WEBSTER FINANCIAL CORP
Form 10-K
March 01, 2019

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

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Fiscal Year Ended December 31, 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)
Registrant's telephone number, including area code: (203) 578-2202

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of exchange on which registered**
Common Stock, $.01 par value	New York Stock Exchange
Depository Shares, each representing 1/1000th interest in a share of 5.25% Series F Non-Cumulative Perpetual Preferred Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No
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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
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 aggregate market value of common stock held by non-affiliates of Webster Financial Corporation was approximately $5.8 billion, based on the closing sale price of the common stock on the New York Stock Exchange on June 30, 2018, the last trading day of the registrant's most recently completed second quarter.

The number of shares of common stock, par value $.01 per share, outstanding as of February 15, 2019 was 92,288,409.

Documents Incorporated by Reference

Part III: Portions of the Definitive Proxy Statement (the "Proxy Statement") for the Annual Meeting of Shareholders to be held on April 25, 2019.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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. 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 our actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- our ability to successfully execute our business plan and manage our risks;
- 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;
- changes in the level of non-performing assets and charge-offs;
- changes in estimates of future reserve requirements based upon the periodic review thereof 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, changes in interest rates, and securities market and monetary fluctuations;
- the timely development and acceptance of new products and services and the perceived value of these products and services by customers;
- changes in deposit flows, consumer spending, borrowings and savings habits;
- our ability to implement new technologies and maintain secure and reliable technology systems;
- performance by our counterparties and vendors;
- the ability to increase market share and control expenses;
- changes in the competitive environment among banks, financial holding companies and other financial services providers;
- changes in laws and regulations (including laws and regulations concerning taxes, banking, securities, insurance and healthcare) with which we and our subsidiaries must comply;
- the effect of changes in accounting policies and practices applicable to us; and
- legal and regulatory developments including the resolution of legal proceedings or regulatory or other governmental inquiries and the results of regulatory examinations or reviews.

All forward-looking statements in this Annual Report on Form 10-K speak 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.

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
ARRC	Alternative Reference Rates Committee
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Basel III	Capital rules under a global regulatory framework developed by the Basel Committee on Banking Supervision
BHC Act	Bank Holding Company Act of 1956, as amended
Capital Rules	Final rules establishing a new comprehensive capital framework for U.S. banking organizations
CET1 capital	Common Equity Tier 1 Capital, defined by Basel III capital rules
CFPB	Consumer Financial Protection Bureau
CFTC	Commodity Futures Trading Commission
CLO	Collateralized loan obligation securities
CMBS	Non-agency commercial mortgage-backed securities
CME	Chicago Mercantile Exchange
CRA	Community Reinvestment Act of 1977
DIF	Federal Deposit Insurance Fund
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DTA	Deferred tax asset
EGRRCPA	Economic Growth, Regulatory Relief, and Consumer Protection Act
ERMC	Enterprise Risk Management Committee
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FHLB	Federal Home Loan Bank
FICO	Fair Isaac Corporation
FINRA	Financial Industry Regulatory Authority
FRA	Federal Reserve Act
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	HSA Bank, a division of Webster Bank, National Association
LEP	Loss emergence period
LGD	Loss given default
LIBOR	London Interbank Offered Rate
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
QM	Qualified mortgage
SALT	State and local tax
SEC	United States Securities and Exchange Commission
SERP	Supplemental defined benefit retirement plan
SIPC	Securities Investor Protection Corporation
SOFR	Secured overnight financing rate
Tax Act	Tax Cuts and Jobs Act of 2017
TDR	Troubled debt restructuring, defined in ASC 310-40 "*Receivables-Troubled Debt Restructurings by Creditors*"
UTB	Unrecognized tax benefit
VIE	Variable interest entity, defined in ASC 810-10 "*Consolidation-Overall*"
VOE	Voting interest entity
Webster Bank or the 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 1

ITEM 1. BUSINESS

Company Overview

Webster Financial Corporation is a bank holding company and financial holding company under the Bank Holding Company Act of 1956, as amended (BHC Act), incorporated under the laws of Delaware in 1986, and headquartered in Waterbury, Connecticut. Its principal asset is all of the outstanding capital stock of Webster Bank, National Association (Webster Bank). References in this report to Webster, the Company, we, our, or us, mean Webster Financial Corporation and its consolidated subsidiaries. At December 31, 2018, Webster had assets of $27.6 billion, net loans and leases of $18.3 billion, deposits of $21.9 billion, and shareholders' equity of $2.9 billion.

Webster had 3,265 full-time equivalent employees at December 31, 2018. Webster provides its employees with comprehensive benefits, some of which are provided on a contributory basis, including medical and dental plans, a 401(k) savings plan with a company matching contribution, life insurance, and short-term and long-term disability coverage.

Webster Financial Corporation's common stock is traded on the New York Stock Exchange under the symbol WBS. Webster's internet address is www.websterbank.com and investor relations internet address is www.wbst.com. Webster makes available free of charge on these websites its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, definitive proxy statements, and amendments, if any, to those documents filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as soon as practicable after it electronically files such material with, or furnishes it to, the United States Securities and Exchange Commission (SEC). These documents are also available to the public on the Internet at the SEC's website at www.sec.gov. Information on Webster’s website and its investor relations website is not incorporated by reference into this report.

Business Segments

The Company delivers a wide range of banking, investment, and financial services to businesses and individuals through three reportable segments - Commercial Banking, HSA Bank, a division of Webster Bank, National Association (HSA Bank), and Community Banking.

Commercial Banking provides lending, deposit, and treasury and payment solutions with a focus on building relationships with companies that have annual revenues greater than $25 million. Commercial Banking is comprised of the following:

- Middle Market delivers a full array of financial services to a diversified group of companies, leveraging industry specialization and delivering competitive products and services, primarily in the Northeast.
- Commercial Real Estate provides financing, primarily in the Northeast, for the acquisition, development, construction, or refinancing of commercial real estate for which the property is the primary security for the loan and income generated from the property is the primary repayment source.
- Webster Business Credit Corporation is the asset-based lending subsidiary of Webster Bank and is one of the top 25 asset-based lenders in the U.S. Webster Business Credit Corporation builds relationships with growing middle market companies by financing core working capital and import financing needs primarily with revolving credit facilities with advance rates against accounts receivable and inventory. Webster Business Credit Corporation lends primarily in the eastern half of the U.S.
- Webster Capital Finance is the equipment finance subsidiary of Webster Bank. Webster Capital Finance offers small to mid-ticket financing for critical equipment with specialties in construction, transportation, environmental and manufacturing equipment. Webster Capital Finance lends primarily in the eastern half of the U.S. and in other select markets
- Treasury and Payment Solutions delivers a broad range of deposit, lending, treasury, and trade services, primarily in the Northeast, via a dedicated team of treasury professionals and local commercial bankers. Treasury and Payment Solutions is comprised of Government and Institutional Banking, Cash Management Sales and Product Management to deliver holistic solutions to Webster’s increasingly sophisticated business and institutional clients.

HSA Bank is a leading bank administrator of health savings accounts based on assets under administration. With a focus on health savings accounts, HSA Bank also delivers health reimbursement arrangements, and flexible spending and commuter benefit account administration services to employers and individuals in all 50 states. Health savings accounts are distributed nationwide directly to employers and individual consumers as well as through national and regional insurance carriers, benefit consultants and financial advisors. At December 31, 2018, HSA Bank had over 2.7 million accounts with more than $7.2 billion in health savings account deposits and linked investment balances.

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Community Banking serves consumers and business banking customers primarily throughout southern New England and into Westchester County, NY. Community Banking is comprised of personal and business banking, as well as a distribution network consisting of 157 banking centers, 316 ATMs, a customer care center, and a full range of web and mobile based banking services.

- Personal Banking offers consumer deposit and fee-based services, residential mortgages, home equity lines/loans, unsecured consumer loans, and credit card products. In addition, investment and securities-related services, including brokerage and investment advice is offered through a strategic partnership with LPL Financial Holdings Inc. (LPL), a broker dealer registered with the SEC, a registered investment advisor under federal and applicable state laws, a member of the Financial Industry Regulatory Authority (FINRA), and a member of the Securities Investor Protection Corporation (SIPC). Webster Bank has employees located throughout its banking center network, who, through LPL, are registered representatives.
- Business Banking offers credit, deposit, and cash flow management products to businesses and professional service firms with annual revenues of up to $25 million. This group builds broad customer relationships through business bankers and business certified banking center managers, supported by a team of customer care center bankers and industry and product specialists.

Additional information relating to our business segments is included under the caption "Segment Reporting" in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Subsidiaries of Webster Financial Corporation

Webster Financial Corporation's direct consolidated subsidiaries include Webster Bank, Webster Wealth Advisors, Inc., and Webster Licensing, LLC. Additionally, Webster Financial Corporation, the Holding Company, owns all of the outstanding common stock of Webster Statutory Trust, an unconsolidated financial vehicle that has issued, and may in the future issue, trust preferred securities.

Webster Bank offers its wide range of financial services to individuals, families and businesses. Through its HSA Bank division, Webster Bank offers health savings accounts, health reimbursement accounts, flexible spending accounts, and other financial solutions. Through its strategic partnership with LPL, Webster Bank offers investment and securities-related services.

Webster Bank's significant direct subsidiaries include: Webster Mortgage Investment Corporation, a passive investment subsidiary whose primary function is to provide servicing on qualified passive investments, such as residential real estate and commercial mortgage real estate loans acquired from Webster Bank; Webster Business Credit Corporation, which offers asset-based lending services; and Webster Capital Finance, Inc., which offers equipment financing for end users of equipment. Webster Bank also has various other subsidiaries that are not significant to the consolidated group.

Competition

Webster is subject to strong competition from banks, thrifts, credit unions, non-bank health savings account trustees, consumer finance companies, investment companies, insurance companies, and online lending and savings institutions. Certain of these competitors are larger financial institutions with substantially greater resources, lending limits, larger branch systems, and a wider array of commercial and consumer banking services than Webster. Competition could intensify in the future as a result of industry consolidation, the increasing availability of products and services from non-bank entities, greater technological developments in the industry, and continued bank regulatory reforms.

Webster faces substantial competition for deposits and loans throughout its market areas. The primary factors in competing for deposits are interest rates, personalized services, the quality and range of financial services, convenience of office locations and hours, mobile banking and other automated services. Competition for deposits comes from other commercial banks, thrifts, credit unions, non-bank health savings account trustees, mutual funds, and other investment alternatives. The primary factors in competing for consumer and commercial loans are interest rates, loan origination fees, ease and convenience of loan origination channels, the quality and range of lending services, personalized service and ability to close within customers' desired time frame. Competition for origination of loans comes primarily from commercial banks, non-bank lenders, savings institutions, mortgage banking firms, mortgage brokers, online lenders, and insurance companies. Other factors which affect competition include the general and local economic conditions, current interest rate levels, and volatility in the lending markets.

Supervision and Regulation

Webster and its bank and non-bank subsidiaries are subject to comprehensive regulation under federal and state laws. The regulatory framework applicable to bank holding companies and their subsidiary banks is intended to protect depositors, the Federal Deposit Insurance Fund (DIF), and the U.S. banking system as a whole. This system is not designed to protect equity investors in bank holding companies. Set forth below is a summary of the significant laws and regulations applicable to Webster and its bank and non-bank subsidiaries. The description that follows is qualified in its entirety by reference to the full text of the statutes, regulations, and policies that are described. Such statutes, regulations, and policies are subject to ongoing review by Congress and state legislatures and federal and state regulatory agencies. A change in any of the statutes, regulations, or regulatory policies applicable to Webster and its bank and non-bank subsidiaries could have a material effect on the results of the Company.

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Webster Financial Corporation is a separate and distinct legal entity from Webster Bank and its other subsidiaries. As a registered bank holding company and a financial holding company it is subject to inspection, examination, and supervision by the Board of Governors of the Federal Reserve System, and is regulated under the BHC Act. Webster is under the jurisdiction of the SEC and is subject to the disclosure and other regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as administered by the SEC. Webster is subject to the rules for companies listed on the New York Stock Exchange. In addition, the Consumer Financial Protection Bureau (CFPB) supervises Webster for compliance with federal consumer financial protection laws. Webster also is subject to oversight by state attorneys general for compliance with state consumer protection laws. Webster's non-bank subsidiaries are subject to federal and state laws and regulations, including regulations of the Federal Reserve System.

Webster Bank is organized as a national banking association under the National Bank Act. Webster Bank is subject to the supervision of, and to regular examination by, the Office of the Comptroller of the Currency (OCC) as its primary federal regulator, as well as by the Federal Deposit Insurance Corporation (FDIC) as its deposit insurer. Webster Bank's deposits are insured by the FDIC up to the applicable deposit insurance limits in accordance with FDIC laws and regulations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) significantly changed the financial regulatory regime in the United States. Since the enactment of the Dodd-Frank Act, U.S. banks and financial services firms have been subject to enhanced regulation and oversight. Several provisions of the Dodd-Frank Act are subject to further rulemaking, guidance, and interpretation by the federal banking agencies. The current administration and its appointees to the federal banking agencies have expressed interest in reviewing, revising, and perhaps repealing portions of the Dodd-Frank Act and certain of its implementing regulations.

On May 14, 2018, the President signed into law the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA), which among other things, amended certain provisions of the Dodd-Frank Act as well as statutes administered by the Federal Reserve System, the FDIC, and the OCC. The amendments made by the EGRRCPA provide limited regulatory relief for certain financial institutions and additional tailoring of banking and consumer protection laws, while preserving the existing framework under which U.S. financial institutions are regulated, including the discretionary authority of the Federal Reserve System, the FDIC, and the OCC to supervise bank holding companies and insured depository institutions, such as Webster Financial Corporation and Webster Bank.

In addition, EGRRCPA includes certain other banking-related consumer protection as securities law-related provisions. Many of the EGRRCPA changes must be implemented through rules adopted by the federal banking regulators and certain changes remain subject to substantial regulatory discretion of the federal banking regulators. As a result, the full impact of EGRRCPA will remain unclear for the immediate future. The Company expects to continue to evaluate the potential impact of EGRRCPA as it is further implemented by the regulators.

Bank Holding Company Regulation

Webster Financial Corporation is a bank holding company as defined under the BHC Act. The BHC Act generally limits the business of bank holding companies to banking, managing or controlling banks, and other activities that the Board of Governors of the Federal Reserve System has determined to be so closely related to banking as to be a proper incident thereto. Bank holding companies that have elected to become financial holding companies, such as Webster Financial Corporation, may engage in any activity, or acquire and retain the shares of a company engaged in any activity that is either (i) financial in nature or incidental to such financial activity (as determined by the Board of Governors of the Federal Reserve System in consultation with the Secretary of the Treasury) or (ii) complementary to a financial activity, and that does not pose a substantial risk to the safety and soundness of depository institutions or the financial system (as solely determined by the Board of Governors of the Federal Reserve System). Activities that are financial in nature include securities underwriting and dealing, insurance underwriting, and making merchant banking investments.

Mergers and Acquisitions

The BHC Act, the Bank Merger Act, and other federal and state statutes regulate the direct and indirect acquisition of depository institutions. The BHC Act requires the prior Federal Reserve System approval for a bank holding company to acquire, directly or indirectly, 5% or more of any class of voting securities of a commercial bank or its parent holding company and for a company, other than a bank holding company, to acquire 25% or more of any class of voting securities of a bank or bank holding company. Under the Change in Bank Control Act, any person, including a company, may not acquire, directly or indirectly, control of a bank without providing 60 days prior notice and receiving a non-objection from the appropriate federal banking agency.

Under the Bank Merger Act, the prior approval of the appropriate federal banking agency is required for insured depository institutions to merge or enter into purchase and assumption transactions. In reviewing applications seeking approval of merger or purchase and assumption transactions, the federal banking agencies will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined banks, the applicant's performance record under the Community Reinvestment Act of 1977 (CRA), and the effectiveness of the merging banks in combating money laundering.

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Enhanced Prudential Standards

Section 165 of the Dodd-Frank Act imposes enhanced prudential standards on larger banking organizations. However, as of the enactment of EGRRCPA on May 24, 2018, bank holding companies with less than $100 billion in assets, such as Webster Financial Corporation are exempt from the enhanced prudential standards imposed under Section 165. As a result Webster Financial Corporation is relieved from the requirement to conduct company-run stress testing for itself and Webster Bank. However, while the federal banking agencies will not require company-run stress testing, the capital planning and risk management practices of the Company will continue to be reviewed through regular supervisory processes of the Federal Reserve System and the OCC. The Company will continue to perform certain stress tests internally and incorporate the economic models and information developed through its stress testing program into its risk management and business planning activities.

