WEBSTER FINANCIAL CORP
Form 10-Q
November 06, 2017

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ending September 30, 2017

Commission File Number: 001-31486

WEBSTER FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transaction period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes No
The number of shares of common stock, par value $.01 per share, outstanding as of October 31, 2017 was 92,074,790.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
FOWARD-LOOKING STATEMENTS and FACTORS THAT COULD AFFECT FUTURE RESULTS

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

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

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

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

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

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

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

WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
KEY TO ACRONYMS AND TERMS

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

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

(In thousands, except share data)	**September 30, 2017 (Unaudited)**	**December 31, 2016**
Assets:		
Cash and due from banks	$215,244	$190,663
Interest-bearing deposits	26,992	29,461
Investment securities available-for-sale, at fair value	2,591,162	2,991,091
Investment securities held-to-maturity (fair value of $4,481,675 and $4,125,125)	4,497,311	4,160,658
Federal Home Loan Bank and Federal Reserve Bank stock	136,340	194,646
Loans held for sale (valued under fair value option $32,855 and $60,260)	32,855	67,577
Loans and leases	17,446,421	17,026,588
Allowance for loan and lease losses	(201,803)	(194,320)
Loans and leases, net	17,244,618	16,832,268
Deferred tax assets, net	82,895	84,391
Premises and equipment, net	130,358	137,413
Goodwill	538,373	538,373
Other intangible assets, net	30,589	33,674
Cash surrender value of life insurance policies	528,136	517,852
Accrued interest receivable and other assets	295,309	294,462
Total assets	$26,350,182	$26,072,529
Liabilities and shareholders' equity:		
Deposits:		
Non-interest-bearing	$4,138,206	$4,021,061
Interest-bearing	16,717,029	15,282,796
Total deposits	20,855,235	19,303,857
Securities sold under agreements to repurchase and other borrowings	902,902	949,526
Federal Home Loan Bank advances	1,507,681	2,842,908
Long-term debt	225,704	225,514
Accrued expenses and other liabilities	219,873	223,712
Total liabilities	23,711,395	23,545,517
Shareholders' equity:		
Preferred stock, $.01 par value; Authorized - 3,000,000 shares:		
Series E issued and outstanding (5,060 shares)	122,710	122,710
Common stock, $.01 par value; Authorized - 200,000,000 shares:		
Issued (93,679,599 and 93,651,601 shares)	937	937
Paid-in capital	1,123,685	1,125,937
Retained earnings	1,535,585	1,425,320
Treasury stock, at cost (1,764,131 and 1,899,502 shares)	(75,032)	(70,899)
Accumulated other comprehensive loss, net of tax	(69,098)	(76,993)
Total shareholders' equity	2,638,787	2,527,012
Total liabilities and shareholders' equity	$26,350,182	$26,072,529

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three months ended September 30,		Nine months ended September 30,	
(In thousands, except per share data)	**2017**	**2016**	**2017**	**2016**
Interest Income:				
Interest and fees on loans and leases	$181,130	$157,071	$523,394	$459,050
Taxable interest and dividends on investments	43,819	43,384	136,167	136,734
Non-taxable interest on investment securities	5,765	4,820	17,103	13,691
Loans held for sale	307	440	826	1,006
Total interest income	231,021	205,715	677,490	610,481
Interest Expense:				
Deposits	16,760	12,594	44,874	37,267
Securities sold under agreements to repurchase and other borrowings	3,847	3,447	10,970	10,999
Federal Home Loan Bank advances	6,894	6,979	22,543	21,517
Long-term debt	2,616	2,498	7,748	7,444
Total interest expense	30,117	25,518	86,135	77,227
Net interest income	200,904	180,197	591,355	533,254
Provision for loan and lease losses	10,150	14,250	27,900	43,850
Net interest income after provision for loan and lease losses	190,754	165,947	563,455	489,404
Non-interest Income:				
Deposit service fees	38,321	35,734	113,519	105,553
Loan and lease related fees	6,346	9,253	19,898	20,563
Wealth and investment services	7,750	7,593	22,900	21,992
Mortgage banking activities	2,421	4,322	8,038	11,335
Increase in cash surrender value of life insurance policies	3,720	3,743	10,943	11,060
Gain on sale of investment securities, net	—	—	—	414
Impairment loss on investment securities recognized in earnings	—	—	(126)	(149)
Other income	7,288	5,767	18,267	23,093
Total non-interest income	65,846	66,412	193,439	193,861
Non-interest Expense:				
Compensation and benefits	89,192	83,148	264,822	244,089
Occupancy	14,744	15,004	46,957	44,915
Technology and equipment	22,580	19,753	66,646	59,067
Intangible assets amortization	1,002	1,493	3,085	4,570
Marketing	4,045	4,622	14,101	14,215
Professional and outside services	4,030	4,795	11,813	11,360
Deposit insurance	6,344	6,177	19,701	19,596
Other expense	19,886	21,105	62,901	63,508
Total non-interest expense	161,823	156,097	490,026	461,320
Income before income tax expense	94,777	76,262	266,868	221,945
Income tax expense	30,281	24,445	81,322	72,478
Net income	64,496	51,817	185,546	149,467
Preferred stock dividends and other	(2,070)	(2,183)	(6,284)	(6,540)
Earnings applicable to common shareholders	$62,426	$49,634	$179,262	$142,927
Earnings per common share:				
Basic	$0.68	$0.54	$1.95	$1.57
Diluted	0.67	0.54	1.94	1.56

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three months ended September 30,		**Nine months ended September 30,**	
(In thousands)	**2017**	**2016**	**2017**	**2016**
Net income	$64,496	$51,817	$185,546	$149,467
Other comprehensive income, net of tax:				
Total securities available-for-sale and transferred	872	1,218	1,847	19,988
Total derivative instruments	1,111	2,015	2,921	1,589
Total defined benefit pension and other postretirement benefit plans	1,001	1,125	3,127	3,376
Other comprehensive income, net of tax	2,984	4,358	7,895	24,953
Comprehensive income	$67,480	$56,175	$193,441	$174,420

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(In thousands, except per share data)	Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock, at cost	Accumulated Other Comprehensive Loss, Net of Tax	Total Shareholders' Equity
Balance at December 31, 2016	$122,710	$937	$1,125,937	$1,425,320	$(70,899)	$(76,993)	$2,527,012
Net income	—	—	—	185,546	—	—	185,546
Other comprehensive income, net of tax	—	—	—	—	—	7,895	7,895
Dividends and dividend equivalents declared on common stock $0.77 per share	—	—	124	(71,096)	—	—	(70,972)
Dividends paid on Series E preferred stock $1,200.00 per share	—	—	—	(6,072)	—	—	(6,072)
Stock-based compensation	—	—	—	1,887	9,070	—	10,957
Exercise of stock options	—	—	(2,376)	—	7,677	—	5,301
Common shares acquired related to stock compensation plan activity	—	—	—	—	(9,295)	—	(9,295)
Common stock repurchase program	—	—	—	—	(11,585)	—	(11,585)
Balance at September 30, 2017	$122,710	$937	$1,123,685	$1,535,585	$(75,032)	$(69,098)	$2,638,787

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(In thousands)	Nine months ended September 30, 2017	2016
Operating Activities:		
Net income	$185,546	$149,467
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	27,900	43,850
Deferred tax (benefit) expense	(3,241)	14,425
Depreciation and amortization	28,060	27,342
Amortization of earning assets and funding, premiums/discounts, net	33,338	42,855
Stock-based compensation	9,050	8,558
Gain on sale, net of write-down, on foreclosed and repossessed assets	(551)	(744)
Write-down (gain on sale), net on premises and equipment	218	(713)
Impairment loss on investment securities recognized in earnings	126	149
Gain on the sale of investment securities, net	—	(414)
Increase in cash surrender value of life insurance policies	(10,943)	(11,060)
Mortgage banking activities	(8,038)	(11,335)
Proceeds from sale of loans held for sale	262,029	298,840
Origination of loans held for sale	(227,435)	(320,739)
Net decrease (increase) in derivative contract assets net of liabilities	11,235	(73,765)
Net (increase) decrease in accrued interest receivable and other assets	(19,405)	51,270
Net increase (decrease) in accrued expenses and other liabilities	12,386	(30,419)
Net cash provided by operating activities	300,275	187,567
Investing Activities:		
Net decrease in interest-bearing deposits	2,469	133,969
Purchases of available for sale investment securities	(305,309)	(615,174)
Proceeds from maturities and principal payments of available for sale investment securities	695,595	430,099
Proceeds from sales of available for sale investment securities	—	259,283
Purchases of held-to-maturity investment securities	(887,240)	(640,218)
Proceeds from maturities and principal payments of held-to-maturity investment securities	525,499	517,513
Net proceeds of Federal Home Loan Bank stock	58,306	3,243
Alternative investments return of capital (capital call), net	107	(649)
Net increase in loans	(446,454)	(1,010,423)
Proceeds from loans not originated for sale	7,445	20,764
Proceeds from life insurance policies	746	—
Proceeds from the sale of foreclosed and repossessed assets	5,651	6,900
Proceeds from the sale of premises and equipment	2,182	1,550
Additions to premises and equipment	(20,034)	(31,250)
Proceeds from redemption of other assets	7,581	—
Net cash used for investing activities	(353,456)	(924,393)

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine months ended September 30,	
(In thousands)	**2017**	**2016**
Financing Activities:		
Net increase in deposits	1,551,987	1,248,710
Proceeds from Federal Home Loan Bank advances	9,245,000	14,150,000
Repayments of Federal Home Loan Bank advances	(10,580,218)	(14,226,147)
Net decrease in securities sold under agreements to repurchase and other borrowings	(46,624)	(350,695)
Dividends paid to common shareholders	(70,732)	(66,648)
Dividends paid to preferred shareholders	(6,072)	(6,072)
Exercise of stock options	5,301	2,372
Excess tax benefits from stock-based compensation	—	2,363
Common stock repurchase program	(11,585)	(11,206)
Common shares purchased related to stock compensation plan activity	(9,295)	(5,392)
Common stock warrants repurchased	—	(163)
Net cash provided by financing activities	77,762	737,122
Net increase in cash and due from banks	24,581	296
Cash and due from banks at beginning of period	190,663	199,693
Cash and due from banks at end of period	$215,244	$199,989
Supplemental disclosure of cash flow information:		
Interest paid	$85,242	$79,054
Income taxes paid	78,832	61,639
Noncash investing and financing activities:		
Transfer of loans and leases to foreclosed properties and repossessed assets	$6,503	$4,917
Transfer of loans from loans and leases to loans-held-for-sale	—	20,547

See accompanying Notes to Condensed Consolidated Financial Statements.

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Note 1: Summary of Significant Accounting Policies

Nature of Operations

Webster Financial Corporation is a bank holding company and financial holding company under the Bank Holding Company Act, incorporated under the laws of Delaware in 1986 and headquartered in Waterbury, Connecticut. At September 30, 2017, Webster Financial Corporation's principal asset is all of the outstanding capital stock of Webster Bank.

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

Basis of Presentation

The accounting and reporting policies of the Company that materially affect its financial statements conform with GAAP. The accompanying unaudited Condensed Consolidated Financial Statements of the Company have been prepared in conformity with the instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all the information and notes required by GAAP for complete financial statements and should be read in conjunction with the Company's Consolidated Financial Statements, and Notes thereto, for the year ended December 31, 2016, included in the Company's Annual Report on Form 10-K filed with the SEC on March 1, 2017.

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

Certain prior period amounts have been reclassified to conform to the current year's presentation. These reclassifications had an immaterial effect on non-interest income, non-interest expense, net cash provided by operating activities, and net cash used for investing activities.

Significant Accounting Policy Updates

Centrally Cleared Derivatives

Effective during the first quarter of 2016, the Company offset the variation margin pertaining to derivatives reported on a net basis, subject to a legally enforceable master netting arrangement, with the same counterparty against the net derivative position on the Company's balance sheets. The Chicago Mercantile Exchange has amended their rulebooks to legally characterize variation margin payments for over-the-counter derivatives that clear, as settlements rather than collateral, effective January 3, 2017.

The Company has updated its significant accounting policies to classify variation margin deemed to be legal settlements as a single unit of account with the derivative, for accounting and presentation purposes. The policy update does not result in a change in the presentation of the Company's balance sheets as the Company previously offset the variation margin pertaining to derivatives reporting on a net basis, subject to a legally enforceable master netting arrangement, with the same counterparty against the net derivative position.

Accounting Standards Adopted during 2017

Effective January 1, 2017, the following new accounting guidance was adopted by the Company:

ASU No. 2016-09, Compensation - Stock Compensation (Topic 718) - Improvements to Employee Share Based Payment Accounting

The Update impacted the accounting for employee share-based payment transactions, including the income tax consequences, and classification on the statement of cash flows. The Update requires the Company to recognize the income tax effects of awards in the income statement on a prospective basis when the awards vest or are settled, compared to within additional paid-in capital. As a result, applicable excess tax benefits and tax deficiencies are recorded as an income tax benefit or expense, respectively. The Company elected to present the classification on the

statement of cash flows on a prospective basis to better align this presentation with the income tax effects.
The impact of the Update will vary from period to period based on the Company's stock price and the quantity of shares that vest or are settled within a given period.

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The Update also requires the Company to elect the accounting for forfeitures of share-based payments by either (i) recognizing forfeitures of awards as they occur or (ii) estimating the number of awards expected to be forfeited and adjusting the estimate when it is likely to change, as is currently required. The Company elected to account for forfeitures of share-based payments by estimating the number of awards expected to be forfeited and adjusting the estimate when it is likely to change, which is in accordance with the Company's previous accounting practices.
The adoption of this accounting standard did not have a material impact on the Company's financial statements.
ASU No. 2016-06, Derivatives and Hedging (Topic 815) - Contingent Put and Call Options in Debt Instruments.
The Update clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. The Update requires the assessment of embedded call (put) options solely in accordance with the four-step decision sequence. The Update clarified that companies are not required to assess whether the event triggering the ability to exercise the call/put option was also clearly and closely related.
The adoption of this accounting standard did not have a material impact on the Company's financial statements, as the Company has not performed the additional step of assessing whether the event triggering the ability to exercise the call (put) option was clearly and closely related, which was deemed not required by the Update.
Accounting Standards Issued but not yet Adopted
The following list identifies ASUs applicable to the Company that have been issued by the FASB but are not yet effective:
ASU No. 2017-12, Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities.
The purpose of the Update is to better align a company’s financial reporting for hedging activities with the economic objectives of those activities. The update requires a modified retrospective transition method in which the Company will recognize a cumulative effect of the change on the opening balance for each affected component of equity in the financial statements as of the date of adoption.
The Company is in the process of assessing all potential impacts of the standard.
The Update is effective for the first quarter of 2019, early adoption is permitted. The Company is evaluating the potential to early adopt the Update.
ASU No. 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20) - Premium Amortization on Purchased Callable Debt Securities.
The Update is intended to enhance the accounting for the amortization of premiums for purchased callable debt securities. Specifically, the Update shortens the amortization period for certain investments in callable debt securities purchased at a premium by requiring that the premium be amortized to the earliest call date. The Update is being issued in response to concerns from stakeholders that, current GAAP excludes certain callable debt securities from consideration of early repayment of principal even if the holder is certain that the call will be exercised.
The Update, upon adoption, is expected to accelerate the Company’s recognition of premium amortization on debt securities held within the portfolio. The amendments in the Update will be applied on a modified retrospective basis through a cumulative-effect adjustment directly through retained earnings upon adoption.
Management is in the process of evaluating the full impact of adopting the Update including, but not limited to the following:

- Modifying system amortization requirements;
- Evaluation of premiums associated with debt securities to determine the appropriate cumulative-effect adjustment; and
- Establishing new accounting policies pertaining to premium amortization on purchased callable debt securities.

The Update is effective for the first quarter of 2019, early adoption is permitted. The Company is evaluating the potential to early adopt the Update.
ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715) - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.
The Update requires the Company to disaggregate the current-service-cost component from the other components of net benefit cost (the “other components”) and present it with other current compensation costs for related employees in

the income statement and present the other components elsewhere in the income statement and outside of income from operations if that subtotal is presented. In addition, the Update requires entities to disclose the income statement lines that contain the other components if they are not presented on appropriately described separate lines.

The new guidance will be applied on a retrospective basis. The Company intends to adopt the Update for the first quarter of 2018. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

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ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment.
The Update eliminates Step 2 from the goodwill impairment analysis. Step 2, requires the Company to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities). Under current guidance, Step 2 testing would be performed only if Step 1 testing indicated the fair value of the reporting unit is below the reporting unit's carrying amount.
Once effective the Update will require the Company to record an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, eliminating the Step 2 requirements. The Company intends to adopt the Update for the first quarter of 2020. Adoption is not anticipated to have a material impact on the Company's financial statements.
ASU No. 2016-15, Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments.
The Update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The Update addresses the following eight issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle.
The Company intends to adopt the Update for the first quarter of 2018. The Company does not expect this guidance to have a material impact on its consolidated financial statements.
ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments.
Current GAAP requires an "incurred loss" methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. Both financial institutions and users of their financial statements expressed concern that current GAAP restricts the ability to record credit losses that are expected, but do not yet meet the "probable" threshold.
The main objective of this Update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this Update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates.
The Change from an "incurred loss" method to an "expected loss" method represents a fundamental shift from existing GAAP, and is likely to result in a material increase to the Company's accounting for credit losses on financial instruments. The Company has established a project lead and identified a working group comprised of members from different disciplines including Credit, Finance and Information Technology. The Company is in the early stages of evaluation of the effect that this ASU will have on its financial statements and related disclosures, but has begun to develop a roadmap which includes a consideration of external resources that may be required, use of existing and new models, data availability and system solutions to facilitate implementation. The ASU will be effective for the Company as of the first quarter 2020. While we are currently unable to reasonably estimate the impact of adopting the Update, we expect the impact of adoption will be significantly influenced by the composition, characteristics and quality of our loan and securities portfolios as well as the economic conditions as of the adoption date.
ASU No. 2016-02, Leases (Topic 842).
The Update introduces a lessee model that brings most leases on the balance sheet. The Update also aligns certain of the underlying principles of the new lessor model with those in ASC 606 "Revenue from Contracts with Customers", the FASB's new revenue recognition standard (e.g., evaluating how collectability should be considered and determining when profit can be recognized).
Furthermore, the Update addresses other concerns including the elimination of the required use of bright-line tests for determining lease classification. Lessors are required to provide additional transparency into the exposure to the

changes in value of their residual assets and how they manage that exposure.

The Company intends to adopt the Update for the first quarter of 2019 using the modified retrospective method. The Company is in the early assessment stage and will continue to review the existing lease portfolio to evaluate the impact of the new accounting guidance on the financial statements.

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ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities.

Equity investments not accounted for under the equity method or those that do not result in consolidation of the investee are to be measured at fair value with changes in the fair value recognized through net income. Entities are to present separately in other comprehensive income, the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when an election to measure the liability at fair value in accordance with the fair value option for financial instruments has been made. Also, the requirement to disclose the method(s) and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet has been eliminated.

The Company intends to adopt the Update for the first quarter of 2018. Adoption is not anticipated to have a material impact on the Company's financial statements.

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

The Update requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The Update excludes the Company's revenue associated with net interest income, and certain non-interest income lines items (loan and lease related fees, mortgage banking activities, increase in cash surrender value of life insurance policies, gain on sale of investment securities, net, impairment loss on securities recognized in earnings, and a majority of other income). As a result a substantial amount of the Company's revenue will not be affected.

The Company's deposit service fees, wealth and investment services, and certain other non-interest income items are within the scope of the Update. The Company's evaluation of the impacted revenue streams and associated customer contracts is near completion. While the assessment is not complete, the timing of the Company's revenue recognition is not expected to materially change.

The disclosure objective of the Update is to provide users of the financial statement with sufficient information to understand the nature, amount, timing and uncertainty of revenue, certain costs, and cash flows arising from contracts with customers. The Company expects to provide expanded qualitative disclosure pertaining to significant judgments, accounting policy elections and the nature, timing, and uncertainty of revenue arising from contracts with customers. Further the Company expects to provide expanded quantitative disclosure pertaining to the disaggregation of revenue arising from contracts with customers. The Company continues to assess the impact of the changes in disclosure required by guidance.

The Company intends to adopt the Update for the first quarter of 2018 utilizing the modified retrospective application with a cumulative effect adjustment to opening retained earnings, if necessary. The Company's evaluations are not final and are subject to change.

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Note 2: Investment Securities

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

	At September 30, 2017				At December 31, 2016			
(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:								
U.S. Treasury Bills	$3,596	$—	$—	$3,596	$734	$—	$—	$734
Agency CMO	332,341	2,573	(3,116)	331,798	419,865	3,344	(3,503)	419,706
Agency MBS	923,819	3,214	(14,056)	912,977	969,460	4,398	(19,509)	954,349
Agency CMBS	599,165	—	(14,205)	584,960	587,776	63	(14,567)	573,272
CMBS	402,015	1,539	(121)	403,433	473,974	4,093	(702)	477,365
CLO	273,172	1,572	(161)	274,583	425,083	2,826	(519)	427,390
Trust preferred	30,463	676	(202)	30,937	30,381	—	(1,748)	28,633
Corporate debt	48,334	674	(130)	48,878	108,490	1,502	(350)	109,642
Available-for-sale	$2,612,905	$ 10,248	$(31,991)	$2,591,162	$3,015,763	$ 16,226	$(40,898)	$2,991,091
Held-to-maturity:								
Agency CMO	$276,367	$ 1,138	$(3,030)	$274,475	$339,455	$ 1,977	$(3,824)	$337,608
Agency MBS	2,549,500	24,275	(30,012)	2,543,763	2,317,449	26,388	(41,768)	2,302,069
Agency CMBS	708,229	280	(3,549)	704,960	547,726	694	(1,348)	547,072
Municipal bonds and notes	705,411	5,213	(13,150)	697,474	655,813	4,389	(25,749)	634,453
CMBS	257,361	3,394	(197)	260,558	298,538	4,107	(411)	302,234
Private Label MBS	443	2	—	445	1,677	12	—	1,689
Held-to-maturity	$4,497,311	$ 34,302	$(49,938)	$4,481,675	$4,160,658	$ 37,567	$(73,100)	$4,125,125

Other-Than-Temporary Impairment

The balance of OTTI, included in the amortized cost columns above, is related to certain CLO positions that were previously considered Covered Funds as defined by Section 619 of the Dodd-Frank Act, commonly known as the Volcker Rule. The Company has taken measures to bring its CLO positions into conformance with the Volcker Rule. During the nine months ended September 30, 2017, OTTI of $126 thousand, related to principal held back in conjunction with the exercise of a clean-up call option for a Private Label MBS security, was recognized. To the extent that changes occur in interest rates, credit movements, and other factors that impact fair value and expected recovery of amortized cost of its investment securities, the Company may, in future periods, be required to recognize OTTI in earnings.

The following table presents the changes in OTTI:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2017	2016	2017	2016
Beginning balance	$3,231	$3,437	$3,243	$3,288
Reduction for investment securities sold or called	(1,028)	(30)	(1,166)	(30)
Additions for OTTI not previously recognized in earnings	—	—	126	149
Ending balance	$2,203	$3,407	$2,203	$3,407

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Fair Value and Unrealized Losses

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

	At September 30, 2017						
	Less Than Twelve Months		Twelve Months or Longer		Total		
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	# of Holdings	Fair Value	Unrealized Losses
Available-for-sale:							
Agency CMO	$75,042	$(1,002)	$70,167	$(2,114)	16	$145,209	$(3,116)
Agency MBS	464,031	(5,169)	303,770	(8,887)	104	767,801	(14,056)
Agency CMBS	306,025	(6,240)	278,935	(7,965)	34	584,960	(14,205)
CMBS	39,775	(121)	—	—	5	39,775	(121)
CLO	82,989	(161)	—	—	5	82,989	(161)
Trust preferred	12,570	(97)	4,574	(105)	3	17,144	(202)
Corporate debt	5,797	(87)	1,825	(43)	2	7,622	(130)
Available-for-sale in an unrealized loss position	$986,229	$(12,877)	$659,271	$(19,114)	169	$1,645,500	$(31,991)
Held-to-maturity:							
Agency CMO	$82,839	$(880)	$83,103	$(2,150)	19	$165,942	$(3,030)
Agency MBS	870,376	(7,948)	775,331	(22,064)	157	1,645,707	(30,012)
Agency CMBS	570,781	(3,504)	4,730	(45)	45	575,511	(3,549)
Municipal bonds and notes	123,965	(1,745)	226,545	(11,405)	140	350,510	(13,150)
CMBS	40,150	(197)	250	—	5	40,400	(197)
Held-to-maturity in an unrealized loss position	$1,688,111	$(14,274)	$1,089,959	$(35,664)	366	$2,778,070	$(49,938)

	At December 31, 2016						
	Less Than Twelve Months		Twelve Months or Longer		Total		
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	# of Holdings	Fair Value	Unrealized Losses
Available-for-sale:							
Agency CMO	$107,853	$(2,168)	$67,351	$(1,335)	15	$175,204	$(3,503)
Agency MBS	512,075	(10,503)	252,779	(9,006)	97	764,854	(19,509)
Agency CMBS	554,246	(14,567)	—	—	32	554,246	(14,567)
CMBS	12,427	(24)	63,930	(678)	12	76,357	(702)
CLO	49,946	(54)	50,237	(465)	5	100,183	(519)
Trust preferred	—	—	28,633	(1,748)	5	28,633	(1,748)
Corporate debt	—	—	7,384	(350)	2	7,384	(350)
Available-for-sale in an unrealized loss position	$1,236,547	$(27,316)	$470,314	$(13,582)	168	$1,706,861	$(40,898)
Held-to-maturity:							
Agency CMO	$163,439	$(3,339)	$17,254	$(485)	16	$180,693	$(3,824)
Agency MBS	1,394,623	(32,942)	273,779	(8,826)	150	1,668,402	(41,768)
Agency CMBS	347,725	(1,348)	—	—	25	347,725	(1,348)
Municipal bonds and notes	384,795	(25,745)	1,192	(4)	196	385,987	(25,749)
CMBS	60,768	(411)	—	—	8	60,768	(411)
Held-to-maturity in an unrealized loss position	$2,351,350	$(63,785)	$292,225	$(9,315)	395	$2,643,575	$(73,100)

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Impairment Analysis

The following impairment analysis by investment security type, summarizes the basis for evaluating if investment securities within the Company’s available-for-sale and held-to-maturity portfolios have been impacted by OTTI. Unless otherwise noted for an investment security type, management does not intend to sell these investment securities and has determined, based upon available evidence, that it is more likely than not that the Company will not be required to sell these investment securities before the recovery of their amortized cost. As such, based on the following impairment analysis, the Company does not consider these investment securities, in unrealized loss positions, to be other-than-temporarily impaired at September 30, 2017.

Available-for-Sale

Agency CMO. There were unrealized losses of $3.1 million on the Company’s investment in Agency CMO at September 30, 2017, compared to $3.5 million at December 31, 2016. Unrealized losses decreased due to lower principal balances for this asset class at September 30, 2017 compared to December 31, 2016. Market prices remained essentially unchanged. These investments are issued by a government agency or a government-sponsored agency and, therefore, are backed by certain government guarantees, either direct or indirect. The contractual cash flows for these investments are performing as expected, and there has been no change in the underlying credit quality.

Agency MBS. There were unrealized losses of $14.1 million on the Company’s investment in Agency MBS at September 30, 2017, compared to $19.5 million at December 31, 2016. Unrealized losses decreased due to lower principal balances for this asset class at September 30, 2017 compared to December 31, 2016. Market prices remained essentially unchanged. These investments are issued by a government agency or a government-sponsored agency and, therefore, are backed by certain government guarantees, either direct or indirect. The contractual cash flows for these investments are performing as expected, and there has been no change in the underlying credit quality.

Agency CMBS. There were unrealized losses of $14.2 million on the Company's investment in Agency CMBS at September 30, 2017, compared to $14.6 million at December 31, 2016. Unrealized losses decreased while principal balances remained essentially unchanged. Market prices were slightly higher at September 30, 2017 compared to December 31, 2016. These investments are issued by a government agency or a government-sponsored agency and, therefore, are backed by certain government guarantees, either direct or indirect. The contractual cash flows for these investments are performing as expected, and there has been no change in the underlying credit quality.

CMBS. There were unrealized losses of $0.1 million on the Company’s investment in CMBS at September 30, 2017, compared to $0.7 million at December 31, 2016. The portfolio of mainly floating rate CMBS experienced lower principal balances and lower market spreads which resulted in higher security prices and smaller unrealized losses at September 30, 2017 compared to December 31, 2016. Internal and external metrics are considered when evaluating potential OTTI. Internal stress tests are performed on individual bonds to monitor potential losses under stress scenarios. Contractual cash flows for these investments are performing as expected.

CLO. There were unrealized losses of $0.2 million on the Company's investment in CLO at September 30, 2017, compared to $0.5 million at December 31, 2016. Unrealized losses decreased due to lower principal balances and lower market spreads for the CLO portfolio at September 30, 2017 compared to December 31, 2016. Internal and external metrics are considered when evaluating potential OTTI. Contractual cash flows for these investments are performing as expected.

Trust preferred. There were unrealized losses of $0.2 million on the Company's investment in trust preferred at September 30, 2017, compared to $1.7 million at December 31, 2016. Unrealized losses decreased due to lower market spreads for this asset class, which resulted in higher security prices compared to December 31, 2016. The trust preferred portfolio consists of three floating rate investments issued by two different large capitalization money center financial institutions, which continue to service the debt. The Company performs periodic credit reviews of the issuer to assess the likelihood for ultimate recovery of amortized cost.

Corporate debt. There were $0.1 million unrealized losses on the Company's corporate debt at September 30, 2017, compared to $0.4 million at December 31, 2016. Unrealized losses decreased due to lower principal balances for this asset class at September 30, 2017 compared to December 31, 2016. Market prices remained essentially unchanged. The Company performs periodic credit reviews of the issuer to assess the likelihood for ultimate recovery of amortized cost.

Held-to-Maturity

Agency CMO. There were unrealized losses of $3.0 million on the Company's investment in Agency CMO at September 30, 2017 compared to $3.8 million at December 31, 2016. Unrealized losses decreased due to lower principal balances for this asset class at September 30, 2017 compared to December 31, 2016. Market prices remained essentially unchanged. These investments are issued by a government agency or a government-sponsored agency and, therefore, are backed by certain government guarantees, either direct or indirect. The contractual cash flows for these investments are performing as expected, and there has been no change in the underlying credit quality.

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Agency MBS. There were unrealized losses of $30.0 million on the Company's investment in Agency MBS at September 30, 2017, compared to $41.8 million at December 31, 2016. Unrealized losses decreased due to lower principal balances for this asset class at September 30, 2017 compared to December 31, 2016. Market prices remained essentially unchanged. These investments are issued by a government agency or a government-sponsored agency and, therefore, are backed by certain government guarantees, either direct or indirect. There has been no change in the underlying credit quality, and the contractual cash flows are performing as expected.

Agency CMBS. There were unrealized losses of $3.5 million on the Company's investment in Agency CMBS at September 30, 2017, compared to $1.3 million at December 31, 2016. Unrealized losses increased due to lower prices on recently purchased ACMBS as principal balances increased at September 30, 2017 compared to December 31, 2016. These investments are issued by a government agency or a government-sponsored agency and, therefore, are backed by certain government guarantees, either direct or indirect. There has been no change in the underlying credit quality, and the contractual cash flows are performing as expected.

Municipal bonds and notes. There were unrealized losses of $13.2 million on the Company's investment in municipal bonds and notes at September 30, 2017, compared to $25.7 million at December 31, 2016. Unrealized losses decreased due to lower market rates which resulted in higher prices at September 30, 2017. The Company performs periodic credit reviews of the issuers and these investments are currently performing as expected.

