WEBSTER FINANCIAL CORP
Form 10-Q
November 07, 2016
Table of Contents

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

FORM 10-Q

þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ending September 30, 2016
Commission File Number: 001-31486

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

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes o No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). o Yes þ No
The number of shares of common stock, par value $.01 per share, outstanding as of October 31, 2016 was 91,726,376.

INDEX

WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
KEY TO ACRONYMS

Agency CMBS	Agency commercial mortgage-backed securities
Agency CMO	Agency collateralized mortgage obligations
Agency MBS	Agency mortgage-backed securities
ALCO	Asset/Liability Committee
ALLL	Allowance for loan and lease losses
AOCL	Accumulated other comprehensive loss, net of tax
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Basel III	Capital rules under a global regulatory framework developed by the Basel Committee on Banking Supervision
CCRP	Composite Credit Risk Profile
CDI	Core deposit intangible assets
CET1 capital	Common Equity Tier 1 Capital, defined by Basel III capital rules
CLO	Collateralized loan obligations
CMBS	Non-agency commercial mortgage-backed securities
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FHLB	Federal Home Loan Bank
FICO	Fair Isaac Corporation
FINRA	Financial Industry Regulatory Authority
FRB	Federal Reserve Bank
FTP	Funds Transfer Pricing, a matched maturity funding concept
GAAP	U.S. Generally Accepted Accounting Principles
Holding Company	Webster Financial Corporation
HSA Bank	A division of Webster Bank, National Association
ISDA	International Swaps Derivative Association
LBP	Look back period
LEP	Loss emergence period
LIBOR	London Interbank Offered Rate
LPL	LPL Financial Holdings Inc.
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
PPNR	Pre-tax, pre-provision net revenue
RPA	Risk participation agreement
SEC	United States Securities and Exchange Commission
SIPC	Securities Investor Protection Corporation
TDR	Troubled debt restructuring, defined in ASC 310-40 "Receivables-Troubled Debt Restructurings by Creditors"
VIE	Variable interest entity, defined in ASC 810-10 "Consolidation-Overall"
Webster Bank	Webster Bank, National Association, a wholly-owned subsidiary of Webster Financial Corporation
Webster or the Company	Webster Financial Corporation, collectively with its consolidated subsidiaries

ii

Table of Contents

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

(In thousands, except share data)	September 30, 2016 (Unaudited)	December 31, 2015
Assets:		
Cash and due from banks	$199,989	$199,693
Interest-bearing deposits	21,938	155,907
Securities available-for-sale	3,040,111	2,984,631
Securities held-to-maturity (fair value of $4,109,943 and $3,961,534)	4,022,332	3,923,052
Federal Home Loan Bank and Federal Reserve Bank stock	185,104	188,347
Loans held for sale (valued under fair value option $66,400 and $0)	66,578	37,091
Loans and leases	16,623,401	15,671,735
Allowance for loan and lease losses	(187,925)	(174,990)
Loans and leases, net	16,435,476	15,496,745
Deferred tax asset, net	73,228	101,578
Premises and equipment, net	137,067	129,426
Goodwill	538,373	538,373
Other intangible assets, net	34,756	39,326
Cash surrender value of life insurance policies	514,153	503,093
Accrued interest receivable and other assets	364,512	343,856
Total assets	$25,633,617	$24,641,118
Liabilities and shareholders' equity:		
Deposits:		
Non-interest-bearing	$3,993,750	$3,713,063
Interest-bearing	15,207,158	14,239,715
Total deposits	19,200,908	17,952,778
Securities sold under agreements to repurchase and other borrowings	800,705	1,151,400
Federal Home Loan Bank advances	2,587,983	2,664,139
Long-term debt	225,450	225,260
Accrued expenses and other liabilities	306,942	233,581
Total liabilities	23,121,988	22,227,158
Shareholders’ equity:		
Preferred stock, $.01 par value; Authorized - 3,000,000 shares:		
Series E issued and outstanding (5,060 shares)	122,710	122,710
Common stock, $.01 par value; Authorized - 200,000,000 shares:		
Issued (93,651,601 shares)	937	937
Paid-in capital	1,125,377	1,124,325
Retained earnings	1,392,500	1,315,948
Treasury stock, at cost (2,125,891 and 2,090,409 shares)	(76,742)	(71,854)
Accumulated other comprehensive loss, net of tax	(53,153)	(78,106)
Total shareholders' equity	2,511,629	2,413,960
Total liabilities and shareholders' equity	$25,633,617	$24,641,118

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Three months ended September 30,		Nine months ended September 30,	
(In thousands, except per share data)	2016	2015	2016	2015
Interest Income:				
Interest and fees on loans and leases	$157,071	$140,520	$459,050	$406,937
Taxable interest and dividends on securities	43,384	47,230	136,734	141,739
Non-taxable interest on securities	4,820	3,891	13,691	11,905
Loans held for sale	440	357	1,006	1,299
Total interest income	205,715	191,998	610,481	561,880
Interest Expense:				
Deposits	12,594	11,480	37,267	34,555
Securities sold under agreements to repurchase and other borrowings	3,447	4,138	10,999	12,711
Federal Home Loan Bank advances	6,979	5,949	21,517	16,099
Long-term debt	2,498	2,421	7,444	7,230
Total interest expense	25,518	23,988	77,227	70,595
Net interest income	180,197	168,010	533,254	491,285
Provision for loan and lease losses	14,250	13,000	43,850	35,500
Net interest income after provision for loan and lease losses	165,947	155,010	489,404	455,785
Non-interest Income:				
Deposit service fees	35,734	35,164	105,553	101,382
Loan and lease related fees	10,299	8,305	23,048	19,713
Wealth and investment services	7,593	7,761	21,992	24,434
Mortgage banking activities	3,276	1,441	8,850	5,519
Increase in cash surrender value of life insurance policies	3,743	3,288	11,060	9,637
Gain on sale of investment securities, net	—	—	414	529
Impairment loss on securities recognized in earnings	—	(82)	(149)	(82)
Other income	5,767	5,415	23,093	16,966
Total non-interest income	66,412	61,292	193,861	178,098
Non-interest Expense:				
Compensation and benefits	83,148	73,378	243,688	218,285
Occupancy	15,004	11,987	44,099	37,263
Technology and equipment	19,753	21,419	59,067	60,979
Intangible assets amortization	1,493	1,621	4,570	4,752
Marketing	4,622	4,099	14,215	12,520
Professional and outside services	4,795	2,896	11,360	8,224
Deposit insurance	6,177	6,067	19,596	17,800
Other expense	21,105	18,470	64,725	51,738
Total non-interest expense	156,097	139,937	461,320	411,561
Income before income tax expense	76,262	76,365	221,945	222,322
Income tax expense	24,445	24,995	72,478	69,405
Net income	51,817	51,370	149,467	152,917
Preferred stock dividends and other	(2,183)	(2,194)	(6,540)	(7,202)
Earnings applicable to common shareholders	$49,634	$49,176	$142,927	$145,715
Earnings per common share:				

Basic	$0.54	$0.54	$1.57	$1.61
Diluted	0.54	0.53	1.56	1.60

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2016	2015	2016	2015
Net income	$51,817	$51,370	$149,467	$152,917
Other comprehensive income (loss), net of tax:				
Total available-for-sale and transferred securities	1,218	712	19,988	(6,248)
Total derivative instruments	2,015	(519)	1,589	42
Total defined benefit pension and other postretirement benefit plans	1,125	983	3,376	2,948
Other comprehensive income (loss), net of tax	4,358	1,176	24,953	(3,258)
Comprehensive income	$56,175	$52,546	$174,420	$149,659