Furthermore, under a previously issued rule of the Federal Reserve System implementing enhanced prudential standards required by the Dodd-Frank Act, bank holding companies with more than $10 billion in assets were subject to certain rules, including a requirement to establish a separate risk committee of independent directors to manage enterprise-wide risk. EGRRCPA subsequently increased the asset threshold for requiring a bank holding company to establish a separate risk committee of independent directors from $10 billion to $50 billion. Notwithstanding the changes implemented by EGRRCPA, the Company anticipates retaining its Risk Committee of the Board of Directors.

Debit Card Interchange Fees

The Dodd-Frank Act requires that any interchange transaction fee charged for a debit transaction be reasonable and proportional to the cost incurred by the issuer for the transaction, with regulations that establish such fee standards, eliminate exclusivity arrangements between issuers and networks for debit card transactions, and limit restrictions on merchant discounting for use of certain payment forms and minimum or maximum amount thresholds as a condition for acceptance of credit cards. Under the Federal Reserve System's approved final debit card interchange rule pursuant to the Dodd-Frank Act, an issuer's base fee is capped at 21 cents per transaction and allows for an additional amount equal to 5 basis points of the transaction's value. The Federal Reserve System separately issued a final rule that also allows a fraud-prevention adjustment of 1 cent per transaction conditioned upon an issuer developing, implementing, and updating reasonably designed fraud-prevention policies and procedures.

Identity Theft

The SEC and the Commodity Futures Trading Commission (CFTC) jointly issued final rules and guidelines implementing provisions of the Dodd-Frank Act which require certain regulated entities to establish programs to address risks of identity theft. The rules require financial institutions and creditors to develop and implement a written identity theft prevention program that is designed to detect, prevent, and mitigate identity theft in connection with certain existing accounts or the opening of new accounts. The rules include guidelines to assist entities in the formulation and maintenance of programs that would satisfy these requirements. In addition, the rules establish special requirements for any credit and debit card issuers that are subject to the jurisdiction of the SEC or the CFTC, to assess the validity of notifications of changes of address under certain circumstances. Webster implemented an ID Theft Prevention Program, approved by its Board of Directors, in compliance with these requirements.

Volcker Rule

Section 619 of the Dodd-Frank Act, commonly known as the Volcker Rule, restricts the ability of banking entities, such as Webster and Webster Bank, from: (i) engaging in proprietary trading and (ii) investing in or sponsoring certain covered funds, subject to certain limited exceptions. Under the Volcker Rule, the term covered funds is defined as any issuer that would be an investment company under the Investment Company Act but for the exemption in section 3(c)(1) or 3(c)(7) of that Act, which includes collateralized loan obligation securities (CLO) and collateralized debt obligation securities. There are also several exemptions from the definition of covered fund, including, among other things, loan securitizations, joint ventures, certain types of foreign funds, entities issuing asset-backed commercial paper, and registered investment companies. The Federal Reserve approved Webster's illiquid funds extension request, thereby providing Webster with up to five additional years, to July 21, 2022, to bring such holdings into compliance with the Volcker Rule.

Dividends

The principal source of liquidity for the Holding Company is dividends from Webster Bank. Prior approval of the OCC would be required if the total of all dividends declared by a national bank in a year would exceed the sum of its net income for that year and its undistributed net income for the preceding two years, less any required transfers to surplus. Federal law also prohibits a national bank from paying dividends that would be greater than its undivided profits after deducting statutory bad debt in excess of allowance for loan and lease losses (ALLL). Webster Bank paid the Holding Company $290.0 million in dividends during the year ended December 31, 2018 and had $341.8 million of undistributed net income available for payment of dividends at December 31, 2018.

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In addition, Webster Financial Corporation and Webster Bank are subject to other regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. Federal regulatory agencies are authorized to determine, under certain circumstances relating to the financial condition of a bank holding company, or a bank, that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. The federal banking agencies have indicated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings.

Federal Reserve System

Federal Reserve System regulations require depository institutions to maintain cash reserves against their transaction accounts, primarily interest-bearing and regular checking accounts. The required cash reserves can be in the form of vault cash and, if vault cash does not fully satisfy the required cash reserves, in the form of a balance maintained with Federal Reserve Banks. The Board of Governors of the Federal Reserve System generally makes annual adjustments to the tiered cash reserve requirements. The regulations require that Webster maintain cash reserves against aggregate transaction accounts in excess of the exempt amount of $16.0 million at December 31, 2018. Effective January 17, 2019, amounts greater than $16.3 million up to and including $124.2 million have a reserve requirement of 3% and amounts in excess of $124.2 million have a reserve requirement of 10%. Webster Bank is in compliance with these cash reserve requirements.

As a national bank and member of the Federal Reserve System, Webster Bank is required to hold capital stock of the Federal Reserve Bank (FRB) of Boston. The required shares may be adjusted up or down based on changes to Webster Bank's common stock and paid-in surplus. Webster Bank was in compliance with these requirements, with a total investment in FRB of Boston stock of $50.7 million at December 31, 2018. The FRBs pay a semi-annual dividend, to member banks with total assets greater than $10 billion, equal to the lesser of 6% or the yield on the 10-year Treasury note auctioned at the last auction prior to the dividend payment date. For the semi-annual period ended December 31, 2018, the FRB of Boston declared a cash dividend equal to an annual yield of 2.92%.

Federal Home Loan Bank System

The Federal Home Loan Bank (FHLB) System provides a central credit facility for member institutions. Webster Bank is a member of the FHLB of Boston. Webster Bank (the Bank) is required to purchase and hold shares of capital stock in the FHLB for both membership and activity-based purposes. The capital stock requirement includes an amount equal to 0.35% of the aggregate principal amount of the Bank's unpaid residential mortgage loans and similar obligations at the beginning of each year, up to a maximum of $25 million, plus an amount that varies from 3.0% to 4.5% depending on the maturities of its FHLB advances, which totaled approximately $1.8 billion at December 31, 2018. Webster Bank was in compliance with these requirements, with a total investment in FHLB stock of $98.6 million at December 31, 2018. On November 2, 2018, the FHLB paid a quarterly cash dividend equal to an annual yield of 5.87%.

Source of Strength Doctrine

Federal Reserve System policy requires bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. Section 616 of the Dodd-Frank Act codified the requirement that bank holding companies act as a source of financial strength. As a result, Webster Financial Corporation is expected to commit resources to support Webster Bank, including at times when Webster Financial Corporation may not be in a financial position to provide such resources. Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary banks. The U.S. bankruptcy code provides that, in the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment. In addition, under the National Bank Act, if the capital stock of Webster Bank is impaired by losses, or otherwise, the OCC is authorized to require payment of the deficiency by assessment upon the Holding Company. If the assessment is not paid within three months, the OCC could order a sale of the Webster Bank stock held by Webster Financial Corporation to cover any deficiency.

Capital Adequacy

The final rules establishing a new comprehensive capital framework for U.S. banking organizations (Capital Rules) under a global regulatory framework developed by the Basel Committee on Banking Supervision (BASEL III) adopted by the Federal Reserve System, the OCC, and the FDIC generally implement the capital framework for strengthening international capital standards. The Capital Rules define the components of regulatory capital, as well as address other issues affecting the numerator in banking institutions' regulatory capital ratios. The Capital Rules also address asset risk weights and other matters affecting the denominator in banking institutions' regulatory capital ratios. The Capital Rules: (i) include the capital measure Common Equity Tier 1, defined by Basel III capital rules (CET1 capital) and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 capital and additional Tier 1 capital instruments meeting certain revised requirements; (iii) mandate that most deductions or adjustments to regulatory capital measures be made to CET1 capital and not to the other components of capital; and (iv) expand the scope of deductions from and adjustments to capital as compared to existing regulations.

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Under the Capital Rules, for most banking organizations, including Webster, the most common form of additional Tier 1 capital is non-cumulative perpetual preferred stock, and the most common forms of Tier 2 capital are subordinated notes and the qualifying portion of ALLL, in each case, subject to specific requirements of the Capital Rules. Tier 1 capital to adjusted, as defined, average consolidated assets is known as the Tier 1 leverage ratio.
Pursuant to the Capital Rules, ratio thresholds are as follows:

	Adequately Capitalized	Well Capitalized
CET1 risk-based capital	4.5 %	6.5 %
Total risk-based capital	8.0	10.0
Tier 1 risk-based capital	6.0	8.0
Tier 1 leverage capital	4.0	5.0

The Capital Rules also include a capital conservation buffer, composed entirely of CET1 capital, in addition to the minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions hold a capital conservation buffer above its minimum risk-based capital requirements in order to avoid limitations on distributions, such as dividends; equity; other capital instrument repurchases; and certain discretionary bonus payments to executive officers, based on the amount of the shortfall. The Capital Rules became fully phased-in on January 1, 2019. Thus, the capital standards applicable to Webster and Webster Bank beginning in 2019, include an additional capital conservation buffer for which the lowest capital ratio excess over adequately capitalized must be at least 2.5%.
The Capital Rules provide for a number of deductions from and adjustments to CET1 capital. These include, for example, the requirement that mortgage servicing assets, certain deferred tax assets (DTAs), and significant investments in non-consolidated financial institutions be deducted from CET1 capital to the extent that any one such category exceeds 10% of CET1 capital or all such items, in the aggregate, exceed 15% of CET1 capital.
Under the Basel III Rule, certain off-balance sheet commitments and obligations are converted into risk-weighted assets, that together with on-balance sheet assets, are the base against which regulatory capital is measured. The risk-weighting categories are standardized for bank holding companies and banks based on a risk-sensitive analysis, depending on the nature of the exposure. Risk weights range from 0% for U.S. government securities to 1,250% for exposures such as certain tranches of securitizations or certain equity exposures.

Prompt Corrective Action and Safety and Soundness

Pursuant to Section 38 of the Federal Deposit Insurance Act, federal banking agencies are required to take prompt corrective action should an insured depository institution fail to meet certain capital adequacy standards. At each successive lower capital category, an insured depository institution is subject to more restrictions and prohibitions, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on payment of dividends and restrictions on the acceptance of brokered deposits. Furthermore, if an insured depository institution is classified in one of the under capitalized categories, it is required to submit a capital restoration plan to the appropriate federal banking agency, and the holding company must guarantee the performance of that plan. Based upon its capital levels, a bank that is classified as well capitalized, adequately capitalized, or under capitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment.
Prompt corrective action ratios are as follows:

	Well Capitalized	Adequately Capitalized	Under Capitalized	Significantly Under-Capitalized
CET1 risk-based capital	6.5 %	4.5 %	< 4.5%	< 3.0%
Total risk-based capital	10.0	8.0	< 8.0%	< 6.0%
Tier 1 risk-based capital	8.0	6.0	< 6.0%	< 4.0%
Tier 1 leverage capital	5.0	4.0	< 4.0%	< 3.0%

An insured depository institution with a ratio of tangible equity to total assets that is less than 2% is considered critically under-capitalized.

Bank holding companies and insured depository institutions may also be subject to potential enforcement actions of varying levels of severity by the federal banking agencies for unsafe or unsound practices in conducting their business, or for violation of any law, rule, regulation, condition imposed in writing by the agency or term of a written agreement with the agency. In more serious cases, enforcement actions may include the issuance of directives to increase capital; the issuance of formal and informal agreements; the imposition of civil monetary penalties; the issuance of a cease and desist order that can be judicially enforced; the issuance of removal and prohibition orders against officers, directors, and other institution affiliated parties; the termination of the insured depository institution's deposit insurance; the appointment of a conservator or receiver for the insured depository institution; and the enforcement of such actions through injunctions or restraining orders based upon a judicial determination that the FDIC, as receiver, would be harmed if such equitable relief was not granted.

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Transactions with Affiliates and Insiders

Under federal law, transactions between insured depository institutions and their affiliates are governed by Sections 23A and 23B of the Federal Reserve Act (FRA) and Federal Reserve Regulation W. In a bank holding company context, at a minimum, the parent holding company of a bank, and any companies which are controlled by such parent holding company, are affiliates of the bank. Generally, sections 23A and 23B of the FRA are intended to protect insured depository institutions from losses arising from transactions with non-insured affiliates by limiting the extent to which a bank or its subsidiaries may engage in covered transactions with any one affiliate and with all affiliates of the bank in the aggregate, and requiring that such transactions be on terms consistent with safe and sound banking practices.

Further, Section 22(h) of the FRA and its implementing Regulation O restricts loans to directors, executive officers, and principal stockholders or insiders. Under Section 22(h), loans to insiders and their related interests may not exceed, together with all other outstanding loans to such persons and affiliated entities, the institution's total capital and surplus. Loans to insiders above specified amounts must receive the prior approval of the board of directors. Further, under Section 22(h) of the FRA, loans to directors, executive officers, and principal stockholders must be made on terms substantially the same as offered in comparable transactions to other persons, except that such insiders may receive preferential loans made under a benefit or compensation program that is widely available to the bank's employees and does not give preference to the insider over the employees. Section 22(g) of the FRA places additional limitations on loans to executive officers.

Consumer Protection and Consumer Financial Protection Bureau Supervision

The Dodd-Frank Act centralized responsibility for consumer financial protection by creating the CFPB, an independent agency charged with responsibility for implementing, enforcing, and examining compliance with federal consumer financial protection laws. The Company is subject to a number of federal and state laws designed to protect borrowers and promote lending to various sectors of the economy and population. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Fair Debt Collection Procedures Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Practices Act, various state law counterparts, and the Consumer Financial Protection Act of 2010, which is part of the Dodd-Frank Act. The Dodd-Frank Act does not prevent states from adopting stricter consumer protection standards. State regulation of financial products and potential enforcement actions could also adversely affect the Company’s business, financial condition or operations.

The ability-to-repay provision of the Truth in Lending Act requires creditors to make reasonable, good faith determinations that borrowers are able to repay their mortgages before extending the credit based on a number of factors and consideration of financial information about the borrower from reasonably reliable third-party documents. Under the Dodd-Frank Act and the qualified mortgage provisions of the Truth in Lending Act, commonly known as the qualified mortgage (QM) Rule, loans meeting the definition of qualified mortgage are entitled to a presumption that the lender satisfied the ability-to-repay requirements. The presumption is a conclusive presumption/safe harbor for prime loans meeting QM requirements and a refutable presumption for higher-priced/subprime loans meeting QM requirements. The QM definition incorporates the statutory requirements, such as not allowing negative amortization or terms longer than 30 years. The QM Rule also adds an explicit maximum 43% debt-to-income ratio for borrowers if the loan is to meet the QM definition, though some mortgages that meet GSE, FHA, and VA underwriting guidelines may, for a period not to exceed seven years, meet the QM definition without being subject to the 43% debt-to-income limits. The CFPB is expected to continue to issue and amend rules implementing the consumer financial protection laws, which may impact Webster Bank's operations.

Financial Privacy and Data Security

Webster is subject to federal laws, including the Gramm-Leach-Bliley Act and certain state laws containing consumer privacy protection provisions. These provisions limit the ability of banks and other financial institutions to disclose nonpublic information about consumers to affiliated and non-affiliated third parties and limit the reuse of certain consumer information received from non-affiliated financial institutions. These provisions require notice of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain nonpublic personal information to affiliates or non-affiliated third parties by means of opt-out or opt-in authorizations.

The Gramm-Leach-Bliley Act requires that financial institutions implement comprehensive written information security programs that include administrative, technical, and physical safeguards to protect consumer information. Federal banking agencies have also adopted guidelines for establishing information security standards and programs to protect such information. These guidelines, along with related regulatory materials, increasingly focus on risk management and processes related to information technology and the use of third-parties in the provision of financial products and services. The federal bank regulatory agencies expect financial institutions to establish lines of defense and to ensure that their risk management processes address the risk posed by compromised customer credentials, and also expect financial institutions to maintain sufficient business continuity plannning processes to ensure rapid recovery, resumption, and maintenance of the institution's operations after a cyber attack. Further, pursuant to interpretive guidance issued under the Gramm-Leach-Bliley Act and certain state laws, financial institutions are required to notify customers of security breaches that result in unauthorized access to their non-public personal information.

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Depositor Preference

The Federal Deposit Insurance Act provides that, in the event of the liquidation or other resolution of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Federal Deposit Insurance

The FDIC's deposit insurance limit is $250,000 per depositor, per insured bank, for each account ownership category. Substantially all of the deposits of Webster Bank are insured up to applicable limits by the DIF of the FDIC and are subject to deposit insurance assessments to maintain the DIF.