CMBS. There were unrealized losses of $0.2 million on the Company's investment in CMBS at September 30, 2017, compared to $0.4 million at December 31, 2016. Unrealized losses were approximately the same, for the portfolio comprised mainly of seasoned fixed rate conduit transactions, at September 30, 2017 compared to December 31, 2016. Internal and external metrics are considered when evaluating potential OTTI. Internal stress tests are performed on individual bonds to monitor potential losses under stress scenarios. The contractual cash flows for these investments are performing as expected.

Sales of Available-for Sale Investment Securities

There were no sales during the three and nine months ended September 30, 2017, or the three months ended September 30, 2016. For the nine months ended September 30, 2016, there were sales resulting in proceeds of $259.3 million, with the related gross realized gains and gross realized losses of $2.9 million and $2.5 million, respectively.

Contractual Maturities

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

	At September 30, 2017			
	Available-for-Sale		**Held-to-Maturity**	
(In thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$18,668	$18,714	$40,146	$40,753
Due after one year through five years	40,246	40,748	13,410	13,684
Due after five through ten years	381,547	383,721	38,323	39,102
Due after ten years	2,172,444	2,147,979	4,405,432	4,388,136
Total debt securities	$2,612,905	$2,591,162	$4,497,311	$4,481,675

For the maturity schedule above, mortgage-backed securities and CLO, which are not due at a single maturity date, have been categorized based on the maturity date of the underlying collateral. Actual principal cash flows may differ from this maturity date presentation as borrowers have the right to prepay obligations with or without prepayment penalties.

At September 30, 2017, the Company had a carrying value of $1.2 billion in callable investment securities in its CMBS, CLO, and municipal bond portfolios. The Company considers prepayment risk in the evaluation of its interest rate risk profile. These maturities may not reflect actual durations, which may be impacted by prepayments.

Investment securities with a carrying value totaling $2.8 billion at September 30, 2017 and $2.5 billion at December 31, 2016 were pledged to secure public funds, trust deposits, repurchase agreements, and for other

purposes, as required or permitted by law.

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Note 3: Variable Interest Entities

The Company has an investment interest in several entities that meet the definition of a VIE. The following discussion provides information about the Company's VIEs.

Consolidated

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

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

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

Non-Consolidated

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

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

At September 30, 2017 and December 31, 2016, the aggregate carrying value of the Company's tax credit-finance investments were $35.7 million and $22.8 million, respectively. At September 30, 2017 and December 31, 2016, unfunded commitments have been recognized, totaling $24.3 million and $14.0 million, respectively, and are included in accrued expenses and other liabilities in the accompanying Condensed Consolidated Balance Sheets.

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

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

of the VIEs.

At September 30, 2017 and December 31, 2016, the aggregate carrying value of the Company's other investments in VIEs were $13.0 million and $12.3 million, respectively, and the total exposure of the Company's other investments in VIEs, including unfunded commitments, were $22.4 million and $19.9 million, respectively.

The Company's equity interests in Tax Credit-Finance Investments, Webster Statutory Trust, and Other Investments are included in accrued interest receivable and other assets in the accompanying Condensed Consolidated Balance Sheets. For a further description of the Company's accounting policies regarding the consolidation of a VIE, refer to Note 1 to the Consolidated Financial Statements for the year ended December 31, 2016 included in its 2016 Form 10-K.

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Note 4: Loans and Leases

The following table summarizes loans and leases:

(In thousands)	At September 30, 2017	At December 31, 2016
Residential	$ 4,499,441	$ 4,254,682
Consumer	2,566,983	2,684,500
Commercial	5,348,303	4,940,931
Commercial Real Estate	4,464,917	4,510,846
Equipment Financing	566,777	635,629
Loans and leases (1) (2)	$ 17,446,421	$ 17,026,588

(1) *Loans and leases include net deferred fees and net premiums/discounts of $20.8 million and $17.3 million at September 30, 2017 and December 31, 2016, respectively.*

(2) *At September 30, 2017, the Company had pledged $6.7 billion of eligible residential, consumer and commercial loans as collateral to support borrowing capacity at the FHLB Boston and the FRB of Boston.*

Loans and Leases Aging

The following tables summarize the aging of loans and leases:

(In thousands)	At September 30, 2017						
	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	90 or More Days Past Due and Accruing	Non-accrual	Total Past Due and Non-accrual	Current	Total Loans and Leases
Residential	$ 8,069	$ 3,654	$ —	$ 45,676	$ 57,399	$ 4,442,042	$ 4,499,441
Consumer:							
Home equity	7,613	4,685	—	37,105	49,403	2,269,468	2,318,871
Other consumer	2,224	1,454	—	1,859	5,537	242,575	248,112
Commercial:							
Commercial non-mortgage	1,948	364	934	58,915	62,161	4,402,543	4,464,704
Asset-based	—	—	—	8,558	8,558	875,041	883,599
Commercial real estate:							
Commercial real estate	1,347	444	—	10,603	12,394	4,161,572	4,173,966
Commercial construction	—	—	—	477	477	290,474	290,951
Equipment financing	818	49	—	570	1,437	565,340	566,777
Total	$ 22,019	$ 10,650	$ 934	$ 163,763	$ 197,366	$ 17,249,055	$ 17,446,421

(In thousands)	At December 31, 2016						
	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	90 or More Days Past Due and Accruing	Non-accrual	Total Past Due and Non-accrual	Current	Total Loans and Leases
Residential	$ 8,631	$ 2,609	$ —	$ 47,279	$ 58,519	$ 4,196,163	$ 4,254,682
Consumer:							
Home equity	8,831	5,782	—	35,926	50,539	2,359,354	2,409,893
Other consumer	2,233	1,485	—	1,663	5,381	269,226	274,607
Commercial:							
Commercial non-mortgage	1,382	577	749	38,190	40,898	4,094,727	4,135,625
Asset-based	—	—	—	—	—	805,306	805,306
Commercial real estate:							
Commercial real estate	6,357	1,816	—	9,871	18,044	4,117,742	4,135,786
Commercial construction	—	—	—	662	662	374,398	375,060
Equipment financing	903	693	—	225	1,821	633,808	635,629
Total	$ 28,337	$ 12,962	$ 749	$ 133,816	$ 175,864	$ 16,850,724	$ 17,026,588

Interest on non-accrual loans and leases that would have been recorded as additional interest income had the loans and leases been current in accordance with the original terms totaled $2.8 million and $3.7 million for the three months ended September 30, 2017 and 2016, respectively, and $6.4 million and $8.4 million for the nine months ended September 30, 2017 and 2016, respectively.

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Allowance for Loan and Lease Losses

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

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

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

	At or for the nine months ended September 30, 2017					
(In thousands)	Residential	Consumer	Commercial	Commercial Real Estate	Equipment Financing	Total
ALLL:						
Balance, beginning of period	$23,226	$45,233	$71,905	$47,477	$6,479	$194,320
(Benefit) provision charged to expense	(4,436)	6,847	21,905	2,987	597	27,900
Charge-offs	(1,940)	(18,273)	(5,321)	(951)	(425)	(26,910)
Recoveries	924	4,337	1,105	21	106	6,493
Balance, end of period	$17,774	$38,144	$89,594	$49,534	$6,757	$201,803
Individually evaluated for impairment	$4,925	$1,689	$10,844	$290	$38	$17,786
Collectively evaluated for impairment	$12,849	$36,455	$78,750	$49,244	$6,719	$184,017
Loan and lease balances:						
Individually evaluated for impairment	$116,706	$46,224	$85,385	$18,199	$3,642	$270,156
Collectively evaluated for impairment	4,382,735	2,520,759	5,262,918	4,446,718	563,135	17,176,265
Loans and leases	$4,499,441	$2,566,983	$5,348,303	$4,464,917	$566,777	$17,446,421

	At or for the nine months ended September 30, 2016					
(In thousands)	Residential	Consumer	Commercial	Commercial Real Estate	Equipment Financing	Total
ALLL:						
Balance, beginning of period	$25,876	$42,052	$66,686	$34,889	$5,487	$174,990
Provision charged to expense	991	12,458	25,447	3,921	1,033	43,850
Charge-offs	(3,536)	(14,236)	(17,294)	(2,521)	(521)	(38,108)
Recoveries	1,408	3,721	1,143	480	441	7,193
Balance, end of period	$24,739	$43,995	$75,982	$36,769	$6,440	$187,925
Individually evaluated for impairment	$9,443	$3,005	$6,579	$467	$9	$19,503
Collectively evaluated for impairment	$15,296	$40,990	$69,403	$36,302	$6,431	$168,422
Loan and lease balances:						

Individually evaluated for impairment	$122,020	$46,208	$58,197	$24,423	$6,863	$257,711
Collectively evaluated for impairment	4,112,027	2,661,135	4,721,605	4,256,090	614,833	16,365,690
Loans and leases	$4,234,047	$2,707,343	$4,779,802	$4,280,513	$621,696	$16,623,401

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Impaired Loans and Leases

The following tables summarize impaired loans and leases:

(In thousands)	At September 30, 2017				
	Unpaid Principal Balance	Total Recorded Investment	Recorded Investment No Allowance	Recorded Investment With Allowance	Related Valuation Allowance
Residential	$ 127,986	$ 116,706	$ 27,961	$ 88,745	$ 4,925
Consumer - home equity	51,496	46,225	21,833	24,392	1,689
Commercial :					
Commercial non-mortgage	88,221	76,827	28,124	48,703	10,844
Asset-based	8,558	8,558	8,558	—	—
Commercial real estate:					
Commercial real estate	19,026	17,725	12,894	4,831	271
Commercial construction	580	474	—	474	19
Equipment financing	3,721	3,642	3,004	638	38
Total	$ 299,588	$ 270,157	$ 102,374	$ 167,783	$ 17,786

(In thousands)	At December 31, 2016				
	Unpaid Principal Balance	Total Recorded Investment	Recorded Investment No Allowance	Recorded Investment With Allowance	Related Valuation Allowance
Residential	$ 131,468	$ 119,424	$ 21,068	$ 98,356	$ 8,090
Consumer - home equity	52,432	45,719	22,746	22,973	2,903
Commercial :					
Commercial non-mortgage	57,732	53,037	26,006	27,031	7,422
Asset-based	—	—	—	—	—
Commercial real estate:					
Commercial real estate	24,146	23,568	19,591	3,977	169
Commercial construction	1,188	1,187	1,187	—	—
Equipment financing	6,398	6,420	6,197	223	9
Total	$ 273,364	$ 249,355	$ 96,795	$ 152,560	$ 18,593

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

(In thousands)	Three months ended September 30,						Nine months ended September 30,					
	2017			2016			2017			2016		
	Average Recorded Investment	Accrued Interest Income	Cash Basis Interest Income	Average Recorded Investment	Accrued Interest Income	Cash Basis Interest Income	Average Recorded Investment	Accrued Interest Income	Cash Basis Interest Income	Average Recorded Investment	Accrued Interest Income	Cash Basis Interest Income
Residential	$ 118,841	$ 1,027	$ 285	$ 124,993	$ 1,070	$ 304	$ 118,065	$ 3,133	$ 986	$ 128,234	$ 3,309	$ 918
Consumer - home equity	46,753	341	246	46,892	336	238	45,972	998	808	47,317	1,029	754
Commercial												
Commercial Non-Mortgage	81,816	249	—	58,874	352	—	64,932	704	—	57,389	1,299	—
Asset based	4,279	—	—	—	—	—	4,279		—	—	—	—
Commercial real estate:												
Commercial real estate	20,249	96	—	23,930	77	—	20,647	329	—	26,689	374	—
Commercial construction	828	—	—	4,386	12	—	831	12	—	5,171	81	—
Equipment financing	4,895	30	—	3,642	107	—	5,031	168	—	3,642	109	—
Total	$ 277,661	$ 1,743	$ 531	$ 262,717	$ 1,954	$ 542	$ 259,757	$ 5,344	$ 1,794	$ 268,442	$ 6,201	$ 1,672

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

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

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

	Commercial		**Commercial Real Estate**		**Equipment Financing**	
(In thousands)	**At September 30, 2017**	**At December 31, 2016**	**At September 30, 2017**	**At December 31, 2016**	**At September 30, 2017**	**At December 31, 2016**
(1) - (6) Pass	$5,037,439	$4,655,007	$4,266,658	$4,357,458	$548,298	$618,084
(7) Special Mention	108,828	56,240	85,926	69,023	3,557	1,324
(8) Substandard	192,161	226,603	112,333	84,365	14,922	16,221
(9) Doubtful	9,875	3,081	—	—	—	—
Total	$5,348,303	$4,940,931	$4,464,917	$4,510,846	$566,777	$635,629

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

Troubled Debt Restructurings

The following table summarizes information for TDRs:

(Dollars in thousands)	**At September 30, 2017**	**At December 31, 2016**
Accrual status	$ 135,774	$ 147,809
Non-accrual status	82,576	75,719
Total recorded investment of TDRs	$ 218,350	$ 223,528
Specific reserves for TDRs included in the balance of ALLL	$ 11,837	$ 14,583
Additional funds committed to borrowers in TDR status	3,944	459

For the portion of TDRs deemed to be uncollectible, Webster charged off $0.4 million and $3.0 million for the three months ended September 30, 2017 and 2016, respectively, and $3.0 million, and $17.9 million for the nine months

ended September 30, 2017 and 2016, respectively.

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

(Dollars in thousands)	Three months ended September 30,				Nine months ended September 30,			
	2017		2016		2017		2016	
	Number of Loans and Leases	Post-Modification Recorded Investment[(1)]	Number of Loans and Leases	Post-Modification Recorded Investment[(1)]	Number of Loans and Leases	Post-Modification Recorded Investment[(1)]	Number of Loans and Leases	Post-Modification Recorded Investment[(1)]
Residential:								
Extended Maturity	—	$ —	4	$ 967	9	$ 1,390	11	$ 1,969
Adjusted Interest Rate	—	—	1	292	2	335	2	528
Maturity/Rate Combined	4	570	3	290	9	1,416	10	1,185
Other [(2)]	6	1,357	3	299	32	5,471	18	3,190
Consumer - home equity								
Extended Maturity	2	158	2	89	8	822	9	381
Adjusted Interest Rate	1	247	—	—	1	247	—	—
Maturity/Rate Combined	2	399	3	264	13	3,212	11	923
Other [(2)]	12	839	8	270	55	3,733	37	1,447
Commercial non - mortgage								
Extended Maturity	—	—	2	213	8	813	11	14,862
Maturity/Rate Combined	8	299	—	—	13	9,153	2	648
Other [(2)]	—	—	4	1,265	1	4	11	1,639
Commercial real estate:								
Extended Maturity	—	—	1	109	—	—	1	109
Maturity/Rate Combined	—	—	1	291	—	—	2	335
Other [(2)]	—	—	—	—	—	—	1	509
Equipment Financing								
Extended Maturity	—	—	6	6,638	—	—	7	6,642
Total TDRs	35	$ 3,869	38	$ 10,987	151	$ 26,596	133	$ 34,367

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

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

Loans and leases modified as TDRs within the previous 12 months and for which there was a payment default, consisted of one residential loan with a recorded investment of $248 thousand for both the three and nine months ended September 30, 2017. There were no such loans and leases for both the three and nine months ended September 30, 2016.

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

(In thousands)	At September 30, 2017	At December 31, 2016
(1) - (6) Pass	$ 8,902	$ 10,210
(7) Special Mention	360	7
(8) Substandard	46,157	45,509
(9) Doubtful	—	2,738
Total	$ 55,419	$ 58,464

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Note 5: Transfers of Financial Assets

The Company sells financial assets in the normal course of business, primarily residential mortgage loans sold to government-sponsored enterprises through established programs and securitizations. The gain or loss on residential mortgage loans sold and the related origination fee income, and the fair value adjustment to loans held-for-sale are included as mortgage banking activities in the accompanying Condensed Consolidated Statements of Income.

The Company may be required to repurchase a loan in the event of certain breaches of the representations and warranties, or in the event of default of the borrower within 90 days of sale, as provided for in the sale agreements. A reserve for loan repurchases provides for estimated losses pertaining to the potential repurchase of loans associated with the Company's mortgage banking activities. The reserve reflects management's evaluation of the identity of the counterparty, the vintage of the loans sold, the amount of open repurchase requests, specific loss estimates for each open request, the current level of loan losses in similar vintages held in the residential loan portfolio, and estimated recoveries on the underlying collateral. The reserve also reflects management's expectation of losses from repurchase requests for which the Company has not yet been notified, as the performance of loans sold and the quality of the servicing provided by the acquirer also may impact the reserve. The provision recorded at the time of the loan sale is netted from the gain or loss recorded in mortgage banking activities, while any incremental provision, post loan sale, is recorded in other non-interest expense in the accompanying Condensed Consolidated Statements of Income.

The following table provides a summary of activity in the reserve for loan repurchases:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2017	2016	2017	2016
Beginning balance	$843	$992	$790	$1,192
Provision (benefit) charged to expense	25	37	78	(64)
Repurchased loans and settlements charged off	(18)	—	(18)	(99)
Ending balance	$850	$1,029	$850	$1,029

The following table provides information for mortgage banking activities:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2017	2016	2017	2016
Residential mortgage loans held for sale:				
Proceeds from sale	$88,691	$128,268	$262,029	$298,840
Loans sold with servicing rights retained	79,690	115,822	239,357	273,827
Net gain on sale	1,979	3,324	4,356	6,749
Ancillary fees	682	1,046	2,091	2,485
Fair value option adjustment	(240)	(48)	1,591	2,101

The Company has retained servicing rights on residential mortgage loans totaling $2.6 billion at both September 30, 2017 and December 31, 2016.

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

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2017	2016	2017	2016
Beginning balance	$24,708	$21,946	$24,466	$20,698
Additions	2,576	3,338	7,063	8,198
Amortization	(2,144)	(1,900)	(6,389)	(5,512)
Ending balance	$25,140	$23,384	$25,140	$23,384

Loan servicing fees, net of mortgage servicing rights amortization, were $0.2 million and $0.3 million for the three months ended September 30, 2017 and 2016, respectively, and $0.6 million and $0.9 million for the nine months

ended September 30, 2017 and 2016, respectively, and are included as a component of loan related fees in the accompanying Condensed Consolidated Statements of Income.
See Note 13: Fair Value Measurements for a further discussion on the fair value of loans held for sale and mortgage servicing assets. Additionally, loans not originated for sale were sold approximately at carrying value, for cash proceeds of $7.4 million for certain residential loans and $20.8 million for certain commercial loans for the nine months ended September 30, 2017 and 2016, respectively.

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Note 6: Goodwill and Other Intangible Assets

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

(In thousands)	At September 30, 2017			At December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Other intangible assets:						
HSA Bank CDI	$ 22,000	$ (8,036)	$ 13,964	$ 22,000	$ (6,162)	$ 15,838
HSA Bank Customer relationships	21,000	(4,375)	16,625	21,000	(3,164)	17,836
Total other intangible assets	$ 43,000	$ (12,411)	$ 30,589	$ 43,000	$ (9,326)	$ 33,674
Goodwill:						
Community Banking			$ 516,560			$ 516,560
HSA Bank			21,813			21,813
Total goodwill			$ 538,373			$ 538,373

There was no change in the carrying amounts for goodwill since December 31, 2016.

As of September 30, 2017, the remaining estimated aggregate future amortization expense for intangible assets is as follows:

(In thousands)	
Remainder of 2017	$ 978
2018	3,847
2019	3,847
2020	3,847
2021	3,847
Thereafter	14,223

Note 7: Deposits

A summary of deposits by type follows:

(In thousands)	At September 30, 2017	At December 31, 2016
Non-interest-bearing:		
Demand	$ 4,138,206	$ 4,021,061
Interest-bearing:		
Checking	2,581,266	2,528,274
Health savings accounts	4,891,024	4,362,503
Money market	2,598,187	2,047,121
Savings	4,428,061	4,320,090
Time deposits	2,218,491	2,024,808
Total interest-bearing	16,717,029	15,282,796
Total deposits	$ 20,855,235	$ 19,303,857
Time deposits and interest-bearing checking, included in above balances, obtained through brokers	$ 913,042	$ 848,618
Time deposits, included in above balance, that meet or exceed the FDIC limit	613,012	490,721
Deposit overdrafts reclassified as loan balances	2,494	1,885

The scheduled maturities of time deposits are as follows:

(In thousands)	At September 30, 2017
Remainder of 2017	$ 285,203

2018	952,745
2019	607,952
2020	225,159
2021	107,921
Thereafter	39,511
Total time deposits	$ 2,218,491

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Note 8: Borrowings

Total borrowings of $2.6 billion at September 30, 2017 and $4.0 billion at December 31, 2016 are described in detail below.

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

	At September 30, 2017		At December 31, 2016	
(In thousands)	Amount	Rate	Amount	Rate
Securities sold under agreements to repurchase:				
Original maturity of one year or less	$ 335,902	0.18 %	$ 340,526	0.16 %
Original maturity of greater than one year, non-callable	400,000	3.04	400,000	3.09
Total securities sold under agreements to repurchase	735,902	1.73	740,526	1.82
Fed funds purchased	167,000	1.12	209,000	0.46
Securities sold under agreements to repurchase and other borrowings	$902,902	1.62 %	$949,526	1.53 %

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

The following table provides information for FHLB advances:

	At September 30, 2017		At December 31, 2016	
(Dollars in thousands)	Amount	Weighted-Average Contractual Coupon Rate	Amount	Weighted-Average Contractual Coupon Rate
Maturing within 1 year	$880,500	1.28 %	$2,130,500	0.71 %
After 1 but within 2 years	133,731	1.34	200,000	1.36
After 2 but within 3 years	259,295	1.79	128,026	1.73
After 3 but within 4 years	75,000	1.51	175,000	1.77
After 4 but within 5 years	150,061	2.23	200,000	1.81
After 5 years	9,091	2.61	9,370	2.59
	1,507,678	1.49 %	2,842,896	0.95 %
Premiums on advances	3		12	
Federal Home Loan Bank advances	$1,507,681		$2,842,908	
Aggregate carrying value of assets pledged as collateral	$6,388,102		$5,967,318	
Remaining borrowing capacity	2,668,964		1,192,758	

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

The following table summarizes long-term debt:

(Dollars in thousands)	At September 30, 2017	At December 31, 2016
4.375% Senior fixed-rate notes due February 15, 2024	$ 150,000	$ 150,000
Junior subordinated debt Webster Statutory Trust I floating-rate notes due September 17, 2033 [(1)]	77,320	77,320
Total notes and subordinated debt	227,320	227,320
Discount on senior fixed-rate notes	(756)	(845)
Debt issuance cost on senior fixed-rate notes	(860)	(961)

Long-term debt	$ 225,704	$ 225,514

(1) *The interest rate on Webster Statutory Trust I floating-rate notes, which varies quarterly based on 3-month LIBOR plus 2.95%, was 4.27% at September 30, 2017 and 3.94% at December 31, 2016.*

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Note 9: Accumulated Other Comprehensive Loss, Net of Tax

The following tables summarize the changes in AOCL by component:

	Three months ended September 30, 2017				Nine months ended September 30, 2017			
(In thousands)	Securities Available For Sale and Transferred	Derivative Instruments	Defined Benefit Pension and Other Postretirement Benefit Plans	Total	Securities Available For Sale and Transferred	Derivative Instruments	Defined Benefit Pension and Other Postretirement Benefit Plans	Total
Beginning balance	$(14,501)	$(15,258)	$(42,323)	$(72,082)	$(15,476)	$(17,068)	$(44,449)	$(76,993)
OCI/OCL before reclassifications	872	(34)	—	838	1,847	(445)	—	1,402
Amounts reclassified from AOCL	—	1,145	1,001	2,146	—	3,366	3,127	6,493
Net current-period OCI/OCL	872	1,111	1,001	2,984	1,847	2,921	3,127	7,895
Ending balance	$(13,629)	$(14,147)	$(41,322)	$(69,098)	$(13,629)	$(14,147)	$(41,322)	$(69,098)

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

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

(In thousands)	Three months ended September 30,		Nine months ended September 30,		Associated Line Item in the Condensed Consolidated Statements of Income
AOCL Components	**2017**	**2016**	**2017**	**2016**	
Securities available-for-sale and transferred:					
Unrealized gains (losses) on investment securities	$—	$—	$—	$414	Gain on sale of investment securities, net
Unrealized gains (losses) on investment securities	—	—	—	(149)	Impairment loss recognized in earnings
Total before tax	—	—	—	265	
Tax benefit (expense)	—	—	—	(97)	Income tax expense
Net of tax	$—	$—	$—	$168	
Derivative instruments:					
Cash flow hedges	$(1,810)	$(1,925)	$(5,316)	$(6,314)	Total interest expense
Tax benefit	665	704	1,950	2,309	Income tax expense
Net of tax	$(1,145)	$(1,221)	$(3,366)	$(4,005)	
Defined benefit pension and other postretirement benefit plans:					
Amortization of net loss	$(1,587)	$(1,780)	$(4,959)	$(5,343)	(1)
Prior service costs	—	(4)	—	(11)	(1)
Total before tax	(1,587)	(1,784)	(4,959)	(5,354)	
Tax benefit	586	659	1,832	1,978	Income tax expense
Net of tax	$(1,001)	$(1,125)	$(3,127)	$(3,376)	

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

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Note 10: Regulatory Matters

Capital Requirements

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

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

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

	At September 30, 2017					
	Actual		Minimum Requirement		Well Capitalized	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Webster Financial Corporation						
CET1 risk-based capital	$2,031,955	10.99 %	$832,149	4.5 %	$1,201,993	6.5 %
Total risk-based capital	2,436,332	13.17	1,479,376	8.0	1,849,220	10.0
Tier 1 risk-based capital	2,154,665	11.65	1,109,532	6.0	1,479,376	8.0
Tier 1 leverage capital	2,154,665	8.36	1,030,973	4.0	1,288,717	5.0
Webster Bank						
CET1 risk-based capital	$2,061,764	11.16 %	$831,319	4.5 %	$1,200,794	6.5 %
Total risk-based capital	2,266,110	12.27	1,477,900	8.0	1,847,376	10.0
Tier 1 risk-based capital	2,061,764	11.16	1,108,425	6.0	1,477,900	8.0
Tier 1 leverage capital	2,061,764	8.00	1,030,260	4.0	1,287,825	5.0

	At December 31, 2016					
	Actual		Minimum Requirement		Well Capitalized	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Webster Financial Corporation						
CET1 risk-based capital	$1,932,171	10.52 %	$826,504	4.5 %	$1,193,840	6.5 %
Total risk-based capital	2,328,808	12.68	1,469,341	8.0	1,836,677	10.0
Tier 1 risk-based capital	2,054,881	11.19	1,102,006	6.0	1,469,341	8.0
Tier 1 leverage capital	2,054,881	8.13	1,010,857	4.0	1,263,571	5.0
Webster Bank						
CET1 risk-based capital	$1,945,332	10.61 %	$825,228	4.5 %	$1,191,995	6.5 %
Total risk-based capital	2,141,939	11.68	1,467,071	8.0	1,833,839	10.0
Tier 1 risk-based capital	1,945,332	10.61	1,100,304	6.0	1,467,071	8.0
Tier 1 leverage capital	1,945,332	7.70	1,010,005	4.0	1,262,507	5.0

Dividend Restrictions

Webster Financial Corporation is dependent upon dividends from Webster Bank to provide funds for its cash requirements, including payments of dividends to shareholders. Banking regulations may limit the amount of

dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of Webster Bank to fall below specified minimum levels, or if dividends declared exceed the net income for that year combined with the undistributed net income for the preceding two years. In addition, the OCC has discretion to prohibit any otherwise permitted capital distribution on general safety and soundness grounds. Dividends paid by Webster Bank to Webster Financial Corporation totaled $80 million during the nine months ended September 30, 2017 compared to $115 million during the nine months ended September 30, 2016.

Cash Restrictions

Webster Bank is required by Federal Reserve System regulations to hold cash reserve balances on hand or with the Federal Reserve Bank. Pursuant to this requirement, Webster Bank held $76.7 million and $58.6 million at September 30, 2017 and December 31, 2016, respectively.

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Note 11: Earnings Per Common Share

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

	Three months ended September 30,		Nine months ended September 30,	
(In thousands, except per share data)	**2017**	**2016**	**2017**	**2016**
Earnings for basic and diluted earnings per common share:				
Net income	$64,496	$51,817	$185,546	$149,467
Less: Preferred stock dividends	2,024	2,024	6,072	6,072
Net income available to common shareholders	62,472	49,793	179,474	143,395
Less: Earnings applicable to participating securities	46	159	212	468
Earnings applicable to common shareholders	$62,426	$49,634	$179,262	$142,927
Shares:				
Weighted-average common shares outstanding - basic	92,125	91,365	92,003	91,298
Effect of dilutive securities:				
Stock options and restricted stock	372	465	403	452
Warrants	6	27	6	26
Weighted-average common shares outstanding - diluted	92,503	91,857	92,412	91,776
Earnings per common share:				
Basic	$0.68	$0.54	$1.95	$1.57
Diluted	0.67	0.54	1.94	1.56

Potential common shares excluded from the effect of dilutive securities because they would have been anti-dilutive, are as follows:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	**2017**	**2016**	**2017**	**2016**
Stock options (shares with exercise price greater than market price)	—	172	—	172
Restricted stock (due to performance conditions on non-participating shares)	80	—	61	161

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Note 12: Derivative Financial Instruments

Risk Management Objective of Using Derivatives

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

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

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

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

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

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

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

Other derivatives include foreign currency forward contracts related to lending arrangements, a VISA equity swap transaction, and mortgage banking derivatives such as mortgage-backed securities related to residential loan commitments and loans held for sale. Mortgage banking derivatives are utilized by Webster in its efforts to manage risk of loss associated with its mortgage loan commitments and mortgage loans held for sale. Prior to closing and funding certain single-family residential mortgage loans interest rate lock commitments are generally extended to the borrowers. During the period from commitment date to closing date, Webster is subject to the risk that market rates of

interest may change. If market rates rise, investors generally will pay less to purchase such loans causing a reduction in the anticipated gain on sale of the loans, or possibly resulting in a loss. In an effort to mitigate such risk, forward delivery sales commitments are established under which Webster agrees to deliver whole mortgage loans to various investors or issue mortgage-backed securities. Mandatory forward commitments establish the price to be received upon the sale of the related mortgage loan, thereby mitigating certain interest rate risk. There is, however, still certain execution risk specifically related to Webster's ability to close and deliver to its investors the mortgage loans it has committed to sell.

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Fair Value of Derivative Instruments

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

	At September 30, 2017				At December 31, 2016			
	Asset Derivatives		Liability Derivatives		Asset Derivatives		Liability Derivatives	
(In thousands)	Notional Amounts	Fair Value	Notional Amounts	Fair Value	Notional Amounts	Fair Value	Notional Amounts	Fair Value
Designated as hedging instruments:								
Positions subject to a master netting agreement (1)								
Interest rate derivatives	$225,000	$1,972	$100,000	$195	$225,000	$3,270	$100,000	$792
Not designated as hedging instruments:								
Positions subject to a master netting agreement (1)								
Interest rate derivatives	2,270,444	4,225	1,125,953	3,224	1,943,485	32,226	1,242,937	24,388
Other	8,595	260	22,161	419	10,634	231	14,265	120
Positions not subject to a master netting agreement								
Interest rate derivatives	1,738,527	35,065	1,652,004	15,764	1,734,679	38,668	1,451,762	19,001
RPAs	94,103	112	99,538	136	86,037	139	87,273	166
Mortgage banking derivatives (2)	42,290	614	60,698	128	103,440	3,084	59,895	711
Other	262	2	1,777	157	1,438	19	181	11
Total not designated as hedging instruments	4,154,221	40,278	2,962,131	19,828	3,879,713	74,367	2,856,313	44,397
Gross derivative instruments, before netting	$4,379,221	42,250	$3,062,131	20,023	$4,104,713	77,637	$2,956,313	45,189
Less: Legally enforceable master netting agreements		2,915		2,916		24,252		24,254
Less: Cash collateral posted		2,540		766		11,475		600
Total derivative instruments, after netting		$36,795		$16,341		$41,910		$20,335

(1) *One of Webster's counterparty relationships was impacted by a Chicago Mercantile Exchange rulebook amendment, resulting in the presentation of that relationship on a settlement basis, as a single unit of account at September 30, 2017, versus a netting basis at December 31, 2016.*

(2) *Notional amounts include mandatory forward commitments of $60.5 million, while notional amounts do not include approved floating rate commitments of $21.9 million, at September 30, 2017.*

Changes in Fair Value

Changes in the fair value of derivatives not qualifying for hedge accounting treatment were recognized as follows:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2017	2016	2017	2016
Interest rate derivatives	$1,501	$608	$1,780	$6,515
RPAs	51	110	157	(143)
Mortgage banking derivatives	(219)	720	(1,886)	357
Other	(7)	(285)	(634)	(582)
Total impact on other non-interest income	$1,326	$1,153	$(583)	$6,147

Amounts for the effective portion of changes in the fair value of derivatives qualifying for hedge accounting treatment are reclassified to interest expense as interest payments are made on Webster's variable-rate debt. Over the next twelve months, the Company estimates that $1.2 million will be reclassified from AOCL as an increase to interest expense. Webster records gains and losses related to hedge terminations to AOCL. These balances are subsequently amortized into interest expense over the respective terms of the hedged debt instruments. At September 30, 2017, the remaining unamortized loss on the termination of cash flow hedges is $16.5 million. Over the next twelve months, the Company estimates that $6.4 million will be reclassified from AOCL as an increase to interest expense.

Additional information about cash flow hedge activity impacting AOCL, and the related amounts reclassified to interest expense is provided in Note 9: Accumulated Other Comprehensive Loss, Net of Tax. Information about the valuation methods used to measure the fair value of derivatives is provided in Note 13: Fair Value Measurements.

Offsetting Derivatives

Webster has entered into transactions with counterparties that are subject to a legally enforceable master netting agreement. Derivatives subject to a legally enforceable master netting agreement are reported on a net basis, net of cash collateral. Net gain positions are recorded as assets and are included in accrued interest receivable and other assets, while, net loss positions are recorded as liabilities and are included in accrued expenses and other liabilities, in the accompanying Condensed Consolidated Balance Sheets.

The following table is presented on a gross basis, prior to the application of counterparty netting agreements:

	At September 30, 2017				At December 31, 2016			
(In thousands)	Gross Amount	Relationship Offset	Cash Collateral Offset	Net Amount	Gross Amount	Relationship Offset	Cash Collateral Offset	Net Amount
Derivative instrument gains:								
Hedge accounting	$ 1,972	$ 292	$ 1,051	$ 629	$ 3,270	$ 2,335	$ 935	$ —
Non-hedge accounting	4,452	2,623	1,489	340	32,457	21,917	10,540	—
Total assets	$ 6,424	$ 2,915	$ 2,540	$ 969	$ 35,727	$ 24,252	$ 11,475	$ —
Derivative instrument losses:								
Hedge accounting	$ 195	$ 195	$ —	$ —	$ 792	$ 792	$ —	$ —
Non-hedge accounting	3,643	2,721	766	156	24,508	23,462	600	446
Total liabilities	$ 3,838	$ 2,916	$ 766	$ 156	$ 25,300	$ 24,254	$ 600	$ 446

Counterparty Credit Risk

Use of derivative contracts may expose the bank to counterparty credit risk. The Company has ISDA master agreements, including a Credit Support Annex, with all derivative counterparties. The ISDA master agreements provide that on each payment date, all amounts otherwise owing the same currency under the same transaction are netted so that only a single amount is owed in that currency. The ISDA provides, if the parties so elect, for such netting of amounts in the same currency among all transactions identified as being subject to such election that have common payment dates and booking offices. Under the Credit Support Annex, daily net exposure in excess of a negotiated threshold is secured by posted cash collateral. The Company has negotiated a zero threshold with the majority of its approved financial institution counterparties. In accordance with Webster policies, institutional counterparties must be analyzed and approved through the Company’s credit approval process.

The Company’s credit exposure on interest rate derivatives with non-dealer counterparties is limited to the net favorable value, including accrued interest, of all such instruments, reduced by the amount of collateral pledged by the counterparties. The Company's credit exposure related to derivatives with dealer counterparties is significantly mitigated with cash collateral equal to, or in excess of, the market value of the instrument updated daily.

In accordance with counterparty credit agreements and derivative clearing rules, the Company had approximately $20.7 million in net margin collateral posted with financial counterparties at September 30, 2017, comprised of $30.5 million in initial margin and $9.8 million in variation margin collateral received from financial counterparties or the derivative clearing organization. Collateral levels for approved financial institution counterparties are monitored daily and adjusted as necessary. In the event of default, should the collateral not be returned, the exposure would be offset by terminating the transaction.

The Company regularly evaluates the credit risk of its counterparties, taking into account the likelihood of default, net exposures, and remaining contractual life, among other related factors. The Company's net current credit exposure relating to interest rate derivatives with Webster Bank customers was $35.1 million at September 30, 2017. In addition, the Company monitors potential future exposure, representing its best estimate of exposure to remaining contractual maturity. The potential future exposure relating to interest rate derivatives with Webster Bank customers totaled $27.7 million at September 30, 2017. Credit risk exposure is mitigated as transactions with customers are generally secured by the same collateral of the underlying transactions being hedged.

Note 13: Fair Value Measurements

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

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

Fair Value Hierarchy

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

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

Derivative Instruments. Foreign exchange contracts are valued based on unadjusted quoted prices in active markets and classified within Level 1 of the fair value hierarchy. Derivative instruments are valued using third-party valuation software, which considers the present value of cash flows discounted using observable forward rate assumptions. The Chicago Mercantile Exchange have amended their rulebooks to legally characterize variation margin payments for over-the-counter derivatives that clear as settlements rather than collateral, effective January 3, 2017. One of Webster's counterparty relationships was impacted by this change, resulting in the fair value of the instrument including cash collateral as a single unit of account.

The resulting fair values are validated against valuations performed by independent third parties and are classified within Level 2 of the fair value hierarchy. In determining if any fair value adjustment related to credit risk is required, Webster evaluates the credit risk of its counterparties by considering factors such as the likelihood of default by the

counterparties, its net exposures, the remaining contractual life, as well as the amount of collateral securing the position. Webster reviews its counterparty exposure on a regular basis, and, when necessary, appropriate business actions are taken to adjust the exposure. When determining fair value, Webster applies the portfolio exception with respect to measuring counterparty credit risk for all of its derivative transactions subject to a master netting arrangement. The change in value of derivative assets and liabilities attributable to credit risk was not significant during the reported periods.

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

Investments Held in Rabbi Trust. Investments held in the Rabbi Trust primarily include mutual funds that invest in equity and fixed income securities. Shares of mutual funds are valued based on net asset value, which represents quoted market prices for the underlying shares held in the mutual funds. Therefore, investments held in the Rabbi Trust are classified within Level 1 of the fair value hierarchy. Webster has elected to measure the investments held in the Rabbi Trust at fair value. The cost basis of the investments held in the Rabbi Trust is $2.9 million at September 30, 2017.

Alternative Investments. Alternative investments are non-public entities that cannot be redeemed since the Company’s investment is distributed as the underlying equity is liquidated. Alternative investments in which the ownership percentage is greater than 3% are fair valued on a recurring basis based upon the net asset value of the respective fund. Alternative investments in which the ownership percentage is less than 3% are fair valued on a non-recurring basis. These alternative investments are recorded at cost, subject to impairment testing. Both recurring and non-recurring alternative investments are classified within Level 3 of the fair value hierarchy, as they are non-public entities that cannot be redeemed since the Company's investment is distributed as the underlying investments are liquidated. At September 30, 2017, the alternative investments book value was $17.3 million and there was $9.4 million in remaining unfunded commitments.

Originated Loans Held For Sale. Residential mortgage loans typically are classified as held for sale upon origination based on management's intent to sell such loans. The Company generally records residential mortgage loans held for sale under the fair value option of *ASC 825 "Financial Instruments"*. The fair value of residential mortgage loans held for sale is based on quoted market prices of similar loans sold in conjunction with securitization transactions. Accordingly, such loans are classified within Level 2 of the fair value hierarchy.

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

(In thousands)	At September 30, 2017 Level 1	Level 2	Level 3	Total
Financial assets held at fair value:				
U.S. Treasury Bills	$3,596	$—	$—	$3,596
Agency CMO	—	331,798	—	331,798
Agency MBS	—	912,977	—	912,977
Agency CMBS	—	584,960	—	584,960
CMBS	—	403,433	—	403,433
CLO	—	274,583	—	274,583
Trust preferred	—	30,937	—	30,937
Corporate debt	—	48,878	—	48,878
Total available-for-sale investment securities	3,596	2,587,566	—	2,591,162
Gross derivative instruments, before netting (1)	262	41,988	—	42,250
Investments held in Rabbi Trust	5,278	—	—	5,278
Alternative investments	—	—	6,986	6,986
Originated loans held for sale	—	32,855	—	32,855
Total financial assets held at fair value	$9,136	$2,662,409	$6,986	$2,678,531
Financial liabilities held at fair value:				
Gross derivative instruments, before netting (1)	$562	$19,461	$—	$20,023

(In thousands)	At December 31, 2016 Level 1	Level 2	Level 3	Total
Financial assets held at fair value:				
U.S. Treasury Bills	$734	$—	$—	$734
Agency CMO	—	419,706	—	419,706
Agency MBS	—	954,349	—	954,349
Agency CMBS	—	573,272	—	573,272
CMBS	—	477,365	—	477,365
CLO	—	427,390	—	427,390
Trust preferred	—	28,633	—	28,633
Corporate debt	—	109,642	—	109,642
Total available-for-sale investment securities	734	2,990,357	—	2,991,091
Gross derivative instruments, before netting (1)	250	77,387	—	77,637
Investments held in Rabbi Trust	5,119	—	—	5,119
Alternative investments	—	—	5,502	5,502
Originated loans held for sale	—	60,260	—	60,260
Total financial assets held at fair value	$6,103	$3,128,004	$5,502	$3,139,609
Financial liabilities held at fair value:				
Gross derivative instruments, before netting (1)	$120	$45,069	$—	$45,189

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

The following table presents the changes in Level 3 assets and liabilities that are measured at fair value on a recurring basis:

(In thousands)	Alternative Investments
Balance at January 1, 2017	$ 5,502
Unrealized gain included in net income	639
Purchases/capital funding	899
Payments	(54)
Balance at September 30, 2017	$ 6,986

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Assets Measured at Fair Value on a Non-Recurring Basis
Certain assets are measured at fair value on a non-recurring basis; that is, the assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, for example, when there is evidence of impairment. The following is a description of valuation methodologies used for assets measured on a non-recurring basis.
Transferred Loans Held For Sale. Certain loans are transferred to loans held for sale once a decision has been made to sell such loans. These loans are accounted for at the lower of cost or market and are considered to be recognized at fair value when they are recorded at below cost. This activity is primarily commercial loans with observable inputs and is classified within Level 2. On the occasion should these loans include adjustments for changes in loan characteristics using unobservable inputs, the loans would be classified within Level 3.
Collateral Dependent Impaired Loans and Leases. Impaired loans and leases for which repayment is expected to be provided solely by the value of the underlying collateral are considered collateral dependent and are valued based on the estimated fair value of such collateral using customized discounting criteria. As such, collateral dependent impaired loans and leases are classified as Level 3 of the fair value hierarchy.
Other Real Estate Owned and Repossessed Assets. The total book value of OREO and repossessed assets was $5.3 million at September 30, 2017. OREO and repossessed assets are accounted for at the lower of cost or market and are considered to be recognized at fair value when they are recorded at below cost. The fair value of OREO is based on independent appraisals or internal valuation methods, less estimated selling costs. The valuation may consider available pricing guides, auction results, and price opinions. Certain assets require assumptions about factors that are not observable in an active market in the determination of fair value; as such, OREO and repossessed assets are classified within Level 3 of the fair value hierarchy.
The table below presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a non-recurring basis as of September 30, 2017:
(Dollars in thousands)

Asset	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs
Collateral dependent impaired loans and leases	$15,955	Real Estate Appraisals	Discount for appraisal type	0% - 20%
			Discount for costs to sell	0% - 15%
OREO	$2,587	Real Estate Appraisals	Discount for appraisal type	0% - 20%
			Discount for costs to sell	8%

Fair Value of Financial Instruments and Servicing Assets
The Company is required to disclose the estimated fair value of financial instruments, both assets and liabilities, for which it is practicable to estimate fair value. The following is a description of valuation methodologies used for those assets and liabilities.
Cash, Due from Banks, and Interest-bearing Deposits. The carrying amount of cash, due from banks, and interest-bearing deposits is used to approximate fair value, given the short time frame to maturity and, as such, these assets do not present unanticipated credit concerns. Cash, due from banks, and interest-bearing deposits are classified within Level 1 of the fair value hierarchy.
Held-to-Maturity Investment Securities. When quoted market prices are not available, the Company employs an independent pricing service that utilizes matrix pricing to calculate fair value. Such fair value measurements consider observable data such as dealer quotes, market spreads, cash flows, yield curves, live trading levels, trade execution data, market consensus prepayments speeds, credit information, and respective terms and conditions for debt instruments. Management maintains procedures to monitor the pricing service's assumptions and establishes processes to challenge the pricing service's valuations that appear unusual or unexpected. Held-to-Maturity investment securities, which include Agency CMO, Agency MBS, Agency CMBS, CMBS, municipal bonds and notes, and private label MBS securities, are classified within Level 2 of the fair value hierarchy.
Loans and Leases, net. The estimated fair value of loans and leases held for investment is calculated using a discounted cash flow method, using future prepayments and market interest rates inclusive of an illiquidity premium

for comparable loans and leases. The associated cash flows are adjusted for credit and other potential losses. Fair value for impaired loans and leases is estimated using the net present value of the expected cash flows. Loans and leases are classified within Level 3 of the fair value hierarchy.

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

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

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

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

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

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

	At September 30, 2017		At December 31, 2016	
(In thousands)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Assets:				
Level 2				
Held-to-maturity investment securities	$4,497,311	$4,481,675	$4,160,658	$4,125,125
Transferred loans held for sale	—	—	7,317	7,444
Level 3				
Loans and leases, net	17,244,618	17,155,002	16,832,268	16,678,106
Mortgage servicing assets	25,140	44,992	24,466	52,075
Alternative investments	10,296	12,539	11,034	13,189
Liabilities:				
Level 2				
Deposit liabilities	$18,636,744	$18,636,744	$17,279,049	$17,279,049
Time deposits	2,218,491	2,213,155	2,024,808	2,024,395
Securities sold under agreements to repurchase and other borrowings	902,902	905,249	949,526	955,660
FHLB advances [(1)]	1,507,681	1,512,203	2,842,908	2,825,101
Long-term debt [(1)]	225,704	235,686	225,514	225,514

(1) The following adjustments to the carrying amount are not included for determination of fair value, see Note 8: Borrowings:

•FHLB advances - unamortized premiums on advances

•Long-term debt - unamortized discount and debt issuance cost on senior fixed-rate notes

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Note 14: Retirement Benefit Plans

Defined benefit pension and other postretirement benefits

The following table summarizes the components of net periodic benefit cost:

	Three months ended September 30,					
	2017			2016		
(In thousands)	Pension Plan	SERP	Other Benefits	Pension Plan	SERP	Other Benefits
Service cost	$12	$—	$ —	$11	$—	$ —
Interest cost on benefit obligations	1,829	96	19	2,110	98	32
Expected return on plan assets	(3,074)	—	—	(3,067)	—	—
Amortization of prior service cost	—	—	—	—	—	4
Recognized net loss	1,466	136	(15)	1,666	106	8
Net periodic benefit cost	$233	$232	$ 4	$720	$204	$ 44

	Nine months ended September 30,					
	2017			2016		
(In thousands)	Pension Plan	SERP	Other Benefits	Pension Plan	SERP	Other Benefits
Service cost	$37	$—	$ —	$34	$—	$ —
Interest cost on benefit obligations	5,486	281	69	6,331	292	94
Expected return on plan assets	(9,222)	—	—	(8,596)	—	—
Amortization of prior service cost	—	—	—	—	—	11
Recognized net loss	4,398	561	—	4,998	319	26
Net periodic benefit cost	$699	$842	$ 69	$2,767	$611	$ 131

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Note 15: Share-Based Plans

Stock compensation plans

Webster maintains stock compensation plans under which non-qualified stock options, incentive stock options, restricted stock, restricted stock units, or stock appreciation rights may be granted to employees and directors. The Company believes these share awards better align the interests of its employees with those of its shareholders. Stock compensation cost is recognized over the required service vesting period for the awards, based on the grant-date fair value, net of estimated forfeitures, and is included as a component of compensation and benefits reflected in non-interest expense.

The following table provides a summary of stock compensation expense recognized in the accompanying Condensed Consolidated Statements of Income:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2017	2016	2017	2016
Stock options	$—	$—	$—	$43
Restricted stock	3,007	2,944	9,050	8,515
Total stock compensation expense	$3,007	$2,944	$9,050	$8,558

At September 30, 2017 there was $16.7 million of unrecognized stock compensation expense for restricted stock expected to be recognized over a weighted-average period of 2.0 years.

The following table provides a summary of the stock compensation plans activity for the nine months ended September 30, 2017:

	Restricted Stock Awards Outstanding						Stock Options Outstanding	
	Time-Based				Performance-Based			
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Units	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Exercise Price
Outstanding, at January 1, 2017	253,361	$ 32.24	2,158	$ 32.89	116,184	$ 33.62	1,072,974	$ 21.24
Granted	164,953	54.79	8,129	56.07	89,581	56.18	—	—
Exercised options	—	—	—	—	—	—	279,344	25.80
Vested restricted stock awards [(1)]	155,390	36.36	6,900	48.82	87,982	40.74	—	—
Forfeited	14,586	36.44	—	—	6,276	42.72	—	—
Outstanding and exercisable, at September 30, 2017	248,338	$ 43.96	3,387	$ 56.07	111,507	$ 45.61	793,630	$ 19.63

(1) Vested for purposes of recording compensation expense.

Time-based restricted stock. Time-based restricted stock awards vest over the applicable service period ranging from 1 to 5 years. The number of time-based awards that may be granted to an eligible individual in a calendar year is limited to 100,000 shares. Compensation expense is recorded over the vesting period based on a fair value, which is measured using the Company's common stock closing price at the date of grant.

Performance-based restricted stock. Performance-based restricted stock awards vest after a 3 year performance period. The awards vest with a share quantity dependent on that performance, in a range from 0 to 150%. The performance criteria for 50% of the shares granted in 2017 is based upon Webster's ranking for total shareholder return versus Webster's compensation peer group companies and the remaining 50% is based upon Webster's average of return on equity during the three year vesting period. The compensation peer group companies are utilized because they represent the financial institutions that best compare with Webster. The Company records compensation expense over the vesting period, based on a fair value calculated using the Monte-Carlo simulation model, which allows for the incorporation of the performance condition for the 50% of the performance-based shares tied to total shareholder return versus the compensation peer group, and based on a fair value of the market price on the date of grant for the remaining 50% of the performance-based shares tied to Webster's return on equity. Compensation expense is subject to adjustment based on management's assessment of Webster's return on equity performance relative to the target number of shares condition.

Stock options. Stock option awards have an exercise price equal to the market price of Webster Financial Corporation's stock on the date of grant. Each option grants the holder the right to acquire a share of Webster Financial Corporation common stock over a contractual life of up to 10 years. All awarded options have vested. There were 735,785 non-qualified stock options and 57,845 incentive stock options outstanding at September 30, 2017.

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Note 16: Segment Reporting

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

Description of Segment Reporting Methodology

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

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

Webster allocates the provision for loan and lease losses to each segment based on management's estimate of the inherent loss content in each of the specific loan and lease portfolios. Provision expense for certain elements of risk that are not deemed specifically attributable to a reportable segment, such as the provision for the consumer liquidating portfolio, is shown as part of the Corporate and Reconciling category.

Webster allocates a majority of non-interest expense to each reportable segment using a full-absorption costing process. Costs, including corporate overhead, are analyzed, pooled by process, and assigned to the appropriate reportable segment. Income tax expense is allocated to each reportable segment based on the consolidated effective income tax rate for the period shown.

Segment Reporting Modifications

The 2016 segment results have been adjusted for comparability to the 2017 segment presentation for the following changes.

- To further strengthen Webster's ability to deliver the totality of its products and services to the owners and executives of commercial clients and other high net worth individuals, an organizational change was made during the second quarter of 2017. Effective April 1, 2017, the head of Private Banking reports directly to the head of Commercial Banking. The current organizational structure reflects how executive management responsibilities are assigned and reviewed. As a result of this change, the Private Banking and Commercial Banking operating segments are aggregated into one reportable segment, Commercial Banking.
- In late 2007 Webster discontinued its indirect residential construction lending and its indirect home equity lending outside of its primary New England market area referred to as National Wholesale Lending. Webster placed these two portfolios into a liquidating loan portfolio included within the Corporate and Reconciling category. The balance of the home equity liquidating loan portfolio was $65.0 million at December 31, 2016. As the remainder of this portfolio has been performing in the same manner as the continuing home equity portfolio, management has decided to combine the liquidating loan portfolio with the continuing home equity loan portfolio. The combined portfolio is included in the Community Banking reportable segment.

The following table presents total assets for Webster's reportable segments and the Corporate and Reconciling category:

	Total Assets				
(In thousands)	**Commercial Banking**	**Community Banking**	**HSA Bank**	**Corporate and Reconciling**	**Consolidated Total**
At September 30, 2017	$9,428,676	$8,881,322	$76,090	$ 7,964,094	$26,350,182
At December 31, 2016	9,069,445	8,721,046	83,987	8,198,051	26,072,529

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The following tables present the operating results, including all appropriate allocations, for Webster's reportable segments and the Corporate and Reconciling category:

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

(In thousands)	Three months ended September 30, 2016				
	Commercial Banking	Community Banking	HSA Bank	Corporate and Reconciling	Consolidated Total
Net interest income (expense)	$74,265	$91,995	$20,560	$(6,623)	$180,197
Provision for loan and lease losses	7,876	6,374	—	—	14,250
Net interest income (expense) after provision for loan and lease losses	66,389	85,621	20,560	(6,623)	165,947
Non-interest income	15,916	29,130	16,900	4,466	66,412
Non-interest expense	35,793	92,508	23,021	4,775	156,097
Income (loss) before income tax expense	46,512	22,243	14,439	(6,932)	76,262
Income tax expense (benefit)	14,957	7,122	4,624	(2,258)	24,445
Net income (loss)	$31,555	$15,121	$9,815	$(4,674)	$51,817

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

(In thousands)	Nine months ended September 30, 2016				
	Commercial Banking	Community Banking	HSA Bank	Corporate and Reconciling	Consolidated Total
Net interest income (expense)	$211,422	$274,186	$60,484	$(12,838)	$533,254
Provision for loan and lease losses	29,765	14,085	—	—	43,850
Net interest income (expense) after provision for loan and lease losses	181,657	260,101	60,484	(12,838)	489,404
Non-interest income	41,819	83,248	54,969	13,825	193,861
Non-interest expense	103,336	276,045	71,966	9,973	461,320
Income (loss) before income tax expense	120,140	67,304	43,487	(8,986)	221,945
Income tax expense (benefit)	39,233	21,979	14,201	(2,935)	72,478
Net income (loss)	$80,907	$45,325	$29,286	$(6,051)	$149,467

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Note 17: Commitments and Contingencies

Credit-Related Financial Instruments

The Company offers credit-related financial instruments in the normal course of business to meet certain financing needs of its customers, that involve off-balance sheet risk. These transactions may include an unused commitment to extend credit, standby letter of credit, or commercial letter of credit. Such transactions involve, to varying degrees, elements of credit risk.

The following table summarizes the outstanding amounts of credit-related financial instruments with off-balance sheet risk:

(In thousands)	At September 30, 2017	At December 31, 2016
Commitments to extend credit	$ 5,043,151	$ 5,224,280
Standby letter of credit	159,485	128,985
Commercial letter of credit	42,007	46,497
Total credit-related financial instruments with off-balance sheet risk	$ 5,244,643	$ 5,399,762

Commitments to Extend Credit. The Company makes commitments under various terms to lend funds to customers at a future point in time. These commitments include revolving credit arrangements, term loan commitments, and short-term borrowing agreements. Most of these loans have fixed expiration dates or other termination clauses where a fee may be required. Since commitments routinely expire without being funded, or after required availability of collateral occurs, the total commitment amount does not necessarily represent future liquidity requirements.

Standby Letter of Credit. A standby letter of credit commits the Company to make payments on behalf of customers if certain specified future events occur. The Company has recourse against the customer for any amount required to be paid to a third party under a standby letter of credit, which is often part of a larger credit agreement under which security is provided. Historically, a large percentage of standby letters of credit expire without being funded. The contractual amount of a standby letter of credit represents the maximum amount of potential future payments the Company could be required to make, and is the Company's maximum credit risk.

Commercial Letter of Credit. A commercial letter of credit is issued to facilitate either domestic or foreign trade arrangements for customers. As a general rule, drafts are committed to be drawn when the goods underlying the transaction are in transit. Similar to a standby letter of credit, a commercial letter of credit is often secured by an underlying security agreement including the assets or inventory to which they relate.

These commitments subject the Company to potential exposure in excess of the amounts recorded in the financial statements, and therefore, management maintains a specific reserve for unfunded credit commitments. This reserve is reported as a component of accrued expenses and other liabilities in the accompanying Condensed Consolidated Balance Sheets.

The following table provides a summary of activity in the reserve for unfunded credit commitments:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2017	2016	2017	2016
Beginning balance	$2,544	$2,319	$2,287	$2,119
Provision charged to expense	—	172	257	372
Ending balance	$2,544	$2,491	$2,544	$2,491

Litigation

Webster is involved in routine legal proceedings occurring in the ordinary course of business and is subject to loss contingencies related to such litigation and claims arising therefrom. Webster evaluates these contingencies based on information currently available, including advice of counsel and assessment of available insurance coverage. Webster establishes an accrual for litigation and claims when a loss contingency is considered probable and the related amount is reasonably estimable. This accrual is periodically reviewed and may be adjusted as circumstances change. Webster

also estimates certain loss contingencies for possible litigation and claims, whether or not there is an accrued probable loss. Webster believes it has defenses to all the claims asserted against it in existing litigation matters and intends to defend itself in all matters.

Based upon its current knowledge, after consultation with counsel and after taking into consideration its current litigation accrual, Webster believes that at September 30, 2017 any reasonably possible losses, in addition to amounts accrued, are not material to Webster's consolidated financial condition. However, in light of the uncertainties involved in such actions and proceedings, there is no assurance that the ultimate resolution of these matters will not significantly exceed the amounts currently accrued by Webster or that the Company's litigation accrual will not need to be adjusted in future periods. Such an outcome could be material to the Company's operating results in a particular period, depending on, among other factors, the size of the loss or liability imposed and the level of the Company's income for that period.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto, for the year ended December 31, 2016, included in its 2016 Form 10-K, and in conjunction with the Condensed Consolidated Financial Statements and Notes thereto included in Item 1 of this report. Operating results for the three and nine months ended September 30, 2017 are not necessarily indicative of the results for the full year ending December 31, 2017, or any future period.

Application of Critical Accounting Policies and Accounting Estimates

The Company's significant accounting policies are described in Note 1 to the Consolidated Financial Statements included in its 2016 Form 10-K. Modifications to significant accounting policies made during the year are described in Note 1 to the Condensed Consolidated Financial Statements included in Item 1 of this report. The preparation of the Condensed Consolidated Financial Statements in accordance with GAAP and practices generally applicable to the financial services industry requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and to disclose contingent assets and liabilities. Actual results could differ from those estimates.

Management has identified the Company's most critical accounting policies as:

- allowance for loan and lease losses;
- fair value measurements for valuation of investments and other financial instruments;
- evaluation for impairment of goodwill and other intangible assets; and
- assessing the realizability of deferred tax assets and the measurement of uncertain tax positions.

These particular significant accounting policies are considered most critical in that they are important to the Company's financial condition and results, and they require management's subjective and complex judgment as a result of the need to make estimates about the effects of matters that are inherently uncertain. The accounting policies and estimates, including the nature of the estimates and types of assumptions used, are described throughout Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in Webster's 2016 Form 10-K and Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, of this report.

Results of Operations

Selected financial highlights are presented in the following table:

	At or for the three months ended September 30,		At or for the nine months ended September 30,	
(In thousands, except per share and ratio data)	**2017**	**2016**	**2017**	**2016**
Earnings:				
Net interest income	$200,904	$180,197	$591,355	$533,254
Provision for loan and lease losses	10,150	14,250	27,900	43,850
Total non-interest income	65,846	66,412	193,439	193,861
Total non-interest expense	161,823	156,097	490,026	461,320
Net income	64,496	51,817	185,546	149,467
Earnings applicable to common shareholders	62,426	49,634	179,262	142,927
Share Data:				
Weighted-average common shares outstanding - diluted	92,503	91,857	92,412	91,776
Diluted earnings per common share	$0.67	$0.54	$1.94	$1.56
Dividends and dividend equivalents declared per common share	0.26	0.25	0.77	0.73
Dividends declared per Series E preferred share	400.00	400.00	1,200.00	1,200.00
Book value per common share	27.34	26.06	27.34	26.06
Tangible book value per common share *(non-GAAP)*	21.16	19.80	21.16	19.80
Selected Ratios:				
Net interest margin	3.30 %	3.10 %	3.27 %	3.10 %
Return on average assets *(annualized basis)*	0.98	0.82	0.95	0.80
Return on average common shareholders' equity *(annualized basis)*	9.95	8.36	9.67	8.16

CET1 risk-based capital	10.99	10.48	10.99	10.48
Tangible common equity ratio *(non-GAAP)*	7.55	7.25	7.55	7.25
Return on average tangible common shareholders' equity *(annualized basis) (non-GAAP)*	12.99	11.24	12.71	11.04
Efficiency ratio *(non-GAAP)*	59.18	61.43	60.62	61.63

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The non-GAAP financial measures identified in the preceding table provide investors with information useful in understanding the Company's financial performance, performance trends and financial position. These measures are used by management for internal planning and forecasting purposes, as well as by securities analysts, investors and other interested parties to compare peer company operating performance. Management believes that the presentation, together with the accompanying reconciliations provides a complete understanding of the factors and trends affecting the Company's business and allows investors to view its performance in a similar manner. These non-GAAP financial measures should not be considered a substitute for GAAP basis measures and results. Because non-GAAP financial measures are not standardized, it may not be possible to compare these measures with other companies that present measures having the same or similar names.

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

	At September 30,	
(Dollars and shares in thousands, except per share data)	**2017**	**2016**
Tangible book value per common share (non-GAAP):		
Shareholders' equity (GAAP)	$2,638,787	$2,511,629
Less: Preferred stock (GAAP)	122,710	122,710
Goodwill and other intangible assets (GAAP)	568,962	573,129
Tangible common shareholders' equity (non-GAAP)	$1,947,115	$1,815,790
Common shares outstanding	92,034	91,687
Tangible book value per common share (non-GAAP)	**$21.16**	**$19.80**
Tangible common equity ratio (non-GAAP):		
Tangible common shareholders' equity (non-GAAP)	$1,947,115	$1,815,790
Total Assets (GAAP)	$26,350,182	$25,633,617
Less: Goodwill and other intangible assets (GAAP)	568,962	573,129
Tangible assets (non-GAAP)	$25,781,220	$25,060,488
Tangible common equity ratio (non-GAAP)	**7.55** %	**7.25** %

	Three months ended September 30,		Nine months ended September 30,	
(Dollars in thousands)	**2017**	**2016**	**2017**	**2016**
Return on average tangible common shareholders' equity (non-GAAP):				
Net income (GAAP)	$64,496	$51,817	$185,546	$149,467
Less: Preferred stock dividends (GAAP)	2,024	2,024	6,072	6,072
Add: Intangible assets amortization, tax-affected at 35% (GAAP)	651	970	2,005	2,971
Income adjusted for preferred stock dividends and intangible assets amortization (non-GAAP)	$63,123	$50,763	$181,479	$146,366
Income adjusted for preferred stock dividends and intangible assets amortization, annualized (non-GAAP)	$252,492	$203,052	$241,972	$195,155
Average shareholders' equity (non-GAAP)	$2,635,312	$2,503,960	$2,597,574	$2,466,414
Less: Average preferred stock (non-GAAP)	122,710	122,710	122,710	122,710
Average goodwill and other intangible assets (non-GAAP)	569,538	573,978	570,562	575,491
Average tangible common shareholders' equity (non-GAAP)	$1,943,064	$1,807,272	$1,904,302	$1,768,213
Return on average tangible common shareholders' equity (non-GAAP)	**12.99** %	**11.24** %	**12.71** %	**11.04** %
Efficiency ratio (non-GAAP):				
Non-interest expense (GAAP)	$161,823	$156,097	$490,026	$461,320
Less: Foreclosed property activity (GAAP)	(72)	45	(141)	(236)
Intangible assets amortization (GAAP)	1,002	1,493	3,085	4,570
Other expense (non-GAAP)	213	793	2,923	2,270
Non-interest expense (non-GAAP)	$160,680	$153,766	$484,159	$454,716
Net interest income (GAAP)	$200,904	$180,197	$591,355	$533,254

Add: Tax-equivalent adjustment (non-GAAP)	4,340	3,478	12,509	9,735
Non-interest income (GAAP)	65,846	66,412	193,439	193,861
Less: Gain on sale of investment securities, net (GAAP)	—	—	—	414
Other (non-GAAP)	(431)	(236)	(1,377)	(1,372)
Income (non-GAAP)	$271,521	$250,323	$798,680	$737,808
Efficiency ratio (non-GAAP)	**59.18%**	**61.43%**	**60.62%**	**61.63%**

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Financial Performance

Comparison to Prior Year Quarter

For the three months ended September 30, 2017, income before income tax expense of $94.8 million increased $18.5 million, or 24.3%, compared to the three months ended September 30, 2016. Net interest income increased 11.5%, the provision for loan and lease losses decreased 28.8%, non-interest income decreased 0.9%, and non-interest expense increased 3.7%.

After income tax expense of $30.3 million and $24.4 million for the three months ended September 30, 2017 and 2016, respectively, net income was $64.5 million and diluted earnings per share was $0.67 for the three months ended September 30, 2017 compared to net income of $51.8 million and diluted earnings per share of $0.54 for the three months ended September 30, 2016.

Comparison to Prior Year to Date

For the nine months ended September 30, 2017, income before income tax expense of $266.9 million increased $44.9 million, or 20.2%, compared to the nine months ended September 30, 2016. Net interest income increased 10.9%, the provision for loan and lease losses decreased 36.4%, non-interest income was flat, and non-interest expense increased 6.2%.

After income tax expense of $81.3 million and $72.5 million for the nine months ended September 30, 2017 and 2016, respectively, net income was $185.5 million and diluted earnings per share was $1.94 for the nine months ended September 30, 2017 compared to net income of $149.5 million and diluted earnings per share of $1.56 for the nine months ended September 30, 2016.

The following tables summarize daily average balances, interest, yield/rate, and net interest margin on a fully tax-equivalent basis:

	Three months ended September 30,							
	2017				2016			
(Dollars in thousands)	Average Balance	Interest	Yield/Rate		Average Balance	Interest	Yield/Rate	
Assets								
Interest-earning assets:								
Loans and leases	$17,364,519	$182,269	4.14	%	$16,423,642	$157,926	3.80	%
Investment securities *(based upon historical amortized cost)*	6,994,661	51,130	2.92		6,784,652	49,282	2.91	
FHLB and FRB stock	135,943	1,482	4.33		185,104	1,478	3.18	
Interest-bearing deposits	58,193	173	1.17		53,852	67	0.49	
Loans held for sale	34,939	307	3.51		58,299	440	3.02	
Total interest-earning assets	24,588,255	$235,361	3.78	%	23,505,549	$209,193	3.53	%
Non-interest-earning assets	1,721,591				1,752,981			
Total Assets	$26,309,846				$25,258,530			
Liabilities and Shareholders' Equity								
Interest-bearing liabilities:								
Demand deposits	$4,201,723	$—	—	%	$4,011,712	$—	—	%
Savings, checking, & money market deposits	14,577,673	10,229	0.28		13,257,559	7,005	0.21	
Time deposits	2,155,743	6,531	1.20		2,009,433	5,589	1.11	
Total deposits	20,935,139	16,760	0.32		19,278,704	12,594	0.26	
Securities sold under agreements to repurchase and other borrowings	904,854	3,847	1.66		909,560	3,447	1.48	
FHLB advances	1,362,165	6,894	1.98		2,158,911	6,979	1.26	
Long-term debt	225,673	2,616	4.64		225,414	2,498	4.43	
Total borrowings	2,492,692	13,357	2.11		3,293,885	12,924	1.54	
Total interest-bearing liabilities	23,427,831	$30,117	0.51	%	22,572,589	$25,518	0.45	%
Non-interest-bearing liabilities	246,703				181,981			
Total liabilities	23,674,534				22,754,570			
Preferred stock	122,710				122,710			
Common shareholders' equity	2,512,602				2,381,250			
Total shareholders' equity	2,635,312				2,503,960			
Total Liabilities and Shareholders' Equity	$26,309,846				$25,258,530			
Tax-equivalent net interest income		$205,244				$183,675		
Less: Tax-equivalent adjustments		(4,340)				(3,478)		
Net interest income		$200,904				$180,197		
Net interest margin			3.30	%			3.10	%

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(Dollars in thousands)	Nine months ended September 30, 2017 Average Balance	Interest	Yield/Rate	2016 Average Balance	Interest	Yield/Rate
Assets						
Interest-earning assets:						
Loans and leases	$17,225,217	$526,419	4.05 %	$16,101,807	$461,399	3.79 %
Investment securities *(based upon historical amortized cost)*	7,031,738	157,550	2.98	6,861,128	153,280	2.98
FHLB and FRB stock	160,911	4,732	3.93	188,692	4,315	3.05
Interest-bearing deposits	63,684	472	0.98	57,692	216	0.49
Loans held for sale	31,373	826	3.51	40,739	1,006	3.29
Total interest-earning assets	24,512,923	$689,999	3.73 %	23,250,058	$620,216	3.54 %
Non-interest-earning assets	1,666,080			1,768,426		
Total Assets	$26,179,003			$25,018,484		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Demand deposits	$4,039,738	$—	— %	$3,802,873	$—	— %
Savings, checking & money market deposits	14,315,225	26,732	0.25	13,010,427	20,481	0.21
Time deposits	2,079,021	18,142	1.17	2,027,336	16,786	1.11
Total deposits	20,433,984	44,874	0.29	18,840,636	37,267	0.26
Securities sold under agreements to repurchase and other borrowings	884,975	10,970	1.63	943,458	10,999	1.53
FHLB advances	1,829,175	22,543	1.63	2,340,055	21,517	1.21
Long-term debt	225,607	7,748	4.58	225,651	7,444	4.40
Total borrowings	2,939,757	41,261	1.85	3,509,164	39,960	1.50
Total interest-bearing liabilities	23,373,741	$86,135	0.49 %	22,349,800	$77,227	0.46 %
Non-interest-bearing liabilities	207,688			202,270		
Total liabilities	23,581,429			22,552,070		
Preferred stock	122,710			122,710		
Common shareholders' equity	2,474,864			2,343,704		
Total shareholders' equity	2,597,574			2,466,414		
Total Liabilities and Shareholders' Equity	$26,179,003			$25,018,484		
Tax-equivalent net interest income		$603,864			$542,989	
Less: Tax-equivalent adjustments		(12,509)			(9,735)	
Net interest income		$591,355			$533,254	
Net interest margin			3.27 %			3.10 %

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Net interest income is the difference between interest income on earning assets, such as loans and investments, and interest expense on liabilities, such as deposits and borrowings, which are used to fund those assets. Net interest income is the Company's largest source of revenue, representing 75.4% of total revenue for the nine months ended September 30, 2017. Net interest margin is the ratio of tax-equivalent net interest income to average earning assets for the period.

Net interest income and net interest margin are impacted by the level of interest rates, mix of assets earning and liabilities paying those interest rates, and the volume of interest-earning assets and interest-bearing liabilities. These conditions are influenced by changes in economic conditions that impact interest rate policy, competitive conditions that impact loan and deposit pricing strategies, as well as the extent of interest lost to non-performing assets.

Webster manages the risk of changes in interest rates on net interest income and net interest margin through ALCO and through related interest rate risk monitoring and management policies. Four main tools are used for managing interest rate risk:

- the size, duration and credit risk of the investment portfolio,
- the size and duration of the wholesale funding portfolio,
- off-balance sheet interest rate contracts, and
- the pricing and structure of loans and deposits.

ALCO meets at least monthly to make decisions on the investment and funding portfolios based on the economic outlook, its interest rate expectations, the portfolio risk position, and other factors.

The Federal Open Market Committee increased the federal funds rate target range from 0.50-0.75% at December 31, 2016, to 0.75-1.00% effective March 16, 2017 and, to 1.00-1.25% effective June 15, 2017. See the "Asset/Liability Management and Market Risk" section for further discussion of Webster's interest rate risk position.

Net Interest Income

Comparison to Prior Year Quarter

Net interest income totaled $200.9 million for the three months ended September 30, 2017 compared to $180.2 million for the three months ended September 30, 2016, an increase of $20.7 million. On a fully tax-equivalent basis, net interest income increased $21.6 million when compared to the same period in 2016. The increase for the three months ended September 30, 2017 was primarily the result of a significant increase in loan balances and yield improvement of 34 basis points, while investment balances remained flat but the reinvestment spreads on those assets improved. Net interest margin increased 20 basis points to 3.30% for the three months ended September 30, 2017 from 3.10% for the three months ended September 30, 2016.

Comparison to Prior Year to Date

Net interest income totaled $591.4 million for the nine months ended September 30, 2017 compared to $533.3 million for the nine months ended September 30, 2016, an increase of $58.1 million. On a fully tax-equivalent basis, net interest income increased $60.9 million when compared to the same period in 2016. The increase for the nine months ended September 30, 2017 was primarily the result of a significant increase in loan balances and yield improvement of 26 basis points, bearing greater weight on net interest margin than flat investment balances and reinvestment spreads on those assets. Net interest margin increased 17 basis points to 3.27% for the nine months ended September 30, 2017 from 3.10% for the nine months ended September 30, 2016.

Changes in Net Interest Income

The following table presents the components of the change in net interest income attributable to changes in rate and volume, and reflects net interest income on a fully tax-equivalent basis:

	Three months ended September 30, 2017 vs. 2016 Increase (decrease) due to			**Nine months ended September 30, 2017 vs. 2016 Increase (decrease) due to**		
(In thousands)	**Rate [1]**	**Volume**	**Total**	**Rate [1]**	**Volume**	**Total**
Interest on interest-earning assets:						
Loans and leases	$15,634	$8,708	$24,342	$34,294	$30,725	$65,019
Loans held for sale	47	(181)	(134)	95	(215)	(120)
Investments [2]	366	1,594	1,960	897	3,987	4,884

Total interest income	$16,047	$10,121	$26,168	$35,286	$34,497	$69,783
Interest on interest-bearing liabilities:						
Deposits	$3,104	$1,062	$4,166	$5,067	$2,541	$7,608
Borrowings	3,034	(2,601)	433	6,567	(5,267)	1,300
Total interest expense	$6,138	$(1,539)	$4,599	$11,634	$(2,726)	$8,908
Net change in net interest income	$9,909	$11,660	$21,569	$23,652	$37,223	$60,875

(1) The change attributable to mix, a combined impact of rate and volume, is included with the change due to rate.
(2) Investments include: Securities, FHLB and FRB stock, and Interest-bearing deposits.

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Average loans and leases for the nine months ended September 30, 2017 increased $1.1 billion compared to the average for the nine months ended September 30, 2016. The loan and lease portfolio comprised 70.3% of the average interest-earning assets at September 30, 2017 compared to 69.3% of the average interest-earning assets at September 30, 2016. The loan and lease portfolio yield increased 26 basis points to 4.05% for the nine months ended September 30, 2017 compared to the loan and lease portfolio yield of 3.79% for the nine months ended September 30, 2016. The increase in the yield on the average loan and lease portfolio is due to increased yield on floating rate loans as well as increased spreads on loan originations.

Average investments for the nine months ended September 30, 2017 increased $148.8 million compared to the average for the nine months ended September 30, 2016. The investments portfolio comprised 29.6% of the average interest-earning assets at September 30, 2017 compared to 30.6% of the average interest-earning assets at September 30, 2016. The investments portfolio yield increased 3 basis points to 2.99% for the nine months ended September 30, 2017 compared to the investments portfolio yield of 2.96% for the nine months ended September 30, 2016. The increase in the yield on the investments portfolio is primarily due to a reduction in premium amortization from slower prepayment speeds and an increased yield on floating rate securities, more than offsetting lower current market rates on investment securities purchases compared to the yield on investment securities paydowns and maturities.

Average total deposits for the nine months ended September 30, 2017 increased $1.6 billion compared to the average for the nine months ended September 30, 2016. The increase is comprised of an increase of $236.9 million in non-interest-bearing deposits and an increase of $1.4 billion in interest-bearing deposits. The increase in average interest-bearing deposits, and an improved product mix to low-cost deposits, was primarily due to health savings account deposit growth. The average cost of deposits was 0.29% for the nine months ended September 30, 2017 compared to 0.26% for the nine months ended September 30, 2016. The slight increase in the average cost of deposits is mainly the result of an increase in the rate paid on public money market accounts. Higher cost time deposits, decreased to 12.7% for the nine months ended September 30, 2017 from 13.5% for the nine months ended September 30, 2016, as a percentage of total interest-bearing deposits.

Average total borrowings for the nine months ended September 30, 2017 decreased $569.4 million compared to the average for the nine months ended September 30, 2016. Average securities sold under agreements to repurchase and other borrowings decreased $58.5 million, and average FHLB advances decreased $510.9 million as utilization of advances maturing within one year declined significantly. The average cost of borrowings increased 35 basis point to 1.85% for the nine months ended September 30, 2017 from 1.50% for the nine months ended September 30, 2016. The increase in average cost of borrowings is the result of the federal funds rate being increased three times between December 2016 and June 2017.

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

	Three months ended September 30,		**Nine months ended September 30,**	
(In thousands)	**2017**	**2016**	**2017**	**2016**
Interest rate swaps on repurchase agreements	$—	$—	$—	$361
Interest rate swaps on FHLB advances	1,657	2,099	5,139	6,469
Interest rate swaps on senior fixed-rate notes	76	76	229	229
Interest rate swaps on brokered CDs and deposits	195	195	585	585
Net increase to interest expense on borrowings	$1,928	$2,370	$5,953	$7,644

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Provision for Loan and Lease Losses

The provision for loan and lease losses is the expense necessary to maintain the allowance for loan and lease losses at levels appropriate to absorb estimated credit losses in the loan and lease portfolio.

Comparison to Prior Year Quarter

The provision for loan and lease losses was $10.2 million for the three months ended September 30, 2017, which decreased $4.1 million compared to the three months ended September 30, 2016. The decrease in provision for loan and lease losses was primarily due to lower loan growth on a quarter comparative basis. Total net charge-offs was $7.9 million and $6.8 million for the three months ended September 30, 2017 and 2016, respectively. Higher commercial real estate and commercial net charge-offs contributed $1.3 million to the increase in net charge-offs.

Comparison to Prior Year to Date

The provision for loan and lease losses was $27.9 million for the nine months ended September 30, 2017, which decreased $16.0 million compared to the nine months ended September 30, 2016. The decrease in provision for loan and lease losses was primarily due to lower loan growth as compared to the rate for the same period in 2016. Total net charge-offs was $20.4 million and $30.9 million for the nine months ended September 30, 2017 and 2016, respectively. The decrease was primarily due to lower commercial real estate and other commercial loan related net charge-offs.