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

(In thousands, except per share data)	Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock, at cost	Accumulated Other Comprehensive Loss, Net of Tax	Total Shareholders' Equity
Balance at December 31, 2015	$122,710	$ 937	$1,124,325	$1,315,948	$(71,854)	$ (78,106)	$2,413,960
Net income	—	—	—	149,467	—	—	149,467
Other comprehensive income, net of tax	—	—	—	—	—	24,953	24,953
Dividends and dividend equivalents declared on common stock $0.73 per share	—	—	109	(67,088)	—	—	(66,979)
Dividends on Series E preferred stock $1,200.00 per share	—	—	—	(6,072)	—	—	(6,072)
Stock-based compensation, net of tax impact	—	—	2,413	245	8,031	—	10,689
Exercise of stock options	—	—	(1,307)	—	3,679	—	2,372
Common shares acquired related to stock compensation plan activity	—	—	—	—	(5,392)	—	(5,392)
Common stock repurchase program	—	—	—	—	(11,206)	—	(11,206)
Common stock warrants repurchased	—	—	(163)	—	—	—	(163)
Balance at September 30, 2016	$122,710	$ 937	$1,125,377	$1,392,500	$(76,742)	$ (53,153)	$2,511,629

(In thousands, except per share data)	Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock, at cost	Accumulated Other Comprehensive Loss, Net of Tax	Total Shareholders' Equity
Balance at December 31, 2014	$151,649	$ 936	$1,127,534	$1,202,251	$(103,294)	$ (56,261)	$2,322,815
Net income	—	—	—	152,917	—	—	152,917
Other comprehensive loss, net of tax	—	—	—	—	—	(3,258)	(3,258)
Dividends and dividend equivalents declared on common stock $0.66 per share	—	—	87	(60,236)	—	—	(60,149)
Dividends on Series A preferred stock $21.25 per share	—	—	—	(615)	—	—	(615)
Dividends on Series E preferred stock $1,200.00 per share	—	—	—	(6,072)	—	—	(6,072)
Preferred stock conversion	(28,939)	—	(3,429)	—	32,368	—	—
Stock-based compensation, net of tax impact	—	—	2,778	(828)	8,454	—	10,404
Exercise of stock options	—	—	(2,124)	—	4,686	—	2,562

Common shares acquired related to stock compensation plan activity	—	—	—	—	(4,316)	—	(4,316)
Common stock repurchase program	—	—	—	—	(12,564)	—	(12,564)
Common stock warrants repurchased	—	—	(23)	—	—	—	(23)
Balance at September 30, 2015	$122,710	$ 936	$1,124,823	$1,287,417	$(74,666)	$ (59,519)	$2,401,701

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine months ended September 30,					
(In thousands)	2016			2015		
Operating Activities:						
Net income	$	149,467		$	152,917	
Adjustments to reconcile net income to net cash provided by operating activities:						
Provision for loan and lease losses	43,850			35,500		
Deferred tax expense (benefit)	14,425			(7,272		)
Depreciation and amortization	27,342			25,991		
Amortization of earning assets and funding, premiums/discounts, net	42,855			41,704		
Stock-based compensation	8,558			8,283		
Gain on sale, net of write-down, on foreclosed and repossessed assets	(744		)	(69		)
Gain on sale, net of write-down, on premises and equipment	(713		)	(249		)
Impairment loss on securities recognized in earnings	149			82		
Gain on the sale of investment securities, net	(414		)	(529		)
Increase in cash surrender value of life insurance policies	(11,060		)	(9,637		)
Mortgage banking activities	(8,850		)	(5,519		)
Proceeds from sale of loans held for sale	298,840			352,300		
Origination of loans held for sale	(320,739		)	(351,236		)
Derivative contract assets and liabilities	(73,765		)	(33,775		)
Net decrease (increase) in accrued interest receivable and other assets	48,136			(23,338		)
Net decrease in accrued expenses and other liabilities	(30,419		)	(2,801		)
Net cash provided by operating activities	186,918			182,352		
Investing Activities:						
	133,969			113,438		

Net decrease in interest-bearing deposits				
Purchases of available for sale securities	(615,174	)	(737,184	)
Proceeds from maturities and principal payments of available for sale securities	430,099		452,397	
Proceeds from sales of available for sale securities	259,283		65,643	
Purchases of held-to-maturity securities	(640,218	)	(639,699	)
Proceeds from maturities and principal payments of held-to-maturity securities	517,513		538,772	
Net proceeds of Federal Home Loan Bank stock	3,243		9,010	
Net increase in loans	(1,010,423	)	(1,345,816	)
Proceeds from sale of loans not originated for sale	20,764		33,100	
Proceeds from life insurance policies	—		3,912	
Proceeds from the sale of foreclosed and repossessed assets	6,900		7,783	
Proceeds from the sale of premises and equipment	1,550		650	
Purchases of premises and equipment	(31,250	)	(26,801	)
Acquisition of business, net cash acquired	—		1,396,414	
Net cash used for investing activities	(923,744	)	(128,381	)

See accompanying Notes to Condensed Consolidated Financial Statements.

5

Table of Contents

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

	Nine months ended September 30,	
(In thousands)	2016	2015
Financing Activities:		
Net increase in deposits	1,248,710	484,568
Proceeds from Federal Home Loan Bank advances	14,150,000	9,100,000
Repayments of Federal Home Loan Bank advances	(14,226,147)	(9,350,209)
Net decrease in securities sold under agreements to repurchase and other borrowings	(350,695)	(248,738)
Dividends paid to common shareholders	(66,648)	(59,890)
Dividends paid to preferred shareholders	(6,072)	(6,687)
Exercise of stock options	2,372	2,562
Excess tax benefits from stock-based compensation	2,363	2,131
Common shares acquired related to stock compensation plan activity	(5,392)	(4,316)
Common stock repurchase program	(11,206)	(12,564)
Common stock warrants repurchased	(163)	(23)
Net cash provided by (used for) financing activities	737,122	(93,166)
Net increase (decrease) in cash and due from banks	296	(39,195)
Cash and due from banks at beginning of period	199,693	213,914
Cash and due from banks at end of period	$199,989	$174,719
Supplemental disclosure of cash flow information:		
Interest paid	$79,054	$73,283
Income taxes paid	61,639	79,564
Noncash investing and financing activities:		
Transfer of loans from portfolio to loans-held-for-sale	$20,547	$186
Transfer of loans and leases to foreclosed properties and repossessed assets	4,917	6,582
Deposits assumed in business acquisition	—	1,446,899
Preferred stock conversion	—	28,939

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

Note 1: Summary of Significant Accounting Policies

Nature of Operations

Webster Financial Corporation is a bank holding company and financial holding company under the Bank Holding Company Act of 1956, as amended, incorporated under the laws of Delaware in 1986 and headquartered in Waterbury, Connecticut. At September 30, 2016, Webster Financial Corporation's principal asset is all of the outstanding capital stock of Webster Bank.

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

Basis of Presentation

The accounting and reporting policies of the Company that materially affect its financial statements conform with GAAP. The accompanying unaudited Condensed Consolidated Financial Statements of the Company have been prepared in conformity with the instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all the information and notes required by GAAP for complete financial statements and should be read in conjunction with the Company's Consolidated Financial Statements, and notes thereto, for the year ended December 31, 2015, included in the Company's Annual Report on Form 10-K filed with the SEC on February 29, 2016.

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

Certain prior period amounts have been reclassified to conform to the current year's presentation. These reclassifications had an immaterial effect on total assets, total liabilities, net cash provided by operating activities, net cash used for investing activities, and net cash provided by financing activities.

Correction of Immaterial Error Related to Prior Periods

The Company identified an immaterial error relating to the accounting for cash collateral associated with derivative instruments, as previously reported in the Company's March 31, 2016 Form 10-Q quarterly report, filed with the SEC on May 9, 2016. The impact of this previously reported error to the net cash provided by operating activities within the Condensed Consolidated Statements of Cash Flows was a $29.5 million decrease for the nine months ended September 30, 2015.

The Company identified an immaterial error relating to the reporting of certain fee accruals and certain expenses within the Company's HSA Bank segment, as previously reported in the Company's June 30, 2016 Form 10-Q quarterly report, filed with the SEC on August 9, 2016. The impact of this previously reported error to net income within the Condensed Consolidated Statements of Income was a $0.8 million decrease for the nine months ended September 30, 2015.

Significant Accounting Policy Updates

Loans Held For Sale. Effective January 1, 2016, on a loan by loan election, residential mortgage loans that are classified as held for sale are accounted for under either the fair value option method of accounting or the lower of cost or fair value method of accounting with the election being made at the time the asset is first recognized. The Company has elected the fair value option to mitigate accounting mismatches between held for sale derivative commitments and loan valuations. Prior to January 1, 2016, residential mortgage loans that were classified as held for sale were accounted for at the lower of cost or fair value method of accounting and were valued on an individual asset basis. Loans not originated for sale but subsequently transferred to held for sale continue to be valued at the lower of cost or fair value method of accounting and are valued on an individual asset basis.

Accounting Standards Adopted during 2016

Effective January 1, 2016, the following new accounting guidance was adopted by the Company:

- ASU No. 2015-02, Consolidation (Topic 810) - Amendments to the Consolidation Analysis;
- ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs;
- ASU No. 2015-07, Fair Value Measurement (Topic 820) - Disclosures for investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent) (a consensus of the FASB Emerging Issues Task Force); and
- ASU No. 2015-16, Business Combinations (Topic 805) - Simplifying the Accounting for Measurement - Period Adjustments.

Table of Contents

The adoption of these accounting standards did not have a material impact on the Company's financial statements; however, additional disclosures of VIEs are included in Note 3: Variable Interest Entities. The Company did not identify any additional investments requiring consolidation as a result of ASU No. 2015-02.

Accounting Standards Issued but not yet Adopted

The following table identifies ASUs applicable to the Company that have been issued by the FASB but are not yet effective:

ASU	Description	Effective Date and Financial Statement Impact
ASU No. 2016-16 - Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.	The update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The Update addresses the following eight issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle.	The Company intends to adopt the Update for the first quarter of 2019. Adoption is not anticipated to have a material impact on the Company's financial statements.
ASU No. 2016-13 - Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.	Current GAAP requires an "incurred loss" methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. Both financial institutions and users of their financial statements expressed concern that current GAAP restricts the ability to record credit losses that are expected, but do not yet meet the "probable" threshold. The main objective of this Update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this Update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates.	The Change from an "incurred loss" method to an "expected loss" method represents a fundamental shift from existing GAAP, and may result in material changes to the Company's accounting for credit losses on financial instruments. The Company is evaluating the effect that this ASU will have on its financial statements and related disclosures. The ASU will be effective for the Company as of January 1, 2020.
ASU No. 2016-09, Compensation - Stock Compensation (Topic 718) - Improvements to Employee Share Based Payment Accounting.	The Update impacts the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. In addition, the amendments in this Update eliminates the guidance in Topic 718 that was indefinitely deferred shortly after the issuance of FASB Statement No. 123 (revised 2004), Share-Based Payment.	The Company intends to adopt the Update for the first quarter of 2017 and is in the process of assessing the impact on its financial statements.
ASU No. 2016-06, Derivatives and	The Update clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment	The Company intends to adopt the Update for the first quarter of

Hedging (Topic 815) - Contingent Put and Call Options in Debt Instruments.	of principal on debt instruments are clearly and closely related to their debt hosts. The Update requires the assessment of embedded call (put) options solely in accordance with the four-step decision sequence.	2017. Adoption is not anticipated to have a material impact on the Company's financial statements.
ASU No. 2016-02, Leases (Topic 842).	The Update introduces a lessee model that brings most leases on the balance sheet. The Update also aligns certain of the underlying principles of the new lessor model with those in ASC 606 "Revenue from Contracts with Customers", the FASB’s new revenue recognition standard (e.g., evaluating how collectability should be considered and determining when profit can be recognized). Furthermore, the Update addresses other concerns including the elimination of the required use of bright-line tests for determining lease classification. Lessors are required to provide additional transparency into the exposure to the changes in value of their residual assets and how they manage that exposure.	The Company intends to adopt the Update for the first quarter of 2019 and is in the process of assessing the impact on its financial statements.

8

Table of Contents

ASU	Description	Effective Date and Financial Statement Impact
ASU No. 2016-01, Financial Instruments—Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities.	Equity investments not accounted for under the equity method or those that do not result in consolidation of the investee are to be measured at fair value with changes in the fair value recognized through net income. Entities are to present separately in other comprehensive income, the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when an election to measure the liability at fair value in accordance with the fair value option for financial instruments has been made. Also, the requirement to disclose the method(s) and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet has been eliminated.	The Company intends to adopt the Update for the first quarter of 2018 and is in the process of assessing the impact on its financial statements.
ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) and ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606)	A single comprehensive model has been established for an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled, and will supersede nearly all existing revenue recognition guidance, and clarify and converge revenue recognition principles under GAAP and International Financial Reporting Standards. The five steps to recognizing revenue: (i) identify the contracts with the customer; (ii) identify the separate performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the separate performance obligations; and (v) recognize revenue when each performance obligation is satisfied. The most significant potential impact to banking entities relates to less prescriptive derecognition requirements on the sale of owned real estate properties. An entity may elect either a full retrospective or a modified retrospective application. ASU No. 2015-14 - Revenue from Contracts with Customers (Topic 606), defers the effective date to annual and interim periods beginning after December 15, 2017.	The Company intends to adopt the Update for the first quarter of 2018. Adoption is not anticipated to have a material impact on the Company's financial statements.

Table of Contents

Note 2: Investment Securities

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

(In thousands)	At September 30, 2016 Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	At December 31, 2015 Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:								
U.S. Treasury Bills	$985	$—	$—	$985	$924	$—	$—	$924
Agency CMO	457,768	7,453	(1,491)	463,730	546,168	5,532	(2,946)	548,754
Agency MBS	992,742	11,051	(2,779)	1,001,014	1,075,941	6,459	(17,291)	1,065,109
Agency CMBS	481,079	3,435	(106)	484,408	215,670	639	(959)	215,350
CMBS	465,120	4,794	(1,553)	468,361	574,686	7,485	(2,905)	579,266
CLO	481,555	3,132	(451)	484,236	431,837	592	(3,270)	429,159
Single issuer trust preferred securities	42,312	63	(4,264)	38,111	42,168	—	(4,998)	37,170
Corporate debt securities	97,149	2,117	—	99,266	104,031	2,290	—	106,321
Equities - financial services	—	—	—	—	3,499	—	(921)	2,578
Securities available-for-sale	$3,018,710	$ 32,045	$(10,644)	$3,040,111	$2,994,924	$ 22,997	$(33,290)	$2,984,631
Held-to-maturity:								
Agency CMO	$371,700	$ 4,353	$(890)	$375,163	$407,494	$ 3,717	$(2,058)	$409,153
Agency MBS	2,072,481	48,397	(1,544)	2,119,334	2,030,176	38,813	(19,908)	2,049,081
Agency CMBS	624,403	14,449	—	638,852	686,086	4,253	(325)	690,014
Municipal bonds and notes	610,690	13,658	(1,682)	622,666	435,905	12,019	(417)	447,507
CMBS	341,019	10,935	(80)	351,874	360,018	5,046	(2,704)	362,360
Private Label MBS	2,039	15	—	2,054	3,373	46	—	3,419
Securities held-to-maturity	$4,022,332	$ 91,807	$(4,196)	$4,109,943	$3,923,052	$ 63,894	$(25,412)	$3,961,534

Other-Than-Temporary Impairment

The balance of OTTI, included in the amortized cost columns above, is related to certain CLO positions that were previously considered Covered Funds as defined by Section 619 of the Dodd-Frank Act, commonly known as the Volcker Rule. The Company has taken certain legal measures intended to bring CLO into conformance with the Volcker rule.

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

The following table presents the changes in OTTI:

(In thousands)	Three months ended September 30, 2016	2015	Nine months ended September 30, 2016	2015
Beginning balance	$3,437	$3,178	$3,288	$3,696
Reduction for securities sold or called	(30)	—	(30)	(518)
Additions for OTTI not previously recognized in earnings	—	82	149	82
Ending balance	$3,407	$3,260	$3,407	$3,260

Table of Contents

Fair Value and Unrealized Losses

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

	At September 30, 2016						
	Less Than Twelve Months		Twelve Months or Longer		Total		
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	# of Holdings	Fair Value	Unrealized Losses
Available-for-sale:							
Agency CMO	$22,888	$(337)	$71,140	$(1,154)	7	$94,028	$(1,491)
Agency MBS	26,917	(48)	274,866	(2,731)	48	301,783	(2,779)
Agency CMBS	78,572	(106)	—	—	6	78,572	(106)
CMBS	34,741	(382)	126,244	(1,171)	24	160,985	(1,553)
CLO	9,780	(28)	69,708	(423)	4	79,488	(451)
Single issuer trust preferred securities	—	—	33,812	(4,264)	7	33,812	(4,264)
Equities - financial services	—	—	—	—	—	—	—
Total available-for-sale in an unrealized loss position	$172,898	$(901)	$575,770	$(9,743)	96	$748,668	$(10,644)
Held-to-maturity:							
Agency CMO	$77,555	$(661)	$18,814	$(229)	8	$96,369	$(890)
Agency MBS	86,133	(88)	297,018	(1,456)	30	383,151	(1,544)
Agency CMBS	—	—	—	—	—	—	—
Municipal bonds and notes	106,453	(1,663)	3,359	(19)	45	109,812	(1,682)
CMBS	27,773	(80)	—	—	5	27,773	(80)
Total held-to-maturity in an unrealized loss position	$297,914	$(2,492)	$319,191	$(1,704)	88	$617,105	$(4,196)

	At December 31, 2015						
	Less Than Twelve Months		Twelve Months or Longer		Total		
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	# of Holdings	Fair Value	Unrealized Losses
Available-for-sale:							
Agency CMO	$195,369	$(2,195)	$26,039	$(751)	14	$221,408	$(2,946)
Agency MBS	481,839	(6,386)	351,911	(10,905)	84	833,750	(17,291)
Agency CMBS	124,241	(959)	—	—	7	124,241	(959)
CMBS	276,330	(2,879)	19,382	(26)	29	295,712	(2,905)
CLO	211,515	(2,709)	15,708	(561)	13	227,223	(3,270)
Single issuer trust preferred securities	4,087	(128)	33,083	(4,870)	8	37,170	(4,998)
Equities - financial services	2,578	(921)	—	—	1	2,578	(921)
Total available-for-sale in an unrealized loss position	$1,295,959	$(16,177)	$446,123	$(17,113)	156	$1,742,082	$(33,290)
Held-to-maturity:							
Agency CMO	$143,364	$(1,304)	$27,928	$(754)	13	$171,292	$(2,058)
Agency MBS	551,918	(7,089)	470,828	(12,819)	87	1,022,746	(19,908)
Agency CMBS	110,864	(325)	—	—	7	110,864	(325)
Municipal bonds and notes	29,034	(130)	13,829	(287)	27	42,863	(417)
CMBS	142,382	(1,983)	30,129	(721)	18	172,511	(2,704)
Total held-to-maturity in an unrealized loss position	$977,562	$(10,831)	$542,714	$(14,581)	152	$1,520,276	$(25,412)

Table of Contents

Impairment Analysis
The following impairment analysis by investment security type, summarizes the basis for evaluating if investment securities within the Company’s available-for-sale and held-to-maturity portfolios have been impacted by OTTI. Unless otherwise noted for an investment security type, management does not intend to sell these investments and has determined, based upon available evidence, that it is more likely than not that the Company will not be required to sell these securities before the recovery of their amortized cost. As such, based on the following impairment analysis, the Company does not consider these securities, in unrealized loss positions, to exhibit OTTI at September 30, 2016.
Available-for-Sale Securities
Agency CMO. There were unrealized losses of $1.5 million on the Company’s investment in Agency CMO at September 30, 2016 compared to $2.9 million at December 31, 2015. Unrealized losses decreased due to lower market rates which resulted in higher security prices at September 30, 2016 compared to December 31, 2015. These investments are issued by a government agency or a government-sponsored agency and, therefore, are backed by certain government guarantees, either direct or indirect. The contractual cash flows for these investments are performing as expected, and there has been no change in the underlying credit quality.
Agency MBS. There were unrealized losses of $2.8 million on the Company’s investment in Agency MBS at September 30, 2016 compared to $17.3 million at December 31, 2015. Unrealized losses decreased due to lower market rates which resulted in higher security prices at September 30, 2016 compared to December 31, 2015. These investments are issued by a government agency or a government-sponsored agency and, therefore, are backed by certain government guarantees, either direct or indirect. The contractual cash flows for these investments are performing as expected, and there has been no change in the underlying credit quality.
Agency CMBS. There were unrealized losses of $106 thousand on the Company's investment in commercial mortgage-backed securities issued by government agencies at September 30, 2016, compared to $1.0 million at December 31, 2015. Unrealized losses decreased due to lower market rates which resulted in higher security prices since December 31, 2015.
CMBS. There were unrealized losses of $1.6 million on the Company’s investment in CMBS at September 30, 2016 compared to $2.9 million at December 31, 2015. The portfolio of mainly floating rate CMBS experienced decreased market spreads which resulted in higher market prices and smaller unrealized losses at September 30, 2016 compared to December 31, 2015. Internal and external metrics are considered when evaluating potential OTTI. Internal stress tests are performed on individual bonds to monitor potential losses under stress scenarios. Contractual cash flows for these investments are performing as expected.
CLO. There were unrealized losses of $0.5 million on the Company's investment in CLO at September 30, 2016 compared to $3.3 million at December 31, 2015. Unrealized losses decreased due to lower market spreads for the CLO portfolio at September 30, 2016 compared to December 31, 2015. Contractual cash flows for these investments are performing as expected. The Company has taken certain legal measures intended to bring CLO into conformance with the Volcker rule.
Single Issuer Trust Preferred Securities. There were unrealized losses of $4.3 million on the Company's investment in single issuer trust preferred securities at September 30, 2016 compared to $5.0 million at December 31, 2015. Unrealized losses decreased due to lower market spreads for this asset class, which resulted in higher security prices compared to December 31, 2015. The single issuer trust preferred securities portfolio consists of four floating rate investments issued by three large capitalization money center financial institutions, which continue to service the debt. The Company performs periodic credit reviews of the issuer to assess the likelihood for ultimate recovery of amortized cost.
Held-to-Maturity Securities
Agency CMO. There were unrealized losses of $0.9 million on the Company’s investment in Agency CMO at September 30, 2016 compared to $2.1 million at December 31, 2015. Unrealized losses decreased due to lower market rates which resulted in higher security prices at September 30, 2016 compared to December 31, 2015. These investments are issued by a government agency or a government-sponsored agency and, therefore, are backed by certain government guarantees, either direct or indirect. The contractual cash flows for these investments are performing as expected, and there has been no change in the underlying credit quality.

Agency MBS. There were unrealized losses of $1.5 million on the Company's investment in Agency MBS at September 30, 2016 compared to $19.9 million at December 31, 2015. Unrealized losses decreased due to lower market rates which resulted in higher security prices at September 30, 2016 compared to December 31, 2015. These investments are issued by a government agency or a government-sponsored agency and, therefore, are backed by certain government guarantees, either direct or indirect. There has been no change in the underlying credit quality, and the contractual cash flows are performing as expected.

Table of Contents

Municipal Bonds and Notes. There were unrealized losses of $1.7 million on the Company's investment in municipal bonds and notes at September 30, 2016, compared to $417 thousand at December 31, 2015. Unrealized losses increased due to higher market rates primarily on current year to date purchases. The Company performs periodic credit reviews of the issuers and the securities are currently performing as expected.
CMBS. There were unrealized losses of $80 thousand on the Company's investment in CMBS at September 30, 2016 compared to $2.7 million at December 31, 2015. Unrealized losses decreased due to lower market rates on mainly seasoned fixed rate conduit transactions, which resulted in higher security prices at September 30, 2016 compared to December 31, 2015. Internal and external metrics are considered when evaluating potential OTTI. Internal stress tests are performed on individual bonds to monitor potential losses under stress scenarios. The contractual cash flows for these investments are performing as expected.
Sales of Available-for Sale Securities
The following table provides information on sales of available-for-sale securities:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2016	2015	2016	2015
Proceeds from sales	$—	$2,500	$259,273	$37,465
Gross realized gains on sales	$—	$—	$2,891	$529
Less: Gross realized losses on sales	—	—	2,477	—
Gain on sale of investment securities, net	$—	$—	$414	$529

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

	At September 30, 2016			
	Available-for-Sale		Held-to-Maturity	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$60,737	$61,771	$7,988	$8,034
Due after one year through five years	37,397	38,479	19,980	20,376
Due after five through ten years	572,461	575,465	36,758	37,932
Due after ten years	2,348,115	2,364,396	3,957,606	4,043,601
Total debt securities	$3,018,710	$3,040,111	$4,022,332	$4,109,943

For the maturity schedule above, mortgage-backed securities and CLO, which are not due at a single maturity date, have been categorized based on the maturity date of the underlying collateral. Actual principal cash flows may differ from this maturity date presentation as borrowers have the right to prepay obligations with or without prepayment penalties. At September 30, 2016, the Company had a carrying value of $1.2 billion in callable securities in its CMBS, CLO, and municipal bond portfolios. The Company considers prepayment risk in the evaluation of its interest rate risk profile. These maturities do not reflect actual durations which are impacted by prepayments.
Securities with a carrying value totaling $2.7 billion at September 30, 2016 and $2.6 billion at December 31, 2015 were pledged to secure public funds, trust deposits, repurchase agreements, and for other purposes, as required or permitted by law.
Note 3: Variable Interest Entities
A VIE is an entity that has either a total equity investment that is insufficient to finance its activities without additional subordinated financial support or whose equity investors lack the ability to control the entity's activities or lack the ability to receive expected benefits or absorb obligations in a manner that's consistent with their investment in the entity. The Company evaluates each VIE to understand the purpose and design of the entity, and its involvement in

the ongoing activities of the VIE.

The Company will consolidate the VIE if it has:

- the power to direct the activities of the VIE that most significantly affect the VIE's economic performance; and
- an obligation to absorb losses of the VIE, or the right to receive benefits from the VIE, that could potentially be significant to the VIE.

Table of Contents

Consolidated

Rabbi Trust. The Company has established a Rabbi Trust related to a deferred compensation plan offered to certain employees. Investments held in the Rabbi Trust primarily consist of mutual funds that invest in equity and fixed income securities. The Company is considered the primary beneficiary of the Rabbi Trust as it has the power to direct the underlying investments made by the trust as well as make funding decisions related to the trust and it has the obligation to absorb losses of the VIE that could potentially be significant to the VIE.

The Company consolidates the invested assets of the trust along with the total deferred compensation obligations and includes them in accrued interest receivable and other assets and accrued expenses and other liabilities, respectively, in the accompanying Condensed Consolidated Balance Sheets. Earnings in the Rabbi Trust, including appreciation or depreciation, are reflected as other non-interest income, and changes in the corresponding liability are reflected as compensation and benefits, in the accompanying Condensed Consolidated Statements of Income. The cost and fair value associated with the assets and liabilities of this trust are not significant. Refer to Note 13: Fair Value Measurements for additional information.

Non-Consolidated

Securitized Investments. The Company, through normal investment activities, makes passive investments in securities issued by a VIE for which the Company is not the manager. These securities consist of Agency CMO, Agency MBS, Agency CMBS, CLO and single issuer trust preferred securities. The Company has not provided financial or other support with respect to these investments other than its original investment. For these investments, the Company determined it is not the primary beneficiary due to the relative size of the Company’s investment in comparison to the principal amount of the structured securities issued by the VIE, the level of credit subordination which reduces the Company’s obligation to absorb losses or right to receive benefits and the Company’s inability to direct the activities that most significantly impact the economic performance of the VIE. The Company’s maximum exposure to loss on these investments is limited to the amount of the Company’s investment. Refer to Note 2: Investment Securities for additional information.

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

The Company's tax credit-finance investments had an aggregate carrying value of $23.5 million and $25.9 million at September 30, 2016 and December 31, 2015, respectively. At September 30, 2016 and December 31, 2015, unfunded obligations, which are recognized as a component of accrued expenses and other liabilities, were $14.4 million and $16.5 million, respectively.

Webster Statutory Trust. The Company owns all of the outstanding common stock of Webster Statutory Trust, which is a financial vehicle that has issued, and may issue in the future, trust preferred securities. The trust is a VIE in which the Company is not the primary beneficiary and therefore, is not consolidated. The trust's only assets are junior subordinated debentures issued by the Company, which were acquired by the trust using the proceeds from the issuance of the trust preferred securities and common stock. The junior subordinated debentures are included in long-term debt and the Company’s equity interest in the trust is included in accrued interest receivable and other assets in the accompanying Condensed Consolidated Balance Sheets. Interest expense on the junior subordinated debentures is reported as interest expense on long-term debt in the accompanying Condensed Consolidated Statements of Income.

Other Investments. The Company invests in various alternative investments in which it holds a variable interest. Alternative investments are non-public entities which cannot be redeemed since the Company’s investment is distributed as the underlying investments are liquidated. For these investments, the Company has determined it is not the primary beneficiary due to its inability to direct the activities that most significantly impacts the economic performance of the VIE.

The Company's other investments in VIEs had an aggregate carrying value of $12.5 million and $12.1 million at September 30, 2016 and December 31, 2015, respectively, and the total exposure of the Company's other investments

in VIEs, including unfunded commitments, were $20.6 million and $19.0 million, respectively.
For a further description of the Company's accounting policies regarding the consolidation of a VIE, refer to Note 1 to the Consolidated Financial Statements for the year ended December 31, 2015 included in its 2015 Form 10-K.

Table of Contents

Note 4: Loans and Leases

The following table summarizes loans and leases:

(In thousands)	At September 30, 2016	At December 31, 2015
Residential	$ 4,234,047	$ 4,061,001
Consumer	2,707,343	2,702,560
Commercial	4,779,802	4,315,999
Commercial Real Estate	4,280,513	3,991,649
Equipment Financing	621,696	600,526
Loans and leases (1) (2)	$ 16,623,401	$ 15,671,735

(1) Loans and leases include net deferred fees and net premiums/discounts of $19.7 million and $18.0 million at September 30, 2016 and December 31, 2015, respectively.

(2) At September 30, 2016, the Company had pledged $6.4 billion of eligible residential and consumer loans as collateral to support borrowing capacity at the FHLB Boston and the FRB of Boston.