The Bank's quarterly assessment is calculated using the FDIC's standardized risk-based assessment methodology, determined by the FDIC, which multiplies the Bank's assessment base by its assessment rate. The assessment base is defined as the average consolidated total assets less the average tangible equity of the Bank. The assessment rate is based on measures of the institution's capital adequacy, asset quality, management, earnings, liquidity and sensitivity to market risk (CAMELS) ratings, certain financial measures to assess an institution's ability to withstand asset-related stress and funding-related stress, and a measure of loss severity that estimates the relative magnitude of potential losses to the FDIC in the event of the Bank's failure. The FDIC also has the ability to make discretionary adjustments to the base assessment rate to reflect idiosyncratic quantitative and qualitative risk factors not captured in the FDIC's standardized risk-based assessment methodology.

Under the Federal Deposit Insurance Act, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. Webster's management is not aware of any practice, condition, or violation that might lead to the termination of its deposit insurance.

Incentive Compensation

The Dodd-Frank Act requires the federal banking agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities, including Webster and Webster Bank, with at least $1 billion in total consolidated assets that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits that could lead to material financial loss to the entity. The federal banking agencies and the SEC proposed such regulations in 2016, but the regulations have not yet been finalized. If the regulations are adopted in the form initially proposed, they will restrict the manner in which executive compensation is structured.

The Dodd-Frank Act also requires publicly traded companies to give stockholders a non-binding vote on executive compensation at their first annual meeting taking place six months after the date of enactment and at least every three years thereafter and on so-called "golden parachute" payments in connection with approvals of mergers and acquisitions. At Webster's 2011 Annual Meeting of Shareholders, its shareholders voted on a non-binding, advisory basis to hold a non-binding, advisory vote on the compensation of named executive officers of Webster annually. As a result of the vote, the Board of Directors determined to hold the vote annually.

Community Reinvestment Act and Fair Lending Laws

Webster Bank has a responsibility under the CRA, as implemented by OCC regulations to help meet the credit needs of its communities, including low and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community. The OCC examines Webster Bank's record of compliance with the CRA. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit discrimination in lending practices on the basis of characteristics specified in those statutes. Webster Bank's failure to comply with the provisions of the CRA could, at a minimum, result in regulatory restrictions on its activities and the activities of Webster Financial Corporation. Webster Bank's failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions against it by the OCC, as well as other federal regulatory agencies, including the CFPB and the Department of Justice. Webster Bank's latest OCC CRA rating was Outstanding.

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USA PATRIOT Act

Under Title III of the USA PATRIOT Act, all financial institutions are required to take certain measures to identify their customers, prevent money laundering, monitor customer transactions, and report suspicious activity to U.S. law enforcement agencies. Financial institutions also are required to respond to requests for information from federal banking agencies and law enforcement agencies. Information sharing among financial institutions for the above purposes is encouraged by an exemption granted to complying financial institutions from the privacy provisions of the Gramm-Leach-Bliley Act and other privacy laws. Financial institutions that hold correspondent accounts for foreign banks or provide private banking services to foreign individuals are required to take measures to avoid dealing with certain foreign individuals or entities, including foreign banks with profiles that raise money laundering concerns, and are prohibited from dealing with foreign "shell banks" and persons from jurisdictions of particular concern. The primary federal banking agencies and the Secretary of the Treasury have adopted regulations to implement several of these provisions. All financial institutions also are required to establish internal anti-money laundering programs. The effectiveness of a financial institution in combating money laundering activities is a factor to be considered in any application submitted by the financial institution under the Bank Merger Act. Webster has in place a Bank Secrecy Act and USA PATRIOT Act compliance program and engages in very few transactions of any kind with foreign financial institutions or foreign persons.

Office of Foreign Assets Control Regulation

The United States government has imposed economic sanctions that affect transactions with designated foreign countries, nationals, and others. These are typically known as the "OFAC" rules based on their administration by the U.S. Treasury Department Office of Foreign Assets Control. The Office of Foreign Assets Control-administered sanctions targeting countries take many different forms. Generally, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on U.S. persons engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (property and bank deposits) cannot be paid out, withdrawn, set off, or transferred in any manner without a license from the Office of Foreign Assets Control. Failure to comply with these sanctions could have serious legal and reputational consequences.

Future Legislative Initiatives

Federal and state legislatures may introduce legislation that will impact the financial services industry. In addition, federal banking agencies may introduce regulatory initiatives that are likely to impact the financial services industry, generally. Such initiatives may include proposals to expand or contract the powers of bank holding companies and/or depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and the operating environment of the Company in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities, or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. The Company cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it or any implementing regulations would have on the financial condition or results of operations of the Company. A change in statutes, regulations, or regulatory policies applicable to Webster or any of its subsidiaries could have a material effect on the business of the Company.

Risk Management Framework

Webster takes a comprehensive approach to risk management with a defined enterprise risk management framework which provides a structured approach for identifying, assessing and managing risks across the Company in a coordinated manner, including strategic and reputational, credit, information security and technology, operational and compliance, market, liquidity, and capital risks as discussed in detail in the sections below.

Strategic and Reputational Risks

The enterprise risk management framework enables the aggregation of risk across the enterprise and ensures the Company has the tools, programs, and processes in place to support informed decision making in order to anticipate risks before they materialize and to maintain Webster's risk profile consistent with its risk strategy and appetite.

The enterprise risk management framework includes an articulated risk appetite statement approved annually by the Board of Directors. The risk appetite statement is supported by board and business level scorecards with defined risk tolerance limits to ensure that Webster maintains an acceptable risk profile by providing a common framework and a comparable set of measures that indicate the level of risk that the Company is willing to accept. The risk appetite is refreshed annually in conjunction with the strategic plan to align risk appetite with Webster's strategy and financial plan.

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Webster promotes proactive risk management by all Webster employees and clear ownership and accountability across three lines of defense to enable an effective and credible challenge in line with Webster's strong risk culture. Employees in each line of business serve as the first line of defense and have responsibility for identifying, managing and owning the risks in their businesses. Risk and enterprise support functions, for example third party risk management and legal departments, serve as the second line of defense and are responsible for providing guidance, oversight and challenge to the first line of defense. Internal Audit and Credit Risk Review, both of which are independent of management, serve as the third line of defense and ensure, through review and testing, that appropriate risk management controls, processes and systems are in place and functioning effectively.

The Risk Committee of the Board of Directors, comprised of independent directors, oversees all of Webster's risk-related matters and provides input and guidance to the Board of Directors and the executive team, as appropriate. Webster's Enterprise Risk Management Committee (ERMC), which reports directly to the Risk Committee of the Board of Directors, is chaired by the Chief Risk Officer and is comprised of Webster's executive management and senior risk officers.

The Chief Risk Officer is responsible for establishing and maintaining Webster's enterprise risk management framework and overseeing credit risk, operational and compliance risk, Bank Secrecy Act compliance and loan workout/recovery programs. The Corporate Treasurer, who reports to the Chief Financial Officer, is responsible for overseeing market, liquidity, and capital risk management activities. The Chief Information Officer, who reports to the Chief Executive Officer, is responsible for overseeing information security and technology risk management activities.

Credit Risk

Webster manages and controls credit risk in its loan and investment portfolios through established underwriting practices, adherence to standards, and utilization of various portfolio and transaction monitoring tools and processes. Credit policies and underwriting guidelines provide limits on exposure and establish various other standards as deemed necessary and prudent. Additional approval requirements and reporting are implemented to ensure proper risk identification, decision rationale, risk ratings, and disclosure of policy exceptions.

Credit risk management policies and transaction approvals are managed under the supervision of the Chief Credit Officer who reports to the Chief Risk Officer. The Chief Credit Officer and team of credit executives are independent of the loan production and treasury areas. The credit risk function oversees the underwriting, approval and portfolio management process, establishes and ensures adherence to credit policies, and manages the collections and problem asset resolution activities.

As part of credit risk management governance, Webster has an established Credit Risk Management Committee that meets regularly to review key credit risk topics, issues, and policies. The Credit Risk Management Committee reviews Webster's credit risk scorecard, which covers key risk indicators and limits established as part of the Company's risk appetite framework. The Credit Risk Management Committee is chaired by the Chief Credit Officer and includes senior managers responsible for lending as well as senior managers from the credit risk management function. Important findings regarding credit quality and trends within the loan and investment portfolios are regularly reported by the Chief Credit Officer to the ERMC and Risk Committee of the Board of Directors.

In addition to the credit risk management team, there is an independent Credit Risk Review function that assesses risk ratings and credit underwriting process for all areas of the organization that incur credit risk. The head of Credit Risk Review reports directly to the Risk Committee of the Board of Directors and administratively to the Chief Risk Officer. Credit Risk Review findings are reported to the Credit Risk Management Committee, ERMC and Risk Committee of the Board of Directors. Corrective measures are monitored and tested to ensure risk issues are mitigated or resolved.

Information Security and Technology Risks

The use of technology to store and process information and an increasing use of mobile devices and cloud technologies to conduct financial transactions continues to expose Webster to the risk of potential operational disruption, or information security incidents. Sources of these risks include deliberate or accidental acts by employees, external parties, technology failure, third-party security practices, and environmental factors. Webster is committed to preventing, detecting, and responding to incidents that may impact the confidentiality, integrity, and availability of information assets and has established a comprehensive information security and technology framework, with policies, procedures, processes, systems, and oversight by the Information Security Oversight Committee. The Chief Information Security Officer is responsible for overseeing the development and implementation of Webster's information security framework and serves as the Chair of the Information Security Oversight Committee.

Operational and Compliance Risks

Operational risk represents the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Operational Risk function is responsible for establishing processes and tools to identify, manage, and aggregate operational risk across the organization; providing guidance and advice on operational risk matters; and educating the organization on operational risks. Compliance risk represents the risk of non-adherence to applicable laws and regulations, including fines penalties and reputation damage. Specific programs and functions have been implemented to manage the risks associated with legal and regulatory requirements, suppliers and other third-parties, information security, business disruption, fraud, analytical and forecasting models, and new products and services.

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Webster's Operational Risk Management Committee, which consists of senior risk officers and senior managers responsible for operational and compliance risk management across the Company, periodically reviews the aforementioned programs, as well as key operational risk trends, issues, and mitigation activities. The Director of Enterprise and Operational Risk Management chairs the Operational Risk Management Committee and is responsible for overseeing the development and implementation of Webster's operational risk management framework.

Market Risk

Market risk refers to the risk of loss arising from adverse changes in interest rates, foreign currency exchange rates, commodity prices, and other relevant market rates and prices, such as equity prices. The risk of loss is assessed from the perspective of adverse changes in fair values, cash flows, and future earnings. Due to the nature of its operations, Webster is primarily exposed to interest rate risk. Webster's interest rate sensitivity is monitored on an ongoing basis by its Asset/Liability Committee (ALCO). The primary goal of ALCO is to manage interest rate risk to maximize earnings and net economic value in changing interest rate and business environments, subject to Board approved risk limits. ALCO is chaired by Webster's Corporate Treasurer and members include the Chief Executive Officer, Chief Financial Officer and Chief Risk Officer. ALCO activities and findings are regularly reported to the ERMC and the Board of Directors.

Liquidity Risk

Liquidity risk refers to the ability to meet a demand for funds by converting assets into cash or cash equivalents and by increasing liabilities at an acceptable cost. Liquidity management for Webster Bank involves maintaining the ability to meet day-to-day and longer-term cash flow requirements of customers, whether they are depositors wishing to withdraw funds or borrowers requiring funds to meet their credit needs. Sources of funds include deposits, borrowings, or sales of assets such as unencumbered investment securities.

The Holding Company requires funds for dividends to shareholders, payment of debt obligations, repurchase of shares, potential acquisitions, and for general corporate purposes. Its sources of funds include dividends from Webster Bank, income from investment securities, and the issuance of equity and debt in the capital markets.

Both the Holding Company and Webster Bank maintain a level of liquidity necessary to achieve their business objectives under both normal and stressed conditions. Liquidity risk is monitored and managed by ALCO and reviewed regularly with the ERMC and the Board of Directors.

Capital Risk

Webster aims to maintain adequate capital in both normal and stressed environments to support its business objectives and risk appetite. ALCO monitors regulatory and tangible capital levels according to regulatory requirements and management operating ranges and recommends capital conservation, generation, and/or deployment strategies. ALCO also has responsibility for the annual capital plan, capital ratio range setting, contingency planning and stress testing, which are all reviewed and approved by the ERMC and the Board of Directors, at least annually.

Internal Audit

Internal Audit provides independent, objective assurance and advisory services by applying a risk-based approach to selectively test and evaluate the design and operating effectiveness of applicable internal controls throughout the Company. This evaluation function brings a systematic and disciplined approach to enhancing the effectiveness of the Company's governance, risk management, and internal control processes.

Results of Internal Audit reviews are reported to management and the Audit Committee of the Board of Directors. Corrective measures are monitored to ensure risk issues are mitigated or resolved. The General Auditor reports functionally to the Audit Committee and administratively to the Chief Executive Officer. The appointment or replacement of the General Auditor is overseen by the Audit Committee.

Additional information on risks and uncertainties and additional factors that could affect the Company's results of operations can be found in Item 1A and elsewhere within this Form 10-K for the year ended December 31, 2018, and in other reports Webster Financial Corporation files with the SEC.

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ITEM 1A. RISK FACTORS

An investment in our securities involves risks and uncertainties, some of which are inherent in the financial services industry and others of which are more specific to our business. The discussion below addresses the material risks and uncertainties, of which we are currently aware, that could adversely affect our business and impact results of operations or financial condition. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. If any of the events or circumstances described in the following risks factors actually occurs, our business, results of operations or financial condition could be harmed, as a result.

Risks Relating to the Economy, Financial Markets, and Interest Rates

Difficult conditions in the economy and the financial markets may have a materially adverse effect on our business, financial condition and results of operations.

Our financial performance is highly dependent upon the business environment in the markets where we operate and in the United States as a whole. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, decreases in business activity, weakening of investor or business confidence, limitations on the availability or increases in the cost of credit and capital, increases in inflation, changes in interest rates, changes in tax laws, high unemployment, natural disasters or a combination of these or other factors.

In particular, we may face the following risks in connection with developments in the current economic and market environment:

- consumer and business confidence levels may decline and lead to less credit usage and increases in delinquencies and default rates;
- our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite our customers become less predictive of future behaviors;
- customer desire to do business with us may decline, whether as a result of a decreased demand for loans or other financial products and services or decreased deposits or other investments in accounts with us;
- competition in our industry could intensify as a result of the increasing consolidation of financial services companies and changes in financial services technologies; and
- the effects of recent and proposed changes in laws such as the Tax Cuts and Jobs Act of 2017 (Tax Act).

The business environment and financial markets in the U.S. have experienced volatility in recent years and may continue to do so for the foreseeable future. There can be no assurance that economic conditions will not worsen. Difficult economic conditions could adversely affect our business, results of operations and financial condition.

Changes in local economic conditions could adversely affect our business.

A significant percentage of our loans are secured by real estate, primarily across the Northeast. Our success depends in part upon economic conditions in Southern New England and our other geographic markets. Adverse changes in such local markets could reduce our growth in loans and deposits, impair our ability to collect our loans, increase problem loans and charges-offs, and otherwise negatively affect our performance and financial condition.

The soundness of other financial institutions could adversely affect our business.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated if the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. There is no assurance that any such losses would not materially and adversely affect our business, financial condition or results of operations.

We may not pay dividends if we are not able to receive dividends from our subsidiary, Webster Bank.

We are a separate and distinct legal entity from our banking and non-banking subsidiaries and depend on the payment of cash dividends from Webster Bank and our existing liquid assets as the principal sources of funds for paying cash dividends on our common stock. Unless we receive dividends from Webster Bank or choose to use our liquid assets, we may not be able to pay dividends. Webster Bank's ability to pay dividends is subject to its ability to earn net income and to meet certain regulatory requirements. See the sub-section captioned "Dividends" in Item 1 of this report for a discussion of regulatory and other restrictions on dividend declarations.

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Changes in interest rates and spreads could have an impact on earnings and financial condition which could have a negative impact on the value of our stock.

Our consolidated earnings and financial condition are dependent to a large degree upon net interest income, which is the difference between interest earned from loans and investments and interest paid on deposits and borrowings. The narrowing of interest rate spreads could adversely affect our earnings and financial condition. We cannot predict with certainty or control changes in interest rates. Regional and local economic conditions and the policies of regulatory authorities, including monetary policies of the FRB, affect interest income and interest expense. While we have ongoing policies and procedures designed to manage the risks associated with changes in market interest rates, changes in interest rates still may have an adverse effect on our profitability. For example, high interest rates could affect the amount of loans that we can originate because higher rates could cause customers to apply for fewer mortgages, or cause depositors to shift funds from accounts that have a comparatively lower cost to accounts with a higher cost, or experience customer attrition due to competitor pricing. If the cost of interest-bearing deposits increases at a rate greater than the yields on interest-earning assets increase, net interest income will be negatively affected. Changes in the asset and liability mix may also affect net interest income. Similarly, lower interest rates cause higher yielding assets to prepay and floating or adjustable rate assets to reset to lower rates. If we were not able to reduce our funding costs sufficiently, due to either competitive factors or the maturity schedule of existing liabilities, then our net interest margin would decline.