Allowance for Loan and Lease Losses

The ALLL is a significant accounting estimate that is determined through periodic and systematic detailed reviews of the Company's loan and lease portfolio. The ALLL is determined based on an analysis which assesses the inherent risk for probable losses within the portfolio. Significant judgments and estimates are necessary in the determination of the ALLL. Significant judgments include, among others, loan risk ratings and classifications, the probability of loan defaults, the net loss exposure in the event of loan defaults, the loss emergence period, the determination and measurement of impaired loans, and other quantitative and qualitative considerations.

At September 30, 2017, the ALLL totaled $201.8 million, or 1.16% of total loans and leases, as compared to $194.3 million, or 1.14% of total loans and leases, at December 31, 2016.

See the "Loans and Leases" through "Allowance for Loan and Lease Losses Methodology" sections for further details.

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Non-Interest Income

	Three months ended September 30,		Increase (decrease)		Nine months ended September 30,		Increase (decrease)	
(Dollars in thousands)	2017	2016	Amount	Percent	2017	2016	Amount	Percent
Deposit service fees	$38,321	$35,734	$2,587	7.2 %	$113,519	$105,553	$7,966	7.5 %
Loan related fees	6,346	9,253	(2,907)	(31.4)	19,898	20,563	(665)	(3.2)
Wealth and investment services	7,750	7,593	157	2.1	22,900	21,992	908	4.1
Mortgage banking activities	2,421	4,322	(1,901)	(44.0)	8,038	11,335	(3,297)	(29.1)
Increase in cash surrender value of life insurance policies	3,720	3,743	(23)	(0.6)	10,943	11,060	(117)	(1.1)
Gain on sale of investment securities, net	—	—	—	n/m	—	414	(414)	n/m
Impairment loss recognized in earnings	—	—	—	n/m	(126)	(149)	23	n/m
Other income	7,288	5,767	1,521	26.4	18,267	23,093	(4,826)	(20.9)
Total non-interest income	$65,846	$66,412	$(566)	(0.9)%	$193,439	$193,861	$(422)	(0.2)%

n/m - not meaningful

Comparison to Prior Year Quarter

Total non-interest income for the three months ended September 30, 2017 was $65.8 million, a decrease of $0.6 million, or 0.9%, compared to $66.4 million for the three months ended September 30, 2016. The decrease is primarily attributable to reductions in loan related fees and mortgage banking activities, partially offset by deposit service fee growth and higher other income.

Deposit service fees totaled $38.3 million for the three months ended September 30, 2017, compared to $35.7 million for the three months ended September 30, 2016. The increase is primarily due to increased checking account service charges and check card interchange attributable to health savings account growth and usage activity.

Loan related fees totaled $6.3 million for the three months ended September 30, 2017, compared to $9.3 million for the three months ended September 30, 2016. The decrease is primarily due to a lower syndication activity, and to a lesser extent, increased mortgage servicing rights amortization.

Mortgage banking activities totaled $2.4 million for the three months ended September 30, 2017, compared to $4.3 million for the three months ended September 30, 2016. The decrease is due to lower sales volume of conforming residential mortgage originations, driven by a decrease in refinance activity.

Other income totaled $7.3 million for the three months ended September 30, 2017, compared to $5.8 million for the three months ended September 30, 2016. The increase is primarily due to increased client hedging revenue.

Comparison to Prior Year to Date

Total non-interest income for the nine months ended September 30, 2017 was $193.4 million, a decrease of $422 thousand, or 0.2%, compared to $193.9 million for the nine months ended September 30, 2016. The decrease is primarily attributable to decreases in mortgage banking activities and other income, partially offset by increases in deposit service fees.

Deposit service fees totaled $113.5 million for the nine months ended September 30, 2017, compared to $105.6 million for the nine months ended September 30, 2016. The increase is primarily due to increased checking account service charges and check card interchange attributable to health savings account growth and usage activity.

Mortgage banking activities totaled $8.0 million for the nine months ended September 30, 2017, compared to $11.3 million for the nine months ended September 30, 2016. The decrease is due to lower volume of conforming residential mortgage originations, driven by a decrease in refinance activity.

Other income totaled $18.3 million for the nine months ended September 30, 2017, compared to $23.1 million for the nine months ended September 30, 2016. The decrease is due to a $2.7 million favorable adjustment to the fair value of the contingent receivable recognized in 2016, a decrease in net client interest rate hedging activities/hedging revenue, and partially offset by an increase in alternative investment gains.

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Non-Interest Expense

(Dollars in thousands)	Three months ended September 30,		Increase (decrease)		Nine months ended September 30,		Increase (decrease)	
	2017	2016	Amount	Percent	2017	2016	Amount	Percent
Compensation and benefits	$89,192	$83,148	$6,044	7.3 %	$264,822	$244,089	$20,733	8.5 %
Occupancy	14,744	15,004	(260)	(1.7)	46,957	44,915	2,042	4.5
Technology and equipment	22,580	19,753	2,827	14.3	66,646	59,067	7,579	12.8
Intangible assets amortization	1,002	1,493	(491)	(32.9)	3,085	4,570	(1,485)	(32.5)
Marketing	4,045	4,622	(577)	(12.5)	14,101	14,215	(114)	(0.8)
Professional and outside services	4,030	4,795	(765)	(16.0)	11,813	11,360	453	4.0
Deposit insurance	6,344	6,177	167	2.7	19,701	19,596	105	0.5
Other expense	19,886	21,105	(1,219)	(5.8)	62,901	63,508	(607)	(1.0)
Total non-interest expense	$161,823	$156,097	$5,726	3.7 %	$490,026	$461,320	$28,706	6.2 %

Comparison to Prior Year Quarter

Total non-interest expense for the three months ended September 30, 2017 was $161.8 million, an increase of $5.7 million, or 3.7%, compared to $156.1 million for the three months ended September 30, 2016. The increase is primarily attributable to compensation and benefits, technology and equipment, and somewhat offset by other expense.

Compensation and benefits totaled $89.2 million for the three months ended September 30, 2017, compared to $83.1 million for the three months ended September 30, 2016. The increase is primarily due to strategic hires and annual incentives increases.

Technology and equipment totaled $22.6 million for the three months ended September 30, 2017, compared to $19.8 million for the three months ended September 30, 2016. The increase is primarily due to increased service contracts to support bank growth.

Other expense totaled $19.9 million for the three months ended September 30, 2017, compared to $21.1 million for the three months ended September 30, 2016. The decrease is a result of numerous items, none of which were individually significant.

Comparison to Prior Year to Date

Total non-interest expense for the nine months ended September 30, 2017 was $490.0 million, an increase of $28.7 million, or 6.2%, compared to $461.3 million for the nine months ended September 30, 2016. The increase is primarily attributable to compensation and benefits, occupancy, and technology and equipment.

Compensation and benefits totaled $264.8 million for the nine months ended September 30, 2017, compared to $244.1 million for the nine months ended September 30, 2016. The increase is primarily due to strategic hires as well as an increase to annual merit increases and group insurance costs.

Occupancy totaled $47.0 million for the nine months ended September 30, 2017, compared to $44.9 million for the nine months ended September 30, 2016. The increase is essentially a result of charges related to banking center optimization.

Technology and equipment totaled $66.6 million for the nine months ended September 30, 2017, compared to $59.1 million for the nine months ended September 30, 2016. The increase is primarily due to increased service contracts and additional depreciation on infrastructure to support bank growth.

Income Taxes

Webster recognized income tax expense of $30.3 million and $81.3 million reflecting effective tax rates of 31.9% and 30.5% for the three and nine months ended September 30, 2017, respectively, compared to $24.4 million and $72.5 million and 32.1% and 32.7%, for the three and nine months ended September 30, 2016, respectively.

The increases in tax expense for the three and nine months ended September 30, 2017 as compared to 2016 principally reflect the higher levels of pre-tax income in 2017, while the decreases in the effective rates in those same periods principally reflect $5.9 million of excess tax benefits recognized under ASU No. 2016-09 in the nine months ended September 30, 2017, which includes $0.5 million during the three months ended September 30, 2017.

See “Accounting Standards Adopted During 2017” section of Note 1: Summary of Significant Accounting Policies in the Notes to Condensed Consolidated Financial Statements contained elsewhere in this report for information on adoption of ASU No. 2016-09. For additional information on Webster's income taxes, including its deferred tax assets and uncertain tax positions, see Note 8 - Income Taxes in the Notes to Consolidated Financial Statements contained in the Company's 2016 Form 10-K.

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Segment Reporting

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

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

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

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

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

Through a distribution network, consisting of 167 banking centers and 338 ATMs, a customer care center, and a full range of web and mobile-based banking services, it serves consumer and business customers primarily throughout southern New England and into Westchester County, New York.

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

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

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

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

Segment Results

The 2016 segment results have been adjusted for comparability to the 2017 segment presentation for the following changes:

- To further strengthen Webster's ability to deliver the totality of its products and services to the owners and executives of commercial clients and other high net worth individuals, an organizational change was made during the second quarter of 2017. Effective April 1, 2017, the head of Private Banking reports directly to the head of Commercial

Banking. The current organizational structure reflects how executive management responsibilities are assigned and reviewed. As a result of this change, the Private Banking and Commercial Banking operating segments are aggregated into one reportable segment, Commercial Banking.

- In late 2007 Webster discontinued its indirect residential construction lending and its indirect home equity lending outside of its primary New England market area, referred to as National Wholesale Lending. Webster placed these two portfolios into a liquidating loan portfolio included within the Corporate and Reconciling category. The balance of the home equity liquidating loan portfolio was $65.0 million at December 31, 2016. As the remainder of this portfolio has been performing in the same manner as the continuing home equity portfolio, management has decided to combine the liquidating loan portfolio with the continuing home equity loan portfolio. The combined portfolio is included in the Community Banking reportable segment.

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

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	**2017**	**2016**	**2017**	**2016**
Net income (loss):				
Commercial Banking	$30,357	$31,555	$93,827	$80,907
Community Banking	22,778	15,121	60,176	45,325
HSA Bank	12,856	9,815	35,125	29,286
Corporate and Reconciling	(1,495)	(4,674)	(3,582)	(6,051)
Total	$64,496	$51,817	$185,546	$149,467

	At September 30, 2017				
(In thousands)	**Commercial Banking**	**Community Banking**	**HSA Bank**	**Corporate and Reconciling**	**Total**
Total assets	$9,428,676	$8,881,322	$76,090	$7,964,094	$26,350,182
Loans and leases	9,291,257	8,155,063	101	—	17,446,421
Goodwill	—	516,560	21,813	—	538,373
Deposits	4,251,470	11,331,767	4,891,024	380,974	20,855,235
Not included in above amounts:					
Assets under administration/management	1,990,988	3,231,345	1,158,601	—	6,380,934

	At December 31, 2016				
(In thousands)	**Commercial Banking**	**Community Banking**	**HSA Bank**	**Corporate and Reconciling**	**Total**
Total assets	$9,069,445	$8,721,046	$83,987	$8,198,051	$26,072,529
Loans and leases	9,066,905	7,959,558	125	—	17,026,588
Goodwill	—	516,560	21,813	—	538,373
Deposits	3,592,531	10,970,977	4,362,503	377,846	19,303,857
Not included in above amounts:					
Assets under administration/management	1,781,840	2,980,113	878,190	—	5,640,143

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Commercial Banking

Operating Results:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	**2017**	**2016**	**2017**	**2016**
Net interest income	$81,925	$74,265	$239,118	$211,422
Provision for loan and lease losses	12,073	7,876	29,562	29,765
Net interest income after provision	69,852	66,389	209,556	181,657
Non-interest income	13,207	15,916	39,163	41,819
Non-interest expense	38,339	35,793	113,767	103,336
Income before income taxes	44,720	46,512	134,952	120,140
Income tax expense	14,363	14,957	41,125	39,233
Net income	$30,357	$31,555	$93,827	$80,907

Comparison to Prior Year Quarter

Net income decreased $1.2 million for the three months ended September 30, 2017 as compared to the same period in 2016. Net interest income increased $7.7 million, primarily due to loan growth and higher loan portfolio yield. The provision for loan and lease losses increased $4.2 million due, in part, to slight increases in allowance levels for certain portfolios. Non-interest income decreased $2.7 million primarily due to greater syndication fees in the year ago period. Non-interest expense increased $2.5 million, related to strategic hires and investments in product enhancements and infrastructure.

Comparison to Prior Year to Date

Net income increased $12.9 million for the nine months ended September 30, 2017 as compared to the same period in 2016. Net interest income increased $27.7 million, primarily due to loan growth and higher loan portfolio yield. The provision for loan and lease losses decreased $0.2 million. Non-interest income decreased $2.7 million, primarily due to greater syndication fees in the year ago period. Non-interest expense increased $10.4 million, related to strategic hires and investments in product enhancements and infrastructure.

Selected Balance Sheet Information and Assets Under Administration/Management:

(In thousands)	**At September 30, 2017**	**At December 31, 2016**
Total assets	$ 9,428,676	$ 9,069,445
Loans and leases	9,291,257	9,066,905
Deposits	4,251,470	3,592,531
Not included in above amounts:		
Assets under administration/management	1,990,988	1,781,840

Loans and leases increased $224.4 million at September 30, 2017 compared to December 31, 2016. Loan originations were $2.3 billion for the nine months ended September 30, 2017 compared to $2.1 billion for the nine months ended September 30, 2016. Management believes the reserve level is adequate to cover losses in the Commercial Banking portfolio. For additional discussion related to asset quality metrics, see the "Asset Quality" section elsewhere within this report. Deposits increased $658.9 million at September 30, 2017 compared to December 31, 2016 primarily due to the acquisition of new clients and seasonality of government deposits.

Commercial Banking held approximately $356.1 million and $271.7 million in assets under administration, and $1.6 billion and $1.5 billion in assets under management, at September 30, 2017 and December 31, 2016, respectively, related to Private Bank clients.

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Community Banking

Operating Results:

(In thousands)	Three months ended September 30, 2017	2016	Nine months ended September 30, 2017	2016
Net interest income	$96,859	$91,995	$286,351	$274,186
(Benefit) provision for loan and lease losses	(1,923)	6,374	(1,662)	14,085
Net interest income after provision	98,782	85,621	288,013	260,101
Non-interest income	27,079	29,130	80,516	83,248
Non-interest expense	92,478	92,508	281,979	276,045
Income before income taxes	33,383	22,243	86,550	67,304
Income tax expense	10,605	7,122	26,374	21,979
Net income	$22,778	$15,121	$60,176	$45,325

Comparison to Prior Year Quarter

Net income increased $7.7 million for the three months ended September 30, 2017 as compared to the same period in 2016. Net interest income increased $4.9 million, primarily due to growth in both loans and deposits, coupled with improved spreads on deposits as a result of higher interest rates. The increase was partially offset by the effects of tightening spreads on the loan portfolio. A benefit in 2017 compared to a provision for loan and lease losses in 2016 resulted in a favorable impact of $8.3 million, primarily due to loan portfolio quality improvement. Non-interest income decreased $2.1 million resulting from decreases in fees from mortgage banking activities and loan servicing income. Non-interest expense was flat compared to the three months ended September 30, 2016.

Comparison to Prior Year to Date

Net income increased $14.9 million for the nine months ended September 30, 2017 as compared to the same period in 2016. Net interest income increased $12.2 million, primarily due to growth in both loans and deposits, coupled with improved spreads on deposits as a result of higher interest rates. The overall increase was partially offset by the effects of tightening spreads on the loan portfolio. A benefit in 2017 compared to a provision for loan and lease losses in 2016 resulted in a favorable impact of $15.7 million, primarily due to loan portfolio quality improvement.
Non-interest income decreased $2.7 million, primarily due to lower fees from mortgage banking activities and client interest rate hedging activities; partially offset by increased fee income from investment management activity and deposit related service charges. Non-interest expense increased $5.9 million, primarily due to increased compensation and benefits, increased investment in technology infrastructure, charges related to banking center optimization, and net deposit fraud losses; partially offset by lower marketing, and the absence in 2017 of core deposit intangible amortization, which ended in 2016.

Selected Balance Sheet Information and Assets Under Administration: