goodwill and other intangible assets (GAAP) | 565,099 | 568,962 |
| Tangible common shareholders' equity (non-GAAP) | $2,106,062 | $1,947,115 |
| Common shares outstanding | 92,230 | 92,034 |
| **Tangible book value per common share (non-GAAP)** | **$22.83** | **$21.16** |
| | | |
| **Tangible common equity ratio (non-GAAP):** | | |
| Tangible common shareholders' equity (non-GAAP) | $2,106,062 | $1,947,115 |
| Total Assets (GAAP) | $27,346,317 | $26,350,182 |
| Less: Goodwill and other intangible assets (GAAP) | 565,099 | 568,962 |
| Tangible assets (non-GAAP) | $26,781,218 | $25,781,220 |
| **Tangible common equity ratio (non-GAAP)** | **7.86** % | **7.55** % |

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| *(Dollars in thousands)* | **2018** | **2017** | **2018** | **2017** |
| **Return on average tangible common shareholders' equity (non-GAAP):** | | | | |
| Net income (GAAP) | $99,673 | $64,496 | $261,580 | $185,546 |
| Less: Preferred stock dividends (GAAP) | 1,968 | 2,024 | 5,884 | 6,072 |
| Add: Intangible assets amortization, tax-effected (GAAP) | 759 | 651 | 2,279 | 2,005 |
| Income adjusted for preferred stock dividends and intangible assets amortization (non-GAAP) | $98,464 | $63,123 | $257,975 | $181,479 |
| Income adjusted for preferred stock dividends and intangible assets amortization, annualized (non-GAAP) | $393,856 | $252,492 | $343,967 | $241,972 |
| Average shareholders' equity (non-GAAP) | $2,796,809 | $2,635,312 | $2,758,190 | $2,597,574 |
| Less: Average preferred stock (non-GAAP) | 145,037 | 122,710 | 145,078 | 122,710 |
| Average goodwill and other intangible assets (non-GAAP) | 565,559 | 569,538 | 566,535 | 570,562 |
| Average tangible common shareholders' equity (non-GAAP) | $2,086,213 | $1,943,064 | $2,046,577 | $1,904,302 |
| **Return on average tangible common shareholders' equity (non-GAAP)** | **18.88** % | **12.99** % | **16.81** % | **12.71** % |
| | | | | |
| **Efficiency ratio (non-GAAP):** | | | | |
| Non-interest expense (GAAP) | $178,783 | $161,823 | $530,857 | $490,026 |
| Less: Foreclosed property activity (GAAP) | (309) | (72) | (330) | (141) |
| Intangible assets amortization (GAAP) | 961 | 1,002 | 2,885 | 3,085 |
| Other expense (non-GAAP) [(1)] | 2,959 | 213 | 11,558 | 2,923 |
| Non-interest expense (non-GAAP) | $175,172 | $160,680 | $516,744 | $484,159 |
| Net interest income (GAAP) | $230,372 | $200,904 | $669,550 | $591,355 |
| Add: Tax-equivalent adjustment (non-GAAP) | 2,172 | 4,340 | 6,619 | 12,509 |
| Non-interest income (GAAP) | 72,284 | 65,846 | 209,405 | 193,439 |
| Other (non-GAAP) [(1)] | 308 | 431 | 962 | 1,377 |
| Income (non-GAAP) | $305,136 | $271,521 | $886,536 | $798,680 |
| **Efficiency ratio (non-GAAP)** | **57.41** % | **59.18** % | **58.29** % | **60.62** % |

(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 nine months ended September 30, 2018 include a charge relating to additional FDIC premiums for the period June 30, 2015 through December 31, 2017.*

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## Financial Performance

***Comparison to Prior Year Quarter***

For the three months ended September 30, 2018, income before income tax expense of $113.4 million increased $18.6 million, or 19.6%, compared to the three months ended September 30, 2017. Net interest income increased 14.7%, the provision for loan and lease losses increased 3.4%, non-interest income increased 9.8%, and non-interest expense increased 10.5%.

After income tax expense of $13.7 million and $30.3 million for the three months ended September 30, 2018 and 2017, respectively, net income was $99.7 million and diluted earnings per share was $1.06 for the three months ended September 30, 2018 compared to net income of $64.5 million and diluted earnings per share of $0.67 for the three months ended September 30, 2017.

***Comparison to Prior Year to Date***

For the nine months ended September 30, 2018, income before income tax expense of $316.1 million increased $49.2 million, or 18.4%, compared to the nine months ended September 30, 2017. Net interest income increased 13.2%, the provision for loan and lease losses increased 14.7%, non-interest income increased 8.3%, and non-interest expense increased 8.3%.

After income tax expense of $54.5 million and $81.3 million for the nine months ended September 30, 2018 and 2017, respectively, net income was $261.6 million and diluted earnings per share was $2.77 for the nine months ended September 30, 2018 compared to net income of $185.5 million and diluted earnings per share of $1.94 for the nine months ended September 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 September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| *(Dollars in thousands)* | Average Balance | Interest | Yield/ Rate | Average Balance | Interest | Yield/ Rate |
| **Assets** | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans and leases | $18,060,842 | $216,065 | 4.71% | $17,364,519 | $182,269 | 4.14% |
| Investment securities *(based upon historical amortized cost)* | 7,104,625 | 52,342 | 2.91 | 6,994,661 | 51,130 | 2.92 |
| FHLB and FRB stock | 126,558 | 1,586 | 4.97 | 135,943 | 1,482 | 4.33 |
| Interest-bearing deposits | 72,157 | 334 | 1.81 | 58,193 | 173 | 1.17 |
| Loans held for sale | 20,291 | 208 | 4.10 | 34,939 | 307 | 3.51 |
| Total interest-earning assets | 25,384,473 | $270,535 | 4.20% | 24,588,255 | $235,361 | 3.78% |
| Non-interest-earning assets | 1,663,012 | | | 1,721,591 | | |
| Total Assets | $27,047,485 | | | $26,309,846 | | |
| **Liabilities and Shareholders' Equity** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Demand deposits | $4,257,448 | $— | — % | $4,201,723 | $— | — % |
| Health savings accounts | 5,576,417 | 2,793 | 0.20 | 4,870,620 | 2,449 | 0.20 |
| Interest-bearing checking, money market and savings | 9,135,736 | 9,827 | 0.43 | 9,707,053 | 7,780 | 0.32 |
| Time deposits | 2,935,663 | 11,777 | 1.59 | 2,155,743 | 6,531 | 1.20 |
| Total deposits | 21,905,264 | 24,397 | 0.44 | 20,935,139 | 16,760 | 0.32 |
| Securities sold under agreements to repurchase and other borrowings | 729,154 | 3,084 | 1.66 | 904,854 | 3,847 | 1.66 |
| FHLB advances | 1,155,768 | 7,685 | 2.60 | 1,362,165 | 6,894 | 1.98 |
| Long-term debt | 225,926 | 2,825 | 5.00 | 225,673 | 2,616 | 4.64 |
| Total borrowings | 2,110,848 | 13,594 | 2.53 | 2,492,692 | 13,357 | 2.11 |
| Total interest-bearing liabilities | 24,016,112 | $37,991 | 0.63% | 23,427,831 | $30,117 | 0.51% |
| Non-interest-bearing liabilities | 234,564 | | | 246,703 | | |
| Total liabilities | 24,250,676 | | | 23,674,534 | | |
| Preferred stock | 145,037 | | | 122,710 | | |
| Common shareholders' equity | 2,651,772 | | | 2,512,602 | | |
| Total shareholders' equity | 2,796,809 | | | 2,635,312 | | |
| Total Liabilities and Shareholders' Equity | $27,047,485 | | | $26,309,846 | | |
| Tax-equivalent net interest income | | $232,544 | | | $205,244 | |
| Less: Tax-equivalent adjustments | | (2,172) | | | (4,340) | |
| Net interest income | | $230,372 | | | $200,904 | |
| Net interest margin | | | 3.61% | | | 3.30% |

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| (Dollars in thousands) | Nine months ended September 30, 2018 Average Balance | Interest | Yield/ Rate | 2017 Average Balance | Interest | Yield/ Rate |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans and leases | $17,901,888 | $618,419 | 4.58 % | $17,225,217 | $526,419 | 4.05 % |
| Investment securities *(based upon historical amortized cost)* | 7,135,037 | 157,108 | 2.91 | 7,031,738 | 157,550 | 2.98 |
| FHLB and FRB stock | 130,947 | 4,587 | 4.68 | 160,911 | 4,732 | 3.93 |
| Interest-bearing deposits | 63,807 | 782 | 1.62 | 63,684 | 472 | 0.98 |
| Loans held for sale | 17,292 | 498 | 3.84 | 31,373 | 826 | 3.51 |
| Total interest-earning assets | 25,248,971 | $781,394 | 4.09 % | 24,512,923 | $689,999 | 3.73 % |
| Non-interest-earning assets | 1,645,331 | | | 1,666,080 | | |
| Total Assets | $26,894,302 | | | $26,179,003 | | |
| **Liabilities and Shareholders' Equity** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Demand deposits | $4,177,004 | $— | — % | $4,039,738 | $— | — % |
| Health savings accounts | 5,508,325 | 8,152 | 0.20 | 4,810,038 | 7,133 | 0.20 |
| Interest-bearing checking, money market and savings | 9,172,498 | 25,399 | 0.37 | 9,505,187 | 19,599 | 0.28 |
| Time deposits | 2,710,917 | 29,227 | 1.44 | 2,079,021 | 18,142 | 1.17 |
| Total deposits | 21,568,744 | 62,778 | 0.39 | 20,433,984 | 44,874 | 0.29 |
| Securities sold under agreements to repurchase and other borrowings | 824,203 | 10,722 | 1.72 | 884,975 | 10,970 | 1.63 |
| FHLB advances | 1,288,410 | 23,437 | 2.40 | 1,829,175 | 22,543 | 1.63 |
| Long-term debt | 225,863 | 8,288 | 4.89 | 225,607 | 7,748 | 4.58 |
| Total borrowings | 2,338,476 | 42,447 | 2.40 | 2,939,757 | 41,261 | 1.85 |
| Total interest-bearing liabilities | 23,907,220 | $105,225 | 0.59 % | 23,373,741 | $86,135 | 0.49 % |
| Non-interest-bearing liabilities | 228,892 | | | 207,688 | | |
| Total liabilities | 24,136,112 | | | 23,581,429 | | |
| Preferred stock | 145,078 | | | 122,710 | | |
| Common shareholders' equity | 2,613,112 | | | 2,474,864 | | |
| Total shareholders' equity | 2,758,190 | | | 2,597,574 | | |
| Total Liabilities and Shareholders' Equity | $26,894,302 | | | $26,179,003 | | |
| Tax-equivalent net interest income | | $676,169 | | | $603,864 | |
| Less: Tax-equivalent adjustments | | (6,619 ) | | | (12,509 ) | |
| Net interest income | | $669,550 | | | $591,355 | |
| Net interest margin | | | 3.54 % | | | 3.27 % |

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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 nine months ended September 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 has gradually raised the federal funds rate target range eight times since December 31, 2015. Effective September 27, 2018, the target range was increased to 2.00-2.25% as compared to 1.25-1.50% at December 31, 2017. 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 $230.4 million for the three months ended September 30, 2018 compared to $200.9 million for the three months ended September 30, 2017, an increase of $29.5 million.

Net interest margin increased 31 basis points to 3.61% for the three months ended September 30, 2018 from 3.30% for the three months ended September 30, 2017. On a fully tax-equivalent basis, net interest income increased $27.3 million when compared to the same period in 2017. The increase for the three months ended September 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 $669.6 million for the nine months ended September 30, 2018 compared to $591.4 million for the nine months ended September 30, 2017, an increase of $78.2 million.

Net interest margin increased 27 basis points to 3.54% for the nine months ended September 30, 2018 from 3.27% for the nine months ended September 30, 2017. On a fully tax-equivalent basis, net interest income increased $72.3 million when compared to the same period in 2017. The increase for the nine months ended September 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 September 30, 2018 vs. 2017 Increase (decrease) due to | | | Nine months ended September 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 | $25,611 | $8,185 | $33,796 | $69,318 | $22,681 | $91,999 |
| Loans held for sale | 30 | (128) | (98) | 44 | (371) | (327) |
| Investments [2] | 872 | 604 | 1,476 | (1,956) | 1,679 | (277) |
| Total interest income | $26,513 | $8,661 | $35,174 | $67,406 | $23,989 | $91,395 |
| Interest on interest-bearing liabilities: | | | | | | |
| Deposits | $5,650 | $1,987 | $7,637 | $12,873 | $5,031 | $17,904 |
| Borrowings | 2,401 | (2,164) | 237 | 9,496 | (8,310) | 1,186 |
| Total interest expense | $8,051 | $(177) | $7,874 | $22,369 | $(3,279) | $19,090 |
| Net change in net interest income | $18,462 | $8,838 | $27,300 | $45,037 | $27,268 | $72,305 |

*(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 nine months ended September 30, 2018 increased $0.7 billion compared to the average for the nine months ended September 30, 2017. The loan and lease portfolio comprised 70.9% of the average interest-earning assets at September 30, 2018 compared to 70.3% of the average interest-earning assets at September 30, 2017. The loan and lease portfolio yield increased 53 basis points to 4.58% for the nine months ended September 30, 2018 compared to the loan and lease portfolio yield of 4.05% for the nine months ended September 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 nine months ended September 30, 2018 increased $73.5 million compared to the average for the nine months ended September 30, 2017. The investments portfolio comprised 29.0% of the average interest-earning assets at September 30, 2018 compared to 29.6% of the average interest-earning assets at September 30, 2017. The investments portfolio yield decreased 3 basis points to 2.96% for the nine months ended September 30, 2018 compared to the investments portfolio yield of 2.99% for the nine months ended September 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 nine months ended September 30, 2018 increased $1.1 billion compared to the average for the nine months ended September 30, 2017. The increase is comprised of an increase of $0.1 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 and time deposit growth. The average cost of deposits increased 10 basis points to 0.39% for the nine months ended September 30, 2018 from 0.29% for the nine months ended September 30, 2017. The average cost of deposits increased due to a change in mix from an increase in certificate of deposit accounts as well as selected deposit product rate increases. Higher cost time deposits increased, to 15.6% for the nine months ended September 30, 2018 from 12.7% for the nine months ended September 30, 2017, as a percentage to total interest-bearing deposits.

Average total borrowings for the nine months ended September 30, 2018 decreased $601.3 million compared to the average for the nine months ended September 30, 2017. Average securities sold under agreements to repurchase and other borrowings decreased $60.8 million, and average FHLB advances decreased $540.8 million as utilization of advances maturing within one year declined. The average cost of borrowings increased 55 basis points to 2.40% for the nine months ended September 30, 2018 from 1.85% for the nine months ended September 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:

| *(In thousands)* | **Three months ended September 30, 2018** | **2017** | **Nine months ended September 30, 2018** | **2017** |
|---|---|---|---|---|
| Interest rate swaps on FHLB advances | $1,513 | $1,657 | $4,656 | $5,139 |
| Interest rate swaps on senior fixed-rate notes | 76 | 76 | 229 | 229 |
| Interest rate swaps on brokered/certificates of deposits | 78 | 195 | 273 | 585 |
| Net increase to interest expense on borrowings | $1,667 | $1,928 | $5,158 | $5,953 |

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**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 September 30, 2018, which increased $0.4 million compared to the three months ended September 30, 2017. The increase in provision for loan and lease losses was primarily due to loan growth. Total net charge-offs was $6.0 million and $7.9 million for the three months ended September 30, 2018 and 2017, respectively. The decrease in net charge-offs was primarily due to consumer lending activity.

***Comparison to Prior Year to Date***

The provision for loan and lease losses was $32.0 million for the nine months ended September 30, 2018, which increased $4.1 million compared to the nine months ended September 30, 2017. The increase in provision for loan and lease losses was primarily due to loan growth. Total net charge-offs was $20.2 million and $20.4 million for the nine months ended September 30, 2018 and 2017, respectively. The decrease in net charge-offs was primarily due to consumer 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 September 30, 2018, the ALLL totaled $211.8 million, or 1.16% 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 September 30, | | Increase (decrease) | | Nine months ended September 30, | | Increase (decrease) | |
|---|---|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | 2018 | 2017 | Amount | Percent | 2018 | 2017 | Amount | Percent |
| Deposit service fees | $40,601 | $38,321 | $2,280 | 5.9 % | $121,911 | $113,519 | $8,392 | 7.4 % |
| Loan and lease related fees | 10,782 | 6,346 | 4,436 | 69.9 | 24,111 | 19,898 | 4,213 | 21.2 |
| Wealth and investment services | 8,412 | 7,750 | 662 | 8.5 | 24,738 | 22,900 | 1,838 | 8.0 |
| Mortgage banking activities | 1,305 | 2,421 | (1,116) | (46.1) | 3,684 | 8,038 | (4,354) | (54.2) |
| Increase in cash surrender value of life insurance policies | 3,706 | 3,720 | (14) | (0.4) | 10,921 | 10,943 | (22) | (0.2) |
| Impairment loss on investment securities recognized in earnings | — | — | — | — | — | (126) | 126 | 100.0 |
| Other income | 7,478 | 7,288 | 190 | 2.6 | 24,040 | 18,267 | 5,773 | 31.6 |
| Total non-interest income | $72,284 | $65,846 | $6,438 | 9.8 | $209,405 | $193,439 | $15,966 | 8.3 |

***Comparison to Prior Year Quarter***

Total non-interest income for the three months ended September 30, 2018 was $72.3 million, an increase of $6.4 million, or 9.8%, compared to $65.8 million for the three months ended September 30, 2017. The increase is primarily attributable to higher deposit service fees and loan and lease related fees, slightly offset by lower mortgage banking activities.

Deposit service fees totaled $40.6 million for the three months ended September 30, 2018, compared to $38.3 million for the three months ended September 30, 2017. The increase was a result of higher check card interchange and account service charges driven by health savings account growth.

Loan and lease related fees totaled $10.8 million for the three months ended September 30, 2018, compared to $6.3 million for the three months ended September 30, 2017. The increase was a result of higher loan syndication fees.

Mortgage banking activities totaled $1.3 million for the three months ended September 30, 2018, compared to $2.4 million for the three months ended September 30, 2017. The decrease was a result of lower originations.

***Comparison to Prior Year to Date***

Total non-interest income for the nine months ended September 30, 2018 was $209.4 million, an increase