The uncertainty about the future of London Interbank Offered Rate (LIBOR) may adversely impact our business.

The Financial Conduct Authority (the authority that regulates LIBOR) has announced it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. This announcement indicates that the continuation of LIBOR on the current basis cannot, and will not, be guaranteed after 2021. The Alternative Reference Rates Committee (ARRC) has proposed that the Secured Overnight Financing Rate (SOFR) is the rate that represents best practice as the alternative to LIBOR for use in derivatives and other financial contracts that are currently indexed to LIBOR. ARRC has proposed a paced market transition plan to SOFR from LIBOR and organizations are currently working on industry wide and company specific transition plans as it relates to derivatives and cash markets exposed to LIBOR. It is not possible at this time to predict whether and to what extent banks will continue to provide submissions for the calculation of LIBOR. Similarly, it is not possible to predict whether LIBOR will continue to be viewed as an acceptable market benchmark, what rate or rates may become accepted alternatives to LIBOR, or what the effect of any such changes in views or alternatives may be on the markets for LIBOR-indexed financial instruments. The market transition away from LIBOR to an alternative reference rate, such as the SOFR, is complex and could have a range of adverse effects on our loan and lease and investment portfolios, asset-liability management, business, financial condition and results of operations. Webster has material contracts that are indexed to LIBOR and is currently monitoring this activity and evaluating the related risks.

Our stock price can be volatile.

Stock price volatility may negatively impact the price at which our common stock may be sold, and may also negatively impact the timing of any sale. Our stock price can fluctuate widely in response to a variety of factors including, among other things:

- actual or anticipated variations in operating results;
- changes in recommendations by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to us;
- news reports relating to trends, concerns and other issues in the financial services and healthcare industries;
- new technology used, or services offered, by competitors;
- perceptions in the marketplace regarding us and/or our competitors;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
- failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- additional investments from third parties;
- issuance of additional shares of stock;
- changes in government regulations or actions by government regulators; and

- geo-political conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes, credit loss trends or currency fluctuations, could also cause our stock price to decrease regardless of our operating results.

Regulatory, Compliance, Environmental and Legal Risks

We are subject to extensive government regulation and supervision, which may interfere with our ability to conduct our business and may negatively impact our financial results.

We, primarily through Webster Bank and certain non-bank subsidiaries, are subject to extensive federal and state regulation and supervision. Banking regulations are intended to protect depositors' funds, the DIF and the safety and soundness of the banking system as a whole, not shareholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer, and/or limit what we may charge for certain banking services, among other things. Additionally, recent changes to the legal and regulatory framework governing our operation, including the continued implementation of Dodd-Frank Act and EGRRCPA have and will continue to affect the lending, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act imposed additional regulatory obligations and increased scrutiny from federal banking agencies. In general, we expect this focus to continue and compliance requirements can be costly to implement. Compliance personnel and resources may increase our costs of operations and adversely impact our earnings.

Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on our business, financial condition and results of operations.

While we have policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur. See the section captioned "Supervision and Regulation" in Item 1 of this report for further information.

Changes in accounting standards and policies could materially impact how we report our results of operations and financial condition.

Our accounting policies and methods are fundamental to how we record and report our results of operations and financial condition. Accordingly, we exercise judgment in selecting and applying these accounting policies and methods so they comply with U.S. Generally Accepted Accounting Principles (GAAP). From time to time, the Financial Accounting Standards Board (FASB), regulatory agencies, and other bodies that establish accounting standards periodically change the financial accounting and reporting standards governing the preparation of our financial statements. Additionally, those bodies may change prior interpretations or positions on how these standards should be applied. The impact of these changes can be difficult to predict and can materially impact how we report our results of operations and financial condition. We could be required to apply new or revised guidance retrospectively, which may result in the revision of prior period financial statements by material amounts. Such changes could also require the Company to incur additional personnel, technology, or other costs. Notably, on January 1, 2020, the Company will be required to comply with a new accounting standard commonly referred to as the Current Expected Credit Losses (CECL). CECL will fundamentally change how we estimate credit losses on loans and certain other instruments requiring earlier recognition of expected credit losses measured over the life of the instrument. A discussion of accounting standards issued but not yet adopted including CECL can be found in Note 1 to the Consolidated Financial Statements.

Health care reforms could adversely affect our HSA Bank division and our revenues, financial position and our results of operations.

The enactment of health care reforms affecting health savings accounts at the federal or state level may affect our HSA Bank division, which is a bank custodian of health savings accounts. We cannot predict if any such reforms will ultimately become law, or, if enacted, what their terms or the regulations promulgated pursuant to such laws will be. Any health care reforms enacted may be phased in over a number of years but, if enacted, could, with respect to the operations of HSA Bank, reduce our revenues, increase our costs, and require us to revise the ways in which we conduct business or put us at risk for loss of business. In addition, our results of operations, financial position, and cash flows could be materially adversely affected by such changes.

Changes in the federal, state or local tax laws may negatively impact our financial performance.

We are subject to changes in tax law that could increase our effective tax rates. While the Tax Act reduced the federal corporate tax rate from 35% to 21% beginning in 2018, which has had a favorable impact on our earnings and capital generation abilities, the new legislation also enacted limitations on certain deductions, such as FDIC deposit insurance premiums, which partially offset the increase in net earnings from the lower tax rate. In addition, further changes in the tax law, changes in interpretations, guidance or regulations that may be promulgated, or actions that we may take as a result of the Tax Act could negatively impact our business. Similarly, our customers are likely to continue to experience varying effects from both the individual and business tax provisions of the Tax Act and such effects, whether positive or negative, may have a corresponding impact on our financial performance and the economy as a whole.

We are subject to financial and reputational risks from potential liability arising from lawsuits.
The nature of our business ordinarily results in a certain amount of claims and legal action. Whether claims and related legal actions are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to us they may result in significant financial liability and/or adversely affect our market perception, the products and services we offer, as well as impact customer demand for those products and services. We assess our liabilities and contingencies in connection with outstanding legal proceedings as well as certain threatened claims utilizing the latest and most reliable information. For matters where a loss is not probable or the amount of the loss cannot be estimated, no accrual is established. For matters where it is probable we will incur a loss and the amount can be reasonably estimated, we establish an accrual for the loss. Once established, the accrual is adjusted periodically to reflect any relevant developments. The actual cost of any outstanding legal proceedings or threatened claims, however, may turn out to be substantially higher than the amount accrued. These costs may adversely affect our business, results of operations and prospects.

We are exposed to risk of environmental liabilities with respect to properties to which we obtain title.
A large portion of our loan portfolio is secured by real estate. In the course of our business, we may foreclose and take title to real estate and could be subject to environmental liabilities with respect to these properties. We may be held liable to a government entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation and remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. These costs and claims could adversely affect our business, results of operations and prospects.

Risks Relating to the Competitive Environment in Which We Operate

We operate in a highly competitive industry and market area. If we fail to compete effectively, our financial condition and results of operations may be materially adversely affected.
We face substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and may have more financial resources than we do. Such competitors primarily include national, regional, and community banks within the various markets in which we operate. We also face competition from many other types of financial institutions, including, without limitation, savings and loans, credit unions, non-bank health savings account trustees, finance companies, brokerage firms, insurance companies, online lenders, factoring companies and other financial intermediaries. Some of the financial services organizations with which the Company competes are not subject to the same degree of regulation as is imposed on bank holding companies and federally insured depository institutions, which may give them certain advantages over the Company in accessing funding and in providing various services. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services than we do, as well as better pricing for those products and services.
Our ability to compete successfully depends on a number of factors, including, among other things:

- the ability to develop, maintain and build upon long-term customer relationships based on top quality service, high ethical standards and safe, sound assets;
- the ability to expand market position;
- the scope, relevance and pricing of products and services offered to meet customer needs and demands;
- the rate at which we introduce new products and services relative to our competitors;
- customer satisfaction with our level of service and products; and
- industry and general economic trends.

Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our growth and profitability, which, in turn, could have a material adverse effect on our financial condition and results of operations.

The loss of key partnerships could adversely affect our HSA Bank division.

Our HSA Bank division relies on partnerships with various health insurance carriers and other partners to maximize our distribution model. In particular, health plan partners, who provide high deductible health plan options, are a significant source of new and existing health savings account holders. If these health plan partners or other partners choose to align with our competitors, our results of operations, business and prospects could be adversely affected.

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We may not be able to attract and retain skilled people.
Our success depends, in large part, on our ability to attract and retain key people. Competition for the best people in most activities in which we engage can be intense and we may not be able to hire people or to retain them. The unexpected loss of services of key personnel could have a material adverse impact on the business because we would lose their skills, knowledge of the market, years of industry experience and may have difficulty promptly finding qualified replacement personnel.

Risks Relating to Risk Management

We continually encounter technological change. The failure to understand and adapt to these changes could negatively impact our business.
The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology can increase efficiency and enable financial institutions to better serve customers and to reduce costs. However, some new technologies needed to compete effectively result in incremental operating costs and capital investments. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in operations. Many of our competitors, because of their larger size and available capital, have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers within the same time frame as our large competitors. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

New lines of business or new products and services may subject us to additional risks. A failure to successfully manage these risks may have a material adverse effect on our business.
From time to time, we may implement new lines of business, offer new products and services within existing lines of business or shift our asset mix. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services and/or shifting asset mix, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove attainable. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, results of operations and financial condition.

A failure or breach of our systems, or those of our third party vendors and other service providers, including as a result of cyber attacks, could disrupt our businesses, result in the misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.
As a large financial institution, we depend on our ability to process, record, and monitor a large number of customer transactions, and customer, public and regulatory expectations regarding operational and information security have increased over time. Accordingly, our operational systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions and breakdowns. Our business, financial, accounting, data processing systems or other operating systems and facilities may stop operating properly or become disabled as a result of a number of factors that may be wholly or partially beyond our control. For example, there could be sudden increases in customer transaction volume; electrical or telecommunications outages; natural disasters; pandemics; events arising from political or social matters, including terrorist acts; and cyber attacks. Although we have business continuity plans and believe we have robust information security procedures and controls in place, disruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, or cyber attacks or security breaches of the networks, systems or devices on which customers’ personal information is stored and that our customers use to access our products and services could result in customer attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs,

which could have a materially adverse effect on our results of operations and financial condition.

Third parties with whom we do business or that facilitate our business activities, including exchanges, clearing houses, financial intermediaries or vendors that provide services or security solutions for our operations, could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems, capacity constraints and cyber attacks.

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Although to date we have not experienced any material losses relating to cyber attacks or other information security breaches, there can be no assurance that we will not suffer such losses in the future. Our risk and exposure to these matters remains heightened and as a result the continued development and enhancement of our controls, processes and practices designed to protect and facilitate the recovery of our systems, computers, software, data and networks from attack, damage or unauthorized access remain a high priority for us. As an additional layer of protection, we have purchased network and privacy liability risk insurance coverage which includes digital asset loss, business interruption loss, network security liability, privacy liability, network extortion and data breach coverage. As cyber threats continue to evolve, we may be required to expend significant additional resources to modify our protective measures or to investigate and remediate any information security vulnerabilities.

Disruptions in services provided by third-party vendors that we rely on may result in a material adverse effect on our business.

We rely on third-party vendors to provide products and services necessary to maintain day-to-day operations. For example, we are dependent on our vendor-provided core banking processing systems to process a large number of increasingly complex transactions. Accordingly, we are exposed to the risk that these vendors might not perform in accordance with the contracted arrangements or service level agreements because of changes in the vendor’s organizational structure, financial condition, support for existing products, services and technology strategic focus or for any other reason. Such failure to perform could be disruptive to our operations, which could have a materially adverse impact on our business, results of operations and financial condition. While we require third-party outsourced service providers to have business continuity and disaster recovery plans that are aligned with our overall recovery plans, we cannot be assured that such plans will operate successfully or in a timely manner so as to prevent any such material adverse impact.

Our controls and procedures may fail or be circumvented, which may result in a material adverse effect on our business.

Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures, failure to implement any necessary improvement of our controls and procedures, or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

We face risks in connection with completed or potential acquisitions.

From time to time we may evaluate expansion through the acquisition of banks or branches, or other financial businesses or assets. Such acquisitions involve various risks commonly associated with acquisitions, including, among other things:

- The possible loss of key employees and customers;
- Potential business disruptions;
- Potential changes in banking or tax laws or regulations that may affect the business;
- Potential exposure to unknown or contingent liabilities; and
- Potential difficulties in integrating the target business into our own.

Acquisitions typically involve the payment of a premium over book and market values, and therefore, some dilution of the Company’s tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on the Company’s business, financial condition and results of operations.

Our business may be adversely affected by fraud.

As a financial institution, we are inherently exposed to operational risk in the form of theft and other fraudulent activity by employees, customers, and other third parties targeting the Company or the Company’s customers or data. Such activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. Although we devote substantial resources to maintaining effective policies and internal controls to identify and prevent such incidents, given the increasing sophistication of possible perpetrators, we may experience financial losses or reputational harm as a result of fraud.

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Risks Relating to Accounting Estimates

Our allowance for loan and lease losses may be insufficient.

Our business is subject to periodic fluctuations based on national and local economic conditions. These fluctuations are not predictable, cannot be controlled and may have a material adverse impact on our operations and financial condition. For example, declines in housing activity including declines in building permits, housing starts and home prices, may make it more difficult for our borrowers to sell their homes or refinance their debt. Sales may also slow, which could strain the resources of real estate developers and builders. We may suffer higher loan and lease losses as a result of these factors and the resulting impact on our borrowers. A declining economy could negatively affect employment levels and impact the ability of our borrowers to service their debt. Bank regulatory agencies also periodically review our allowance for loan and lease losses and may require an increase in the provision for loan and lease losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan and lease losses, we may need, depending on an analysis of the adequacy of the allowance for loan and lease losses, additional provisions to increase the allowance for loan and lease losses. Any increases in the allowance for loan and lease losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on our financial condition and results of operations.

If our goodwill were determined to be impaired it could have a negative impact on our profitability.

Accounting standards require that the purchase method of accounting be used for all business combinations. Under purchase accounting, if the purchase price of an acquired company exceeds the fair value of the acquired company's net assets, the excess is carried on the balance sheet as goodwill, by the acquirer. A significant decline in our expected future cash flows, a continuing period of market disruption, market capitalization to book value deterioration, or slower growth rates may require us to record charges in the future related to the impairment of our goodwill. If we were to conclude that a future write-down is necessary, we would record the appropriate charge, which may have a material adverse effect on our financial condition and results of operations.

If all or a significant portion of the unrealized losses in our investment securities were determined to be other-than-temporarily impaired, we would recognize a material charge to our earnings and our capital ratios would be adversely impacted.

When the fair value of a security declines, management must assess whether that decline is other-than-temporary. When management reviews whether a decline in fair value is other-than-temporary, it considers numerous factors, many of which involve significant judgment. No assurance can be provided that the amount of the unrealized losses will not increase.

To the extent that any portion of the unrealized losses in our investment securities portfolio is determined to be other-than-temporary impairment (OTTI), we will recognize a charge to our earnings in the quarter during which such determination is made and our capital ratios will be adversely impacted. If any such charge is deemed significant, a rating agency might downgrade our credit rating or put us on a credit watch. A downgrade or a significant reduction in our capital ratios might adversely impact our ability to access the capital markets or might increase our cost of capital. Even if we do not determine that the unrealized losses associated with the investment portfolio require an impairment charge, increases in such unrealized losses adversely impact the tangible common equity ratio, which may adversely impact credit rating agency and investor sentiment. Any such negative perception also may adversely impact our ability to access the capital markets or might increase our cost of capital.

We may not be able to fully realize the balance of our net DTA.

The value of our DTA is partially reduced by a valuation allowance. A valuation allowance is provided when it is more-likely-than-not that some portion of our DTA will not be realized. We regularly assess available positive and negative evidence to determine whether it is more-likely-than-not that our net DTA will not be realized. Realization of a DTA requires us to apply significant judgment and is inherently speculative because it requires estimates that cannot be made with certainty. If we were to conclude that a significant portion of our remaining DTA is not more-likely-than-not to be realized, the required valuation allowance could adversely affect our financial position, results of operations and regulatory capital ratios.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable

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ITEM 2. PROPERTIES

The Company maintains its headquarters in Waterbury, Connecticut. This owned facility houses the Company's executive and primary administrative functions, as well as the principal banking headquarters of Webster Bank. Other key operation and administration functions are in an owned facility in New Britain, Connecticut and in leased facilities in Hartford, Connecticut and Southington, Connecticut. The Company considers its properties suitable and adequate for present needs.

