WEBSTER FINANCIAL CORP
Form 10-K
February 29, 2012
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE

ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

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 (Webster Plaza), Waterbury, Connecticut 06702

(Address and zip code of principal executive offices)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value	New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act	Not Applicable

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes x No ¨.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x.

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 x__No_¨.

Indicate by checkmark 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 x No_¨.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller Reporting Company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2) Yes ¨ No_x.

The aggregate market value of common stock held by non-affiliates of Webster Financial Corporation was approximately $1.8 billion, based on the closing sale price of the common stock on the New York Stock Exchange on June 30, 2011, the last trading day of the registrant s most recently completed second quarter.

Number of shares of common stock outstanding at January 31, 2012: 87,532,036.

DOCUMENTS INCORPORATED BY REFERENCE

Part III: Portions of the Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 26, 2012.

Table of Contents

WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

WEBSTER FINANCIAL CORPORATION

2011 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. For a discussion of forward-looking statements, see the section captioned Forward-Looking Statements in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Company Overview

Webster Financial Corporation (collectively, with its consolidated subsidiaries, Webster , the Company , our company, we or us), is a bank holding company and financial holding company under the Bank Holding Company Act of 1956, as amended, which is headquartered in Waterbury, Connecticut and incorporated under the laws of Delaware since 1986. Webster Financial Corporation s principal asset at December 31, 2011 is all of the outstanding capital stock of Webster Bank, National Association (Webster Bank). Webster had assets of $18.7 billion and equity of $1.8 billion at December 31, 2011.

Webster, through Webster Bank and various subsidiaries, delivers financial services to individuals, families and businesses primarily throughout southern New England and into Westchester County, New York. Webster provides business and consumer banking, mortgage lending, financial planning, trust and investment services through 168 banking offices, 473 ATMs, telephone banking, mobile banking and its Internet website (www.websterbank.com). Webster also offers equipment financing, commercial real estate lending and asset-based lending across the Northeast. Webster Bank offers health savings accounts on a nationwide basis, through its HSA Bank division and its internet website (www.hsabank.com). Webster s common stock is traded on the New York Stock Exchange under the symbol WBS .

Our company s mission statement, the foundation of our operating principles, is simply stated as *We Find A Way* to help individuals, families and businesses achieve their financial goals. The Company operates with a local market orientation and with a vision to be the leading commercial bank between Westchester County, NY and Boston, MA. Operating objectives include acquiring and developing customer relationships through marketing, on boarding and cross-sale efforts to fuel organic growth and expanding geographically in contiguous markets through a build and buy strategy. The core of our company value proposition is the service quality model that we refer to as the *Type W Personality* , which promises knowledgeable and reliable relationship-based bankers who know their markets and make decisions at the local level.

The Retail business segment focused in 2011 on improving the customer experience by aligning Webster s delivery channels and capital investment with customer s shifting preference to utilize electronic and mobile channels to transact more of their banking business. The Company upgraded its mobile banking capabilities during 2011 with the introduction of balance alerts via emails and texts and is in the process of upgrading its ATM network to envelope-free ATMs. In response to changes in the consumer marketplace, Webster eliminated free checking in favor of relationship products which reward customers for bringing more of their banking and financial relationships to Webster. In response to changing customer usage patterns and as part of ongoing efforts to optimize its branch system to better serve customer needs, the Company completed the consolidation of 16 branch offices in 2011 and significantly reduced the number of remote ATMs. Additionally, the Company developed a sales team in the customer care center to speed the mortgage application process while lowering costs.

While impacted by the economic environment, the loan portfolio benefited from the investment in relationship-based banking as originations in 2011 were $527.3 million and $269.4 million in the Middle Market and Business and Professional Banking portfolios, respectively. The continued move from transaction-based to relationship-based lending was clearly evident as Business and Professional Banking loan originations were accompanied by $162.1 million or 11.8% net deposit growth from December 31, 2010 to December 31, 2011 with the majority of this increase concentrated in Transaction/Demand Deposit account products. Growth was driven by an increased focus on the customer, product enhancements and an expanded sales force.

Webster has focused efforts in recent years on enhancing its credit risk management capabilities. Those efforts were evident in 2011 results as the Company recorded significant improvement in virtually all credit related metrics. Non-performing loans decreased $85.5 million in the past year from $273.6 million at December 31, 2010 (2.48% of total loans) to $188.1 million at December 31, 2011 (1.68% of total loans). During the same timeframe, the recorded investment in accruing past due loans fell from $74.7 million at December 31, 2010 to $62.6 million at December 31, 2011. During the year, the Company placed significant emphasis on expediting the resolution of foreclosed and repossessed assets and, as a result, foreclosed and repossessed assets decreased $23.2 million to $5.0 million at December 31, 2011 compared to $28.2 million at December 31, 2010. These improving credit metric trends have favorably impacted the provision for loan and lease losses. The Company recorded $22.5 million in provision for loan and lease losses in 2011 compared to $115.0 million in 2010.

Business Segments

Webster s operations are managed along four business segments consisting of Commercial Banking, Retail Banking, Consumer Finance and Other. Other includes Health Savings Accounts (HSA) and Private Banking (including Webster Financial Advisors (WFA)). These segments reflect how executive management responsibilities are assigned by the chief executive officer for each of the core businesses, the products and services provided, or the type of customer served, and they reflect the way that financial information is currently evaluated by management. A description of each of the Company s business segments is included in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations , and financial statement results for each of the Company s business segments are included in Note 20 Business Segments in the Notes to Consolidated Financial Statements, which is located elsewhere in this report. The Company intends to restructure its business segments in 2012.

Competition

Webster is subject to strong competition from banks and other financial institutions, including savings and loan associations, finance companies, credit unions, consumer finance companies and insurance companies. Certain of these competitors are larger financial institutions with substantially greater resources, lending limits, larger branch systems and a wider array of commercial banking services than Webster. Competition could intensify in the future as a result of industry consolidation, the increasing availability of products and services from non-banks, greater technological developments in the industry, and banking regulatory reform.

Webster faces substantial competition for deposits and loans throughout its market areas. The primary factors in competing for deposits are interest rates, personalized services, the quality and range of financial services, convenience of office locations, automated services and office hours. Competition for deposits comes primarily from other commercial banks, savings institutions, credit unions, mutual funds and other investment alternatives. The primary factors in competing for commercial and business loans are interest rates, loan origination fees, the quality and range of lending services and personalized service. Competition for origination of mortgage loans comes primarily from savings institutions, mortgage banking firms, mortgage brokers, other commercial banks and insurance companies. Factors which affect competition include the general and local economic conditions, current interest rate levels and volatility in the mortgage markets.

Supervision and Regulation

Webster, Webster Bank and certain of its non-banking subsidiaries are subject to extensive regulation under federal and state laws. The regulatory framework applicable to bank holding companies is intended to protect depositors, federal deposit insurance funds, consumers and the banking system as a whole, and not necessarily investors in bank holding companies such as Webster.

Table of Contents

Set forth below is a description of the significant elements of the laws and regulations applicable to Webster and its subsidiaries. The description that follows is qualified in its entirety by reference to the full text of the statutes, regulations and policies that are described. Also, such statutes, regulations and policies are continually under review by Congress and state legislatures and federal and state regulatory agencies. A change in statutes, regulations or regulatory policies applicable to Webster and its subsidiaries could have a material effect on the results of the Company.

Dodd-Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), enacted on July 21, 2010, significantly changed the bank regulatory landscape, has impacted and will continue to impact the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations and to prepare various studies and reports for Congress.

In February 2011, the Federal Deposit Insurance Corporation (FDIC) issued rules to implement changes to the deposit insurance assessment base and risk-based assessments for large insured depository institutions, generally, those institutions with at least $10 billion in total assets. On September 28, 2011, the FDIC notified insured depository institutions that the transition guidance for reporting certain leveraged and subprime loans on the Call Report had been extended from October 1, 2011 to April 1, 2012. The FDIC may review the differences between existing internal methodologies for identifying subprime and leverage loans and definitions of subprime and leveraged loans in the final rule for the purpose of forming supervisory strategy. In the event that the FDIC does not propose to alter its supervisory approach to the definitions in the February 2011 final assessments rule or the supervisory guidance following this review, the extended time frame will give institutions additional time to adapt reporting systems to the definitions.

On June 28, 2011, the Board of Governors of the Federal Reserve System (Federal Reserve Board or FRB) approved a final debit card interchange rule pursuant to the Dodd-Frank Act that would cap an issuer s base fee at 21 cents per transaction and allow an additional amount equal to 5 basis-points of the transaction s value. The FRB separately issued an interim final rule that also allows a fraud-prevention adjustment of 1 cent per transaction conditioned upon an issuer developing, implementing and updating reasonably designed fraud prevention policies and procedures. The FRB also adopted requirements in the final rule that issuers include two unaffiliated networks for routing debit transactions. Compliance for most types of debit cards is required by April 1, 2012. The effective date for pricing restrictions was October 1, 2011. The new pricing restriction is expected to impact Webster, before management actions, by an approximate $15 million annual reduction of revenue related to these transactions.

On July 21, 2011, supervision of Webster s compliance with federal consumer financial protection laws was transferred from the Office of the Comptroller of the Currency (the OCC) to the new Bureau of Consumer Financial Protection, or CFPB . Pursuant to section 1025 of the Dodd-Frank Act, the CFPB has exclusive authority to examine for compliance with federal consumer financial laws and primary authority to enforce those laws for banks and financial institutions with more than $10 billion in assets as well as any subsidiary and affiliate of such depository institutions. Also as of July 21, 2011, rulemaking authority for a number of federal consumer financial protection laws was transferred under the Dodd-Frank Act from various federal agencies to the CFBP. The CFPB is in the process of republishing the regulations implementing those laws with technical and conforming changes to reflect the transfer of authority and certain other changes made by the Dodd-Frank Act.

The Dodd-Frank Act directs the federal banking agencies to establish minimum leverage and risk-based capital requirements for insured depository institutions and bank holding companies with assets greater than $500 million, among others, that should be no lower than the minimum requirements applicable to banks as of the date of enactment of the Dodd-Frank Act, and after a three-year phase-out period which begins January 1, 2013 for bank holding companies with assets of $15 billion or more, such as Webster, eliminates certain securities, such as trust preferred securities, from Tier 1 capital. On June 14, 2011, the FRB, along with other federal banking supervisors issued a final rule implementing the minimum leverage and risk-based capital requirements, but has not further defined the requirements of the three-year phase-out period. Trust preferred securities are not prohibited from being treated as Tier 2 capital under the Dodd-Frank Act. The Collins Amendment also directs the appropriate federal banking supervisors, subject to Council recommendations, to develop capital requirements for all insured depository institutions, depository institution holding companies and systemically important non-bank financial companies to address systemically risky activities.

The Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation at their first annual meeting taking place six months after the date of enactment and at least every three years thereafter and on so-called golden parachute payments in connection with approvals of mergers and acquisitions. The legislation also authorizes the Securities and Exchange Commission (SEC) to promulgate rules that would allow stockholders to nominate their own candidates using a company s proxy materials. Additionally, the Dodd-Frank Act directs the federal banking regulators to promulgate rules requiring the reporting of incentive-based compensation and prohibiting excessive incentive-based compensation paid to executives of depository institutions and their holding companies with assets in excess of $1.0 billion, regardless of whether the company is publicly traded or not. In April 2011, the FRB, along with other federal banking supervisors, issued a joint notice of proposed rulemaking implementing those requirements. The Dodd-Frank Act gives the SEC authority to prohibit broker discretionary voting on elections of directors, executive compensation matters and any other significant matter.

On December 20, 2011, the FRB issued a notice of proposed rulemaking on enhanced prudential requirements required by the Dodd-Frank Act. Although most of the enhanced prudential requirements only apply to bank holding companies with more than $50 billion in assets, the proposed rule, as directed by the Dodd-Frank Act, contains certain requirements that apply to bank holding companies with more than $10 billion in assets, including an annual company-run stress test requirement and a requirement to use a risk committee at the company s board of directors for enterprise-wide risk management practices. Webster meets these requirements.

Based on the Dodd-Frank Act, the Bank s operating subsidiaries (Webster Capital Finance and Webster Business Credit Corporation) were no longer eligible for preemption of state law including state licensing and requirements for lending, leasing, and debt collection activities as of July 21, 2011. Loan origination criteria (e.g., loan amount and interest rate thresholds) were modified in some states to ensure compliance in all states where the subsidiaries originate loans and leases.

It is difficult to predict at this time what specific impact certain provisions of the Dodd-Frank Act and its implementing rules and regulations, including those yet to be written, will have on the Company. The financial reform legislation and any additional implementing rules that are ultimately issued could have adverse implications on the financial industry, the competitive environment, and our ability to conduct business. Management will have to apply resources to ensure compliance with all applicable provisions of the Dodd-Frank Act and its implementing rules, which may further increase our costs of operations and adversely impact our earnings.

Regulatory Agencies

Webster is a legal entity separate and distinct from Webster Bank and its other subsidiaries. As a bank holding company and a financial holding company, Webster is regulated under the Bank Holding Company Act of 1956, as amended (BHC Act), and is subject to inspection, examination and supervision by the Federal Reserve Board. Webster is also under the jurisdiction of the SEC and is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as administered by the SEC. Webster s common stock is listed on the New York Stock Exchange (NYSE) under the trading symbol WBS, and is subject to the rules of the NYSE for listed companies. Webster Bank is organized as a national banking association under the National Bank Act. It is subject to regulation and examination by the OCC. As previously noted, on July 21, 2011 supervision of Webster s compliance with federal consumer financial protection laws was transferred from the OCC to the new Bureau of Consumer Financial Protection, or CFPB. The Company may also be subject to increased scrutiny and enforcement efforts by state attorneys general in regard to consumer protection laws. The Bank s deposits are insured by the FDIC.

Many of the Company s non-bank subsidiaries also are subject to regulation by the Federal Reserve Board and other federal and state agencies. Other non-bank subsidiaries are subject to both federal and state laws and regulations.

Bank Holding Company Activities

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

If a bank holding company seeks to engage in the broader range of activities that are permitted under the BHC Act for financial holding companies, (i) all of its depository institution subsidiaries, and the holding company must be well capitalized and well managed, as defined in the FRB s Regulation Y, and (ii) it must file a declaration with the Federal Reserve Board that it elects to be a financial holding company .

In order for a financial holding company to commence any activity that is financial in nature, incidental thereto, or complementary to a financial activity, or to acquire a company engaged in any such activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least satisfactory in its most recent examination under the Community Reinvestment Act. See the section captioned Community Reinvestment Act and Fair Lending Laws included elsewhere in this item.

The BHC Act generally limits acquisitions by bank holding companies that are not qualified as financial holding companies to commercial banks and companies engaged in activities that the Federal Reserve Board has determined to be so closely related to banking as to be a proper incident thereto. Financial holding companies like Webster are also permitted to acquire control of non-depository institution companies engaged in activities that are financial in nature and in activities that are incidental and complementary to financial activities without prior Federal Reserve Board approval. However, the Dodd-Frank Act requires prior written approval from the Federal Reserve or prior written notice to the Federal Reserve before a financial holding company may acquire control of a company with consolidated assets of $10 billion or more.

The BHC Act, the Federal Bank Merger Act and other federal and state statutes regulate acquisitions of commercial banks. The BHC Act requires the prior approval of the Federal Reserve Board for the direct or indirect acquisition of 5.0% or more of the voting shares of a commercial bank or its parent holding company. Under the Bank Merger Act, the prior approval of the OCC is required for a national bank to merge with another bank or purchase the assets or assume the deposits of another bank. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the applicant s performance record under the Community Reinvestment Act (see the section captioned Community Reinvestment Act and Fair Lending Laws included elsewhere in this item) and the effectiveness of the subject organizations in combating money laundering activities.

Dividends

The principal source of Webster s liquidity is dividends from Webster Bank. The prior approval of the OCC is required if the total of all dividends declared by a national bank in any calendar year would exceed the sum of the bank s net profits for that year and its net retained profits for the preceding two calendar years, less any required transfers to surplus. Federal law also prohibits national banks from paying dividends that would be greater than the bank s undivided profits after deducting statutory bad debt in excess of the bank s allowance for loan and lease losses. At December 31, 2011, there were $11.3 million of retained earnings available for the payment of dividends by Webster Bank to the Company. Webster Bank paid the Company $170.0 million in dividends during the year ended December 31, 2011.

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

Federal Reserve System

FRB regulations require depository institutions to maintain non-interest-earning reserves against their transaction accounts (primarily interest-bearing and regular checking accounts). The Bank s required reserves can be in the form of vault cash and, if vault cash does not fully satisfy the required reserves, in the form of a balance maintained with the Federal Reserve Bank of Boston. The FRB regulations currently require that reserves be maintained against aggregate transaction accounts except for transaction accounts up to $11.5 million, which are exempt. Transaction accounts greater than $11.5 million up to $71.0 million have a reserve requirement of 3%, and those greater than $71.0 million have a reserve requirement of $1.8 million plus 10% of the amount over $71.0 million. The FRB generally makes annual adjustments to the tiered reserves. The Bank is in compliance with these requirements.

As a member of the Federal Reserve System, the Bank is required to hold capital stock of the Federal Reserve Bank of Boston. The shares may be adjusted up or down based on changes to the Bank s common stock and paid-in surplus. The Bank is in compliance with the FRB s capital stock requirement.

Federal Home Loan Bank System

The Federal Home Loan Bank System consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility for member institutions. The Bank is a member of the Federal Home Loan Bank of Boston (FHLB). The Bank is required to purchase and hold shares of capital stock in the FHLB in an amount equal to 0.35% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year up to a maximum of $25 million.

The Bank is also required to hold shares of capital stock in the FHLB in amounts that vary from 3.0% to 4.5% of its advances (borrowings), depending on the maturities of the advances. The Bank was in compliance with this requirement with an investment in FHLB stock at December 31, 2011 of $93.2 million. At December 31, 2011, the Bank had approximately $1.3 billion in FHLB advances.

The FHLB restored its quarterly dividend in March 2011, and Webster Bank received $0.3 million in 2011. Webster Bank did not receive dividends from the FHLB during 2010.

Source of Strength Doctrine

The FRB requires bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. Under this policy, Webster is expected to commit resources to support Webster Bank, including at times when Webster may not be in a financial position to provide such resources. Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary banks. The BHC Act provides that, in the event of a bank holding company s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

In addition, under the National Bank Act, if the capital stock of Webster Bank is impaired by losses or otherwise, the OCC is authorized to require payment of the deficiency by assessment upon Webster. If the assessment is not paid within three months, the OCC could order a sale of the Webster Bank stock held by Webster to make good the deficiency.

Capital Adequacy and Prompt Corrective Action

Federal law requires, among other things, that federal bank regulatory authorities take prompt corrective action with respect to banks that do not meet minimum capital requirements. For these purposes, the law establishes five capital categories:

Well capitalized at least 5% leverage capital, 6% tier one risk-based capital and 10% total risk-based capital.

Adequately capitalized at least 4% leverage capital, 4% tier one risk-based capital and 8% total risk-based capital.

Undercapitalized less than 4% leverage capital, 4% tier one risk-based capital and less than 8% total risk-based capital. Undercapitalized banks must adhere to growth, capital distribution (including dividend) and other limitations and are required to submit a capital restoration plan. A bank s compliance with such a plan is required to be guaranteed by any company that controls the undercapitalized institution in an amount equal to the lesser of 5% of the institution s total assets when deemed undercapitalized or the amount necessary to achieve the status of adequately capitalized.

Significantly undercapitalized less than 3% leverage capital, 3% tier one risk-based capital and less than 6% total risk-based capital. Significantly undercapitalized banks must comply with one or more of a number of additional restrictions, including, but not limited to, an order by the FDIC to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, cease receipt of deposits from correspondent banks or dismiss directors or officers, and restrictions on interest rates paid on deposits, compensation of executive officers and capital distributions by the parent holding company.

Critically undercapitalized less than 2% tangible capital. Critically undercapitalized institutions are subject to additional measures including, subject to a narrow exception, the appointment of a receiver or conservator within 270 days after it obtains such status.

As of December 31, 2011, Webster and Webster Bank exceeded the regulatory requirements for the classification as well capitalized . In the first quarter of 2010, the Company down-streamed $100 million from Webster to Webster Bank to improve its overall capital position. This action also had the effect of increasing the bank-level leverage and total capital ratios. As of June 30, 2010, Webster Bank, N.A. became subject to individual minimum capital ratios (IMCRs). Pursuant to these IMCRs, Webster Bank, N.A. is required to maintain a Tier 1 leverage ratio of at least 7.5% of adjusted total assets and a total risk-based capital ratio of at least 12% of risk-weighted assets. The Bank exceeded these requirements as of June 30, 2010 through December 31, 2011. Webster Bank s Tier 1 leverage and total risk-based capital ratios were 8.4% and 13.95%, respectively, at December 31, 2011.

Table of Contents

At December 31, 2011, $209.9 million in trust preferred securities have been included in the Tier 1 capital of Webster Financial Corporation for regulatory capital purposes pursuant to the Federal Reserve s capital adequacy guidelines. Certain provisions of the Dodd-Frank Act will require the Company to exclude, over three years beginning on January 1, 2013, all trust preferred securities from the Company s Tier 1 capital. Excluding trust preferred securities from the Tier 1 capital at December 31, 2011 would not affect the Company s ability to meet all capital adequacy requirements to which it is subject.

On August 5, 2011, Standard & Poor s rating agency lowered the long-term rating of the U.S. government and federal agencies from AAA to AA+. In response, the federal banking agencies have indicated that for risk-based capital purposes, the risk weights for Treasury securities and other securities issued or guaranteed by the U.S. government, government agencies, and government sponsored entities are not affected.

See Note 13 Regulatory Matters in the Notes to Consolidated Financial Statements for additional information regarding Webster and Webster Bank s regulatory capital levels.

Basel III Amendments to Capital Adequacy Requirements

In December 2010, the Basel Committee, a group of bank regulatory supervisors from around the world, released its final framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as Basel III. Basel III, when implemented by the U.S. bank regulatory agencies and fully phased-in, will require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity. The Basel III final capital framework, among other things:

- introduces as a new capital measure Common Equity Tier 1 , or CET1 , specifies that Tier 1 capital consists of CET1 and Additional Tier 1 capital instruments meeting specified requirements, defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and expands the scope of the adjustments as compared to existing regulations;

- when fully phased in on January 1, 2019, requires banks to maintain:

  - as a newly adopted international standard, a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7%);

  - a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation);

  - a minimum ratio of Total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation);

  - as a newly adopted international standard, a minimum leverage ratio of 3.0%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (as the average for each quarter of the month-end ratios for the quarter); and

- provides for a countercyclical capital buffer , generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk that would be a CET1 add-on to the capital conservation buffer in the range of 0% to 2.5% when fully implemented (potentially resulting in total buffers of between 2.5% and 5%).

The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

Table of Contents

The implementation of the Basel III final framework will commence January 1, 2013. On that date, banking institutions will be required to meet the following minimum capital ratios:

- 3.5% CET1 to risk-weighted assets;
- 4.5% Tier 1 capital to risk-weighted assets; and
- 8.0% Total capital to risk-weighted assets.

The Basel III final framework provides for a number of new deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1.

Implementation of the deductions and other adjustments to CET1 will begin on January 1, 2014 and will be phased-in over a five-year period (20% per year). The implementation of the capital conservation buffer will begin on January 1, 2016 at 0.625% and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

The U.S. banking agencies have indicated informally that they expect to propose regulations implementing Basel III in early 2012.

The Dodd-Frank Act requires the Federal Reserve to adopt regulations imposing a continuing floor of the Basel I-based capital requirements in cases where the Basel II-based capital requirements and any changes in capital regulations resulting from Basel III otherwise would permit lower requirements. In June 2011, the Federal Reserve finalized regulations implementing this requirement.

Given that the Basel III rules are subject to implementation and change and the scope and content of capital regulations that U.S. federal banking agencies may adopt under the Dodd-Frank Act is uncertain, we cannot be certain of the impact new capital regulations will have on our capital ratios. However, Webster believes it s already fully compliant with Basel III, including the conservation buffers.

Transactions with Affiliates & Insiders

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

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

Table of Contents

Financial Privacy

Federal banking regulators have adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require the provision of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. The privacy provisions of the Gramm-Leach-Bliley Act (GLBA) affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. In addition, the affiliate marketing provisions of the Fair Credit Reporting Act require that, in certain situations where consumers information is shared with affiliates for use in marketing, the consumers must be given notice and a chance to opt out of the marketing.

Depositor Preference

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

Deposit Insurance

Substantially all of the deposits of Webster are insured up to applicable limits by the Deposit Insurance Fund (DIF) of the FDIC and are subject to deposit insurance assessments to maintain the DIF. The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank s capital level and supervisory rating (CAMELS rating). The risk matrix utilizes four risk categories which are distinguished by capital levels and supervisory ratings.

In February 2011, the FDIC issued rules to implement changes to the deposit insurance assessment base, and risk-based assessments mandated by the Dodd-Frank Act. The base for insurance assessments changed from domestic deposits to consolidated assets less tangible equity. Assessment rates are calculated using formulas that take into account the risk of the institution being assessed. The rule was effective April 1, 2011. On September 28, 2011, the FDIC issued notification to insured depository institutions that the transition guidance for reporting certain leveraged and subprime loans on the Call Report had been extended from October 1, 2011 to April 1, 2012. As discussed in the preceding section on the Dodd-Frank Act, the FDIC may review the definitions of subprime and leveraged loans. In the event that the FDIC does not propose to alter its supervisory approach to the definitions in the February 2011 final assessments rule or the supervisory guidance following this review, the extended time frame will give institutions additional time to adapt reporting systems to the definitions.

The Bank s FDIC deposit insurance assessment expenses totaled $20.9 million, $24.5 million and $30.1 million, for the years ended December 31, 2011, 2010, and 2009, respectively. FDIC insurance expense includes deposit insurance assessments and Financing Corporation (FICO) assessments related to outstanding FICO bonds. The FICO is a mixed-ownership government corporation established by the Competitive Equality Banking Act of 1987 whose sole purpose was to function as a financing vehicle for the now defunct Federal Savings & Loan Insurance Corporation.

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

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) implemented a broad range of corporate governance and accounting measures to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and to protect investors by improving the accuracy and reliability of disclosures under federal securities laws. We are subject to Sarbanes-Oxley because we are required to file periodic reports with the SEC under the Securities and Exchange Act of 1934. Among other things, Sarbanes-Oxley and/or its implementing regulations have established new membership requirements and additional responsibilities for our audit committee, imposed restrictions on the relationship between us and our outside auditors (including restrictions on the types of non-audit services our auditors may provide to us), imposed additional responsibilities for our external financial statements on our Chief Executive Officer and Chief Financial Officer, expanded the disclosure requirements for our corporate insiders, required our management to evaluate our disclosure controls and procedures and our internal control over financial reporting, and required our auditors to issue a report on our internal control over financial reporting. The NYSE has imposed a number of new corporate governance requirements as well.

Community Reinvestment Act and Fair Lending Laws

Webster Bank has a responsibility under the Community Reinvestment Act of 1977 (CRA) to help meet the credit needs of its communities, including low and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution s discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. In connection with its examination, the OCC assesses Webster Bank s record of compliance with the CRA. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit discrimination in lending practices on the basis of characteristics specified in those statutes. Webster Bank s failure to comply with the provisions of the CRA could, at a minimum, result in regulatory restrictions on its activities and the activities of Webster. Webster Bank s failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions against it by the OCC as well as other federal regulatory agencies including the CFPB and the Department of Justice. The Bank s latest OCC CRA rating was satisfactory .

USA PATRIOT Act

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

Office of Foreign Assets Control Regulation

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are typically known as the OFAC rules based on their administration by the U.S. Treasury Department Office of Foreign Assets Control (OFAC). The OFAC-administered sanctions

Table of Contents

targeting countries take many different forms. Generally, they contain one or more of the following elements: i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on U.S. persons engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

Other Legislative Initiatives

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

Risk Management Framework

Webster has an enterprise-wide approach to identifying, assessing and monitoring and managing risk throughout the Company. Webster manages risk taking activities within the Board-approved risk appetite framework through an enterprise-wide governance structure that outlines the responsibilities for risk management activities and oversight of the same. The Audit and Risk Committees of the Board of Directors, comprised solely of independent directors, oversee all Webster s risk-related matters. Webster s Enterprise Risk Management Committee (ERMC), which reports directly to the Risk Committee of the Board, is chaired by Webster s President and is comprised of members of Webster s Executive Management Committee. Other Senior Risk Officers who oversee matters related to credit, operational and compliance risks also participate with the Committee.

The Chief Risk Officer, who reports to the President, is responsible for overseeing the bank s credit, operational risk and compliance programs as well as the bank s loan workout and recovery activities. The Corporate Treasurer, who reports to the Chief Financial Officer, is responsible for overseeing market, liquidity and capital risk management activities.

In 2011, Webster developed and implemented a risk appetite framework, which included a risk appetite statement, board-level scorecards and a risk appetite policy. The risk appetite statement, which was adopted by the Board of Directors in September 2011, provides the principles of Webster s overall risk appetite that are in turn expressed through scorecards and limits that set the boundaries of acceptable risk.

Credit Risk

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

Credit Risk Management policies and transaction approvals are managed under the supervision of the Chief Credit Officer and are independent of the loan production and Treasury areas. The independent credit risk function oversees the underwriting, approval and portfolio management process, establishes and ensures adherence to credit policies and manages the collections and problem asset resolution activities in order to control and reduce classified and non-performing assets.

As part of the Credit Risk Management process, there is a Credit Risk Management Committee (CRMC) that meets regularly to report and discuss key credit risk topics, issues and policy recommendations affecting the bank. Included in the CRMC process is the periodic review of Webster s credit risk scorecard, which covers key risk indicators and limits established as part of the Company s risk appetite framework. The CRMC consists of a group of senior managers responsible for lending as well as senior managers from Credit Risk Management function and is chaired by Webster s Chief Credit Officer. Important findings regarding credit quality and trends within the loan and investment portfolios are regularly reported by the Chief Credit Officer to the ERMC and the Risk Committee of the Board of Directors.

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

Market Risk

Market risk refers to the risk of loss arising from adverse changes in interest rates, foreign currency exchange rates, commodity prices and other relevant market rates and prices, such as equity prices. The risk of loss can be assessed from the perspective of adverse changes in fair values, cash flows and future earnings. Due to the nature of its operations, Webster is primarily exposed to interest rate risk. Accordingly, Webster s interest rate sensitivity is monitored on an ongoing basis by its Asset and Liability Committee (ALCO). ALCO s primary goals are to manage interest rate risk to maximize earnings and net economic value in changing interest rate and business environments within Board of Director approved risk limits. ALCO is chaired by Webster s Corporate Treasurer who, as a Senior Risk Officer, regularly reports ALCO findings to the ERMC, the Risk Committee of the Board and the Board of Directors.

Liquidity Risk

Liquidity risk refers to the ability of the Bank to meet a demand for funds by converting assets into cash or cash equivalents and by increasing liabilities at acceptable costs. Liquidity management involves maintaining the ability to meet day-to-day and longer-term cash flow requirements of customers, whether they are depositors wishing to withdraw funds or borrowers requiring funds to meet their credit needs. Liquidity sources include the amount of unencumbered or free investment portfolio securities the Corporation owns.

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

Both the Bank and the holding company will maintain a level of liquidity necessary to achieve their business objectives under both normal and stressed conditions. Liquidity risk is monitored and managed by ALCO and reviewed regularly with ERMC, the Risk Committee of the Board and the Board of Directors.

Capital Risk

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

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. The definition includes the risk of loss from failure to comply with laws, ethical standards and contractual obligations and includes oversight of key operational risks including cash transfer risk. Webster s Chief Operating Risk Officer oversees the management and effectiveness of Webster s enterprise risk management program and operational risk management framework. The Chief Compliance Officer oversees the Compliance Program, the Bank Secrecy Act Program, the CRA and Fair Lending Programs. The Chief Operating Risk Officer and Chief Compliance Officer are responsible for reporting on the adequacy of these risk management components and programs along with any issues or concerns to the ERMC and the Risk Committee of the Board and/or other committees of the Board as provided for under relevant charters.

Webster s Operating Risk Management Committee (ORMC), which consists of Senior Risk Officers, senior managers responsible for human resources, legal, information security and operations, is chaired by Webster s Chief Operating Risk Officer.

Internal Audit provides an independent assessment of the quality of internal controls for all major business units and operations throughout Webster. Results of Internal Audit reviews are reported to management and the Audit Committee of the Board. Corrective measures are monitored to ensure risk issues are mitigated or resolved. The General Auditor reports directly to the Audit Committee and administratively to the Chief Risk Officer.

Additional information on risks and uncertainties and additional factors that could affect the results anticipated in these forward-looking statements or from historical performance can be found in Item 1A and elsewhere within this Form 10-K for the year ended December 31, 2011 and in other reports filed by Webster with the SEC.

Regional Expansion and Related Activities

In the fourth quarter of 2009, the Company established regional headquarters in Boston s financial district and centralized its regional offices into a new banking center in Providence s financial district. In December 2010, the Company opened a regional headquarters in White Plains, New York. In total, the Bank operates seven regional offices; in addition to Boston, Providence and White Plains, the Bank also has regional headquarters in Stamford, Waterbury, New Haven and Hartford.

The Company s growth and increased market share have been achieved through internal growth and also, in prior periods, through acquisitions. Acquisitions typically involve the payment of a premium over book and market values and commonly result in one-time charges against earnings for integration and similar costs. Cost-savings, especially incident to in-market acquisitions, are achieved and revenue growth opportunities may be enhanced through acquisitions. No acquisitions were undertaken during 2011 or 2010.

Subsidiaries of Webster Financial Corporation

Webster s direct subsidiaries as of December 31, 2011 included Webster Bank, N.A., Fleming, Perry & Cox, Inc., and Webster Licensing, LLC. Webster also owns all of the outstanding common stock in the following unconsolidated financial vehicles that have issued or may in the future issue trust preferred securities: Webster Capital Trust IV and Webster Statutory Trust I. The Company redeemed the following junior subordinated debt relating to capital trusts using cash on hand: People s Bancshares Capital Trust II on July 19, 2011; Eastern Wisconsin Bancshares Capital Trust II on May 20, 2011; and NewMil Statutory Trust I on March 28, 2011.

Webster Bank, N.A. s direct subsidiaries include Webster Mortgage Investment Corporation, Webster Preferred Capital Corporation (WPCC), Webster Business Credit Corporation (WBCC) and Webster Capital Finance, Inc. (WCF). Webster Bank, N.A. is the primary source of retail activity within the consolidated group. Webster Bank, N.A. provides banking services through 168 banking offices, 473 ATMs, telephone banking, mobile banking and its Internet websites. Residential mortgage origination activity is conducted through Webster Bank, N.A. Webster Mortgage Investment Corporation is a passive investment subsidiary whose primary function is to provide servicing on passive investments, such as residential real estate and commercial mortgage real estate loans transferred from Webster Bank, N.A. Webster Preferred Capital Corporation is a real estate investment trust, which holds mortgage assets, principally residential mortgage loans transferred from Webster Bank, N.A. Various commercial lending products are provided through Webster Bank, N.A. and its subsidiaries to clients within the region from Westchester County, NY to Boston, MA. WBCC provides asset-based lending services. Webster Capital Finance, Inc. provides equipment financing for end users of equipment. Additionally, Webster Bank, N.A. has various other subsidiaries that are not significant to the consolidated group.

Employees

At December 31, 2011, Webster had 2,961 employees, including 2,739 full-time and 222 part-time and other employees. None of the employees were represented by a collective bargaining group. Webster maintains a comprehensive employee benefit program providing, among other benefits, group medical and dental insurance, life insurance, disability insurance, and an employee 401(k) investment plan. Management considers relations with its employees to be good. See Note 18 Pension and Other Postretirement Benefits in the Notes to Consolidated Financial Statements contained elsewhere within this report for additional information on certain benefit programs.

Available Information

Webster makes available free of charge on its websites (www.websterbank.com or www.wbst.com) its Annual Report on Form 10-K, its quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 as soon as practicable after it electronically files such material with, or furnishes it to, the Securities and Exchange Commission. Information on Webster s website is not incorporated by reference into this report.

Table of Contents

ITEM 1A. RISK FACTORS

Our financial condition and results of operations are subject to various risks inherent in our business. The material risks and uncertainties that management believes affect us are described below. If any of the events or circumstances described in the following risks actually occurs, our business, financial condition or results of operations could suffer. You should consider all of the following risks together with all of the other information in this Annual Report on Form 10-K.

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

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

The possibility of the economy s return to recessionary conditions and the possibility of further turmoil or volatility in the financial markets would likely have an adverse effect on our business, financial position and results of operations.

The economy in the United States and globally began to recover from severe recessionary conditions in mid-2009 and is currently in the midst of a moderate economic recovery. The sustainability of the moderate recovery is dependent on a number of factors that are not within our control, such as a return to private sector job growth and investment, strengthening of housing sales and construction, continuation of the economic recovery globally, and the timing and impact of changing governmental policies. We continue to face risks resulting from the aftermath of the severe recession generally and the moderate pace of the current recovery. A slowing or failure of the economic recovery would likely aggravate the adverse effects of these difficult economic and market conditions on us and on others in the financial services industry.

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

- investors may have less confidence in the equity markets in general and in financial services industry stocks in particular, which could place downward pressure on our stock price and resulting market valuation;

- economic and market developments may further affect consumer and business confidence levels and may cause declines in credit usage and adverse changes in payment patterns, causing increases in delinquencies and default rates;

- our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite our customers become less predictive of future behaviors;

we could suffer decreases in customer desire to do business with us, whether as a result of a decreased demand for loans or other financial products and services or decreased deposits or other investments in accounts with us;

competition in our industry could intensify as a result of the increasing consolidation of financial services companies in connection with current market conditions, or otherwise;

we may expect to face increased regulation of our industry, and compliance with such regulation may increase our costs and limit our ability to pursue business opportunities; and

we may be required to pay significantly higher FDIC deposit insurance premiums.

Compliance with the Dodd-Frank Act may increase our costs of operations and adversely impact our earnings and capital ratios.

On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) into law. The Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial-services industry. Among other things, the Dodd-Frank Act creates a new federal financial consumer protection agency, increases capital standards, imposes clearing and margining requirements on many derivatives activities, and generally increases oversight and regulation of financial institutions and financial activities. It requires bank holding companies with assets greater than $500 million to be subject to minimum leverage and risk-based capital requirements and phases out the ability of such bank holding companies to count certain securities, such as trust preferred securities, as Tier 1 capital. For bank holding companies like us with assets of $15 billion or greater as of December 31, 2009, the phase out of existing trust preferred and other non-qualifying securities from Tier 1 capital will occur over a 3-year period beginning on January 1, 2013.

In addition to the self-implementing provisions of the statute, the Dodd-Frank Act calls for many administrative rulemakings by various federal agencies to implement various parts of the legislation. We cannot be certain when final rules affecting us will be issued through such rulemakings and what the specific content of such rules will be. The financial reform legislation and any implementing rules that are ultimately issued could have adverse implications on the financial industry, the competitive environment, and our ability to conduct business. We will have to apply resources to ensure that we are in compliance with all applicable provisions of the Dodd-Frank Act and any implementing rules, which may increase our costs of operations and adversely impact our earnings.

The provisions of the Dodd-Frank Act restricting bank interchange fees, and any rules promulgated thereunder, may negatively impact our revenues and earnings.

The Dodd-Frank Act requires that debit card interchange transaction fees, which are paid by merchants to card issuers for each transaction, be reasonable and proportional to the issuer s cost for processing the transaction. In December 2010, the FRB proposed regulations to establish standards for determining whether a debit card interchange fee received by a card issuer is reasonable and proportional to the cost incurred by the issuer for the transaction and to prohibit network exclusivity arrangements and routing restrictions. These standards would apply to issuers that, together with their affiliates, have assets of $10 billion or more.

On June 28, 2011, the FRB approved a final debit card interchange rule that would cap an issuer s base fee at 21 cents per transaction and allow an additional 5 basis-point charge per transaction to help cover fraud losses. The FRB issued an interim final rule that also allows a fraud-prevention adjustment of 1 cent per transaction conditioned upon an issuer adopting effective fraud prevention policies and procedures. As required by the Dodd-Frank Act, the FRB also adopted requirements that issuers include two unaffiliated networks for routing debit transactions. Compliance with most aspects of the rule for most types of debit cards is required by April 1, 2012. However, the effective date for the pricing restrictions is October 1, 2011. The new pricing restriction is expected to impact banks by up to an approximate 45% reduction of revenue related to these transactions. The debit card interchange rule began to reduce our interchange fee revenue in line with these expectations, beginning October 1, 2011.

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

We, primarily through Webster Bank and certain non-bank subsidiaries, are subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors funds, federal deposit insurance funds and the banking system as a whole, not shareholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products, and/or limit pricing able to be charged on certain banking services, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on our business, financial condition and results of operations. While we have policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur. See the section captioned Supervision and Regulation in Item 1 of this report for further information.

We may be subject to more stringent capital requirements.

Webster and Webster Bank are each subject to capital adequacy guidelines and other regulatory requirements specifying minimum amounts and types of capital which each of Webster and Webster Bank must maintain. From time to time, the regulators implement changes to these regulatory capital adequacy guidelines. If we fail to meet these minimum capital guidelines and other regulatory requirements, our financial condition would be materially and adversely affected. In light of proposed changes to regulatory capital requirements contained in the Dodd-Frank Act and the regulatory accords on international banking institutions formulated by the Basel Committee and implemented by the Federal Reserve and OCC, we likely will be required to satisfy additional, more stringent, capital adequacy standards. The ultimate impact of the new capital and liquidity standards on us cannot be determined at this time and will depend on a number of factors, including the treatment and implementation by the U.S. banking regulators. These requirements, however, and any other new regulations, could adversely affect our ability to pay dividends, or could require us to reduce business levels or to raise capital, including in ways that may adversely affect our financial condition or results of operations. For more information concerning our compliance with capital requirements, see the Bank Regulatory Capital Requirements section of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K.

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

Market values for the securities in our portfolio declined moderately during 2011 as liquidity and pricing were disrupted for certain securities, and the yield curve steepened toward the end of the year. When the fair value of a security declines, management must assess whether that decline is other-than-temporary. When management reviews whether a decline in fair value is other-than-temporary, it considers numerous factors, many of which involve significant judgment. Generally, market conditions remain strained for certain classes of securities. Accordingly, no assurance can be provided that the amount of the unrealized losses will not increase.

To the extent that any portion of the unrealized losses in our portfolio of investment securities is determined to be other-than-temporarily impaired, we will recognize a charge to our earnings in the quarter during which such determination is made and our capital ratios will be adversely impacted. If any such charge is deemed significant, a rating agency might downgrade our credit rating or put us on a credit watch. A downgrade or a significant reduction in our capital ratios might adversely impact our ability to access the capital markets or might increase our cost of capital. Even if we do not determine that the unrealized losses associated with the investment portfolio require an impairment charge, increases in such unrealized losses adversely impact the tangible common equity ratio, which may adversely impact credit rating agency and investor sentiment. Such negative perception also may adversely impact our ability to access the capital markets or might increase our cost of capital. See Note 3 Investment Securities in the Notes to Consolidated Financial Statements for additional information.

Our allowance for loan and lease losses may be insufficient.

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

Changes in local economic conditions could adversely affect our business.

A majority of our mortgage loans are secured by real estate in the State of Connecticut. Our success depends in part upon economic conditions in this and our other geographic markets. Adverse changes in such local markets could reduce our growth in loans and deposits, impair our ability to collect our loans, increase problem loans and charges-offs, and otherwise negatively affect our performance and financial condition.