Loans and Leases Portfolio Aging

The following tables summarize the aging of loans and leases:

	At September 30, 2016						
(In thousands)	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	90 or More Days Past Due and Accruing	Non-accrual	Total Past Due and Non-accrual	Current	Total Loans and Leases
Residential	$7,547	$ 3,547	$ —	$ 49,197	$ 60,291	$4,173,756	$4,234,047
Consumer:							
Home equity	7,627	4,746	—	35,597	47,970	2,371,700	2,419,670
Other consumer	1,757	1,354	—	1,571	4,682	282,991	287,673
Commercial:							
Commercial non-mortgage	1,949	576	23	27,397	29,945	3,946,986	3,976,931
Asset-based	—	—	—	—	—	802,871	802,871
Commercial real estate:							
Commercial real estate	1,082	148	5,444	10,957	17,631	3,933,588	3,951,219
Commercial construction	—	—	—	3,438	3,438	325,856	329,294
Equipment financing	3,164	313	—	202	3,679	618,017	621,696
Total	$23,126	$ 10,684	$ 5,467	$ 128,359	$ 167,636	$16,455,765	$16,623,401

	At December 31, 2015						
(In thousands)	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	90 or More Days Past Due and Accruing	Non-accrual	Total Past Due and Non-accrual	Current	Total Loans and Leases
Residential	$10,365	$ 4,703	$ 2,029	$ 54,201	$ 71,298	$3,989,703	$4,061,001
Consumer:							
Home equity	9,061	4,242	—	37,337	50,640	2,402,758	2,453,398
Other consumer	1,390	615	—	560	2,565	246,597	249,162
Commercial:							
Commercial non-mortgage	768	3,288	22	27,037	31,115	3,531,669	3,562,784
Asset-based	—	—	—	—	—	753,215	753,215
Commercial real estate:							
Commercial real estate	1,624	625	—	16,767	19,016	3,673,408	3,692,424
Commercial construction	—	—	—	3,461	3,461	295,764	299,225

Equipment financing	543	59	—	706	1,308	599,218	600,526
Total	$23,751	$ 13,532	$ 2,051	$ 140,069	$ 179,403	$15,492,332	$15,671,735

Interest on non-accrual loans and leases that would have been recorded as additional interest income for the three and nine months ended September 30, 2016 and 2015, had the loans and leases been current in accordance with their original terms, totaled $3.7 million, $8.4 million, $2.6 million and $6.3 million, respectively.

Table of Contents

Allowance for Loan and Lease Losses

The following tables summarize the ALLL:

	At or for the three months ended September 30, 2016					
	Residential	Consumer	Commercial	Commercial Real Estate	Equipment Financing	Total
ALLL:						
Balance, beginning of period	$24,413	$42,956	$ 73,822	$ 33,622	$ 5,615	$180,428
Provision (benefit) charged to expense	1,076	4,985	4,351	2,953	885	14,250
Charge-offs	(1,304)	(5,259)	(2,561)	—	(300)	(9,424)
Recoveries	554	1,313	370	194	240	2,671
Balance, end of period	$24,739	$43,995	$ 75,982	$ 36,769	$ 6,440	$187,925

	At or for the three months ended September 30, 2015					
(In thousands)	Residential	Consumer	Commercial	Commercial Real Estate	Equipment Financing	Total
ALLL:						
Balance, beginning of period	$24,463	$40,807	$ 66,241	$ 30,768	$ 5,581	$167,860
Provision (benefit) charged to expense	1,150	6,864	3,089	1,961	(64)	13,000
Charge-offs	(1,588)	(4,831)	(2,204)	(1,346)	—	(9,969)
Recoveries	281	1,004	715	69	32	2,101
Balance, end of period	$24,306	$43,844	$ 67,841	$ 31,452	$ 5,549	$172,992

	At or for the nine months ended September 30, 2016					
(In thousands)	Residential	Consumer	Commercial	Commercial Real Estate	Equipment Financing	Total
ALLL:						
Balance, beginning of period	$25,876	$42,052	$66,686	$34,889	$5,487	$174,990
Provision (benefit) charged to expense	991	12,458	25,447	3,921	1,033	43,850
Charge-offs	(3,536)	(14,236)	(17,294)	(2,521)	(521)	(38,108)
Recoveries	1,408	3,721	1,143	480	441	7,193
Balance, end of period	$24,739	$43,995	$75,982	$36,769	$6,440	$187,925
Individually evaluated for impairment	$9,443	$3,005	$6,579	$467	$9	$19,503
Collectively evaluated for impairment	$15,296	$40,990	$69,403	$36,302	$6,431	$168,422
Loan and lease balances:						
Individually evaluated for impairment	$122,020	$46,208	$58,197	$24,423	$6,863	$257,711
Collectively evaluated for impairment	4,112,027	2,661,135	4,721,605	4,256,090	614,833	16,365,690
Loans and leases	$4,234,047	$2,707,343	$4,779,802	$4,280,513	$621,696	$16,623,401

	At or for the nine months ended September 30, 2015					
(In thousands)	Residential	Consumer	Commercial	Commercial Real Estate	Equipment Financing	Total
ALLL:						
Balance, beginning of period	$25,452	$43,518	$52,114	$32,102	$6,078	$159,264
Provision (benefit) charged to expense	3,100	10,091	18,468	4,617	(776)	35,500
Charge-offs	(5,004)	(12,980)	(5,000)	(5,590)	(30)	(28,604)
Recoveries	758	3,215	2,259	323	277	6,832
Balance, end of period	$24,306	$43,844	$67,841	$31,452	$5,549	$172,992
Individually evaluated for impairment	$10,773	$3,540	$11,478	$4,527	$5	$30,323
Collectively evaluated for impairment	$13,533	$40,304	$56,363	$26,925	$5,544	$142,669
Loan and lease balances:						

Individually evaluated for impairment	$138,227	$46,455	$54,522	$41,598	$102	$280,904
Collectively evaluated for impairment	3,877,612	2,604,247	4,085,457	3,815,557	552,748	14,935,621
Loans and leases	$4,015,839	$2,650,702	$4,139,979	$3,857,155	$552,850	$15,216,525

Table of Contents

Impaired Loans and Leases

The following tables summarize impaired loans and leases:

(In thousands)	At September 30, 2016 Unpaid Principal Balance	Total Recorded Investment	Recorded Investment No Allowance	Recorded Investment With Allowance	Related Valuation Allowance
Residential	$134,026	$122,020	$ 21,404	$ 100,616	$ 9,443
Consumer	52,516	46,208	23,612	22,596	3,005
Commercial	64,537	58,197	25,720	32,477	6,579
Commercial real estate:					
Commercial real estate	20,823	20,044	9,156	10,888	467
Commercial construction	4,911	4,379	4,379	—	—
Equipment financing	6,901	6,863	6,638	225	9
Total	$283,714	$257,711	$ 90,909	$ 166,802	$ 19,503

(In thousands)	At December 31, 2015 Unpaid Principal Balance	Total Recorded Investment	Recorded Investment No Allowance	Recorded Investment With Allowance	Related Valuation Allowance
Residential	$148,144	$134,448	$ 23,024	$ 111,424	$ 10,364
Consumer	56,680	48,425	25,130	23,295	3,477
Commercial	67,116	56,581	31,600	24,981	5,197
Commercial real estate:					
Commercial real estate	36,980	33,333	9,204	24,129	3,160
Commercial construction	7,010	5,962	5,939	23	3
Equipment financing	612	422	328	94	3
Total	$316,542	$279,171	$ 95,225	$ 183,946	$ 22,204

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

	Three months ended September 30,						Nine months ended September 30,					
	2016			2015			2016			2015		
(In thousands)	Average Recorded Investment	Accrued Interest Income	Cash Basis Interest Income	Average Recorded Investment	Accrued Interest Income	Cash Basis Interest Income	Average Recorded Investment	Accrued Interest Income	Cash Basis Interest Income	Average Recorded Investment	Accrued Interest Income	Cash Basis Interest Income
Residential	$124,993	$1,070	$ 304	$138,519	$1,114	$ 290	$128,234	$3,309	$918	$140,105	$3,322	$847
Consumer	46,892	336	238	47,787	371	271	47,317	1,029	754	48,352	1,094	827
Commercial	58,874	352	—	54,667	262	—	57,389	1,299	—	45,349	936	—
Commercial real estate:												
Commercial real estate	23,930	77	—	44,222	137	—	26,689	374	—	65,640	1,024	—
Commercial construction	4,386	12	—	6,059	33	—	5,171	81	—	6,068	99	—
Equipment financing	3,642	107	—	111	2	—	3,642	109	—	367	15	—
Total	$262,717	$1,954	$ 542	$291,365	$1,919	$ 561	$268,442	$6,201	$1,672	$305,881	$6,490	$1,674

Table of Contents

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

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

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

(In thousands)	Commercial		Commercial Real Estate		Equipment Financing	
	At September 30, 2016	At December 31, 2015	At September 30, 2016	At December 31, 2015	At September 30, 2016	At December 31, 2015
(1) - (6) Pass	$4,474,603	$ 4,023,255	$4,152,199	$ 3,857,019	$598,526	$ 586,445
(7) Special Mention	93,767	70,904	36,588	55,030	25	1,628
(8) Substandard	207,059	220,389	91,726	79,289	23,145	12,453
(9) Doubtful	4,373	1,451	—	311	—	—
Total	$4,779,802	$ 4,315,999	$4,280,513	$ 3,991,649	$621,696	$ 600,526

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

Troubled Debt Restructurings

The following table summarizes information for TDRs:

(Dollars in thousands)	At September 30, 2016	At December 31, 2015
Accrual status	$ 161,853	$ 171,784
Non-accrual status	74,147	100,906
Total recorded investment of TDRs (1)	$ 236,000	$ 272,690
Accruing TDRs performing under modified terms more than one year	54.1 %	55.0 %
Specific reserves for TDRs included in the balance of ALLL	$ 16,302	$ 21,405
Additional funds committed to borrowers in TDR status	1,316	1,133

(1) Total recorded investment of TDRs excludes $0.8 million and $1.1 million of accrued interest receivable at September 30, 2016 and December 31, 2015, respectively.

In the three and nine months ended September 30, 2016 and 2015, Webster charged off $3.0 million, $17.9 million, $1.7 million and $7.6 million, respectively, for the portion of TDRs deemed to be uncollectible.

A TDR may be modified by means of extended maturity, below market adjusted interest rates, a combination of rate and maturity, or other means, including covenant modifications, forbearance, loans discharged under Chapter 7 bankruptcy, or other concessions.

Table of Contents

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

(Dollars in thousands)	Three months ended September 30, 2016 Number of Loans and Leases	Three months ended September 30, 2016 Post-Modification Recorded Investment[1]	Three months ended September 30, 2015 Number of Loans and Leases	Three months ended September 30, 2015 Post-Modification Recorded Investment[1]	Nine months ended September 30, 2016 Number of Loans and Leases	Nine months ended September 30, 2016 Post-Modification Recorded Investment[1]	Nine months ended September 30, 2015 Number of Loans and Leases	Nine months ended September 30, 2015 Post-Modification Recorded Investment[1]
Residential:								
Extended Maturity	4	$ 967	4	$ 998	11	$ 1,969	19	$ 3,301
Adjusted Interest Rate	1	292	1	160	2	528	2	464
Maturity/Rate Combined	3	290	4	1,006	10	1,185	18	3,138
Other [2]	3	299	9	1,594	18	3,190	23	3,387
Consumer:								
Extended Maturity	2	89	4	296	9	381	9	935
Adjusted Interest Rate	—	—	—	—	—	—	—	—
Maturity/Rate Combined	3	264	—	—	11	923	8	444
Other [2]	8	270	20	1,357	37	1,447	50	3,087
Commercial:								
Extended Maturity	2	213	—	—	11	14,862	3	256
Adjusted Interest Rate	—	—	—	—	—		1	24
Maturity/Rate Combined	—	—	1	74	2	648	5	371
Other [2]	4	1,265	5	1,772	11	1,639	9	8,062
Commercial real estate:								
Extended Maturity	1	109	1	315	1	109	1	315
Maturity/Rate Combined	1	291	—	—	2	335	1	43
Other [2]	—	—	1	405	1	509	1	405
Equipment Financing								
Extended Maturity	6	6,638	—	—	7	6,642	—	—
Total TDRs	38	$ 10,987	50	$ 7,977	133	$ 34,367	150	$ 24,232

(1) Post-modification balances approximate pre-modification balances. The aggregate amount of charge-offs as a result of the restructurings was not significant.

(2) Other includes covenant modifications, forbearance, loans discharged under Chapter 7 bankruptcy, or other concessions.

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

(Dollars in thousands)	Three months ended September 30, 2016 Number of Loans and Leases	Three months ended September 30, 2016 Recorded Investment	Three months ended September 30, 2015 Number of Loans and Leases	Three months ended September 30, 2015 Recorded Investment	Nine months ended September 30, 2016 Number of Loans and Leases	Nine months ended September 30, 2016 Recorded Investment	Nine months ended September 30, 2015 Number of Loans and Leases	Nine months ended September 30, 2015 Recorded Investment
Residential	—	$ —	—	$ —	—	$ —	—	$ —
Consumer	—	—	1	3	—	—	2	326
Commercial	—	—	1	9	—	—	1	9
Commercial real estate	—	—	—	—	—	—	—	—
Total	—	$ —	2	$ 12	—	$ —	3	$ 335

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

(In thousands)

	At September 30, 2016	At December 31, 2015
(1) - (6) Pass	$ 11,510	$ 12,970
(7) Special Mention	7	2,999
(8) Substandard	52,658	72,132
(9) Doubtful	3,597	1,717
Total	$ 67,772	$ 89,818

Table of Contents

Note 5: Transfers of Financial Assets
The Company sells financial assets in the normal course of business, primarily residential mortgage loans sold to government-sponsored enterprises through established programs and securitizations. The gain or loss on residential mortgage loans sold and the fair value adjustment to loans held-for-sale are included as mortgage banking activities in the accompanying Condensed Consolidated Statements of Income.
The Company may be required to repurchase a loan in the event of certain breaches of the representations and warranties, or in the event of default of the borrower within 90 days of sale, as provided for in the sale agreements. A reserve for loan repurchases provides for estimated losses pertaining to the potential repurchase of loans associated with the Company’s mortgage banking activities. The reserve reflects management’s evaluation of the identity of the counterparty, the vintage of the loans sold, the amount of open repurchase requests, specific loss estimates for each open request, the current level of loan losses in similar vintages held in the residential loan portfolio, and estimated recoveries on the underlying collateral. The reserve also reflects management’s expectation of losses from repurchase requests for which the Company has not yet been notified, as the performance of loans sold and the quality of the servicing provided by the acquirer also may impact the reserve. The provision recorded at the time of the loan sale is netted from the gain or loss recorded in mortgage banking activities, while any incremental provision, post loan sale, is recorded in other non-interest expense in the accompanying Condensed Consolidated Statements of Income.
The following table provides a summary of activity in the reserve for loan repurchases:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2016	2015	2016	2015
Beginning balance	$992	$1,120	$1,192	$1,059
Provision (benefit) charged to expense	37	43	(64)	104
Repurchased loans and settlements charged off	—	—	(99)	—
Ending balance	$1,029	$1,163	$1,029	$1,163

The following table provides information for mortgage banking activities:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2016	2015	2016	2015
Residential mortgage loans held for sale:				
Proceeds from sale	$128,268	$143,801	$298,840	$352,300
Net gain on sale	3,324	1,441	6,749	5,519
Fair value option adjustment	(48)	—	2,101	—
Loans sold with servicing rights retained	115,822	132,920	273,827	327,030

The Company has retained servicing rights on residential mortgage loans totaling $2.5 billion at both September 30, 2016 and December 31, 2015.
Loan servicing fees, net of mortgage servicing rights amortization, were $0.3 million for both the three months ended September 30, 2016 and 2015, and $0.9 million and $1.1 million for the nine months ended September 30, 2016 and 2015, respectively, and are included as a component of loan related fees in the accompanying Condensed Consolidated Statements of Income.
See Note 13: Fair Value Measurements for a further discussion on the fair value of loans held for sale and mortgage servicing assets.
Additionally, loans not originated for sale were sold at carrying value, for cash proceeds of $20.8 million for certain commercial loans and $33.1 million for certain consumer loans for the nine months ended September 30, 2016 and 2015, respectively.

Table of Contents

Note 6: Goodwill and Other Intangible Assets

There was no change in the carrying amounts for goodwill since December 31, 2015. See Note 7 - Goodwill and Other Intangible Assets in Notes to Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, for information related to goodwill allocated by reportable segment.

The gross carrying amount and accumulated amortization of CDI and customer relationships included in reportable segments are as follows:

(In thousands)	At September 30, 2016 Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	At December 31, 2015 Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Community Banking CDI	$49,420	$ (49,420)	$ —	$49,420	$ (48,277)	$ 1,143
HSA Bank:						
CDI	22,000	(5,484)	16,516	22,000	(3,269)	18,731
Customer relationships	21,000	(2,760)	18,240	21,000	(1,548)	19,452
Total HSA Bank	43,000	(8,244)	34,756	43,000	(4,817)	38,183
Total other intangible assets	$92,420	$ (57,664)	$ 34,756	$92,420	$ (53,094)	$ 39,326

As of September 30, 2016, the remaining estimated aggregate future amortization expense for intangible assets is as follows:

(In thousands)	
Remainder of 2016	$1,082
2017	4,062
2018	3,847
2019	3,847
2020	3,847
Thereafter	18,071

Table of Contents

Note 7: Deposits

A summary of deposits by type follows:

(In thousands)	At September 30, 2016	At December 31, 2015
Non-interest-bearing:		
Demand	$ 3,993,750	$ 3,713,063
Interest-bearing:		
Checking	2,429,222	2,369,971
Health savings accounts	4,187,823	3,802,313
Money market	2,342,236	1,933,460
Savings	4,226,934	4,047,817
Time deposits	2,020,943	2,086,154
Total interest-bearing	15,207,158	14,239,715
Total deposits	$ 19,200,908	$ 17,952,778
Time deposits and interest-bearing checking, included in above balances, obtained through brokers	$ 852,014	$ 910,304
Time deposits, included in above balance, that meet or exceed the FDIC limit	481,884	542,206
Deposit overdrafts reclassified as loan balances	1,936	1,356

The scheduled maturities of time deposits are as follows:

(In thousands)	At September 30, 2016
Remainder of 2016	$ 267,114
2017	670,946
2018	342,507
2019	473,697
2020	180,741
Thereafter	85,938
Total time deposits	$ 2,020,943

Table of Contents

Note 8: Borrowings

Total borrowings of $3.6 billion at September 30, 2016 and $4.0 billion at December 31, 2015 are described in detail below.

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

(In thousands)	At September 30, 2016	At December 31, 2015
Securities sold under agreements to repurchase:		
Original maturity of one year or less	$ 353,705	$ 334,400
Original maturity of greater than one year, non-callable	400,000	500,000
Total securities sold under agreements to repurchase	753,705	834,400
Fed funds purchased	47,000	317,000
Securities sold under agreements to repurchase and other borrowings	$ 800,705	$ 1,151,400

Repurchase agreements are used as a source of borrowed funds and are collateralized by U.S. Government agency mortgage-backed securities. Repurchase agreement counterparties are limited to primary dealers in government securities and commercial/municipal customers through Webster's Treasury Unit. Dealer counterparties have the right to pledge, transfer, or hypothecate purchased securities during the term of the transaction. The Company has right of offset with respect to all repurchase agreement assets and liabilities. Total securities sold under agreements to repurchase represents the gross amount for these transactions, as only liabilities are outstanding for the periods presented.

The following table provides information for FHLB advances:

(Dollars in thousands)	At September 30, 2016 Amount	Weighted-Average Contractual Coupon Rate		At December 31, 2015 Amount	Weighted-Average Contractual Coupon Rate	
Maturing within 1 year	$1,875,000	0.50	%	$2,025,934	0.55	%
After 1 but within 2 years	100,500	1.49		500	5.66	
After 2 but within 3 years	133,731	1.34		200,000	1.36	
After 3 but within 4 years	244,295	1.70		103,026	1.54	
After 4 but within 5 years	75,000	1.51		175,000	1.77	
After 5 years	159,442	1.82		159,655	1.60	
	2,587,968	0.81	%	2,664,115	0.79	%
Premiums on advances	15			24		
Federal Home Loan Bank advances	$2,587,983			$2,664,139		
Aggregate carrying value of assets pledged as collateral	$5,919,426			$5,719,746		
Remaining borrowing capacity	1,386,310			1,203,057		

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

The following table summarizes long-term debt:

(Dollars in thousands)	At September 30, 2016	At December 31, 2015
4.375% Senior fixed-rate notes due February 15, 2024	$ 150,000	$ 150,000
Junior subordinated debt Webster Statutory Trust I floating-rate notes due September 17, 2033 [(1)]	77,320	77,320
Total notes and subordinated debt	227,320	227,320
Discount on senior fixed-rate notes	(875)	(964)

Debt issuance cost on senior fixed-rate notes [2]	(995)	(1,096)
Long-term debt	$ 225,450	$ 225,260

(1) The interest rate on Webster Statutory Trust I floating-rate notes, which varies quarterly based on 3-month LIBOR plus 2.95%, was 3.81% at September 30, 2016 and 3.48% at December 31, 2015.

(2) In accordance with the adoption of ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs, debt issuance cost is accounted for as a reduction to long-term debt. Previously debt issuance cost was included in accrued interest receivable and other assets within the accompanying Condensed Consolidated Balance Sheets.

Table of Contents

Note 9: Accumulated Other Comprehensive Loss, Net of Tax

The following tables summarize the changes in AOCL by component:

	Three months ended September 30, 2016				Nine months ended September 30, 2016			
(In thousands)	Available For Sale and Transferred Securities	Derivative Instruments	Defined Benefit Pension and Other Postretirement Benefit Plans	Total	Available For Sale and Transferred Securities	Derivative Instruments	Defined Benefit Pension and Other Postretirement Benefit Plans	Total
Beginning balance	$12,363	$(23,406)	$(46,468)	$(57,511)	$(6,407)	$(22,980)	$(48,719)	$(78,106)
OCI/OCL before reclassifications	1,218	794	—	2,012	20,156	(2,416)	—	17,740
Amounts reclassified from AOCL	—	1,221	1,125	2,346	(168)	4,005	3,376	7,213
Net current-period OCI/OCL	1,218	2,015	1,125	4,358	19,988	1,589	3,376	24,953
Ending balance	$13,581	$(21,391)	$(45,343)	$(53,153)	$13,581	$(21,391)	$(45,343)	$(53,153)

	Three months ended September 30, 2015				Nine months ended September 30, 2015			
(In thousands)	Available For Sale and Transferred Securities	Derivative Instruments	Defined Benefit Pension and Other Postretirement Benefit Plans	Total	Available For Sale and Transferred Securities	Derivative Instruments	Defined Benefit Pension and Other Postretirement Benefit Plans	Total
Beginning balance	$9,461	$(24,969)	$(45,187)	$(60,695)	$16,421	$(25,530)	$(47,152)	$(56,261)
OCI/OCL before reclassifications	660	(1,998)	—	(1,338)	(5,964)	(4,154)	—	(10,118)
Amounts reclassified from AOCL	52	1,479	983	2,514	(284)	4,196	2,948	6,860
Net current-period OCI/OCL	712	(519)	983	1,176	(6,248)	42	2,948	(3,258)
Ending balance	$10,173	$(25,488)	$(44,204)	$(59,519)	$10,173	$(25,488)	$(44,204)	$(59,519)

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

(In thousands)	Three months ended September 30,		Nine months ended September 30,		Associated Line Item in the Condensed Consolidated Statements of Income
AOCL Components	2016	2015	2016	2015	
Available-for-sale and transferred securities:					
Unrealized gains (losses) on investment securities	$—	$—	$414	$529	Gain on sale of investment securities, net
Unrealized gains (losses) on investment securities	—	(82)	(149)	(82)	Impairment loss recognized in earnings
Total before tax	—	(82)	265	447	
Tax benefit (expense)	—	30	(97)	(163)	Income tax expense
Net of tax	$—	$(52)	$168	$284	

Derivative instruments: