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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ending March 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)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer”, “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transaction period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes No
The number of shares of common stock, par value $.01 per share, outstanding as of April 30, 2018 was 92,098,422.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
FOWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
KEY TO ACRONYMS AND TERMS

Agency CMBS	Agency commercial mortgage-backed securities
Agency CMO	Agency collateralized mortgage obligations
Agency MBS	Agency mortgage-backed securities
ALCO	Asset/Liability Committee
ALLL	Allowance for loan and lease losses
AOCL	Accumulated other comprehensive loss, net of tax
ASC	Accounting Standards Codification
ASU or the Update	Accounting Standards Update
Basel III	Capital rules under a global regulatory framework developed by the Basel Committee on Banking Supervision
CET1 capital	Common Equity Tier 1 Capital, defined by Basel III capital rules
CLO	Collateralized loan obligation securities
CMBS	Non-agency commercial mortgage-backed securities
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
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
SEC	United States Securities and Exchange Commission
SERP	Supplemental defined benefit retirement plan
SIPC	Securities Investor Protection Corporation
Tax Act	Tax Cuts and Jobs Act of 2017
TDR	Troubled debt restructuring, defined in ASC 310-40 "Receivables-Troubled Debt Restructurings by Creditors"
VIE	Variable interest entity, defined in ASC 810-10 "Consolidation-Overall"
Webster Bank	Webster Bank, National Association, a wholly-owned subsidiary of Webster Financial Corporation
Webster or the Company	Webster Financial Corporation, collectively with its consolidated subsidiaries

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

(In thousands, except share data)	**March 31, 2018 (Unaudited)**	**December 31, 2017**
Assets:		
Cash and due from banks	$164,927	$231,158
Interest-bearing deposits	45,899	25,628
Investment securities available-for-sale, at fair value	2,773,506	2,638,037
Investment securities held-to-maturity (fair value of $4,297,039 and $4,456,350)	4,408,321	4,487,392
Federal Home Loan Bank and Federal Reserve Bank stock	125,328	151,566
Loans held for sale, fair value option	19,727	20,888
Loans and leases	17,805,575	17,523,858
Allowance for loan and lease losses	(205,349)	(199,994)
Loans and leases, net	17,600,226	17,323,864
Deferred tax assets, net	99,199	92,630
Premises and equipment, net	127,196	130,001
Goodwill	538,373	538,373
Other intangible assets, net	28,650	29,611
Cash surrender value of life insurance policies	535,391	531,820
Accrued interest receivable and other assets	285,404	286,677
Total assets	$26,752,147	$26,487,645
Liabilities and shareholders' equity:		
Deposits:		
Non-interest-bearing	$4,074,992	$4,191,496
Interest-bearing	17,310,050	16,802,233
Total deposits	21,385,042	20,993,729
Securities sold under agreements to repurchase and other borrowings	931,299	643,269
Federal Home Loan Bank advances	1,202,030	1,677,105
Long-term debt	225,830	225,767
Accrued expenses and other liabilities	291,804	245,817
Total liabilities	24,036,005	23,785,687
Shareholders’ equity:		
Preferred stock, $.01 par value; Authorized - 3,000,000 shares:		
Series F issued and outstanding (6,000 shares)	145,037	145,056
Common stock, $.01 par value; Authorized - 200,000,000 shares:		
Issued (93,680,291 shares)	937	937
Paid-in capital	1,120,522	1,122,164
Retained earnings	1,649,524	1,595,762
Treasury stock, at cost (1,799,401 and 1,658,526 shares)	(84,399)	(70,430)
Accumulated other comprehensive loss, net of tax	(115,479)	(91,531)
Total shareholders' equity	2,716,142	2,701,958
Total liabilities and shareholders' equity	$26,752,147	$26,487,645

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three months ended March 31,	
(In thousands, except per share data)	**2018**	**2017**
Interest Income:		
Interest and fees on loans and leases	$193,220	$167,808
Taxable interest and dividends on investments	47,288	45,940
Non-taxable interest on investment securities	5,271	5,616
Loans held for sale	142	316
Total interest income	245,921	219,680
Interest Expense:		
Deposits	18,156	13,435
Securities sold under agreements to repurchase and other borrowings	3,640	3,540
Federal Home Loan Bank advances	7,281	7,493
Long-term debt	2,676	2,548
Total interest expense	31,753	27,016
Net interest income	214,168	192,664
Provision for loan and lease losses	11,000	10,500
Net interest income after provision for loan and lease losses	203,168	182,164
Non-interest Income:		
Deposit service fees	40,451	37,006
Loan and lease related fees	6,996	7,208
Wealth and investment services	7,870	7,273
Mortgage banking activities	1,144	2,266
Increase in cash surrender value of life insurance policies	3,572	3,575
Other income	8,714	5,714
Total non-interest income	68,747	63,042
Non-interest Expense:		
Compensation and benefits	94,765	87,499
Occupancy	15,145	16,179
Technology and equipment	23,862	21,608
Intangible assets amortization	962	1,055
Marketing	3,552	5,441
Professional and outside services	4,788	4,276
Deposit insurance	6,717	6,732
Other expense	21,824	20,994
Total non-interest expense	171,615	163,784
Income before income tax expense	100,300	81,422
Income tax expense	20,075	21,951
Net income	80,225	59,471
Preferred stock dividends and other	(2,142)	(2,129)
Earnings applicable to common shareholders	$78,083	$57,342
Earnings per common share:		
Basic	$0.85	$0.62
Diluted	0.85	0.62

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three months ended March 31,	
(In thousands)	**2018**	**2017**
Net income	$80,225	$59,471
Other comprehensive (loss) income, net of tax:		
Total securities available-for-sale	(27,424)	(2,225)
Total derivative instruments	2,522	1,159
Total defined benefit pension and other postretirement benefit plans	954	1,032
Other comprehensive loss, net of tax	(23,948)	(34)
Comprehensive income	$56,277	$59,437

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(In thousands, except per share data)	Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock, at cost	Accumulated Other Comprehensive Loss, Net of Tax	Total Shareholders' Equity
Balance at December 31, 2017	$145,056	$ 937	$1,122,164	$1,595,762	$(70,430)	$ (91,531)	$2,701,958
Cumulative effect of change in accounting principles	—	—	—	(1,362)	—	—	(1,362)
Net income	—	—	—	80,225	—	—	80,225
Other comprehensive loss, net of tax	—	—	—	—	—	(23,948)	(23,948)
Dividends and dividend equivalents declared on common stock $0.26 per share	—	—	43	(24,111)	—	—	(24,068)
Dividends paid Series F preferred stock $328.125 per share	—	—	—	(1,969)	—	—	(1,969)
Dividends accrued Series F preferred stock	—	—	—	22	—	—	22
Stock-based compensation	—	—	(1,541)	957	3,919	—	3,335
Exercise of stock options	—	—	(144)	—	434	—	290
Common shares acquired related to stock compensation plan activity	—	—	—	—	(6,164)	—	(6,164)
Common stock repurchase program	—	—	—	—	(12,158)	—	(12,158)
Series F preferred stock issuance adjustment	(19)	—	—	—	—	—	(19)
Balance at March 31, 2018	$145,037	$ 937	$1,120,522	$1,649,524	$(84,399)	$ (115,479)	$2,716,142

(In thousands, except per share data)	Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock, at cost	Accumulated Other Comprehensive Loss, Net of Tax	Total Shareholders' Equity
Balance at December 31, 2016	$122,710	$ 937	$1,125,937	$1,425,320	$(70,899)	$ (76,993)	$2,527,012
Net income	—	—	—	59,471	—	—	59,471
Other comprehensive loss, net of tax	—	—	—	—	—	(34)	(34)
Dividends and dividend equivalents declared on common stock $0.25 per share	—	—	39	(23,133)	—	—	(23,094)
Dividends paid Series E preferred stock $400.00 per share	—	—	—	(2,024)	—	—	(2,024)
Stock-based compensation	—	—	—	392	4,834	—	5,226
Exercise of stock options	—	—	(1,076)	—	3,869	—	2,793
Common shares acquired related to stock compensation plan activity	—	—	—	—	(8,992)	—	(8,992)
Balance at March 31, 2017	$122,710	$ 937	$1,124,900	$1,460,026	$(71,188)	$ (77,027)	$2,560,358