Our stock price can be volatile.

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

- actual or anticipated variations in quarterly operating results;
- recommendations by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to us;
- news reports relating to trends, concerns and other issues in the financial services industry;
- new technology used, or services offered, by competitors;
- perceptions in the marketplace regarding us and/or our competitors;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;

failure to integrate acquisitions or realize anticipated benefits from acquisitions;

additional investments from third parties;

issuance of additional shares of stock;

changes in government regulations; or

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

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

We operate in a highly competitive industry and market area. If we fail to compete effectively, our financial condition and results of operations may be materially adversely affected.

We face substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors primarily include national, regional, and community banks within the various markets in which we operate. We also face competition from many other types of financial institutions, including, without limitation, savings and loans, credit unions, finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities, underwriting, insurance (both agency and underwriting) and merchant banking. Recent regulatory proposals also impose restrictions on the basis of asset size providing a potential advantage to smaller banking entities. Technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services than we, as well as better pricing for those products and services.

Our ability to compete successfully depends on a number of factors, including, among other things:

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

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

The unsoundness of other financial institutions could adversely affect us.

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

20

We may not be able to attract and retain skilled people.

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

If the goodwill that we have recorded in connection with our acquisitions becomes impaired, it could have a negative impact on our profitability.

Applicable accounting standards require that the purchase method of accounting be used for all business combinations. Under purchase accounting, if the purchase price of an acquired company exceeds the fair value of the acquired company s net assets, the excess is carried on the acquirer s balance sheet as goodwill. A continuing period of market disruption, or further market capitalization to book value deterioration, may result in the requirement to perform testing for impairment between annual assessments. Management will continue to monitor the relationship of the Company s market capitalization to its book value, which management attributes primarily to financial services industry-wide factors and to evaluate the carrying value of goodwill. To the extent that testing results in the identification of impairment, the Company may be required to record charges for the impairment of goodwill. Write-downs of the amount of any impairment, if necessary, are to be charged to the results of operations in the period in which the impairment occurs. There can be no assurance that future evaluations of goodwill will not result in findings of impairment and related write-downs, which may have a material adverse effect on our financial condition and results of operations. See Note 6 Goodwill and Other Intangible Assets in the Notes to Consolidated Financial Statements for further information.

We continually encounter technological change. The failure to understand and adapt to these changes could negatively impact our business.

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

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

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

New lines of business or new products and services may subject us to additional risks. A failure to successfully manage these risks may have a material adverse effect on our business.

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

A failure or breach of our systems, or those of our third party vendors and other service providers, including as a result of cyber attacks, could disrupt our businesses, result in the misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.

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

Information security risks for financial institutions have increased in recent years because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties. In addition, to access our products and services, our customers may use personal smartphones, tablet PC s, and other devices that are beyond our control systems. Our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. Although we believe we have robust information security procedures and controls, our systems, networks, and our customers devices may become the target of cyber attacks or information security breaches that could result in the unauthorized use of, loss of or destruction of our or our customers confidential, proprietary and other information, or otherwise disrupt our or our customers or other third parties business operations.

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

Table of Contents

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

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

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

We are exposed to risk of environmental liabilities with respect to properties to which we obtain title.

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

Table of Contents

ITEM 1B. UNRESOLVED STAFF COMMENTS

Webster has no unresolved comments from the SEC staff.

ITEM 2. PROPERTIES

At December 31, 2011, Webster Bank had 168 banking offices located in Connecticut, Massachusetts, Rhode Island and New York as follows:

As of December 31, 2011 Location	Leased	Owned	Total
Connecticut:			
Hartford County	28	17	45
New Haven County	14	19	33
Fairfield County	20	4	24
Litchfield County	5	8	13
Middlesex County	3	2	5
New London County	3	0	3
Tolland County	1	1	2
Massachusetts	9	13	22
Rhode Island	8	4	12
New York	9	0	9
Total Banking Offices	100	68	168

Lease expiration dates range from 1 to 76 years with renewal options of 2 to 35 years.

Subsidiaries and divisions maintain the following offices: Webster Financial Advisors, headquartered in Hartford, Connecticut, has offices in Stamford, New Haven, Waterbury and Providence, Rhode Island. Webster Capital Finance is headquartered in Farmington, Connecticut. Webster Business Credit Corporation (WBCC) is headquartered in New York, New York with offices in South Easton, Massachusetts; Radnor, Pennsylvania; and New Milford, Connecticut. HSA Bank is headquartered in Sheboygan, Wisconsin, with an office in Milwaukee, Wisconsin.

The total net book value of premises and equipment at December 31, 2011 was $147.4 million. See Note 5 Premises and Equipment, Net in the Notes to Consolidated Financial Statements elsewhere in this report for additional information.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

None

Table of Contents

PART II

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

Market Information

The common shares of Webster trade on the New York Stock Exchange under the symbol WBS .

On January 31, 2012, the closing market price of Webster common stock was $21.20. On January 23, 2012, Webster s Board of Directors declared a quarterly dividend of $.05 per share.

The following table sets forth for each quarter of 2011 and 2010 the intra-day high and low sales prices per share of common stock as reported by the NYSE and the cash dividends declared per share:

2011	High	Low	Dividends Declared
Fourth quarter	$ 21.23	$ 14.34	$ 0.05
Third quarter	22.42	14.78	0.05
Second quarter	22.03	19.14	0.05
First quarter	23.73	19.16	0.01

2010	High	Low	Dividends Declared
Fourth quarter	$ 19.97	$ 16.37	$ 0.01
Third quarter	20.20	15.55	0.01
Second quarter	22.68	16.90	0.01
First quarter	18.98	11.98	0.01

Webster had 8,346 holders of record of common stock and 87,532,036 shares outstanding on January 31, 2012. The number of shareholders of record was determined by Computershare, the Company s transfer agent and registrar.

Dividends

A primary source of liquidity for Webster Financial Corporation is dividend payments from Webster Bank (the Bank). The Bank s ability to make dividend payments to Webster is governed by OCC regulations. Without specific OCC approval, and subject to the Bank meeting applicable regulatory capital requirements before and after payment of dividends, the total of all dividends declared by the Bank is limited to net profits for the current year to date as of the declaration date plus net retained profits from the preceding two years. In addition, the OCC has the discretion to prohibit any otherwise permitted capital distribution on general safety and soundness grounds.

The payment of dividends is subject to various additional restrictions, none of which is expected to limit any dividend policy that the Board of Directors may in the future decide to adopt. Payment of dividends to Webster from Webster Bank is subject to certain regulatory and other restrictions. Under OCC regulations, Webster Bank may pay dividends to Webster without prior regulatory approval so long as it meets its applicable regulatory capital requirements before and after payment of such dividends and its total dividends declared do not exceed its net profits for the current year to the date of declaration plus net retained profits from the preceding two years less dividends declared in such years. At December 31, 2011, there were $11.3 million of retained earnings available for the payment of dividends by the Bank to the Company. At December 31, 2011, Webster Bank was in compliance with all applicable minimum capital requirements. The Bank paid the Company $170.0 million in dividends during the year ended December 31, 2011.

If the capital of Webster is diminished by depreciation in the value of its property or by losses, or otherwise, to an amount less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets, no dividends may be paid out of net profits until the

Table of Contents

deficiency in the amount of capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets has been repaired. See Supervision and Regulation section contained elsewhere within this report for additional information on dividends.

Recent Sale and Exchange of Registered Securities; Use of Proceeds from Registered Securities

No registered securities were sold by Webster during the year ended December 31, 2011. Registered securities were exchanged as part of employee and director stock compensation plans.

Recent Sale of Unregistered Securities

No unregistered securities were sold by Webster during the year ended December 31, 2011.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides information with respect to any purchase of shares of Webster common stock made by or on behalf of Webster or any affiliated purchaser for the quarter ended December 31, 2011.

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Warrants Purchased (2)	Average Price Paid Per Warrant	Total Number of Shares Purchased as a Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (3)
October 1-31, 2011	2,529	$ 16.66	5,200	$ 7.47		2,111,200
November 1-30, 2011						2,111,200
December 1-31, 2011	14,896	19.19				2,111,200
Total	17,425	$ 18.82	5,200	$ 7.47		2,111,200

(1) All shares repurchased were used for employee compensation plans.
(2) Warrants to purchase common stock at an exercise price of $18.28 per share, listed on the NYSE under the symbol WBS WS .
(3) The Company s current stock repurchase program, which was announced on September 26, 2007, authorized the Company to purchase up to an additional 5% of Webster s common stock outstanding at the time of authorization or 2.7 million shares. The program will remain in effect until fully utilized or until modified, superseded or terminated.

Table of Contents

Performance Graph

The performance graph compares Webster s cumulative shareholder return on its common stock over the last five fiscal years to the cumulative total return of the Standard & Poor s 500 Index (S&P 500 Index), and the Keefe, Bruyette & Woods Regional Banking Index (KRX). KRX was chosen as the industry index because Webster believes it provides a better comparison and more appropriate benchmark against which to measure stock performance.

Total shareholder return is measured by dividing total dividends (assuming dividend reinvestment) for the measurement period plus share price change for a period by the share price at the beginning of the measurement period. Webster s cumulative shareholder return over a five-year period is based on an initial investment of $100 on December 31, 2006.

Comparison of Five Year Cumulative Total Return Among

Webster, S&P 500 Index, KRX

			Period Ending			
Index	**12/31/2006**	**12/31/2007**	**12/31/2008**	**12/31/2009**	**12/31/2010**	**12/31/2011**
Webster Financial Corporation	$ 100	$ 67	$ 31	$ 27	$ 44	$ 46
KRX	$ 100	$ 78	$ 64	$ 49	$ 60	$ 57
S&P 500 Index	$ 100	$ 105	$ 66	$ 84	$ 97	$ 99

27

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

(In thousands, except per share data)	2011	2010 (a)	2009 (a)	2008 (a)	2007
BALANCE SHEETS					
Total assets	$ 18,714,340	$ 18,033,881	$ 17,737,070	$ 17,582,687	$ 17,201,960
Loans and leases, net	10,991,917	10,696,532	10,692,253	11,950,955	12,287,857
Investment securities	5,848,491	5,486,229	4,784,912	3,711,293	2,748,931
Federal Home Loan Bank and Federal Reserve Bank stock	143,874	143,874	140,874	134,874	110,962
Goodwill and other intangible assets, net	545,577	551,164	556,752	563,926	768,015
Deposits	13,656,025	13,608,785	13,632,127	11,884,890	12,354,158
FHLB advances and other borrowings	2,969,904	2,442,319	1,989,916	3,594,764	2,940,883
Total equity	1,845,774	1,778,879	1,955,907	1,882,888	1,746,247
STATEMENTS OF OPERATIONS					
Interest income	$ 699,723	$ 708,647	$ 746,090	$ 869,494	$ 995,595
Interest expense	135,955	171,376	250,704	363,482	487,403
Net interest income	563,768	537,271	495,386	506,012	508,192
Provision for loan and lease losses	22,500	115,000	303,000	186,300	67,750
Other non-interest income	175,018	185,270	226,682	195,792	204,156
Total other-than-temporary impairment losses on securities		(14,445)	(40,064)	(219,277)	(3,565)
Portion of the loss recognized in other comprehensive income		8,607	11,587		
Net impairment losses recognized in earnings		(5,838)	(28,477)	(219,277)	(3,565)
Net unrealized (loss) gain on securities classified as trading	(1,799)	12,045			
Net gain (loss) on sale of investment securities	3,823	9,748	(13,810)	(6,094)	1,721
Goodwill impairment				198,379	
Non-interest expense	510,976	538,974	507,394	476,790	483,094
Income (loss) from continuing operations before income tax expense (benefit)	207,334	84,522	(130,613)	(385,036)	159,660
Income tax expense (benefit)	57,951	12,358	(53,424)	(66,297)	48,088
Income (loss) from continuing operations	149,383	72,164	(77,189)	(318,739)	111,572
Income (loss) from discontinued operations, net of tax	1,995	94	302	(3,073)	(13,923)
Less: Net (loss) income attributable to non controlling interests	(1)	3	22	4	13
Preferred stock dividends	(3,286)	(18,086)	(32,863)	(12,805)	(863)
Accretion of preferred stock discount and gain on extinguishment		(6,830)	23,243	(145)	
Net income (loss) available to common shareholders	$ 148,093	$ 47,339	$ (86,529)	$ (334,766)	$ 96,773
Per Share Data					
Net income (loss) per common share from continuing operations basic	$ 1.67	$ 0.60	$ (1.43)	$ (6.39)	$ 2.02
Net income (loss) per common share basic	1.69	0.60	(1.42)	(6.45)	1.77
Net income (loss) per common share from continuing operations diluted	1.59	0.57	(2.17)	(6.39)	2.01
Net income (loss) per common share diluted	1.61	0.57	(2.16)	(6.45)	1.76
Dividends declared per common share	0.16	0.04	0.04	1.20	1.17
Book value per common share	20.74	19.97	19.57	23.77	33.09
Tangible book value per common share	14.57	13.73	12.54	13.33	18.73
Dividends declared per Series A preferred share	85.00	85.00	85.00	43.44	
Dividends declared per Series B preferred share		49.86	50.00	5.42	
Dividends declared per Series C preferred share			1.00		
Dividends declared per subsidiary preferred share	0.83	0.86	0.86	0.86	0.86
Weighted-average common shares diluted	91,688	82,172	63,916	52,020	54,900
Key Performance Ratios					
Return on average assets (b)	0.83%	0.40%	(0.44)%	(1.84)%	0.66%
Return on average shareholders equity (b)	8.13	3.85	(4.11)	(17.44)	5.97
Net interest margin	3.47	3.36	3.14	3.29	3.40
Interest-rate spread	3.43	3.31	3.09	3.24	3.32

Non-interest income as a percentage of total revenue	23.90	27.25	27.13	(6.21)	28.48
Average shareholders equity to average assets	10.16	10.49	10.68	10.56	10.99
Dividend payout ratio	9.47	6.67	(3.33)	(18.60)	66.48
Asset Quality Ratios					
Allowance for loan losses/total loans	2.08%	2.92%	3.09%	1.93%	1.51%
Net charge-offs/average loans	1.00	1.23	1.68	1.09	0.20
Non-performing loans/total loans	1.68	2.48	3.38	1.91	0.90
Non-performing assets/total loans plus OREO	1.72	2.73	3.63	2.15	0.97

(a) Certain previously reported information has been corrected to reflect the deferment of certain commercial loan fees. For more information refer to Note 1 in the Notes to Consolidated Financial Statements.
(b) Calculated based on income from continuing operations.

Table of Contents

Item 7. **MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with the Consolidated Financial Statements of Webster Financial Corporation and the Notes thereto included elsewhere in this report (collectively, the Consolidated Financial Statements).

Certain previously reported information has been corrected to reflect the deferment of certain commercial loan fees. For more information refer to Note 1 in the Notes to Consolidated Financial Statements.

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the Act). Forward-looking statements can be identified by words such as believes , anticipates , expects , intends , targeted , continue will , should , may , plans , estimates and similar references to future periods, however such words are not the exclusive means of identifying s statements. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, expenses, income or loss, earnings or loss per share, and other financial items; (ii) statements of plans, objectives and expectations of Webster or its management or Board of Directors; (iii) statements of future economic performance; and (iv) 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: (1) local, regional, national and international economic conditions and the impact they may have on us and our customers and our assessment of that impact; (2) volatility and disruption in national and international financial markets; (3) government intervention in the U.S. financial system; (4) changes in the level of non-performing assets and charge-offs; (5) changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements; (6) adverse conditions in the securities markets that lead to impairment in the value of securities in our investment portfolio; (7) inflation, interest rate, securities market and monetary fluctuations; (8) the timely development and acceptance of new products and services and perceived overall value of these products and services by customers; (9) changes in consumer spending, borrowings and savings habits; (10) technological changes and cyber-security matters; (11) the ability to increase market share and control expenses; (12) changes in the competitive environment among banks, financial holding companies and other financial service providers; (13) the effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which we and our subsidiaries must comply, including those under the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Basel III update to the Basel Accords; (14) 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 and other accounting standard setters; (15) 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 (16) our success at managing the risks involved in the foregoing items. Any forward-looking statement made by the Company in this Annual Report on Form 10-K speaks only as of the date on which it is 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.

Table of Contents

Results of Operations

Summary

Webster s net income available to common shareholders for the year ended December 31, 2011 was $148.1 million compared to $47.3 million for the year ended December 31, 2010. Net income per diluted share was $1.61 for the year ended December 31, 2011 compared to $0.57 for the year ended December 31, 2010. The primary factors which led to the increase in net income available to common shareholders in 2011 as compared to 2010 are outlined below:

The factors positively impacting net income available to common shareholders include:

- provision for loan and lease losses was $92.5 million lower;
- interest expense decreased $35.4 million;
- litigation expense decreased $32.0 million; and
- other non-interest expense (excluding litigation and compensation and benefits) decreased $13.3 million.

The factors negatively impacting net income available to common shareholders include:

- compensation and benefits increased $17.3 million;
- a $1.8 million 2011 loss compared to a $12.0 million 2010 gain on trading securities;
- interest income decreased $8.9 million; and
- deposit service fees decreased $6.2 million.

The impact of the items outlined above, after the effect from income taxes, resulted in income from continuing operations of $149.4 million for the year ended December 31, 2011 as compared to $72.2 million for the year ended December 31, 2010.

Income from discontinued operations, net of taxes, totaled $2.0 million and $0.1 million for the years ended December 31, 2011 and 2010, respectively, due to contingent consideration within the respective sales contract for Webster Insurance.

Net interest income increased $26.5 million, or 4.9%, from 2010 to $563.8 million for the year ended December 31, 2011. Average total interest earning assets increased by $270.8 million, while the average yield declined by 12 basis points in 2011 compared to 2010 and average total interest-bearing liabilities increased by $242.4 million, while the average cost declined by 24 basis points in 2011 compared to 2010.

Non-interest income decreased $24.2 million, or 12.0%, to $177.0 million for the year ended December 31, 2011 when compared to the year ended December 31, 2010. The decrease for 2011 is primarily attributable to a $6.2 million decrease in deposit service fees primarily a result of Regulation E implementation and the Durbin amendment s reduction of debit card interchange rates that went into effect during the fourth quarter of 2011, a $13.8 million unfavorable effect of a 2011 net loss as compared to a 2010 net gain on trading securities and a $5.9 million decrease in gain on sale of investment securities, partially offset by the $5.8 million reduction in other-than-temporary impairment losses recorded in 2010.

Non-interest expense decreased $28.0 million, or 5.2%, to $511.0 million for the year ended December 31, 2011 when compared to the year ended December 31, 2010. The decrease in non-interest expense is primarily due to a $22.5 million settlement reserve charge recorded in the year ended December 31, 2010, a portion of which ($9.5 million) was reversed in the year ended December 31, 2011 upon successful resolution of this matter, and the near offset of an increase of $17.3 million in compensation and benefits by a decrease of $13.3 million in all other non-interest expenses.

Table of Contents

Selected financial highlights are presented in the following table:

(In thousands, except per share and ratio data)	At or for the year ended December 31, 2011	2010	2009
Earnings			
Net interest income	$ 563,768	$ 537,271	$ 495,386
Provision for loan and lease losses	22,500	115,000	303,000
Total non-interest income	177,042	201,225	184,395
Total non-interest expense	510,976	538,974	507,394
Income (loss) from continuing operations	149,383	72,164	(77,189)
Income from discontinued operations, net of tax	1,995	94	302
Net (loss) income attributable to noncontrolling interests	(1)	3	22
Net income (loss) attributable to Webster Financial Corporation	151,379	72,255	(76,909)
Net income (loss) available to common shareholders	148,093	47,339	(86,529)
Per Share Data			
Net income (loss) from continuing operations per common share diluted (a)	$ 1.59	$ 0.57	$ (2.17)
Net income (loss) available to common shareholders diluted (a)	1.61	0.57	(2.16)
Dividends declared per common share	0.16	0.04	0.04
Book value per common share	20.74	19.97	19.57
Tangible book value per common share (b)	14.57	13.73	12.54
Weighted-average common shares diluted	91,688	82,172	63,916
Dividends declared per Series A preferred share	$ 85.00	$ 85.00	$ 85.00
Dividends declared per Series B preferred share		49.86	50.00
Dividends declared per Series C preferred share			1.00
Dividends declared per subsidiary preferred share	0.83	0.86	0.86
Selected Ratios			
Return on average assets (c)	0.83%	0.40%	(0.44)%
Return on average shareholders equity (c)	8.13	3.85	(4.10)
Net interest margin	3.47	3.36	3.14
Efficiency ratio (d)	65.13	66.78	66.10
Tangible capital ratio (e)	7.16	6.97	8.09
Tier one common equity to risk weighted assets	11.08	9.92	7.83

(a) For the years ended December 31, 2011, 2010 and 2009, the effect of preferred stock on the computation of diluted earnings per share was anti-dilutive, therefore, the effect of this security was not included in the determination of diluted shares (average). In addition, stock options, restricted stock awards and outstanding warrants to purchase common stock were also deemed to be anti-dilutive, therefore, the effect of these instruments was not included in the determination of diluted shares (average) for the year ended December 31, 2009.

(b) Calculated by dividing Webster Financial Corporation common shareholders equity (excluding goodwill, other intangible assets and deferred tax liability related to intangible assets) by total common shares outstanding.

(c) Calculated based on income from continuing operations.

(d) Calculated using SNL s methodology-non-interest expense (excluding foreclosed property expenses, intangible amortization, goodwill impairments and other charges) as a percentage of net interest income (FTE basis) plus non-interest income (excluding gain/loss on securities and other charges).

(e) Calculated by dividing Webster Financial Corporation shareholders equity (excluding goodwill and other intangible assets) by total assets (excluding goodwill and other intangible assets).

31

Table of Contents

Table 1: Three-year average balance sheet and net interest margin (average balances are daily averages).