In addition to the property noted above, the Company's segments maintain the following leased or owned offices. Lease expiration dates vary, up to 68 years, with renewal options for 1 to 25 years. For additional information regarding leases and rental payments see Note 21: Commitments and Contingencies in the Notes to Consolidated Financial Statements contained elsewhere in this report.

Commercial Banking

The Commercial Banking segment maintains offices across a footprint that primarily ranges from Boston, Massachusetts to Washington, D.C. Significant properties are located in: Hartford, New Haven, Stamford, and Waterbury, Connecticut; Boston, Massachusetts; New York City and White Plains, New York; Conshohocken, Pennsylvania; and Providence, Rhode Island.

The Commercial Banking segment also includes: Webster Capital Finance with headquarters in New Britain, Connecticut; Webster Business Credit Corporation with headquarters in New York, New York and offices in Atlanta, Georgia, Baltimore, Maryland, Boston, Massachusetts, Chicago, Illinois, Dallas, Texas, Charlotte, North Carolina and New Milford, Connecticut; and Private Banking with headquarters in Stamford, Connecticut and offices in Hartford, New Haven, Waterbury, and Greenwich, Connecticut, Boston, Massachusetts, and Providence, Rhode Island.

HSA Bank

The HSA Bank segment is headquartered in Milwaukee, Wisconsin with an office in Sheboygan, Wisconsin.

Community Banking

The Community Banking segment maintains the following banking centers:

Location	Leased	Owned	Total
Connecticut	71	41	112
Massachusetts	19	10	29
Rhode Island	6	3	9
New York	7	—	7
Total banking centers	103	54	157

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Webster Financial Corporation's common shares trade on the New York Stock Exchange under the symbol WBS. On February 15, 2019, there were 5,365 shareholders of record as determined by Broadridge, the Company's transfer agent.

Exchanges of Registered Securities

Registered securities are exchanged as part of employee and director stock compensation plans.

Recent Sales of Unregistered Securities

No unregistered securities were sold by Webster Financial Corporation during the year ended December 31, 2018.

Issuer Purchases of Equity Securities

The following table provides information with respect to any purchase of equity securities for Webster Financial Corporation's common stock made by or on behalf of Webster or any "affiliated purchaser," as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, during the three months ended December 31, 2018:

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Amount Available for Repurchase Under the Plans or Programs (1)
October	—	$	——	$91,745,715
November	1,483	60.84	—	91,745,715
December	—	—	—	91,745,715
Total	1,483	60.84	—	91,745,715

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

All 1,483 shares purchased during the three months ended December 31, 2018 were related to stock compensation plan activity, acquired at market prices, outside of the repurchase program.

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Performance Graph

The performance graph compares Webster Financial Corporation's cumulative shareholder return on its common stock over the last five fiscal years to the cumulative total return of the Standard & Poor's 500 Index (S&P 500 Index) and the Keefe, Bruyette & Woods Regional Banking Index (KRX Index).

Cumulative shareholder return is measured by dividing total dividends (assuming dividend reinvestment) for the measurement period plus share price change for a period by the share price at the beginning of the measurement period. The cumulative shareholder return over a five-year period assumes a simultaneous initial investment of $100, on December 31, 2013, in Webster Financial Corporation common stock and in each of the indices above.

	Period Ending December 31,					
	2013	2014	2015	2016	2017	2018
Webster Financial Corporation	$100	$107	$125	$188	$198	$178
S&P 500 Index	$100	$114	$115	$129	$157	$150
KRX Index	$100	$102	$109	$151	$154	$127

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ITEM 6. SELECTED FINANCIAL DATA

The required information is set forth below, in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, under the section captioned "Results of Operations," which is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Consolidated Financial Statements and the accompanying Notes thereto of Webster Financial Corporation contained elsewhere in this report.

Results of Operations

Selected Financial Data	At or for the years ended December 31,					
(Dollars in thousands, except per share data)	2018	2017	2016	2015	2014	
Balance Sheets						
Total assets	$27,610,315	$26,487,645	$26,072,529	$24,641,118	$22,497,175	
Loans and leases, net	18,253,136	17,323,864	16,832,268	15,496,745	13,740,761	
Investment securities	7,224,150	7,125,429	7,151,749	6,907,683	6,666,828	
Deposits [(1)]	21,858,845	20,993,729	19,303,857	17,952,778	15,651,605	
Borrowings	2,634,703	2,546,141	4,017,948	4,040,799	4,335,193	
Preferred stock	145,037	145,056	122,710	122,710	151,649	
Total shareholders' equity	2,886,515	2,701,958	2,527,012	2,413,960	2,322,815	
Statements Of Income						
Interest income	$1,055,167	$913,605	$821,913	$760,040	$718,941	
Interest expense	148,486	117,318	103,400	95,415	90,500	
Net interest income	906,681	796,287	718,513	664,625	628,441	
Provision for loan and lease losses	42,000	40,900	56,350	49,300	37,250	
Non-interest income	282,568	259,478	264,478	237,777	202,108	
Non-interest expense	705,616	661,075	623,191	555,341	501,600	
Income before income tax expense	441,633	353,790	303,450	297,761	291,699	
Income tax expense [(2)]	81,215	98,351	96,323	93,032	91,973	
Net income	$360,418	$255,439	$207,127	$204,729	$199,726	
Earnings applicable to common shareholders	$351,703	$246,831	$198,423	$195,361	$188,496	
Per Share Data						
Basic earnings per common share	$3.83	$2.68	$2.17	$2.15	$2.10	
Diluted earnings per common share	3.81	2.67	2.16	2.13	2.08	
Dividends and dividend equivalents declared per common share	1.25	1.03	0.98	0.89	0.75	
Dividends declared per Series A preferred stock share	—	—	—	21.25	85.00	
Dividends declared per Series E preferred stock share	—	1,600.00	1,600.00	1,600.00	1,600.00	
Dividends declared per Series F preferred stock share	1,323.44	—	—	—	—	
Book value per common share	29.72	27.76	26.17	24.99	23.99	
Tangible book value per common share *(non-GAAP)*	23.60	21.59	19.94	18.69	18.10	
Key Performance Ratios						
Tangible common equity ratio *(non-GAAP)*	8.05 %	7.67 %	7.19 %	7.12 %	7.46	%
Return on average assets	1.33	0.97	0.82	0.87	0.93	
Return on average common shareholders' equity	13.37	9.92	8.44	8.70	8.85	
Return on average tangible common shareholders' equity *(non-GAAP)*	17.17	13.00	11.36	11.96	11.90	
Net interest margin	3.60	3.30	3.12	3.08	3.21	
Efficiency ratio *(non-GAAP)*	57.75	60.33	62.01	59.93	59.18	
Asset Quality Ratios						
Non-performing loans and leases as a percentage of loans and leases	0.84 %	0.72 %	0.79 %	0.89 %	0.93	%

Non-performing assets as a percentage of loans and leases plus OREO	0.87	0.76	0.81	0.92	0.98
Non-performing assets as a percentage of total assets	0.59	0.50	0.53	0.59	0.61
ALLL as a percentage of non-performing loans and leases	137.22	158.00	144.98	125.05	122.62
ALLL as a percentage of loans and leases	1.15	1.14	1.14	1.12	1.15
Net charge-offs as a percentage of average loans and leases	0.16	0.20	0.23	0.23	0.23
Ratio of ALLL to net charge-offs	7.16 x	5.68 x	5.25 x	5.21 x	5.21 x

(1) The Company completed its acquisition of the health savings account business of JPMorgan Chase Bank, N.A. on January 13, 2015, assuming approximately $1.4 billion in deposits.

(2) The enactment of the Tax Act in December 2017 impacted income tax expense in 2018 and 2017. Refer to Note 8 to the Consolidated Financial Statements contained in Item 8 of this Annual Report on Form 10-K for additional information.

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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.

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

	At December 31,				
(Dollars and shares in thousands, except per share data)	**2018**	**2017**	**2016**	**2015**	**2014**
Tangible book value per common share (non-GAAP):					
Shareholders' equity (GAAP)	$2,886,515	$2,701,958	$2,527,012	$2,413,960	$2,322,815
Less: Preferred stock (GAAP)	145,037	145,056	122,710	122,710	151,649
Goodwill and other intangible assets (GAAP)	564,137	567,984	572,047	577,699	532,553
Tangible common shareholders' equity (non-GAAP)	$2,177,341	$1,988,918	$1,832,255	$1,713,551	$1,638,613
Common shares outstanding	92,247	92,101	91,868	91,677	90,512
Tangible book value per common share (non-GAAP)	$23.60	$21.59	$19.94	$18.69	$18.10
Tangible common equity ratio (non-GAAP):					
Tangible common shareholders' equity (non-GAAP)	$2,177,341	$1,988,918	$1,832,255	$1,713,551	$1,638,613
Total assets (GAAP)	$27,610,315	$26,487,645	$26,072,529	$24,641,118	$22,497,175
Less: Goodwill and other intangible assets (GAAP)	564,137	567,984	572,047	577,699	532,553
Tangible assets (non-GAAP)	$27,046,178	$25,919,661	$25,500,482	$24,063,419	$21,964,622
Tangible common equity ratio (non-GAAP)	8.05 %	7.67 %	7.19 %	7.12 %	7.46 %

	For the years ended December 31,				
(Dollars in thousands)	**2018**	**2017**	**2016**	**2015**	**2014**
Return on average tangible common shareholders' equity (non-GAAP):					
Net Income (GAAP)	$360,418	$255,439	$207,127	$204,729	$199,726
Less: Preferred stock dividends (GAAP)	7,853	8,184	8,096	8,711	10,556
Add: Intangible assets amortization, tax-affected (GAAP)	3,039	2,640	3,674	4,121	1,745
Income adjusted for preferred stock dividends and intangible assets amortization (non-GAAP)	$355,604	$249,895	$202,705	$200,139	$190,915
Average shareholders' equity (non-GAAP)	$2,782,132	$2,617,275	$2,481,417	$2,387,286	$2,289,699
Less: Average preferred stock (non-GAAP)	145,068	124,978	122,710	134,682	151,649
Average goodwill and other intangible assets (non-GAAP)	566,048	570,054	574,785	579,366	533,549
Average tangible common shareholders' equity (non-GAAP)	$2,071,016	$1,922,243	$1,783,922	$1,673,238	$1,604,501
Return on average tangible common shareholders' equity (non-GAAP)	17.17 %	13.00 %	11.36 %	11.96 %	11.90 %
Efficiency ratio (non-GAAP):					
Non-interest expense (GAAP)	$705,616	$661,075	$623,191	$555,341	$501,600
Less: Foreclosed property activity (GAAP)	(139)	(238)	(326)	517	(74)
Intangible assets amortization (GAAP)	3,847	4,062	5,652	6,340	2,685
Other expense (non-GAAP)	11,878	9,029	3,513	975	3,029
Non-interest expense (non-GAAP)	$690,030	$648,222	$614,352	$547,509	$495,960
Net interest income (GAAP)	$906,681	$796,287	$718,513	$664,625	$628,441
Add: Tax-equivalent adjustment (non-GAAP)	9,026	16,953	13,637	10,617	11,124

Non-interest income (GAAP)	282,568	259,478	264,478	237,777	202,108
Other (non-GAAP)	1,244	1,798	1,780	1,111	1,889
Less: Gain on sale of investment securities, net (GAAP)	—	—	414	609	5,499
One-time gain on: sale of banking centers - redemption of an asset (GAAP)	4,596	—	7,331	—	—
Income (non-GAAP)	$1,194,923	$1,074,516	$990,663	$913,521	$838,063
Efficiency ratio (non-GAAP)	57.75 %	60.33 %	62.01 %	59.93 %	59.18 %

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The following table summarizes daily average balances, interest and yield, and net interest margin on a fully tax-equivalent basis:

	Years ended December 31,								
	2018			**2017**			**2016**		
(Dollars in thousands)	**Average Balance**	**Interest**	**Yield/Rate**	**Average Balance**	**Interest**	**Yield/Rate**	**Average Balance**	**Interest**	**Yield/Rate**
Assets									
Interest-earning assets:									
Loans and leases	$18,033,587	$845,146	4.69 %	$17,295,027	$712,794	4.12 %	$16,266,101	$624,300	3.84 %
Investment securities	7,137,326	211,227	2.93	7,047,744	210,044	2.97	6,910,649	203,467	2.95
FHLB and FRB stock	132,607	6,067	4.58	155,949	5,988	3.84	188,854	6,039	3.20
Interest-bearing deposits	63,178	1,125	1.78	63,397	698	1.10	57,747	295	0.51
Loans held for sale	15,519	628	4.04	29,680	1,034	3.49	44,560	1,449	3.25
Total interest-earning assets	25,382,217	$1,064,193	4.18 %	24,591,797	$930,558	3.78 %	23,467,911	$835,550	3.56 %
Non-interest-earning assets	1,640,385			1,669,370			1,753,316		
Total assets	$27,022,602			$26,261,167			$25,221,227		
Liabilities and equity									
Interest-bearing liabilities:									
Demand deposits	$4,185,183	$—	— %	$4,079,493	$—	— %	$3,853,700	$—	— %
Health savings accounts	5,540,000	10,980	0.20	4,839,988	9,612	0.20	4,150,733	9,342	0.23
Interest-bearing checking, money market and savings	9,115,168	36,559	0.40	9,508,416	27,287	0.29	8,921,844	17,989	0.20
Time deposits	2,818,271	42,868	1.52	2,137,574	25,354	1.19	2,027,029	22,527	1.11
Total deposits	21,658,622	90,407	0.42	20,565,471	62,253	0.30	18,953,306	49,858	0.26
Securities sold under agreements to repurchase and other borrowings	784,998	13,491	1.72	876,660	14,365	1.64	947,858	14,528	1.53
FHLB advances	1,339,492	33,461	2.50	1,764,347	30,320	1.72	2,413,309	29,033	1.20
Long-term debt	225,895	11,127	4.93	225,639	10,380	4.60	225,607	9,981	4.42
Total borrowings	2,350,385	58,079	2.47	2,866,646	55,065	1.92	3,586,774	53,542	1.49
Total interest-bearing liabilities	24,009,007	$148,486	0.62 %	23,432,117	$117,318	0.50 %	22,540,080	$103,400	0.46 %
Non-interest-bearing liabilities	231,463			211,775			199,730		
Total liabilities	24,240,470			23,643,892			22,739,810		
Preferred stock	145,068			124,978			122,710		
Common shareholders' equity	2,637,064			2,492,297			2,358,707		
Total shareholders' equity	2,782,132			2,617,275			2,481,417		
Total liabilities and equity	$27,022,602			$26,261,167			$25,221,227		
Tax-equivalent net interest income		915,707			813,240			732,150	
Less: Tax-equivalent adjustments		(9,026)			(16,953)			(13,637)	
Net interest income		$906,681			$796,287			$718,513	
Net interest margin			3.60 %			3.30 %			3.12 %

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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 year ended December 31, 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 nine times since December 16, 2015. Effective December 20, 2018, the target range was increased to 2.25-2.50% 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.

Comparison of 2018 to 2017

Financial Performance

Net income of $360.4 million for the year ended December 31, 2018 increased 41.1% over the year ended December 31, 2017. Strong loan growth funded with growth in low-cost long-duration health savings account deposits, contributed to a 30 basis points increase in net interest margin. Non-interest income improved, led by growth in deposit service fees, while non-interest expense increases for strategic growth initiatives partially offset the increases in revenue.
Income before income tax expense was $441.6 million for the year ended December 31, 2018, an increase of $87.8 million from $353.8 million for the year ended December 31, 2017.
The primary drivers to the increase in income before income tax expense include:

- net interest income increased $110.4 million;
- deposit service fees increased $11.0 million; and
- a $4.6 million gain on the sale of six banking centers.

This was partially offset by increased non-interest expense of $44.5 million and provision for loan and lease losses of $1.1 million.
The impact of the items outlined above, coupled with the effect from income tax expense of $81.2 million for an effective tax rate of 18.4% for the year ended December 31, 2018, and $98.4 million for an effective tax rate of 27.8% for the year ended December 31, 2017, resulted in net income of $360.4 million and diluted earnings per share of $3.81 for the year ended December 31, 2018 compared to net income of $255.4 million and diluted earnings per share of $2.67 for the year ended December 31, 2017. The decreases in both tax expense and the effective tax rate principally reflect the reduction of the U.S corporate tax rate from 35% to 21%, effective in 2018 as a result of the Tax Act along with related tax planning benefits.
The efficiency ratio, a non-GAAP financial measure which quantifies the cost expended to generate a dollar of revenue was 57.75% for 2018 and 60.33% for 2017. The improvement in the ratio highlights the Company's strong net interest income growth accelerating at a rate greater than the increase in non-interest expense.

Net charge-offs as a percentage of average loans and leases was 0.16% for the year ended December 31, 2018 as compared to 0.20% for the year ended December 31, 2017. Non-performing assets as a percentage of loans, leases, and other real estate owned (OREO) increased to 0.87% at December 31, 2018 from 0.76% at December 31, 2017, as non-performing asset balances slowly increased during the year.

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Net Interest Income

Net interest income totaled $906.7 million for the year ended December 31, 2018 compared to $796.3 million for the year ended December 31, 2017, an increase of $110.4 million. Average interest-earning assets during 2018 increased $0.8 billion compared to 2017, mainly due to increased loan balances, up 4.3%. Loan yields improved 57 basis points. Net interest income increased primarily due to these increases partially offset by the 12 basis points increase in deposit costs. The overall average yield on interest-earning assets increased 40 basis points to 4.18% during 2018 from 3.78% during 2017. The average yield on interest-earning assets is primarily impacted by changes in market interest rates as well as changes in the volume and relative mix of interest-earning assets. Average interest-bearing liabilities during 2018 increased $0.6 billion compared to 2017, primarily from health savings account growth of $0.7 billion in 2018. The increases in other deposits of $0.3 billion was offset by the decrease in borrowings of $0.5 billion. The average cost of interest-bearing liabilities increased 12 basis points to 0.62% during 2018 compared to 0.50% during 2017, primarily the result of the federal funds rate being increased four times during 2018.

Net interest margin increased 30 basis points to 3.60% for the year ended December 31, 2018 from 3.30% for the year ended December 31, 2017. The increase in net interest margin is primarily due to an increase in commercial loan and home equity line yields which are primarily variable rate, partially offset by reduced effective yields on the portfolio of tax-exempt securities, and an increased cost of interest-bearing liabilities. The increased cost of interest-bearing liabilities was due to the federal funds rate increases, mitigated by lower borrowing balances as well as a shift towards deposit balances which are generally lower cost and not as sensitive to increases in the federal funds rate.

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:

	Years ended December 31, 2018 vs. 2017 Increase (decrease) due to		
(In thousands)	**Rate** [(1)]	**Volume**	**Total**
Change in interest on interest-earning assets:			
Loans and leases	$98,805	$33,547	$132,352
Loans held for sale	97	(504)	(407)
Investments [(2)]	(114)	1,804	1,690
Total interest income	$98,788	$34,847	$133,635
Change in interest on interest-bearing liabilities:			
Deposits	$21,000	$7,154	$28,154
Borrowings	12,946	(9,932)	3,014
Total interest expense	$33,946	$(2,778)	$31,168
Change in tax-equivalent net interest income	$64,842	$37,625	$102,467

(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 year ended December 31, 2018 increased $0.7 billion compared to the average for the year ended December 31, 2017. The loan and lease portfolio comprised 71.0% of the average interest-earning assets at December 31, 2018 compared to 70.3% of the average interest-earning assets at December 31, 2017. The loan and lease portfolio yield increased 57 basis points to 4.69% for the year ended December 31, 2018, compared to the loan and lease portfolio yield of 4.12% for the year ended December 31, 2017. The increase in the yield on the 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 year ended December 31, 2018 increased $66.0 million compared to the average for the year ended December 31, 2017. Investments comprised 28.9% of the average interest-earning assets at December 31, 2018 compared to 29.6% at December 31, 2017. Investments yield was 2.98% for both the year ended December 31, 2018 and the year ended December 31, 2017. A decrease from the effect of the Tax Act on tax exempt securities was essentially offset by increased yields on variable rate securities.

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Average deposits for the year ended December 31, 2018 increased $1.1 billion compared to the average for the year ended December 31, 2017. The increase is comprised of $105.7 million in non-interest-bearing deposits and $1.0 billion in interest-bearing deposits. The increase in interest-bearing deposits, and an improved product mix to low-cost deposits, was primarily due to health savings account deposit growth. The average cost of deposits increased 12 basis points to 0.42% for the year ended December 31, 2018 from 0.30% for the year ended December 31, 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 16.1% for the year ended December 31, 2018 from 13.0% for the year ended December 31, 2017, as a percentage of total interest-bearing deposits.

Average borrowings for the year ended December 31, 2018 decreased $516.3 million compared to the average for the year ended December 31, 2017. Securities sold under agreements to repurchase and other borrowings decreased $91.7 million, and FHLB advances decreased $424.9 million as need for borrowing declined. The average cost of borrowings increased 55 basis points to 2.47% for the year ended December 31, 2018 from 1.92% for the year ended December 31, 2017. The increase in the average cost of borrowings was primarily due to the federal funds rate increases which approximated an 81 basis points impact.

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

	Years ended December 31,	
(In thousands)	**2018**	**2017**
Interest rate swaps on FHLB advances	$5,901	$6,799
Interest rate forward swap on senior fixed-rate notes	306	306
Interest rate swaps on brokered CDs and deposits	350	780
Net increase to interest expense on borrowings	$6,557	$7,885

Provision for Loan and Lease Losses

The provision for loan and lease losses was $42.0 million for the year ended December 31, 2018, which increased $1.1 million compared to the year ended December 31, 2017. The increase in provision for loan and lease losses was due primarily to loan growth. Total net charge-offs were $29.6 million and $35.2 million for the year ended December 31, 2018 and 2017, respectively. The decrease in net charge-offs was primarily due to lower consumer and commercial real estate loan related net charge-offs.

See the sections captioned "Loans and Leases" through "Allowance for Loan and Lease Losses Methodology," contained elsewhere in this report for further details.

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Non-Interest Income

(Dollars in thousands)	Years ended December 31, 2018	2017	Increase (decrease) Amount	Percent
Deposit service fees	$162,183	$151,137	$11,046	7.3 %
Loan and lease related fees	32,025	26,448	5,577	21.1
Wealth and investment services	32,843	31,055	1,788	5.8
Mortgage banking activities	4,424	9,937	(5,513)	(55.5)
Increase in cash surrender value of life insurance policies	14,614	14,627	(13)	(0.1)
Impairment loss on securities recognized in earnings	—	(126)	126	100.0
Other income	36,479	26,400	10,079	38.2
Total non-interest income	$282,568	$259,478	$23,090	8.9 %

Total non-interest income was $282.6 million for the year ended December 31, 2018, an increase of $23.1 million, compared to $259.5 million for the year ended December 31, 2017. The increase is primarily attributable to higher deposit service fees, loan and lease related fees, and other income slightly offset by lower mortgage banking activities.

Deposit service fees totaled $162.2 million for 2018 compared to $151.1 million for 2017. The increase was a result of increased service charges driven by health savings account growth and usage activities, increased checking account service charges and higher check card interchange.

Loan and lease related fees totaled $32.0 million for 2018 compared to $26.4 million for 2017. The increase was primarily the result of higher fees from loan syndication, loan servicing, line usage, and letters of credit.

Mortgage banking activities totaled $4.4 million for 2018 compared to $9.9 million for 2017. The decrease was the result of lower refinance activity.

Other income totaled $36.5 million for 2018 compared to $26.4 million for 2017. The increase was primarily due to an increase in gains from treasury derivatives and life insurance policies, as well as a gain of $4.6 million on the sale of banking centers in 2018.

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Non-Interest Expense

	Years ended December 31,		Increase (decrease)	
(Dollars in thousands)	**2018**	**2017**	**Amount**	**Percent**
Compensation and benefits	$381,496	$356,505	$24,991	7.0 %
Occupancy	59,463	60,490	(1,027)	(1.7)
Technology and equipment	97,877	89,464	8,413	9.4
Intangible assets amortization	3,847	4,062	(215)	(5.3)
Marketing	16,838	17,421	(583)	(3.3)
Professional and outside services	20,300	16,858	3,442	20.4
Deposit insurance	34,749	25,649	9,100	35.5
Other expense	91,046	90,626	420	0.5
Total non-interest expense	$705,616	$661,075	$44,541	6.7 %

Total non-interest expense was $705.6 million for the year ended December 31, 2018, an increase of $44.5 million, compared to $661.1 million for the year ended December 31, 2017. The increase is primarily attributable to higher compensation and benefits, technology and equipment, professional and outside services and deposit insurance.

Compensation and benefits totaled $381.5 million for 2018 compared to $356.5 million for 2017. The increase was primarily due to strategic hires, annual merit increases, and higher medical costs.

Technology and equipment totaled $97.9 million for 2018 compared to $89.5 million for 2017. The increase was primarily due to higher depreciation and service contracts to support strategic and infrastructure projects.

Professional and outside services totaled $20.3 million for 2018 compared to $16.9 million for 2017. The increase was primarily due to consulting services used for strategic projects.

Deposit insurance totaled $34.7 million for 2018 compared to $25.6 million for 2017. The increase is due to $10.0 million of additional FDIC premiums for prior periods' assessments and related interest. See Note 1 to the Consolidated Financial Statements included in Item 8 of this report for additional information.

Income Taxes

Webster recognized income tax expense of $81.2 million for the year ended December 31, 2018 and $98.4 million for the year ended December 31, 2017, and the effective tax rates were 18.4% and 27.8%, respectively. The decreases in both tax expense and the effective tax rate principally reflect the reduction of the U.S corporate tax rate from 35% to 21%, effective in 2018 as a result of the Tax Act along with related tax planning benefits.

The Company's gross DTAs applicable to its net operating loss and credit carryforwards of $70.8 million, or $32.6 million net of the $38.2 million related valuation allowance, reflects management's estimates of the Company's taxable income through the year 2032 and includes assumptions about the content and apportionment of its income for state and local tax (SALT) purposes. Those estimates and assumptions reflect the Company's plans and strategies for growth from its ordinary and recurring operations over the near term as well as a longer-term 4% growth rate assumption. Management believes the $32.6 million net DTAs are more likely than not realizable and their estimates form a reasonable basis for this determination.

For additional information on Webster's income taxes, including its DTAs, see Note 8: Income Taxes in the Notes to Consolidated Financial Statements contained elsewhere in this report.

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Comparison of 2017 to 2016

Financial Performance

Net income of $255.4 million for the year ended December 31, 2017 increased 23.3% over the year ended December 31, 2016. Strong loan growth, funded with growth in low-cost low-duration health savings account deposits, resulted in an 18 basis points increase in net interest margin, and a lower provision for loan and lease losses, driven by stable credit performance throughout the year also positively impacted net interest margin. Non-interest income improved, excluding a one-time gain on the sale of an asset in 2016, while non-interest expense increases for strategic growth initiatives partially offset the net interest growth.

Income before income tax expense was $353.8 million for the year ended December 31, 2017, an increase of $50.3 million from $303.5 million for the year ended December 31, 2016.

The primary factors positively impacting income before income tax expense include:

- net interest income increased $77.8 million; and
- provision for loan and lease losses decreased $15.5 million.

This was partially offset by a $37.9 million increase in non-interest expense and a $7.3 million one-time gain on the sale of an asset in 2016.

The impact of the items outlined above, coupled with the effect from income tax expense of $98.4 million and $96.3 million for the years ended December 31, 2017 and 2016, respectively, resulted in net income of $255.4 million and diluted earnings per share of $2.67 for the year ended December 31, 2017 compared to net income of $207.1 million and diluted earnings per share of $2.16 for the year ended December 31, 2016. See the "Income Taxes" section for additional information with regard to the effect from income taxes, including the impact of the Tax Act.

The efficiency ratio, a non-GAAP financial measure which quantifies the cost expended to generate a dollar of revenue was 60.33% for 2017 and 62.01% for 2016. The improvement in the ratio highlights the Company's strong net interest income growth accelerating at a rate greater than the increase in non-interest expense.

Credit quality remained stable to slightly improved as demonstrated by the asset quality ratios. Net charge-offs as a percentage of average loans and leases was 0.20% for the year ended December 31, 2017 as compared to 0.23% for the year ended December 31, 2016. Non-performing assets as a percentage of loans, leases, and OREO decreased to 0.76% at December 31, 2017 from 0.81% at December 31, 2016, primarily driven by lower non-performing asset balances and, to a lesser extent, further reduced by loan growth.

Net Interest Income

Net interest income totaled $796.3 million for the year ended December 31, 2017 compared to $718.5 million for the year ended December 31, 2016, an increase of $77.8 million. Average interest-earning assets during 2017 increased $1.1 billion compared to 2016, substantially due to a significant increase in loan balances, with yield improvement of 28 basis points, up 6.3%. Net interest income increased primarily due to these increases, although the securities portfolio average balances and yields were modestly improved as well. The overall average yield on interest-earning assets increased 22 basis points to 3.78% during 2017 from 3.56% during 2016. The average yield on interest-earning assets is primarily impacted by changes in market interest rates as well as changes in the volume and relative mix of interest-earning assets. Average interest-bearing liabilities during 2017 increased $0.9 billion compared to 2016, primarily from health savings account growth, as other deposit balance increases and FHLB advance balance decreases basically offset, and the average cost of interest-bearing liabilities increased 4 basis points to 0.50% during 2017 compared to 0.46% during 2016. The average cost of borrowings increase is a result of the federal funds rate being increased four times between December 2016 and December 2017.

Net interest margin increased 18 basis points to 3.30% for the year ended December 31, 2017 from 3.12% for the year ended December 31, 2016. The increase in net interest margin is primarily due to an increase in commercial loan yields and balances, as well as improved investment portfolio yields, partially offset by an increased cost of borrowing due to the federal funds rate increases, somewhat mitigated by a shift from FHLB advances to deposit balances which are generally lower cost and also not as sensitive to the federal funds rate increases.

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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:

	Years ended December 31, 2017 vs. 2016 Increase (decrease) due to		
(In thousands)	Rate [(1)]	Volume	Total
Change in interest on interest-earning assets:			
Loans and leases	$50,509	$37,985	$88,494
Loans held for sale	120	(534)	(414)
Investments [(2)]	2,744	4,185	6,929
Total interest income	$53,373	$41,636	$95,009
Change in interest on interest-bearing liabilities:			
Deposits	$8,574	$3,821	$12,395
Borrowings	10,327	(8,803)	1,524
Total interest expense	$18,901	$(4,982)	$13,919
Change in tax-equivalent net interest income	$34,472	$46,618	$81,090

(1) The change attributable to mix, a combined impact of rate and volume, is included with the change due to rate.

(2) Investments include: Securities; FHLB and FRB stock; and Interest-bearing deposits.

Average loans and leases for the year ended December 31, 2017 increased $1.0 billion compared to the average for the year ended December 31, 2016. The loan and lease portfolio comprised 70.3% of the average interest-earning assets at December 31, 2017 compared to 69.3% of the average interest-earning assets at December 31, 2016. The loan and lease portfolio yield increased 28 basis points to 4.12% for the year ended December 31, 2017, compared to the loan and lease portfolio yield of 3.84% for the year ended December 31, 2016. The increase in the yield on average loans and leases is due to increased yield on floating rate loans as well as increased spreads on loan originations.

Average investments for the year ended December 31, 2017 increased $109.8 million compared to the average for the year ended December 31, 2016. The investment portfolio comprised 29.6% of the average interest-earning assets at December 31, 2017 compared to 30.5% of the average interest-earnings assets at December 31, 2016. The investment portfolio yield increased 5 basis points to 2.98% for the year ended December 31, 2017 compared to the investment portfolio yield of 2.93% for the year ended December 31, 2016. The increase in the yield on the investment portfolio is primarily due to a reduction in premium amortization from slower prepayment speeds and increased yields on floating-rate securities, more than offsetting lower current market rates on investment securities purchases compared to the yield on investment securities paydowns and maturities.

Average deposits for the year ended December 31, 2017 increased $1.6 billion compared to the average for the year ended December 31, 2016. The increase is comprised of an increase of $225.8 million in non-interest-bearing deposits and an increase of $1.4 billion in average interest-bearing deposits. The increase in average interest-bearing deposits, and an improved product mix to low-cost deposits, was primarily due to health savings account deposit growth. The average cost of deposits increased 4 basis points to 0.30% for the year ended December 31, 2017 from 0.26% for the year ended December 31, 2016. The increase in average cost of deposits is mainly the result of an increase in the rate paid on public money market accounts. Higher cost time deposits decreased to 13.0% for the year ended December 31, 2017 from 13.4% for the year ended December 31, 2016, as a percentage of total interest-bearing deposits.

Average borrowings for the year ended December 31, 2017 decreased $720.1 million compared to the average for the year ended December 31, 2016. Average securities sold under agreements to repurchase and other borrowings decreased $71.2 million, and average FHLB advances decreased $649.0 million as utilization of advances maturing within one year declined significantly. The average cost of borrowings increased 43 basis points to 1.92% for the year ended December 31, 2017 from 1.49% for the year ended December 31, 2016. The increase in average cost of borrowings is the result of the federal funds rate being increased four times between December 2016 and December 2017.

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

	Years ended December 31,	
(In thousands)	**2017**	**2016**
Interest rate swaps on repurchase agreements	$—	$361
Interest rate swaps on FHLB advances	6,799	8,315
Interest rate forward swap on senior fixed-rate notes	306	306
Interest rate swaps on brokered CDs and deposits	780	780
Net increase to interest expense on borrowings	$7,885	$9,762

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Provision for Loan and Lease Losses

The provision for loan and lease losses was $40.9 million for the year ended December 31, 2017, which decreased $15.5 million compared to the year ended December 31, 2016. The decrease in provision for loan and lease losses was due primarily to lower loan growth as compared to the rate for 2016. Total net charge-offs was $35.2 million and $37.0 million for the year ended December 31, 2017 and 2016, respectively. The decrease was primarily due to lower commercial real estate and other commercial loan related net charge-offs.

Non-Interest Income

	Years ended December 31,		Increase (decrease)	
(Dollars in thousands)	**2017**	**2016**	**Amount**	**Percent**
Deposit service fees	$151,137	$140,685	$10,452	7.4 %
Loan and lease related fees	26,448	26,581	(133)	(0.5)
Wealth and investment services	31,055	28,962	2,093	7.2
Mortgage banking activities	9,937	14,635	(4,698)	(32.1)
Increase in cash surrender value of life insurance policies	14,627	14,759	(132)	(0.9)
Gain on sale of investment securities, net	—	414	(414)	(100.0)
Impairment loss on securities recognized in earnings	(126)	(149)	23	15.4
Other income	26,400	38,591	(12,191)	(31.6)
Total non-interest income	$259,478	$264,478	$(5,000)	(1.9)%

Total non-interest income was $259.5 million for the year ended December 31, 2017, a decrease of $5.0 million, compared to $264.5 million for the year ended December 31, 2016. The decrease is primarily attributable to lower other income and mortgage banking activities, more than offsetting higher deposit service fees and wealth and investment services.

Deposit service fees totaled $151.1 million for 2017 compared to $140.7 million for 2016. The increase was a result of higher checking account service charges and check card interchange attributable to health savings account growth and usage activity.

Wealth and investment services totaled $31.1 million for 2017 compared to $29.0 million for 2016. The increase was primarily due to increased sales coupled with growth in assets under management.

Mortgage banking activities totaled $9.9 million for 2017 compared to $14.6 million for 2016. The decrease was due to lower volume of conforming residential mortgage originations, driven by a decrease in refinance activity.

Other income totaled $26.4 million for 2017 compared to $38.6 million for 2016. The decrease was primarily due to the following items recorded in 2016: a $7.3 million gain on the redemption of an ownership interest in a privately held investment; a $2.7 million favorable adjustment to the fair value of a contingent receivable; and a $2.0 million gain on the sale of commercial loans, which did not repeat in 2017. Other income was also impacted by lower net client interest rate hedging activities/hedging revenues, nearly offset by a settlement gain and increased alternative investment gains.

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Non-Interest Expense

	Years ended December 31,		Increase (decrease)	
(Dollars in thousands)	**2017**	**2016**	**Amount**	**Percent**
Compensation and benefits	$356,505	$325,998	$30,507	9.4 %
Occupancy	60,490	61,110	(620)	(1.0)
Technology and equipment	89,464	79,882	9,582	12.0
Intangible assets amortization	4,062	5,652	(1,590)	(28.1)
Marketing	17,421	19,703	(2,282)	(11.6)
Professional and outside services	16,858	14,801	2,057	13.9
Deposit insurance	25,649	26,006	(357)	(1.4)
Other expense	90,626	90,039	587	0.7
Total non-interest expense	$661,075	$623,191	$37,884	6.1 %

Total non-interest expense was $661.1 million for the year ended December 31, 2017, an increase of $37.9 million from the year ended December 31, 2016. The increase is primarily attributable to higher compensation and benefits, technology and equipment, professional and outside services, and other expenses, somewhat offset by lower marketing and intangible assets amortization.

Compensation and benefits totaled $356.5 million for 2017 compared to $326.0 million for 2016. The increase was driven by strategic hires within HSA Bank as well as additional annual merit compensation and group insurance costs. In addition, in response to the Tax Act, the Company announced a further investment in its employees and communities. As a result, an expense of $2.6 million is included in compensation and benefits for 2017 to cover a one-time cash bonus to full-time employees who are below the vice president level.

Occupancy totaled $60.5 million for 2017 compared to $61.1 million for 2016. Charges related to banking center optimization were offset by lower utilities and depreciation of premises and equipment.

Technology and equipment totaled $89.5 million for 2017 compared to $79.9 million for 2016. The increase was primarily due to increased service contracts and additional depreciation on infrastructure to support bank growth.

Marketing totaled $17.4 million for 2017 compared to $19.7 million for 2016. The decrease was due to lower media spend.

Professional and outside services totaled $16.9 million for 2017 compared to $14.8 million for 2016. The increase was primarily due to consulting services used for strategic projects.

Other expense totaled $90.6 million for 2017 compared to $90.0 million for 2016. The increase was primarily due to $3.8 million of cost associated with the redemption of Series E Preferred Stock, substantially offset by pension expense that was $2.7 million lower in 2017 as compared to 2016.

Income Taxes

Webster recognized income tax expense of $98.4 million in 2017 and $96.3 million in 2016, and the effective tax rates were 27.8% and 31.7%, respectively. The increase in tax expense principally reflects the higher level of pre-tax income in 2017, while the decrease in the effective rate principally reflects the $7.8 million net benefit recognized in the fourth quarter of 2017, the $28.7 million net benefit related to SALT DTAs and the $20.9 million expense attributable to the Tax Act, and $7.1 million of excess tax benefits recognized under Accounting Standards Update (ASU) No. 2016-09, *Compensation - Stock Compensation (Topic 718) - Improvements to Employee Share Based Payments Accounting*, which the Company adopted effective January 1, 2017.

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Segment Reporting

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

Commercial Banking is comprised of Commercial Banking and Private Banking operating segments.

Commercial Banking provides commercial and industrial lending and leasing, commercial real estate lending, and treasury and payment solutions. Specifically, Webster Bank deploys lending through middle market, commercial real estate, equipment financing, asset-based lending and specialty lending units. These groups utilize a relationship approach model throughout its footprint when providing lending, deposit, and cash management services to middle market companies. In addition, Commercial Banking serves as a referral source within Commercial Banking and to the other lines of business.

Private Banking provides local, full relationship banking that serves high net worth clients, not-for-profit organizations, and business clients with asset management, financial planning services, trust services, loan products, and deposit products. These client relationships generate fee revenue on assets under management or administration, while a majority of the relationships also include lending and/or deposit accounts which provide net interest income and other ancillary fees.

HSA Bank offers a comprehensive consumer directed healthcare solution that includes, health savings accounts, health reimbursement accounts, flexible spending accounts, and other financial solutions. Health savings accounts are used in conjunction with high deductible health plans in order to facilitate tax advantages for account holders with respect to health care spending and savings, in accordance with applicable laws. Health savings accounts are offered through employers for the benefit of their employees or directly to individual consumers and are distributed nationwide directly as well as through national and regional insurance carriers, benefit consultants and financial advisors.

HSA Bank deposits provide long duration low-cost funding that is used to minimize the Company's use of wholesale funding in support of the Company's loan growth. As such, net interest income represents the difference between a funding credit allocation, reflecting the value of the duration funding, and the interest paid on deposits. In addition, non-interest revenue is generated predominantly through service fees and interchange income.

Community Banking is comprised of Personal Banking and Business Banking operating segments.

Through a distribution network, consisting of 157 banking centers, 316 ATMs, a customer care center, and a full range of web and mobile-based banking services, it serves consumer and business customers primarily throughout southern New England and into Westchester County, New York.

Personal Banking offers consumer deposit and fee-based services, residential mortgages, home equity lines/loans, unsecured consumer loans, and credit card products. In addition, investment and securities-related services, including brokerage and investment advice is offered through a strategic partnership with LPL, a broker dealer registered with the SEC, a registered investment advisor under federal and applicable state laws, a member of the FINRA, and a member of the SIPC. Webster Bank has employees located throughout its banking center network, who, through LPL, are registered representatives.

Business Banking offers credit, deposit, and cash flow management products to businesses and professional service firms with annual revenues of up to $25 million. This group builds broad customer relationships through business bankers and business certified banking center managers, supported by a team of customer care center bankers and industry and product specialists.

Description of Segment Reporting Methodology

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

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

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

Webster allocates a majority of non-interest expense to each reportable segment using a full-absorption costing process. Costs, including corporate overhead, are analyzed, pooled by process, and assigned to the appropriate reportable segment. A 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 year ended December 31, 2018. See Note 1 to the Consolidated Financial Statements included in Item 1 of this report for additional information.

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

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

	Years ended December 31,		
(In thousands)	**2018**	**2017**	**2016**
Net income (loss):			
Commercial Banking	$160,185	$133,594	$115,366
HSA Bank	79,908	49,774	38,230
Community Banking	98,292	83,468	60,959
Corporate and Reconciling	22,033	(11,397)	(7,428)
Consolidated Total	$360,418	$255,439	$207,127

	At December 31, 2018				
(In thousands)	**Commercial Banking**	**HSA Bank**	**Community Banking**	**Corporate and Reconciling**	**Total**
Total assets	$10,477,050	$70,826	$8,727,335	$8,335,104	$27,610,315
Loans and leases	10,437,319	55	8,028,115	—	18,465,489
Goodwill	—	21,813	516,560	—	538,373
Deposits	4,030,554	5,740,601	11,856,652	231,038	21,858,845
Not included in above amounts:					
Assets under administration/management	1,930,199	1,460,204	3,391,946	—	6,782,349

	At December 31, 2017				
(In thousands)	**Commercial Banking**	**HSA Bank**	**Community Banking**	**Corporate and Reconciling**	**Total**
Total assets	$9,350,028	$76,308	$8,909,671	$8,151,638	$26,487,645
Loans and leases	9,323,376	328	8,200,154	—	17,523,858
Goodwill	—	21,813	516,560	—	538,373
Deposits	4,122,608	5,038,681	11,476,334	356,106	20,993,729
Not included in above amounts:					
Assets under administration/management	2,039,375	1,268,402	3,376,185	—	6,683,962

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Commercial Banking

Operating Results:

	Years ended December 31,		
(In thousands)	**2018**	**2017**	**2016**
Net interest income	$356,509	$322,393	$287,596
Provision for loan and lease losses	34,773	38,518	37,455
Net interest income after provision	321,736	283,875	250,141
Non-interest income	64,765	55,194	57,253
Non-interest expense	174,054	154,037	138,379
Income before income taxes	212,447	185,032	169,015
Income tax expense	52,262	51,438	53,649
Net income	$160,185	$133,594	$115,366

Comparison of 2018 to 2017

Net income increased $26.6 million in 2018 compared to 2017. Net interest income increased $34.1 million, primarily due to loan and deposit growth and higher loan and deposit margins. The provision for loan and lease losses decreased $3.7 million. The current year provision for loan and lease losses benefited from a stable asset quality and overall credit environment. Non-interest income increased $9.6 million, primarily due to loan related fees and client interest rate hedging activities. Non-interest expense increased $20.0 million, related to FDIC insurance and investments in people and technology,

Comparison of 2017 to 2016

Net income increased $18.2 million in 2017 compared to 2016. Net interest income increased $34.8 million, primarily due to loan and deposit growth. The provision for loan and lease losses increased $1.1 million, primarily due to loan growth. Non-interest income decreased $2.1 million, primarily due to lower client interest rate hedging activities. Non-interest expense increased $15.7 million, related to strategic hires and investments in cash management product enhancements and support functions.

Selected Balance Sheet Information and Assets Under Administration/Management:

	At December 31,		
(In thousands)	**2018**	**2017**	**2016**
Total assets	$10,477,050	$9,350,028	$9,069,445
Loans and leases	10,437,319	9,323,376	9,066,905
Deposits	4,030,554	4,122,608	3,592,531
Assets under administration/management (not included in above amounts)	1,930,199	2,039,375	1,781,840

Loans and leases increased $1.1 billion at December 31, 2018 compared to December 31, 2017, due to loan originations greater than prior year levels by $1.2 billion partially offset by an increase in prepayments. Loans and leases increased $0.3 billion at December 31, 2017 compared to December 31, 2016, primarily due to new originations.

Loan originations were $4.4 billion, $3.2 billion and $3.3 billion in 2018, 2017 and 2016, respectively.

Deposits decreased $92.1 million at December 31, 2018 compared to December 31, 2017, primarily due to a decrease in municipal deposits. Deposits increased $530.1 million at December 31, 2017 compared to December 31, 2016, due to growth in client and operating funds maintained for cash management services.

Through Private Banking, Commercial Banking held approximately $1.5 billion, $1.7 billion, and $1.5 billion in assets under management, at December 31, 2018, December 31, 2017, and December 31, 2016, respectively In addition Private Banking had assets under administration of $422.5 million, $357.5 million, and $271.7 million,at December 31, 2018, December 31, 2017, and December 31, 2016, respectively.

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HSA Bank

Operating Results:

	Years ended December 31,		
(In thousands)	**2018**	**2017**	**2016**
Net interest income	$143,255	$104,704	$81,451
Non-interest income	89,323	77,378	71,710
Non-interest expense	124,594	113,143	97,152
Income before income taxes	107,984	68,939	56,009
Income tax expense	28,076	19,165	17,779
Net income	$79,908	$49,774	$38,230

Comparison of 2018 to 2017

Net income increased $30.1 million in 2018 compared to 2017. Net interest income increased $38.6 million, reflecting growth in deposits and improvement in deposit spreads. Non-interest income increased $11.9 million, primarily due to a higher volume of fee and interchange income primarily as a result of the growth in the number of accounts.

Non-interest expense increased $11.5 million, primarily due to increased compensation and benefits, processing costs related to incremental account growth and investments in expanded sales force.

Comparison of 2017 to 2016

Net income increased $11.5 million in 2017 compared to 2016. Net interest income increased $23.3 million, reflecting the growth in deposits and improved deposit spreads. Non-interest income increased $5.7 million, due to growth in accounts. Non-interest expense increased $16.0 million, primarily due to increased compensation and benefits cost, increased processing costs in support of business growth as well as continued investment in key initiatives related to continuous improvement, customer service, and expanded sales force.

Selected Balance Sheet Information and Assets Under Administration, through linked brokerage accounts:

	At December 31, 2018		
(In thousands)	**2018**	**2017**	**2016**
Total assets	$70,826	$ 76,308	$ 83,987
Deposits	5,740,601	5,038,681	4,362,503
Assets under administration, through linked brokerage accounts (not included in above amounts)	1,460,204	1,268,402	878,190

HSA Bank deposits accounted for 26.3% and 24.0% of the Company's total deposits as of December 31, 2018 and December 31, 2017, respectively.

Deposits increased $0.7 billion at December 31, 2018 compared to December 31, 2017. The increase is related to organic deposit and account growth. Deposits increased $0.7 billion at December 31, 2017 compared to December 31, 2016. The increase is also related to organic deposit and account growth.

Assets under administration increased $191.8 million at December 31, 2018 compared to December 31, 2017, primarily due to the increasing number of account holders with investment accounts partially offset by the fourth-quarter decline in market value of investments. Assets under administration increased $390.2 million at December 31, 2017 compared to December 31, 2016, primarily by due to the increasing number of account holders with investment accounts and market value increases.

The combination of deposit balances and assets under administration is known as total footings. Total footings were $7.2 billion, comprised of deposit balances of $5.7 billion and assets under administration of $1.5 billion at December 31, 2018, compared to total footings of $6.3 billion, comprised of deposit balances of $5.0 billion and assets under administration of $1.3 billion at December 31, 2017.

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Community Banking

Operating Results:

	Years ended December 31,		
(In thousands)	**2018**	**2017**	**2016**
Net interest income	$404,869	$383,700	$367,137
Provision for loan and lease losses	7,227	2,382	18,895
Net interest income after provision	397,642	381,318	348,242
Non-interest income	109,669	107,368	110,197
Non-interest expense	384,599	373,081	369,132
Income before income taxes	122,712	115,605	89,307
Income tax expense	24,420	32,137	28,348
Net income	$98,292	$83,468	$60,959

Comparison of 2018 to 2017

Net income increased $14.8 million in 2018 compared to 2017. Net interest income increased $21.2 million, primarily due to growth in deposit balances, coupled with improved interest spreads on deposits. The provision for loan and lease losses increased by $4.8 million primarily due to changes in loan balances and asset quality. Non-interest income increased $2.3 million, due to gain on the sale of six banking centers, coupled with growth in deposit and loan fees; partially offset by decreased fee income from mortgage banking activities, as a result of lower mortgage production. Non-interest expense increased $11.5 million, primarily due to higher compensation-related expenses and continued investments in technology.

Comparison of 2017 to 2016

Net income increased $22.5 million in 2017 compared to 2016. Net interest income increased $16.6 million, primarily due to portfolio balances growth in both loans and deposits, coupled with improved interest spreads on deposits. The overall increase was partially offset by the effects of tightening spreads on the loan portfolio. The provision for loan and lease losses decreased $16.5 million, loan portfolio quality improvements in the residential, home-equity and business banking portfolios. Non-interest income decreased $2.8 million, primarily due to lower fees from mortgage banking activities and business client interest rate hedging activities; partially offset by increased fee income from investment services and deposit related service charges. Non-interest expense increased $3.9 million, primarily due to charges related to banking centers optimization, increased compensation and benefits, and increased investments and consulting in technology infrastructure, partially offset by lower marketing and the absence, in 2017, of core deposit intangible amortization which ended in 2016.

Selected Balance Sheet Information and Assets Under Administration:

	At December 31,		
(In thousands)	**2018**	**2017**	**2016**
Total assets	$8,727,335	$8,909,671	$8,721,046
Loans	8,028,115	8,200,154	7,959,558
Deposits	11,856,652	11,476,334	10,970,977
Assets under administration (not included in above amounts)	3,391,946	3,376,185	2,980,113

Loan portfolio balances decreased $172.0 million at December 31, 2018 compared to December 31, 2017. The decrease is related to net attrition in residential mortgage and home equity balances as loan principal paydowns exceeded new loan production. These balance declines were partially offset by continued growth in the business banking portfolio. Loan portfolio balances increased $240.6 million at December 31, 2017 compared to December 31, 2016, due to growth in the business banking, residential mortgages, home equity lines, and personal loans.

Loan originations were $1.3 billion, $1.9 billion, and $2.3 billion for the years ended 2018, 2017 and 2016, respectively. The decrease of $588.0 million in originations for the year ended December 31, 2018 is driven by lower production in residential mortgages and home equity products.

Deposits increased $380.3 million at December 31, 2018 compared to December 31, 2017, due to the Boston expansion and growth in time deposit balances. Deposits increased $505.4 million at December 31, 2017 compared to

December 31, 2016, due to growth in business and personal transaction account balances and increases in time deposit balances.
Additionally, investment and securities-related services had assets under administration, in its strategic partnership with LPL, of $3.4 billion at December 31, 2018, compared to $3.4 billion at December 31, 2017 and $3.0 billion at December 31, 2016.

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Financial Condition

Webster had total assets of $27.6 billion at December 31, 2018 compared to $26.5 billion at December 31, 2017, an increase of $1.1 billion, or 4.2%.

Loans and leases of $18.3 billion, net of ALLL of $212.4 million, at December 31, 2018 increased $937 million compared to loans and leases of $17.3 billion, net of ALLL of $200.0 million, at December 31, 2017. The increases were driven by strong commercial loan origination activity.

Total deposits of $21.9 billion at December 31, 2018 increased $0.9 billion compared to $21.0 billion at December 31, 2017. Non-interest-bearing deposits decreased 0.7%, and interest-bearing deposits increased 5.3% during the year ended December 31, 2018, primarily due to growth in health savings accounts and time deposits.

At December 31, 2018, total shareholders' equity was $2.9 billion compared to $2.7 billion at December 31, 2017, an increase of $184.6 million or, 6.8%. Changes in shareholders' equity for the year ended December 31, 2018 consisted of an increase of $360.4 million for net income, partially offset by $39.1 million for other comprehensive loss, $115.3 million for dividends to common shareholders, and $7.9 million for dividends paid to preferred shareholders.

The quarterly cash dividend to common shareholders was increased for the seventh consecutive year, on April 23, 2018, to $0.33 per common share from $0.26 per common share. On January 29, 2019, Webster Financial Corporation's Board of Directors declared a quarterly dividend of $0.33 per share. See the "Selected Financial Highlights" section contained elsewhere in this item and Note 13: Regulatory Matters in the Notes to Consolidated Financial Statements contained elsewhere in this report for information on Webster's regulatory capital levels and ratios.

Investment Securities

Webster Bank's investment securities are managed within regulatory guidelines and corporate policy, which include limitations on aspects such as concentrations in and types of investments as well as minimum risk ratings per type of security. The OCC may establish additional individual limits on a certain type of investment if the concentration in such investment presents a safety and soundness concern. In addition to Webster Bank, the Holding Company also may directly hold investment securities from time-to-time. At December 31, 2018, the Company had no investments in obligations of individual states, counties, or municipalities which exceeded 10% of consolidated shareholders' equity.

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

The combined carrying value of investment securities totaled $7.2 billion at December 31, 2018 and $7.1 billion at December 31, 2017.

Available-for-sale investment securities increased by $260.7 million, primarily due to principal purchase activity for Agency MBS and CMBS more than offsetting principal paydowns throughout the portfolio. The tax-equivalent yield in the portfolio was 2.89% for the year ended December 31, 2018 compared to 2.74% for the year ended December 31, 2017.

Held-to-maturity investment securities decreased by $162.0 million, primarily due to principal paydowns throughout the portfolio exceeding purchase activity for Agency MBS and municipal bonds and notes. The tax-equivalent yield in the portfolio was 2.96% for the year ended December 31, 2018 compared to 3.12% for the year ended December 31, 2017.

The Company held $6.2 billion in investment securities that are in an unrealized loss position at December 31, 2018. Approximately $1.2 billion of this total has been in an unrealized loss position for less than twelve months, while the remainder, $5.0 billion, has been in an unrealized loss position for twelve months or longer. These investment securities were evaluated by management and were determined not to be other-than-temporarily impaired. The Company does not have the intent to sell these investment securities, and it is more likely than not that it will not have to sell these securities before the recovery of their cost basis. To the extent that credit movements and other related factors influence the fair value of investments, the Company may be required to record impairment charges for OTTI in future periods. The total unrealized loss was $226.9 million at December 31, 2018.

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

	At December 31,							
	2018				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	$7,549	$ 1	$—	$7,550	$1,247	$ —	$—	$1,247
Agency CMO	238,968	412	(4,457)	234,923	308,989	1,158	(3,814)	306,333
Agency MBS	1,521,534	1,631	(42,076)	1,481,089	1,124,960	2,151	(19,270)	1,107,841
Agency CMBS	608,167	—	(41,930)	566,237	608,276	—	(20,250)	588,026
CMBS	447,897	645	(2,961)	445,581	358,984	2,157	(74)	361,067
CLO	114,641	94	(1,964)	112,771	209,075	910	(134)	209,851
Single issuer-trust preferred	—	—	—	—	7,096	—	(46)	7,050
Corporate debt	55,860	—	(5,281)	50,579	56,504	797	(679)	56,622
Securities available-for-sale	$2,994,616	$ 2,783	$(98,669)	$2,898,730	$2,675,131	$ 7,173	$(44,267)	$2,638,037
Held-to-maturity:								
Agency CMO	$208,113	$ 287	$(5,255)	$203,145	$260,114	$ 664	$(4,824)	$255,954
Agency MBS	2,517,823	8,250	(79,701)	2,446,372	2,569,735	16,989	(37,442)	2,549,282
Agency CMBS	667,500	53	(22,572)	644,981	696,566	—	(10,011)	686,555
Municipal bonds and notes	715,041	2,907	(18,285)	699,663	711,381	8,584	(6,558)	713,407
CMBS	216,943	405	(2,388)	214,960	249,273	2,175	(620)	250,828
Private Label MBS	—	—	—	—	323	1	—	324
Securities held-to-maturity	$4,325,420	$ 11,902	$(128,201)	$4,209,121	$4,487,392	$ 28,413	$(59,455)	$4,456,350

The following table summarizes debt securities period-end amount and weighted-average yield by contractual maturity, which reflects callable securities that have issued a call notice:

	At December 31, 2018									
	Within 1 Year		1 - 5 Years		5 - 10 Years		After 10 Years		Total	
(Dollars in thousands)	**Amount**	**Weighted Average Yield**	**Amount**	**Weighted Average Yield**	**Amount**	**Weighted Average Yield**	**Amount**	**Weighted Average Yield**	**Amount**	**Weighted Average Yield**
Available-for-sale:										
U.S. Treasury Bills	$7,550	2.43 %	$—	— %	$—	— %	$—	— %	$7,550	2.43 %
Agency CMO	—	—	—	—	10,363	2.44	224,560	2.55	234,923	2.55
Agency MBS	—	—	—	—	15,850	2.27	1,465,239	2.86	1,481,089	2.86
Agency CMBS	—	—	—	—	—	—	566,237	2.38	566,237	2.38
CMBS	—	—	17,029	3.75	177,864	3.90	250,688	3.70	445,581	3.78
CLO	—	—	—	—	70,076	4.15	42,695	4.29	112,771	4.20
Corporate debt	20,315	2.90	—	—	—	—	30,264	2.97	50,579	2.95
Securities available-for-sale	$27,865	2.77 %	$17,029	3.75 %	$274,153	3.81 %	$2,579,683	2.83 %	$2,898,730	2.92 %
Held-to-maturity:										
Agency CMO	$—	— %	$—	— %	$410	2.60 %	$207,703	2.60 %	$208,113	2.60 %
Agency MBS	—	—	704	4.25	11,903	2.76	2,505,216	2.79	2,517,823	2.79
Agency CMBS	—	—	—	—	—	—	667,500	2.71	667,500	2.71
Municipal bonds and notes	7,047	6.62	3,355	5.70	22,992	4.24	681,647	3.64	715,041	3.70
CMBS	—	—	—	—	—	—	216,943	3.00	216,943	3.00
Securities held-to-maturity	$7,047	6.62 %	$4,059	5.45 %	$35,305	3.72 %	$4,279,009	2.91 %	$4,325,420	2.93 %
Total debt securities	$34,912	3.55 %	$21,088	4.08 %	$309,458	3.80 %	$6,858,692	2.88 %	$7,224,150	2.93 %

The benchmark 10-year U.S. Treasury rate increased to 2.69% on December 31, 2018 from 2.41% on December 31, 2017. Webster Bank has the ability to use its investment portfolio as well as interest-rate derivative financial instruments, within internal policy guidelines to manage interest rate risk as part of its asset/liability strategy. See Note 15: Derivative Financial Instruments in the Notes to Consolidated Financial Statements contained elsewhere in this report for additional information concerning the use of derivative financial instruments.

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Loans and Leases

The following table provides the composition of loans and leases:

	At December 31,									
	2018		2017		2016		2015		2014	
(Dollars in thousands)	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Residential	$4,389,866	23.8	$4,464,651	25.5	$4,232,771	24.9	$4,042,960	25.8	$3,498,675	25.2
Consumer:										
Home equity	2,153,911	11.7	2,336,846	13.3	2,395,483	14.1	2,439,415	15.6	2,459,458	17.7
Other consumer	227,257	1.2	237,695	1.4	274,336	1.6	248,830	1.6	75,307	0.5
Total consumer	2,381,168	12.9	2,574,541	14.7	2,669,819	15.7	2,688,245	17.2	2,534,765	18.2
Commercial:										
Commercial non-mortgage	5,269,557	28.5	4,551,580	26.0	4,151,740	24.4	3,575,042	22.8	3,098,892	22.3
Asset-based	971,876	5.3	837,490	4.8	808,836	4.7	755,709	4.8	662,615	4.8
Total commercial	6,241,433	33.8	5,389,070	30.8	4,960,576	29.1	4,330,751	27.6	3,761,507	27.1
Commercial real estate:										
Commercial real estate	4,715,949	25.5	4,249,549	24.2	4,141,025	24.3	3,696,596	23.6	3,326,906	23.9
Commercial construction	218,816	1.2	279,531	1.6	375,041	2.2	300,246	1.9	235,449	1.7
Total commercial real estate	4,934,765	26.7	4,529,080	25.8	4,516,066	26.5	3,996,842	25.5	3,562,355	25.6
Equipment financing	504,351	2.7	545,877	3.1	630,040	3.7	594,984	3.8	532,117	3.8
Net unamortized premiums	14,809	0.1	15,316	0.1	9,402	0.1	7,477	—	2,580	—
Net deferred fees	(903)	—	5,323	—	7,914	—	10,476	0.1	8,026	0.1
Total loans and leases	$18,465,489	100.0	$17,523,858	100.0	$17,026,588	100.0	$15,671,735	100.0	$13,900,025	100.0

Total residential loans were $4.4 billion at December 31, 2018, a net decrease of $74.8 million from December 31, 2017, primarily due to loan repayments of $460.9 million, partially offset by originations of $400.2 million during the year ended December 31, 2018.

Total consumer loans were $2.4 billion at December 31, 2018, a net decrease of $193.4 million from December 31, 2017, primarily the result of net paydowns in the equity line and loan products of $704.5 million partially offset by originations of $473.7 million during the year ended December 31, 2018.

Total commercial loans were $6.2 billion at December 31, 2018, a net increase of $852.4 million from December 31, 2017. The growth in commercial loans is primarily related to new originations of $2.4 billion in commercial non-mortgage loans for the year ended December 31, 2018, partially offset by loan payments.

Asset-based loans increased $134.4 million from December 31, 2017, reflective of $388.4 million in originations and line usage during the year ended December 31, 2018, partially offset by loan payments.

Total commercial real estate loans were $4.9 billion at December 31, 2018, a net increase of $405.7 million from December 31, 2017 as a result of originations of $1.8 billion during the year ended December 31, 2018, partially offset by loan payments.

Equipment financing loans and leases were $504.4 million at December 31, 2018, a net decrease of $41.5 million from December 31, 2017, primarily the result lower originations during the year ended December 31, 2018.

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The following table provides contractual maturity and interest-rate sensitivity information for loans and leases:

	At December 31, 2018			
	Contractual Maturity			
(In thousands)	One Year Or Less	One To Five Years	More Than Five Years	Total
Residential	$904	$27,890	$4,387,843	$4,416,637
Consumer:				
Home equity	3,068	97,034	2,069,077	2,169,179
Other consumer	13,664	201,113	12,748	227,525
Total consumer	16,732	298,147	2,081,825	2,396,704
Commercial:				
Commercial non-mortgage	572,924	3,653,763	1,020,748	5,247,435
Asset-based	156,107	813,064	—	969,171
Total commercial	729,031	4,466,827	1,020,748	6,216,606
Commercial real estate:				
Commercial real estate	345,703	1,661,237	2,701,374	4,708,314
Commercial construction	66,950	137,704	14,177	218,831
Total commercial real estate	412,653	1,798,941	2,715,551	4,927,145
Equipment financing	30,093	399,042	79,262	508,397
Total loans and leases	$1,189,413	$6,990,847	$10,285,229	$18,465,489

	Interest-Rate Sensitivity			
(In thousands)	One Year Or Less	One To Five Years	More Than Five Years	Total
Fixed rate	$180,125	$986,806	$4,128,313	$5,295,244
Variable rate	1,009,288	6,004,041	6,156,916	13,170,245
Total loans and leases	$1,189,413	$6,990,847	$10,285,229	$18,465,489

Asset Quality

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

The following table provides key asset quality ratios:

	At or for the years ended December 31,				
	2018	2017	2016	2015	2014
Non-performing loans and leases as a percentage of loans and leases	0.84 %	0.72 %	0.79 %	0.89 %	0.93 %
Non-performing assets as a percentage of loans and leases plus OREO	0.87	0.76	0.81	0.92	0.98
Non-performing assets as a percentage of total assets	0.59	0.50	0.53	0.59	0.61
ALLL as a percentage of non-performing loans and leases	137.22	158.00	144.98	125.05	122.62
ALLL as a percentage of loans and leases	1.15	1.14	1.14	1.12	1.15
Net charge-offs as a percentage of average loans and leases	0.16	0.20	0.23	0.23	0.23
Ratio of ALLL to net charge-offs	7.16x	5.68x	5.25x	5.21x	5.21x

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Potential Problem Loans and Leases

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

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

Potential problem loans and leases exclude loans and leases past due 90 days or more and accruing, non-accrual loans and leases, and troubled debt restructuring (TDR)s.

Management monitors potential problem loans and leases due to a higher degree of risk associated with them. The current expectation of probable losses is included in the ALLL, however management cannot predict whether these potential problem loans and leases ultimately will become non-performing or result in a loss. The Company had potential problem loans and leases of $226.9 million at December 31, 2018 compared to $271.5 million at December 31, 2017.

Past Due Loans and Leases