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three months ended March 31,	
(In thousands)	**2018**	**2017**
Operating Activities:		
Net income	$80,225	$59,471
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	11,000	10,500
Deferred tax expense	1,286	7,548
Depreciation and amortization	9,489	9,637
Amortization of earning assets and funding, premiums/discounts, net	13,390	13,619
Stock-based compensation	3,335	3,318
Gain on sale, net of write-down, on foreclosed and repossessed assets	(89)	(74)
Write-down, net on premises and equipment	57	530
Increase in cash surrender value of life insurance policies	(3,572)	(3,575)
Mortgage banking activities	(1,144)	(2,266)
Proceeds from sale of loans held for sale	44,806	106,620
Origination of loans held for sale	(43,131)	(72,984)
Net decrease in derivative contract assets net of liabilities	11,744	15,832
Net increase in accrued interest receivable and other assets	(10,484)	(6,673)
Net increase in accrued expenses and other liabilities	15,355	2,590
Net cash provided by operating activities	132,267	144,093
Investing Activities:		
Net increase in interest-bearing deposits	(20,271)	(8,689)
Purchases of available for sale investment securities	(251,920)	(52,031)
Proceeds from maturities and principal payments of available for sale investment securities	111,231	160,350
Purchases of held-to-maturity investment securities	(64,281)	(234,477)
Proceeds from maturities and principal payments of held-to-maturity investment securities	133,692	175,881
Net proceeds of Federal Home Loan Bank stock	26,238	31,089
Alternative investments (capital call) return of capital, net	(364)	563
Net increase in loans	(289,165)	(76,329)
Proceeds from loans not originated for sale	34	7,445
Proceeds from the sale of foreclosed and repossessed assets	1,948	1,285
Additions to premises and equipment	(5,780)	(7,232)
Proceeds from redemption of other assets	—	7,581
Net cash (used for) provided by investing activities	(358,638)	5,436

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three months ended March 31,	
(In thousands)	2018	2017
Financing Activities:		
Net increase in deposits	391,087	937,040
Proceeds from Federal Home Loan Bank advances	1,525,000	3,875,000
Repayments of Federal Home Loan Bank advances	(2,000,075)	(4,795,073)
Net increase (decrease) in securities sold under agreements to repurchase and other borrowings	288,030	(141,953)
Dividends paid to common shareholders	(23,901)	(22,939)
Dividends paid to preferred shareholders	(1,969)	(2,024)
Exercise of stock options	290	2,793
Common stock repurchase program	(12,158)	—
Common shares purchased related to stock compensation plan activity	(6,164)	(8,992)
Net cash provided by (used for) financing activities	160,140	(156,148)
Net decrease in cash and due from banks	(66,231)	(6,619)
Cash and due from banks at beginning of period	231,158	190,663
Cash and due from banks at end of period	$164,927	$184,044
Supplemental disclosure of cash flow information:		
Interest paid	$33,986	$26,797
Income taxes paid	3,313	5,386
Noncash investing and financing activities:		
Transfer of loans and leases to foreclosed properties and repossessed assets	$1,626	$1,410
Transfer of loans from loans and leases to loans-held-for-sale	35	—

See accompanying Notes to Condensed Consolidated Financial Statements.

Note 1: Summary of Significant Accounting Policies

Nature of Operations

Webster Financial Corporation is a bank holding company and financial holding company under the Bank Holding Company Act, incorporated under the laws of Delaware in 1986 and headquartered in Waterbury, Connecticut. At March 31, 2018, Webster Financial Corporation's principal asset is all of the outstanding capital stock of Webster Bank, National Association (Webster Bank).

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

Basis of Presentation

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

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.

Accounting Standards Adopted During 2018

Effective January1, 2018, the following new Accounting Standards Updates (ASUs) were adopted by the Company:

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

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

The Update is effective for the Company on January 1, 2019 and early adoption is permitted. The Company elected to early adopt the Update during the first quarter of 2018 on a modified retrospective basis. As a result, the Company recorded a $2.8 million cumulative-effect adjustment directly to retained earnings as of January 1, 2018.

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

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

The Company adopted the Update during the first quarter of 2018 on a retrospective basis. As a result, the Company reclassified, for prior periods, the components of it's net periodic benefit costs other than the service cost component from compensation and benefits to other expense in the accompanying Condensed Consolidated Statements of

Income. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

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

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

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

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

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

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

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

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

The Company adopted the Updates during the first quarter of 2018 on a modified retrospective transition approach. The Company did not identify any material changes to the timing of revenue recognition. The Company is changing how it presents certain recurring revenue streams associated with wealth and investment services as other income, versus a contra expense; however, these changes did not have a significant impact on the Company's consolidated financial statements. The adoption of this guidance did not have a material impact on the Company's financial condition or results of operations, and there was no cumulative effect adjustment to opening retained earnings as no material changes were identified in the timing of revenue recognition, however, additional disclosure has been incorporated in Note 17: Revenue from Contracts with Customers.

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Accounting Standards Issued But Not Yet Adopted

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

ASU No. 2017-12, Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities.

The purpose of the Update is to better align a company’s financial reporting for hedging activities with the economic objectives of those activities. The update requires a modified retrospective transition method in which a Company will recognize a cumulative effect of the change on the opening balance for each affected component of equity in the financial statements as of the date of adoption.

The Update is effective for the Company on January 1, 2019 and early adoption is permitted. The Company is in the process of assessing all potential impacts of the standard.

ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment.

The Update simplifies quantitative goodwill impairment testing by requiring entities to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for any amount by which the carrying amount exceeds the reporting unit's fair value, to the extent that the loss recognized does not exceed the amount of goodwill allocated to that reporting unit.

This changes current guidance by eliminating the second step of the goodwill impairment analysis which involves calculating the implied fair value of goodwill determined in the same manner as the amount of goodwill recognized in a business combination upon acquisition. Entities will still have the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary.

The Update must be applied prospectively and is effective for the Company on January 1, 2020. Early adoption is permitted. The Company does not expect the new guidance to have a material impact on its financial statements.

ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments.

Current GAAP requires an "incurred loss" methodology for recognizing credit losses. This approach delays recognition until it is probable a loss has been incurred. Both financial institutions and users of their financial statements expressed concern that current GAAP restricts the ability to record credit losses that are expected, but do not yet meet the "probable" threshold.

The main objective of this Update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this Update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates.

The Change from an "incurred loss" method to an "expected loss" method represents a fundamental shift from existing GAAP, and is likely to result in a material increase to the Company's accounting for credit losses on financial instruments. To prepare for implementation of the new standard the Company has established a project lead and has finalized a cross functional steering committee comprised of members from different disciplines including Credit, Finance and Treasury as well as specific working groups to focus on key components of the development process. In addition, through one of the working groups, the Company has begun to evaluate the effect that this Update will have on its financial statements and related disclosures. An implementation project plan has been created and is made up of targeted work streams focused on credit models, data management, accounting, and governance. These work streams are collectively assessing resources that may be required, use of existing and new models, data availability, and system solutions to facilitate implementation. The Update will be effective for the Company on January 1, 2020. While we are currently unable to reasonably estimate the impact of adopting the Update, we expect the impact of adoption will be significantly influenced by the composition, characteristics, and quality of our loan and securities portfolios as well as the economic conditions as of the adoption date.

ASU No. 2016-02, Leases (Topic 842).

The Update introduces a lessee model that requires substantially all leases to be recorded as assets and liabilities on the balance sheet and will require both quantitative and qualitative disclosures regarding key information about leasing arrangements.

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

The effect of the adoption will depend on the lease portfolio at the time of transition and the transition options ultimately available at the time of adoption. The guidance is effective beginning January 1, 2019 with an option to early adopt. The Company does not plan to early adopt the Update. A modified retrospective transition approach is required for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements.

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Note 2: Variable Interest Entities

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

Consolidated

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

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

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

Non-Consolidated

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

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

At March 31, 2018 and December 31, 2017, the aggregate carrying value of the Company's tax credit-finance investments were $32.5 million and $33.5 million, respectively. At March 31, 2018 and December 31, 2017, unfunded commitments have been recognized, totaling $16.2 million and $17.3 million, respectively, and are included in accrued expenses and other liabilities in the accompanying Condensed Consolidated Balance Sheets.

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

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

At March 31, 2018 and December 31, 2017, the aggregate carrying value of the Company's other investments in VIEs were $16.3 million and $13.8 million, respectively, and the total exposure of the Company's other investments in VIEs, including unfunded commitments, were $25.3 million and $22.9 million, respectively.

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

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Note 3: Investment Securities

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

	At March 31, 2018				At December 31, 2017			
(In thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Available-for-sale:								
U.S. Treasury Bills	$449	$ —	$—	$449	$1,247	$ —	$—	$1,247
Agency CMO	290,105	526	(6,052)	284,579	308,989	1,158	(3,814)	306,333
Agency MBS	1,304,856	1,522	(41,110)	1,265,268	1,124,960	2,151	(19,270)	1,107,841
Agency CMBS	622,400	—	(31,098)	591,302	608,276	—	(20,250)	588,026
CMBS	365,006	2,045	(157)	366,894	358,984	2,157	(74)	361,067
CLO	201,254	691	(108)	201,837	209,075	910	(134)	209,851
Single issuer-trust preferred	7,111	—	(70)	7,041	7,096	—	(46)	7,050
Corporate debt	56,350	496	(710)	56,136	56,504	797	(679)	56,622
Available-for-sale	$2,847,531	$ 5,280	$(79,305)	$2,773,506	$2,675,131	$ 7,173	$(44,267)	$2,638,037
Held-to-maturity:								
Agency CMO	$245,663	$ 417	$(7,139)	$238,941	$260,114	$ 664	$(4,824)	$255,954
Agency MBS	2,544,104	12,571	(80,678)	2,475,997	2,569,735	16,989	(37,442)	2,549,282
Agency CMBS	689,602	—	(20,744)	668,858	696,566	—	(10,011)	686,555
Municipal bonds and notes	692,582	2,400	(16,091)	678,891	711,381	8,584	(6,558)	713,407
CMBS	236,172	891	(2,909)	234,154	249,273	2,175	(620)	250,828
Private Label MBS	198		—	198	323	1	—	324
Held-to-maturity	$4,408,321	$ 16,279	$(127,561)	$4,297,039	$4,487,392	$ 28,413	$(59,455)	$4,456,350

Other-Than-Temporary Impairment

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

The following table presents activity for OTTI:

	Three months ended March 31,	
(In thousands)	**2018**	**2017**
Beginning balance	$ 1,364	$ 3,243
Reduction for investment securities sold or called	—	(12)
Ending balance	$ 1,364	$ 3,231

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

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Fair Value and Unrealized Losses

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

	At March 31, 2018						
	Less Than Twelve Months		Twelve Months or Longer		Total		
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	# of Holdings	Fair Value	Unrealized Losses
Available-for-sale:							
Agency CMO	$113,804	$(1,601)	$110,998	$(4,451)	34	$224,802	$(6,052)
Agency MBS	597,062	(13,730)	577,081	(27,380)	159	1,174,143	(41,110)
Agency CMBS	72,147	(2,248)	519,155	(28,850)	37	591,302	(31,098)
CMBS	53,552	(157)	—	—	9	53,552	(157)
CLO	99,288	(12)	15,068	(96)	6	114,356	(108)
Single issuer-trust preferred	7,041	(70)	—	—	1	7,041	(70)
Corporate debt	11,077	(406)	6,248	(304)	4	17,325	(710)
Available-for-sale in an unrealized loss position	$953,971	$(18,224)	$1,228,550	$(61,081)	250	$2,182,521	$(79,305)
Held-to-maturity:							
Agency CMO	$104,568	$(2,199)	$101,482	$(4,940)	22	$206,050	$(7,139)
Agency MBS	1,066,786	(24,771)	1,143,544	(55,907)	253	2,210,330	(80,678)
Agency CMBS	542,868	(15,740)	125,991	(5,004)	56	668,859	(20,744)
Municipal bonds and notes	233,121	(4,137)	218,963	(11,954)	200	452,084	(16,091)
CMBS	148,267	(2,595)	13,276	(314)	20	161,543	(2,909)
Held-to-maturity in an unrealized loss position	$2,095,610	$(49,442)	$1,603,256	$(78,119)	551	$3,698,866	$(127,561)

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

Impairment Analysis

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

Available-for-Sale Securities

Agency CMO. There were unrealized losses of $6.1 million on the Company's investment in Agency CMO at March 31, 2018, compared to $3.8 million at December 31, 2017. Unrealized losses increased due to higher market rates while principal balances decreased for this asset class since December 31, 2017. These investments are issued by a government or government sponsored agency and therefore, are backed by certain government guarantees, either direct or implicit. There has been no change in the credit quality, and the contractual cash flows are performing as expected.

Agency MBS. There were unrealized losses of $41.1 million on the Company's investment in residential mortgage-backed securities issued by government agencies at March 31, 2018, compared to $19.3 million at December 31, 2017. Unrealized losses increased due to higher market rates while principal balances increased for this asset class since December 31, 2017. These investments are issued by a government or government sponsored agency and therefore, are backed by certain government guarantees, either direct or implicit. There has been no change in the credit quality, and the contractual cash flows are performing as expected.

Agency CMBS. There were unrealized losses of $31.1 million on the Company's investment in commercial mortgage-backed securities issued by government agencies at March 31, 2018, compared to $20.3 million at December 31, 2017. Unrealized losses increased due to higher market rates while principal balances increased for this asset class since December 31, 2017. These investments are issued by a government or government sponsored agency and therefore, are backed by certain government guarantees, either direct or implicit. There has been no change in the credit quality, and the contractual cash flows are performing as expected.

CMBS. There were unrealized losses of $157 thousand on the Company's investment in CMBS at March 31, 2018, compared to $74 thousand at December 31, 2017. Unrealized losses and balances were essentially unchanged for the portfolio of mainly floating rate CMBS at March 31, 2018 compared to December 31, 2017. Internal stress tests are performed on individual bonds to monitor potential losses under stress scenarios. Contractual cash flows for the bonds continue to perform as expected.

CLO. There were unrealized losses of $108 thousand on the Company's investments in CLO at March 31, 2018 compared to $134 thousand unrealized losses at December 31, 2017. Unrealized losses were essentially unchanged while principal balances decreased from December 31, 2017. Internal stress tests are performed on individual bonds to monitor potential losses under stress scenarios. Contractual cash flows for the bonds continue to perform as expected.

Single issuer-trust preferred. There were unrealized losses of $70 thousand on the Company's investment in single issuer-trust preferred at March 31, 2018, compared to $46 thousand at December 31, 2017. Unrealized losses and balances were essentially unchanged for this asset class. Single issuer-trust preferred is one investment issued by a large capitalization money center financial institution, which continues to service its debt. The Company performs periodic credit reviews of the issuer to assess the likelihood for ultimate recovery of amortized cost.

Corporate debt. There were unrealized losses of $710 thousand on the Company's corporate debt portfolio at March 31, 2018, compared to $679 thousand at December 31, 2017. Unrealized losses and balances were essentially unchanged since December 31, 2017. The Company performs periodic credit reviews of the issuer to assess the likelihood for ultimate recovery of amortized cost.

Held-to-Maturity Securities

Agency CMO. There were unrealized losses of $7.1 million on the Company's investment in Agency CMO at March 31, 2018, compared to $4.8 million at December 31, 2017. Unrealized losses increased due to higher market rates while principal balances decreased since December 31, 2017. These investments are issued by a government or government sponsored agency and therefore, are backed by certain government guarantees, either direct or implicit. There has been no change in the credit quality, and the contractual cash flows are performing as expected.