	Years ended December 31,								
	2011			2010			2009		
(Dollars in thousands)	Average Balance	Interest (a)	Average Yields	Average Balance	Interest (a)	Average Yields	Average Balance	Interest (a)	Average Yields
Assets									
Interest-earning assets:									
Interest-bearing deposits	$ 112,232	$ 216	0.19%	$ 151,756	$ 389	0.26%	$ 156,553	$ 471	0.30%
Securities (b)	5,407,867	223,568	4.16	5,254,314	225,918	4.32	4,150,969	217,961	5.18
Federal Home Loan and Federal Reserve Bank stock	143,874	3,318	2.31	142,896	2,983	2.09	137,931	2,685	1.95
Loans held for sale	28,144	1,235	4.39	21,758	970	4.46	52,131	2,077	3.98
Loans	11,054,100	486,883	4.40	10,904,698	493,244	4.52	11,693,807	537,383	4.60
Total interest-earning assets	16,746,217	715,220	4.28%	16,475,422	723,504	4.40%	16,191,391	760,577	4.70%
Noninterest-earning assets	1,335,374			1,378,242			1,396,966		
Total assets	$ 18,081,591			$ 17,853,664			$ 17,588,357		
Liabilities and equity									
Interest-bearing liabilities:									
Demand deposits	$ 2,278,419	$	%	$ 1,789,161	$	%	$ 1,578,356	$	%
Savings, checking & money market deposits	8,534,333	33,747	0.40	8,458,169	49,251	0.58	6,977,196	60,971	0.87
Time deposits	3,031,835	47,061	1.55	3,490,017	63,378	1.82	4,525,770	119,833	2.65
Total deposits	13,844,587	80,808	0.58	13,737,347	112,629	0.82	13,081,322	180,804	1.38
Federal Home Loan Bank advances	569,987	14,352	2.52	567,711	17,628	3.11	697,711	25,286	3.62
Securities sold under agreements to repurchase and other short-term borrowings	1,053,323	16,172	2.02	899,203	15,900	1.77	1,124,118	19,275	1.71
Long-term debt	565,331	24,623	4.36	586,546	25,219	4.30	628,145	25,339	4.03
Total borrowings	2,188,641	55,147	2.52	2,053,460	58,747	2.86	2,449,974	69,900	2.85
Total interest-bearing liabilities	16,033,228	135,955	0.85%	15,790,807	171,376	1.09%	15,531,296	250,704	1.61%
Noninterest-bearing liabilities	202,205			184,264			168,970		
Total liabilities	16,235,433			15,975,071			15,700,266		
Equity	1,846,158			1,878,593			1,888,091		
Total liabilities and equity	$ 18,081,591			$ 17,853,664			$ 17,588,357		
Fully tax-equivalent net interest income		579,265			552,128			509,873	
Less: tax equivalent adjustments		(15,497)			(14,857)			(14,487)	
Net interest income		$ 563,768			$ 537,271			$ 495,386	
Interest-rate spread			3.43%			3.31%			3.09%
Net interest margin (b)			3.47%			3.36%			3.14%

(a) On a fully tax-equivalent basis.

(b) For purposes of this computation, net unrealized gains (losses) on available for sale securities of $38.5 million, $22.9 million and $(57.6) million as of December 31, 2011, 2010 and 2009, respectively, are excluded from the average balance for rate calculations.

Table of Contents

Net Interest Income

The following table describes the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have impacted interest income and interest expense during the periods indicated. Information is provided in each category with respect to changes attributable to volume (changes in volume multiplied by prior rate), changes attributable to rates (changes in rates multiplied by prior volume) and the total net change. The change attributable to the combined impact of volume and rate has been allocated proportionately to the change due to volume and the change due to rate. The table below is based upon reported net interest income.

Table 2: Net interest income rate/volume analysis (not presented on a tax-equivalent basis).

	Years ended December 31, 2011 vs. 2010 Increase (decrease) due to			Years ended December 31, 2010 vs. 2009 Increase (decrease) due to		
(In thousands)	**Rate**	**Volume**	**Total**	**Rate**	**Volume**	**Total**
Interest on interest-earning assets:						
Loans	$ (13,058)	$ 6,697	$ (6,361)	$ (8,338)	$ (35,801)	$ (44,139)
Loans held for sale	(15)	280	265	223	(1,330)	(1,107)
Investment securities	(7,011)	4,183	(2,828)	(35,836)	43,639	7,803
Total interest income	(20,084)	11,160	(8,924)	(43,951)	6,508	(37,443)
Interest on interest-bearing liabilities:						
Deposits	$ (32,694)	$ 873	(31,821)	$ (76,837)	$ 8,662	(68,175)
Borrowings	(7,303)	3,703	(3,600)	190	(11,343)	(11,153)
Total interest expense	(39,997)	4,576	(35,421)	(76,647)	(2,681)	(79,328)
Net change in net interest income	$ 19,913	$ 6,584	$ 26,497	$ 32,696	$ 9,189	$ 41,885

Net interest income, the difference between interest earned on interest-earning assets and interest expense incurred on deposits and borrowings, totaled $563.8 million for the year ended December 31, 2011, compared to $537.3 million for the year ended December 31, 2010, an increase of $26.5 million. Average interest-earning assets increased to $16.7 billion at December 31, 2011 from $16.5 billion at December 31, 2010 while average interest-bearing liabilities also increased to $16.0 billion at December 31, 2011 from $15.8 billion at December 31, 2010. As a result of the greater decline in the cost of interest-bearing liabilities than the decline in yield on interest-earning assets to interest-bearing liabilities, the net interest margin grew by 11 basis points to 3.47% for the year ended December 31, 2011 from 3.36% for the year ended December 31, 2010. The yield on interest-earning assets declined by 12 basis points for the year ended December 31, 2011, while the cost of interest-bearing liabilities declined 24 basis points for the year ended December 31, 2011.

Since net interest income is affected by changes in interest rates, loan and deposit pricing strategies, competitive conditions, the volume and mix of interest-earning assets and interest-bearing liabilities as well as the level of non-performing assets, Webster manages the risk of changes in interest rates on its net interest income through an Asset/Liability Management Committee and through related interest rate risk monitoring and management policies. See the Asset/Liability Management and Market Risk section for further discussion of Webster s interest rate risk position.

Interest Income

Interest income decreased $8.9 million to $699.7 million for the year ended December 31, 2011 as compared to 2010. Average loans, excluding loans held for sale, increased by $149.4 million for the year ended December 31, 2011 compared to 2010. Average investment securities increased by $153.6 million for the year ended December 31, 2011 compared to 2010.

Table of Contents

The 12 basis point decrease in the average yield earned on interest-earning assets for the year ended December 31, 2011 to 4.28% compared to 4.40% for 2010 is a result of repayment of higher yielding loans and securities, origination of lower yielding loans and purchase of lower yielding securities. The loan portfolio yield decreased 12 basis points to 4.40% for the year ended December 31, 2011 and comprised 66.0% of average interest-earning assets at December 31, 2011 compared to the loan portfolio yield of 4.52% and 66.2% of average interest-earning assets for the year ended December 31, 2010. The yield on investment securities decreased by 16 basis points to 4.16% and comprised 32.3% of average interest earning assets at December 31, 2011 compared to the investment portfolio yield of 4.32% and 31.9% of average interest-earning assets at December 31, 2010. All other interest-earning assets comprised 1.7% and 1.9% at December 31, 2011 and 2010, respectively.

Interest Expense

Interest expense for the year ended December 31, 2011 decreased $35.4 million compared to 2010. The average cost of interest-bearing liabilities was 0.85% for the year ended December 31, 2011, a decrease of 24 basis points compared to 1.09% for 2010. The decrease was primarily due to a decline of 24 basis points in the cost of deposits to 0.58% from 0.82% a year ago, an increase in average deposits of $107.2 million compared to 2010, and a decrease in the cost of borrowings to 2.52% from 2.86% for the year ended December 31, 2010.

Provision for Loan and Lease Losses

The provision for loan and lease losses was $22.5 million for the year ended December 31, 2011, a decrease of $92.5 million compared to $115.0 million for the year ended December 31, 2010. The decrease is primarily due to management s perspective regarding the level of probable losses inherent in Webster s existing book of business and management s belief that the overall reserve levels are adequate. For the year ended December 31, 2011, total net charge-offs were $110.7 million compared to $134.5 million in 2010. See Tables 17 through 23 for information on the allowance for loan and lease losses, net charge-offs and non-performing assets.

Management performs a quarterly review of the loan portfolio to determine the adequacy of the allowance for loan and lease losses. Several factors influence the amount of the provision, including loan growth, portfolio composition, credit performance, changes in the levels of non-performing loans, net charge-offs and the general economic environment. At December 31, 2011, the allowance for loan and lease losses totaled $233.5 million or 2.08% of total loans compared to $321.7 million or 2.92% at December 31, 2010. See the Allowance for Loan and Lease Losses Methodology section later in Management s Discussion and Analysis for further details.

Non-interest Income

Table 3: Non-interest income comparison of 2011 to 2010.

	Years ended December 31,		Increase (decrease)	
(In thousands)	**2011**	**2010**	**Amount**	**Percent**
Non-Interest Income:				
Deposit service fees	$ 102,795	$ 108,977	$ (6,182)	(5.7)%
Loan related fees	20,237	20,286	(49)	(0.2)
Wealth and investment services	26,421	24,925	1,496	6.0
Mortgage banking activities	4,905	4,169	736	17.7
Increase in cash surrender value of life insurance policies	10,360	10,517	(157)	(1.5)
Net (loss) gain on trading securities	(1,799)	12,045	(13,844)	(114.9)
Net gain on sale of investment securities	3,823	9,748	(5,925)	(60.8)
Total other-than-temporary impairment losses on securities		(14,445)	14,445	(100.0)
Portion of the loss recognized in other comprehensive income		8,607	(8,607)	100.0
Net impairment losses recognized in earnings		(5,838)	5,838	(100.0)
Other income	10,300	16,396	(6,096)	(37.2)
Total non-interest income	$ 177,042	$ 201,225	$ (24,183)	(12.0)%

34

Total non-interest income was $177.0 million for the year ended December 31, 2011, a decrease of $24.2 million from the year ended December 31, 2010. The decrease for 2011 is primarily attributable to a $6.2 million decrease in deposit service fees, primarily a result of the implementation of Regulation E and the Durbin amendment, a $13.8 million unfavorable effect of a 2011 net loss as compared to a 2010 net gain on trading securities and a $5.9 million decrease in gain on sale of investment securities, partially offset by the $5.8 million reduction in other-than-temporary impairment losses recorded in 2010.

Deposit Service Fees. Deposit service fees were $102.8 million for the year ended December 31, 2011, a decrease of $6.2 million from the comparable period in 2010, primarily due to a decline in customer overdraft activity associated with the implementation of Regulation E during the third quarter of 2010 and the Durbin amendment s reduction of debit card interchange rates that went into effect during the fourth quarter of 2011. The impact of these regulatory reductions of fee revenue was partially offset by an increase in checking account service charges as a result of the redesigned line of checking products implemented during the fourth quarter of 2010 and revised overdraft pricing in September of 2011.

Wealth and Investment Services. Wealth and investment services income was $26.4 million for the year ended December 31, 2011, an increase of $1.5 million from the comparable period in 2010, due to an increase in new business originated by Webster Financial Advisors.

Mortgage Banking Activities. Net revenue from mortgage banking activities was $4.9 million for the year ended December 31, 2011, an increase of $0.7 million from the comparable period in 2010. After the effect of a $0.8 million gain on commercial loan sale recorded in December 31, 2011, mortgage banking activities are flat year over year. The increase in volume of loans originated and sold to third parties in 2011 was offset by a tightening of secondary market spreads for the loans sold.

Net Gain on Sale of Investment Securities. Net gain on the sale of investments was $3.8 million for the year ended December 31, 2011, a decrease of $5.9 million from the comparable period in 2010. The gain on sale of investment securities for the year ended December 31, 2011 is due to the $7.1 million gain on sale of agency securities and equity securities, offset by $3.3 million in losses on the sale of two trust preferred securities.

Net Impairment Losses on Securities Recognized in Earnings. There were no net impairment losses on securities recognized in earnings for the year ended December 31, 2011, compared to losses of $5.8 million in the comparable period in 2010. This decrease is primarily the result of a reduction in deferrals and defaults on pooled trust preferred securities in 2011 compared to previously impaired book values.

Other. Other non-interest income was $10.3 million for the year ended December 31, 2011 compared to $16.4 million a year ago. The $6.1 million decrease is primarily due to a realized gain of $6.4 million on the sale of the Company s direct investment in the Higher One Holdings, Inc. recorded in the year ended December 31, 2010.

Table of Contents

Non-interest Expense

Table 4: Non-interest expense comparison of 2011 to 2010.

(In thousands)	Years ended December 31, 2011	2010	Increase (decrease) Amount	Percent
Non-Interest Expense:				
Compensation and benefits	$ 262,647	$ 245,343	$ 17,304	7.1%
Occupancy	53,866	55,634	(1,768)	(3.2)
Technology and equipment expense	60,721	62,855	(2,134)	(3.4)
Intangible assets amortization	5,588	5,588		
Marketing	18,456	18,968	(512)	(2.7)
Professional and outside services	11,203	14,721	(3,518)	(23.9)
Deposit insurance	20,927	24,535	(3,608)	(14.7)
Litigation	(9,523)	22,476	(31,999)	(142.4)
Other expenses	87,091	88,854	(1,763)	(2.0)
Total non-interest expense	$ 510,976	$ 538,974	$ (27,998)	(5.2)%

Total non-interest expense was $511.0 million for the year ended December 31, 2011 compared to $539.0 million for the year ended December 31, 2010. The $28.0 million decrease in non-interest expense is primarily due to a $22.5 million settlement reserve charge recorded in the year ended December 31, 2010, a portion of which ($9.5 million) was reversed in the year ended December 31, 2011 upon successful resolution of this matter, while an increase of $17.3 million in compensation and benefits was primarily offset by a decrease of $13.3 million in all other non-interest expenses.

Compensation and benefits. Compensation and benefits expense was $262.6 million for the year ended December 31, 2011, which represents an increase of $17.3 million compared to $245.3 million for the year ended December 31, 2010. The increase is primarily attributable to an increase in incentive compensation expense as a result of the company exceeding its financial performance targets for the year, an increase in group insurance due to an increase in the quantity and magnitude of claims as the company is self-insured, and higher compensation expense as a result of annual merit increases and an initiative to increase the number of business development officers to support the Company s Business and Professional Banking and Middle Market divisions. The impact of the compensation expenses was partially offset by an overall decrease in headcount.

Occupancy. Occupancy expense was $53.9 million for the year ended December 31, 2011, a decrease of $1.8 million when compared to the year ended December 31, 2010. The decrease is primarily due to the closure of 16 branches during the year ended December 31, 2011.

Professional and outside services. Professional and outside service expense was $11.2 million for the year ended December 31, 2011, a decrease of $3.5 million when compared to the year ended December 31, 2010. The decrease is primarily due to a decrease in legal fees as a result of the settlement of a significant lawsuit in 2011.

Deposit Insurance. The FDIC deposit insurance assessment for year ended December 31, 2011 was $20.9 million as compared to $24.5 million for the year ended December 31, 2010. This decrease from the comparable period in 2010 reflects lower FDIC rates due to changes in the deposit insurance assessment system from one that is based on domestic deposits to one that is based on average consolidated total assets minus average tangible equity effective April 1, 2011.

Other Expense. Other expense was $87.1 million for the year ended December 31, 2011, a decrease of $1.8 million when compared to the year ended December 31, 2010. The decrease is primarily due to a $1.8 million decrease in foreclosed and repossessed asset expenses and write-downs, a $2.3 million decrease in loan workout expenses from the comparable period in 2010, and a $5.9 million net fraud loss recorded in the year ended December 31, 2010, partially offset by a $5.2 million prepayment charge on FHLB advances and a $2.0 million charge associated with the transition to a new credit card provider recorded in the year ended December 31, 2011.

Discontinued Operations

For the year ended December 31, 2011, income from discontinued operations was $2.0 million, an increase of $1.9 million from the $0.1 million income from discontinued operations recognized for the year ended December 31, 2010. Income from discontinued operations is primarily related to the sale of Webster Insurance and Webster Risk Services in 2008. and represents the finalization of revenues associated with the contingent earn-out contracts.

Income Taxes

During 2011, Webster recognized income tax expense of $58.0 million on its $207.3 million pre-tax income from continuing operations during the year, reflecting a 28.0% effective tax rate. In 2010, Webster recognized tax expense of $12.4 million on its $84.5 million pre-tax income from continuing operations, reflecting a 14.6% effective tax rate.

The increase in the effective tax rate from 2010 to 2011 is primarily due to the $122.8 million increase in pre-tax income and the reduced benefit of tax-exempt income, relative to pre-tax income, that resulted from the Company s pre-tax income increase. Additionally, the effects of a $4.5 million year-over-year decrease in tax benefits from reductions in the Company s deferred tax asset valuation allowance applicable to capital losses were largely offset from an effective tax rate perspective by a $2.8 million decrease in tax expense relating to Webster s 2010 exit from the U.S. Treasury s Capital Purchase Program, specifically the restrictions that participation in that program had on the tax-deductibility of its executive compensation.

Webster s 2010 tax expense was impacted by a $5.6 million tax benefit from the reduction in the deferred tax asset valuation allowance applicable to capital losses as a result of capital gains recognized during 2010, and it was increased by $0.9 million relative to 2009 as a result of the restrictions on the tax-deductibility of executive compensation due to its participation in the U.S. Treasury s Capital Purchase Program. That increase was offset by a $1.5 million net reduction in tax expense applicable to state and local taxes, when compared to 2009, attributable principally to the resolution of uncertain tax positions.

For more information on Webster s income taxes, including its deferred tax assets and valuation allowance, see Note 7 Income Taxes in the Notes to Consolidated Financial Statements included elsewhere within this report.

Comparison of 2010 and 2009 Years

For the year ended December 31, 2010, Webster s net income available to common shareholders was $47.3 million compared to a net loss of $86.5 million for the year ended December 31, 2009. Net income per diluted share was $0.57 for the year ended December 31, 2010 compared to a net loss per diluted share of $2.16 for the year ended December 31, 2009. The primary contributors to the improvement from a net loss in 2009 to net income in 2010 are outlined below.

The factors positively impacting net income available to common shareholders in 2010 when compared to 2009 were:

- provision for loan and lease losses was $188.0 million lower;
- net interest income was $41.9 million higher;
- net gain in 2010 (compared to net loss in 2009) on sale of investment securities was $23.6 million favorable;

net impairment losses recognized on securities were $22.6 million less; and

net gains on trading securities of $12.0 million.

The factors negatively impacting net income available to common shareholders in 2010 when compared to 2009 were:

a $24.3 million gain on the exchange of trust preferred for common stock recorded in 2009;

settlement and reserve for litigation of $22.5 million in 2010; and

a $10.4 million reduction in deposit service fees.

The impact of the items outlined above, after the effect from income taxes, resulted in income from continuing operations of $72.2 million for the year ended December 31, 2010 as compared to a loss of $77.2 million for the year ended December 31, 2009.

Income from discontinued operations, net of taxes, totaled $0.1 million and $0.3 million for the year ended December 31, 2010 and 2009, respectively, from contingent consideration within the respective sales contract for Webster Insurance.

Net interest income increased $41.9 million, or 8.5%, from 2009 to $537.3 million for the year ended December 31, 2010. Average total interest earning assets increased by $284.0 million, while average yields declined by 30 basis points in 2010 compared to 2009 and average total interest bearing liabilities increased by $259.5 million, while average costs declined by 52 basis points in 2010 compared to 2009.

Non-interest income increased $16.8 million, or 9.1%, to $201.2 million for the year ended December 31, 2010 when compared to the year ended December 31, 2009. The increase in non-interest income is due primarily to a $23.6 million favorable effect of a 2010 net gain as compared to a 2009 net loss on sale of investment securities and $22.6 million lower net impairment losses recognized in 2010 as compared to 2009, offset by a $24.3 million gain on the exchange of trust preferred for common stock which occurred in 2009.

Non-interest expense increased $31.6 million, or 6.2%, to $539.0 million for the year ended December 31, 2010 when compared to the year ended December 31, 2009. The increase is primarily due to a $19.7 million charge for a litigation reserve related to the Broadwin litigation and a settlement charge of $2.8 million related to a class action lawsuit related to the assessment and collection of overdue fees on customer checking accounts.

Net Interest Income

Net interest income, the difference between interest earned on interest-earning assets and interest expense incurred on deposits and borrowings, totaled $537.3 million for the year ended December 31, 2010, compared to $495.4 million for the year ended December 31, 2009, an increase of $41.9 million. Average interest-earning assets increased to $16.5 billion at December 31, 2010 from $16.2 billion at December 31, 2009 while average interest-bearing liabilities also increased to $15.8 billion at December 31, 2010 from $15.5 billion at December 31, 2009. As a result of the greater decline in the cost of interest-bearing liabilities than the decline in yield on interest-earning assets to interest-bearing liabilities, the net interest margin grew by 22 basis points to 3.36% for the year ended December 31, 2010 from 3.14% for the year ended December 31, 2009. The yield on interest-earning assets declined by 30 basis points for the year ended December 31, 2010 while the cost of interest-bearing liabilities declined 52 basis points for the year ended December 31, 2010.

Interest income decreased $37.4 million to $708.6 million for the year ended December 31, 2010 as compared to 2009. Average loans, excluding loans held for sale, decreased by $789.1 million for the year ended December 31, 2010 compared to 2009. Average investment securities increased by $1.1 billion for the year ended December 31, 2010 compared to 2009.

Table of Contents

The 30 basis point decrease in the average yield earned on interest-earning assets for the year ended December 31, 2010 to 4.40% compared to 4.70% for 2009 is a result of repayment of higher yielding loans and securities, origination of lower yielding loans and purchase of lower yielding securities. The loan portfolio yield decreased 8 basis points to 4.52% for the year ended December 31, 2010 and comprised 66.2% of average interest-earning assets at December 31, 2010 compared to the loan portfolio yield of 4.60% and 72.2% of average interest-earning assets for the year ended December 31, 2009. The yield on investment securities decreased by 86 basis points to 4.32% and comprised 31.9% of average interest earning assets at December 31, 2010 compared to the investment portfolio yield of 5.18% and 25.6% of average interest earning assets at December 31, 2009.

Interest Expense

Interest expense for the year ended December 31, 2010 decreased $79.3 million compared to 2009. The average cost of interest-bearing liabilities was 1.09% for the year ended December 31, 2010, a decrease of 52 basis points compared to 1.61% for 2009. The decrease was primarily due to a decline of 56 basis points in the cost of deposits to 0.82% from 1.38% a year ago and an increase in average deposits of $0.7 billion compared to 2009, partially offset by a 1 basis point increase in the cost of borrowings to 2.86% from 2.85% for the year ended December 31, 2009.

Provision for Loan and Lease Losses

The provision for loan and lease losses was $115.0 million for the year ended December 31, 2010, a decrease of $188.0 million compared to $303.0 million for the year ended December 31, 2009. The decrease is primarily due to management s perspective regarding the level of probable losses inherent in Webster s existing book of business and management s belief that the overall reserve levels are adequate. For the year ended December 31, 2010, total net charge-offs were $134.5 million compared to $196.4 million in 2009. See Tables 17 through 23 for information on the allowance for loan and lease losses, net charge-offs and non-performing assets.

Management performs a quarterly review of the loan portfolio to determine the adequacy of the allowance for loan and lease losses. Several factors influence the amount of the provision, including loan growth, portfolio composition, credit performance changes in the levels of non-performing loans, net charge-offs and the general economic environment. At December 31, 2010, the allowance for loan and lease losses totaled $321.7 million or 2.92% of total loans compared to $341.2 million or 3.09% at December 31, 2009. See the Allowance for Loan and Lease Losses Methodology section later in Management s Discussion and Analysis for further details.

Non-interest Income

Table 5: Non-interest income comparison of 2010 to 2009.

	Years ended December 31,		Increase (decrease)	
(In thousands)	**2010**	**2009**	**Amount**	**Percent**
Non-Interest Income:				
Deposit service fees	$ 108,977	$ 119,421	$ (10,444)	(8.7)%
Loan related fees	20,286	22,177	(1,891)	(8.5)
Wealth and investment services	24,925	24,000	925	3.9
Mortgage banking activities	4,169	6,901	(2,732)	(39.6)
Increase in cash surrender value of life insurance policies	10,517	10,629	(112)	(1.1)
Gain on the exchange of trust preferreds for common stock		24,336	(24,336)	(100.0)
Gain on early extinguishment of subordinated notes		5,993	(5,993)	(100.0)
Net gain on trading securities	12,045		12,045	100.0
Net gain (loss) on sale of investment securities	9,748	(13,810)	23,558	(170.6)
Total other-than-temporary impairment loss on securities	(14,445)	(40,064)	25,619	(63.9)
Portion of the loss recognized in other comprehensive income	8,607	11,587	(2,980)	(25.7)
Net impairment loss recognized in earnings	(5,838)	(28,477)	22,639	(79.5)
Other income	16,396	13,225	3,171	24.0
Total non-interest income	$ 201,225	$ 184,395	$ 16,830	9.1%

Table of Contents

Total non-interest income was $201.2 million for the year ended December 31, 2010, an increase of $16.8 million from the year ended December 31, 2009. The increase for 2010 is primarily attributable to the $22.6 million reduction in other-than-temporary impairment losses and a $23.6 million favorable effect of a 2010 net gain as compared to a 2009 net loss on sale of investment securities, offset in part by a $24.3 million gain on the exchange of trust preferred for common stock and a $6.0 million gain on the early extinguishment of Webster s subordinated notes (both of which occurred in 2009) and a $10.4 million decrease in deposit service fees.

Deposit Service Fees. Deposit service fees totaled $109.0 million for the year ended December 31, 2010, down $10.4 million from the comparable period in 2009, primarily due to a decline in overdraft fees associated with the implementation of Regulation E during the third quarter of 2010.

Loan Related Fees. Loan related fees were $20.3 million for the year ended December 31, 2010, a decrease of $1.9 million from the comparable period in 2009 due to a decrease in volume of loan fees.

Wealth and Investment Services. Wealth and investment services income was $24.9 million for the year ended December 31, 2010, up $0.9 million from the comparable period in 2009, due to an increase in new business originated, and coupled with an improvement in market conditions.

Mortgage Banking Activities. Net revenue from mortgage banking activities was $4.2 million for the year ended December 31, 2010, down $2.7 million from the comparable period in 2009 due primarily to decline in the volume of loans originated and sold to third parties. The impact of declining volumes was offset in part by increases in spreads and average prices for the loans sold.

Net Gain on Trading Securities. Net gain on securities classified as trading of $12.0 million for the year ended December 31, 2010 represents the positive fair value adjustment on common stock classified as trading securities in the investment portfolio.

Net Gain (Loss) on Sale of Investment Securities. Net gains from the sale of investments were approximately $9.7 million for the year ended December 31, 2010, compared to the net losses of $13.8 million recorded for the year ended December 31, 2009.

Net Impairment Losses on Securities Recognized in Earnings. Net impairment losses on securities recognized in earnings were approximately $5.8 million for the year ended December 31, 2010, a reduction in losses of $22.6 million from the comparable period in 2009. This decrease is primarily the result of improvement in the credit of underlying collateral and a decrease in deferrals in 2010 compared to 2009, and the recent overall drop in yields during the year ended December 31, 2010.

Other. All other non-interest income was $16.4 million for the year ended December 31, 2010 compared to $13.2 million for the year ended December 31, 2009. The $3.2 million increase is primarily due to a realized gain of $6.4 million on the sale of the Company s direct investment in the Higher One Holdings, Inc., as part of that company s recent initial public offering, offset by a $2.5 million negative valuation recorded on the Fed Funds futures contract which was entered into in the first quarter of 2010.

Non-interest Expense

Table 6: Non-interest expense comparison of 2010 to 2009.

(In thousands)	Years ended December 31, 2010	2009	Increase (decrease) Amount	Percent
Non-Interest Expenses:				
Compensation and benefits	$ 245,343	$ 236,167	$ 9,176	3.9%
Occupancy	55,634	55,522	112	0.2
Technology and equipment expense	62,855	60,926	1,929	3.2
Intangible assets amortization	5,588	5,743	(155)	(2.7)
Marketing	18,968	14,469	4,499	31.1
Professional and outside services	14,721	15,015	(294)	(2.0)
Deposit insurance	24,535	30,056	(5,521)	(18.4)
Litigation	22,476		22,476	100.0
Other expenses	88,854	89,496	(642)	(0.7)
Total non-interest expenses	$ 538,974	$ 507,394	$ 31,580	6.2%

Total non-interest expense was $539.0 million for the year ended December 31, 2010 compared to $507.4 million for the year ended December 31, 2009. The $31.6 million increase in non-interest expense is primarily due to a $22.5 million increase for litigation and a $9.2 million increase for compensation and benefits. The following provides additional discussion on the various components of non-interest expense.

Compensation and benefits. Compensation and benefits expense was $245.3 million for the year ended December 31, 2010, an increase of $9.2 million when compared to the $236.2 million for the year ended December 31, 2009. The increase in compensation and benefits is primarily due to increases in base compensation and extended hours for the retail banking segment.

Marketing. Marketing expenses were $19.0 million for the year ended December 31, 2010, an increase of $4.5 million when compared to the $14.5 million for the year ended December 31, 2009. The increase is primarily due to product redesign and increased marketing efforts to support brand and business development during the year ended December 31, 2010.

Deposit Insurance. The FDIC deposit insurance assessment for year ended December 31, 2010 was $24.5 million as compared to $30.1 million for the year ended December 31, 2009. This decrease from the comparable period in 2009 is due to a $8.0 million special assessment in 2009, which was partially offset by an increase in FDIC insured deposits, coupled with an increase in fees for the Transaction Account Guarantee Program (TAGP) that was experienced in the first six months of 2010. The Company ended its participation in the TAGP program as of June 30, 2010.

Litigation. Litigation expense was $22.5 million for the year ended December 31, 2010 and encompassed a $19.7 million charge for a litigation reserve related to the Broadwin litigation and a settlement charge of $2.8 million related to a class action lawsuit regarding the assessment and collection of overdue fees on customer checking accounts. There were no such charges in 2009.

Other Expense. Other expenses were $88.9 million for the year ended December 31, 2010, a decrease of $0.6 million when compared to the $89.5 million for the year ended December 31, 2009. The decrease from the comparable period in 2009 is primarily due to a decrease in foreclosed and repossessed asset expenses and write-downs, partially offset by an increase in loan workout expenses from the comparable period in 2009, reflecting the Company s focus on problem loan resolution.

Discontinued Operations

For the year ended December 31, 2010, income from discontinued operations was $0.1 million, a decrease of $0.2 million from the $0.3 million income from discontinued operations recognized for the year ended December 31, 2009. Income from discontinued operations is primarily related to the sale of Webster Insurance and Webster Risk Services in 2008. Activity for the year ended December 31, 2010 represents estimated revenues associated with the earn-out contracts.

Income Taxes

During 2010, Webster recognized income tax expense of $12.4 million on its $84.5 million pre-tax income from continuing operations during the year, reflecting a 14.6% effective tax rate. In 2009, Webster recognized a tax benefit of $53.4 million on the $130.6 million pre-tax loss from continuing operations that year, reflecting a 40.9% effective tax-benefit rate. As a result of the 2009 pre-tax loss, an analytical comparison of 2010 and 2009 effective tax rates is not meaningful.

Webster s 2010 tax expense was impacted by a $5.6 million tax benefit from the reduction in the deferred tax asset valuation allowance applicable to capital losses as a result of capital gains recognized during 2010, and it was increased by $0.9 million relative to 2009 as a result of the restrictions imposed on the tax-deductibility of executive compensation due to Webster s participation in the U.S. Treasury s Capital Purchase Program. This increase was offset by a $1.5 million net reduction in tax expense applicable to state and local taxes, when compared to 2009, attributable principally to the resolution of uncertain tax positions.

Webster s 2009 tax benefit was impacted by certain losses characterized as capital in nature for U.S. corporation income tax purposes, for which a deferred tax asset valuation allowance was recognized, decreasing the tax benefit by $4.4 million. Webster s 2009 tax benefit was reduced by another $1.9 million as a result of restrictions imposed on the tax-deductibility of executive compensation due to its participation in the U.S. Treasury s Capital Purchase Program. Partially offsetting the effects of the items noted above is the non-taxable, $3.6 million fair-value adjustment applicable to warrants included in Webster s 2009 non-interest income, the tax expense on which otherwise would have been $1.2 million.

For more information on Webster s income taxes, including its deferred tax assets and valuation allowance, see Note 7 Income Taxes in the Notes to Consolidated Financial Statements included elsewhere within this report.

Business Segment Results

Webster s operations are divided into four business segments that represent its core businesses Commercial Banking, Retail Banking, Consumer Finance and Other. Other includes Health Savings Accounts (HSA) and Private Banking. These segments reflect how executive management responsibilities are assigned by the Chief Executive Officer for each of the core businesses, the products and services provided and the types of customers served, and reflects how financial information is currently evaluated by management. The Company s Treasury unit is included in the Corporate and Reconciling category along with the results of discontinued operations, the amounts required to reconcile profitability metrics to GAAP reported amounts, and the consumer liquidating portfolio. The consumer liquidating portfolio was established as a separate operating unit under Consumer Finance as of April 1, 2010, and, since January 1, 2011 was transferred from the Consumer Finance business segment to the Corporate and Reconciling category. As of January 1, 2011, executive management further realigned its business segment balances transferring the government and not-for-profit banking operating unit from the Other business segment to the Commercial Banking business segment and the private banking operating unit from the Commercial Banking business segment to the Other business segment to reflect the realignment of responsibilities. In addition, certain support functions were realigned within the corporate function. The 2010 and 2009 segment performance summary and business segment results tables have been adjusted for comparability to the 2011 segment presentation, with the exception of the consumer liquidating portfolio, which was not established as a separate operating unit until April 1, 2010 and, therefore, the first quarter of 2010 and all of 2009

Table of Contents

has not been adjusted for this impact. See Note 20 Business Segments in the Notes to Consolidated Financial Statements contained elsewhere within this report for further information. The Company plans to restructure its business segments in 2012.

Webster s business segments results are intended to reflect each segment as if it were a stand-alone business. The following tables present the results for Webster s business segments for years ended December 31, 2011, 2010, and 2009 and incorporate the allocation of the provision for loan and lease losses, other-than-temporary impairment charges and income tax expense (benefit) to each of Webster s business segments for the periods then ended:

Table 7: Business Segment performance summary of net income (loss) for the years ended December 31,

(In thousands)	**2011**	**2010 (a)**	**2009 (a)**
Net income (loss) :			
Commercial Banking	$ 88,454	$ 42,466	$ (47,820)
Retail Banking	9,902	2,298	(23,073)
Consumer Finance	15,728	(17,094)	(52,619)
Other	6,009	3,139	(2,161)
Total Business Segments	120,093	30,809	(125,673)
Corporate and Reconciling	31,286	41,446	48,764
Net income (loss) attributable to Webster Financial Corporation	$ 151,379	$ 72,255	$ (76,909)

(a) Reclassified to conform to the 2011 presentation. The consumer liquidating portfolio was not established as a separate operating unit until April 2010, as part of the presentation for 2010, the consumer liquidating portfolio for the first quarter ended March 31, 2010 has not been reclassified to conform to the 2011 presentation. As part of the presentation for 2009, the consumer liquidating portfolio for the year ended December 31, 2009 has not been reclassified to conform to the 2011 presentation, and total assets at December 31, 2009 has not been reclassified to conform to the 2011 and 2010 presentations.

Webster uses an internal profitability reporting system to generate information by operating segment, which is based on a series of management estimates and allocations regarding funds transfer pricing, the provision for loan and lease losses, non-interest expense and income taxes. These estimates and allocations, certain of which are subjective in nature, are continually being reviewed and refined. Changes in estimates and allocations that affect the reported results of any operating segment do not affect the consolidated financial position or results of operations of Webster as a whole.

The Company uses a matched maturity funding concept, also known as coterminous funds transfer pricing (FTP), to allocate interest income and interest expense to each business while also transferring the primary interest rate risk exposures to the Corporate and Reconciling category. The allocation process considers the specific interest rate risk and liquidity risk of financial instruments and other assets and liabilities in each line of business. The matched maturity funding concept basically considers the origination date and the earlier of the maturity date or the repricing date of a financial instrument to assign an FTP rate for loans and deposits originated each day. Loans are assigned an FTP rate for funds used and deposits are assigned an FTP rate for funds provided . From a governance perspective, this process is executed by the Company s Financial Planning and Analysis division and the process is overseen by the Company s Asset/Liability Committee.

As of January 1, 2010, Webster began attributing the provision for loan and lease losses to each segment based on management s estimate of the inherent loss content in each of the specific loan portfolios. Provision expense, for certain elements of risk that are not deemed specifically attributable to a business segment, such as environmental factors, is shown in the Corporate and Reconciling category. For the year ended December 31, 2011, 108.8% of the provision expense is specifically attributable to business segments and reported accordingly. Webster allocates a majority of non-interest expense to each business segment using a full-absorption costing process. Direct and indirect costs are analyzed and pooled by process and assigned to the appropriate business segment, and corporate overhead costs are allocated to the business segments. Income tax expense is allocated to each business segment based on the effective income tax rate for the period shown.

The full profitability measurement reports which are prepared for each operating segment reflect non-GAAP reporting methodologies. The differences between these report-based measures are reconciled to GAAP values in the Corporate and Reconciling category.

Commercial Banking

The Commercial Banking segment includes middle market, asset-based lending, commercial real estate, equipment finance, and government and not-for-profit banking. Webster s Commercial Banking group takes a direct relationship approach to providing lending, deposit and cash management services to middle market companies in its franchise territory. Additionally, it serves as a primary referral source to Wealth Management and Retail Banking.

Table 8: Commercial Banking results for the years ended December 31,

(In thousands)	**2011**	**2010 (a)**	**2009 (a)**
Net interest income	$ 168,930	$ 145,745	$ 128,282
Provision for loan and lease losses	(21,213)	25,618	137,816
Net interest income (loss) after provision	190,143	120,127	(9,534)
Non-interest income	27,717	23,523	24,991
Non-interest expense	95,092	94,215	96,298
Income (loss) before income taxes	122,768	49,435	(80,841)
Income tax expense (benefit)	34,314	6,969	(33,021)
Net income (loss)	$ 88,454	$ 42,466	$ (47,820)
Total assets at period end	$ 4,310,195	$ 4,080,975	$ 4,113,157
Total loans at period end	4,289,354	4,088,492	4,140,149
Total deposits at period end	2,281,350	2,501,341	2,528,736

(a) Reclassified to conform to the 2011 presentation.

Net interest income increased $23.2 million in 2011 compared to 2010. The increase is primarily due to wider loan spreads, higher loan balances and growth in demand deposit liability balances. The provision for loan and lease losses decreased $46.8 million in 2011 compared to 2010. Webster continues to provide for losses within the lending portfolios, although the reserve is reallocated between the portfolio segments as a result of the ALLL analysis. The change in provision is primarily due to management s evaluation of the level of inherent losses in this segment s existing book of business and management s belief in the adequacy of the overall reserve levels. For the year ended December 31, 2011, the provision was reduced by $46.8 million due to favorable risk migration and payoffs principally in the classified loan category. Non-interest income increased $4.2 million in 2011 compared to 2010, due to gain on loan sales and fees from interest rate management services. Non-interest expense increased $0.9 million in 2011 compared to 2010, as a result of write-downs on foreclosed properties, exceeding lower foreclosure and repossessed asset expenses. Total loans in the commercial banking segment increased $200.9 million at December 31, 2011. The increase reflects Webster s efforts to focus on lending primarily within the region from Westchester County, New York to Boston and reduced emphasis on equipment finance and asset-based lending, which have shifted from a national to a primarily regional focus. Total deposits decreased $220.0 million for the year ended December 31, 2011, compared to December 31, 2010. The decrease reflects lower deposit balances in the government banking center.

Net interest income increased $17.5 million in 2010 compared to 2009. The increase is primarily due to an increase in loan originations and higher interest rates on renewals. The provision for loan and lease losses decreased $112.2 million in 2010 compared to 2009. Webster continues to provide for losses within the lending portfolios, although the reserve is reallocated between the portfolio segments as a result of the ALLL analysis. The change in provision is primarily due to management s evaluation of the level of inherent losses in this segment s existing book of business and management s belief in the adequacy of the overall reserve levels.

Table of Contents

Non-interest income decreased $1.5 million in 2010 compared to 2009. Non-interest expense decreased $2.1 million in 2010 compared to 2009, due to cost reductions in the equipment finance business, reduced costs due to the sale of the insurance premium financing subsidiary (BIC) in November 2009, and greater deferred compensation costs from increased loan originations. Total loans in the Commercial Banking segment decreased $51.7 million at December 31, 2010 as compared to December 31, 2009. The decline reflects Webster s efforts to focus on lending primarily within the region from Westchester County, New York to Boston and regional realignment equipment finance and asset-based lending, which had previously been done on a national basis, toward a primarily regional focus. The Company continued to formalize its regional banking strategy in 2010, identifying an Executive Vice President to lead middle market lending and the regional president model in addition to hiring six new business bankers within the core footprint. Middle market originations were $480.2 million in 2010 and a corresponding emphasis on relationship banking offset with a decline in government and not-for-profit activity, resulting in a net decrease of $27.4 million in deposits for the year ended December 31, 2010, compared to December 31, 2009.

Retail Banking

Retail Banking serves consumers and small businesses primarily throughout southern New England and into Westchester County, New York, with a distribution network of 168 banking offices and 473 ATMs, and a full range of internet and mobile banking services. Retail Banking includes Webster s branch network, Business and Professional Banking (BPB), Webster Investment Services (WIS) and the Customer Care Center.

BPB offers credit and deposit-related products targeted to small businesses and professional service firms with annual revenues up to $10 million. This unit works to build full customer relationships through business bankers based in our branches.

WIS offers investment and securities-related services, including brokerage and investment advice through a strategic partnership with LPL Financial (LPL). Webster, through its relationship with LPL, has over 90 employees who are LPL registered representatives, located throughout its branch network, offering customers an array of insurance and investment products including stocks and bonds, mutual funds, annuities and managed accounts. Brokerage and online investing services are available for customers. In 2011, Webster completed a conversion of its investment accounts from UVEST Financial Services Group to LPL. At December 31, 2011 and December 31, 2010, Webster had $2.0 billion of assets under administration in its strategic partnership with LPL. These assets are not included in the Consolidated Balance Sheets. LPL, a provider of investment and insurance programs in financial institutions branches, is a broker dealer registered with the Securities and Exchange Commission, a registered investment advisor under federal and applicable state laws, a member of the Financial Industry Regulatory Authority (FINRA), and a member of the Securities Investor Protection Corporation (SIPC).

Table 9: Retail Banking results for the years ended December 31,

(In thousands)	**2011**	**2010 (a)**	**2009 (a)**
Net interest income	$ 233,441	$ 211,818	$ 156,030
Provision for loan and lease losses	14,189	10,463	20,264
Net interest income after provision	219,252	201,355	135,766
Non-interest income	98,763	107,761	118,793
Non-interest expense	304,271	306,401	293,660
Income (loss) before income taxes	13,744	2,715	(39,101)
Income tax expense (benefit)	3,842	417	(16,028)
Net income (loss)	$ 9,902	$ 2,298	$ (23,073)
Total assets at period end	$ 1,546,457	$ 1,516,197	$ 1,553,087
Total loans at period end	886,481	848,928	874,696
Total deposits at period end	10,009,640	9,968,959	10,158,573

(a) Reclassified to conform to the 2011 presentation.

Net interest income increased $21.6 million in 2011 compared to 2010. The increase is a result of an improved deposit mix with a higher percentage of non-interest-bearing deposits and reduced deposit costs. The provision for loan and lease losses increased $3.7 million in 2011 compared to 2010. Webster continues to provide for losses within the lending portfolios, although the reserve is reallocated between the portfolio segments as a result of the ALLL analysis. The change in provision is primarily due to management s evaluation of the level of inherent losses in this segment s existing book of business and management s belief in the adequacy of the overall reserve levels. Non-interest income decreased $9.0 million in 2011 compared to 2010. The decrease is primarily due to a decline in customer overdraft activity associated with the implementation of Regulation E during the third quarter of 2010 and the Durbin amendment s reduction of debit card interchange rates that went into effect during the fourth quarter of 2011. The impact of these regulatory reductions of fee revenue was partially offset by an increase in checking account service charges as a result of the redesigned line of checking products implemented during the fourth quarter of 2010 and revised overdraft pricing in September of 2011. Non-interest expense decreased $2.1 million in 2011 compared to 2010. The decrease is a result of completing the consolidation of 16 branches throughout 2011. Total loans increased $37.6 million for the year ended December 31, 2011, compared to December 31, 2010. The increase reflects increases in loan originations due to the buildout from the business banker staff additions. Total deposits increased $40.7 million for the year ended December 31, 2011, compared to December 31, 2010, due to growth in consumer and business core transaction balances.

Net interest income increased $55.8 million in 2010 compared to 2009. The increase is a result of an improved deposit mix that includes a higher percentage of non-interest-bearing deposits and reduced deposit costs on money market and time deposits. The provision for loan and lease losses decreased $9.8 million in 2010 compared to 2009. Webster continues to provide for losses within the lending portfolios, although the reserve is reallocated between the portfolio segments as a result of the ALLL analysis. The change in provision is primarily due to management s evaluation of the level of inherent losses in this segment s existing book of business and management s belief in the adequacy of the overall reserve levels. Non-interest income decreased $11.0 million in 2010 compared to 2009. The decrease is primarily due to a decline in customer overdraft fees associated with the implementation of Regulation E during the third quarter of 2010. Non-interest expense increased $12.7 million in 2010 compared to 2009. The increase is a result of expanded staffing to support Webster s implementation of extended hours in 89 branch locations and the hiring of additional business bankers in the Company s small business banking unit. FDIC insurance costs reflected increased participation in the TAGP program through June 30, 2010. Total loans decreased $25.8 million for the year ended December 31, 2010, compared to December 31, 2009. The decrease reflects increases in loan payoffs associated with low interest rate environment and a general de-leveraging by the customer base. Total deposits decreased $189.6 million for the year ended December 31, 2010, compared to December 31, 2009. The decrease in deposits is a result of promotional CD maturities during 2010 and customers opting not to renew at current rates. Several significant changes were made in the Retail Banking segment in 2010. The Company implemented Regulation E, which negatively impacted the level of deposit fees earned by the segment. In response, retail implemented a redesigned line of checking products that is expected to reduce the number of free checking accounts, partially offsetting decreased fee revenues, rolled-out a mobile banking offering and launched a new initiative to optimize expenses in the branch network during the fourth quarter. Finally, the focus on small business banking was supported by the hiring of eleven small business bankers and a new head of the business unit.

Table of Contents

Consumer Finance

Consumer Finance includes residential mortgage and consumer lending, including home equity loans and lines of credit, as well as mortgage banking activities.

Table 10: Consumer Finance results for the years ended December 31,

(In thousands)	2011	2010 (a)	2009 (a)
Net interest income	$ 107,271	$ 101,958	$ 102,837
Provision for loan and lease losses	31,104	68,214	141,924
Net interest income (loss) after provision	76,167	33,744	(39,087)
Non-interest income	9,449	11,218	12,854
Non-interest expense	63,788	65,153	62,902
Income (loss) before income taxes	21,828	(20,191)	(89,135)
Income tax expense (benefit)	6,101	(3,100)	(36,538)
Loss before noncontrolling interest	15,727	(17,091)	(52,597)
Noncontrolling interest	(1)	3	22
Net income (loss)	$ 15,728	$ (17,094)	$ (52,619)
Total assets at period end	$ 5,869,028	$ 5,912,862	$ 6,047,472
Total loans at period end	5,727,829	5,756,723	5,923,260
Total deposits at period end	37,115	35,465	29,590

(a) Reclassified to conform to the 2011 presentation. The consumer liquidating portfolio was not established as a separate operating unit until April 2010, as part of the presentation for 2010, the consumer liquidating portfolio for the three months ended March 31, 2010 has not been reclassified to conform to the 2011 presentation. As part of the presentation for 2009, the consumer liquidating portfolio for the year ended December 31, 2009 has not been reclassified to conform to the 2011 presentation, and total assets at December 31, 2009 has not been reclassified to conform to the 2011 and 2010 presentations.

Net interest income increased $5.3 million in 2011 compared to 2010. The increase is directly related to an increase in loan spreads which offsets a small decrease in earning assets. The provision for loan and lease losses decreased $37.1 million in 2011 compared to 2010. Webster continues to provide for losses within the lending portfolios, although the reserve is reallocated between the portfolio segments as a result of the ALLL analysis. The change in provision is primarily due to management s evaluation of the level of inherent losses in this segment s existing book of business and management s belief in the adequacy of the overall reserve levels. Non-interest income decreased $1.8 million in 2011 compared to 2010. The decrease is primarily attributed to a one-time legal settlement received in 2010. Higher loan prepayment activity in 2011 led to increased amortization of mortgage servicing assets which, coupled with decreased credit card fee income also contributed to the decrease in non-interest income. Non-interest expense decreased $1.4 million in 2011 compared to 2010. The decrease is primarily the result of decreases in loan workout expenses and foreclosed asset expense. Total assets decreased $43.8 million for the year ended December 31, 2011, compared to December 31, 2010. The decrease is due to a decrease of $28.9 million in total loans primarily related to principal repayments which offset loan originations compared to 2010.

Net interest income decreased $0.9 million in 2010 compared to 2009. The decrease is related to a decrease in earning assets which was partially offset by an increase in loan spreads. The provision for loan and lease losses decreased $73.7 million in 2010 compared to 2009. Webster continues to provide for losses within the lending portfolios, although the reserve is reallocated between the portfolio segments as a result of the ALLL analysis. The change in provision is primarily due to management s evaluation of the level of inherent losses in this segment s existing book of business and management s belief in the adequacy of the overall reserve levels. Non-interest income decreased $1.6 million in 2010 compared to 2009. The decrease is related to decreased mortgage banking revenues due to decline in the volume of loans sold to third parties.

The impact of declining volumes was offset in part by increases in spreads and thus average prices for the loans sold. Non-interest expense increased $2.3 million in 2010 compared to 2009. The increase is primarily due to an increase in loan related expenses tied to increased loan originations compared to 2009. Total assets decreased $134.6 million for the year ended December 31, 2010, compared to December 31, 2009. After the effect of approximately $280 million total assets, primarily loans, were reclassified to another segment during 2010, loans increased $78.3 million for the year ended December 31, 2010, compared to December 31, 2009, due primarily to an increase in refinancing activity compared to the prior period. The Consumer Finance division benefited from consumers refinancing as a result of the low interest rate environment. Total loans of $1.2 billion were originated in the segment and were offset by a general de-leveraging by the borrowers.

Other

Other includes HSA Bank and Private Banking.

HSA Bank is a bank custodian of health savings accounts. These accounts are required for high deductible health plans offered by employers or directly to consumers.

Private Banking serves high net worth clients, not-for-profit organizations and business clients for asset management, trust, loan and deposit products and financial planning services.

Table 11: Other results for the years ended December 31,

(In thousands)	2011	2010 (a)	2009 (a)
Net interest income	$ 25,437	$ 18,545	$ 12,762
Provision (benefit) for loan and lease losses	398	(902)	(507)
Net interest income after provision	25,039	19,447	13,269
Non-interest income	24,199	20,862	19,055
Non-interest expense	40,898	36,601	35,986
Income (loss) before income taxes	8,340	3,708	(3,662)
Income tax expense (benefit)	2,331	569	(1,501)
Net income (loss)	$ 6,009	$ 3,139	$ (2,161)
Total assets at period end	$ 245,554	$ 203,707	$ 215,573
Total loans at period end	223,787	177,392	184,519
Total deposits at period end	1,139,923	940,350	750,075

(a) Reclassified to conform to the 2011 presentation.

Net interest income increased $6.9 million in 2011 compared to 2010. The increase was due to a $6.1 million growth in HSA, while higher loan spreads in private banking resulted in growth of $0.8 million. Non-interest income increased $3.3 million in 2011 compared to 2010, primarily due to increases in HSA deposit service fees and, to a lesser extent, fees from increased private banking investment accounts. Non-interest expense increased $4.3 million in 2011 compared to 2010, primarily as a result of higher compensation and processing costs primarily due to growth in deposits as well as acquisition of new accounts in private banking. Total deposits increased $199.6 million for the year ended December 31, 2011, compared to December 31, 2010, as a result of the HSA growth.

Net interest income increased $5.8 million in 2010 compared to 2009. The increase was primarily due to the growth in HSA deposits. Non-interest income increased $1.8 million in 2010 compared to 2009, primarily due to increases in deposit service fees on HSA deposits. Non-interest expense increased $0.6 million in 2010 compared to 2009, as a result of higher FDIC insurance, compensation and processing costs due to growth in deposits as well as acquisition of new accounts. The increase in FDIC insurance costs also reflected increased participation in the TAGP program through June 30, 2010. Total HSA deposits increased $190.3 million for the year ended December 31, 2010, compared to

December 31, 2009.

Table of Contents

Table 12: Reconciliation of business segments net income (loss) to consolidated net income (loss) for the years ended December 31,

(In thousands)	**2011**	**2010** [a]	**2009** [a]
Net income (loss) from business segments before income taxes	$ 166,680	$ 35,667	$ (212,739)
Adjustments:			
Corporate Treasury unit	(4,984)	10,717	11,592
Allocation of provision for loan and lease losses	1,978	(11,607)	(3,503)
Allocation of net interest income	39,357	61,943	71,978
Allocation of non-interest income	4,056	22,569	19,505
Allocation of non-interest expense	247	(34,767)	(17,446)
Total adjustments	40,654	48,855	82,126
Income (loss) from continuing operations before income taxes	207,334	84,522	(130,613)
Income tax expense (benefit)	57,951	12,358	(53,424)
Income (loss) from continuing operations	149,383	72,164	(77,189)
Income from discontinued operations, net	1,995	94	302
Less: Net (loss) income attributable to non-controlling interests	(1)	3	22
Net income (loss) attributable to Webster Financial Corporation	$ 151,379	$ 72,255	$ (76,909)

(a) Reclassified to conform to the 2011 presentation.

Financial Condition

Webster had total assets of $18.7 billion and $18.0 billion at December 31, 2011 and 2010, respectively.

Total loans and leases, net, of $11.0 billion, with allowance for loan and lease losses of $0.2 billion at December 31, 2011, increased $0.3 billion when compared to total loans and leases, net, of $10.7 billion, with allowance for loan and lease losses of $0.3 billion at December 31, 2010. Total deposits of $13.7 billion at December 31, 2011 were essentially flat when compared to December 31, 2010. Non-interest-bearing deposits increased 11.6% while interest-bearing deposits decreased 1.8% during the period, which is consistent with the Company s focus on growing non-interest-bearing accounts in its Retail, Small Business, Commercial and Government lines of business. As a result, Webster s loan-to-deposit ratio of 82.2% at December 31, 2011 increased slightly as compared to 81.0% at December 31, 2010.

At December 31, 2011, Webster Financial Corporation s total equity was $1.8 billion, an increase of $76.5 million from December 31, 2010. Changes in equity for the year ended December 31, 2011 consisted of an increase for net income of $151.4 million, which was partially offset by other comprehensive loss of $46.5 million, $14.0 million of dividends to common shareholders and $3.3 million of dividends to preferred shareholders, and a decrease of $16.3 million for repurchase of common stock warrants. At December 31, 2011, the tangible capital ratio was 7.16% compared to 6.97% at December 31, 2010. See Note 13 Regulatory Matters in the Notes to Consolidated Financial Statements for information on Webster s regulatory capital levels and ratios.

Investment Securities Portfolio

Webster, either directly or through Webster Bank, maintains through the Corporate Treasury Unit an investment securities portfolio that is primarily structured to provide a source of liquidity for operating needs, to generate interest income and to provide a means to balance interest-rate sensitivity. The investment portfolio is classified into three major categories: available for sale, held-to-maturity and trading. At December 31, 2011, the combined investment securities portfolios of Webster and Webster Bank totaled $5.8 billion. On a tax-equivalent basis, the yield in the securities portfolio for the year ended December 31, 2011 was 4.16% as compared to 4.32% for the year ended December 31, 2010. At December 31, 2011, Webster Bank s portfolio consisted primarily of mortgage-backed and municipal securities held-to-maturity and mortgage-backed securities available for sale and

49

Table of Contents

Webster s portfolio consisted primarily of equity securities available for sale. See Note 3 Investment Securities in the Notes to Consolidated Financial Statements contained elsewhere within this report for additional information.

Webster Bank may acquire, hold and transact various types of investment securities in accordance with applicable federal regulations and within the guidelines of its internal investment policy. The type of investments that it may invest in include: interest-bearing deposits of federally insured banks, federal funds, U.S. government treasury and agency securities, including mortgage-backed securities (MBS) and collateralized mortgage obligations (CMOs), private issue MBSs and CMOs, commercial mortgage backed securities (CMBS), municipal securities, corporate debt, commercial paper, banker s acceptances, trust preferred securities, mutual funds and equity securities subject to restrictions applicable to federally charted institutions.

Webster Bank has the ability to use the investment portfolio, as well as interest-rate financial instruments within internal policy guidelines, to hedge and manage interest-rate risk as part of its asset/liability strategy. See Note 16 Derivative Financial Instruments in the Notes to Consolidated Financial Statements contained elsewhere within this report for additional information concerning derivative financial instruments.

The securities portfolios are managed in accordance with regulatory guidelines and established internal corporate investment policies. These policies and guidelines include limitations on aspects such as investment grade, concentrations and investment type to help manage risk associated with investing in securities. While there may be no statutory limit on certain categories of investments, the OCC may establish an individual limit on such investments, if the concentration in such investments presents a safety and soundness concern.

Investment Securities

Total investment securities at December 31, 2011 increased by $362.3 million from December 31, 2010. The available for sale securities portfolio increased by $461.0 million primarily from purchases of short duration agency CMOs with limited extension risk and good liquidity, while the held-to-maturity portfolio which typically contains longer duration securities, decreased by $98.7 million primarily due to cash flow exceeding purchases. The purchase of shorter duration securities during 2011 was intended to reduce longer term exposure to rising interest rates.

Table of Contents

Table 13: Comparison of amortized cost, fair value and carrying value of investment securities at December 31, 2011 and 2010:

	At December 31, 2011						
		Recognized in OCI			Not Recognized in OCI		
(Dollars in thousands)	**Amortized cost (a)(b)**	**Gross unrealized gains**	**Gross unrealized losses**	**Carrying value**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
Available for sale:							
U.S. Treasury Bills	$ 200	$	$	$ 200	$	$	$ 200
Agency notes GSE							
Agency collateralized mortgage obligations (CMOs) GSE	1,916,372	27,211	(3,341)	1,940,242			1,940,242
Pooled trust preferred securities (a)	52,606		(23,608)	28,998			28,998
Single issuer trust preferred securities	51,027		(12,813)	38,214			38,214
Equity securities-financial institutions (b)	7,669	1,802	(24)	9,447			9,447
Mortgage-backed securities GSE	502,389	25,079	(158)	527,310			527,310
Commercial mortgage-backed securities (CMBS)	319,200	22,395	(11,242)	330,353			330,353
Total available for sale	$ 2,849,463	$ 76,487	$ (51,186)	$ 2,874,764	$	$	$ 2,874,764
Held-to-maturity:							
Municipal bonds and notes	$ 646,358	$	$	$ 646,358	$ 30,960	$ (174)	$ 677,144
Agency collateralized mortgage obligations (CMOs) GSE	733,889			733,889	20,555		754,444
Mortgage-backed securities GSE	1,411,008			1,411,008	98,449		1,509,457
Commercial mortgage-backed securities (CMBS)	158,451			158,451	6,588		165,039
Private Label MBS	24,021			24,021	441		24,462
Total held-to-maturity	$ 2,973,727	$	$	$ 2,973,727	$ 156,993	$ (174)	$ 3,130,546
Total investment securities	$ 5,823,190	$ 76,487	$ (51,186)	$ 5,848,491	$ 156,993	$ (174)	$ 6,005,310

(a) Amortized cost is net of $10.5 million of credit related other-than-temporary impairments at December 31, 2011.
(b) Amortized cost is net of $21.6 million of other-than-temporary impairments at December 31, 2011.

Table of Contents

	At December 31, 2010						
		Recognized in OCI			Not Recognized in OCI		
(Dollars in thousands)	Amortized cost (a)(b)	Gross unrealized gains	Gross unrealized losses	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
Available for sale:							
U.S. Treasury Bills	$ 200	$	$	$ 200	$	$	$ 200
Agency notes GSE	100,020	29		100,049			100,049
Agency collateralized mortgage obligations (CMOs) GSE	1,172,942	12,524	(6,307)	1,179,159			1,179,159
Pooled trust preferred securities (a)	65,054	2,693	(14,558)	53,189			53,189
Single issuer trust preferred securities	50,852		(8,577)	42,275			42,275
Equity securities-financial institutions (b)	6,510	1,064	(233)	7,341			7,341
Mortgage-backed securities GSE	691,567	32,103	(88)	723,582			723,582
Commercial mortgage-backed securities (CMBS)	296,730	14,736	(3,485)	307,981			307,981
Total available for sale	$ 2,383,875	$ 63,149	$ (33,248)	$ 2,413,776	$	$	$ 2,413,776
Held-to-maturity:							
Municipal bonds and notes	$ 670,287	$	$	$ 670,287	$ 7,978	$ (25,199)	$ 653,066
Agency collateralized mortgage obligations (CMOs) GSE	643,189			643,189	13,292	(515)	655,966
Mortgage-backed securities GSE	1,707,893			1,707,893	77,204	(4,263)	1,780,834
Commercial mortgage-backed securities (CMBS)	14,997			14,997	39		15,036
Private Label MBS	36,087			36,087	786		36,873
Total held-to-maturity	$ 3,072,453	$	$	$ 3,072,453	$ 99,299	$ (29,977)	$ 3,141,775
Total investment securities	$ 5,456,328	$ 63,149	$ (33,248)	$ 5,486,229	$ 99,299	$ (29,977)	$ 5,555,551

(a) Amortized cost is net of $26.3 million of credit related other-than-temporary impairments at December 31, 2010.
(b) Amortized cost is net of $21.7 million of other-than-temporary impairments at December 31, 2010.

Table of Contents

Table 14: Investment securities portfolio composition and maturity at December 31, 2011.

	Within 1 Year		1 - 5 Years		5 - 10 Years		After 10 Years		Total	
(Dollars in thousands)	**Amount**	**Weighted Average Yield (a)**	**Amount**	**Weighted Average Yield (a)**	**Amount**	**Weighted Average Yield (a)**	**Amount**	**Weighted Average Yield (a)**	**Amount**	**Weighted Average Yield (a)**
Available for sale:										
U.S. Treasury Bills	$ 200	0.12%	$		$		$		$ 200	0.12%
Agency collateralized mortgage obligations (CMOs) GSE					11,242	1.45%	1,929,000	2.40%	1,940,242	2.40%
Pooled trust preferred securities							28,998	2.02%	28,998	2.01%
Single issuer trust preferred securities							38,214	1.90%	38,214	1.89%
Mortgage-backed securities GSE							527,310	4.82%	527,310	4.82%
Commercial mortgage-backed securities					14,957	6.49%	315,396	5.50%	330,353	5.54%
Total available for sale	$ 200	0.12%	$		$ 26,199	4.33%	$ 2,838,918	3.18%	$ 2,865,317	3.19%
Held-to-maturity:										
Municipal bonds and notes	$ 23,390	1.19%	$ 9,860	3.97%	$ 83,159	4.33%	$ 529,949	4.46%	646,358	4.32%
Agency collateralized mortgage obligations (CMOs) GSE							733,889	2.65%	733,889	2.65%
Mortgage-backed securities GSE					159,970	4.22%	1,251,038	4.58%	1,411,008	4.54%
Commercial mortgage-backed securities							158,451	3.91%	158,451	3.91%
Private Label MBS					24,021	4.61%			24,021	4.61%
Total held-to- maturity	$ 23,390	1.19%	$ 9,860	3.97%	$ 267,150	4.29%	$ 2,673,327	3.99%	$ 2,973,727	3.99%
Total investment securities	$ 23,590	1.18%	$ 9,860	3.97%	$ 293,349	4.29%	$ 5,512,245	3.57%	$ 5,839,044	3.60%

(a) Yields are not presented on a fully tax-effected basis

For the year ended December 31, 2011, the Federal Reserve has kept the Fed Funds rate flat at or below 0.25%. Credit spreads remained volatile as global economic and financial market uncertainty persisted. As a result, yields declined on U.S. Treasury securities and other benchmark interest rates which were generally positive for the portfolio.

For the year ended December 31, 2011, the Company recorded no write-downs for other-than-temporary impairments of its available for sale securities. The Company held $662.7 million in investment securities (including held-to- maturity securities) at fair value that had been in an unrealized loss position at December 31, 2011. Approximately $587.7 million of this total had been in an unrealized loss position for less than twelve months while the remainder, $75.0 million, was in an unrealized loss position for twelve months or longer. The total unrealized loss was $51.4 million at December 31, 2011.These investment securities were evaluated by management and were determined not to be other-than-temporarily impaired. The Company does not have the intent to sell these investment securities, and it is more-likely-than-not that it will not have to sell the security before the recovery of its cost basis. To the extent that changes in interest rates, credit movements and other factors that influence the fair value of investments continue, the Company may be required to record additional impairment charges for other-than-temporary impairment in future periods. At December 31, 2011, available for sale investment securities with a carrying value of $2.8 million had deferred the payment of interest; therefore, the securities were placed into a non-accruing status. For additional information on the investment securities portfolio, see Note 3 Investment Securities in the Notes to Consolidated Financial Statements included elsewhere in this report.

Table of Contents

Loans and Leases

Table 15: Loan and lease portfolio composition at December 31,

(Dollars in thousands)	2011 Amount	%	2010 Amount	%	2009 Amount	%	2008 Amount	%	2007 Amount	%
Residential:										
1-4 family	$ 3,163,465	28.2	$ 3,093,425	28.1	$ 2,825,938	25.6	$ 2,939,025	24.2	$ 3,440,056	27.5
Permanent NCLC	21,265	0.2	24,644	0.2	36,790	0.3	58,625	0.4	N/A	N/A
Construction	29,083	0.3	22,629	0.2	27,408	0.2	42,138	0.3	106,553	0.9
Liquidating construction	1	0.0	1	0.0	4,817	0.1	18,735	0.2	83,253	0.7
Total residential	3,213,814	28.7	3,140,699	28.5	2,894,953	26.2	3,058,523	25.1	3,629,862	29.1
Consumer:										
Home equity loans	2,554,879	22.8	2,627,233	23.8	2,745,154	24.9	2,952,366	24.2	2,844,094	22.8
Liquidating portfolio	147,553	1.3	176,576	1.6	219,125	2.0	283,645	2.3	340,662	2.7
Other consumer	37,506	0.3	31,468	0.3	27,590	0.2	28,886	0.3	32,498	0.3
Total consumer loans	2,739,938	24.4	2,835,277	25.7	2,991,869	27.1	3,264,897	26.8	3,217,254	25.8
Commercial:										
Commercial non-mortgage	1,939,629	17.3	1,653,733	15.0	1,505,181	13.7	1,795,738	14.7	1,736,644	13.9
Asset-based loans	454,078	4.0	455,290	4.1	527,187	4.8	753,143	6.2	793,023	6.4
Total commercial loans	2,393,707	21.3	2,109,023	19.1	2,032,368	18.5	2,548,881	20.9	2,529,667	20.3
Commercial real estate:										
Commercial real estate	2,274,110	20.3	2,064,603	18.7	1,921,685	17.4	1,908,312	15.7	1,635,385	13.1
Commercial construction	73,769	0.6	74,696	0.7	148,173	1.4	165,610	1.3	185,983	1.5
Residential development	39,765	0.3	59,832	0.5	114,586	1.0	161,553	1.3	242,039	1.9
Total commercial real estate	2,387,644	21.2	2,199,131	19.9	2,184,444	19.8	2,235,475	18.3	2,063,407	16.5
Equipment financing loans and leases	469,679	4.2	702,233	6.4	886,892	8.0	1,022,718	8.4	970,857	7.8
Net unamortized premiums	8,132	0.1	10,064	0.1	12,512	0.1	14,580	0.1	18,055	0.1
Net deferred costs	12,490	0.1	21,770	0.3	30,400	0.3	41,211	0.4	46,841	0.4
Total loans	11,225,404	100.0	11,018,197	100.0	11,033,438	100.0	12,186,285	100.0	12,475,943	100.0
Less: allowance for loan and lease losses	(233,487)		(321,665)		(341,184)		(235,329)		(188,086)	
Loans and leases, net	$ 10,991,917		$ 10,696,532		$ 10,692,254		$ 11,950,956		$ 12,287,857	

54

Table of Contents

Table 16: Contractual maturities and interest-rate sensitivity of selected loan and lease categories at December 31, 2011.

(In thousands)	**One Year or less**	**Contractual Maturity** **More than One to Five Years**	**More than Five Years**	**Total**
Contractual Maturity				
Residential:				
1-4 family	$ 1,719	$ 28,402	$ 3,133,344	$ 3,163,465
Permanent NCLC	825		20,440	21,265
Construction	129		28,954	29,083
Liquidating construction			1	1
Total residential	2,673	28,402	3,182,739	3,213,814
Consumer:				
Home equity loans	2,358	28,414	2,524,107	2,554,879
Liquidating portfolio		25	147,528	147,553
Other consumer	1,475	17,271	18,760	37,506
Total consumer loans	3,833	45,710	2,690,395	2,739,938
Commercial:				
Commercial non-mortgage	378,748	1,331,769	229,112	1,939,629
Asset-based loans	90,869	363,209		454,078
Total commercial loans	469,617	1,694,978	229,112	2,393,707
Commercial real estate:				
Commercial real estate	372,444	916,977	984,689	2,274,110
Commercial construction	20,868	34,940	17,961	73,769
Residential development	26,357	13,408		39,765
Total commercial real estate loans	419,669	965,325	1,002,650	2,387,644
Equipment financing loans and leases	50,057	396,625	22,997	469,679
Total	$ 945,849	$ 3,131,040	$ 7,127,893	$ 11,204,782
Interest-Rate Sensitivity				
Fixed rate	$ 196,215	$ 911,531	$ 3,322,166	$ 4,429,912
Variable rate	749,634	2,219,509	3,805,727	6,774,870
Total	$ 945,849	$ 3,131,040	$ 7,127,893	$ 11,204,782

The contractual maturities are expected gross receipts from borrowers. The balances of the contractual maturities reflected in Table 16 do not include $8.1 million in net unamortized premiums and $12.5 million in net deferred costs.

Table of Contents

Loan and Lease Portfolio

At December 31, 2011 total loans, net, was $11.0 billion compared to $10.7 billion at December 31, 2010. The allowance for loan losses decreased $88.2 million to $233.5 million at December 31, 2011 from $321.7 million at December 31, 2010.

Commercial loans (including commercial real estate) represented 46.7% of the loan portfolio at December 31, 2011, an increase from 45.4% at December 31, 2010 and an increase from 46.3% at December 31, 2009. Residential mortgage loans increased to 28.7% of the loan portfolio at December 31, 2011, up from 28.5% at December 31, 2010 and from 26.2% at December 31, 2009. The remaining portion of the loan portfolio consisted of small business loans and consumer loans, principally home equity loans and lines of credit.

The following discussion highlights the lending activities in the various portfolios during the years ended December 31, 2011 and 2010. The loan balances disclosed for the various portfolios are inclusive of loan premiums, discounts and deferred fees.

Commercial Banking

The loan portfolio of the Commercial Banking group totaled $4.3 billion at December 31, 2011 and $4.1 billion December 31, 2010. The following provides information regarding the components of the Commercial Banking group.

Middle Market Banking

The Middle Market group delivers Webster s broad range of financial services to a diversified group of companies with revenues greater than $10 million, primarily privately held companies located within New England. Typical loan facilities include lines of credit for working capital, term loans to finance purchases of equipment and commercial real estate loans for owner-occupied buildings. The Middle Market loan portfolio was $1.2 billion at December 31, 2011 compared to $916.6 million at December 31, 2010. Total Middle Market new originations were $527.3 million in 2011, compared to $480.2 million in 2010. The increase in new loan originations is attributable to expanded business development efforts and the addition of business development officers, as well as geographic expansion to Boston, among other factors.

Commercial Real Estate Lending

The Commercial Real Estate group provides variable rate and fixed rate financing alternatives (primarily in New England, New York, New Jersey and Pennsylvania) for the purpose of acquiring, developing, constructing, improving or refinancing commercial real estate where the property is the primary collateral securing the loan, and the income generated from the property is the primary repayment source. The Commercial Real Estate portfolio totaled $1.6 billion at December 31, 2011 compared to $1.5 billion at December 31, 2010. Total new loan originations for the Commercial Real Estate portfolio were $407.2 million in 2011 compared to $193.7 million in 2010.

Asset-Based Lending

Webster Business Credit Corporation (WBCC) is Webster Bank s asset-based lending subsidiary with headquarters in New York, New York and regional offices in the Northeast. Asset-based loans are generally secured by accounts receivable and inventories of the borrower and, in some cases, also include additional collateral such as property and equipment. The WBCC loan portfolio was $456.4 million at December 31, 2011 compared to $455.2 million at December 31, 2010. Total new loan originations for the asset-based lending portfolio were $207.8 million in 2011 compared to $70.0 million in 2010.

Equipment Financing

Webster Capital Finance, Inc. is Webster Bank s equipment financing subsidiary headquartered in Farmington, Connecticut and focuses its business development primarily in the Northeastern United States. It transacts business with end users of equipment, either by soliciting this business on a direct basis or through referrals from various equipment manufacturers, dealers and distributors with whom it has relationships. At December 31, 2011, the equipment financing portfolio was $474.8 million compared to $710.9 million at December 31, 2010. Total new loan originations for Webster Capital Finance, Inc. were $77.7 million in 2011 compared to $183.3 million in 2010. The significant decline in loan balances primarily reflects the planned shift from a previously national focus to a Northeast focus over the past two years.

Industry Segment Banking

The Industry Segment Banking group delivers a broad range of financial services to the business segments where Webster Bank has specialty market knowledge (media, communications, and business services). It conducts its business development primarily in the Northeast with companies and sponsors. The Industry Segment Banking loan portfolio was $577.3 million at December 31, 2011 compared to $479.8 million at December 31, 2010. The growth was attributed to continued strong origination activity with slower prepaid speeds. Total Industry Segment new loans originated were $265.3 million in 2011 compared to $239.8 million in 2010.

Commercial Loans with Interest Reserves

At December 31, 2011 and 2010, there were six and two construction-related loans, respectively, employing bank-funded interest reserves. Such reserves are established at the time of loan origination. The decision to establish a loan-funded interest reserve is made during the underwriting process and considers the feasibility of the project, the creditworthiness and expertise of the borrower, and the debt coverage provided by the real estate and other pledged collateral. The commitments on these loans totaled $67.4 million and $38.9 million, and the loans had outstanding balances of $14.9 million and $14.0 million at December 31, 2011 and 2010, respectively. Contractually committed interest reserves for this loan type totaled $2.2 million and $2.3 million at December 31, 2011 and 2010, respectively. Interest income of $1.0 million and $3.0 million was recognized during the years ended December 31, 2011 and 2010, respectively. The six loans are performing under the original terms as of December 31, 2011.

It is the Company s policy to recognize income for this interest component as long as the project is progressing as agreed and if there has been no material deterioration in the financial standing of the borrower or the underlying project. Projects are subject to on-site inspections, as provided for in the loan agreements, throughout the life of the project. Inspections and reviews are performed upon a request for funding, which typically occurs every four to eight weeks. If there is monetary or non-monetary loan default, the Company will cease any interest accrual. At December 31, 2011 and 2010, there were no situations where additional interest reserves were advanced to keep a loan from becoming non-performing.

Retail Banking

Business and Professional Banking

Webster s small business banking division (BPB) offers a full array of credit and deposit-related cash management products targeted to small business and professional service firms with annual revenues up to $10 million. BPB works to build full customer relationships through branch-based efforts and directly through business bankers. At December 31, 2011, the BPB loan portfolio was $885.3 million compared to $847.5 million at December 31, 2010. Total new loan originations and credit lines for BPB were $269.4 million in 2011 compared to $128.2 million in 2010.

Consumer Finance

Residential Mortgage Lending and Mortgage Banking

For the year ended December 31, 2011, new residential mortgage loan originations totaled $508.8 million compared to $770.3 million for the year ended December 31, 2010. Beginning in November 2010 through the first six months of 2011, mortgage interest rates increased from historic lows, which influenced a sharp decline in mortgage refinance application activity. This decline in applications resulted in an overall decrease in mortgage loan originations funded in 2011 when compared to the same periods in 2010. The residential mortgage loan continuing portfolio totaled $3.2 billion at December 31, 2011 compared with $3.1 billion at December 31, 2010. At December 31, 2011, approximately $947.2 million, or 29.4%, of the portfolio consisted of adjustable rate loans. Adjustable rate mortgage loans are offered at initial interest rates discounted from the fully-indexed rate. At December 31, 2011, approximately $2.3 billion, or 70.6%, of the residential mortgage loan continuing portfolio consisted of fixed rate loans.

Consumer Lending

Consumer finance includes home equity loans and lines of credit and other consumer loans. At December 31, 2011, consumer loans within the continuing portfolio totaled $2.6 billion compared to $2.7 billion at December 31, 2010. At December 31, 2011, consumer loans within the liquidating portfolio totaled $147.6 million compared to the December 31, 2010 balance of $176.6 million. The decline in the liquidating portfolio reflects pay down activity and charge-offs taken during 2011. Total new loan originations and funding of new credit lines increased to $544.4 million in 2011 compared $200.4 million in 2010.

Other

Private Banking

Webster Financial Advisors (WFA) is part of Webster Bank s private bank that serves high net worth clients, not-for-profit organizations and business clients for asset management, trust, loan and deposit products and financial planning services. At December 31, 2011 and December 31, 2010, there were approximately $1.9 billion of client assets under management and administration. These assets are not included in the Condensed Consolidated Financial Statements. WFA provides customized lines of credit, term loans and customer lending products to its clients. At December 31, 2011, the WFA loan portfolio was $223.7 million compared to $177.4 million at December 31, 2010. Webster Financial Advisors originated $71.6 million in loans in 2011 compared to $31.9 million in 2010.

Asset Quality

Webster s lending strategy focuses on direct relationship lending within its primary market area. The quality of the assets underwritten is an important factor in the successful operation of a financial institution. Non-performing assets, loan delinquency and credit loss levels are considered to be key measures of asset quality. Management strives to maintain asset quality through its underwriting standards, servicing of loans and management of non-performing assets and appropriate reserve levels.

Asset quality is one of the key factors in the determination of the level of the allowance for loan and lease losses. See Allowance for Loan and Lease Losses contained elsewhere within this section for further information on the allowance.

Table of Contents

The following table summarizes asset quality information for the past five years.

Table 17: Asset Quality at December 31,

	2011		2010		2009		2008		2007	
(Dollars in thousands)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Non-accrual loans and leases (1)	$ 111,360	57.7	$ 177,742	58.9	$ 268,699	66.8	$ 220,592	83.8	$ 94,842	78.3
Non-accrual restructured loans and leases (1)	76,719	39.7	95,831	31.7	104,278	26.0	11,974	4.6	18,061	14.9
Foreclosed and repossessed assets	4,968	2.6	28,231	9.4	28,988	7.2	30,623	11.6	8,169	6.8
Non-performing assets	$ 193,047	100.0	$ 301,804	100.0	$ 401,965	100.0	$ 263,189	100.0	$ 121,072	100.0
Loans and leases 90 days or more past due and still accruing (1)	$ 724		$ 91		$ 286		$ 1,110		$ 1,891	
Asset Quality Ratios:										
Non-accrual and restructured loans as a percentage of total loans and leases		1.68%		2.48%		3.38%		1.91%		0.90%
Non-performing assets as a percentage of:										
Total assets		1.03		1.67		2.27		1.50		0.70
Total loans and leases plus foreclosed property		1.72		2.73		3.63		2.15		0.97
Net charge-offs as a percentage of average loans and leases		1.00		1.23		1.68		1.09		0.20
Allowance for loan and lease losses as a percentage of total loans and leases		2.08		2.92		3.09		1.93		1.51
Ratio of allowance for loan and lease losses to:										
Net charge-offs		2.11x		2.39x		1.74x		1.70x		7.48x
Non-accrual and non-accrual restructured loans and leases		1.24		1.18		0.91		1.01		1.67

(1) Non-accrual balances exclude the impact of deferred costs and unamortized premiums.

Table of Contents

Non-performing Assets

The following table provides additional information regarding Webster s non-performing assets for the past five years.

Table 18: Non-performing assets at December 31,

	2011		2010		2009		2008		2007	
(Dollars in thousands)	**Amount (1)**	**% (2)**	**Amount (1)**	**% (2)**	**Amount (1)**	**% (2)**	**Amount (1)**	**% (2)**	**Amount (1)**	**% (2)**
Loans:										
Residential:										
1-4 family	$ 76,249	2.41	$ 91,556	2.96	$ 96,856	3.43	$ 48,281	1.64	$ 22,352	0.65
Permanent NCLC	4,584	21.56	6,724	27.28	12,485	33.94	4,221	7.20		
Construction	1,219	4.19	849	3.75	226	0.82				
Liquidating portfolio-NCLC					4,233	87.88	13,402	71.53	22,797	27.38
Total residential	82,052	2.55	99,129	3.16	113,800	3.93	65,904	2.15	45,149	1.24
Consumer:										
Home equity loans	24,943	0.98	34,456	1.31	38,636	1.41	29,744	1.01	14,358	0.50
Liquidating portfolio-home equity loans	5,091	3.45	9,722	5.51	16,248	7.41	16,938	5.97	7,126	2.09
Other consumer	116	0.31	119	0.38	119	0.43	195	0.68	97	0.30
Total consumer	30,150	1.10	44,297	1.56	55,003	1.84	46,877	1.44	21,581	0.67
Commercial:										
Commercial non-mortgage	27,884	1.44	34,365	2.08	56,764	3.77	32,915	1.83	23,068	1.33
Asset-based loans	1,880	0.41	7,832	1.72	13,850	2.63	17,072	2.27	3,736	0.47
Total commercial	29,764	1.24	42,197	2.00	70,614	3.47	49,987	1.96	26,804	1.06
Commercial real estate:										
Commercial real estate	32,197	1.42	41,134	1.99	16,900	0.88	8,032	0.42	8,523	0.52
Commercial construction			10,856	14.53	39,244	26.49				
Residential development	6,762	17.01	15,478	25.87	47,264	41.25	48,628	30.10	4,373	1.81
Total commercial real estate	38,959	1.63	67,468	3.07	103,408	4.73	56,660	2.53	12,896	0.62
Equipment financing loans and leases	7,154	1.52	20,482	2.92	30,152	3.40	13,138	1.28	6,473	0.67
Total non-performing loans and leases	$ 188,079	1.68	$ 273,573	2.49	$ 372,977	3.39	$ 232,566	1.92	$ 112,903	0.91
Foreclosed and repossessed assets:										
Residential and consumer	2,752		$ 6,731		$ 9,148		$ 3,107		$ 5,462	
NCLC/Consumer	132		444		1,697		4,648		496	
Commercial	2,084		21,056		18,143		22,868		2,211	
Total foreclosed and repossessed assets	$ 4,968		$ 28,231		$ 28,988		$ 30,623		$ 8,169	
Total non-performing assets	$ 193,047		$ 301,804		$ 401,965		$ 263,189		$ 121,072	

(1) Balances exclude the impact of deferred costs and unamortized premiums.

(2) Represent the principal balance of non-performing loans and leases as a percentage of the outstanding principal balance within the comparable loan and lease category. The percentage excludes the impact of deferred costs and unamortized premiums.

It is Webster s policy that loans 90 or more days past due are placed in non-accruing status. There are, on occasion, circumstances that cause commercial loans to be placed in the 90 days and accruing category, for example, loans that are considered to be well secured and in the process of collection or renewal.

Non-performing loans and leases were $188.1 million at December 31, 2011 compared to $273.6 million at December 31, 2010. Non-performing loans are defined as non-accruing loans. Non-performing assets (non-performing loans and leases plus foreclosed and repossessed assets) totaled $193.0 million at December 31, 2011 compared to $301.8 million at December 31, 2010.

Table of Contents

Interest on non-accrual loans at December 31, 2011, 2010 and 2009 that would have been recorded as additional interest income had the loans been current in accordance with their original terms approximated $13.8 million, $13.3 million and $20.0 million, respectively. See Note 1 Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements contained elsewhere within this report for information concerning the non-accrual loan policy.

Impaired Loans and Leases

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated on a pooled basis for smaller-balance loans of a similar nature and on an individual loan basis depending on risk rating, accrual status and loan size for other loans, primarily residential and consumer loans. Commercial, commercial real estate and equipment financing loans over a specific dollar amount and all troubled debt restructurings are evaluated individually for impairment. At December 31, 2011, the recorded investment balance of impaired loans and leases totaled $495.3 million, including loans and leases of $338.9 million with an impairment allowance of $46.6 million. Of the $495.3 million in impaired loans and leases at December 31, 2011, $404.2 million were measured using the present value of expected cash flows, and $91.1 million were measured using the fair value of associated collateral. Approximately 48.4% of the $91.1 million of the collateral dependent loans at December 31, 2011 relied on current third party appraisals to assist in measuring impairment. At December 31, 2010, the recorded investment balance of impaired loans and leases totaled $569.1 million, including loans and leases of $363.0 million with an impairment allowance of $36.0 million. Of the $569.1 million in impaired loans and leases at December 31, 2010, $467.4 million were measured using the present value of expected cash flows and $101.7 million were measured using the fair value of associated collateral. Approximately 27.5% of the $101.7 million of the collateral dependent loans at December 31, 2010 relied on current third party appraisals to assist in measuring impairment. The $495.3 million of impaired loans and leases at December 31, 2011 included $444.3 million of TDRs. Generally, TDRs are classified as impaired loans and TDRs for the remaining life of the loan.

Any impaired loan for which no specific valuation allowance was necessary at December 31, 2011 is the result of either sufficient cash flow or sufficient collateral coverage, or previous charge off amounts that reduced the book value of the loan to an amount equal to or below the fair value of the collateral.

To the extent that the recovery of a loan balance is collateral dependent, the Company obtains an independent appraisal. The appraised value is reduced for selling costs and for historical experience with foreclosed real estate and repossessed asset sales to determine the estimated fair value of the collateral. Fair value is then compared to the loan balance. Any fair value shortfall is charged against the allowance for loan and lease losses. Since the fair value of the collateral considers selling costs and adjustments for historical experience with foreclosed real estate and repossessed asset sales, charge-offs may be incurred that reduce a loan balance below appraised value. Updated appraisals are obtained for a collateral dependent loan upon a borrower credit event (i.e. renewal or modification) or as part of the foreclosure proceedings. For commercial loans, an internal or third party valuation may be used if/when a loan moves to a substandard classification. Independent appraisals are obtained annually for commercial loans on non-accrual status. New appraisals may not be ordered if the most recent appraisal was obtained in the past twelve months or the loan amount is under $250,000 or other Financial Institutions Reform Recovery and Enforcement Act (FIRREA) acceptable real estate evaluations are permitted. The twelve month timeframe reflects Webster s desire to obtain an appraisal as close to the foreclosure date as possible to ensure compliance with the court s guidelines, which generally require appraisals not more than 30-90 days old. Appraisals, which are performed by independent, licensed appraisers, are requested by the Appraisal Department. A licensed in-house appraisal officer or qualified reviewer reviews the appraisals when there is significant decline in property value, for foreclosed properties, for loans greater than 180 days past due and for loans over a certain threshold ($4 million for commercial loans and $0.4 million for residential and consumer loans). The Company s appraisal officer or qualified reviewer reviews the appraisal for compliance with FIRREA and the Uniform Standards of Professional Appraisal Practice. For certain loans in the equipment financing portfolio, management will look to competitive bids or blue book values to estimate a value of the underlying collateral. Subsequent to an appraisal, it may come to management s attention that the value has declined further. In cases where this information is deemed reliable, a further impairment is recorded to reflect the reduction, thereby increasing the allowance for loan and lease losses.

Troubled Debt Restructurings

A modified loan is considered a TDR when two conditions are met: 1) the borrower is experiencing financial difficulties and 2) the modification constitutes a concession. Modified terms are dependent upon the financial position and needs of the individual borrower. The Company does not employ modification programs for temporary or trial periods. The most common types of modifications include covenant modifications, or other concessions. If the modification agreement is violated, the loan is handled by the Company s Restructuring and Recovery group for resolution, which may result in foreclosure.

The Company s policy is to place all consumer loan TDRs on non-accrual status for a minimum period of six months. Loans qualify for return to accrual status once they have demonstrated performance with the restructured terms of the loan agreement for a minimum of six months. Commercial TDRs are evaluated on a case-by-case basis. Initially, all TDRs are reported as impaired. Generally, a TDR is classified as an impaired loan and a TDR for the remaining life of the loan. Impaired and TDR classification may be removed if the borrower demonstrates compliance with the modified terms and the restructuring agreement specifies an interest rate equal to that which would be provided to a borrower with similar credit at the time of restructuring.

The recorded investment balance of TDRs was $444.3 million and $450.2 million at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, the majority of the Company s TDRs were on accrual status. TDRs on accrual status were $367.3 million and $352.9 million, while TDRs on non-accrual status were $77.0 million and $97.3 million at December 31, 2011 and 2010, respectively. Management has reviewed the potential TDR population from the beginning of 2011, under ASU No. 2011-02, to affirm the classification presented herewith. At December 31, 2011, approximately 76.0% of the accruing TDRs have been performing in accordance with the restructured terms for more than one year. At December 31, 2011 and 2010, the allowance for loan and lease losses included specific reserves of $44.8 million and $30.7 million related to TDRs, respectively. For the years ended December 31, 2011 and 2010, Webster charged off $28.7 million and $10.3 million, respectively, for the portion of TDRs deemed to be uncollectible. The amount of additional funds committed to borrowers in TDR status was $5.5 million and $18.4 million at December 31, 2011 and 2010, respectively. This amount may be limited by contractual rights and/or the underlying collateral supporting the loan or lease.

The following table presents loans that have been restructured as TDRs for the past five years.

Table 19: Troubled debt restructurings at December 31,

(In thousands)	**2011**	**2010**	**2009 (a)**	**2008 (a)**	**2007 (a)**
Residential	$ 135,311	$ 122,514	$ 59,438	$ 3,698	$ 35
Consumer	36,629	32,158	12,453	473	
Commercial	272,372	295,479	118,750	7,803	18,026
Total	$ 444,312	$ 450,151	$ 190,641	$ 11,974	$ 18,061

(a) Loan balances exclude deferred fees, unamortized premiums and accrued interest.

See Note 4-Loans and Leases, Net in the Notes to Consolidated Financial Statements elsewhere in this report for a discussion of the amount of modified loans, modified loan characteristics and Webster s evaluation of the success of its modification efforts.

Table of Contents

Delinquent Loans

The following table sets forth information regarding Webster s delinquent loans, excluding loans held for sale and non-accrual loans for the past five years.

Table 20: Loans and leases past due 30 days or more and accruing income at December 31,

	2011		2010		2009		2008		2007	
(Dollars in thousands)	Principal Balances (1)	% (2)	Principal Balances (1)	% (2)	Principal Balances (1)	% (2)	Principal Balances (1)	% (2)	Principal Balances (1)	% (2)
Residential										
1-4 family	$ 22,895	0.72	$ 20,987	0.68	$ 33,543	1.19%	$ 44,982	1.53%	$ 23,710	0.69%
Permanent NCLC	1,183	5.56			2,187	5.94	927	1.58		
Construction	283	0.97	526	2.32	356	1.30				
Liquidating NCLC					582	12.08	4,487	23.95	13,143	15.79
Consumer										
Home equity loans	20,394	0.80	21,141	0.80	26,738	0.97	33,122	1.12	21,743	0.76
Liquidating portfolio-home equity loans	4,538	3.08	6,128	3.47	9,804	4.47	15,621	5.51	8,793	2.58
Other consumer	453	1.21	398	1.26	476	1.73	726	2.51	604	1.86
Commercial:										
Commercial non-mortgage	4,619	0.24	5,201	0.31	7,871	0.52	15,817	0.88	8,821	0.51
Asset-based loans							3,676	0.49	4,470	0.56
Commercial real estate:										
Commercial real estate	1,766	0.08	11,006	0.53	8,184	0.43	7,158	0.38	8,178	0.50
Residential development			194	0.32	551	0.48	2,096	1.30	3,876	1.60
Equipment financing loans and leases	4,800	1.02	7,937	1.13	10,641	1.20	9,860	0.96	5,644	0.58
Total loans and leases past due 30-89 days	$ 60,931	0.54	$ 73,518	0.67	$ 100,933	0.92	$ 138,472	1.14	$ 98,982	0.80
Past due 90 days or more and accruing:										
Continuing portfolio										
Commercial non-mortgage	$ 161	0.01	$ 91	0.01	$ 50	0.01	$ 459	0.03	$ 1,141	0.07
Commercial real estate	428	0.02			236	0.01	450	0.02	550	0.03
Residential development	135	0.34					201	0.12	200	0.08
Total loans past due 90 days and still accruing	$ 724		$ 91		$ 286		$ 1,110		$ 1,891	
Total over 30-day delinquent loans	$ 61,655		$ 73,609		$ 101,219		$ 139,582		$ 100,873	

(1) Other past due loan and lease balances exclude the impact of deferred costs and unamortized premiums.
(2) Represent the principal balance of past due loans and leases as a percentage of the outstanding principal balance within the comparable loan and lease category. The percentage excludes the impact of deferred costs and unamortized premiums.

As previously noted, non-performing loans decreased as a percentage of the total loan portfolio at December 31, 2011. Similarly, non-performing assets, as a percentage of total assets, decreased compared to December 31, 2010. As a percentage of total loans, loans between 30 and 90 days delinquent were 0.54% and 0.67% at December 31, 2011 and December 31, 2010, respectively.

Allowance for Loan and Lease Losses Methodology

The allowance for loan and lease losses and the reserve for unfunded credit commitments are maintained at a level estimated by management to provide for potential losses inherent within the loan portfolio. Potential losses are estimated based upon a quarterly review of the loan portfolio, which includes historic default and loss experience, specific problem loans, risk rating profile, economic conditions and other pertinent factors which, in management s judgment, warrant current recognition in the loss estimation process. Webster s Credit Risk Management Committee meets quarterly to review and conclude on the adequacy of the allowance and to recommend reserve adequacy to executive management.

Management considers the adequacy of the allowance for loan and lease losses a critical accounting policy. The adequacy of the allowance for loan and lease losses is subject to assumptions and judgment used in its determination. Therefore, actual loan and lease losses could differ materially from management s estimate if actual conditions differ significantly from the assumptions utilized. These factors and conditions include economic conditions in Webster s market and nationally, industry trends and concentrations, real estate values and trends, and the financial condition and performance of individual borrowers. While management believes the allowance for loan and lease losses is adequate as of December 31, 2011, actual results may prove different and the differences could be significant.

Webster s methodology for assessing the appropriateness of the allowance includes several key elements. The impaired loans analyzed and specifically reserved for are identified and segregated from the portfolio. The remaining loans are segmented into pools that are similar in type and risk characteristics. Historic risk portfolio performance data is collected over time and analyzed to support the segmentation and to use in the loss estimation process. This data includes historic delinquency, non-accrual and loss trend information, and loan default data.

Potential losses in the portfolio are estimated by calculating formula allowances for homogeneous pools of loans and specific allowances for impaired loans. The formula allowance is calculated by applying loss factors to the loan pools that are based on historic default and loss rates, internal risk ratings, and other risk-based characteristics. Changes in risk ratings, and other risk factors, for both performing and non-performing loans affect the calculation of the allowance. Loss factors are based on Webster s default and loss experience and may be adjusted for significant conditions that, in management s judgment, affect the collectability of the portfolio as of the evaluation date. The following are considered when determining probable losses: historic loss experience, borrower and facility risk ratings, industry and borrower concentrations, collateral values, portfolio trends, and current market conditions.

The allowance for loan and lease losses incorporates the range of potential outcomes as part of the loss estimation process, as well as an estimate of loss associated with risks not captured in quantitative modeling and methodologies including, but not limited to: imprecision in loss estimate methodologies and models, asset quality trends, changes in portfolio characteristics and loan mix, volatility in historic loss experience, uncertainty associated with industry trends, the economy and other external factors.

At December 31, 2011, the allowance for loan and lease losses was $233.5 million, or 2.08% of the total loan portfolio, and 124.0% of total non-performing loans and leases. This compares with an allowance of $321.7 million, or 2.92% of the total loan portfolio, and 117.1% of total non-performing loans and leases at December 31, 2010. Gross charge-offs for the year ended December 31, 2011 and 2010 were $129.3 million and $150.7 million, respectively, a decrease of $21.4 million compared to 2010. Gross charges for residential loans were $11.5 million and $17.0 million, respectively, for consumer loans, $53.0 million and $66.2 million, respectively, for commercial loans, $39.9 million and $31.6 million, respectively, for commercial real estate loans, $22.7 million and $19.1 million, respectively, and for equipment financing loans, $2.2 million and $16.8 million, respectively. The decrease in charge-off activity reflects lower levels of non-performing loans and improved portfolio performance for the year ended December 31, 2011. The decrease in the allowance for loan and lease losses year over year is a reflection of an improving risk profile of the loan portfolio driven by improved credit performance. The allowance for loan and lease losses does not include a reserve for unfunded credit commitments which is discussed in the following paragraph.

Table of Contents

The allowance for credit losses analysis also includes consideration of the risks associated with unfunded loan commitments. The unfunded reserve calculation includes factors that are consistent with ALLL methodology for funded loans using the loss given default, probability of default and a draw down factor applied to the underlying borrower risk and facility grades. The combination of ALLL and unfunded reserves is calculated in a manner to capture the entirety of the underlying business relationship of the customer. The amounts of unfunded commitments and the associated reserves may be subject to fluctuations in originations, the timing and volume of loan funding, as well as risk rating migration. At December 31, 2011, the reserve for unfunded credit commitments was $5.4 million compared to a reserve for unfunded credit commitments of $9.4 million at December 31, 2010.

Table 21: The following table provides detail of activity in the Company s allowance for loan and lease losses for the years ended December 31:

(Dollars in thousands)	**2011**	**2010**	**2009**	**2008**	**2007**
Beginning balance	$ 321,665	$ 341,184	$ 235,329	$ 188,086	$ 147,719
Allowance for sold loans [(a)]			(469)		
Provision	22,500	115,000	302,700	185,300	65,525
Charge-offs:					
Residential	(11,524)	(16,991)	(20,013)	(31,264)	(10,422)
Consumer	(52,997)	(66,215)	(79,967)	(39,455)	(11,430)
Commercial	(39,933)	(31,570)	(58,978)	(34,679)	(7,518)
Commercial real estate	(22,721)	(19,139)	(17,140)	(34,029)	(117)
Equipment financing	(2,154)	(16,760)	(29,801)	(3,382)	(1,169)
Total charge-offs	(129,329)	(150,675)	(205,899)	(142,809)	(30,656)
Recoveries:					
Residential	933	1,671	2,527	1,440	404
Consumer	5,449	4,637	3,199	943	1,600
Commercial	5,276	4,285	1,579	1,433	2,607
Commercial real estate	544	996	9		
Equipment financing	6,449	4,567	2,209	936	887
Total recoveries	18,651	16,156	9,523	4,752	5,498
Net charge-offs	(110,678)	(134,519)	(196,376)	(138,057)	(25,158)
Ending balance	$ 233,487	$ 321,665	$ 341,184	$ 235,329	$ 188,086
Reserve for unfunded credit commitments:[(b)]					
Beginning balance	$ 9,378	$ 10,105	$ 10,500	$ 9,500	$ 7,275
Provision	209	311	300	1,000	2,225
Benefit	(4,138)	(1,038)	(695)		
Ending balance-reserve for unfunded credit commitments	$ 5,449	$ 9,378	$ 10,105	$ 10,500	$ 9,500

(a) Balance represents the allowance for loans sold associated with the sale of Budget Installment Corporation (BIC) in November 2009.
(b) The reserve for unfunded credit commitments is reported as a component of accrued expenses and other liabilities in the accompanying Consolidated Balance Sheets. As of 2010, the provision is reflected as a component of non-interest expense.

Table of Contents

Table 22: A summary of annualized net charge-offs (recoveries) to average outstanding loans and leases by category follows:

	2011	2010 (1)	2009	2008	2007
Net charge-offs					
Residential	0.34%	0.51%	0.59%	0.83%	0.27%
Consumer	1.70	2.10	2.42	1.19	0.31
Commercial	1.53	1.34	2.47	1.27	0.19
Commercial real estate	0.99	0.85	0.77	1.51	0.01
Equipment financing	(0.73)	1.52	2.80	0.24	0.03
Total net charge-offs to total average loans and leases	1.00%	1.23%	1.68%	1.09%	0.20%

Table 23: Allocation of allowance for loan and lease losses by portfolio segment at December 31:

	2011		2010		2009		2008		2007	
(Dollars in thousands)	**Amount**	**% (a)**	**Amount**	**% (a)**	**Amount**	**% (a)(b)**	**Amount**	**% (a)(b)**	**Amount**	**% (a)(b)**
Residential	$ 34,565	1.1%	$ 30,792	1.0%	$ 26,895	0.9%	$ 23,578	0.8%	$ 22,588	0.6%
Consumer	67,785	2.5	95,071	3.3	102,017	3.4	57,665	1.7	43,476	1.3
Commercial	60,681	2.5	74,470	3.5	88,406	4.3	75,285	3.0	58,915	3.3
Commercial real estate	45,013	1.9	77,695	3.5	74,753	3.5	52,649	2.4	29,402	1.4
Equipment financing	8,943	1.9	21,637	3.0	29,113	3.2	9,355	0.9	8,960	0.9
Total allocated	$ 216,987	1.9	$ 299,665	2.7	$ 321,184	2.9	$ 218,532	1.8	$ 163,341	1.3
Unallocated	16,500		22,000		20,000		16,797		24,745	
Total	$ 233,487	2.1%	$ 321,665	2.9%	$ 341,184	3.1%	$ 235,329	1.9%	$ 188,086	1.5%

(a) Percentage represents the allocated allowance for loan and lease losses to the total loans outstanding within the comparable category.
(b) Allowance for loan and lease losses for applicable loan categories has been reclassified to conform to the presentation required by ASU 2010-20.

The allowance, in the judgment of management, is necessary to provide for probable loan and lease losses inherent in the portfolio. The level of the allowance reflects management s continuing evaluation of industry concentrations, specific credit risks, loss experience, current portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan and lease portfolio, as well as trends in the foregoing. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management s judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company s control, including the performance of the Company s loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

Sources of Funds

The primary source of Webster Bank s cash flows, for use in lending and meeting its general operational needs, is deposits. Additional sources of funds are from Federal Home Loan Bank (FHLB) advances and other borrowings, loan and mortgage-backed securities repayments, securities sales proceeds and maturities, and earnings. While scheduled loan and securities repayments are a relatively stable source of funds, loan and investment security prepayments and deposit inflows are influenced by prevailing interest rates and local economic conditions and are inherently uncertain.

Deposits

Webster Bank offers a wide variety of deposit products for checking and savings (including: ATM and check card use, direct deposit, ACH payments, combined statements, automated mobile banking services, Internet-based banking, bank by mail as well as overdraft protection via line of credit or transfer from another deposit

66

account) designed to meet the transactional, savings and investment needs of our consumer and business customers throughout 168 banking offices within our primary market area. Webster manages the flow of funds in its deposit accounts and provides an assortment of accounts and rates consistent with FDIC regulations. Webster s Retail Pricing Committee and its Commercial and Institutional Liability Pricing Committee meet regularly to determine pricing and marketing initiatives.

Table 24: Daily average balances of deposits by type and weighted-average rates paid thereon at the dates indicated.

	Years ended December 31,					
	2011		2010		2009	
(Dollars in thousands)	Average Balance	Average rate	Average Balance	Average rate	Average Balance	Average rate
Non-interest bearing:						
Demand	$ 2,278,419		$ 1,789,161		$ 1,578,356	
Interest-bearing:						
Checking	1,436,405	0.12%	1,772,722	0.19%	1,647,543	0.23%
Health savings accounts	986,875	0.83	800,448	1.17	632,149	1.60
Money market	2,408,765	0.33	2,449,286	0.57	1,929,383	1.06
Savings	3,702,288	0.43	3,435,713	0.66	2,768,121	0.96
Time deposits	3,031,835	1.55	3,490,017	1.82	4,525,770	2.65
Total interest-bearing	$ 11,566,168	0.70%	$ 11,948,186	0.94%	$ 11,502,966	1.57%
Total average deposits	$ 13,844,587	0.58%	$ 13,737,347	0.82%	$ 13,081,322	1.38%

Average deposits increased $0.1 billion, or 1%, in 2011 as compared to 2010 and increased $0.7 billion, or 5%, in 2010 as compared to 2009. There has been an overall growth in deposits complemented by a shift in mix towards demand deposits which have been steadily increasing, up 27.3% in 2011 over a 13.4% increase in 2010.

Time deposits with a denomination of $100 thousand or more amounted to $1.0 billion, $1.0 billion and $1.3 billion and represented approximately 7.2%, 7.7% and 9.4% of total deposits at December 31, 2011, 2010 and 2009, respectively.

Table 25: Amount of time deposits with a denomination of $100 thousand or more at December 31, 2011, maturing during the periods indicated:

(In thousands)	
Due within 3 months	$ 158,523
Due after 3 months and within 6 months	109,948
Due after 6 months and within 12 months	149,960
Due after 12 months	566,760
Total	$ 985,191

Borrowings

Webster is a member of the Federal Home Loan Bank of Boston, which is part of a twelve district Federal Home Loan Bank System. Members are required to own capital stock of the FHLB, and borrowings are collateralized by qualifying assets not otherwise pledged (principally single-family residential mortgage loans and securities). The maximum amount of credit which the FHLB will extend varies from time to time, depending on its policies and the amount of qualifying collateral the member can pledge. Webster has satisfied its collateral requirement at December 31, 2011.

Table of Contents

Borrowings, utilized as a source of funding for liquidity and interest rate risk management purposes, primarily consist of FHLB advances and securities sold under agreements to repurchase (whereby Webster delivers securities to counterparties under an agreement to repurchase the securities at a fixed price in the future). In addition, Webster will utilize term and overnight Federal funds to meet short-term liquidity needs. The Company also carries long-term debt which, at December 31, 2011, consists of subordinated notes maturing in 2013, senior notes maturing in 2014, and junior subordinated notes maturing between 2033 and 2037. On February 7, 2012, the Bank completed a fixed price cash tender offer for any and all of its outstanding Subordinated fixed-rate notes. See Note 25 Subsequent Event in the Notes to Consolidated Financial Statements elsewhere in this report.

Table 26: Daily average balances of borrowings by type and weighted-average rates paid thereon at the dates indicated:

	Years ended December 31,					
	2011		2010		2009	
(Dollars in thousands)	Average Balance	Average rate	Average Balance	Average rate	Average Balance	Average rate
FHLB advances	$ 569,987	2.52%	$ 567,711	3.11%	$ 697,711	3.62%
Securities sold under agreements to repurchase	919,761	1.74	813,433	1.93	860,268	2.18
Federal funds	122,656	0.14	75,753	0.21	175,934	0.20
Treasury, tax and loan	10,905		10,017		87,916	0.23
Long-term debt	565,331	4.36	586,546	4.30	628,145	4.03
Total average borrowings	$ 2,188,640	2.52%	$ 2,053,460	2.86%	$ 2,449,974	2.85%

Average borrowings increased $0.1 billion, or 7%, in 2011 as compared to 2010, and decreased $0.4 billion, or 16%, in 2010 as compared to 2009. The increase in 2011 as compared to 2010 was primarily due to utilization of securities sold under agreements to repurchase, up $0.1 billion, or 13%, and the decrease in 2010 as compared to 2009 was primarily due to reduced utilization of FHLB advances, down $0.1 billion, or 19%, and Federal funds down $0.1 billion or 57%.

See Note 9 Securities Sold under Agreements to Repurchase and Other Short-Term Borrowings, Note 10 Federal Home Loan Bank Advances and Note 11 Long-Term Debt in the Notes to Consolidated Financial Statements contained elsewhere within this report for further information on the Company s borrowings.

Table 27: Contractual obligations and commercial commitments at December 31, 2011.

Payments due by period in the following table are based on final maturity dates without consideration of early redemption.

	Payments Due by Period				
(In thousands)	Total	Less than one year	1-3 years	3-5 years	After 5 years
Contractual Obligations:					
FHLB advances	$ 1,251,804	$ 751,400	$ 199,000	$ 145,934	