Agency MBS. There were unrealized losses of $80.7 million on the Company’s investment in residential mortgage-backed securities issued by government agencies at March 31, 2018, compared to $37.4 million at December 31, 2017. Unrealized losses increased due to higher market rates while principal balances were essentially unchanged for this asset class since December 31, 2017. These investments are issued by a government or government sponsored agency and therefore, are backed by certain government guarantees, either direct or implicit. There has been no change in the credit quality, and the contractual cash flows are performing as expected.

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Agency CMBS. There were unrealized losses of $20.7 million on the Company's investment in commercial mortgage-backed securities issued by government agencies at March 31, 2018, compared to $10.0 million at December 31, 2017. Unrealized losses increased due to higher market rates while principal balances decreased since December 31, 2017. These investments are issued by a government or government sponsored agency and therefore, are backed by certain government guarantees, either direct or implicit. There has been no change in the credit quality, and the contractual cash flows are performing as expected.

Municipal bonds and notes. There were unrealized losses of $16.1 million on the Company's investment in municipal bonds and notes at March 31, 2018, compared to $6.6 million at December 31, 2017. Unrealized losses increased due to higher market rates while principal balances decreased since December 31, 2017. The Company performs periodic credit reviews of the issuers and the securities are currently performing as expected.

CMBS. There were unrealized losses of $2.9 million on the Company's investment in CMBS at March 31, 2018, compared to $0.6 million unrealized losses at December 31, 2017. Unrealized losses increased due to higher market rates on mainly seasoned fixed rate conduit transactions while principal balances decreased since December 31, 2017. Internal stress tests are performed on individual bonds to monitor potential losses under stress scenarios.

Sales of Available-for Sale Investment Securities

There were no sales during the three months ended March 31, 2018 or the three months ended March 31, 2017.

Contractual Maturities

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

	At March 31, 2018			
	Available-for-Sale		Held-to-Maturity	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$449	$449	$24,222	$24,489
Due after one year through five years	54,883	55,020	3,532	3,545
Due after five through ten years	343,072	343,803	42,410	42,687
Due after ten years	2,449,127	2,374,234	4,338,157	4,226,318
Total debt securities	$2,847,531	$2,773,506	$4,408,321	$4,297,039

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 March 31, 2018, the Company had a carrying value of $1.2 billion in callable investment securities in its CMBS, CLO, and municipal bond portfolios. The Company considers prepayment risk in the evaluation of its interest rate risk profile. These maturities may not reflect actual durations, which may be impacted by prepayments.

Investment securities with a carrying value totaling $2.6 billion at March 31, 2018 and $2.4 billion at December 31, 2017 were pledged to secure public funds, trust deposits, repurchase agreements, and for other purposes, as required or permitted by law.

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Note 4: Loans and Leases

The following table summarizes loans and leases:

(In thousands)	At March 31, 2018	At December 31, 2017
Residential	$4,459,862	$4,490,878
Consumer	2,522,380	2,590,225
Commercial	5,759,124	5,368,694
Commercial Real Estate	4,544,831	4,523,828
Equipment Financing	519,378	550,233
Loans and leases (1) (2)	$17,805,575	$17,523,858

(1) *Loans and leases include net deferred fees and net premiums/discounts of $17.9 million and $20.6 million at March 31, 2018 and December 31, 2017, respectively.*

(2) *At March 31, 2018 the Company had pledged $6.6 billion of eligible residential, consumer, and commercial loans as collateral to support borrowing capacity at the Federal Home Loan Bank (FHLB) Boston and the Federal Reserve Bank (FRB) of Boston.*

Loans and Leases Aging

The following tables summarize the aging of loans and leases:

	At March 31, 2018						
(In thousands)	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	90 or More Days Past Due and Accruing	Non-accrual	Total Past Due and Non-accrual	Current	Total Loans and Leases
Residential	$13,829	$ 3,571	$ —	$ 44,574	$ 61,974	$4,397,888	$4,459,862
Consumer:							
Home equity	8,951	5,627	—	35,894	50,472	2,239,473	2,289,945
Other consumer	2,008	1,061	—	1,614	4,683	227,752	232,435
Commercial:							
Commercial non-mortgage	1,526	236	604	42,990	45,356	4,839,497	4,884,853
Asset-based	—	—	—	1,534	1,534	872,737	874,271
Commercial real estate:							
Commercial real estate	508	603	245	3,889	5,245	4,343,274	4,348,519
Commercial construction	—	—	—	—	—	196,312	196,312
Equipment financing	2,840	156	—	3,668	6,664	512,714	519,378
Total	$29,662	$ 11,254	$ 849	$ 134,163	$ 175,928	$17,629,647	$17,805,575

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

Interest on non-accrual loans and leases that would have been recorded as additional interest income had the loans and leases been current in accordance with the original terms totaled $2.1 million and $3.1 million for the three months ended March 31, 2018 and 2017, respectively.

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Allowance for Loan and Lease Losses

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

	At or for the three months ended March 31, 2018					
(In thousands)	**Residential**	**Consumer**	**Commercial**	**Commercial Real Estate**	**Equipment Financing**	**Total**
ALLL:						
Balance, beginning of period	$19,058	$36,190	$89,533	$49,407	$5,806	$199,994
Provision (benefit) charged to expense	251	1,680	7,420	2,104	(455)	11,000
Charge-offs	(917)	(5,074)	(1,497)	(77)	(45)	(7,610)
Recoveries	385	1,443	117	2	18	1,965
Balance, end of period	$18,777	$34,239	$95,573	$51,436	$5,324	$205,349
Individually evaluated for impairment	$4,574	$1,579	$11,166	$257	$21	$17,597
Collectively evaluated for impairment	$14,203	$32,660	$84,407	$51,179	$5,303	$187,752
Loan and lease balances:						
Individually evaluated for impairment	$111,937	$42,587	$76,573	$10,928	$6,455	$248,480
Collectively evaluated for impairment	4,347,925	2,479,793	5,682,551	4,533,903	512,923	17,557,095
Loans and leases	$4,459,862	$2,522,380	$5,759,124	$4,544,831	$519,378	$17,805,575

	At or for the three months ended March 31, 2017					
(In thousands)	**Residential**	**Consumer**	**Commercial**	**Commercial Real Estate**	**Equipment Financing**	**Total**
ALLL:						
Balance, beginning of period	$23,226	$45,233	$71,905	$47,477	$6,479	$194,320
(Benefit) provision charged to expense	(2,467)	5,326	4,250	3,345	46	10,500
Charge-offs	(732)	(6,474)	(123)	(102)	(185)	(7,616)
Recoveries	237	1,323	322	7	14	1,903
Balance, end of period	$20,264	$45,408	$76,354	$50,727	$6,354	$199,107
Individually evaluated for impairment	$6,981	$2,605	$11,564	$256	$5	$21,411
Collectively evaluated for impairment	$13,283	$42,803	$64,790	$50,471	$6,349	$177,696
Loan and lease balances:						
Individually evaluated for impairment	$120,976	$47,281	$86,805	$23,954	$6,148	$285,164
Collectively evaluated for impairment	4,169,709	2,586,782	4,932,578	4,506,553	613,713	16,809,335
Loans and leases	$4,290,685	$2,634,063	$5,019,383	$4,530,507	$619,861	$17,094,499

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Impaired Loans and Leases

The following tables summarize impaired loans and leases:

	At March 31, 2018				
(In thousands)	Unpaid Principal Balance	Total Recorded Investment	Recorded Investment No Allowance	Recorded Investment With Allowance	Related Valuation Allowance
Residential	$122,063	$111,937	$ 70,143	$ 41,794	$ 4,574
Consumer - home equity	47,452	42,587	32,408	10,179	1,579
Commercial :					
Commercial non-mortgage	83,660	75,039	30,078	44,961	11,166
Asset-based	4,282	1,534	1,534	—	—
Commercial real estate:					
Commercial real estate	11,690	10,928	6,305	4,623	257
Commercial construction	212	—	—	—	—
Equipment financing	6,465	6,455	5,999	456	21
Total	$275,824	$248,480	$ 146,467	$ 102,013	$ 17,597

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

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

	Three months ended March 31,					
	2018			2017		
(In thousands)	Average Recorded Investment	Accrued Interest Income	Cash Basis Interest Income	Average Recorded Investment	Accrued Interest Income	Cash Basis Interest Income
Residential	$113,116	$ 981	$ 253	$120,200	$ 1,070	$ 415
Consumer - home equity	44,011	294	250	46,500	322	313
Commercial						
Commercial Non-Mortgage	73,461	539	—	69,921	222	—
Asset based	1,061	—	—	—	—	—
Commercial real estate:						
Commercial real estate	11,077	96	—	23,170	135	—
Commercial construction	—	—	—	1,184	12	—
Equipment financing	4,890	36	—	6,284	71	—
Total	$247,616	$ 1,946	$ 503	$267,259	$ 1,832	$ 728

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

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

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

	Commercial		**Commercial Real Estate**		**Equipment Financing**	
(In thousands)	**At March 31, 2018**	**At December 31, 2017**	**At March 31, 2018**	**At December 31, 2017**	**At March 31, 2018**	**At December 31, 2017**
(1) - (6) Pass	$5,337,985	$ 5,048,162	$4,384,598	$ 4,355,916	$493,311	$ 525,105
(7) Special Mention	210,164	104,594	44,742	62,065	7,119	8,022
(8) Substandard	201,959	206,883	115,491	105,847	18,948	17,106
(9) Doubtful	9,016	9,055	—	—	—	—
Total	$5,759,124	$ 5,368,694	$4,544,831	$ 4,523,828	$519,378	$ 550,233

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

Troubled Debt Restructurings

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

(Dollars in thousands)	**At March 31, 2018**	**At December 31, 2017**
Accrual status	$141,608	$ 147,113
Non-accrual status	77,930	74,291
Total recorded investment of TDRs	$219,538	$ 221,404
Specific reserves for TDRs included in the balance of ALLL	$13,874	$ 12,384
Additional funds committed to borrowers in TDR status	3,347	2,736

For the portion of TDRs deemed to be uncollectible, Webster charged off $0.7 million, and $2.0 million for the three months ended March 31, 2018 and 2017, respectively.

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

	Three months ended March 31,			
	2018		2017	
(Dollars in thousands)	Number of Loans and Leases	Post-Modification Recorded Investment(1)	Number of Loans and Leases	Post-Modification Recorded Investment(1)
Residential:				
Extended Maturity	—	$ —	5	$ 970
Maturity/Rate Combined	—	—	3	492
Other (2)	5	757	19	2,938
Consumer - home equity				
Extended Maturity	2	193	2	39
Maturity/Rate Combined	2	113	7	1,983
Other (2)	11	778	33	2,193
Commercial non - mortgage				
Extended Maturity	3	85	2	35
Other (2)	2	4,684	1	4
Commercial real estate:				
Extended Maturity	1	45	—	—
Total TDRs	26	$ 6,655	72	$ 8,654

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

There were no significant amounts of loans and leases modified as TDRs within the previous 12 months and for which there was a payment default for the three months ended March 31, 2018 or 2017.

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

(In thousands)	At March 31, 2018	At December 31, 2017
(1) - (6) Pass	$ 8,591	$ 8,268
(7) Special Mention	349	355
(8) Substandard	56,074	53,050
(9) Doubtful	—	—
Total	$ 65,014	$ 61,673

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Note 5: Transfers of Financial Assets

The Company sells financial assets in the normal course of business, primarily residential mortgage loans sold to government-sponsored enterprises through established programs and securitizations. The gain or loss on residential mortgage loans sold and the related origination fee income, 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 March 31,	
(In thousands)	**2018**	**2017**
Beginning balance	$872	$790
(Benefit) provision charged to expense	(203)	34
Repurchased loans and settlements charged off	(5)	—
Ending balance	$664	$824

The following table provides information for mortgage banking activities:

	Three months ended March 31,	
(In thousands)	**2018**	**2017**
Residential mortgage loans held for sale:		
Proceeds from sale	$44,806	$106,620
Loans sold with servicing rights retained	39,904	99,500
Net gain on sale	1,083	251
Ancillary fees	410	768
Fair value option adjustment	(349)	1,247

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

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

	Three months ended March 31,	
(In thousands)	**2018**	**2017**
Beginning balance	$25,139	$24,466
Additions	1,412	2,009
Amortization	(2,148)	(2,139)
Ending balance	$24,403	$24,336

Loan servicing fees, net of mortgage servicing rights amortization, were $0.3 million and $0.2 million for the three months ended March 31, 2018 and 2017, respectively, and are included as a component of loan related fees in the accompanying Condensed Consolidated Statements of Income.

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

Additionally, loans not originated for sale were sold approximately at carrying value, for cash proceeds of $34 thousand for certain commercial loans and $7.4 million for certain residential loans for the three months ended March 31, 2018 and 2017, respectively.

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Note 6: Goodwill and Other Intangible Assets

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

(In thousands)	At March 31, 2018			At December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Goodwill:						
Community Banking			$ 516,560			$ 516,560
HSA Bank			21,813			21,813
Total goodwill			$ 538,373			$ 538,373
Other intangible assets:						
HSA Bank - Core deposits	$ 22,000	$ (9,167)	$ 12,833	$ 22,000	$ (8,610)	$ 13,390
HSA Bank - Customer relationships	21,000	(5,183)	15,817	21,000	(4,779)	16,221
Total other intangible assets	$ 43,000	$ (14,350)	$ 28,650	$ 43,000	$ (13,389)	$ 29,611

As of March 31, 2018, the remaining estimated aggregate future amortization expense for intangible assets is as follows:

(In thousands)	
Remainder of 2018	$ 2,886
2019	3,847
2020	3,847
2021	3,847
2022	3,847
Thereafter	10,376

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Note 7: Deposits

A summary of deposits by type follows:

(In thousands)	At March 31, 2018	At December 31, 2017
Non-interest-bearing:		
Demand	$4,074,992	$4,191,496
Interest-bearing:		
Checking	2,624,885	2,736,952
Health savings accounts	5,487,627	5,038,681
Money market	2,344,526	2,209,492
Savings	4,299,759	4,348,700
Time deposits	2,553,253	2,468,408
Total interest-bearing	17,310,050	16,802,233
Total deposits	$21,385,042	$20,993,729
Time deposits and interest-bearing checking, included in above balances, obtained through brokers	$864,362	$898,157
Time deposits, included in above balance, that meet or exceed the Federal Deposit Insurance Corporation (FDIC) limit	741,349	561,512
Deposit overdrafts reclassified as loan balances	1,984	2,210

The scheduled maturities of time deposits are as follows:

(In thousands)	At March 31, 2018
Remainder of 2018	$1,301,903
2019	822,693
2020	246,205
2021	117,426
2022	49,543
Thereafter	15,483
Total time deposits	$2,553,253

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Note 8: Borrowings

Total borrowings of $2.4 billion at March 31, 2018 and $2.5 billion at December 31, 2017 are described in detail below.

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

(In thousands)	At March 31, 2018 Amount	Rate	At December 31, 2017 Amount	Rate
Securities sold under agreements to repurchase [(1)]:				
Original maturity of one year or less	$215,299	0.18 %	$288,269	0.17 %
Original maturity of greater than one year, non-callable	300,000	3.10	300,000	3.10
Total securities sold under agreements to repurchase	515,299	1.88	588,269	1.66
Fed funds purchased	416,000	1.72	55,000	1.37
Securities sold under agreements to repurchase and other borrowings	$931,299	1.81	$643,269	1.64

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

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

The following table provides information for FHLB advances:

(Dollars in thousands)	At March 31, 2018 Amount	Weighted-Average Contractual Coupon Rate		At December 31, 2017 Amount	Weighted-Average Contractual Coupon Rate	
Maturing within 1 year	$700,000	1.81	%	$1,150,000	1.48	%
After 1 but within 2 years	128,026	1.82		103,026	1.81	
After 2 but within 3 years	165,000	1.77		215,000	1.73	
After 3 but within 4 years [(1)]	200,000	2.33		200,000	2.06	
After 4 but within 5 years	165	—		170	—	
After 5 years [(1)]	8,839	2.65		8,909	2.65	
FHLB advances and overall rate [(1)]	$1,202,030	1.90		$1,677,105	1.61	
Aggregate carrying value of assets pledged as collateral	$6,327,590			$6,402,066		
Remaining borrowing capacity	3,035,521			2,600,624		

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

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

The following table summarizes long-term debt:

(Dollars in thousands)	At March 31, 2018	At December 31, 2017
4.375% Senior fixed-rate notes due February 15, 2024	$150,000	$ 150,000
Junior subordinated debt Webster Statutory Trust I floating-rate notes due September 17, 2033 [(1)]	77,320	77,320
Total notes and subordinated debt	227,320	227,320
Discount on senior fixed-rate notes	(697)	(727)
Debt issuance cost on senior fixed-rate notes	(793)	(826)
Long-term debt	$225,830	$ 225,767

(1) *The interest rate on Webster Statutory Trust I floating-rate notes, which varies quarterly based on 3-month London Interbank Offered Rate (LIBOR) plus 2.95%, was 5.13% at March 31, 2018 and 4.55% at December 31, 2017.*

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Note 9: Accumulated Other Comprehensive Loss, Net of Tax

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

	Three months ended March 31, 2018			
(In thousands)	Securities Available For Sale	Derivative Instruments	Defined Benefit Pension and Other Postretirement Benefit Plans	Total
Beginning balance	$(27,947)	$(15,016)	$(48,568)	$(91,531)
Other comprehensive income (loss) (OCI/OCL) before reclassifications	(27,424)	1,129	—	(26,295)
Amounts reclassified from AOCL	—	1,393	954	2,347
Net current-period OCI/OCL	(27,424)	2,522	954	(23,948)
Ending balance	$(55,371)	$(12,494)	$(47,614)	$(115,479)

	Three months ended March 31, 2017			
(In thousands)	Securities Available For Sale	Derivative Instruments	Defined Benefit Pension and Other Postretirement Benefit Plans	Total
Beginning balance	$(15,476)	$(17,068)	$(44,449)	$(76,993)
OCI/OCL before reclassifications	(2,225)	61	—	(2,164)
Amounts reclassified from AOCL	—	1,098	1,032	2,130
Net current-period OCI/OCL	(2,225)	1,159	1,032	(34)
Ending balance	$(17,701)	$(15,909)	$(43,417)	$(77,027)

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

(In thousands)	Three months ended March 31,		Associated Line Item in the Condensed Consolidated Statements of Income
AOCL Components	**2018**	**2017**	
Derivative instruments:			
Cash flow hedges	$(1,871)	$(1,735)	Total interest expense
Tax benefit	478	637	Income tax expense
Net of tax	$(1,393)	$(1,098)	
Defined benefit pension and other postretirement benefit plans:			
Amortization of net loss	$(1,285)	$(1,638)	(1)
Tax benefit	331	606	Income tax expense
Net of tax	$(954)	$(1,032)	

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

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Note 10: Regulatory Matters

Capital Requirements

Webster Financial Corporation is subject to regulatory capital requirements administered by the Federal Reserve System, while Webster Bank is subject to regulatory capital requirements administered by the Office of the Comptroller of the Currency (OCC). Regulatory authorities can initiate certain mandatory actions if Webster Financial Corporation or Webster Bank fail to meet minimum capital requirements, which could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, both Webster Financial Corporation and Webster Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. These quantitative measures require minimum amounts and ratios to ensure capital adequacy.

Basel III total risk-based capital is comprised of three categories: CET1 capital, additional Tier 1 capital, and Tier 2 capital. CET1 capital includes common shareholders' equity, less deductions for goodwill, other intangibles, and certain deferred tax adjustments. Common shareholders' equity, for purposes of CET1 capital, excludes AOCL components as permitted by the opt-out election taken by Webster upon adoption of Basel III. Tier 1 capital is comprised of CET1 capital plus perpetual preferred stock, while Tier 2 capital includes qualifying subordinated debt and qualifying allowance for credit losses, that together equal total capital.

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

	At March 31, 2018					
	Actual		Minimum Requirement		Well Capitalized	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Webster Financial Corporation						
CET1 risk-based capital	$2,094,607	10.99 %	$857,874	4.5 %	$1,239,151	6.5 %
Total risk-based capital	2,524,608	13.24	1,525,109	8.0	1,906,386	10.0
Tier 1 risk-based capital	2,239,644	11.75	1,143,832	6.0	1,525,109	8.0
Tier 1 leverage capital	2,239,644	8.54	1,049,009	4.0	1,311,261	5.0
Webster Bank						
CET1 risk-based capital	$2,062,650	10.83 %	$857,184	4.5 %	$1,238,155	6.5 %
Total risk-based capital	2,270,294	11.92	1,523,883	8.0	1,904,853	10.0
Tier 1 risk-based capital	2,062,650	10.83	1,142,912	6.0	1,523,883	8.0
Tier 1 leverage capital	2,062,650	7.87	1,048,468	4.0	1,310,585	5.0

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

Dividend Restrictions

Webster Financial Corporation is dependent upon dividends from Webster Bank to provide funds for its cash requirements, including payments of dividends to shareholders. Banking regulations may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of Webster Bank to fall below specified minimum levels, or if dividends declared exceed the net income for that year combined with the undistributed net income for the preceding two years. In addition, the OCC has discretion to prohibit any otherwise permitted capital distribution on general safety and soundness grounds. Dividends paid by Webster Bank to Webster Financial Corporation totaled $100 million during the three months ended March 31, 2018 compared to $10 million during the three months ended March 31, 2017.

Cash Restrictions

Webster Bank is required by Federal Reserve System regulations to hold cash reserve balances on hand or with the Federal Reserve Bank. Pursuant to this requirement, Webster Bank held $79.8 million and $82.3 million at March 31, 2018 and December 31, 2017, respectively.

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Note 11: Earnings Per Common Share

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

(In thousands, except per share data)	Three months ended March 31, 2018	2017
Earnings for basic and diluted earnings per common share:		
Net income	$80,225	$59,471
Less: Preferred stock dividends	1,947	2,024
Net income available to common shareholders	78,278	57,447
Less: Earnings applicable to participating securities	195	105
Earnings applicable to common shareholders	$78,083	$57,342
Shares:		
Weighted-average common shares outstanding - basic	91,921	91,886
Effect of dilutive securities:		
Stock options and restricted stock	327	450
Warrants	6	6
Weighted-average common shares outstanding - diluted	92,254	92,342
Earnings per common share:		
Basic	$0.85	$0.62
Diluted	0.85	0.62

Potential common shares from non-participating restricted stock, of $72 thousand and $40 thousand for the three months ended March 31, 2018 and 2017, respectively, are excluded from the effect of dilutive securities because, due to performance conditions, they would have been anti-dilutive.

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Note 12: Derivative Financial Instruments

Risk Management Objective of Using Derivatives

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

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

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

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

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

Interest rate swap and cap contracts are sold to commercial and other customers who wish to modify loan interest rate sensitivity. These contracts are offset with dealer counterparty transactions structured with matching terms. As a result, there is minimal impact on earnings, except for fee income earned in such transactions.

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

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

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Balance Sheet Impact of Derivative Instruments

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

	At March 31, 2018				At December 31, 2017			
	Asset Derivatives		Liability Derivatives		Asset Derivatives		Liability Derivatives	
(In thousands)	Notional Amounts	Fair Value	Notional Amounts	Fair Value	Notional Amounts	Fair Value	Notional Amounts	Fair Value
Designated as hedging instruments:								
Positions subject to a master netting agreement [(1)]								
Interest rate derivatives [(2)]	$325,000	$4,289	$—	$—	$325,000	$2,770	$—	$—
Not designated as hedging instruments:								
Positions subject to a master netting agreement [(1)]								
Interest rate derivatives [(2)]	3,258,511	10,659	437,308	848	2,791,760	5,977	721,048	1,968
Mortgage banking derivatives [(3)]	34,744	545	31,162	168	28,497	421	39,230	110
Other	17,763	144	17,788	61	7,914	258	30,328	419
Positions not subject to a master netting agreement [(4)]								
Interest rate derivatives	636,754	9,863	3,059,075	57,952	1,366,299	23,009	2,146,518	25,631
RPAs	93,275	48	84,999	69	93,713	80	116,882	111
Other	530	3	861	17	—	—	2,073	184
Total not designated as hedging instruments	4,041,577	21,262	3,631,193	59,115	4,288,183	29,745	3,056,079	28,423
Gross derivative instruments, before netting	$4,366,577	25,551	$3,631,193	59,115	$4,613,183	32,515	$3,056,079	28,423
Less: Legally enforceable master netting agreements		818		818		2,245		2,245
Less: Cash collateral posted		13,994		—		6,704		—
Total derivative instruments, after netting		$10,739		$58,297		$23,566		$26,178

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

(2) *In accordance with the Chicago Mercantile Exchange (CME) rulebook, balances related to CME are presented as a single unit of account.*

(3) *Notional amounts include mandatory forward commitments of $37.0 million, while notional amounts do not include approved floating rate commitments of $15.1 million, at March 31, 2018.*

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

Income Statement Impact of Derivative Instruments

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

	Three months ended March 31,	
(In thousands)	2018	2017
Designated as hedging instruments:		
Interest rate derivatives [(1)]	$1,823	$2,039
Not designated as hedging instruments:		
Interest rate derivatives	$3,791	$1,534
RPAs	10	53
Mortgage banking derivatives	65	(2,041)
Other	(600)	(447)
Total not designated as hedging instruments [(2)]	$3,266	$(901)

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

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

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Amounts for the effective portion of changes in the fair value of derivatives qualifying for hedge accounting treatment are reclassified to interest expense as interest payments are made on Webster's variable-rate debt. Over the next twelve months, the Company estimates that $0.2 million will be reclassified from AOCL as an increase to interest expense. Webster records gains and losses related to hedge terminations to AOCL. These balances are subsequently amortized into interest expense over the respective terms of the hedged debt instruments. At March 31, 2018, the remaining unamortized loss on the termination of cash flow hedges is $13.3 million. Over the next twelve months, the Company estimates that $5.6 million will be reclassified from AOCL as an increase to interest expense.
Additional information about cash flow hedge activity impacting AOCL, and the related amounts reclassified to interest expense is provided in Note 9: Accumulated Other Comprehensive Loss, Net of Tax. Information about the valuation methods used to measure the fair value of derivatives is provided in Note 13: Fair Value Measurements.

Offsetting Derivatives

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

	At March 31, 2018				At December 31, 2017			
(In thousands)	Gross Amount	Relationship Offset	Cash Collateral Offset	Net Amount	Gross Amount	Relationship Offset	Cash Collateral Offset	Net Amount
Derivative instrument gains:								
Hedge accounting	$4,289	$ —	$ 4,289	$ —	$2,770	$ 91	$ 2,679	$ —
Non-hedge accounting	10,523	818	9,705	—	6,222	2,154	4,025	43
Total assets	$14,812	$ 818	$ 13,994	$ —	$8,992	$ 2,245	$ 6,704	$ 43
Derivative instrument losses:								
Hedge accounting	$—	$ —	$ —	$ —	$—	$ —	$ —	$ —
Non-hedge accounting	909	818	—	91	2,387	2,245	—	142
Total liabilities	$909	$ 818	$ —	$ 91	$2,387	$ 2,245	$ —	$ 142

Counterparty Credit Risk

Use of derivative contracts may expose the bank to counterparty credit risk. The Company has International Swaps Derivative Association (ISDA) master agreements, including a Credit Support Annex, with all derivative counterparties. The ISDA master agreements provide that on each payment date, all amounts otherwise owing the same currency under the same transaction are netted so that only a single amount is owed in that currency. The ISDA provides, if the parties so elect, for such netting of amounts in the same currency among all transactions identified as being subject to such election that have common payment dates and booking offices. Under the Credit Support Annex, daily net exposure in excess of a negotiated threshold is secured by posted cash collateral. The Company has negotiated a zero threshold with the majority of its approved financial institution counterparties. In accordance with Webster policies, institutional counterparties must be analyzed and approved through the Company’s credit approval process.
The Company’s credit exposure on interest rate derivatives with non-dealer counterparties is limited to the net favorable value, including accrued interest, of all such instruments, reduced by the amount of collateral pledged by the counterparties. The Company's credit exposure related to derivatives with dealer counterparties is significantly mitigated with cash collateral equal to, or in excess of, the market value of the instrument updated daily.
In accordance with counterparty credit agreements and derivative clearing rules, the Company had approximately $50.1 million in net margin collateral received from financial counterparties at March 31, 2018, comprised of $33.5 million in initial margin and $83.6 million in variation margin collateral received from financial counterparties or the derivative clearing organization. Collateral levels for approved financial institution counterparties are monitored daily

and adjusted as necessary. In the event of default, should the collateral not be returned, the exposure would be offset by terminating the transaction.
The Company regularly evaluates the credit risk of its counterparties, taking into account the likelihood of default, net exposures, and remaining contractual life, among other related factors. The Company's net current credit exposure relating to interest rate derivatives with Webster Bank customers was $9.9 million at March 31, 2018. In addition, the Company monitors potential future exposure, representing its best estimate of exposure to remaining contractual maturity. The potential future exposure relating to interest rate derivatives with Webster Bank customers totaled $29.6 million at March 31, 2018. Credit risk exposure is mitigated as transactions with customers are generally secured by the same collateral of the underlying transactions being hedged.

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Note 13: Fair Value Measurements

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

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

Fair Value Hierarchy

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

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

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

All other derivative instruments are valued using third-party valuation software, which considers the present value of cash flows discounted using observable forward rate assumptions. The resulting fair values are validated against valuations performed by independent third parties and are classified within Level 2 of the fair value hierarchy. In determining if any fair value adjustment related to credit risk is required, Webster evaluates the credit risk of its counterparties by considering factors such as the likelihood of default by the counterparties, its net exposures, the remaining contractual life, as well as the amount of collateral securing the position. Webster reviews its counterparty exposure on a regular basis, and, when necessary, appropriate business actions are taken to mitigate the exposure. When determining fair value, Webster applies the portfolio exception with respect to measuring counterparty credit risk for all of its derivative transactions subject to a master netting arrangement. The Chicago Mercantile Exchange rulebooks legally characterize variation margin payments for over-the-counter derivatives to clear as settlements rather than collateral, which impacts one of Webster's counterparty relationships, resulting in the fair value of the instrument including cash collateral to be represented as a single unit of account.

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

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Mortgage Banking Derivatives. Forward sales of mortgage loans and mortgage-backed securities are utilized by the Company in its efforts to manage risk of loss associated with its mortgage loan commitments and mortgage loans held for sale. Prior to closing and funding certain single-family residential mortgage loans, an interest rate lock commitment is generally extended to the borrower. During the period from commitment date to closing date, the Company is subject to the risk that market rates of interest may change. If market rates rise, investors generally will pay less to purchase such loans resulting in a reduction in the gain on sale of the loans or, possibly, a loss. In an effort to mitigate such risk, forward delivery sales commitments are established, under which the Company agrees to deliver whole mortgage loans to various investors or issue mortgage-backed securities. The fair value of mortgage banking derivatives is determined based on current market prices for similar assets in the secondary market and, therefore, classified within Level 2 of the fair value hierarchy.

Originated Loans Held For Sale. Residential mortgage loans typically are classified as held for sale upon origination based on management's intent to sell such loans. The Company has elected to measure originated loans held for sale under the fair value option of Accounting Standards Codification (*ASC) Topic 825 "Financial Instruments,"* on a loan-by-loan basis. The fair value of residential mortgage loans held for sale is based on quoted market prices of similar loans sold in conjunction with securitization transactions. Accordingly, these loans are classified within Level 2 of the fair value hierarchy.

The following table presents the fair value, unpaid principal balance, and accrual status of assets accounted for under the fair value option:

	March 31, 2018			December 31, 2017		
(In thousands)	Fair Value	Unpaid Principal Balance	Difference	Fair Value	Unpaid Principal Balance	Difference
Originated loans held for sale	$ 19,727	$ 19,663	$ 64	$ 20,888	$ 20,346	$ 542

Electing to measure originated loans held for sale at fair value reduces certain timing differences and better matches changes in the value of these assets with changes in the value of the derivatives used as an economic hedge on these assets. Assets accounted for under the fair value option are initially measured at fair value. Gains and losses from initial measurement and subsequent changes in fair value are recognized in earnings. For the three months ended March 31, 2018 net loss from fair value changes was $0.3 million and for the three months ended March 31, 2017 net gains from fair value changes was $1.2 million. The Company does not account for liabilities under the fair value option.

Investments Held in Rabbi Trust. Investments held in the Rabbi Trust primarily include mutual funds that invest in equity and fixed income securities. Shares of mutual funds are valued based on net asset value, which represents quoted market prices for the underlying shares held in the mutual funds. Therefore, investments held in the Rabbi Trust are classified within Level 1 of the fair value hierarchy. Webster has elected to measure the investments held in the Rabbi Trust at fair value. The cost basis of the investments held in the Rabbi Trust is $2.1 million at March 31, 2018.

Alternative Investments Net Asset Value (NAV). Alternative investments that are fair valued on a recurring basis are based upon the NAV of the respective fund. Therefore, alternative investments (NAV) are not classified within the fair value hierarchy. At March 31, 2018, alternative investments (NAV) had a remaining unfunded commitment of $0.3 million. The Company's alternative investments (NAV) consists of investments in non-public entities that generally cannot be redeemed since the Company’s investments are distributed as the underlying equity is liquidated.

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

	At March 31, 2018			
(In thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held at fair value:				
U.S. Treasury Bills	$449	$—	$ —	$449
Agency CMO	—	284,579	—	284,579
Agency MBS	—	1,265,268	—	1,265,268
Agency CMBS	—	591,302	—	591,302
CMBS	—	366,894	—	366,894
CLO	—	201,837	—	201,837
Single issuer-trust preferred	—	7,041	—	7,041
Corporate debt	—	56,136	—	56,136
Total available-for-sale investment securities	449	2,773,057	—	2,773,506
Gross derivative instruments, before netting *(1)*	147	25,404	—	25,551
Originated loans held for sale	—	19,727	—	19,727
Investments held in Rabbi Trust	4,694	—	—	4,694
Alternative investments (NAV) *(2)*	—	—	—	3,495
Total financial assets held at fair value	$5,290	$2,818,188	$ —	$2,826,973
Financial liabilities held at fair value:				
Gross derivative instruments, before netting *(1)*	$62	$59,053	$ —	$59,115

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

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

(2) *Fair value for this investment is measured using the net asset value practical expedient and therefore is not classified within the fair value hierarchy.*

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Assets Measured at Fair Value on a Non-Recurring Basis

Certain assets are measured at fair value on a non-recurring basis; that is, the assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, for example, when there is evidence of impairment. The following is a description of valuation methodologies used for assets measured on a non-recurring basis.

Alternative Investments. Alternative investments are investments in non-public entities that generally cannot be redeemed since the investment is distributed as the underlying equity is liquidated. The measurement alternative has been elected for alternative investments without readily determinable fair values that do not qualify for the NAV practical expedient. The measurement alternative requires investments to be accounted for at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Accordingly, these alternative investments are classified within Level 3 of the fair value hierarchy. The carrying amount of these alternative investments was $7.9 million at March 31, 2018. No reduction for impairments, or increase or decrease due to observable price changes, was identified during the three months ended March 31, 2018.

Transferred Loans Held For Sale. Certain loans are transferred to loans held for sale once a decision has been made to sell such loans. These loans are accounted for at the lower of cost or market and are considered to be recognized at fair value when they are recorded at below cost. This activity is primarily commercial loans with observable inputs and is classified within Level 2. On the occasion should these loans include adjustments for changes in loan characteristics using unobservable inputs, the loans would be classified within Level 3.

Collateral Dependent Impaired Loans and Leases. Impaired loans and leases for which repayment is expected to be provided solely by the value of the underlying collateral are considered collateral dependent and are valued based on the estimated fair value of such collateral using customized discounting criteria. As such, collateral dependent impaired loans and leases are classified as Level 3 of the fair value hierarchy.

Other Real Estate Owned and Repossessed Assets. The total book value of other real estate owned (OREO) and repossessed assets was $5.8 million at March 31, 2018. OREO and repossessed assets are accounted for at the lower of cost or market and are considered to be recognized at fair value when they are recorded at below cost. The fair value of OREO is based on independent appraisals or internal valuation methods, less estimated selling costs. The valuation may consider available pricing guides, auction results, and price opinions. Certain assets require assumptions about factors that are not observable in an active market in the determination of fair value; as such, OREO and repossessed assets are classified within Level 3 of the fair value hierarchy.

The table below presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a non-recurring basis as of March 31, 2018:

(Dollars in thousands)

Asset	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs
Collateral dependent impaired loans and leases	$13,424	Real Estate Appraisals	Discount for appraisal type	0% - 15%
			Discount for costs to sell	0% - 8%
OREO	$858	Real Estate Appraisals	Discount for costs to sell	8%

Fair Value of Financial Instruments and Servicing Assets

The Company is required to disclose the estimated fair value of financial instruments, both assets and liabilities, for which it is practicable to estimate fair value. The following is a description of valuation methodologies used for those assets and liabilities.

Cash, Due from Banks, and Interest-bearing Deposits. The carrying amount of cash, due from banks, and interest-bearing deposits is used to approximate fair value, given the short time frame to maturity and, as such, these assets do not present unanticipated credit concerns. Cash, due from banks, and interest-bearing deposits are classified within Level 1 of the fair value hierarchy.

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

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

Deposit Liabilities. The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. Deposit liabilities are classified within Level 2 of the fair value hierarchy.

Time Deposits. The fair value of a fixed-maturity certificate of deposit is estimated using the rates currently offered for deposits of similar remaining maturities. Time deposits are classified within Level 2 of the fair value hierarchy.

Securities Sold Under Agreements to Repurchase and Other Borrowings. The carrying value is an estimate of fair value for those securities sold under agreements to repurchase and other borrowings that mature within 90 days. Fair value of all other borrowings is estimated using discounted cash flow analysis based on current market rates adjusted, as appropriate, for associated credit risks. Securities sold under agreements to repurchase and other borrowings are classified within Level 2 of the fair value hierarchy.

Federal Home Loan Bank Advances and Long-Term Debt. The fair value of FHLB advances and long-term debt is estimated using a discounted cash flow technique. Discount rates are matched with the time period of the expected cash flow and are adjusted, as appropriate, to reflect credit risk. FHLB advances and long-term debt are classified within Level 2 of the fair value hierarchy.

Mortgage Servicing Assets. Mortgage servicing assets are accounted for at cost, subject to impairment testing. Mortgage servicing assets are considered to be recognized at fair value when they are recorded at below cost. Changes in fair value are included as a component of other non-interest income in the accompanying Condensed Consolidated Statements of Income. Fair value is calculated as the present value of estimated future net servicing income and relies on market based assumptions for loan prepayment speeds, servicing costs, discount rates, and other economic factors; as such, the primary risk inherent in valuing mortgage servicing assets is the impact of fluctuating interest rates on the servicing revenue stream. Mortgage servicing assets are classified within Level 3 of the fair value hierarchy.

The estimated fair values of selected financial instruments and servicing assets are as follows:

	At March 31, 2018		At December 31, 2017	
(In thousands)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Assets:				
Level 2				
Held-to-maturity investment securities	$			