FORM 10-K

WEBSTER FINANCIAL CORP - WBS

Filed: March 29, 1996 (period: December 31, 1995)

Annual report which provides a comprehensive overview of the company for the past year

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

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Fiscal Year Ended December 31, 1995

OR

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from to .

Commission File Number: 0-15213

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.)
Webster Plaza, Waterbury, Connecticut	06720
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (203) 753-2921

Securities registered pursuant to Section 12(b) of the Act:
Not Applicable

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.01 per value

(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

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

Based upon the closing price of the registrant's common stock as of March 15, 1996, the aggregate market value of the voting stock held by non-affiliates of the registrant is $211,924,494. Solely for purposes of this calculation, the shares held by directors and executive officers of the registrant and by shareholders beneficially owning more than 10% of the registrant's outstanding common stock, who may or may not be deemed to have been excluded.

The number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date is:

Class: Common Stock, par value $.01 per share
Issued and Outstanding at March 27, 1996 : 8,103,746

DOCUMENTS INCORPORATED BY REFERENCE

Part I and II: Portions of the Annual Report to Shareholders for fiscal year ended December 31, 1995

Part III: Portions of the Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 25, 1996.

WEBSTER FINANCIAL CORPORATION
1995 FORM 10-K ANNUAL REPORT
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PART I

Item 1. Business

General

Wesbster Financial Corporation, ("Webster" or the "Corporation"), through its subsidiary, Webster Bank, ("Webster Bank" or the "Bank") delivers financial services to local individuals and businesses. Webster's Mission is to build valuable banking relationships by helping individuals, families and businesses to reach their financial goals. The company has grown profitably in recent years, primarily through a series of acquisitions which have expanded and strengthened its franchise and have accelerated Webster's transition from a tranditional thrift institution to a full-service retail bank. Webster is organized along three lines of business - consumer, business and mortgage banking, each focused on the special needs of its customers. Webster serves 275,000 customers from 64 banking offices in Connecticut, extending from the Massachusetts border to Long Island Sound.

Webster's goals are to ensure customer satisfaction by providing superior customer service and by delivering quality financial products and services, to provide a stimulating and challenging work environment that encourages, develops and rewards excellence, and to make a meaningful investment in the communities Webster serves.

Assets at December 31, 1995 were $3.2 billion compared to $3.1 billion a year earlier. Net loans receivable amounted to $1.89 billion at December 31, 1995 compared to $1.87 billion a year ago. Deposits were $2.40 billion at December 31, 1995 compared to $2.43 billion at December 31, 1994.

Prior to November 1, 1995, Webster had two savings bank subsidiaries: First Federal Bank, a federal savings bank ("First Federal"), founded in 1935, with its home office in Waterbury, Connecticut, and Bristol Savings Bank ("Bristol"), a state chartered savings bank, founded in 1870, with its home office in Bristol, Connecticut. References herein to Webster Bank or the Bank prior to November 1, 1995 mean First Federal, unless the context otherwise indicates. On November 1, 1995, in the following sequence: (i) Bristol converted from a state savings bank charter to a federal savings bank charter and was concurrently renamed as Webster Bank, (ii) First Federal Bank merged into Webster Bank, as the surviving savings bank with its home office in Waterbury, Connecticut, (iii) Webster acquired Shelton Bancorp, Inc. ("Shelton") and its wholly-owned subsidiary, Shelton Savings Bank, through a merger of a wholly-owned subsidiary of Webster formed for such purpose into Shelton, as the surviving corporation, (iv) Shelton then merged into Webster, as the surviving corporation, and (v) thereafter Shelton Savings Bank merged into Webster Bank, as the surviving savings bank. References to Webster Bank or the Bank on and after November 1, 1995 mean the surviving bnak in the transactions that were consummated on such date, unless the context otherwise indicates.

Webster expanded its banking operations by acquiring Shelton in 1995 and 20 former Shawmut Bank Connecticut ("Shawmut") branch banking offices in the Hartford banking market in February 1996. See "Shelton Acquisition" and "Shawmut Transaction." In preceding years, Webster expanded its operations through the acquisition of Bristol in 1994 (see "Recent Acquisitions") and Shoreline Bank and Trust ("Shoreline") in 1994 and the FDIC-assisted acquisitions of First Constitution Bank ("First Constitution") in 1992 and Suffield Bank ("Suffield") in 1991. (See "FDIC Assisted Acquisitions" 1991.) These acquisitions have significantly expanded the market areas served by the Corporation.

On an unconsolidated basis at December 31, 1995, the assets of Webster consisted primarily of its investment in the Bank and $61.8 million of cash and other investments. The principal sources of Webster's revenues on an unconsolidated basis are dividends from the Bank and interest and dividend income from other investments. See Note 18 to Webster's Consolidated Financial Statements for parent-only financial statements.

The Bank's deposits are federally insured by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is a Bank Insurance Fund ("BIF") member institution and approximately at December 31, 1995 63% of the Bank's deposits were subject to BIF assessment rates and 37% to Savings Association Insurance Fund ("SAIF") assessment rates. After giving effect to the

Shawmut Transaction, approximately 72% of the Bank's deposits are subject to BIF assessment rates and 28% to SAIF assessments rates. See "Bank Regulation."

Webster as a holding company, and the Bank are subject to comprehensive regulation, examination and supervision by the OTS, as the primary federal regulator. The bank is also subject to regulation, examination and supervision by the FDIC as to certain matters. At December 31, 1995, the Board of Governors of the Federal Reserve System ("FRB") also has regulatory authority over the Bank as to some matters. See "Holding Company Regulation" and "Bank Regulation."

Webster's executive offices are located at Webster Plaza, Waterbury, Connecticut, 06702. Its telephone number is (203) 753-2921

Recent Acquisitions

The Shawmut Transaction - On October 1, 1995, Webster Bank entered into a Purchase and Assumption Agreement with Shawmut Bank Connecticut National Association (now Fleet National Bank of Connecticut), as part of the Fleet/Shawmut merger, to acquire 20 former Shawmut branch banking offices in the Hartford Banking Market. The Shawmut Transaction was consummated on February 16, 1996 with Webster Bank receiving approximately $845 million in BIF insured deposits, and $586 million in loans. In connection with the Shawmut Transaction, Webster completed the sale of 1,249,600 shares of its common stock in an underwritten public offering in December 1995. The Shawmut Transaction is being accounted for as a purchase. The results of operations related to the Shawmut branch banking offices prior to acquisition are not included in the accompanying Consolidated Financial Statements. Such results will only be included for the period subsequent to the consummation of the Shawmut Transaction.

The Shelton Bancorp, Inc. Acquisition - On November 1, 1995, Webster acquired Shelton and its subsidiary, Shelton Savings Bank, a $295 million asset savings bank in Shelton, Connecticut, with $273 million in BIF insured deposits. In connection with the merger with Shelton, Webster issued 1,292,549 shares of its common stock for all the outstanding shares of Shelton common stock. Under the terms of the agreement, Shelton shareholders received .92 of a share of Webster common stock in a tax free exchange for each of their Shelton common shares. This acquisition was accounted for as a pooling of interests. The Corporation's Consolidated Financial Statements include Shelton's financial data as if Shelton had been combined at the beginning of the earliest period presented.

Shoreline Bank and Trust Company - On December 16, 1994, Webster acquired Shoreline, a $51.0 million asset commercial bank based in Madison, Connecticut, with $47.0 million in BIF insured deposits. To effect the acquisition, Shoreline was merged into Webster Bank and its Madison banking office became a full service office of Webster Bank. In connection with the merger, the Corporation issued 266,500 shares of its common stock for all of the outstanding shares of Shoreline common stock. This acquisition was accounted for as a pooling of interests. The Corporation's Consolidated Financial Statements include Shoreline's financial data as if Shoreline had been combined at the beginning of the earliest period presented.

Bristol Savings Bank - On March 3, 1994, Webster acquired Bristol, a state chartered savings bank with $486 million in assets which became a wholly-owned subsidiary of Webster. In connection with the conversion of Bristol from a mutual to a stock charter concurrently with the acquisition, Webster completed the sale of 1,150,000 shares of its common stock in related subscription and public offerings. Webster invested in Bristol a total of $31.0 million, including the net proceeds of approximately $21.9 million from subscription and public offerings plus existing funds from the holding company. As a result of this investment, Bristol met all ratios required by the FDIC for a "well-capitalized" savings bank. The Bristol acquisition was accounted for as a purchase. Results of operations relating to Bristol are included in the Corporation's Consolidated Financial Statements only for the period subsequent to the effective date of the acquisition. Webster maintained Bristol as a separate savings bank subsidiary until November 1, 1995, when First Federal and Bristol were merged and renamed as Webster Bank.

FDIC Assisted Acquisitions

Webster Bank significantly expanded its retail banking operations through assisted acquisitions of First Constitution Bank ("First Constitution") in October 1992 and Suffield Bank ("Suffield") in September 1991 from the Federal Deposit Insurance Corporation ("FDIC"). These acquisitions, which were accounted for as purchases, involved financial assistance from the FDIC and extended Webster Bank's retail banking operations into new market areas by adding 21 branch offices, $1.5 billion in retail deposits and approximately 150,000 customer accounts. See Note 2 to the Consolidated Financial Statements for additional information concerning the terms of these assisted acquisitions.

Lending Activities

General. Webster originates residential, consumer, and business loans. Total loans receivable was $1.9 billion at December 31, 1995 and 1994. All references to loan and allowance for loan loss balances and ratios in the Lending Activities section exclude Segregated Assets, which are discussed immediately after this section. At December 31, 1995, first mortgage loans secured by one-to-four family properties comprised 77.2% of the Corporation's loan portfolio, before net items.

Nonaccrual loans, which include most loans delinquent 90 days or more, were $37.8 million at December 31, 1995, compared to $34.9 million at December 31, 1994, out of a total loan portfolio, before net items, of over $1.94 billion at December 31, 1995 and $1.93 billion at December 31, 1994. The ratio of nonaccrual loans to total loans before net items was 1.9% and 1.8% at December 31, 1995 and 1994, respectively. Nonaccrual assets, which includes nonaccrual loans and real estate owned were $55.0 million and $61.5 million at December 31, 1995 and 1994 respectively.

One-to-Four Family First Mortgage Loans. Webster originates both fixed-rate and adjustable-rate mortgage loans. The Corporation originates one-year, three-year and five-year adjustable-rate mortgage loans (ARMs) with caps on the annual and lifetime interest rate adjustments, which currently are generally 2% and 6%, respectively. At December 31, 1995, 63% of Webster's total mortgage loans before net items were adjustable-rate loans. Interest rates on adjustable loans originated as of December 31, 1995 were 2.75% above the constant maturity one-year U.S. Treasury yield index. There are no prepayment penalties on any of Webster's adjustable-rate loans. Webster has offered adjustable-rate mortgage loans at initial interest rates discounted from the fully indexed rate.

Although adjustable-rate mortgage loans allow Webster to increase the sensitivity of its asset base to changes in interest rates, the extent of this interest sensitivity is limited by the interest rate "caps" contained in adjustable-rate loans. The terms of such loans may also increase the likelihood of delinquencies in periods of high interest rates, particularly if such loans are originated at discounted interest rates. Federal law permits the FRB to promulgate regulations limiting the maximum interest rate that may apply during the term of adjustable rate mortgage loans. Under the current regulations, no specific interest rate limit is set, but lenders are required to impose interest rate caps on all adjustable-rate mortgage loans and all dwelling-secured consumer loans, including home equity loans, which provide for interest rate adjustments.

Webster originates 15 to 30 year fixed-rate mortgage loans on one-to-four family units. Webster has exchanged fixed-rate, long-term mortgage loans for mortgage-backed

securities guaranteed by the Federal Home Loan Mortgage Corporation ("FHLMC"), the Federal National Mortgage Association ("FNMA") and the Government National Mortgage Association ("GNMA"). At December 31, 1995, $555.5 million or 37% of Webster's total residential mortgage loans before net items had fixed rates.

Webster sells mortgage loans in the secondary market when such sales are consistent with its asset/liability management objectives. At December 31, 1995, Webster had $2.9 million of adjustable and fixed-rate mortgage loans held for sale.

Webster also makes residential construction loans to individuals to construct one-to-four family residential units. At December 31, 1995, such construction loans totaled $54.4 million or 2.8% of Webster's total loans receivable before net items.

All of the conventional mortgage loans on one-to-four family units originated by Webster include a "due-on-sale" clause, which is a provision giving Webster the right to declare a loan immediately due and payable in the event, among other things, that the borrower sells or otherwise disposes of the real property which is subject to the mortgage and the loan is not repaid. Webster actively enforces "due-on-sale" clauses.

Commercial and Commercial Real Estate Mortgage Loans. Webster had $197.9 million, or 10.2% of its total loans receivable before net items, in commercial and commercial real estate loans outstanding as of December 31, 1995, excluding Segregated Assets. Commercial real estate loans are secured by multi-family residences, office buildings, retail outlets, warehouses, land or other commercial real properties. Commercial loans are secured by assets other than real estate, such as inventory or trade receivables.

Loans secured by commercial and multi-family residential properties can involve greater risks than single-family residential mortgage lending. Such loans generally are substantially larger than single-family residential mortgage loans, and repayment of the loan generally depends on cash flow generated by the property. Because the payment experience on loans secured by such property is often dependent on successful operation or management of the security property, repayment of the loan may be subject to a greater extent to adverse conditions in the real estate market or the economy as compared to one-to-four family residential mortgage loans. The commercial real estate business is cyclical and subject to downturns, overbuilding and local economic conditions.

At December 31, 1995, $14.9 million of Webster's $41.8 million allowance for loan losses was allocated to commercial and commercial real estate loans. See "Management's Discussion and Analysis and Results of Operations" contained in the annual report to shareholders and incorporated herein by reference. The annual report is filed as an exhibit hereto. Also see "Business - -- Lending Activities -- Nonaccrual Loans and Delinquencies" for more information about Webster's asset quality, allowance for loan losses and provisions for loan losses.

Consumer Loans. At December 31, 1995, consumer loans were $172.3 million or 8.9% of Webster's total loans receivable before net items. Consumer loans consist primarily of home equity credit lines, home improvement loans, passbook loans and other consumer loans. The allowance for losses on consumer loans was $7.9 million at December 31, 1995.

The following table sets forth the composition of Webster's loan portfolio, excluding Segregated Assets, in dollar amounts and in percentages at the dates shown, and a reconciliation of loans receivable, net.

	At December 31,									
	1995		1994		1993		1992		1991	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)									
Residential mortgage loans:										
1-4 family units..................	$ 1,498,024	79.2%	$1,465,419	78.4%	$1,263,618	86.1%	$1,321,825	86.9%	$501,114	71.4%
Multi-family units................	13,198	0.7	5,931	0.3	--	--	5,320	0.3	5,073	0.7
Construction......................	54,410	2.9	53,779	2.9	28,930	2.0	15,033	1.0	9,642	1.4
Land..............................	2,652	0.1	26,712	1.4	29,464	2.0	12,045	0.8	3,390	0.5
Total residential mortgage loans.	1,568,284	82.9	1,551,841	83.0	1,322,012	90.1	1,354,223	89.0	519,219	74.0
Residential loans held for sale.....	2,872	0.2	24,735	1.3	11,505	0.8	7,240	0.5	--	--
Commercial mortgage loans:										
Income producing properties........	--	--	--	--	135	0.0	348	0.0	14,645	2.1
Land..............................	19,867	1.1	5,60	0.3	--	--	--	--	--	--
Construction......................	8,887	0.5	4,237	0.2	2,083	0.1	5,735	0.4	5,752	0.8
Other commercial real estate.......	115,976	6.1	130,248	7.0	40,306	2.7	41,636	2.7	27,227	3.9
Total commercial mortgage loans..	144,730	7.7	140,092	7.5	42,524	2.8	47,719	3.1	47,624	6.8
Total mortgage loans................	1,715,886	90.8	1,716,668	91.8	1,376,041	93.7	1,409,182	92.6	566,843	80.8
Less mortgage loans net items:										
Residential loans in process.......	20,642	1.1	25,523	1.4	16,994	1.2	3,295	0.2	2,736	0.4
Commercial loans in proces.........	--	--	1,174	0.1	487	0.0	508	0.0	436	0.1

Allowance for loan losses	30,799	1.6	36,252	1.9	38,477	2.6	44,384	2.9	7,696	1.1
Unearned (premiums) discounts and deferred loan fees, net	(12,207)	(0.5)	(13,906)	(0.8)	(10,318)	(0.8)	2,091	0.1	1,684	0.2
Net mortgage loans	1,676,652	88.6	1,667,625	89.2	1,330,401	90.7	1,358,904	89.4	554,291	79.0
Consumer loans:										
Home improvement	6,980	0.4	4,718	0.3	4,413	0.3	6,274	0.4	18,355	2.6
Home equity credit lines	122,737	6.5	128,828	6.9	103,523	7.1	100,821	6.6	104,264	14.9
Education	135	0.0	483	0.0	684	0.0	451	0.0	758	0.1
Personal	31,653	1.7	23,231	1.3	13,928	0.9	14,553	1.0	4,572	0.7
Marine loans	462	0.0	226	0.0	246	0.0	1,160	0.1	131	0.0
Automobiles	2,195	0.1	2,399	0.1	2,584	0.2	2,604	0.2	3,633	0.5
Secured by deposits	8,121	0.4	7,171	0.4	7,207	0.5	8,277	0.5	5,416	0.8
Total consumer loans	172,283	9.1	167,056	9.0	132,585	9.0	134,140	8.8	137,129	19.6
Less:										
Allowance for loan losses	7,865	0.4	7,312	0.4	5,955	0.4	4,626	0.3	2,563	0.4
Deferred loan costs, (net)	(1,255)	(0.1)	--	--	--	--	--	--	--	--
Net consumer loans	165,673	8.8	159,744	8.6	126,630	8.6	129,514	8.5	134,566	19.2
Consumer loans held for sale, net	--	--	--	--	--	--	23,116	1.5	--	--
Commercial non-mortgage loans	53,194	2.8	45,055	2.4	11,640	0.8	11,404	0.7	13,417	1.9
Less:										
Allowance for loan losses	3,133	0.2	3,208	0.2	736	0.1	770	0.1	796	0.1
Unearned (premiums) discounts and deferred loan fees, net	430	0.0	--	--	--	--	--	--	--	--
Net commercial non-mortgage loans	49,631	2.6	41,847	2.2	10,904	0.7	10,634	0.6	12,621	1.8
Loans receivable, net	$1,891,956	100.0%	$1,869,216	100.0%	$1,467,935	100.0%	$1,522,168	100.0%	$701,478	100.0%

The following table sets forth the contractual maturity and interest-rate sensitivity of residential and commercial real estate construction loans and commercial loans at December 31, 1995.

	Contractual Maturity			
	One Year or Less	One to Five Years	Over Five Years	Total
	(In thousands)			
Contractual Maturity:				
Construction loans:				
Residential mortgage	$ 582	$ -	$ 53,828	$ 54,410
Commercial mortgage	890	1,420	6,577	8,887
Commercial non-mortgage loans	14,113	21,938	17,143	53,194
Total	$ 15,585	$ 23,358	$ 77,548	$ 116,491
Interest-Rate Sensitivity:				
Fixed rates	$ 1,555	$ 6,829	$ 29,751	$ 38,135
Variable rates	14,030	16,529	47,797	78,356
Total	$ 15,585	$ 23,358	$ 77,548	$ 116,491

Loan Originations. Federally chartered savings institutions are authorized to originate real estate mortgage loans throughout the United States. However, almost all of the real estate mortgage loans originated by Webster are secured by real estate located in Connecticut.

Loan originations come from a number of sources. Residential loan originations are attributable primarily to present depositors and borrowers, walk-in customers, referrals from real estate brokers, builders, loan originators and third party correspondents. Webster seeks to attract consumer loans by direct advertising and solicitation of its existing deposit and loan customers.

Federal regulations provide that real estate loans may not exceed 100% of the appraised value of the security property at the time of origination. With respect to home loans originated or refinanced in excess of 90% of the appraised value of the security property, that part of the unpaid balance that exceeds 80% of the property's value must be insured or guaranteed by a qualified mortgage insurance company. These regulations also require an institution's board of directors specifically to approve all loans on the security of real estate which are not home loans and which at the time of origination are in excess of 90% of the appraised value of the security property.

Webster makes single-family conventional first mortgage loans with a loan-to-value ratio of up to 95%. Webster requires private mortgage insurance for 25% of the amount of the outstanding principal balance of any loan having a loan-to-value ratio over 90%. If the loan-to-value ratio is between 80% and 90%, Webster requires private mortgage insurance for 20% of the outstanding principal balance of the loan.

Property securing real estate loans originated by Webster is usually appraised by one of several professionally-qualified, state-licensed independent appraisers who have been ratified by the Board of Directors of Webster. Webster also employs staff appraisers, who also must be state licensed. For all first mortgage real estate loans, Webster requires the borrower to obtain title, fire and extended casualty insurance and, where appropriate, flood insurance and business interruption coverage. Loans are approved by certain officers with specified approval authority. Loans approved in excess of $500,000 are ratified by the Board of Directors.

Purchase and Sale of Loans and Loan Servicing. Webster has been a seller and purchaser of whole loans and participations in the secondary market. During 1995 and 1994, Webster originated residential mortgages that were transferred primarily to the Federal National Mortgage Association ("FNMA") for conversion into mortgage-backed securities. Webster generally retains the right to service the underlying loans for these securities. During 1994, Webster securitized some of its owned residential mortgage loans into mortgage-backed securities and these assets were reclassified on Webster's balance sheet accordingly. Securitization limits credit risk and increases liquidity since these securities can be easily sold in the secondary market.

Loan servicing on purchased loans is generally performed by the loan seller, which retains a portion of the interest paid by the borrower in consideration for the servicing of the loan. Certain direct costs of servicing loans for others, such as attorneys' fees and court costs associated with collecting delinquent loans, are borne pro-rata by the owners of the loans. Other costs of servicing loans are part of the servicing institution's general operating expenses and vary from period to period, depending primarily on rates of delinquency and resulting collection efforts required of the institution servicing the loans. Because servicing revenues generally are collected when loan payments are received, such revenues also vary with the rates of delinquency.

The following table sets forth information as to Webster's mortgage loan servicing portfolio at the dates shown. The decrease of total loans serviced for 1995 is primarily due to the sale of mortgage loan servicing rights on both owned and non-owned loans while the 1994 increase is mostly due to the Bristol and Shoreline acquisitions.

	At December 31,					
	1995		1994		1993	
	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)					
Loans owned and serviced...............	$1,324,257	63.7%	$ 1,509,219	61.5%	$ 1,262,448	77.9%
Loans serviced for others..............	753,053	36.3	944,547	38.5	357,687	22.1
Total loans serviced by Webster.....	$2,077,310	100.0%	$2,453,766	100.0%	$ 1,620,135	100.0%

Webster, from time to time, has purchased whole loans and loan participations. The loans and loan participations purchased are secured by property located in Connecticut and in other areas of the United States. There can be significant risks associated with the purchase of loans secured by properties located outside a savings institution's local lending territory. The purchaser may be unfamiliar with the local economy in the area where the security properties are located and is generally dependent on the loan seller to service the loan and deal with delinquencies and foreclosures. Webster seeks to reduce such risks by underwriting purchased loans using at least the same conservative underwriting policies as used for locally originated loans; using underwriting standards which meet the requirements of FNMA and FHLMC; and purchasing only loans secured by one-to-four family owner occupied residences. The Corporation may also purchase insurance to cover a portion of losses on purchased loans.

The table below shows mortgage loan origination, purchase, sale and repayment activities of Webster for the periods indicated.

	At December 31,		
	1995	1994	1993
		(In thousands)	
First mortgage loan originations and purchases:			
Permanent:			
Mortgage loans originated	$ 271,997	$ 665,108	$ 309,286
Construction:			
1-4 family units	50,445	44,491	24,805
Total permanent and construction loans originated	322,442	709,599	334,091
Loans and participations purchased	2,123	37,158	3,092
Loans acquired in the Bristol acquisition	--	255,562	--
Total loans originated and purchased	324,565	1,002,319	337,183
First mortgage loan sales and principal reductions:			
Loans securitized and sold	109,787	495,135	92,123
Loan principal reductions	204,314	119,507	260,712
Reclassified to REO	11,246	47,050	17,489
Total loans sold and principal reductions	325,347	661,692	370,324
(Decrease) Increase in mortgage loans receivable before net items	$ (782)	$ 340,627	$ (33,141)

Fee Income from Lending Activities. Webster realizes loan origination, commitment and other fee income from its lending activities, including non-refundable application fees and appraisal fees, document preparation fees, tax service fees and other miscellaneous fees which are dependent upon the type of loan originated. Webster also receives late payment fees, loan modification fees and servicing fees from existing loans. Income realized from these activities can vary significantly with the volume and type of loans in the portfolio and in response to competitive factors. Webster also realizes prepayment penalties from early repayment of its fixed-rate loans originated prior to 1983. Total prepayment penalties have declined significantly since 1983. Webster currently does not include a prepayment penalty clause in any of its residential mortgage loans.

Usury Limitations. Federal legislation first enacted in 1980 has preempted all state usury laws concerning residential first mortgage loans unless the state legislature acted to override the preemption by April 1, 1983. The Connecticut Legislature did not act to override the federal preemption. Connecticut law imposes no ceiling on interest rates on the types of loans currently originated by the Bank.

Nonaccrual Assets and Delinquencies. When an insured institution classifies problem assets as either "substandard" or "doubtful," it is required to establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as "loss," it is required either to establish a specific allowance for losses equal to 100% of the amount of the asset so classified or to charge-off such amount. An institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the OTS which can order the establishment of additional valuation allowances. See "Classification of Assets" below.

The following table sets forth certain information regarding Webster's loans (excluding Segregated Assets) accounted for on a nonaccrual basis, accruing loans which are greater than 90 days past due and real estate acquired through foreclosure at the dates indicated.

	At December 31,				
	1995	1994	1993	1992	1991
			(In thousands)		
Loans accounted for on a nonaccrual basis:					
Residential real estate	$ 20,560	$18,390	$27,995	$ 39,633	$ 8,873

Commercial	15,296	15,268	4,132	1,846	4,934
Consumer	1,987	1,237	1,137	4,311	523
Real estate acquired through foreclosure and in-substance foreclosures:					
Residential and consumer	6,368	9,296	18,753	11,674	2,887
Commercial	10,808	17,292	6,711	7,744	15,063
Total	$ 55,019	$ 61,483	$ 58,728	$ 65,208	$32,280

Interest on nonaccrual loans that would have been recorded as additional income for the years ended December 31, 1995, 1994 and 1993 had the loans been current in accordance with their original terms approximated $2,984,000, $2,784,000 and $3,132,000, respectively.

See Note 1(e) to the Consolidated Financial Statements contained in the annual report to shareholders and incorporated herein by reference for a description of Webster's nonaccrual loan policy.

The following table sets forth information as to delinquent loans, excluding Segregated Assets, in Webster's loans receivable portfolio before net items.

	At December 31,			
	1995		1994	
	Principal Balances	Percentage of Loans Receivable	Principal Balances	Percentage of Loans Receivable
	(Dollars in thousands)			
Past due 30-89 days and still accruing:				
Residential real estate	$ 28,396	1.46%	$ 26,161	1.36%
Commercial	11,099	0.57	9,933	0.51
Consumer	2,640	0.14	2,069	0.11
Total	$ 42,135	2.17%	$ 38,163	1.98%

Classification of Assets. Under the OTS' problem assets classification system, a savings institution's problem assets are classified as "substandard," "doubtful" or "loss" (collectively "classified assets"), depending on the presence of certain characteristics. An asset is considered "substandard" if inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard" with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions and values, "highly questionable and improbable." Assets classified "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. In addition, assets that do not currently warrant classification in one of the foregoing categories but which are deserving of management's close attention are designated as "special mention" assets.

At December 31, 1995, the Bank's classified assets totaled $82.6 million, consisting of $75.8 million in loans classified as "substandard," $6.8 million in loans classified as "doubtful" and $0 classified as "loss". At December 31, 1994, the Bank's classified loans totaled $106.4 million, consisting of $97.8 million in loans classified as "substandard," $8.3 million in loans classified as "doubtful" and $300,000 classified as "loss." In addition, at December 31, 1995 and 1994, the Bank had $29.8 million and $45.9 million, respectively, of special mention loans.

Allowance for Loan Losses. Webster's allowance for loan losses at December 31, 1995 totalled $41.8 million. See "Management's Discussion and Analysis -- Results of Operations Asset Quality and Comparison of Years ended December 31, 1995 and 1994," contained in the annual report to shareholders and incorporated herein by reference. In assessing the specific risks inherent in the portfolio, management takes into consideration the risk of loss on Webster's nonaccrual loans, classified loans and watch list loans including an analysis of the collateral for the loans. Other factors considered are Webster's loss experience, loan concentrations, local economic conditions and other factors.

The following is a summary of activity in the allowance for loan losses for the periods indicated:

	Years Ended December 31,				
	1995	1994	1993	1992	1991
	(Dollars in thousands)				
Balance at beginning of period	$ 46,772	$45,168	$49,780	$ 11,055	$ 7,952
Charge-offs:					
Residential real estate	(6,952)	(12,761)	(8,208)	(1,027)	(429)
Consumer	(418)	(760)	(1,236)	(706)	(239)
Commercial	(3,490)	(3,578)	(2,223)	(1,424)	(2,864)
	(10,860)	(17,099)	(11,667)	(3,157)	(3,532)
Recoveries:					
Residential real estate	657	388	205	10	--
Consumer	943	1,701	749	558	3
Commercial	1,185	1,015	114	9	3
	2,785	3,104	1,068	577	6
Net charge-offs	(8,075)	(13,995)	(10,599)	(2,580)	(3,526)
Additions to allowance for acquired loans	--	12,819	--	35,731	2,285
Transfer from allowance for losses for loans held for sale	--	--	2,390	--	--
Provisions charged to operations	3,100	2,780	3,597	5,574	4,344
Balance at end of period	$ 41,797	$ 46,772	$45,168	$ 49,780	$11,055
Ratio of net charge-offs to average loans outstanding	0.4%	0.8%	0.7%	0.3%	0.5%

The following table presents an allocation of Webster's allowance for loan losses at the dates indicated and the related percentage of loans in each category to Webster's gross loan portfolio.

	December 31,									
	1995		1994		1993		1992		1991	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)									
Balance at End of Period Applicable to:										
Residential mortgage loans	$19,013	80.93%	$25,399	81.74%	$35,473	87.71%	$39,888	86.29%	$ 3,917	72.37%
Commercial mortgage loans	11,786	7.46	10,853	7.26	3,004	2.80	4,496	3.02	3,779	6.64
Commercial non-mortgage loans	3,133	8.87	3,208	2.34	736	.77	770	.72	796	1.87
Consumer loans	7,865	2.74	7,312	8.66	5,955	8.72	4,626	9.97	2,563	19.12
Total	$41,797	100.00%	$46,772	100.00%	$45,168	100.0%	$49,780	100.0%	$ 11,055	100.0%

Segregated Assets

Segregated Assets at December 31, 1995 and 1994 consist of the following assets purchased from the FDIC in the First Constitution Acquisition which are subject to a loss-sharing arrangement with the FDIC:

	At December 31,	
	1995	1994

	Amount	%	Amount	%
	(Dollars in thousands)			
Commercial real estate loans	$ 79,995	74.0%	$ 98,813	69.8%
Commercial non-mortgage loans	10,439	9.7	15,377	10.9
Multi-family mortgage loans	16,341	15.1	18,124	12.8
Other real estate owned	1,299	1.2	9,202	6.5
	108,074	100.0%	141,516	100.0%
Less allowance for segregated assets	3,235		4,420	
Segregated Assets, net	$ 104,839		$ 137,096	

Under the Purchase and Assumption Agreement with the FDIC, during the first five years after October 2, 1992 (the "Acquisition Date") the FDIC is required to reimburse the Bank quarterly for 80% of all net charge-offs (i.e., the excess of charge-offs over recoveries) and certain permitted expenses related to the commercial non-mortgage loans, commercial real estate loans and multi-family loans acquired by the Bank.

During the sixth and seventh years following the Acquisition Date, the Bank is required to pay quarterly to the FDIC an amount equal to 80% of the recoveries during such years on Segregated Assets that were previously charged off after deducting certain permitted expenses related to those assets. The Bank is entitled to retain 20% of such recoveries during the sixth and seventh years and 100% thereafter.

Upon termination of the seven-year period after the Acquisition Date, if the sum of net charge-offs on Segregated Assets during the first five years plus permitted expenses during the entire seven-year period, less any recoveries during the sixth and seventh year on Segregated Assets charged off during the first five years, exceeds $49.2 million, the FDIC is required to pay the Bank an additional 15% of any such excess over $49.2 million. As of December 31, 1995, the Bank has received $38.0 million in reimbursements for net charge-offs and permitted expenses from the FDIC. At December 31, 1995, the Bank had a $3.2 million allowance for losses to cover its share of losses on the Segregated Assets.

A detail of changes in the allowance for the Bank's share of losses for Segregated Assets follows:

	Years Ended December 31,	
	1995	1994
	(In thousands)	
Balance at beginning of period	$ 4,420	$ 5,042
Provisions	--	375
Charge-offs	(1,772)	(1,505)
Recoveries	587	508
Balance at end of period	$ 3,235	$ 4,420

The following table sets forth information regarding Segregated Assets delinquencies and nonaccruals at December 31, 1995 and 1994:

	At December 31,	
	1995	1994
	(In thousands)	
Past due 30-89 days and still accruing:		
Commercial real estate loans	$ 1,042	$ 1,251
Commercial non-mortgage loans	79	271
Multi-family loans	386	1,021
	1,507	2,543
Loans accounted for on a nonaccrual basis:		
Commercial real estate loans	2,604	13,795
Commercial non-mortgage loans	1,203	3,678
Multi-family real estate loans	1,432	576

	5,239	18,049
Total	$ 6,746	$ 20,592

Interest on nonaccrual Segregated Assets that would have been recorded as additional income had the loans been current in accordance with their original terms approximated $1,207,000, $2,047,000 and $2,929,000 for the years ended December 31, 1995, 1994 and 1993 respectively.

The following table sets forth the contractual maturity and interest rate sensitivity of commercial loans contained in the Segregated Assets portfolio at December 31, 1995.

	Contractual Maturity			
	One Year or Less	One to Five Years	Over Five Years	Total
	(In thousands)			
Contractual Maturity:				
Commercial loans	$ 1,341	$ 2,258	$ 6,840	$ 10,439
Total	$ 1,341	$ 2,258	$ 6,840	$ 10,439
Interest Rate Sensitivity:				
Predetermined Rates	$ 79	$ 288	$ 1,625	$ 1,992
Variable Rates	1,262	1,970	5,215	8,447
Total	$ 1,341	$ 2,258	$ 6,840	$ 10,439

Investment Activities

The Bank has authority to invest in various types of liquid assets, including United States Treasury obligations, securities of federal agencies, certificates of deposit of federally insured banks and savings institutions, bankers' acceptances and federal funds. Subject to various restrictions, the Bank may also invest a portion of its assets in commercial paper, corporate debt securities, and mutual funds whose assets conform to the investments that a federally chartered savings institution is otherwise authorized to make directly. The Bank also is required to maintain liquid assets at minimum levels which vary from time to time. See "Regulation -- Savings Bank Regulation -- Liquidity."

Webster, as a Delaware corporation, has authority to invest in any type of investment permitted under Delaware law. As a unitary holding company, however, its investment activities are subject to certain regulatory restrictions described under "Holding Company Regulation."

Webster, directly or through the Bank, maintains an investment portfolio that provides not only a source of income but also, due to staggered maturity dates, a source of liquidity to meet lending demands and fluctuations in deposit flows. The securities constituting Webster's investments in corporate bonds and notes generally are publicly traded and are considered investment grade quality by a nationally recognized rating firm. The commercial paper and collateralized mortgage obligations ("CMOs") in Webster's investment portfolio are all rated in at least the top two rating categories by at least one of the major rating agencies at time of purchase. One of the inherent risks of investing in mortgage-backed securities, including CMOs, is the ability of such instruments to incur prepayments of principal prior to maturity at prepayment rates different than those estimated at the time of purchase. This generally occurs because of changes in market interest rates. The market values of fixed-rate mortgage-backed securities are sensitive to fluctuations in market interest rates, declining in value as interest rates rise. If interest rates decrease, as had been the case during 1995, the market value of loans and mortgage-backed securities generally will increase causing the level of prepayments to increase. Except for $8.4 million invested by Webster at the holding company level at December 31, 1995 in the common stock of certain entities, Webster's investments, directly and through the Bank, were investments of the type permitted federally chartered savings institutions. Webster's investment portfolio is managed by its Treasurer in accordance with a written investment policy approved by the Board of Directors. A report on investment activities is presented to the Board of Directors monthly.

The following table sets forth Webster's interest-bearing deposits and the composition of its securities portfolio at the dates indicated.

	At December 31,					
	1995		1994		1993	
	Book Value	% of Port-folio	Book Value	% of Port-folio	Book Value	% of Port-folio
	(Dollars in thousands)					
Interest-bearing Deposit	$26,017	100.0%	$54,318	100.0%	$21,414	100.0%
Trading Securities:						
Mortgage Backed Securities:						
GNMA	14,766	1.4%	13,706	1.7%	31,769	4.7%
Collateralized Mortgage Obligations	29,838	2.9	9,311	1.1	17,906	2.6
Equity Securities	--	--	78	0.0	263	0.0
	44,604	4.3	23,095	2.8	49,938	7.3
Available for Sale Portfolio:						
U.S. Treasury Notes:						
Matures within 1 year	1,000	0.1	6,416	0.8	2,163	0.3
Matures over 1 within 5 years	--	--	7,530	0.9	--	--
U.S. Government Agency:						
Matures within 1 year	--	--	100	0.0	5,002	0.7
Matures over 1 within 5 years	12,901	1.2	33,480	4.0	53,809	7.9
Corporate Bonds and Notes:						
Matures over 1 within 5 years	23,005	2.2	--	--	--	--
Matures over 5 through 10 years	2,737	0.2	2,985	0.4	5	0.0
Matures over 10 years	--	--	--	--	3,222	0.5
Mutual Funds	34,077	3.2	20,146	2.4	32,459	4.8
Equity Securities:						
Stock in Federal Home Loan Bank of Boston	30,039	2.9	26,269	3.2	15,897	2.3
Other Equity Securities	9,195	0.9	13,619	1.6	7,799	1.1
Mortgage Backed Securities:						
FNMA	139,860	13.4	11,316	1.4	--	--
FHLMC	62,572	6.0	--	--	--	--
GNMA	20,443	2.0	--	--	--	--
Collateralized Mortgage Obligations	155,321	14.9	57,121	6.9	63,369	9.3
Unamortized Hedge	816	0.1	--	--	--	--
Unrealized Securities Gains (Losses), Net	6,122	0.6	(3,768)	(0.5)	207	0.0
	498,000	47.7	175,214	21.1	183,932	26.9
Held to Maturity Portfolio:						
U.S. Treasury notes:						
Matures within 1 year	1,577	0.2	3,318	0.4	6,314	0.9
Matures over 1 within 5 years	8,262	0.8	19,567	2.4	25,278	3.7
U.S. Government Agency:						
Matures within 1 year	1,003	0.1	--	--	--	--
Matures over 1 within 5 years	39,868	3.8	61,822	7.5	2,702	0.4
Matures over 5 through 10 years	999	0.1	1,000	0.1	699	0.1
Corporate Bonds and Notes:						
Matures within 1 year	--	--	702	0.1	1,110	0.2
Matures over 1 within 5 years	2,555	0.2	2,564	0.3	3,379	0.5
Matures over 5 through 10 years	330	0.0	418	0.1	363	0.1
Other	--	--	--	--	3,739	0.5
Mortgage Backed Securities:						
FHLMC	42,877	4.1	87,650	10.6	75,875	11.1
FNMA	31,785	3.0	167,254	20.2	24,541	3.6
GNMA	1,622	0.2	1,919	0.2	2,496	0.4
Collateralized Mortgage Obligations	370,762	35.5	283,861	34.2	301,403	44.2
Other Mortgage Backed Securities	308	0.0	374	0.0	617	0.1
	501,948	48.0	630,449	76.1	448,516	65.8
Total	1,044,640	100.0%	828,758	100.0%	682,386	100.0%

The average remaining life of the securities portfolio, exclusive of equity securities with no maturity, is 14.1 and 15.1 years at December 31, 1995 and 1994, respectively. Although the stated final maturity of these obligations are long-term, the weighted average life generally is much shorter due to prepayments of principal.

The following table sets forth the contractual maturities of Webster's securities and mortgage-backed securities at December 31, 1995 and the weighted average yields of such securities.

	Due Within One Year		Due After One, But Within Five Years		Due After Five, But Within 10 Years		Due After 10 Years	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
	(Dollars in thousands)							
Interest-Bearing Deposits.....	$ 26,017	5.69%	$ --	-- %	$ --	--%	$ --	-- %
Trading Portfolio:								
Mortgaged-Backed Securities	--	--	--	--	--	--	44,604	6.80
Available For Sale Portfolio:								
U.S. Government Agency.....	--	--	12,522	5.41	--	--	--	--
Mutual Funds.	--	--	--	--	--	--	33,947	--
Equity Securities (a)......	--	--	1,590	7.05	--	--	10,340	--
Corporate Bonds and Notes	23,000	4.51	5	5.00	2,730	6.22	--	--
U.S. Treasury Notes........	1,000	4.63	--	--	--	--	--	--
Mortgaged-Backed Securities	--	--	816	--	--	--	382,099	6.93
Held to Maturity Portfolio:								
U.S. Treasury Notes	1,577	4.97	8,262	6.45	--	--	--	--
U.S. Government Agencies...	1,003	8.10	39,868	5.89	999	6.32		
Corporate Bonds and Notes	--	--	2,555	6.60	330	6.96		
FHL Bank Stock................	--	--	--	--	--	--	30,039	6.70
Mortgage-Backed Securities	--	--	20,961	6.18	11,219	6.48	415,174	7.27
Totals..................	$ 52,597	5.18%	$ 86,579	5.99%	$ 15,278	6.43%	$ 916,203	6.73%

<FN>
(a) Adjusted to a fully taxable equivalent basis.
</FN>

Sources of Funds

General. Deposits, loan repayments, securities maturities as well as earnings are the primary sources of Webster's funds for use in its lending and investment activities. While scheduled loan repayments are a relatively stable source of funds, deposit flows and loan prepayments are influenced by prevailing interest rates, money market and local economic conditions. Webster also derives funds from FHL Bank advances and other borrowings.

Webster attempts to control the flow of funds in its deposit accounts according to its need for funds and the cost of alternative sources of funds. Webster controls the flow of funds primarily by the pricing of deposits, which is influenced to a large extent by competitive factors in its market area.

Deposit Activities. Webster has developed a variety of deposit programs designed to attract both short-term and long-term deposits from the general public. These deposit programs include passbook and statement savings accounts, club accounts, regular and NOW checking accounts, money market accounts and certificate accounts with short and long term maturities.

Webster gathers retail and commercial deposits through its 64 full service banking offices. In 1995, Webster introduced Check Card, a debit card that can be used at over 12 million merchant locations worldwide. Also introduced was the Webster One account, a relationship banking account that affords customers the opportunity to avoid fees, earn more on savings and simplify their bookkeeping with one combined statement when they link all of their balances with Webster. Webster relies primarily on competitive pricing policies and advertising to attract and retain deposits and also emphasizes customer service and convenience. The Bank's First Call telephone banking service provides automated customer access to account information and Webster representatives 24 hours a day, seven days a week. Additionally, customers may transfer funds, inquire about checks and ATM transactions. Its customer services include ATM's that utilize state-of-the art technology, membership in the "Yankee-24" and Cirrus ATM networks and convenient business hours of operation, including Saturday hours. Webster provides automatic loan payment features from its accounts as well as direct deposit of Social Security and other payments. Webster has not used brokers to obtain deposits, however, some residual brokered deposits have been received through acquired banks.

Webster charges fees for certain deposit account services and early withdrawal penalties on its certificate accounts. These fees offset the cost of providing additional services or are intended to offset the adverse effects of the withdrawal of funds during periods of rising interest rates.

The following table sets forth the deposit accounts of Webster in dollar amounts and as percentages of total deposits at the dates indicated.

	At December 31, 1995			1994			1993		
	Weighted average rate	Amount	% of total deposits	Weighted average rate	Amount	% of total deposits	Weighted average rate	Amount	% of total deposits
	(Dollars in thousands)								
Balance by account type:									
Demand deposits and NOW accounts.	1.18%	$ 351,189	14.6	.98%	$ 327,094	13.4%	1.01%	$ 235,123	12.0%
Regular savings..................	2.09	471,588	19.6	2.09	561,196	23.1	2.07	474,213	24.1
Money market accounts...........	4.03	87,371	3.6	4.89	125,987	5.2	3.18	95,475	4.9
Certificate accounts............	5.59	1,490,054	62.2	4.62	1,417,668	58.3	4.11	1.160,824	59.0
Total deposits...............	4.20%	$ 2,400,202	100.0%	3.56%	$ 2,431,945	100.0%	3.20%	$ 1,965,635	100.0%

Maturity information regarding Webster's deposit accounts of $100,000 or more at December 31, 1995 is shown below.

Total Deposits of $100,000 or more	Three Months or less	Over Three Months through Six Months	Over Six Months through One Year	Over One Year	% of Total Deposits
		(Dollars in thousands)			
$129,800	$33,848	$33,070	$29,964	$32,918	5.41%

Additional information concerning the deposits of Webster is included in Note 8 of the Consolidated Financial Statements contained in the annual report to shareholders and incorporated herein by reference.

Borrowings. The FHL Bank System functions in a reserve credit capacity for savings institutions and certain other home financing institutions. Members of the FHL Bank System are required to own capital stock in the FHL Bank. Members are authorized to apply for advances on the security of such stock and certain of their home mortgages and other assets (principally securities which are obligations of, or guaranteed by, the United States) provided certain creditworthiness standards have been met. See "Federal Home Loan Bank System." Under its current credit policies, the FHL Bank limits advances based on a member's assets, total borrowings and net worth.

Webster Bank uses FHL Bank advances as an alternative source of funds to deposits in order to fund its lending activities when it determines that it can profitably invest the borrowed funds over their term. At December 31, 1995, Webster Bank had outstanding FHL Bank advances of $383.1 million and other borrowings in the amount of $170.0 million, compared with FHL Bank advances of $370.7 million and other borrowings of $43.7 million at December 31, 1994.

The following table sets forth certain information as to Webster Bank's FHL Bank short-term borrowings at the dates and for the years indicated.

	At December 31, 1995	1994	1993
	(Dollars in thousands)		
Average amount outstanding during the period:			
FHL Bank short-term advances.................	$ 268,563	$ 261,133	$150,224

Amount outstanding at end of period:			
FHL Bank short-term advances.................	209,401	232,000	190,000
Highest month end balance of short-term borrowings..................................	379,713	387,887	206,472
Weighted average interest rate of short-term borrowings at end of period..................	6.09%	5.92%	3.54%
Weighted average interest rate of short-term borrowings during the period.................	6.13%	4.69%	3.58%

Reverse repurchase agreements were also transacted during 1995 as a source of short term borrowings. Webster Bank uses reverse repurchase agreements when the cost of such borrowings is favorable as compared to other funding sources. The average balance for the year and the maximum amount of outstanding reverse repurchase agreements at any month-end

during 1995 was $37.8 million and $126.9 million, respectively. The weighted-average interest rate of the reverse repurchase agreements outstanding at December 31, 1995 was 5.80%. No reverse repurchase agreements were transacted during 1994.

Equity Offering. In December 1995, Webster completed the sale of 1,249,600 shares of common stock in an underwritten public offering raising $32.1 million of additional capital, net of expenses, which was invested in the Bank to facilitate its completion of the Shawmut Transaction and to have the Bank remain well capitalized for regulatory purposes.

Bank Subsidiaries

The Bank is permitted to invest up to 2% of its assets in the stock, paid-in surplus, and unsecured obligations of subsidiary service corporations engaged in certain activities, and an additional 1% of its assets when the additional funds are used primarily for community or inner-city development or investment. In addition, since the Bank meets all applicable minimum regulatory capital requirements, it is also permitted to invest up to 50% of its regulatory capital in conforming loans to service corporations. At December 31, 1995, the Bank's direct investment in its service corporation subsidiary totaled $198,583. As of December 31, 1995, the activities of such service corporation subsidiary consisted primarily of the selling of mutual funds and annuities through a third party provider. The service corporation receives a portion of the sales commissions generated and rental income for the office space leased to the provider. The Bank also has an operating subsidiary, the primary function of which is to dispose other real estate owned.

Employees

At December 31, 1995, Webster had 714 employees (including 152 part-time employees), none of whom was represented by a collective bargaining group. Webster maintains a comprehensive employee benefit program providing, among other benefits, group medical and dental insurance, life insurance, disability insurance, a pension plan, an employee investment plan and an employee stock ownership plan. Management considers Webster's relations with its employees to be good.

Market Area And Competition

The Bank is headquartered in Waterbury, Connecticut (New Haven County) and conducts business from its home office in downtown Waterbury and 64 branch offices in Waterbury, Southbury, Ansonia, Bethany, Oxford, Cheshire, Prospect, Branford, Derby, East Haven, Hamden, Madison, Milford, Naugatuck, New Haven, North Haven, Orange and West Haven (New Haven County), Watertown (Litchfield County), Fairfield, and Shelton (Fairfield County), and Suffield, East Windsor, Bristol, Plainville, Terryville, Enfield, Windsor Locks, Berlin, East Hartford, Farmington, Glastonbury, Hartford, Manchester, New Britain, Newington, Simsbury, West Hartford, Wethersfield and Southington (Hartford County) and Cromwell and Middletown (Middlesex County). Waterbury is approximately 30 miles southwest of Hartford and is located on Route 8 midway between Torrington and the New Haven and Bridgeport metropolitan areas. Most of the Bank's depositors live, and most of the properties securing its mortgage loans are located, in the same area or the adjoining counties. The Bank's market area has a diversified economy with the workforce employed primarily in manufacturing, financial services, health care, industrial and technological companies.

The Bank faces substantial competition for deposits and loans throughout its market areas. The primary factors stressed by the Bank in competing for deposits are interest rates, personalized services, the quality and range of financial services, convenience of office locations, automated services and office hours. Competition for deposits comes primarily from other savings institutions, commercial banks, credit unions, money market funds and other investment alternatives. The primary factors in competing for loans are interest rates, loan origination fees, the quality and range of lending services and personalized service. Competition for origination of first mortgage loans comes primarily from other savings institutions, mortgage banking firms, mortgage brokers, commercial banks and insurance companies. The Bank faces competition for deposits and loans throughout its market area not only from local institutions but also from out-of-state financial institutions which have opened loan production offices or which solicit deposits in its market area.

The OTS's statement of policy on branching by federally chartered savings institutions, as recently amended, permits a federal association to branch into any state or states of the United States and its territories, except as otherwise prohibited under federal law. The OTS statement of policy expressly preempts any contrary state law. Connecticut permits interstate stock acquisitions between Connecticut depository institutions, (i.e., commercial banks, savings banks, and savings and loan associations) and depository institutions in other states that have adopted reciprocal legislation, subject to the approval of the Connecticut Banking Commissioner. Connecticut also permits out-of-state bank holding companies or savings institution companies in states which have adopted reciprocal legislation to acquire the stock of Connecticut holding companies or depository institutions. A bank holding company or savings institution holding company in a state which has adopted reciprocal legislation may charter and operate a de novo Connecticut depository institution or holding company upon the approval of the Connecticut Banking Commissioner.

Effective September 29, 1995, the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("IBBEA"), amended the Bank Holding Company Act of 1956 to permit a bank holding company to acquire a bank located in any state notwithstanding otherwise prohibitive state law if the acquisition does not result in the bank holding company controlling more than 10% of the deposits in the United States or 30% of deposits in the state in which the bank to be acquired is located (unless waived by the state). IBBEA permits individual states to establish a state concentration limit of less than 30% and restrict the acquisition of any in-state bank that has been in existence for less than five years. Effective June 1, 1997, IBBEA will permit an adequately capitalized bank to merge with a bank in another state and operate the target bank's offices as branches, subject to similar national (10%) and state (30%) deposit concentration limits and certain other conditions, if the state in which the target bank is located does not enact legislation between September 29, 1994 and June 1, 1997 to prohibit interstate merger transactions. IBBEA also will permit a bank subsidiary of a bank holding company to act as agent for other depository institutions owned by the same holding company for certain deposit and loan functions effective as of September 29, 1995. The foregoing provisions are expected to further increase competition within the Corporation's existing market area.

Holding Company Regulation

General. Under the Home Owners' Loan Act, as amended (the "HOLA"), the OTS has regulatory jurisdiction over savings and loan holding companies. Webster, as a savings and loan holding company within the meaning of the HOLA, is subject to regulation, supervision and examination by the OTS.

The HOLA prohibits a savings and loan holding company such as Webster, directly or indirectly, or through one or more subsidiaries, from (I) acquiring control of, or acquiring by merger or purchases of assets, another savings institution or savings and loan holding company without the prior written approval of the OTS; (ii) acquiring more than five percent of the issued and outstanding shares of voting stock of another savings institution or savings and loan holding company, subject to certain limited exceptions; or (iii) acquiring and retaining control of a financial institution that does not have SAIF or BIF insurance of accounts. The HOLA allows the OTS to approve transactions that result in the creation of multiple savings and loan holding companies controlling savings institutions located in more than one state in both supervisory and non-supervisory transactions, subject to the requirement that, in non-supervisory transactions, the law of the state in which the savings institution to be acquired is located must specifically authorize the proposed acquisition, by language to that effect and not merely by implication. Restrictions relating to service as an officer or director of an unaffiliated holding company or savings institution also are applicable to the directors and officers of the Corporation and the Bank under the Depository Institutions Management Interlocks Act, as amended. At the time of First Federal's conversion to stock form, Webster agreed to maintain the capital of Webster Bank (as the predecessor to the Bank), at a level consistent with regulatory requirements.

On November 1, 1995, Webster (which since March 3, 1994 had been a multiple savings and loan holding company) became a unitary savings and loan holding company upon the consummation of the merger of First Federal and Bristol, renamed as Webster Bank. As a unitary savings and loan holding company, Webster is generally not restricted under existing laws as to the types of business activities in which it may engage, provided that the Bank continues to qualify as a qualified thrift lender. See "Bank Regulation -- Qualified Thrift Lender Requirement."

If in the future Webster again becomes a multiple savings and loan holding company, the Corporation and its subsidiaries would be prohibited from engaging in any activities other than (I) furnishing or providing management services for its savings institution subsidiaries; (ii) conducting an insurance agency or escrow business; (iii) holding, managing or liquidating assets owned or acquired from the institution; (iv) holding or managing properties used or occupied by its savings institution subsidiaries; (v) acting as trustee under deeds of trust; (vi) engaging in any other activity in which multiple savings and loan holding companies were authorized by regulation to engage as of March 5, 1987; and (vii) engaging in any activity that the Federal Federal Reserve by regulation has determined to be permissible for bank holding companies under section 4(C) of the Bank Holding Company Act of 1956, as amended (the "BHCA"), unless the OTS, by regulation, prohibits or limits any such activity for savings and loan holding companies.

The activities in which multiple savings and loan holding companies were authorized by regulation to engage in as of March 5, 1987 consisted of activities that generally are similar to those permitted for service corporations of federally chartered savings institutions and include, among other things, various types of lending activities, furnishing or performing clerical, accounting and internal audit services primarily for affiliates, certain real estate development and leasing activities and underwriting credit life or credit health and accident insurance in connection with extensions of credit by institutions or their affiliates.

The activities that the Federal Reserve by regulation has permitted for bank holding companies under section 4(C) of the BHCA generally consist of those activities that the Federal Reserve has found to be so closely related to banking or managing or controlling banks as to be a proper incident thereto, and include, among other things, various lending activities, certain real and personal property leasing activities, certain securities brokerage activities, acting as an investment or financial advisor subject to certain conditions, and providing management consulting to depository institutions subject to certain conditions. OTS regulations do not limit the extent to which savings and loan holding companies and their non-savings institution subsidiaries may engage in activities

permitted for bank holding companies pursuant to section 4(c)(8) of the BHCA, although prior OTS approval is required to commence any such activity.

Federal Savings Bank Regulation

General. Webster Bank, as a federally chartered savings bank, is subject to supervision and regulation by the OTS. OTS regulations generally provide that savings institutions must be examined no less frequently than every 12 months, unless the savings institution (I) has assets of less than $250 million; (ii) is well capitalized, (iii) was found to be well-managed and its composite condition was found to be outstanding (or good, if the savings institution had total assets of not more than $100 million) during its last examination; (iv) is not subject to a formal enforcement proceeding or an order from the FDIC or another banking agency; and (v) has not undergone a change of control during the previous 12-month period, and then it must be examined no less frequently than every 18 months. The Bank also is subject to assessments by the OTS to cover the costs of such examinations.

The OTS is authorized to promulgate regulations to ensure the safe and sound operations of savings institutions and may impose various requirements and restrictions on the activities of savings institutions. The HOLA requires that all regulations and policies of the OTS for the safe and sound operations of savings institutions are to be no less stringent than those established by the Office of the Comptroller of Currency (the "OCC") for national banks. The Bank also is subject to regulation, supervision and examination by the FDIC, in its capacity as administrator of the BIF and the SAIF, to ensure the safety and soundness of both the BIF and the SAIF. See "Insurance of Deposits" below. The OTS and FDIC may revalue the assets of the Bank based upon appraisals, and require establishment of specific reserves in amounts equal to the difference between such revaluation and the book value of the assets. The OTS and FDIC also are authorized to promulgate regulations to ensure the safe and sound operations of savings institutions and may impose various requirements and restrictions on the activities of insured depository institutions subject to their jurisdiction.

Capital Requirements. OTS regulations require that savings institutions maintain (I) "core capital" in an amount of not less than 3% of total assets, (ii) "tangible capital" in an amount not less than 1.5% of total assets, and (iii) a level of risk-based capital equal to 8% of risk-weighted assets. Capital standards established by the OTS for savings institutions must generally be no less stringent than those applicable to national banks. Under OTS regulations, the term "core capital" generally includes common stockholders' equity, noncumulative perpetual preferred stock and related surplus, and minority interests in the equity accounts of consolidated subsidiaries less unidentifiable intangible assets (other than certain amounts of supervisory goodwill) and certain investments in subsidiaries plus 90% of the fair market value of readily marketable purchased mortgage servicing rights ("PMSRs"), subject to certain conditions. "Tangible capital" generally is defined as core capital minus intangible assets and certain investments in subsidiaries, except

PMSRs.

In determining total risk-weighted assets for purposes of the risk-based requirement, (I) each off-balance sheet asset must be converted to its on-balance sheet credit equivalent amount by multiplying the face amount of each such item by a credit conversion factor ranging from 0% to 100% (depending upon the nature of the asset), (ii) the credit equivalent amount of each off-balance sheet asset and each on-balance sheet asset must be multiplied by a risk factor ranging from 0% to 200% (again depending upon the nature of the asset) and (iii) the resulting amounts are added together and constitute total risk-weighted assets. "Total capital," for purposes of the risk-based capital requirement, equals the sum of core capital plus supplementary capital (which, as defined, includes the sum of, among other items, perpetual preferred stock not counted as core capital, limited life preferred stock, subordinated debt, and general loan and lease loss allowances up to

1.25% of risk-weighted assets) less certain deductions. The amount of supplementary capital that may be counted towards satisfaction of the total capital requirement may not exceed 100% of core capital, and OTS regulations require the maintenance of a minimum ratio of core capital to total risk-weighted assets of 4%.

OTS regulations were amended to include an interest-rate risk component to the risk- based capital requirement. However, the OTS has delayed implementation of this amended regulation indefinitely. Under the regulation, as amended, an institution would be considered to have excess interest rate-risk if, based upon a 200 basis point change in market interest rates, the market value of an institution's capital changes by more than 2%. This new requirement is not expected to have any material effect on the ability of the Bank to meet the risk-based capital requirement.

Capital requirements higher than the generally applicable minimum requirement may be established for a particular savings institution if the OTS determines that the institution's capital was or may become inadequate in view of its particular circumstances.

As of December 31, 1995, the Bank had a ratio of tier 1 or core capital to adjusted total assets of 5.99%; a ratio of tier 1 or core capital to total risk-weighted assets of 12.04%; and a ratio of total capital to total risk-weighted assets of 13.30%. Webster's consolidated shareholders' equity at December 31, 1995 was $210 million or 6.5% of total assets. Under the OTS's prompt corrective action regulations, as shown above, at December 31, 1995, the Bank was classified as well capitalized based on its capital ratios.

Prompt Corrective Action. Pursuant to the FDIA, the federal banking agencies established for each capital measure levels at which an insured institution is deemed to be well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Federal banking agencies are required to take prompt corrective action with respect to insured institutions that fall below minimum capital standards. The degree of required regulatory intervention for institutions that are not at least adequately capitalized is tied to an insured institution's capital category, with increasing scrutiny and more stringent restrictions, including the appointment of a receiver, being imposed as an institution's capital declines. An insured institution that falls below the minimum capital standards must submit a capital restoration plan and could be subject to operating restrictions.

The prompt corrective action regulations are generally based upon an institution's capital ratios. Under the prompt corrective action regulation adopted by the OTS, a savings institution will be considered to be (I) "well capitalized" if the institution has a total risk-based capital ratio of 10% or greater, a Tier 1 or core capital to risk-weighted assets ratio of 6% or greater, and a leverage ratio of 5% or greater (provided that the institution is not subject to an order, written agreement, capital directive or prompt corrective action directive to meet and maintain a specific capital level for any capital measure); (ii) "adequately capitalized" if the institution has a total risk- based capital ratio of 8% or greater, a Tier 1 or core capital to risk-weighted assets ratio of 4% or greater, and a leverage ratio of 4% or greater (3% or greater if the institution is rated composite 1 in its most recent report of examination); (iii) "undercapitalized" if the institution has a total risk-based capital ratio that is less than 8%, a Tier 1 or core capital to risk-weighted assets ratio of less than 4%, or a leverage ratio that is less than 4% (3% if the institution is rated composite 1 in its most recent report of examination); (iv) "significantly undercapitalized" if the institution has a total risk- based capital ratio that is less than 6%, a Tier 1 or core capital to risk-weighted assets ratio that is less than 3%, or a leverage ratio that is less than 3%; and (v) "critically undercapitalized" if the institution has a ratio of tangible equity to total assets that is less than or equal to 2%. The prompt corrective action regulations also permit the OTS to determine that a savings institution should be classified in a lower category based on other information, such as the institution's examination report, after written notice.

An institution that is not well capitalized is prohibited from accepting deposits through a deposit broker. An adequately capitalized institution , however, can apply for a waiver to accept brokered deposits. Institutions that receive a waiver are subject to limits on the rates of interest they may pay on brokered deposits. Undercapitalized institutions are prohibited from offering rates of interest on insured deposits that significantly exceed the prevailing rate in their normal market area or the area in which the deposits would otherwise be accepted. Institutions classified as undercapitalized are precluded from increasing their assets, acquiring other institutions, establishing additional branches, or engaging in new lines of business without an approved capital plan and an agency determination that such actions are consistent with the plan. Institutions that are significantly undercapitalized may be required to take one or more of the following actions: (I) raise additional capital so that the institution will be adequately capitalized; (ii) be acquired by, or combined with, another institution if grounds exist for appointing a receiver; (iii) refrain from affiliate transactions; (iv) limit the amount of interest paid on deposits to the prevailing rates of interest in the region where the institution is located; (v) further restrict asset growth; (vi) hold a new election for directors, dismiss any director or senior executive officer who held office for more than 180 days immediately before the institution became undercapitalized, or employ qualified senior executive officers; (vii) stop accepting deposits from correspondent depository institutions; and (viii) divest or liquidate any subsidiary that the OTS determines is a significant risk to the institution.

Critically undercapitalized institutions are subject to additional restrictions. No later than 90 days after a savings institution becomes critically undercapitalized, the Director of the OTS is required to appoint a conservator or receiver for the institution, unless the Director determines, with the concurrence of the FDIC, that other action would better achieve the purpose of prompt corrective action. The Director also must make periodic redeterminations that the alternative action continues to be justified no less frequently than every 90 days. The Director is required to appoint a receiver if the institution remains critically undercapitalized nine months later, unless the institution is in compliance with an approved capital plan and the OTS and FDIC certify that the institution is viable.

Any company that controls an "undercapitalized" institution must guarantee that the institution will comply with the plan and provide appropriate assurances of performance in connection with the submission of a capital restoration plan by the depository institution. The aggregate liability of any such controlling company under such guaranty is limited to the lesser of (I) 5% of the institution's assets at the time it became undercapitalized; or (ii) the amount necessary to bring the institution into capital compliance at the time the institution fails to comply with the terms of its capital plan.

Safety and Soundness Guidelines. The federal banking agencies have prescribed safety and soundness guidelines relating to (I) internal controls, information systems, and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate exposure; (v) asset growth; and (vi) compensation and benefit standards for officers, directors, employees and principal shareholders. Such guidelines impose standards based upon an institution's asset quality and earnings. The guidelines are intended to set out standards that the agencies will use to identify and address problems at institutions before capital becomes impaired. Institutions are required to establish and maintain a system to identify problem assets and prevent deterioration of those assets in a manner commensurate with its size and the nature and scope of their operations. Furthermore, institutions must establish and maintain a system to evaluate and monitor earnings and ensure that earnings are sufficient to maintain adequate capital and reserves in a manner commensurate with their size and the nature and scope of its operation.

Under the guidelines, an institution not meeting one or more of the safety and soundness guidelines is required to file a compliance plan with the appropriate federal banking agency. In the event that an institution, such as the Bank, were to fail to submit an acceptable compliance plan or fail in any material respect to implement an accepted compliance plan within the

time allowed by the agency, the institution would be required to correct the deficiency and the appropriate federal agency would also be authorized to: (I) restrict asset growth; (2) require the institution to increase its ratio of tangible equity to assets; (3) restrict the rates of interest that the institution may pay; or (4) take any other action that would better carry out the purpose of the corrective action. The Bank was in compliance with all such guidelines as of December 31, 1995.

Qualified Thrift Lender Requirement. The Bank is deemed to be a "qualified thrift lender" ("QTL") as long as its "qualified thrift investments" continue to equal or exceed 65% of its "portfolio assets" on a monthly average basis in nine out of every 12 months. Qualified thrift investments generally consist of (I) various housing related loans and investments (such as residential construction and mortgage loans, home improvement loans, mobile home loans, home equity loans and mortgage-backed securities), (ii) certain obligations of the FDIC (including the Federal Savings and Loan Insurance Corporation and the Resolution Trust Corporation), and (iii) shares of stock issued by any FHLB, the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Corporation. In addition, the following assets may be categorized as qualified thrift investments in an amount not to exceed 20% in the aggregate of portfolio assets: (I) 50% of the dollar amount of residential mortgage loans originated and sold within 90 days of origination; (ii) investments in securities of a service corporation that derives at least 80% of its income from residential housing finance; (iii) 200% of loans and investments made to acquire, develop or construct starter homes or homes in credit needy areas, subject to certain conditions; (iv) loans for the purchase or construction of churches, schools, nursing homes and hospitals; and (v) consumer loans (in an amount up to 20% of portfolio assets). For purposes of the QTL test, the term "portfolio assets" means the savings institution's total assets minus goodwill and other intangible assets, the value of property used by the savings institution to conduct its business, and liquid assets held by the savings institution in an amount up to 20% of its total assets.

OTS regulations provide that any savings institution that fails to meet the definition of a QTL must either convert to a bank charter, other than a savings bank charter, or limit its future investments and activities (including branching and payments of dividends) to those permitted for both savings institutions and national banks. Further, within one year of the loss of QTL status, a holding company of a savings institution that does not convert to a bank charter must register as a bank holding company and will be subject to all statutes applicable to bank holding companies. In order for the Bank to exercise the powers granted to federally chartered savings institutions and maintain full access to Federal Home Loan Bank advances, The Bank must continue to meet the definition of a QTL. Webster Bank qualifies as a QTL under the current test.

Insurance of Deposits. Deposit accounts at the Bank are insured by the FDIC up to a maximum of $100,000 per insured depositor. The Bank is a BIF member institution with approximately 63% of its deposits assessed at BIF premium rates and approximately 37% at SAIF rates as of December 31, 1995. Deposit insurance premiums are paid to the FDIC on a quarterly basis.

The FDIC has established a risk-based deposit insurance premium assessment system, pursuant to which BIF and SAIF member institutions both pay deposit insurance assessment rates, depending on the risk classification assigned to each institution. The FDIC places each institution into one of nine assessment risk classifications based on the institution's capital and supervisory classification.

Deposit insurance premiums for the BIF and the SAIF are set to facilitate each fund achieving its designated reserve ratio. In August 1995, the FDIC determined that the BIF had achieved its designated reserve ratio and lowered BIF deposit insurance premium rates for all but the riskiest institutions. Effective January 1, 1996, BIF deposit insurance premiums for well capitalized banks were further reduced to the statutory minimum of $2,000 per institution per year. Because the SAIF remains significantly below its designated reserve ratio, SAIF deposit

insurance premiums were not reduced and remain at 0.23% to 0.31% of deposits on an annual basis, based upon an institution's supervisory evaluations and capital levels.

The current financial condition of the SAIF has resulted in proposed legislation to recapitalize the SAIF through a one-time special assessment (held by an institution of approximately 80 cents to 85 cents per $100 of assessable SAIF deposits as of March 31, 1995, subject to certain limited adjustments). If the special assessment is enacted, the one-time assessment would apply to approximately $882 million of assessable SAIF deposits at The Bank. Certain adjustments to the special assessment applicable to the Bank have been proposed that will reduce the amount of the special assessment by 20 percent. The Bank qualifies for a proposed adjustment, because on June 30, 1995, less than 50 percent of The Bank's deposits were insured by the SAIF. After the special assessment, if SAIF achieves its designated reserve ratio, SAIF premium rates would then become the same as BIF rates. Proposed legislation also contemplates a merger of the SAIF into the BIF, which would require separate legislation. The Bank is unable to predict whether the proposed legislation will be enacted or the amount or the precise retroactive date of any one-time assessment or the deposit insurance premium rates that would ultimately apply to assessable SAIF deposits.

Legislation also has been proposed that could eliminate the federal savings institution charter. If such legislation is enacted, The Bank would be required to convert its federal savings bank charter to either a national bank charter or to a Connecticut depository institution charter. Pending legislation may provide relief as to recapture of the bad debt deduction for federal tax purposes that otherwise would be applicable if The Bank converted its savings bank charter to a commercial bank charter, provided that The Bank meets a proposed residential loan origination requirement. Pending legislation also may result in Webster becoming regulated at the holding company level by the Federal Reserve rather than by the OTS. Regulation by the Federal

Reserve could subject Webster to capital requirements that are not currently applicable to Webster as a holding company under OTS regulation and may result in statutory limitations on the type of business activities in which Webster may engage at the holding company level, which business activities currently are not restricted. Webster is unable to predict whether such legislation will be enacted or, if enacted, whether it will contain relief as to bad debt deductions previously taken.

FDIC insurance of deposits may be terminated by the FDIC, after notice and hearing, upon a finding by the FDIC that the insured bank has engaged in unsafe or unsound practices, or is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or condition imposed by, or written agreement with, the FDIC. Additionally, if insurance termination proceedings are initiated against a bank, the FDIC may temporarily suspend insurance on new deposits received by the institution under certain circumstances.

Capital Distributions. An OTS rule imposes limitations on all capital distributions by savings institutions (including dividends, stock repurchases and cash-out mergers). Under the current rule, a savings institution is classified as a tier 1 institution, a tier 2 institution or a tier 3 institution, depending on its level of regulatory capital both before and after giving effect to a proposed capital distribution. Under a proposed rule, the OTS would conform its three classifications to the five capital classifications set forth under the prompt corrective action regulations. Under such proposal, institutions that are at least adequately capitalized would still be required to provide prior notice. Well capitalized institutions could make capital distributions without prior regulatory approval in specified amounts in any calendar year.

A tier 1 institution (i.e., one that both before and after a proposed capital distribution has net capital equal to or in excess of its capital requirements may, subject to any otherwise applicable statutory or regulatory requirements or agreements entered into with the regulators, make capital distributions in any calendar year up to 100% of its net income to date during the calendar

year plus the amount that would reduce by one-half its "surplus capital ratio" (ie., the percentage by which the institution's capital-to-assets ratio exceeds the ratio of its fully phased-in capital requirement to its assets) at the beginning of the calendar year. No regulatory approval of the capital distribution is required, but prior notice must be given to the OTS.

A tier 2 institution (ie., one that both before and after a proposed capital distribution has net capital equal to its then-applicable minimum capital requirement but which fails to meet its fully phased-in capital requirement either before or after the distribution) may, after prior notice but without the approval of the OTS, make capital distributions of up to: (1) 75% of its net income over the most recent four quarter period if it satisfies the risk-based capital standard applicable to it as of January 1, 1993 computed based on its current portfolio; or (ii) 50% of its net income over the most recent four quarter period if it satisfies the risk-based capital standard applicable to it as of January 1, 1991 computed based on its current portfolio. In calculating an institution's permissible percentage of capital distributions, previous distributions made during the previous four quarter period must be included. Tier 2 institutions may not make capital distributions in excess of the above limitations without the prior written approval of the OTS.

A tier 3 institution (ie., one that either before or after a proposed capital distribution fails to meet As then-applicable minimum capital requirement) may not make any capital distributions without the prior written approval of the OTS. In addition, the OTS may prohibit a proposed capital distribution, which would otherwise be permitted by the regulation, if the OTS determines that such distribution would constitute an unsafe or unsound practice. Also, an institution meeting the tier 1 criteria which has been notified that it needs more than normal supervision will be treated as a tier 2 or tier 3 institution, unless the OTS deems otherwise.

The FDIA further prohibits an insured depository institution from declaring any dividend, making any other capital distribution, or paying a management fee to a controlling person if, following the distribution or payment, the institution would be classified as undercapitalized, significantly undercapitalized or critically undercapitalized. For purposes of the OTS's capital distribution regulation, The Bank was treated as a tier 1 institution and had approximately $85.1 million available under such regulation for the payment of dividends as of December 31, 1995.

Community Reinvestment Act. Under the Community Reinvestment Act (the "CRA") and the implementing OTS regulations, which were amended in 1995 to provide for a performancebased evaluation system, a savings institution has a continuing and affirmative obligation to help meet the credit needs of its local communities, including low and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. The CRA requires the board of directors of savings institutions, such as the Bank, to adopt a CRA statement for each assessment area that, among other things, describes its efforts to help meet community credit needs and the specific types of credit that the institution is willing to extend. In connection with its examination of a savings institution, the OTS is required to take into account the institution's record of meeting the credit needs of its community in determining whether to grant approval for certain types of applications including mergers and acquisitions. The Bank's current CRA rating is "outstanding".

Liquidity. Federal savings banks, such as the Bank, are required to maintain an average daily balance of liquid assets (including cash, certain time deposits, certain bankers' acceptances, certain corporate debt securities and highly rated commercial paper, securities of certain mutual funds and specified United States government, state or federal agency obligations) equal to a monthly average of not less than a specified percentage of the average daily balance of the savings institution's net withdrawable deposits plus short-term borrowings under OTS regulations. This liquidity requirement may be changed from time to time by the OTS to any amount within the range of 4% to 10% depending upon economic' conditions and the deposit flows of member institutions, and currently is 5.0%. OTS regulations also require each savings institution to maintain an average daily balance of short-term liquid assets at a specified percentage (currently

1%) of the total of the average daily balance of its net withdrawable deposits and short-term borrowings. At December 31, 1995, the Bank was in compliance with these liquidity requirements.

Loans to One Borrower Limitations. Savings institutions must generally comply with the loans- to-one-borrower limitations applicable to national banks pursuant to HOLA. National banks generally may not make loans to a single borrower in excess of 15% of their unimpaired capital and unimpaired surplus, plus an additional 10% of unimpaired capital and unimpaired surplus for loans secured by readily marketable collateral (which, as defined, does not include real property). The HOLA provides exceptions from the generally applicable national bank limits, under which a savings institution may make loans to one borrower in excess of such limits under one of the following circumstances: (I) for any purpose, in any amount not to exceed $500,000; (ii) to develop domestic residential housing units, in an amount not to exceed the lesser of $30 million or 30% of the savings institution's unimpaired capital and unimpaired surplus, provided other conditions are satisfied; or (iii) to finance the sale of real property which it owns as a result of foreclosure, in an amount not to exceed 50% of the savings institution's unimpaired capital and unimpaired surplus. Pursuant to its authority to impose more stringent requirements on savings institutions to protect safety and soundness, the OTS has promulgated a rule limiting loans to one borrower to finance the sale of real property acquired in satisfaction of debts to 15% of unimpaired capital and surplus. The rule provides that purchase money mortgages received by a savings institution to finance the sale of such real property do not constitute "loans" (provided the savings institution is not placed in a more detrimental position holding the note than holding the real estate) and, therefore, are not subject to the loans-to-one-borrower limitation. At December 31, 1995, under the lending limits established by HOLA, the maximum amount that the Bank could lend to one borrower was, in general, limited to $ 28.9 million.

Commercial Loans. The Bank is authorized to invest in loans for commercial, corporate, business or agricultural purposes in an amount not to exceed 10% of its total assets under the HOLA. At December 31, 1995, The Bank's commercial loan portfolio was within the amount permitted by this limitation.

Commercial Real Property Loans. The aggregate amount of commercial mortgage loans that a federal savings institution may make may not be in excess of 400% of the savings institution's capital pursuant to the HOLA. The revised limit, however, does not require the divestiture of loans made prior to enactment of the FIRREA in 1989. The OTS has the authority to grant exceptions to the limit if the additional amount will not pose a significant risk to the safe or sound operation of the savings institution involved, and is consistent with prudent operating practices. At December 31, 1995, the Bank's commercial mortgage loan portfolio was within the amount permitted by this limitation.

Limitation on Certain Investments. As a federally chartered savings institution, the Bank is generally prohibited from investing directly in equity securities and real estate (other than that used for offices and related facilities or acquired through, or in lieu of, foreclosure or on which a contract purchaser has defaulted). In addition, the HOLA limits the aggregate investment by savings institutions in certain investments, including service corporations. At December 31, 1995, the Bank was in compliance with such requirements and limitations.

Activities of Subsidiaries. A savings institution seeking to establish a new subsidiary, acquire control of an existing company (after which it would be a subsidiary), or conduct a new activity through a subsidiary, must provide 30 days prior notice to the FDIC and to the OTS and conduct any activities of the subsidiary in accordance with regulations and orders of the OTS. Moreover, the OTS has the power to require a savings institution to divest any subsidiary or terminate any activity conducted by a subsidiary that the OTS determines is a serious threat to the financial safety, soundness or stability of such savings institution or is otherwise inconsistent with sound banking practices.

Transactions with Affiliates Restrictions. Transactions engaged in by a savings institution or one of its subsidiaries with affiliates of the savings institution generally are subject to the affiliate transaction restrictions contained in Sections 23A and 23B of the Federal Reserve Act in the same manner and to the same extent as such restrictions apply to transactions engaged in by a member bank or one of its subsidiaries with affiliates -of the member bank. Section 23A of the Federal Reserve Act imposes both quantitative and qualitative restrictions on transactions engaged in by a member bank or one of its subsidiaries with an affiliate, while Section 23B of the Federal Reserve Act requires, among other things that all transactions with affiliates be on terms substantially the same, and at least as favorable to the member bank or its subsidiary, as the terms that would apply to, or would be offered in, a comparable transaction with an unaffiliated party. Exemptions from, and waivers of, the provisions of Sections 23A and 23B of the Federal Reserve Act may be granted only by the Federal Reserve. The HOLA and OTS regulations promulgated thereunder contain other restrictions on loans and extension of credit to affiliates, and the Director of the OTS is authorized to impose additional restrictions on transactions with affiliates if the Director determines such restrictions are necessary to ensure the safety and soundness of any savings institution. Current OTS regulations are similar to Sections 23A and 23B of the Federal Reserve Act.

Regulatory Revision., Each federal banking agency is required to implement a comprehensive review of its regulations to eliminate duplicative, unduly burdensome and unnecessary regulations in accordance with the Community Development and Regulatory Improvement Act of 1994 (the "Community Development Act"), The OTS has announced that it will review each of Rs regulations to determine if: (1) the regulation is current; (ii) the regulation could be eliminated without endangering safety and soundness, diminishing consumer protection or violating statutory requirements; (iii) the regulation's subject matter is more suited for a policy statement or handbook guidance; (iv) the regulation is consistent with the regulation of the other federal banking agencies; and (v) the regulation is easily understood. Based upon the first part of this review, in late 1995, the OTS formally deleted eight percent of its regulations including outdated, duplicative and otherwise necessary regulations.

The OTS also issued a notice of proposed rulemaking concerning a comprehensive revision to its regulations and policy statements concerning lending and investments. Under the proposal certain loan documentation requirements will be replaced by general safety and soundness standards, commercial loans made by a service corporation will be exempted from an institution's overall ten percent limit on commercial loans; an institution will be able to use its own cost-of-funds index in structuring adjustable rate mortgages, and the 35% of assets limitation on credit card lending will be eliminated. The OTS has announced that it expects to issue proposals that will reduce the burdens imposed by its regulations governing, among other things, subsidiaries, corporate governance and preemption. Similarly, the FDIC has issued a notice of opportunity for comment with respect to its review of all of its regulations and written policies.

Federal Reserve System

Savings institutions are required to maintain nonearning reserves against their transaction accounts (primarily NOW and regular checking accounts) and nonpersonal time deposits (those which are transferable or held by a person other than a natural person) with an original maturity of less than 1-1/2 years under certain Federal Reserve regulation. At December 31, 1995, The Bank was in compliance with these requirements. These reserves may be used to satisfy liquidity requirements imposed by the OTS. Because required reserves must be maintained in the form of vault cash or a noninterest-bearing account at a Federal Reserve bank, the effect of this reserve requirement is to reduce the amount of the institution's interest-earning assets.

The Bank also has the authority to borrow from the Federal Reserve "discount window," if it has exhausted all FHL Bank sources. Federal Reserve Banks are prohibited from

providing a discount window advance to an "undercapitalized" institution for more than 60 days in a 120-day period, except in limited circumstances.

Federal Home Loan Bank System

The Federal Home Loan Bank System consists of 12 regional FHL Banks, each subject to supervision and regulation by the Federal Housing Finance Board (the "FHFB"). The FHL Banks provide a central credit facility for member savings institutions. The Bank, as a member of the FHL Bank of Boston, is required to own shares of capital stock in that FHL Bank in an amount at least equal to one percent of the aggregate principal amount of its unpaid residential mortgage loans, home purchase contracts and similar obligations at the beginning of each year, or 1/20 of its advances (borrowings) from the FHL Bank, whichever is greater. The Bank was in compliance with this requirement. The maximum amount that the FHL Bank of Boston will advance fluctuates from time to time in accordance with changes in policies of the FHFB and the FHL Bank of Boston, and the maximum amount generally is reduced by borrowings from any other source. In addition, the amount of FHL Bank advances that a savings institution may obtain will be restricted in the event the institution fails to constitute a QTL. See "Federal Savings Bank Regulation -- Qualified Thrift Lender Requirement."

The FHFB has promulgated regulations that establish standards of community service or support as a basis for FHL Bank members to maintain continued access to long-term advances. Pursuant to the regulations, each FHL Bank member is required to provide a Community Support Statement ("CSS") to its FHLB for review on a schedule established by the FHFB. The CCS is to include information regarding the members Community Reinvestment Act evaluation, evidence of assistance to first-time home buyers, documentation of any judgments based on violation of the Fair Housing and Equal Credit Opportunity Acts, and evidence of community support. The FHFB reviews certain of the statements and will require a Community Support Action Plan ("CSAP") if it disapproves of the CSS. If the member has failed to submit a CSS, submits a CSAP that is not approved, or fails to substantially meet its CSAP within one year, the FHFB may restrict the members access to long-term advances.

Taxation

Federal. Webster, on behalf of itself and its subsidiaries, files a calendar tax year consolidated federal income tax return. Webster and its subsidiaries report their income and expenses using the accrual method of accounting.

Savings institutions are generally taxed in the same manner as other corporations. Unlike other corporations, however, qualifying savings institutions that meet certain definitional tests relating to the nature of their supervision, income, assets and business operations are allowed to establish a reserve for bad debts and for each tax year are permitted to deduct additions to that reserve for losses on "qualifying real property loans" using the more favorable of the following two alternative methods: (1) a method based on the institution's actual loss experience (the "experience method") or (ii) a method based on a specified percentage of an institution's taxable income (the "percentage of taxable income method"). "Qualifying real property loans" are, in general, loans secured by interests in improved real property. The addition to the reserve for losses on nonqualifying real property loans must be computed under the experience method.

Under the percentage of taxable income method, qualifying institutions may deduct up to 8% of their taxable income after certain adjustments and subject to the limitations discussed below. The net effect of the percentage of taxable income method deduction is that the maximum effective federal income tax rate on income computed without regard to actual bad debts and certain other factors for qualifying institutions is 32.20%

The amount of the bad debt deduction that savings institutions such as the Bank may claim with respect to additions to its reserve for bad debts is subject to certain limitations. First, the percentage of taxable income or experience method deduction will be eliminated entirely, the existing reserves will be recaptured into taxable income and the institution will be permitted a deduction only for specific charge-offs, unless at least 60% of the savings institution's assets fall within certain designated categories. Second, the bad debt deduction attributable to "qualifying real property loans" cannot exceed the greater of (1) the amount deductible under the experience method or (ii) the amount which, when added to the bad debt deduction for nonqualifying loans, equals the amount by which 12% of the sum of the total deposits or withdrawable accounts at the end of the taxable year exceeds the sum of the surplus, undivided profits and reserves at the beginning of the taxable year. Third, the amount of the bad debt deduction attributable to qualifying real property loans computed using the percentage of taxable income method is permitted only to the extent that the institution's reserve for losses on qualifying real property loans at the close of the taxable year, taking into account the addition to that reserve for that taxable year, does not exceed 6% of such loans outstanding at such time. Fourth, the deduction under the percentage of taxable income method is reduced, but not below zero, by the amount of the addition to reserves for losses on nonqualifying loans for the taxable year. Finally, a savings institution that computes its tax bad debt deduction using the percentage of taxable income method and files its federal income tax return as part of a consolidated group is required to reduce proportionately its taxable income for losses attributable to activities of nonsavings institution members of the consolidated group that are "functionally related" to the savings institution member. The savings institution member is permitted, however, to proportionately increase its taxable income in subsequent years to recover any such reduction to the extent the nonsavings institution members realize income in subsequent years from their "functionally related" activities. Webster does not expect that these various restrictions will operate to limit significantly the amount of its otherwise allowable bad debt deductions in the near future.

At December 31, 1995, the Bank had tax bad debt reserves of approximately $16.4 million. To the extent that (1) the reserves for losses on qualifying real property loans established by the Bank, using the percentage of taxable income method, exceed the amount that would have been allowed under the experience method and (ii) the Bank makes distributions to its shareholder that are considered to result in withdrawals from that institution's excess bad debt reserve, then the amounts considered to be withdrawn will be included in that institution's taxable income. The amount considered to be withdrawn by a distribution will be the amount of the distribution plus the amount necessary to pay the federal income tax with respect to the withdrawal. Dividends paid out of the Bank's current or accumulated earnings and profits as calculated for federal income tax purposes, however, will not be considered to result in withdrawals from the Bank's bad debt reserves. Distributions in excess of the Bank's current and accumulated earnings and profits, distributions in redemption of stock, and distributions in partial or complete liquidation of the foregoing institutions, will be considered to result in withdrawals from the Banks bad debt reserves.

Depending on the composition of its items of income and expense, a savings institution may be subject to the alternative minimum tax. For tax years beginning after 1986, a savings institution must pay an alternative minimum tax equal to the amount (if any) by which 20% of alternative minimum taxable income ("AMTI"), as reduced by an exemption varying with AMTI, exceeds the regular tax due. AMTI equals regular taxable income increased or decreased by certain adjustments and increased by certain tax preferences, including depreciation deductions in excess of those allowable for alternative minimum tax purposes, tax-exempt interest on most private activity bonds issued after August 7, 1986 (reduced by any related interest expense disallowed for regular tax purposes), the amount of the bad debt reserve deduction claimed in excess of the deduction based on the experience method and, for tax years after 1989, 75% of the excess of adjusted current earnings over AMTI. AMTI may be reduced only up to 90% by net operating loss carryovers, but the payment of altemative minimum tax will give rise to a minimum tax credit which will be available with an indefinite carryforward period, to reduce federal income taxes of the institution in future years (but

not below the level of alternative minimum tax arising in each of the carryforward years). See also 'Bank Regulation -- Insurance of Deposits."

Webster's federal income tax returns have been examined by the Internal Revenue Service for tax years through 1990 and are currently under examination by the Internal Revenue Service for tax years 1991 through 1993.

State. State income taxation is in accordance with the corporate income tax laws of Connecticut and other states on an apportioned basis. For the State of Connecticut the Bank and its subsidiaries are required to pay taxes Linder the larger of two methods but no less than the minimum tax of $250 per entity. Method one is 11.25% (scheduled to decrease to 7.5% by 2000) of the year's taxable income (which, with certain exceptions, is equal to taxable income for federal purposes) or method two, (additional tax on capital) an amount equal to 3 and 1/10 mills per dollar on its average capital and a special rule for banks to calculate its additional tax base is an amount equal to 4% of the amount of interest or dividends credited by the Bank on savings accounts of depositors or account holders during the preceding taxable year, provided that, in determining such amount, interest or dividends credited to the savings account of a depositor or account holder are deemed to be the lesser of the actual interest or dividends credited or the interest or dividend that would have been credited if it had been computed and credited at the rate of one-eighth of 1 % per annum. In addition, a surtax was imposed in prior years equal to 20% (reduced to 10% in 1992 and eliminated in 1993) of the tax calculated as set forth in the preceding sentence (excluding the $250 minimum tax) without reduction of the tax so calculated by the amount of any credit against the tax.

Item 2. Properties At December 31, 1995 (after giving effect to the consummation from the Shawmut Transaction on February 16, 1996), Webster had 29 banking offices in New Haven County, 29 banking offices in Hartford County, two banking offices in Fairfield County, two banking offices in Litchfield County and two banking offices in Middlesex County. Twenty of the banking offices are related to the Shawmut Transaction and so are noted in the following banking office table.

The following table sets forth certain information concerning the banking offices of Webster at December 31, 1995 after giving effect to the consummation of the Shawmut Transaction on February 16, 1996.

Location	Lease Year Opened	Lease Owned or Leased	Expiration Data	Renewal Option
Webster Plaza, Waterbury, CT	1978	Owned	--	
Naugatuck Valley Mall, Waterbury, CT	1969	Leased	2000	
Chase Avenue at Wigwam Ave, Waterbury, CT	1976	Owned	--	
364 Reidville Drive, Waterbury, CT	1976	Building-Owned	--	
		Land-Leased	1997	
670 Wolcott Street, Mattatuck Plaza,	1984	Building-Owned	--	
Waterbury, CT		Land-Leased	2004	One 10-year option
656 Main Street, Watertown, CT	1959	Owned	--	
544 Straits Turnpike, Watertown, CT	1985	Leased	1998	Three 5-year options
Southbury Plaza, Southbury, CT	1979	Leased	2004	One 10-year option
45 Waterbury Road, Prospect, CT	1988	Owned	--	
359 Queen Street, Southington, CT	1989	Leased	1997	One 5-year option
145 Highland Avenue, Cheshire, CT	1990	Leased	2005	One 5-year option
66 North Main Street, Suffield, CT	1991	Owned	--	
6 National Drive, Windsor Locks, CT	1991	Leased	1996	Two 3-year options
24 Dexter Plaza, Windsor Locks, CT	1991	Leased	1998	One 5-year option
561 Hazard Avenue, Enfield, CT	1991	Owned	--	
Route 140, East Windsor, CT	1991	Leased		Monthly Negotiated
1 South Main Street, Branford, CT	1992	Owned		
922 South Main St., Cheshire, CT	1992	Building-Owned	--	
		Land-Leased	2013	Two 33-year options
630 New Haven, Ave., Derby, CT	1992	Leased	2001	Five 5-year options
260 Main Street, East Haven, CT	1992	Owned	--	
1177 Post Road, Fairfield, CT	1992	Owned		
2290 Whitney Ave., Hamden, CT	1992	Owned		
5 Helen St., Hamden, CT	1992	Owned		
1227 Whitney Ave., Hamden, CT	1992	Owned		
100 Broad St., Milford, CT	1992	Owned		
314 Merwin Ave., Milford, CT	1992	Owned		
80 Elm St., New Haven, CT	1992	Owned		
894 Whalley Ave., New Haven, CT	1992	Owned	--	
70 Washington Ave., North Haven, CT	1992	Leased	2009	Three 5-year options
247 Boston Post Rd., Orange, CT	1992	Owned	--	
534 Campbell Ave., West Haven, CT	1992	Owned	--	
28 Durham Rd., Madison, CT	1995	Leased	2000	One 5-year option
733 Rubber Avenue, Naugatuck, CT	1994	Building-Owned	--	
		Land-Leased	2087	
575 Farmington Ave., Bristol, CT*	1994	Leased	1996	One 5-year option
647 Farmington Ave., Bristol, CT	1994	Leased	2007	One 10-year option
761 Pine St., Forestville, CT	1994	Leased	1996	One 5-year option
150 Main St., Bristol, CT	1994	Owned	--	
51 East Main Street, Plainville, CT	1994	Owned		
North Riverside Avenue, Terryville, CT	1994	Owned		
375 Bridgeport, Shelton, CT	1995	Owned		
75 Tremont Street, Ansonia, CT	1995	Owned		
200 Division Street, Ansonia, CT	1995	Owned		
696 Amity Road, Bethany, CT	1995	Owned		
60 Oxford Road, Oxford, CT	1995	Owned		
427 Howe Avenue, Shelton, CT	1995	Owned		
40 Webster Square, Berlin CT*'	1996	Owned	--	
594 Farmington Avenue, Bristol, CT**	1996	Leased	2006	Two 5-year options
5 Coles Road, Cromwell, CT*'	1996	Leased	2004	
1085 Main Street, East Hartford, CT**	1996	Owned	--	

50 Freshwater Blvd., Enfield, CT**	1996	Leased	2009	One 6-year option
High Street, Farmington, CT**	1996	Leased	1999	
141 Hebron Avenue, Glastonbury,	1996	Owned	--	
185 Asylum Avenue, Hartford, CT**	1996	Leased	1998	One 5-year option
410 Homestead Avenue, Hartford, CT**	1996	Owned	--	
655 Wethersfield Avenue, Hartford, CT**	1996	Leased	1997	One 5-year option
320 Middle Turnpike, Manchester, CT**	1996	Leased	1997	One 5-year option
363 Main Street, Middletown, CT**	1996	Owned	--	
741 West Main Street, New Britain, CT*	1996	Owned	--	
3180 Berlin Turnpike, Newington, CT**	1996	Leased	1999	
690 Hopmeadow Street, Simsbury, CT**	1996	Owned	--	
132 Main Street, Southington, CT**	1996	Owned	--	

1114 New Britain Ave., West Hartford, CT**	1996	Leased	1997	One 5-year option
65 La Salle Road, West Hartford, CT**	1996	Leased	1997	One 5-year option
1039 Silas Deane Hwy., Wethersfield, CT**	1996	Leased	2000	One 5-year option
270 Broad Street, Windsor, CT**	1996	Owned	--	

<FN>
*Drive thru facility only

** Acquired in the Shawmut Transaction on February 16, 1996.
</FN>
</TABLE>

The total net book value of properties and furniture and fixtures owned and used for offices at December 31, 1995 was $26.6 million, which includes the aggregate net book value of leasehold improvements on properties used for offices of $.8 million at that date. Additional properties and furniture and fixtures of approximately $6.3 million were acquired on February 16, 1996 in the Shawmut Transaction, net of one banking office sold in such Transactions.

Item 3. Legal Proceedings

At December 31, 1995, there were no material pending legal proceedings to which Webster was a party or to which any of its property was subject.

Item 4. Submission Of Matters To A Vote Of Security Holders

Not Applicable

PART II

Item 5. Market for Registrant's Common Stock and Related Stockholder Matters

The common stock of Webster is traded over-the-counter on the Nasdaq National Market System under the symbol "WBST."

The following table shows dividends declared and the market price per share by quarter for 1995 and 1994. Webster increased the quarterly dividend to $.16 per share in January 1995.

	Common Stock (Per Share)			
		Market Price		
	Cash Dividends Declared	Low	High	End of Period
1995;				
Fourth........................	$ .16	$ 24 1/2	$ 29 1/2	$ 29 1/2
Third.........................	.16	23	31	26 1/4
Second........................	.16	21 1/4	26	23 7/8
First.........................	.16	18	22 1/4	21 1/4
1994:				
Fourth........................	$ .13	$ 17 1/4	231/2	18 1/2
Third.........................	.13	22 1/2	25	23 1/4
Second........................	.13	18 3/8	24 3/4	22 1/2
First.........................	.13	18 1/2	22 1/4	18 1/2

Payment of dividends from Webster Bank to the Webster is subject to certain regulatory and other restrictions. See "Bank Regulation - Restrictions on Dividend Payments.' Payment of dividends by Webster on its stock is subject to various restrictions, none of which is expected to limit any dividend policy which the Board of Directors may in the future decide to adopt. Under Delaware law, Webster may pay dividends out of surplus or, in the event there is no surplus, out of net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Dividends may not be paid out of net profits, however, if the capital of Webster has been diminished to an amount less than the aggregate amount of capital represented by all classes of preferred stock.

Item 6. Selected Financial Data

Selected financial data for the five years ended December 31, 1995, consisting of data captioned "Selected Consolidated Financial and Other Data" on Page 2 of the Corporation's 1995 Annual Report to Shareholders, is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

"Management's Discussion and Analysis of Financial Condition and Results of Operations' on Pages 15 to 27 of the Corporation's 1995 Annual Report to Shareholders is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The required information is incorporated herein by reference from Pages 28 to 59 of the Corporation's 1995 Annual Report to Shareholders.

Item 9. Disagreements on Accounting and Financial Disclosures.

Not Applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information regarding the directors and executive officers of the Corporation is omitted from this report as the Corporation has filed its definitive proxy statement within 120 days after the end of the fiscal year covered by this Report, and the information included therein is incorporated herein by reference.

Item 11. Executive Compensation

Information regarding compensation of executive officers and directors is omitted from this Report as the Corporation has filed a definitive proxy statement within 120 days after the end of the fiscal year covered by this report, and the information included therein (excluding the Personnel Resources Committee Report on Executive Compensation and the Comparative Company Performance information) is incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information required by this Item is omitted from this Report as the Corporation has filed a definitive proxy statement within 120 days after the end of the fiscal year covered by this Report, and the information included therein is incorporated by reference.

Item 13. Certain Relationships and Related Transactions

Information regarding certain relationships and related transactions is omitted from this Report as the Corporation has filed a definitive proxy statement within 120 days after the end of the fiscal year covered by this Report, and the information included therein is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financ ial Statement Schedules, and Reports on Form 8-K

(a)(1) The following consolidated financial statements of the Registrant and its subsidiary included in its Annual Report to Shareholders for the year ended December 31, 1995, are incorporated herein by reference in Item 8. The remaining information appearing in the Annual Report to Shareholders is not deemed to be filed as part of this Report, except as expressly provided herein.

Consolidated Statements of Condition - December 31, 1995 and 1994

Consolidated Statements of Income - Years Ended December 31, 1995, 1994 and 1993

Consolidated Statements of Cash Flows -Years Ended December 31, 1995, 1994 and 1993

Consolidated Statements of Shareholders' Equity - Years Ended December 31, 1995, 1994 and 1993

Notes to Consolidated Financial Statements
Report of Independent Auditors

(a)(2) All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

(a)(3) The following exhibits are either filed as part of this Report or are incorporated herein by reference; references herein to First Federal Bank now mean Webster Bank:

Exhibit No. 3. Certificate of Incorporation and Bylaws.

3.1 Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3(a) to the Corporation's Form 10-K filed on March 27, 1987).

3.2 Certificate of Amendment of Restated Certificate of Incorporation (incorporated herein by Reference to Exhibit 4.2 to the Corporation's Registration Statement on Form S-2, Registration No. 33-54980, filed on November 25, 1992).

3.3 Certificate of Designation for the Series A Cumulative Perpetual Preferred Stock (incorporated herein by reference from the Registrant's Form 8-K filed on October 19, 1992).

3.4 Certificate of Designation for the Series B 7-1/2% Cumulative Convertible Preferred Stock (incorporated herein by reference to Exhibit 4.4 to Pre-Effective Amendment No. 2 to the Corporation's Registration Statement on Form S-2, Registration No. 33-54980, filed on December 22, 1992).

3.5 Bylaws of Registrant (incorporated by reference to Exhibit 3.5 to the Corporation's Form 10-K filed on March 31, 1995).

3.6 Certificate of Designation for the Series C Participating Preferred Stock (incorporated by reference to the Corporation's Form 8-K filed on February 12, 1996).

Exhibit No. 1 0. Material Contracts.

10.1 1986 Stock Option Plan of Webster Financial Corporation (incorporated herein by reference to Exhibit 10(a) to the Corporation's Form 10-K filed on March 27, 1987).

10.2 1992 Stock Option Plan of Webster Financial Corporation (incorporated by reference to Exhibit 10.2 to the Corporation's Form 10-K filed on March 31, 1994).

10.3 Amendment No. 1 to 1992 Stock Option Plan (incorporated by reference to Exhibit 10.3 to the Corporation's Form 10-K filed on March 31, 1 994).

10.4 Short-term Incentive Compensation Plan (incorporated by reference to Exhibit 10.4 to the Corporation's Form 10-K filed on March 31, 1 995).

10.5 Long-Term Incentive Compensation Plan (incorporated by reference to Exhibit 99.6 to the Corporation's Form 8-K/A filed on November 10, 1993).

10.6 Performance Incentive Plan (incorporated by reference to Exhibit 10.6 to the Corporation's Form 10-K filed on March 31, 1995)

10.7 Amended and Restated Employee Stock Ownership Plan, effective as of January 1, 1989 (incorporated by reference to Exhibit 10.7 to the Corporation's Form 10-K filed on March 31, 1995)

10.8 First Federal Bank Deferred Compensation Plan for Directors and Officers, effective December 7, 1987 (incorporated herein by reference to Exhibit 10(I) to the Corporation's Form 10-K filed on March 29, 1988).

10.9 Form of Supplemental Retirement Plan for Harold W. Smith (incorporated herein by reference to Exhibit 10(j) to the Corporation's Form 10-K filed on March 29, 1 988).

10.10 Form of Stock Option Agreement for Harold W. Smith (initial) (incorporated herein by reference to Exhibit 10(k) to the Corporation's Form 10-K filed on March 29, 1988).

10.11 Form of Stock Option Agreement for Executive Officers (initial) (incorporated herein by reference to Exhibit 10(l) to the Corporation's Form 10-K filed on March 29, 1 988).

10.12 Form of Stock Option Agreement for Directors (Initial) (incorporated herein by reference to Exhibit 10(m) to the Corporation's Form 10-K filed on March 29, 1 988).

10.13 Form of Stock Option Agreement for Employees (1 987) (incorporated herein by reference to Exhibit 10(n) to the Corporation's Form 10-K filed on March 29, 1988).

10.14 Form of Incentive Stock Option Agreement (for employees with employment agreements) (incorporated by reference to Exhibit 10.15 to the Corporation's Form 10-K filed on March 31, 1994).

10.15 Form of Incentive Stock Option Agreement (for employees with severance agreements) (incorporated by reference to Exhibit 1 0. 1 6 to the Corporation's Form 10-K filed on March 3 1, 1994).

10.16 Form of Incentive Stock Option Agreement (for employees with no employment or severance agreements) (incorporated by reference to Exhibit 10.17 to the Corporation's Form 10-K filed on March 31, 1994).

10.17 Form of Nonqualified Stock Option Agreement (for employees with employment agreements) (incorporated by reference to Exhibit 10.18 to the Corporation's Form 10-K filed on March 31, 1994).

10.18 Form of Non-Incentive Stock Option Agreement (for non-employee directors).(incorporated by reference to Exhibit 10.19 to the Corporation's Form 10-K filed on March 31, 1994).

10.19 Form of Non-incentive Stock Option Agreement (for employees with employment agreements) (incorporated by reference to Exhibit 10.20 to the Corporation's Form 10-K filed on March 31, 1994).

10.20 Form of Non-incentive Stock Option Agreement (for employees with severance agreements) (incorporated by reference to Exhibit 10.21 to the Corporation's Form 10-K filed on March 31, 1994).

10.21 Form of Non-incentive Stock Option Agreement (for employees with no employment or severance agreements) (incorporated by reference to Exhibit 10.22 to the Corporation's Form 10-K filed on March 31, 1 994).

10.22 Form of Incentive Stock Option Agreement (for employees) (revised)(incorporated by reference to Exhibit 10.22 to the Corporation's Form 10-K filed on March 31, 1995)

10.23 Form of Nonqualified Stock Option Agreement (for employees with employment agreements) (revised) (incorporated by reference to Exhibit 10.23 to the Corporation's Form 10-K filed on March 31, 1995).

10.24 Form of Nonqualified Stock Option Agreement (immediate vesting) (incorporated by reference to Exhibit 10.24 to the Corporation's Form 10-K filed on March 31, 1995.

10.25 Form of Nonqualified Stock Option Agreement (for senior officers of Bristol Mortgage) (incorporated by reference to Exhibit 10.25 to the Corporation's Form 10-K filed on March 31, 1995).

10.26 Supplemental Retirement Plan for Employees of First Federal Bank, as amended and restated effective as of October 1, 1994 (incorporated by reference to Exhibit 10.26 to the Corporation's Form 10-K filed on March 31, 1 995).

10.27 Consulting Agreement between First Federal Bank and Harold W. Smith, Jr., dated as of January 1, 1 994 (incorporated herein by reference to Exhibit 1 0. 1 2 to the Corporation's Form 8-K/A filed on January 13, 1994).

10.28 Employment Agreement between the Corporation, First Federal Bank and

James C. Smith, dated as of January 1, 1995 (incorporated by reference to Exhibit 10.28 to the Corporation's Form 10-K filed on March 31, 1995).

10.29 Employment Agreement between the Corporation, First Federal Bank and Lee A. Gagnon, dated as of January 1, 1995 (incorporated by reference to Exhibit 10.29 to the Corporation's Form 10-K filed on March 31, 1995).

10.30 Employment Agreement between the Corporation, First Federal Bank and John V. Brennan, dated as of January 1, 1995 (incorporated by reference to Exhibit 10.30 to the Corporation's Form 10-K filed on March 31, 1995).

10.31 Employment Agreement between the Corporation, First Federal Bank and Ross M. Strickland, dated as of January 1, 1995 (incorporated by reference to Exhibit 10.31 to the Corporation's Form 10-K filed on March 31, 1995).

10.32 Employment Agreement among the Registrant, First Federal Bank and Gary M. MacElhiney, dated as of January 1, 1995 (incorporated by reference to Exhibit 10.32 to the Corporation's Form 10-K filed on March 31, 1995).

10.33 Purchase and Assumption Agreement among FDIC, Receiver of Suffield Bank, FDIC and First Federal Bank, dated September 6, 1 991 (incorporated herein by reference to Exhibit 10(m) from the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1992).

10.34 Indemnity Agreement between FDIC and First Federal Bank dated as of September 6, 1991 (incorporated herein by reference to Exhibit 10(n) to the Registrant's Annual Report on Form 1 OK for the year ended December 31, 1991).

10.35 Purchase and Assumption Agreement among the FDIC, in its corporate capacity as receiver of First Constitution Bank, First Federal Bank and the FDIC, dated as of October 2, 1992 (incorporated herein by reference from the Registrant's Form 8-K filed on October 19, 1992).

10.36 Amendment No. 1 to Purchase and Assumption Agreement, dated as of August 8, 1994, between the FDIC and First Federal (incorporated by reference to Exhibit 10.36 to the Corporation's Form 10-K filed on March 31, 1 995).

10.37 Indenture, dated as of June 15, 1993, between the Corporation and Chemical Bank, as Trustee, relating to the Corporation's Senior Notes due 2000 (incorporated herein by reference to Exhibit 99.5 to the Corporation's Form 8-K/A filed on November 10, 1993).

10.38 Severance Payment Agreement between the Corporation, Webster Bank and Peter K. Mulligan dated as of April 17, 1995.

Exhibit No. 13. Annual Report to Shareholders.

Exhibit No. 21. Subsidiaries.

Exhibit No. 24. Consent of KPMG Peat Marwick.

(b) Thefollowing current reports on Form 8-K or amendments thereto on Form 8 were filed by the Registrar during the last quarter of fiscal year 1995

(1 Current Report on Form 8-K dated October 10, 1995

(ii) Current Report on Form 8-K dated November 1, 1995

Exhibits to this Form 10-K are attached or incorporated by reference as stated above.

(d) Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WEBSTER FINANCIAL CORPORATION
Registrant

BY: /s/ James C.Smith

James C. Smith,
Chairman and Chief Executive Officer

Date: March 29, 1996

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities noted as of March 29, 1996.

By: /s/.John V. Brennan

John V. Brennan,
Executive Vice President,
Chief Financial Officer and Treasurer

By: /s/ Peter J. Swiatek

Peter J. Swiatek
Controller

By: /s/ Harold W. Smith

Harold W. Smith
Director

By: /s/ Joel S. Becker

Joel S. Becker
Director

By: /s/ 0. Joseph Bizzozero, Jr
----
0. Joseph Bizzozero, Jr.
Director

By: /s/ Walter R. Griffin

Walter R. Griffin
Director

By: /s/ Robert A. Finkenzeller

Robert A. Finkenzeller
Director

By: /s/ Marguerite F. Waite

Marguerite F. Waite
Director

By: /s/ J. Gregory Hockey

J. Gregory Hickey
Director

EXHIBIT INDEX*

Number	Description
3.1	Restated Certificate of Incorporation incorporated herein by reference to Exhibit 3(a) to the Corporation's Form 10-K filed on March 27, 1987).
3.2	Certificate of Amendment of Restated Certificate of Incorporation (incorporated herein by Reference to Exhibit 4.2 to the Corporation's Registration Statement on Form S-2, Registration No. 33-54980, filed on November 25, 1992).
3.3	Certificate of Designation for the Series A Cumulative Perpetual Preferred Stock (incorporated herein by reference from the Registrant's Form 8-K filed on October 19, 1 992).
3.4	Certificate of Designation for the Series B 7-1/2% Cumulative Convertible Preferred Stock (incorporated herein by reference to Exhibit 4.4 to Pre-Effective Amendment No. 2 to the Corporation's Registration Statement on Form S-2, Registration No. 33-54980, filed on December 22, 1992).
3.5	Bylaws of Registrant (incorporated by reference to Exhibit 3.5 to the Corporation's Form 10-K filed on March 31, 1995).
3.6	Certificate of Designation for the Series C Participating Preferred Stock (incorporated by reference to the Corporation's Form 8-K filed on February 12, 1 996).
10.1	1986 Stock Option Plan of Webster Financial Corporation (incorporated herein by reference to Exhibit 10(a) to the Corporation's Form 10-K filed on March 27, 1 987).
10.2	1 992 Stock Option Plan of Webster Financial Corporation (incorporated by reference to Exhibit 10.2 to the Corporation's Form 10-K filed on March 31, 1994).
10.3	Amendment No. 1 to 1992 Stock Option Plan (incorporated by reference to Exhibit 10.3 to the Corporation's Form 10-K filed on March 31, 1994).
10.4	Short-term Incentive Compensation Plan (incorporated by reference to Exhibit 10.4 to the Corporation's Form 10- K filed on March 31, 1 995).
10.5	Long-Term Incentive Compensation Plan (incorporated by reference to Exhibit 99.6 to the Corporation's Form 8- K/A filed on November 10, 1993).
10.6	Performance Incentive Plan (incorporated by reference to Exhibit 10.6 to the Corporation's Form 10-K filed on March 31, 1995).
10.7	Amended and Restated Employee Stock Ownership Plan, effective as of January 1, 1989 (incorporated by reference to Exhibit 10.7 to the Corporation's Form 10-K filed on March 31, 1995).
10.8	First Federal Bank Deferred Compensation Plan for Directors and Officers, effective December 7, 1 987 (incorporated herein by reference to Exhibit 10(l) to the Corporation's Form 10-K filed on March 29, 1988).
10.9	Form of Supplemental Retirement Plan for Harold W. Smith (incorporated herein by reference to Exhibit 10(j) to the Corporation's Form 10-K filed on March 29, 1 988).

10.10	Form of Stock Option Agreement for Harold W. Smith (initial) (incorporated herein by reference to Exhibit 10(k) to the Corporation's Form 10-K filed on March 29, 1988).
10.11	Form of Stock Option Agreement for Executive Officers (initial) (incorporated herein by reference to Exhibit 10(l) to the Corporation's Form 10-K filed on March 29, 1988).

10.12 Form of Stock Option Agreement for Directors (initial) (incorporated herein by reference to Exhibit 10(m) to the Corporation's Form 10-K filed on March 29, 1988).

10.13 Form of Stock Option Agreement for Employees (1987) (incorporated herein by reference to Exhibit 10(n) to the Corporation's Form 10-K filed on March 29, 1988).

10.14 Form of Incentive Stock Option Agreement (for employees with employment agreements).(incorporated by reference to Exhibit 10.1 5 to the Corporation's Form 10-K filed on March 31, 1994).

10.15 Form of Incentive Stock Option Agreement (for employees with severance agreements)(incorporated by reference to Exhibit 10.1 6 to the Corporation's Form 10-K filed on March 31, 1994).

10.16 Form of Incentive Stock Option Agreement (for employees with no employment or severance agreements) (incorporated by reference to Exhibit 10.17 to the Corporation's Form 10-K filed on March 31, 1994).

10.17 Form of Nonqualified Stock Option Agreement (for employees with employment agreements) (incorporated by reference to Exhibit 1 0. 18 to the Corporation's Form 10-K filed on March 31, 1994).

10.18 Form of Non-Incentive Stock Option Agreement (for non-employee directors).(incorporated by reference to Exhibit 10.19 to the Corporation's Form 10-K filed on March 31, 1994).

10.19 Form of Non-Incentive Stock Option Agreement (for employees with employment agreements) (incorporated by reference to Exhibit 10.20 to the Corporation's Form 10-K filed on March 31, 1994).

10.20 Form of Non-incentive Stock Option Agreement (for employees with severance agreements) (incorporated by reference to Exhibit 10.21 to the Corporation's Form 10-K filed on March 31, 1994).

10.21 Form of Non-incentive Stock Option Agreement (for employees with no employment or severance agreements)(incorporated by reference to Exhibit 10.22 to the Corporation's Form 10-K filed on March 31, 1994).

10.22 Form of Incentive Stock Option Agreement (for employees) (revised) (incorporated by reference to Exhibit 10.22 to the Corporation's Form 10-K filed on March 31, 1995).

10.23 Form of Nonqualified Stock Option Agreement (for employees with employment agreements) (revised) (incorporated by reference to Exhibit 10.23 to the Corporation's Form 10-K filed on March 31, 1995).

10.24 Form of Nonqualified Stock Option Agreement (immediate vesting) (incorporated by reference to Exhibit 10.24 to the Corporation's Form 10-K filed on March 31, 1995).

10.25 Form of Nonqualified Stock Option Agreement (for senior officers of Bristol Mortgage) (incorporated by reference to Exhibit 10.25 to the Corporation's Form 10-K filed on March 31, 1995).

10.26 Supplemental Retirement Plan for Employees of First Federal Bank, as amended and restated effective as of October 1, 1994 (incorporated by reference to Exhibit 10.26 to the Corporation's Form 10-K filed on March 31, 1995).

10.27 Consulting Agreement between First Federal Bank and Harold W. Smith, Jr., dated as of January 1, 1994 (incorporated herein by reference to Exhibit 10.12 to the Corporation's Form 8-K/A filed on January 13, 1994).

10.28 Employment Agreement between the Corporation, First Federal Bank and James C. Smith, dated as of January 1, 1995 (incorporated by reference to Exhibit 10.28 to the Corporation's Form 10-K filed on March 31, 1995).

10.29 Employment Agreement between the Corporation, First Federal Bank and Lee A. Gagnon, dated as of January 1, 1995 (incorporated by reference to Exhibit 10.29 to the Corporation's Form 10-K filed on March 31, 1995).

10.30 Employment Agreement between the Corporation, First Federal Bank and John V. Brennan, dated as of January 1, 1995 (incorporated by reference to Exhibit 10.30 to the Corporation's Form 10-K filed on March 31, 1995).

10.31 Employment Agreement between the Corporation, First Federal Bank and Ross M. Strickland, dated as of January 1, 1995 (incorporated by reference to Exhibit 10.31 to the Corporation's Form 10-K filed on

March 31, 1995).

10.32 Employment Agreement among the Registrant, First Federal Bank and Gary M. MacElhiney, dated as of January 1, 1995 (incorporated by reference to Exhibit 10.32 to the Corporation's Form 10-K filed on March 31, 1995).

10.33 Purchase and Assumption Agreement among FDIC, Receiver of Suffield Bank, FDIC and First Federal Bank, dated September 6, 1991 (incorporated herein by reference to Exhibit 10(m) from the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1992).

10.34 Indemnity Agreement between FDIC and First Federal Bank dated as of September 6, 1991 (incorporated herein by reference to Exhibit 10(n) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991).

10.35 Purchase and Assumption Agreement among the FDIC, in its corporate capacity as receiver of First Constitution Bank, First Federal Bank and the FDIC, dated as of October 2, 1992 (incorporated herein by reference from the Registrant's Form 8-K filed on October 19, 1992).

10.36 Amendment No. 1 to Purchase and Assumption Agreement, dated as of August 8, 1994, between the FDIC and First Federal (incorporated by reference to Exhibit 10.36 to the Corporation's Form 10-K filed on March 31, 1995).

10.37 Indenture, dated as of June 15, 1993, between the Corporation and Chemical Bank, as Trustee, relating to the Corporation's 8 3/4% Senior Notes due 2000 (incorporated herein by reference to Exhibit 99.5 to the Corporation's Form 8-K/A filed on November 10, 1993).

10.38 Severance Payment Agreement between the Corporation, Webster Bank and Peter K. Mulligan dated as of April 17, 1995.

13. Annual Report to Shareholders.

21. Subsidiaries.

24. Consent of KPMG Peat Marwick.

* References herein to First Federal Bank now mean Webster Bank.

SEVERANCE PAYMENT AGREEMENT

AGREEMENT, dated as of April 17, 1995, among WEBSTER FINANCIAL CORPORATION (the "Company"), FIRST FEDERAL BANK, FSB (the "Bank"), and PETER K. MULLIGAN (the "Employee").

WHEREAS, the Employee is serving as the Executive Vice President, Consumer Banking of the Company, the Bank and Bristol Savings Bank, a wholly-owned subsidiary of the Company ("Bristol");

WHEREAS, the Boards of Directors of the Company and the Bank believe that it is in the best interests of the Company and the Bank to encourage the Employee's continued employment with and dedication to the Company, the Bank and Bristol in the face of potentially distracting circumstances arising from the possibility of a change in control of the Company or the Bank, although no such change is now contemplated;

WHEREAS, the Boards of Directors of the Company and the Bank have approved and-authorized the entry into this Agreement with the Employee; and

WHEREAS, the parties desire to enter into this Agreement setting forth the terms and conditions for the payment of special compensation to the Employee in the event of a termination of the Employee's employment in connection with or as the result of a change in control of the Company or the Bank;

NOW, THEREFORE, it is AGREED as follows:

1. Term. The initial term of this Agreement shall be for a period commencing on the date hereof and ending on December 31, 1997. The Company and the Bank may renew this Agreement by written notice to the Employee for one additional year on December 31, 1995 and each subsequent December 31 during the term of this Agreement. References herein to the term of this Agreement shall include the initial term and any additional years for which this Agreement is renewed.

2. <u>Termination of Employment in Connection with a Change in Control.</u>

(a) If during the term of this Agreement there is a change in control of the Company or the Bank, the Employee shall be entitled to receive from the Company and the Bank, jointly and severally, as a severance payment for services previously rendered to the Company and the Bank, a lump sum cash payment as provided for herein (subject to Section 2(c) below) in the event the Employee's employment is terminated, voluntarily or involuntarily, in connection with or within two years after the change in control of the Company or the Bank, unless such termination is for cause (as defined below), is a voluntary termination without "Good Reason" (as defined below) in connection with or after a "Technical Change" (as defined below), or occurs by virtue of normal retirement, permanent and total disability (as defined for purposes of any long term disability plan maintained by the Company or the Bank in which the Employee is a participant, or, if there is no such plan, as defined in Section 22(e) of the Internal Revenue Code) or death. Subject to Section 2(c) below, the amount of the payment shall be equal to one year's salary from the Company, the Bank and Bristol plus any bonuses paid by them to the Employee during the then current fiscal year, if (i) the Employee's termination of employment was voluntary without "Good Reason" (as hereinafter defined) other than in connection with or following a "Technical Change" (as defined below), or (ii) the Employee's termination of employment was either voluntary with Good Reason or involuntary. For purposes of this Agreement, a "Technical Change" shall mean a change in control described in Section 2(b)(vii) below (and not described in any other subsection of Section 2(b)) in which the persons who were directors of the Company before the transaction described in such subsection shall constitute at least 50% of the Board of Directors of the Company or any successor corporation. The term "termination for cause" shall mean termination because of the Employee's personal dishonesty, incompetence, - willful misconduct, breach of fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule, or regulation (other than traffic violations or similar offenses) or final cease-and- desist order. "Good Reason" shall include a material reduction in the position, authority, duties or responsibilities of the Employee from those which existed prior to the change in control or a reduction in the Employee's job stature as reflected in the Employee's title. If the Employee notifies the Boards of Directors of the Company and the Bank that the Employee intends to terminate employment voluntarily for Good Reason, the Employee shall state in such notice the reasons why the Employee believes that Good Reason exists. Unless the Company and the Bank, within 30 days of the date of the Employee's notice of resignation or termination, reject the Employee's statement that Good Reason exists, the

Employee's entitlement to the severance payment payable under clause (ii) above shall be conclusive. If the Boards of Directors reject the Employee's statement of Good Reason within such 30-day period, the dispute shall be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association, and judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof, but the Company and the Bank shall have the burden of proving in such arbitration that their rejection of the Employee's statement was proper. Payment under this Section 2(a) shall be in lieu of any amount which may be otherwise owed to the Employee as damages for such termination. Payment under this Section 2(a) shall not be reduced by any compensation which the Employee may receive from other employment with another employer after termination of the Employee's employment with

the Company and the Bank. No payment hereunder shall affect the Employee's entitlement to any vested retirement benefits or other compensation payments.

In addition, subject to Section 2(c) below, in the case of any termination of employment within the scope of this Section 2(a) for which a severance payment is payable to the Employee, the following shall apply: (1) the Employee shall also be entitled to continued medical, dental, group term life insurance and long-term disability insurance coverage and to continued eligibility for benefits under any other employee welfare benefit plan (within the meaning of Section 3(l) of the Employee Retirement Income Security Act of 1974, as amended) in which the Employee was eligible to participate before the change in control, on a basis no less favorable to the Employee than that in effect during the fiscal year preceding the fiscal year in which the change in control occurs, as if the Employee's employment had not been terminated, which coverage and eligibility shall continue for one year after the termination; and (2) all insurance or other provisions for indemnification, defense or hold-harmless of officers and directors of the- Company, the Bank or Bristol that are in effect on the date the notice of termination is given by or to the Employee shall continue for the benefit of the Employee with respect to all of the Employee's acts and omissions while an officer or director as fully and completely as if such termination had not occurred, and until the final expiration or running of all periods of limitation against action which may be applicable to such acts. or omissions.

(b) A "change in control" of the Company, for purpose s of this Agreement, shall be deemed to have taken place if: (i) any person becomes the beneficial owner of 25 percent or more of the total number of voting shares of the Company; (ii) any person becomes the beneficial owner of 10 percent or more, but less than 25 percent, of the total number of voting shares of the Company, unless. the Director of the Office of Thrift Supervision (the "Director") has approved a rebuttal agreement filed by such person or such person has filed a certification with , the Director; (iii) any person (other than the persons named as proxies solicited on behalf of the Board of Directors of the Company) holds revocable or irrevocable proxies, as to the election or removal of two or more directors of the Company, for 25 percent or more of the total number of voting shares of the Company; (iv) any person has received the approval of the Director under Section 10 of the Home Owners' Loan Act, as amended (the "Holding Company Act"), or regulations issued thereunder, to acquire control of the Company; (v) any person has received approval of the Director under Section 7(j) of the Federal Deposit Insurance Act, as amended (the "Control Act"), or regulations issued thereunder, to acquire control of the Company; (vi) any person has commenced a tender or exchange offer, or entered into an agreement or received an option, to acquire beneficial ownership of 25 percent or more of the total number of voting shares of the Company, whether or not the requisite approval for such acquisition has been received under the Holding Company Act, the Control Act, or the respective regulations issued thereunder, or (vii) as the result of, or in connection with, any cash tender or exchange offer,

merger, or other business combination, sale of assets or contested election, or any combination of the foregoing transactions, the persons who were directors of the Company before such transaction shall cease to constitute at least two-thirds of the Board of Directors of the Company or any successor corporation. Notwithstanding the foregoing, a "change in control" will not be deemed to have occurred under clauses (ii), (iii), (iv), (v) or (vi) of this section 2(b), if within 30 days of such action, the Board of Directors of the Company (by a two-thirds affirmative vote of the directors in office before such action occurred) makes a determination that such action does not and is not likely to constitute a "change in control" of the Company. For purposes of this Section 2(b), a "person" includes an individual, corporation, partnership, trust, association, joint venture, pool, syndicate, unincorporated organization, joint-stock company or similar organization or group acting in concert. A person for these purposes shall be deemed to be a beneficial owner as that term is used in Rule 13d-3 under the Securities Exchange Act of 1934.

A "change in control" of the Bank, for purposes of this Agreement, shall be deemed to have taken place if the Company's beneficial ownership of the total number of voting shares of the Bank is reduced to less than 50 percent.

(c) Notwithstanding any other provisions of this Agreement or of any other agreement, contract, or understanding heretofore or hereafter entered into between the Employee and the Company or the Bank (or any subsidiary or affiliate of either of them), except an agreement, contract, or understanding hereafter entered into that expressly modifies or excludes application of this Section 2(c) (the "Other Agreements"), and notwithstanding any formal or informal plan or other arrangement heretofore or hereafter adopted by the Company or the Bank (or any subsidiary or affiliate of either of them) for the direct or indirect provision of compensation to the Employee (including groups or classes of participants or beneficiaries of which the Employee is a member), whether or not such compensation is deferred, is in cash, or is in the form of a benefit to or for the Employee (a "Benefit Plan"), the Employee shall not have any right to receive any payment or other benefit under this Agreement, any Other Agreement, or any Benefit Plan if such payment or benefit, taking into account all other payments or benefits to or for the Employee under this Agreement, all Other Agreements, and all Benefit Plans, would cause any payment to the Employee under this Agreement to be considered a parachute payment" within the meaning of Section 28OG(b)(2) of the Code (a "Parachute Payment"). In the event that the receipt of any such payment or benefit under this Agreement, any Other Agreement, or any Benefit Plan would cause the Employee to be considered to have received a Parachute Payment under this Agreement, then the Employee shall have the right, in the Employee's sole discretion, to designate those payments or benefits under this Agreement, any Other Agreements, and/or any Benefit Plans, which should be reduced or eliminated so as to avoid having the payment to the Employee under this Agreement be deemed to be a Parachute Payment.

3. No Assignments. This Agreement is personal to each of the parties hereto. No party may assign or delegate any rights or obligations hereunder without first obtaining the written consent of the other parties hereto. However, in the event of the death of the Employee, all rights to receive payments hereunder shall become rights of the Employee's estate.

4. Amendments or Additions; Action by Board of Directors. No amendments or additions to this Agreement shall be binding unless in writing and signed by all parties hereto. The prior approval by a two-thirds affirmative vote of the full Boards of Directors of the Company and the Bank shall be required in order for the Company and the Bank to authorize any amendments or additions to this Agreement.

5. Section Headings. The section headings used in this Agreement are included solely for convenience and shall not affect, or be used in connection with, the interpretation of this Agreement.

6. Governing Law. This Agreement shall be governed by the laws of United States to the extent applicable and otherwise by the laws of the State of Connecticut (other than the choice of law rules thereof).

WEBSTER FINANCIAL CORPORATION

ATTEST: /s/Lee Gagnon
(Secretary)

By: /s/James C. Smith
(Chief Executive Officer)

FIRST FEDERAL BANK, FSB

ATTEST: /s/Lee Gagnon
(Secretary)

By: /s/James C. Smith
(Chief Executive Officer)

EMPLOYEE

/s/Peter K. Mulligan

Peter K. Mulligan

Webster Financial Corporation
1995 Annual Report

Corporate Profile

Webster Financial Corporation is the holding company for Webster Bank, a $4 billion bank with 64 offices in Connecticut. The Company has grown steadily and profitably through the years by emphasizing asset quality, recurring earnings and expense control. A series of recent acquisitions have expanded and strengthened Webster's franchise and have accelerated its transition from a traditional thrift institution to a full-service retail bank. Webster is organized along three business lines -- consumer, business and mortgage banking - -- each focused on the special needs of its customers. By helping its customers reach their financial goals, Webster builds strong, lasting relationships which create shareholder value.

1995 Highlights

Reported record operating earnings before non-recurring items

Signed a definitive agreement to purchase 20 branches of the former Shawmut Bank Connecticut in the Greater Hartford banking market

Raised $34 million in additional capital to support the Shawmut branch acquisition Completed Shelton Bancorp acquisition

Merged three bank subsidiaries into a single bank, which was renamed Webster Bank Increased the cash dividend 23 percent

Enhanced automated and telephone banking capabilities to increase access and convenience Received again the highest rating -- Outstanding -- for Community Reinvestment Act (CRA) compliance

Selected Consolidated Financial and Other Data
(Dollars In Thousands Except Share Data)*

At December 31,	1995	1994	1993	1992	1991
Statement of Condition Data					
Total assets	$ 3,219,670	$ 3,053,851	$ 2,483,403	$ 2,367,722	$ 1,173,489
Loans receivable, net	1,891,956	1,869,216	1,467,935	1,522,168	701,478
Securities	1,044,640	828,758	669,764	438,323	332,440
Segregated Assets, net	104,839	137,096	176,998	223,907	--
Core deposit intangible	4,729	5,457	11,829	15,463	1,402
Deposits	2,400,202	2,431,945	1,966,574	1,995,079	990,054
FHL Bank advances and other borrowings	553,114	414,375	312,152	193,864	73,772
Shareholders' equity	209,973	156,807	126,273	129,144	83,067

Years Ended December 31,	1995	1994	1993	1992	1991
Operating Data					
Interest income	$ 218,811	$ 190,820	$ 154,589	$ 111,021	$ 90,901
Interest expense	131,533	98,464	80,803	61,205	60,015
Net interest income	87,278	92,356	73,786	49,816	30,886
Provision for loan losses	3,100	3,155	4,597	5,574	4,285
Noninterest income	21,975	13,629	10,703	8,407	5,150
Noninterest expenses:					
Non-recurring expenses**	6,371	5,700	--	--	--
Foreclosed property expenses and provisions, net	4,025	6,949	5,085	6,135	5,089
Other noninterest expenses	69,191	66,646	49,912	33,018	20,550
Total noninterest expenses	79,587	79,295	54,997	39,153	25,639
Income before taxes	26,566	23,535	24,895	13,496	6,112
Income taxes	8,246	4,850	10,595	7,083	2,774
Net income before cumulative change	18,320	18,685	14,300	6,413	3,338
Cumulative effect of change in method of accounting for income taxes	--	--	4,575	--	--
Net income	18,320	18,685	18,875	6,413	3,338
Preferred stock dividends	1,296	1,716	2,653	581	--
Net income applicable to common shareholders	$ 17,024	$ 16,969	$ 16,222	$ 5,832	$ 3,338
Loan originations during period	$ 417,372	$ 745,618	$ 390,337	$ 283,926	$ 133,418
Net (decrease)/ increase in deposits	(31,743)	465,371	(28,505)	1,005,025	157,543

Significant Statistical Data*

Years Ended December 31, For The Period:	1995	1994	1993	1992	1991
Interest rate spread	2.78%	3.29%	3.13%	3.32%	2.81%
Net yield on average earning assets	2.89%	3.34%	3.23%	3.50%	3.14%

Return on average shareholders' equity	10.70%	12.55%	11.11%	6.87%	4.06%
Net income per common share:***					
Primary	$ 2.44	$ 2.69	$ 2.25	$ 1.18	$ 0.68
Fully Diluted	$ 2.30	$ 2.44	$ 2.04	$ 1.16	$ 0.68
Dividends declared per common share****	$ .64	$ 0.52	$ 0.50	$ 0.48	$ 0.48
Dividend payout ratio	27.83%	18.44%	16.85%	37.07	63.24%
Noninterest expenses to average assets	2.53%	2.86%	2.30%	2.64%	2.45%
Noninterest expenses (excluding foreclosed property expenses and provisions, net and non-recurring expenses) to average assets	2.20%	2.25%	2.09%	2.23%	1.95%
At End of Period:					
Book value per common share	$ 23.87	$ 20.59	$ 19.90	$ 21.29	$ 16.88

Tangible book value per common share	$ 23.28	$ 19.78	$ 17.58	$ 18.13
Common shares outstanding (000's)	8,078	6,780	5,088	4,895
Shareholders' equity to total assets	6.52%	5.13%	5.08%	5.46%
Nonaccrual assets to total assets	1.71%	2.10%	2.41%	2.83%
Allowance for loan losses to nonaccrual loans	110.45%	134.04%	135.79%	108.71%
Allowances for nonaccrual assets to nonaccrual assets	76.39%	77.01%	77.32%	76.95%

<FN>

* Information for all periods presented has been restated to reflect the inclusion of the results of Shelton Bancorp, Inc. and Shoreline Bank and Trust Company which were acquired on November 1, 1995 and December 16, 1994, respectively, and were accounted for using the pooling of interests method.

** See Management's Discussion and Analysis Comparison of 1995 and 1994 years and Note 2 to the Consolidated Financial Statements.

*** Before cumulative change in the method of accounting for income taxes. After such cumulative change net income per common share for 1993 was $3.13 on a primary basis and $2.73 on a fully diluted basis.

**** Webster has continuously declared dividends since the third quarter of 1987. All per share data and the number of outstanding shares of common stock have been adjusted retroactively to give effect to the payment of stock dividends.

</FN>
</TABLE>

To Our Shareholders

"Webster strives to help individuals, families and businesses reach their financial goals. Our focus is on building valuable customer relationships by providing a broad range of products and services and superior customer service."

We are pleased to report that 1995 was a year of significant accomplishment for Webster Financial Corporation. In furthering its record of sound, steady growth, Webster expanded its franchise and its product offerings. Guided by our conservative business philosophy, we continued our emphasis on asset quality, recurring earnings and expense control.

Accomplishments for the year included record operating earnings before non-recurring items and an increase in the cash dividend. In October, Webster accelerated its transition from a traditional thrift to a full-service retail bank by agreeing to acquire 20 branches of Shawmut Bank Connecticut. Webster subsequently raised $34 million in a common stock offering to support the Shawmut branch acquisition. The Shawmut branch acquisition was completed on February 16, 1996. In November, Webster acquired Shelton Bancorp and merged Webster's three bank subsidiaries into a single entity renamed Webster Bank. Once again, Webster received the highest rating for Community Reinvestment Act (CRA) compliance.

Webster strives to help individuals, families and businesses reach their financial goals. Our focus is on building valuable customer relationships by providing a broad range of products and services and superior customer service. The bank is organized along three business lines -- consumer, business and mortgage banking -- each focused on meeting the special needs of its customers. Webster's growing franchise and automated and telephone banking initiatives enhance customer access and convenience. Webster customers now access information and transact their banking business from automated teller machines (ATMs) worldwide and through Webster's 24-hour banking center.

Webster has completed and integrated six acquisitions since 1991, each one contributing to Webster's improving results. Today, Webster is the second largest Connecticut-based bank with assets of $4 billion and over $210 million in shareholders' equity. Our 1,200 employees serve 275,000 customers from 64 banking offices and 84 ATMs in Connecticut, extending from the Massachusetts border to Long Island Sound.

1995 Earnings

Earnings for the year were $18.3 million or $2.30 per fully diluted share compared to $18.7 million or $2.44 per fully diluted share in 1994. The 1995 results were reduced by $2.7 million of non-recurring items net after tax. The 1995 earnings would have been $18.9 million or $2.83 per fully diluted share were it not for the effects of the Shelton acquisition and the net non-recurring items. Book value per share increased 16 percent in 1995, to $23.87.

Net non-recurring pretax expenses of $6.4 million were partially offset by $2.2 million in pretax gains on the sale of mortgage loan servicing. The non-recurring expenses include a $3.3 million charge related to the acquisition of Shelton Bancorp, Inc., $2.1 million of expenses related to the merger of Webster's three banking subsidiaries and name change and $1.0 million of costs incurred in preparation for Webster's acquisition of 20 former Shawmut branch banking offices.

Dividend

Webster has paid a regular quarterly cash dividend for 34 consecutive quarters since the corporation paid its first dividend in 1987. In January 1995, the board of directors increased the dividend 23 percent to $.16 per common share.

Shawmut Branch Acquisition

In October, Webster signed a definitive agreement with Shawmut Bank Connecticut to purchase 20 Shawmut Bank offices in the Hartford banking market, including approximately $845 million in deposits and $586 million in loans. The acquisition, which was consummated on February 16, 1996, expanded and strengthened Webster's franchise and created the second largest Connecticut-based bank in the state with a six percent statewide deposit market share.

This acquisition accelerated Webster's transition from a traditional thrift institution to a full-service retail bank. The Shawmut acquisition increases Webster's deposit market share in the Hartford banking market from 3.2 percent to 8.3 percent, giving Webster the second largest share in that market.

Shelton Bancorp Acquisition

Webster completed the purchase of Shelton Bancorp on November 1. Shelton Bancorp contributed assets of $295 million and six full-service banking offices in south central Connecticut. The acquisition extended Webster's franchise into an attractive contiguous market and added 13,000 households to Webster's growing customer base.

Subsidiaries Merged and Renamed Webster Bank

In November, Webster merged its subsidiary banks -- First Federal Bank, Bristol Savings Bank and Shelton Savings Bank -- into a single entity renamed Webster Bank. The merger and renaming benefitted both Webster and its customers.

The merger enables our customers to transact their banking business at any of Webster's offices throughout Connecticut. The larger bank now offers a wider array of products and services. Additionally, Webster's commercial customers benefit from the bank's presence in a larger geographic area and from the bank's ability to accommodate the credit needs of larger customers.

The merger enabled Webster to achieve economies of scale, eliminate duplicative administrative activities, streamline operations and reduce costs. Webster Financial Corporation and Webster Bank are now regulated by a single regulator, further reducing expenses and the cost of compliance.

Webster Bank expects to achieve greater name recognition in the marketplace at reduced cost by advertising as a single bank. The name change also aligns the name of the bank more closely with the name of the holding company.

Raising Capital to Support the Shawmut Acquisition

In December, Webster raised $34 million in an offering of 1,249,600 common shares priced at $27.25 per share. Net proceeds of this public offering were used to support the acquisition of the Shawmut branches. Webster currently has $210 million in equity capital and approximately 8.1 million common shares outstanding.

Community Reinvestment Act

Webster is committed to making a meaningful investment in the communities it serves and is dedicated to achieving the objectives of the Community Reinvestment Act (CRA) and Fair Lending Practices. Webster provides a comprehensive array of deposit and loan products to support the needs of all community members including minorities and low-income families. Our commitment to our communities has earned Webster the highest attainable CRA rating -- Outstanding -- for the third consecutive rating period, and has helped us build valuable customer relationships.

Rights Agreement

In February 1996, Webster's board of directors adopted a Rights Agreement to assist the board in protecting the rights and investment of Webster shareholders. The plan is designed to protect all Webster shareholders against hostile acquirers who may seek to take advantage of Webster and its shareholders through coercive or unfair tactics aimed at gaining control of Webster without paying all shareholders a full and fair price.

Outlook

The economic outlook for Connecticut appears to be improving. While lagging the national economy, the Connecticut economy continues to show modest signs of improvement. While corporate restructuring and downsizing may continue, encouraging growth is evident in small businesses statewide.

Growth

Webster remains committed to the goal of sound, steady growth. Our expanding franchise, broader product offerings and steadfast attention to superior customer service create opportunities in this regard. We intend to pursue opportunities to further strengthen Webster's franchise through combinations with other financial institutions on terms that are consistent with this goal.

The year 1995 was a rewarding one for Webster. Our achievements were made possible through the extraordinary dedication of our employees and the continued support of our customers and shareholders. Our future is bright as we realize the benefits of recent acquisitions and continue our transition to a leading Connecticut retail bank. We appreciate your investment.

Sincerely,

James C. Smith
Chairman and Chief Executive Officer

Webster Bank Offices

Webster's franchise extends from the Massachusetts border through central Connecticut to Long Island Sound. The Shawmut branch acquisition expanded our network in the Greater Hartford area. The Shelton acquisition extended Webster's franchise in south central Connecticut. Today, Webster's franchise includes 64 full-service offices and 84 ATMs located in the central and most populous corridor of Connecticut.

Full-service Banking Office Locations

38	Webster Bank offices
6	Former Shelton Savings Bank offices (Acquired November 1, 1995)
20	Former Shawmut Bank Connecticut offices (Acquired February 16, 1996)

Consumer Banking

Webster expects that by 1998, our customers will conduct over 60 percent of their transactions using automated or telephone banking means. Here, a customer uses a 24-hour ATM to make a deposit at Webster's new downtown Hartford office.

It wasn't long ago that superior customer service meant a fast-moving teller line and courteous, professional, bankers. But as consumer preferences change, the definition has been expanded to include new product offerings and easier methods by which to access those products. Today, consumers look for full-service retail banks offering everything from basic checking accounts to mutual funds and annuities to telephone banking. Webster continuously expands its product and service offerings to meet evolving consumer needs.

For customers who continue to favor branch banking, Webster offers 64 convenient locations from the Massachusetts border through central Connecticut to Long Island Sound. But recognizing that a growing number of customers prefer automated access to banking services, Webster has steadily increased its investment in technology to develop products and services that enhance our customers' ability to access their accounts and Webster telebanking representatives at anytime and from anywhere they choose.

Webster Bank's First CallSM telephone banking service (800-325-2424) provides access to account information 24 hours a day, seven days a week. More than 45,000 customers use First Call weekly to get up-to-date balances on Webster accounts, transfer funds, and make payments on Webster installment loans and mortgages. Using First Call, customers may also speak with Webster representatives after normal banking hours to open accounts, apply for loans or to simply ask questions. We expect that by 1998, Webster customers will transact over 60 percent of their banking business by direct banking means.

In 1995, Webster made significant additions to its consumer product line. We introduced the Webster Check Card, a debit card that can be used at over 12 million merchant locations worldwide. We also introduced WebsterOneSM, a relationship banking package that affords customers the opportunity to reduce fees, earn more on savings and simplify their bookkeeping with one combined statement. Additionally, Webster introduced a valuable home equity product that provides loans of up to 100 percent of the available equity in a principal residence. Webster will introduce its own credit card later this year.

Webster offers advanced products to meet our customers changing needs while maintaining a hometown bank atmosphere. Providing superior customer service is the primary focus of Webster Bank.

Webster's new Check Card combines the convenience of an ATM card with the purchasing power of a Visa card. Accepted at over 12 million Visa merchant locations worldwide, the Check Card automatically deducts purchases from a customer's checking account - it works just like a check. Here, a customer of Lane and Lenge in West Hartford Center uses her Webster Check Card to make a floral purchase.

Business Banking

Webster recently introduced its Webster FAX-LinkTM service which provides an automatic morning fax to businesses detailing checking account balances and transaction information. The Business Banking Unit has over $500 million in credit balances and $150 million in business deposits.

Businesses large and small fuel our economy, creating jobs and opportunity for people from Hartford to Hamden, from Windsor to Waterbury. Webster facilitates this process by providing credit and other banking services throughout Connecticut, where Webster is among the largest business banks.

Webster provides a full range of business banking products and services, from cash management to the most complex financing packages. In 1995, Webster opened a business banking office in Hartford and expanded its business banking operations in the Bristol, New Haven, and Waterbury regions. We also formed a Small Business Banking Unit to focus on the special needs of businesses with credit requirements of up to $250,000. Every business customer has a dedicated relationship manager who serves as the primary contact and liaison with all Webster service areas.

Business Banking has introduced several new products to make it easier for customers to access account information at anytime and from anywhere they choose. Our Webster PC-LinkTM product is a PC-based service designed to let businesses retrieve and analyze information about Webster accounts and to perform transactions. Our Webster FAX- LinkTM product is an automatic morning fax service to business customers providing balance and transaction information. Additionally, Webster offers a telephone banking service that lets business banking customers transfer funds between accounts and perform other financial transactions over the phone. For the many Connecticut companies involved in foreign trade, Webster offers international services including import, export and standby letters of credit, acceptance financing and foreign exchange.

Webster's commitment to promoting economic expansion in Connecticut and to helping firms grow and create jobs makes us a strong partner for state businesses. And as businesses prosper, so too will Webster.

Businesses fuel job growth which, in turn, fuels the economy. Webster is committed to providing the capital small- and medium-sized businesses need to prosper and expand in Connecticut. Here, Bob Annon, senior vice president, Webster Business Banking, and Edgar B. Butler, Jr., president and chief quality officer of The Taylor & Fenn Company in Windsor, view a 3,500 pound casting made for a Taylor & Fenn customer. Taylor & Fenn, a Webster customer since 1986, employs 136 people and was recently named the top state designee for the Blue Chip Enterprise Initiative sponsored by The United States Chamber of Commerce, Nations Business magazine and the Connecticut Mutual Life Insurance Company.

Mortgage Banking

Fitz and Cheryl Morrison of New Haven enjoy their new two-family home made possible in part by a mortgage from Webster Bank. A leading mortgage lender in Connecticut, Webster is committed to helping people buy, build and refinance their homes.

Webster's roots lie in mortgage lending. Sixty years ago, Webster's founder, Harold Webster Smith, assisted would-be homeowners in buying or building their homes by providing mortgage financing during the Depression era of the 1930s. Today, Webster is a leading mortgage lender in Connecticut still committed to helping people buy, build and refinance their homes.

Webster closed $275 million in residential first mortgage loans in 1995, including $107 million to first-time homebuyers, and $60 million in construction financing. Webster participates with federal, state and local agencies to assist Connecticut families buy homes. These agencies include the Connecticut Housing Finance Authority, the Connecticut Department of Housing, Fannie Mae and Freddie Mac, to name but a few. Webster actively promotes programs which are designed to meet the special needs of low-to-moderate income families.

Superior customer service and innovative products are what make Webster a successful mortgage lender. From first-time homebuyer loans to jumbo mortgages to construction loans, Webster meets each customer's unique needs. For example, Webster's Family MortgageSM introduced in 1995 allows parents to help their children buy homes. Parents can pledge certificates of deposit or the equity in their own homes as collateral in lieu of a downpayment. Another popular product, Webster's flexible construction loan automatically converts to a permanent mortgage loan.

Innovative products mean little if they are difficult to access. That's why mortgage originators, equipped with laptop computers, visit customers in their homes or their offices to complete an application in just minutes. Responding to the need for more convenient access to bank services, our laptop origination process is a major competitive advantage for Webster.

Mortgage products and the way they are delivered have changed a great deal through the years. But our commitment to making the dream of homeownership come true for Connecticut residents is as strong today as it was in 1935.

Webster mortgage originators count themselves among the select few bankers nationwide equipped with laptop computers to expedite the application process. Using laptop computers, our originators reduce the time it takes to file a mortgage application, and, reduce by a minimum of three days, the time it takes for an application to receive approval. Here, Barry and Debbie Pasqurell of Berlin provide financial information for their refinance application to Webster loan originator Renee Gonzalez.

Executive Management of Webster Financial Corporation

Front row:	Lee A. Gagnon Executive Vice President, Chief Operating Officer and Secretary
(L to R)	John V. Brennan Executive Vice President, Chief Financial Officer and Treasurer
Back row:	Peter K. Mulligan Executive Vice President, Consumer Banking
(L to R)	Gary M. MacElhiney Executive Vice President, Business Banking
	Ross M. Strickland Executive Vice President, Mortgage Banking

Harold Webster Smith

On October 11, 1935, during the depths of the Depression, 24-year old Harold Webster Smith opened a bank in downtown Waterbury, Connecticut with $25,000 in deposits gathered from family and friends. First Federal Savings of Waterbury was founded to help community members buy and build their homes. Guided by a conservative business philosophy and an extraordinary commitment to its customers, the bank has grown in its founder's image to become the second largest Connecticut-based bank.

As you have read in this report, on November 1, 1995, 60 years after the bank was founded, Webster Financial Corporation merged First Federal and its two other subsidiary banks into a single entity with a new name - Webster Bank. The merger achieved economies of scale and enables Webster to |resent a unified image in all markets. The name Webster was chosen to honor Mr. Smith and to reaffirm the bank's Connecticut roots.

Webster's headquarters building, depicted on the cover of this report, is but four blocks from Mr. Smith's birthplace and two blocks from the bank's original main office. Mr. Smith retired as chief executive officer in 1987 and as chairman of the board in 1995. He continues to serve Webster today as a director and as chairman emeritus.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

Webster Financial Corporation, ("Webster" or the "Corporation"), through its subsidiary, Webster Bank, (the "Bank") delivers financial services to local individuals and businesses. Webster's Mission is to build valuable banking relationships by helping individuals, families and businesses to reach their financial goals. The company has grown profitably in recent years, primarily through a series of acquisitions which have expanded and strengthened its franchise and have accelerated Webster's transition from a traditional thrift institution to a full-service retail bank. Webster is organized along three lines of business--consumer, business and mortgage banking each focused on the special needs of its customers. Webster's 1,200 employees serve 275,000 customers from 64 banking offices in Connecticut, extending from the Massachusetts border to Long Island Sound.

Webster's goals are to ensure customer satisfaction by providing superior customer service and by delivering quality financial products and services, to provide a stimulating and challenging work environment that encourages, develops and rewards excellence, and to make a meaningful investment in the communities Webster serves.

Assets at December 31, 1995 were $3.2 billion compared to $3.1 billion a year earlier. Net loans receivable amounted to $1.89 billion at December 31, 1995 compared to $1.87 billion a year ago. Deposits were $2.40 billion at December 31, 1995 compared to $2.43 billion at December 31, 1994.

Acquisitions

The Shawmut Transaction

On October 1, 1995, Webster Bank entered into a Purchase and Assumption Agreement with Shawmut Bank Connecticut, as part of the Fleet/Shawmut Divestiture, to acquire 20 former Shawmut branch banking offices in the Hartford Banking Market. The Shawmut Transaction was consummated on February 16, 1996 with Webster Bank receiving approximately $845 million in deposits, and $586 million in loans. In connection with the Shawmut Transaction, Webster completed the sale of 1,249,600 shares of its common stock in an underwritten public offering in December 1995. The Shawmut Transaction is being accounted for as a purchase. The results of operations related to the Shawmut branch banking offices prior to acquisition are not included in the accompanying Consolidated Financial Statements. Such results will only be included for the period subsequent to the consummation of the Shawmut Transaction.

The Shelton Acquisition

On November 1, 1995, Webster acquired Shelton Bancorp, Inc. ("Shelton") and its subsidiary, Shelton Savings Bank, a $295 million savings bank in Shelton, Connecticut. In connection with the merger with Shelton, Webster issued 1,292,549 shares of its common stock for all the outstanding shares of Shelton common stock. Under terms of the agreement, Shelton shareholders received .92 of a share of Webster common stock in a tax free exchange for each of their Shelton common shares. This acquisition was accounted for as a pooling of interests and as such Consolidated Financial Statements include Shelton's financial data as if Shelton had been combined at the beginning of the earliest period presented.

Shoreline Bank and Trust Company

On December 16, 1994, Webster acquired Shoreline Bank and Trust Company ("Shoreline"), a $51 million asset commercial bank based in Madison, Connecticut. In connection with the merger with Shoreline, Webster issued 266,500 shares of its common stock for all of the outstanding shares of Shoreline common stock. This acquisition was accounted for as a pooling of interests and as such the Consolidated Financial Statements include Shoreline's financial data as if Shoreline had been combined at the beginning of the earliest period presented. Concurrent with the acquisition, Shoreline was merged into the former First Federal Bank ("First Federal") and its Madison banking office became a full service office.

Bristol Savings Bank

On March 3, 1994, Bristol Savings Bank ("Bristol") converted from a Connecticut mutual savings bank to a Connecticut capital stock savings bank and concurrently became a wholly owned subsidiary of Webster and a sister bank to First Federal. Webster became a multiple holding company as a result of the Bristol acquisition and increased its assets by $486 million. In connection with the conversion Webster completed the sale of 1,150,000 shares of its common stock in related subscription and public offerings. The Bristol acquisition was accounted for as a purchase and results of operations relating to Bristol are included in the accompanying Consolidated Financial Statements only for the period subsequent to the effective date of the acquisition. On November 1, 1995, Webster converted Bristol Savings Bank from a state to a federal charter under the new name of Webster Bank, and then merged First Federal Bank into the renamed Webster Bank. Webster then became a unitary holding company as a result of the merger.

FDIC Assisted Acquisitions

First Federal significantly expanded its retail banking operations through assisted acquisitions of First Constitution Bank ("First Constitution") in October 1992 and Suffield Bank ("Suffield") in September 1991 from the Federal Deposit Insurance Corporation ("FDIC"). These acquisitions, which were accounted for as purchases, involved financial assistance from the FDIC and extended First Federal's retail banking operations into new market areas by adding 21 branch offices, $1.5 billion in retail deposits and approximately 150,000 customer accounts. See Note 2 to the Consolidated Financial Statements for additional information concerning the terms of these assisted acquisitions.

Asset Quality

General

Webster devotes significant attention to maintaining high asset quality through conservative underwriting standards, active servicing of loans, aggressively managing nonperforming assets and maintaining adequate reserve coverage on nonaccrual assets. At year end 1995, residential and consumer loans comprised over 90% of the loan portfolio. All fixed income securities must have an investment rating in the top two rating categories by a major rating service at time of purchase.

Unless otherwise noted, the information set forth concerning loans, nonaccrual loans, foreclosed properties and allowances for loan losses excludes Segregated Assets.

Nonaccrual Assets

The aggregate amount of nonaccrual assets decreased to $55.0 million at December 31, 1995 from $61.5 million at December 31, 1994 and declined as a percentage of total assets to 1.71% at December 31, 1995 from 2.10% at December 31, 1994. Nonaccrual loans increased $2.9 million in 1995 which was offset by a decrease of $9.4 million in foreclosed properties due to net proceeds received from sales of $11.5 million. The allowance for loan losses at December 31, 1995 was $41.8 million and represented 110.45% of nonaccrual assets. Total loan and foreclosed properties allowances for losses of $42.8 million represented 76.39% of nonaccrual assets. The following table details Webster's nonaccrual loans and foreclosed properties for the last five years.

(In Thousands)	At December 31,				
	1995	1994	1993	1992	1991
Nonaccrual Assets:					
Loans accounted for on a nonaccrual basis:					
Residential real estate	$ 20,560	$ 18,390	$ 27,995	$ 39,633	$ 8,873
Commercial real estate	15,296	15,268	4,132	1,846	4,934
Consumer	1,987	1,237	1,137	4,311	523
Foreclosed Properties:					
Residential and Consumer	6,368	9,296	18,753	11,674	2,887
Commercial	10,808	17,292	6,711	7,744	15,063
Total	$ 55,019	$ 61,483	$ 58,728	$ 65,208	$ 32,280

A summary of the activity in the allowance for loan losses for the last five years follows:

(Dollars In Thousands)	For the Years Ended December 31,				
	1995	1994	1993	1992	1991
Balance at beginning of period	$ 46,772	$ 45,168	$ 49,780	$ 11,055	$ 7,952
Charge-offs:					
Residential real estate	(6,952)	(12,761)	(8,208)	(1,027)	(429)
Consumer	(418)	(760)	(1,236)	(706)	(239)
Commercial	(3,490)	(3,578)	(2,223)	(1,424)	(2,864)
	(10,860)	(17,099)	(11,667)	(3,157)	(3,532)
Recoveries:					
Residential real estate	657	388	205	10	--
Consumer	943	1,701	749	558	3
Commercial	1,185	1,015	114	9	3
Net charge-offs	(8,075)	(13,995)	(10,599)	(2,580)	(3,526)
Additions to allowance for acquired loans	--	12,819	--	35,731	2,285
Transfer from allowance for losses for loans held for sale	--	--	2,390	--	--
Provisions charged to operations	3,100	2,780	3,597	5,574	4,344
Balance at end of period	$ 41,797	$ 46,772	$ 45,168	$ 49,780	$ 11,055
Ratio of net charge-offs to average loans outstanding	0.4%	0.8%	0.7%	0.3%	0.5%

During 1995, 1994 and 1993 increased loan charge-offs were due primarily to loans acquired as a result of the acquisitions of Bristol and First Constitution. Such charge-offs were in line with expectations and adequate loan loss allowances were established at the time of each acquisition. Included in the 1994 loan charge-offs were write-downs of $2.7 million related to a bulk sale of $10.0 million of nonperforming residential loans and foreclosed properties. See Note 13 to the Consolidated Financial Statements for a summary of activity in the allowance for losses on foreclosed properties. Management believes that the allowance for loan losses is adequate to cover expected losses in the loan portfolio.

Segregated Assets

Segregated Assets consist of all commercial real estate, commercial, and multi-family loans acquired from the FDIC in the First Constitution acquisition. Segregated Assets, before the allowance for losses of $3.2 million, totalled $108.1 million at December 31, 1995, down from $256.6 million at acquisition (1992). Segregated Assets are subject to a loss-sharing arrangement with the FDIC. The FDIC is required to reimburse Webster Bank quarterly for 80% of the total net charge-offs and certain related expenses on Segregated Assets for five years after acquisition date, with such reimbursement increasing to 95% (less recoveries in years six and seven) as to such charge-offs and expenses in excess of $49.2 million (with payment at the end of the seventh year as to such excess). The impact of purchasing the Segregated Assets has been reflected primarily in increased noninterest expenses for the Bank's share of certain reimbursable expenses and all non-reimbursable expenses. The Bank's share of charge-offs reduces the allowance for losses on the Segregated

Assets which was established in conjunction with the First Constitution acquisition. Management believes that the allowance for losses on Segregated Assets is adequate to cover expected losses on this portfolio. See Note 5 to the Consolidated Financial Statements.

Reimbursable net charge-offs and eligible expenses of Segregated Assets aggregated $7.5 million for 1995. During 1995, Webster Bank received $6.9 million as reimbursement for eligible charge-offs and related net expenses in accordance with the loss-sharing arrangement described above. Payments due from the FDIC upon charge-off and related expenses are recorded as receivables. Such reimbursements are made on a quarterly basis to Webster Bank by the FDIC. When such reimbursements are received the funds are invested in earning assets. Such reimbursements have no immediate impact on the consolidated statements of income.

A detail of changes in the allowance for Webster's share of losses for Segregated Assets follows:

(In Thousands)	Years Ended December 31,	
	1995	1994
Balance at beginning of period	$ 4,420	$ 5,042
Provisions charged to operations	--	375
Charge-offs	(1,772)	(1,505)
Recoveries	587	508
Balance at end of period	$ 3,235	$ 4,420

At December 31, 1995 and 1994, nonaccrual Segregated Assets were classified as follows:

(In Thousands)	At December 31,	
	1995	1994
Segregated Assets accounted for on a nonaccrual basis:		
Commercial real estate loans	$ 2,604	$ 13,795
Commercial loans	1,203	3,678
Multi-family real estate loans	1,432	576
Foreclosed Properties:		
Commercial real estate	648	7,753
Multi-family real estate	651	1,449
Total	$ 6,538	$ 27,251

Liquidity and Capital Resources

Webster Bank is required to maintain minimum levels of liquid assets as defined by regulations adopted by the Office of Thrift Supervision ("OTS"). This requirement, which may be varied by the OTS, is based upon a percentage of withdrawable deposits and short term borrowings. The required liquidity ratio is currently 5.0% and Webster Bank's liquidity ratio was 5.99% at December 31, 1995.

The primary sources of liquidity for Webster Bank are cash flows from operating activities, investing activities and financing activities. Cash flow from operating activities include net income, loans originated for sale, the sale of loans originated for sale and adjustments for noncash items such as depreciation, the provision for loan losses and changes in accruals. Cash flow from investing activities includes the purchase, maturity, and sale of securities and mortgage-backed securities classified as trading or available for sale, and the net change in loans and Segregated Assets. While scheduled loan amortization and maturing securities and short term investments generally are predictable sources of funds, loan and mortgage-backed securities prepayments are greatly influenced by general interest rates, economic conditions and competition. One of the inherent risks of investing in mortgage-backed securities is the ability of such instruments to incur prepayments of principal prior to maturity at prepayment rates different than those estimated at the time of purchase. This generally occurs because of changes in market interest rates. The market values of fixed-rate mortgage-backed securities are sensitive to fluctuations in market interest rates, declining in value as interest rates rise. If interest rates decrease, as has been the case during 1995, the market value of mortgage-backed securities generally will tend to increase causing the level of prepayments to increase. The lower yields on such loans, and mortgage-backed securities may be offset by a lower cost of funds. Changes in nonaccrual assets due to additions or sales of such assets may also affect liquidity.

Financing activity cash flows primarily include repayments and proceeds from FHL Bank advances and the net change in deposits. The utilization of particular sources of funds depends on comparative costs and availability. Webster Bank has, from time to time, chosen not to pay rates on deposits as high as certain competitors, and when necessary, supplements deposits with various borrowings. Webster Bank manages the prices of its deposits to maintain a stable, cost-effective deposit base as a source of liquidity.

Webster Bank had additional borrowing capacity from the FHL Bank of $1.4 billion at December 31, 1995. At that date, the Bank had FHL Bank advances outstanding of $383.1 million compared to $370.7 million at December 31, 1994. See Note 9 to the Consolidated Financial Statements.

Webster's main sources of liquidity at the holding company level are dividends from the Bank and capital offerings, while the main outflows are the payment of dividends to preferred and common stockholders and the payment of interest to holders of Webster's 8 3/4% Senior Notes. There are certain restrictions on payment of dividends by Webster Bank to Webster. See Note 15 to the Consolidated Financial Statements. Webster does not have a regulatory capital requirement at the holding company level.

In July of 1995, Webster announced its intention to repurchase up to ten percent of its outstanding common shares from time to time over a twenty-four month period. The shares purchased under the repurchase program are intended to offset future dilution from shares of common stock that may be issued in connection with conversions of currently convertible preferred stock or issued upon exercise of options under Webster's stock option plans. No shares have been repurchased under this current plan. Webster previously repurchased 548,500 shares in two stock repurchase plans announced in 1988 and 1990.

Applicable OTS regulations require federal savings banks such as Webster Bank, to satisfy certain minimum capital requirements, including a leverage capital requirement (expressed as a ratio of core or Tier 1 capital to adjusted total assets) and risk-based capital requirements (expressed as a ratio of core or Tier 1 capital and total capital to total risked- weighted assets). As an OTS regulated savings institution, Webster Bank also is subject to a minimum tangible capital requirement (expressed as a ratio of tangible capital to adjusted total assets). At December 31, 1995, Webster Bank was in full compliance with all applicable capital requirements as detailed below:

(Dollars In Thousands)	At December 31, 1995							
	Tangible Capital Requirement		Tier 1 Core Capital Requirement		Tier 1 Risk-Based Capital Requirement		Total Risk-Based Capital Requirement	
	Amount	%	Amount	%	Amount	%	Amount	%
Capital for regulatory purposes	$ 184,715	5.85%	$ 189,444	5.99%	$ 189,444	12.04%	$ 209,174	13.30%
Minimum regulatory requirement	47,334	1.50	94,810	3.00	62,932	4.00	125,863	8.00
Excess over requirement	$ 137,381	4.35%	$ 94,634	2.99%	$ 126,512	8.04%	$ 83,311	5.30%

The OTS issued new regulations, effective January 1, 1994, which added an interest-rate component to the risk-based capital requirement. However, the OTS has delayed implementation of the new regulations indefinitely. Under the new regulation, an institution is considered to have excess interest-rate risk if based upon a 200 basis point change in market interest rates, the market value of an institution's capital changes by more than 2%. The new interest-rate risk requirements, if implemented, are not expected to affect the ability of Webster Bank to meet the risk-based capital requirements.

Asset/Liability Management

The goal of Webster's asset/liability management policy is to manage interest-rate risk so as to maximize net interest income over time in changing interest-rate environments while maintaining acceptable levels of risk. To this end, Webster's strategies for managing interest-rate risk are responsive to changes in the interest-rate environment and market demands for particular types of deposit and loan products. Management measures interest-rate risk using GAP, duration and simulation analyses with particular emphasis on measuring changes in the market value of portfolio equity in different interest-rate environments. The simulations analyses incorporate assumptions about balance sheet changes such as asset and liability growth, loan and deposit pricing and changes due to the mix and maturity of such assets and liabilities. From such simulations, interest rate risk is quantified and appropriate strategies are formulated. The overall interest rate risk position is reviewed on an ongoing basis by the Asset Liability Committee, which includes Executive Management and has representation by members of each line of business. Strategies employed in 1995 to improve the interest-rate sensitive position included (i) the selling of certain fixed-rate mortgage loans, (ii) promotion of adjustable-rate mortgage loans, (iii) emphasis on the origination of variable-rate home equity credit lines and commercial loans, (iv) emphasis on the purchase of short-term or adjustable-rate securities or mortgage-backed securities, (v) emphasis on deposits that meet asset/liability management objectives and (vi) the employment of hedging techniques to reduce the interest-rate risk of certain assets or liabilities.

Based on Webster's asset/liability mix at December 31, 1995, management's simulation analysis of the effects of changing interest rates projects that an instantaneous 200 basis point increase in interest rates would decrease the market value of portfolio equity by 10% at December 31, 1995. At December 31, 1995, Webster had a 4.26% positive GAP position in the one year time horizon which means that cumulative interest-rate sensitive assets exceed cumulative interest-rate sensitive liabilities for that period. Management believes that its interest-rate risk position represents a reasonable amount of interest-rate risk at this point in time. Webster also utilizes as part of its asset/liability management strategy various interest rate contracts including short futures positions, interest rate swaps and interest rate caps. The notional amounts of these instruments are not reflected in Webster's statement of condition but are included in the repricing table for purposes of analyzing interest-rate risk. Interest-rate contracts are entered into as hedges against future rate fluctuations and not for speculative purposes.

Webster is unable to predict future fluctuations in interest rates and as such the market values of certain of Webster's financial assets and liabilities are sensitive to fluctuations in market interest rates. Changes in interest rates can affect the amount of loans originated by Webster Bank, as well as the value of its loans and other interest-earning assets. The extent to which borrowers prepay loans also is affected by prevailing interest rates. When interest rates increase, borrowers are less likely to prepay their loans; whereas when interest rates decrease, borrowers are more likely to prepay their loans. Prepayments may adversely affect the value of mortgage loans, the levels of such assets that are retained in Webster Bank's portfolio, and net interest income and loan servicing income. Similarly, prepayments on mortgage-backed securities may also adversely affect the value of these securities and interest income. Increases in interest rates may cause depositors to shift funds from accounts that have a comparatively lower cost such as regular savings accounts to accounts with a higher cost such as certificates of deposit. If the cost of interest-bearing liabilities increase at a rate that is greater than the increase in yields on interest-earning assets, the interest rate spread is negatively affected. Changes in the asset and liability mix also affects the interest rate spread.

The following table sets forth the estimated maturity/repricing structure of Webster's interest-earning assets and interest-bearing liabilities at December 31, 1995. Repricing for mortgage loans is based on contractual repricing and projected prepayments and repayments of principal. Deposit liabilities without fixed maturities are assumed to decay over the periods presented based on industry standards and internal projections.

(Dollars In Thousands)	6 Months or less	More than 6 Months to 1 Year	More than 1 Year to 3 Years	More than 3 Years to 5 Years	More than 5 Years to 10 Years	More than 10 Years to 20 Years	More than 20 Years	Total
Assets								
Loans	$ 680,310	$ 468,168	$ 391,347	$ 138,192	$ 139,926	$ 121,030	$ 58,473	$1,997,446
Securities	571,282	147,170	97,235	52,561	83,083	77,719	41,607	1,070,657
Total Rate-Sensitive Assets	$ 1,251,592	$ 615,338	$ 488,582	$ 190,753	$ 223,009	$ 198,749	$ 100,080	$3,068,103
Liabilities								
Deposits	$ 808,381	$ 459,215	$ 689,618	$ 275,955	$ 84,592	$ 44,703	$ 37,738	$2,400,202
Borrowings	357,057	105,000	65,000	50,700	--	--	--	577,757
Total Rate Sensitive Liabilities	$ 1,165,438	$ 564,215	$ 754,618	$ 326,655	$ 84,592	$ 44,703	$ 37,738	$2,977,959
Consolidated GAP	$ 86,154	$ 51,123	$ (266,036)	$ (135,902)	$ 138,417	$ 154,046	$ 62,342	
GAP to Total Assets Percentage	2.67%	1.59%	-8.26%	-4.22%	4.30%	4.78%	1.94%	
Cumulative GAP	$ 86,154	$ 137,277	$ (128,759)	$ (264,661)	$(126,244)	$ 27,802	$ 90,144	
Cumulative GAP to Total Assets Percentage	2.67%	4.26%	-4.00%	-8.22%	-3.92%	0.86%	2.80%	

Comparison of 1995 and 1994 Years

General

For 1995, Webster reported net income of $18.3 million, or $2.30 per share on a fully diluted basis. Included in the 1995 results are a total of $6.4 million of non-recurring expenses which include: $3.3 million of expenses related to the Shelton acquisition, $2.1 million of expenses related to changing the name of and merging together Webster's banking subsidiaries, and $1.0 million of expenses related to charges incurred in preparation for the acquisition of 20 branch banking offices from the former Shawmut Bank. Also included in the 1995 results are a $2.2 million gain on the sale of mortgage servicing rights and $500,000 of losses on the sale of securities as part of a portfolio restructuring plan. Net income for 1994 amounted to $18.7 million, or $2.44 per share on a fully diluted basis. Included in the 1994 results are $700,000 of expenses related to the Shoreline acquisition, a $5.0 million write-down of the First Constitution core deposit intangible asset and income tax benefits of $4.5 million related to a reduction of the deferred tax asset valuation allowance primarily related to Bristol. Results for Bristol are included in the accompanying Consolidated Financial Statements only from the date of acquisition on March 3, 1994.

Net Interest Income

Net interest income before the provision for loan losses decreased $5.1 million in 1995 to $87.3 million from $92.4 million for 1994. The decrease is primarily due to the fact that the cost of interest-bearing liabilities has increased faster than the yield on interest-earning assets, in part due to a shift of low cost deposits to longer term certificates of deposit.

Interest Income

Total interest income for 1995 amounted to $218.8 million, an increase of $28.0 million, or 14.7%, compared to $190.8 million in 1994. This increase in income was due primarily to an increase in the average volume of loans and mortgage-backed securities and to an increase in the average yield on all interest-earning assets which increased to 7.20% in 1995 from 6.91% in 1994.

Interest Expense

Interest expense for 1995 amounted to $131.5 million, an increase of $33.1 million, or 33.6%, compared to $98.5 million in 1994. This increase in interest expense of $33.1 million was due primarily to an increase in interest rates of $21.4 million and to an increase in the average volume of deposits and borrowings of $11.7 million.

The following table shows the major categories of assets and liabilities together with their respective interest income or expense and the rates earned and paid by Webster.

(Dollars In Thousands)	Years Ended December 31,								
	1995			1994			1993		
	Average Balance	Interest	Average Yield	Average Balance	Interest	Average Yield	Average Balance	Average Interest	Yield
Loans, net (a)	$ 1,935,608$	144,896(b)	7.49%	$ 1,810,382	$ 129,859(b)	7.17%	$ 1,524,133	$105,924(b)	6.95%
Segregated Assets, net (a)	123,293	9,592	7.78	126,207	9,789	7.7	200,629	15,448	7.70
Mortgage-backed									

securities	776,710	52,718	6.79	602,865	38,786	6.43	395,623	24,777	6.26
Interest-bearing deposits	24,790	948	3.80	30,312	1,071	3.53	19,328	650	3.36
Securities	182,400	10,657	6.22(c)	191,682	11,315	5.99(c)	144,815	7,790	5.49(c)
Total interest-earning assets	3,042,801	218,811	7.20	2,761,448	190,820	6.9	2,284,528	154,589	6.77
Other assets	101,367			211,058			102,741		
Total assets	$ 3,144,168			$ 2,972,506			$ 2,387,269		
Savings, DDA and escrow	$ 840,822	$ 14,122	1.68%	$ 858,887	$ 15,769	1.84%	$ 708,135	$ 15,859	2.24%
Money market savings and fixed maturity deposits	1,632,576	84,013	5.15	1,466,179	61,066	4.16	1,270,026	52,828	4.16
FHL Bank advances	419,822	27,501	6.55	351,693	17,969	5.11	219,874	10,071	4.58
Repurchase Agreements	37,830	2,237	5.91	--	--	--	--	--	--
Other borrowings	40,000	3,660	9.15	40,000	3,660	9.15	24,836	2,045	8.23
Total interest-bearing liabilities	2,971,050	131,533	4.42	2,716,759	98,464	3.62	2,222,871	80,803	3.64
Other liabilities	1,884			106,878			35,621		
Shareholders' equity	171,234			148,869			128,777		
Net interest income and interest rate spread		$ 87,278	2.78		$ 92,356	3.29		$ 73,786	3.13
Total liabilities and shareholders' equity	$ 3,144,168			$ 2,972,506			$ 2,387,269		
Net yield on average earning assets			2.89%			3.34%			3.23%

<FN>
(a) Interest on nonaccrual loans has been included only to the extent reflected in the Consolidated Statements of Income. Nonaccrual loans, however, are included in the average balances outstanding.
(b) Includes discount and fee income, net of $1.1 million, $547,000 and $707,000 in 1995, 1994 and 1993, respectively.
(c) Yields are adjusted to a fully taxable equivalent basis.
</FN>

Net interest income also can be analyzed in terms of the impact of changing rates and changing volumes. The following table describes the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected Webster's interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior rate), (ii) changes attributable to changes in rates (changes in rates multiplied by prior volume), and (iii) the net change. The change attributable to the combined impact of volume and rate has been allocated proportionately to the change due to volume and the change due to rate.

(In Thousands)	Years Ended December 31,					
	1995 v. 1994			1994 v. 1993		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Rate	Volume	Total	Rate	Volume	Total
Interest on interest-earning assets:						
Loans and Segregated Assets	$ 5,802	$ 9,038	$ 14,840	$ 3,165	$ 15,111	$ 18,276
Mortgage-backed securities	2,232	11,700	13,932	690	13,319	14,009
Securities	47	(828)	(781)	772	3,174	3,946
Total	8,081	19,910	27,991	4,627	31,604	36,231
Interest on interest-bearing liabilities:						
Deposits	16,161	5,139	21,300	(3,158)	11,306	8,148
FHL Bank advances and other borrowings	5,216	6,553	11,769	1,530	7,983	9,513
Total	21,377	11,692	33,069	(1,628)	19,289	17,661
Net change in net interest income	$(13,296)	$ 8,218	$ (5,078)	$ 6,255	$ 12,315	$ 18,570

Provision for Loan Losses

The provision for loan losses for 1995 was $3.1 million versus $3.2 million for 1994. The allowance for losses on loans at December 31, 1995 amounted to $41.8 million and represented 110.45% of nonaccrual loans versus $46.8 million or 134.04% of nonaccrual loans at December 31, 1994.

Noninterest Income

Noninterest income for 1995 amounted to $22.0 million, compared to $13.6 million in 1994. Fees and service charges totaled $14.1 million in 1995, an increase of

$1.9 million, or 15.9% from 1994 due primarily to a larger customer base. Gains on sales of loans, mortgage loan servicing rights, securities and mortgage-backed securities amounted to $4.3 million in 1995 compared to losses of $1.2 million in 1994. The 1995 results include non-recurring income of $2.2 million, which represent gains on the sale of mortgage loan servicing rights and non-recurring losses on the sale of securities as part of a portfolio restructuring plan. Other noninterest income for 1995 amounted to $3.5 million, an increase of $.9 million from 1994.

Noninterest Expenses

Noninterest expenses for 1995 amounted to $79.6 million compared to $79.3 million in 1994. The increase of $.3 million is primarily due to increased salaries and employee benefits, occupancy, furniture and equipment, and other operating expenses, offset by decreases in federal deposit insurance premiums and foreclosed properties expenses. Included in the 1995 results are a total of $6.4 million of non-recurring expenses which include: $3.3 million of expenses related to the Shelton acquisition, $2.1 million of expenses related to changing the name of and merging together Webster's banking subsidiaries, and $1.0 million of expenses related to charges incurred in preparation for the acquisition of 20 banking offices from the former Shawmut Bank. Also included in the 1995 results were benefits from the reduction of the Bank Insurance Fund ("BIF"), deposit insurance premiums. The Federal Deposit Insurance Corporation determined that the BIF had met its required reserve ratio as of June 1, 1995 and lowered the BIF premium retroactively to that date. There was no reduction by the FDIC in the premium rates of the Savings Association Insurance Fund ("SAIF") which has not met its required reserve level. At December 31, 1995, approximately 59% of Webster Bank's deposits are assessed premiums at the BIF rate and 41% at the SAIF rate. Deposits acquired in the Shawmut transaction on February 16, 1996 will be assessed at the lower BIF rates. The decrease in foreclosed property expenses is due to lower provisions for foreclosed property losses and lower foreclosed property expenses due to a decrease in the outstanding balance of foreclosed properties. Included in the 1994 results are $700,000 of expenses related to the Shoreline acquisition and a $5.0 million write-down of the First Constitution core deposit intangible asset. An evaluation of the core deposit intangible asset at December 31, 1995 was performed using a discounted cash flow analysis. This analysis revealed that there has not been any further impairment of this asset.

Income Taxes

Income tax expense for 1995 increased to $8.2 million from $4.8 million in 1994. Included in the 1995 and 1994 results are $2.9 million and $4.5 million of benefits from the utilization of tax loss carryforwards and the reduction of the deferred tax asset valuation allowance primarily related to Bristol Savings Bank.

Comparison of 1994 and 1993 Years

General For 1994, Webster reported net income of $18.7 million, or $2.44 per share on a fully diluted basis. Included in the 1994 results were $700,000 of expenses related to the Shoreline acquisition, a $5.0 million write-down of the First Constitution core deposit intangible asset and income tax benefits of $4.5 million related to a reduction of the deferred tax asset valuation allowance. Net income for 1993 amounted to $18.9 million and net income available to common shareholders was $16.2 million. Included in the 1993 results was cumulative change in the method of accounting for income taxes of $4.6 million. This change occurred as a result of the adoption of Statement of Financial Accounting Standard No. 109, "Accounting For Income Taxes" and is discussed in more detail in Note 14 to the Consolidated Financial Statements. Operating earnings for 1994 amounted to $16.9 million or $2.44 per fully diluted share compared to $11.6 million or $2.04 per fully diluted share for the same period a year earlier. The increased operating earnings for 1994 were primarily attributed to increased earning assets as a result of the Bristol acquisition and lower provisions for loan losses.

Operating Earnings Summary

(In Thousands)	Years Ended December 31, 1994	1993
Net Income	$ 18,685	$ 18,875
Less Cumulative Change in Method of Accounting for Income Taxes	--	4,575
Operating Earnings	18,685	14,300
Less Preferred Stock Divided Requirements	1,716	2,653
Operating Earnings Available to Common Shareholders	$ 16,969	$ 11,647

Net Interest Income

Net interest income before the provision for loan losses increased $18.6 million in 1994 to $92.4 million from $73.8 million for 1993. The increase was primarily the result of higher volumes of interest-earning assets due to the Bristol acquisition.

Interest Income

Total interest income for 1994 amounted to $190.8 million, an increase of $36.2 million, or 23.4%, compared to 1993. This increase in income was due primarily to an increase in the average volume of loans, mortgage-backed securities and securities acquired in the Bristol acquisition and to an increase in the average yield on all interest-earning assets which increased to 6.91% in 1994 from 6.77% in 1993.

Interest Expense

Interest expense for 1994 amounted to $98.5 million, an increase of $17.7 million, or 21.9%, compared to 1993. The increase in interest expense of $17.7 million was attributable to an increase in the average volume of deposits and borrowings of $19.3 million and a decrease of $1.6 million related to interest rates. The increase in volume is primarily attributable to an increase of interest-bearing liabilities as a result of the Bristol acquisition.

Provision for Loan Losses

The provision for loan losses for 1994 was $3.2 million versus $4.6 million for 1993. The allowances for losses on loans at December 31, 1994 amounted to $46.8 million and represented 134.04% of nonaccrual loans versus $45.2 million or 135.79% of nonaccrual loans at December 31, 1993.

Noninterest Income

Noninterest income for 1994 amounted to $13.6 million, compared to $10.7 million in 1993. Fees and service charges totaled $12.2 million in 1994, an increase of $4.3 million, or 54%, from 1993 primarily due to increases in fees from checking and deposit products and loan servicing as a result of the Bristol acquisition. Losses on sales of loans, securities and mortgage-backed securities amounted to $1.2 million in 1994 compared to gains of $1.9 million in 1993. Other noninterest income for 1994 amounted to $2.6 million, compared to $911,000 in 1993, an increase of $1.7 million primarily as a result of the Bristol acquisition.

Noninterest Expenses

Noninterest expenses for 1994 amounted to $79.3 million compared to $55.0 million in 1993. The increase of $24.3 million is primarily due to increased salaries, benefits, occupancy, furniture and equipment costs, increased premiums for federal deposit insurance, foreclosed property expenses and provisions and other noninterest expenses and are related primarily to the Bristol acquisition. Expenses for 1994 also included a $5.0 million write-down of the core deposit intangible asset recorded in the First Constitution acquisition and $700,000 of expenses related to the Shoreline acquisition. A write-down of the core deposit intangible was deemed necessary after a review of the recoverability of this asset was made. During 1994 there were outflows of regular savings and certificate of deposit accounts because of overall increases in interest rates. In addition, because of the loss of customer accounts the ability to collect fee income on such accounts had been reduced. Based on these changes, management's estimates of fees and service charges and interest expense on deposits indicate that the original projections of such amounts will not be achieved. Such analysis was prepared using a discounted cash flow analysis. Periodic evaluations of the core deposit intangible asset will continue to be made and such further impairment, if any, will be recorded as a charge to the statement of income. The increase in foreclosed property expenses and provisions of $1.9 million is primarily due to increased provisions for foreclosed properties.

Income Taxes

Income tax expense for 1994 decreased to $4.9 million from $10.6 million in 1993 due to benefits from the utilization of tax loss carryforwards and the reduction of the deferred tax asset valuation allowance primarily relating to Bristol Savings Bank. Included in the 1993 results is a cumulative change in the method of accounting for income taxes of $4.6 million as a result of the adoption of Financial Accounting Standard No. 109, "Accounting for Income Taxes", which is discussed in more detail in Note 14 to the Consolidated Financial Statements.

Impact of Inflation and Changing Prices

The financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation.

Unlike most industrial companies, virtually all of the assets and liabilities of a banking institution are monetary in nature. As a result, interest rates have a more significant impact on a banking institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the price of goods and services. In the current interest rate environment, the maturity structure of Webster's assets and liabilities are critical to the maintenance of acceptable performance levels.

Recent Financial Accounting Standards

In October 1995, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 123 "Accounting for Stock-Based Compensation." This statement encourages all companies to adopt a new fair value based method of accounting for stock compensation plans in place of the intrinsic value method prescribed by Accounting Principals Board ("APB") Opinion 25. In adopting the fair value based method, companies will record compensation cost related to activity with their stock-based compensation plans. Companies that choose to continue to account for stock- based compensation under the provision of APB Opinion 25 will be required to disclose the impact on net income and earnings per share as if they had adopted the fair value method. Webster does not plan to adopt the fair value method. This standard applies to financial statements for fiscal years beginning after December 31, 1994. Calendar year companies will first be required to disclose comparable pro forma net income and earnings per share for 1995 and 1996 in their 1996 financial statements.

In May 1995, the FASB issued Statement of Financial Accounting Standards No. 122 ("SFAS No. 122") "Accounting for Mortgage Servicing Rights", which amends SFAS No. 65 "Accounting for Certain Mortgage Banking Activities." Under SFAS No. 65, mortgage servicing rights were required to be capitalized only if servicing was purchased but prohibited separate capitalization of mortgage servicing rights when acquired through loan portfolio sales with servicing rights retained. SFAS No. 122 requires that a mortgage banking entity recognize as a separate asset the value of the right to service mortgage loans for others, regardless of how those servicing rights are acquired. Additionally, SFAS No. 122 requires that a mortgage banking entity assess its capitalized mortgage servicing rights for impairment and establish valuation allowances based on the fair value of those servicing rights, which include those servicing rights acquired prior to the adoption of SFAS No. 122. As allowed under the provisions of this statement, Webster elected early adoption of SFAS No. 122 on July 1, 1995. At December 31, 1995, the fair value of all mortgage servicing rights approximates its book value of $2.6 million, therefore, no valuation allowance was recorded.

In October 1994, the FASB issued statement of Financial Accounting Standard No. 119 ("SFAS 119"), "Disclosures about Derivative Financial Instruments and Fair Value of Financial Instruments." This statement requires institutions to disclose the average fair value of derivative instruments as well as net gains and losses arising from trading revenues. Webster currently holds short futures positions to minimize the price volatility of certain adjustable-rate assets held as Trading Securities. Changes in the market value of short futures positions are recognized in the statements of income as a gain or loss in the period for which the change occurred. Webster also holds various interest-rate financial instruments in the form of interest rate swaps and caps as hedges against increases in interest rates. This statement is effective for fiscal years ending after December 15, 1994. See Notes 3 and 11.

In November 1993, the Accounting Standards Executive Committee issued Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans." This statement requires institutions with employee stock ownership plans to record compensation expense equivalent to the fair value of shares committed to be released to employees. Shares not committed to be released are excluded from outstanding shares for the calculation of net income per share. Such provisions are not required for employee stock ownership plan shares issued prior to December 31, 1992. On March 3, 1994, in conjunction with the subscription and public offerings of 1,150,000 shares of common stock of Webster, the Webster Bank Employee Stock Ownership Plan purchased 100,000 additional shares. The implementation of Statement of Position 93-6 did not have an effect on earnings for 1994 since no shares related to the purchase were committed for release during 1994. During 1995, 4,127 shares were released and the impact on earnings was $85,000 before income taxes. The exclusion of the additional employee stock ownership plan shares not committed to be released does not have a material effect on the computation of net income per share.

In May 1993, the FASB issued Statement of Financial Accounting Standard No. 115 ("SFAS 115"), "Accounting for Certain Investments in Debt and Equity Securities." As allowed under the provisions of this statement, Webster elected early adoption of SFAS No. 115 on December 31, 1993. The early adoption and implementation of SFAS No. 115 did not have a material affect on the financial statements. See Note 1 to the Consolidated Financial Statements for a discussion of SFAS No. 115.

In May 1993, the Financial Accounting Standards Board issued SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." Under SFAS No. 114, a loan is considered impaired when it is probable that the creditor will be unable to collect amounts due, both principal and interest, according to the contractual terms of the loan agreement. This statement does not apply to large groups of small-balance homogeneous loans that are collectively evaluated for impairment such as residential and consumer loans. When a loan is impaired, a creditor has a choice of ways to measure impairment. The factors used to measure impairment include: (i) the present value of expected future cash flows of the impaired loan discounted at the loan's original effective interest rate, (ii) the observable market price of the impaired loan or (iii) the fair value of the collateral of the collateral-dependent loan. When a loan has been deemed to be impaired, a valuation allowance is established for the amount of such impairment.

Webster considers its residential and consumer loan portfolios to be exempt from the provisions of SFAS No. 114 since these loans are large groups of small-balance homogeneous loans collectively evaluated for determining loan loss allowances. In identifying impaired loans under the provisions of SFAS No. 114, Webster aggregates loans into risk classifications and makes an individual assessment of each borrower's ability to repay based upon current contract terms. If it is determined that the borrower will not be able to fulfill the terms of the original contract, the loan is classified as impaired. Impaired loans differ from nonaccrual loans based upon the following: nonaccrual loans are loans which are contractually past due 90 days or more as to principal or interest payments. In addition, a loan may be placed on nonaccrual status based on uncertainty as to future principal or interest payments. In comparison, the measurement of impaired loans is more subjective due to the use of estimates of future cash flows.

There is no difference in Webster's charge-off policy for impaired loans as compared to other loans classified as nonaccrual or risk-rated by category. Loans are charged-off to the loan loss or impaired loan loss allowances when management determines that a portion of the book value of the loan will not be recovered either through principal repayment or liquidation of the underlying collateral.

In October 1994, the Financial Accounting Standards Board issued SFAS No. 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosure", amending SFAS No. 114. SFAS No. 118 allows institutions to use existing methods for recognizing interest income on impaired loans. Webster's policy with regard to the recognition of interest income on impaired loans includes an individual assessment of each loan. Interest which is more than 90 days past due is not accrued. When payments on impaired loans are received, Webster records interest income on a cash basis or applies the total payment to principal based on an individual assessment of each loan.

Recent Proposed Legislation

Legislation has been introduced in the United States House of Representatives ("House") that would eliminate the federal savings association charter by January 1, 1998. If such legislation is enacted, Wester Bank would be required to convert its federal savings charter to either a national bank charter or to a state depository institution charter. Pending legislation also may result in Webster becoming regulated at the holding company level by the Board of Governors of the Federal Reserve System ("Federal Reserve") rather than the OTS. Regulation by the Federal Reserve could subject Webster to capital requirements that are not currently applicable to Webster as a holding company under OTS regulation and may result in statutory limitations on the type of business activities in which Webster may engage at the holding company level, which business activities currently are not restricted. The pending legislation is expected to provide relief as to recapture of the bad debt deduction that otherwise would be applicable if Webster Bank were unable to continue as a qualified savings institution for federal tax purposes. Webster is unable to predict whether such legislation will be enacted or, if enacted, whether it will contain relief as to bad debt deductions previously taken by Webster Bank.

Savings Association Insurance Fund Recapitalization

The current financial condition of the Savings Association Insurance Fund ("SAIF") has resulted in the introduction of various legislation in both the United States Senate ("Senate") and the House to recapitalize the SAIF and then to merge the SAIF into the Bank Insurance Fund ("BIF"). Both the Senate and House legislation, as currently proposed, would generally impose a special one-time assessment of approximately 85 cents per $100 of assessable SAIF deposits at March 31, 1995. Depending upon the final form of this legislation, the special assessment may apply retroactively to approximately $882 million of assessable SAIF deposits at Webster Bank. After the special assessment, it is proposed that SAIF premium rates would then be the same as BIF rates until the funds are merged, which would significantly reduce Webster Bank's future federal deposit insurance premiums. Webster Bank is unable to predict whether this legislation will be enacted, the amount or applicable retroactive date of any one-time assessment or the rates that would then apply to assessable SAIF deposits.

Consolidated Statements of Condition

(Dollars In Thousands, Except Share Data)	December 31,	
	1995	1994
Assets		
Cash and Due from Depository Institutions	$ 44,228	$ 44,304
Interest-bearing Deposits	26,017	54,318
Securities: (Note 3)		
Trading at Fair Value	44,604	23,095
Available for Sale, at Fair Value	498,088	175,214
Held to Maturity, (Market Value: $505,775 in 1995; $599,412 in 1994)	501,948	630,449
Loans Receivable, Net (Note 4)	1,891,956	1,869,216
Segregated Assets, Net (Note 5)	104,839	137,096
Accrued Interest Receivable	21,585	18,359
Premises and Equipment, Net (Note 6)	40,654	36,632
Foreclosed Properties, Net (Note 13)	17,176	26,588
Prepaid Expenses and Other Assets (Note 7)	28,575	38,580
Total Assets	$ 3,219,670	$ 3,053,851
Liabilities and Shareholders' Equity		
Deposits (Note 8)	$ 2,400,202	$ 2,431,945
Federal Home Loan Bank Advances (Note 9)	383,100	370,700
Other Borrowings (Note 10)	170,014	43,675
Advance Payments by Borrowers for Taxes and Insurance	14,435	13,375
Accrued Expenses and Other Liabilities	41,946	37,349
Total Liabilities	3,009,697	2,897,044
Shareholders' Equity (Notes 15 and 16)		
Cumulative Convertible Preferred Stock, Series B, 171,869 shares issued and outstanding at December 31, 1995 and 172,129 shares issued and outstanding at December 31, 1994	2	2
Common Stock, $.01 par value: Authorized - 14,000,000 shares; Issued - 8,501,746 shares at December 31, 1995 and 7,255,834 shares at December 31, 1994	85	73
Paid in Capital	138,263	104,961
Retained Earnings	75,858	63,216
Less Treasury Stock at cost, 424,024 shares at December 31, 1995 and 475,874 shares at December 31, 1994	(3,290)	(3,692)
Less Employee Stock Ownership Plan Shares Purchased with Debt	(3,207)	(3,675)
Unrealized Gains (Losses) on Securities, Net	2,262	(4,078)
Total Shareholders' Equity	209,973	156,807
Commitments and Contingencies (Notes 4, 6, and 17)		
Total Liabilities and Shareholders' Equity	$ 3,219,670	$ 3,053,851

See accompanying notes to consolidated financial statements

Consolidated Statements of Income

(Dollars In Thousands, Except Share Data)	Years Ended December 31,		
	1995	1994	1993

Interest Income:			
Loans and Segregated Assets	$ 154,488	$ 139,648	$ 121,372
Mortgage-backed Securities	52,718	38,786	24,777
Securities and Interest-bearing Deposits	11,605	12,386	8,440
Total Interest Income	218,811	190,820	154,589
Interest Expense:			
Interest on Deposits (Note 8)	98,135	76,835	68,687
Interest on Borrowings	33,398	21,629	12,116
Total Interest Expense	131,533	98,464	80,803
Net Interest Income	87,278	92,356	73,786
Provision for Loan Losses (Note 4)	3,100	3,155	4,597
Net Interest Income After Provision for Loan Losses	84,178	89,201	69,189
Noninterest Income:			
Fees and Service Charges	14,131	12,188	7,912
Gain on Sale of Loans and Loan Servicing, Net (Note 4)	3,116	258	1,469
Gain (loss) on Sale of Securities, Net (Note 3)	1,173	(1,440)	411
Other Noninterest Income	3,555	2,623	911
Total Noninterest Income	21,975	13,629	10,703
Noninterest Expenses:			
Salaries and Employee Benefits	37,608	34,943	22,336
Occupancy Expense of Premises	6,390	5,696	4,757
Furniture and Equipment Expenses	5,999	5,976	4,066
Federal Deposit Insurance Premiums	3,990	5,742	3,921
Foreclosed Property Expenses and Provisions, Net (Note 13)	4,025	6,949	5,085
Non-recurring Expenses (Note 2)	6,371	5,700	--
Other Operating Expenses	15,204	14,289	14,832
Total Noninterest Expenses	79,587	79,295	54,997
Income Before Income Taxes and Cumulative Effect of Change in Method of Accounting for Income Taxes	26,566	23,535	24,895
Income Taxes (Note 14)	8,246	4,850	10,595
Income Before Cumulative Effect of Change in Method of Accounting for Income Taxes	18,320	18,685	14,300
Cumulative Effect of Change in Method of Accounting for Income Taxes (Note 14)	--	--	4,575
Net Income	18,320	18,685	18,875
Preferred Stock Dividends	1,296	1,716	2,653
Net Income Available to Common Shareholders	$ 17,024	$ 16,969	$ 16,222
Net Income Per Common Share Before Cumulative Effect of Change in Method of Accounting for Income Taxes:			
Primary	$ 2.44	$ 2.69	$ 2.25
Fully Diluted	2.30	2.44	2.04

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows
(Dollars In Thousands)

	Years Ended December 31,		
	1995	1994	1993
Operating Activities:			
Net Income	$ 18,320	$ 18,685	$ 18,875
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:			
Provision for Loan Losses	3,100	3,155	4,597
Provision for Foreclosed Property Losses	2,000	3,082	1,996
Provision for Depreciation and Amortization	4,507	4,383	3,180
Amortization of Securities Premiums, Net	884	390	2,103
Amortization and Write-down of Core Deposit Intangible	728	6,372	1,633
(Gains) Losses on Sale of Foreclosed Properties	(918)	465	143
Loans and Securities (Gains) Losses, Net	(4,398)	1,322	(1,675)
Losses (Gains) on Sale of Trading Securities	109	(140)	(205)
(Increase) Decrease in Trading Securities	(19,859)	25,684	(27,906)

Decrease (Increase) in Investments Held for Sale	--	5,392	(5,372)
Loans Originated for Sale	(101,537)	(288,880)	(84,230)
Sale of Loans, Originated for Sale	109,787	208,775	91,740
(Increase) Decrease in Interest Receivable	(3,171)	453	(328)
Increase in Interest Payable	960	3,888	2,793
Increase (Decrease) in Accrued Expenses and Other Liabilities, Net	3,302	(44,671)	28,742
Decrease in Prepaid Expenses and Other Assets	2,240	3,543	8,384
Net Cash Provided (Used) by Operating Activities	16,054	(48,102)	44,470
Investing Activities:			
Purchases of Securities, Available for Sale	(148,803)	(99,631)	(93,071)
Purchases of Securities, Held to Maturity	(308,021)	(106,136)	(330,739)
Maturities of Securities	14,097	25,944	34,088
Proceeds from Sales of Securities, Available for Sale	140,917	26,767	14,923
Net Decrease in Interest-bearing Deposits	28,301	396	29,631
Purchase of Loans	(2,123)	(37,181)	(5,468)
Sale of Consumer Loans Held for Sale	--	--	19,695
Net (Increase) Decrease in Loans	(28,598)	(117,242)	13,057
Proceeds from Sales of Foreclosed Properties	12,870	23,106	10,211
Net Decrease in Segregated Assets	28,941	39,902	46,909
Principal Collected on Mortgage-backed Securities	118,174	166,503	151,143
Purchase of Premises and Equipment	(8,529)	(6,916)	(4,584)
Net Cash and Cash Equivalents Received from Bank Institutions Acquired in a Purchase Transaction	--	15,490	--
Net Cash Used by Investing Activities	(152,774)	(68,998)	(114,205)
Financing Activities:			
Net (Decrease) Increase in Deposits	(31,743)	26,802	(28,675)
Net Proceeds from Sale of Common Stock	32,112	21,923	--
Repayment of FHLB Advances	(1,039,613)	(1,147,042)	(544,230)
Proceeds from FHLB Advances	1,052,014	1,247,542	627,842
Repayment of Other Borrowings	(61,193)	--	(5,000)
Proceeds from Other Borrowings	188,077	--	40,000
Redemption of Preferred Stock Series A	--	--	(18,250)
Cash Dividends to Common and Preferred Shareholders	(5,690)	(4,724)	(5,015)
Net Increase (Decrease) in Advance Payments for Taxes and Insurance	1,060	(8,710)	(2,440)
Exercise of Stock Options	1,620	569	1,026
Net Cash Provided by Financing Activities	136,644	136,360	65,258
(Decrease) Increase in Cash and Cash Equivalents	(76)	19,260	(4,477)
Cash and Cash Equivalents at Beginning of Period	44,304	25,044	29,521
Cash and Cash Equivalents at End of Period	$ 44,228	$ 44,304	$ 25,044

Supplemental Disclosures:			
Income Taxes Paid	$ 9,087	$ 9,253	$ 19,440
Interest Paid	130,573	102,356	78,010
Supplemental Schedule of Noncash Investing and Financing Activities:			
Transfer of Loans to Foreclosed Properties	12,002	47,479	18,465
Transfer of Securities from Held to Maturity to Available for Sale	301,424	--	-
Securitization of Residential Real Estate Loans	--	137,458	-

</TABLE>

See accompanying notes to consolidated financial statements

Consolidated Statements of Shareholders' Equity

(In thousands, Except Share Data)	Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock	Employee Stock Ownership Plan Shares Purchased With Debt	Unrealized Gains (Losses) On Securities, Net	Total
Balance, December 31, 1992	$ 10	$ 51	$ 94,235	$ 41,373	$ (4,249)	$ (2,276)	$ --	$129,144
Net Income for 1993	--	--	--	18,875	--	--	--	18,875
Dividends Paid: $.46 Per Common Share	--	--	--	(2,348)	--	--		(2,348)
Dividends Paid or Accrued: Preferred Series A & B	--		--	(2,653)	--	--	--	(2,653)
Reduction of Debt Related to ESOP Shares	--	--	--	--	--	324	--	324

Exercise of Stock Options	--	--	754	--	433	--	--	1,187
Ten Percent Stock Dividend	--	6	5,800	(5,930)	--	--	--	(124)
Net Unrealized Gain on Securities Available for Sale, Net of Taxes	--	--	--	--	--	--	118	118
Redemption of Series A Stock	(7)	--	(18,243)	--	--	--	--	(18,250)
Balance, December 31, 1993	$ 3	$ 57	$82,546	$ 49,317	$ (3,816)	$ (1,952)	$ 118	$126,273
Net Income for 1994	--	--	--	18,685	--	--	--	18,685
Dividends Paid: $.48 Per Common Share	--	--	--	(3,053)	--	--	--	(3,053)
Dividends Paid or Accrued: Preferred Series B	--	--	--	(1,716)	--	--	--	(1,716)
Dividends On: Unallocated ESOP Shares	--	--	--	52	--	--	--	52
Reduction of Debt Related to ESOP Shares	--	--	--	--	--	352	--	352
Purchase of Additional ESOP Shares	--	--	--	--	--	(2,075)	--	(2,075)
Five Percent Stock Dividend	--	--	--	(69)	--	--	--	(69)
Exercise of Stock Options	--	--	507	--	124	--	--	631
Proceeds from Sale of Common Stock	--	11	21,912	--	--	--	--	21,923
Conversion of Preferred Series B to Common Stock	(1)	5	(4)	--	--	--	--	--
Net Unrealized Loss on Securities Available for Sale, Net of Taxes	--	--	--	--	--	--	(4,196)	(4,196)
Balance, December 31, 1994	$ 2	$ 73	$104,961	$ 63,216	$ (3,692)	$ (3,675)	$(4,078)	$156,807
Net Income for 1995	--	--	--	18,320	--	--	--	18,320
Dividends Paid: $.64 Per Common Share	--	--	--	(4,382)	--	--	--	(4,382)
Dividends Paid or Accrued: Preferred Series B	--	--	--	(1,296)	--	--	--	(1,296)
Allocation of ESOP Shares	--	--	(3)	--	--	468	--	465
Fractional Shares Paid	--	--	(13)	--	--	--	--	(13)
Exercise of Stock Options	--	--	1,218	--	402	--	--	1,620
Proceeds from Sale of Common Stock	--	12	32,100	--	--	--	--	32,112
Net Unrealized Gain on Securities Available for Sale,								

Net of Taxes	--	--	--	--	--	--	6
Balance, December 31, 1995	$ 2	$ 85	$138,263	$ 75,858	$ (3,290)	$ (3,207)	$ 2

</TABLE>

See accompanying notes to consolidated financial statements

Notes To Consolidated Financial Statements

Note 1
Summary of Significant Accounting Policies

a) Business

Webster Financial Corporation ("Webster"), headquartered in Waterbury, Connecticut, is the holding company for Webster Bank, a federally chartered savings bank ("Webster Bank" or "the Bank"). Webster Bank is engaged in consumer, commercial and mortgage banking primarily in Connecticut. Webster Bank attracts deposits from retail and business customers and obtains additional funds through Federal Home Loan Bank ("FHL Bank") advances and other borrowings. Webster Bank invests its funds in residential first mortgage loans, commercial and industrial loans, commercial real estate loans, home equity loans, consumer installment loans and securities. Webster Bank currently serves customers from 64 banking offices located in Hartford, New Haven, Fairfield, and Litchfield Counties in Connecticut.

Webster Bank's predecessor, First Federal Bank, a federal savings bank, ("First Federal") was founded in 1935 and converted from a federal mutual to a federal stock institution in 1986. On March 3, 1994, Webster became a multiple holding company upon consummation of the acquisition of Bristol Savings Bank ("Bristol"). See Note 2. Bristol, founded in 1870, was a Connecticut-chartered savings bank headquartered in Bristol, Connecticut. On November 1, 1995, in the following sequence: (i) Bristol converted from a state savings bank charter to a federal savings bank charter and was concurrently renamed as Webster Bank, (ii) First Federal Bank merged into Webster Bank, as the surviving savings bank, (iii) Webster acquired Shelton Bancorp, Inc. ("Shelton") and its wholly-owned subsidiary, Shelton Savings Bank, through a merger of a wholly-owned subsidiary of Webster formed for such purpose into Shelton, as the surviving corporation, (iv) Shelton then merged into Webster, as the surviving corporation, and (v) thereafter Shelton Savings Bank merged into Webster Bank. The acquisition of Shelton was accounted for as a pooling of interests. See Note 2.

b) Basis of Financial Statement Presentation

The consolidated financial statements include the accounts of Webster and the Bank. The consolidated financial statements and notes hereto have been retroactively restated to include the accounts of Shelton acquired on November 1, 1995 and Shoreline Bank and Trust and Company ("Shoreline") acquired on December 16, 1994 as if the mergers had occurred at the beginning of the period of the earliest date presented. The financial statements have been prepared in conformity with generally accepted accounting principles and all significant intercompany transactions have been eliminated in consolidation.

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities as of the date of the balance sheets and revenues and expenses for the periods presented. The actual results of Webster could differ from those estimates. Material estimates that are susceptible to near term changes include the determination of the allowance for loan losses, the valuation allowance of the deferred tax asset and the valuation of foreclosed property.

c) Allowance for Loan Losses

An allowance for loan losses is established based upon a review of the loan portfolio, loss experience, specific problem loans, current and anticipated economic conditions and other pertinent factors which, in management's judgment, deserve current recognition in estimating loan losses.

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review Webster's allowance for loan losses. Such agencies may require Webster to recognize additions to the allowance for loan losses based on judgments different from those of management.

d) Foreclosed Properties

Foreclosed Properties consists of properties acquired through foreclosure proceedings or acceptance of a deed in lieu of foreclosure. Foreclosed Properties are reported at the lower of fair value less estimated selling expenses or cost with an allowance for losses to provide for declines in values. Operating expenses are charged to current period earnings and gains and losses upon disposition are reflected in the statements of income when realized.

e) Loans

Loans are stated at the principal amounts outstanding. Interest on loans is credited to income as earned based on the rate applied to principal amounts outstanding. Interest which is more than 90 days past due is not accrued. Such interest ultimately collected, if any, is credited to income in the period received. Loan origination fees net of certain direct origination costs and premiums and discounts on loans purchased are recognized in interest income over the lives of the loans using a method approximating the interest method. Loans held for sale are carried at the lower of cost or market value in aggregate. Net unrealized losses on loans held for sale, if any, are recognized in a valuation allowance by charges to income.

f) Securities and Mortgage-backed Securities

On December 31, 1993 Webster adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This statement requires securities to be classified into one of three categories. Securities with fixed maturities that management has the intent and ability to hold to maturity are classified as Held to Maturity and are carried at cost, adjusted for amortization of premiums and accretion of discounts over the estimated terms of the securities utilizing a method which approximates the level yield method. Securities that management intends to hold for indefinite periods of time, including securities that management intends to use as part of its asset/liability strategy, or that may be sold in response to changes in interest rates, changes in prepayment risk, the need to increase regulatory capital or other similar factors, are classified as Available for Sale. All Equity Securities are classified as Available for Sale. Securities Available for Sale are carried at fair value with unrealized gains and losses recorded as adjustments to shareholders' equity on a tax effected basis. Securities classified as Trading Securities are carried at fair value with unrealized gains and losses included in earnings. Gains and losses on the sales of securities are recorded using the specific identification method.

Mortgage-backed securities include collateralized mortgage obligations ("CMOs") which are either U.S. government agency securities or are rated in at least the top two rating categories by at least one of the major rating agencies at time of purchase. One of the risks inherent when investing in CMOs and mortgage-backed securities is the ability of such instruments to incur prepayments of principal prior to maturity. Because of prepayments, the weighted-average yield of these securities may also change, which would effect earnings.

g) Interest-rate Instruments

Webster utilizes as part of its asset liability management strategy various interest rate contracts including short futures positions, interest rate swaps and interest rate caps. Webster holds short futures positions to minimize the price volatility of certain adjustable rate assets held as Trading Securities. Changes in the market value of short futures positions are recognized as a gain or loss in the consolidated statement of income in the period for which the change occurred.

Interest rate caps and swaps are entered into as hedges against future interest rate fluctuations. Webster does not trade in speculative interest rate contracts. Those agreements meeting the criteria for hedge accounting treatment are designated as hedges and are accounted for as such. If a contract is terminated, any unrecognized gain or loss is deferred and amortized as an adjustment to the yield of the related asset or liability over the remainder of the period that is

being managed. If the linked asset or liability is disposed of prior to the end of the period being managed, the related interest rate contract is marked to fair value, with any resulting gain or loss recognized in current period income as an adjustment to the gain or loss on the disposal of the related asset or liability. Interest income or expense associated with interest rate caps and swaps is recorded as a component of net interest income. Interest rate caps and swaps that hedge available for sale assets are marked to fair value monthly with adjustments to shareholders' equity on a tax effected basis.

h) Interest-bearing Deposits

Interest-bearing Deposits consist primarily of deposits in the Federal Home Loan Bank of Boston. These deposits are carried at cost which approximates market value.

i) Premises and Equipment

Depreciation of premises and equipment is accumulated on a straight-line basis over the estimated useful lives of the related assets. Estimated lives are 15 to 40 years for buildings and improvements and 3 to 20 years for furniture, fixtures and equipment. Amortization of leasehold improvements is calculated on a straight-line basis over the terms of the related leases.

Maintenance and repairs are charged to expense as incurred and improvements are capitalized. The cost and accumulated depreciation relating to premises and equipment retired or otherwise disposed of are eliminated from the accounts and any resulting gains and losses are credited or charged to income.

j) Segregated Assets

Segregated Assets represent commercial, commercial real estate and multi-family loans acquired in the October 1992 First Constitution acquisition. In addition, Segregated Assets contain foreclosed properties that has been so classified subsequent to the acquisition date. These assets are subject to a loss-sharing arrangement with the FDIC as discussed in Notes 2 and 5.

Interest on Segregated Assets is credited to income earned on loans based on the rate applied to principal amounts outstanding. Interest which is more than 90 days contractually past due is not accrued. Such interest ultimately collected, if any, is credited to income in the period received.

k) Core Deposit Intangible

The excess of the purchase price over the fair value of the tangible net assets acquired has been allocated to deposits. The deposit intangible is being amortized on a straight-line basis over a period of ten years. On a periodic basis, management assesses the recoverability of the deposit intangible. Such assessments encompass a projection of future earnings from the deposit base as compared to original expectations, based upon a discounted cash flow analysis. If an assessment of the intangible indicates that it is impaired, a charge to income for the most recent period is recorded for the amount of such impairment.

l) Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under Statement 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Webster adopted Statement 109 on January 1, 1993 and has reported the cumulative effect of that change in the statement of income for the year ended December 31, 1993.

m) Employee Benefit Plans

The Bank has a noncontributory pension plan covering substantially all employees. Pension costs are accrued in accordance with generally accepted accounting principles (SFAS 87) and are funded in accordance with the requirements of the Employee Retirement Income Security Act (ERISA). The Bank also accrues costs related to postretirement benefits (SFAS 106).

n) Net Income Per Share

Primary net income per share is calculated by dividing net income available to common shareholders by the weighted-average number of shares of common stock and common stock equivalents outstanding, when dilutive. The common stock equivalents consist of common stock options. Fully diluted net income per share is calculated by dividing adjusted net income by the weighted-average fully diluted common shares, including the effect of common stock equivalents and the hypothetical conversion into common stock of the Series B cumulative convertible preferred stock. The weighted-average number of shares used in the computation of primary earnings per share for the years ended December 31, 1995, 1994 and 1993 were 6,969,208, 6,306,994 and 5,177,399, respectively and for fully diluted earnings per share were 7,970,921, 7,650,343 and 6,621,158 for the same periods, respectively.

o) Statements of Cash Flows

For purposes of the Statements of Cash Flows, Webster considers cash on hand and in banks to be cash equivalents.

p) Loan Sales and Servicing Sales

Gains or losses on sales of loans are recognized at the time of the sale. On July 1, 1995, Webster elected early adoption of Statement of Financial Accounting Standard No. 122 ("SFAS No. 122") "Accounting for Mortgage Servicing Rights." SFAS No. 122 requires that a mortgage banking entity recognize as a separate asset the value of the right to service mortgage loans for others, regardless of how those servicing rights are acquired. See Note 4.

When loans sold have an average contractual interest rate, adjusted for normal servicing costs, which differs from the agreed yield to the purchaser, gains or losses are recognized equal to the present value of such differential over the estimated remaining life of such loans. Any resulting net premium is amortized over the same estimated life using a method approximating the interest method. The aggregate of unamortized excess servicing rights arising from gains on loan sales is included in the accompanying Consolidated Statements of Condition as a component of Prepaid Expenses and Other Assets and is periodically reviewed and adjusted for changed circumstances.

q) Reclassifications

Certain financial statement balances as previously reported have been reclassified to conform to the 1995 consolidated financial statements presentation. All per share data and the number of outstanding common shares for all periods and dates have been adjusted retroactively to give effect to stock dividends to common shareholders of record. In addition, all financial statements presented have been retroactively restated to give effect to the acquisition of Shelton, completed on November 1, 1995, which was accounted for as a pooling of interests, and to the acquisition of Shoreline, completed on December 16, 1994, which was also accounted for as a pooling of interests. See Note 2 for additional information regarding the Shoreline and Shelton acquisitions.

Note 2
Acquisitions
Pooling of Interests Transactions

On November 1, 1995, Webster acquired Shelton, with $295 million in assets based in Shelton, Connecticut. In connection with the acquisition, Webster issued 1,292,549 shares of its common stock for all of the outstanding shares of Shelton common stock, based on an exchange ratio of .92 of a share of Webster common stock for each of Shelton's outstanding shares of common stock.

On December 16, 1994, Webster acquired Shoreline, with $51 million in assets, based in Madison, Connecticut. In connection with the acquisition of Shoreline, Webster issued 266,500 shares of its common stock for all of the outstanding shares of Shoreline common stock, based on an exchange ratio of 1 share of Webster's common stock for 2 shares of Shoreline's common stock. Shoreline was merged into the Bank on the acquisition date.

Both acquisitions were accounted for as a pooling of interests and as such the consolidated financial statements include financial data as if both Shelton and Shoreline had been combined as of the beginning of the earliest period presented.

The following table sets forth separate results of operations of the combining entities:

(In Thousands) Year Ended December 31, 1995

	Webster	Shelton*	Pooling Expense Adjustments	Combined
Net Interest Income	$ 79,908	$ 7,370	$ --	$ 87,278
Provision for Loan Losses	2,750	350	--	3,100
Noninterest Income	20,192	1,783	--	21,975
Noninterest Expenses	70,365	5,922	3,300	79,587
Income Taxes	7,115	1,13	--	8,246
Net Income	$ 19,870	$ 1,750	$(3,300)	$ 18,320

(In Thousands)	Year Ended December 31, 1994				
	Webster	Shelton	Shoreline	Pooling Expense Adjustments	Combined
Net Interest Income	$ 81,623	$ 8,619	$ 2,114	$ --	$ 92,356
Provision for Loan Losses	2,594	255	306	--	3,155
Noninterest Income	11,696	1,262	671	--	13,629
Noninterest Expenses	70,326	6,233	2,036	700	79,295
Income Taxes	3,789	1,193	(132)	--	4,850
Net Income	$ 16,610	$ 2,200	$ 575	$ (700)	$ 18,685

(In Thousands)	Year Ended December 31, 1993			
	Webster	Shelton	Shoreline	Combined
Net Interest Income	$ 63,917	$ 7,971	$ 1,898	$ 73,786
Provision for Loan Losses	4,000	150	447	4,597
Noninterest Income	8,469	1,929	305	10,703
Noninterest Expenses	46,504	6,552	1,941	54,997
Income Taxes	9,157	1,435	3	10,595
Income (loss) Before Cumulative Effect of Change in Method of Accounting for Income Taxes	12,725	1,763	(188)	14,300
Cumulative Effect of Change in Method of Accounting for Income Taxes	4,300	275	--	4,575
Net Income (Loss)	$ 17,025	$ 2,038	$ (188)	$ 18,875

<FN>
* Shelton's results of operations for the 1995 period shown above include earnings from January 1, 1995 to October 31, 1995. On November 1, 1995, Shelton was merged into Webster Bank and results of operations subsequent to that date are included with those of Webster. Noninterest income and noninterest expenses for Shelton and Shoreline have been adjusted from amounts previously reported to reflect certain reclassifications in accordance with accounting policies followed by Webster.
</FN>

The 1995 Statement of Income includes $6.4 million of non-recurring expenses: $3.3 million of expenses related to the

Shelton acquisition, $2.1 million of expenses related to changing the name of and merging together Webster's banking subsidiaries, and $1.0 million of expenses related to charges incurred in the preparation for the acquisition of 20 banking offices from the former Shawmut Bank which was consummated on February 16, 1996. Included in the 1994 Statement of Income are $5.7 million of non-recurring expenses which include a $5.0 million write-down of the First Constitution core deposit intangible asset (See Note 7), and $700,000 of expenses related to the Shoreline acquisition.

Purchase Transactions

The Shawmut Transaction

On October 1, 1995, Webster Bank's predecessor, First Federal entered into a Purchase and Assumption Agreement with Shawmut Bank Connecticut, as part of the Fleet/Shawmut Divestiture, to acquire 20 Shawmut branch banking offices in the Hartford Banking Market. The Shawmut Transaction was consummated on February 16, 1996, with Webster Bank receiving approximately $845 million in deposits, and $586 million in loans. In connection with the Shawmut Transaction on December 15, 1995, Webster completed the sale of 1,249,600 shares of its common stock in an underwritten public offering. The Shawmut Transaction is being accounted for as a purchase and the results of operations related to Shawmut's branch banking offices are not included in the accompanying Consolidated Financial Statements. Such results will be included subsequent to February 16, 1996, the date of consummation of the acquisition.

Bristol Savings Bank Acquisition

On March 3, 1994, Bristol converted from a Connecticut mutual savings bank to a Connecticut capital stock savings bank and concurrently became a wholly-owned subsidiary of Webster and a sister bank to First Federal ("the Bristol acquisition"). Bristol, founded in 1870, was headquartered in Bristol, Connecticut and had 5 banking offices in Hartford County. Webster became a multiple holding company as a result of the Bristol acquisition. In connection with the conversion, Webster completed the sale of 1,150,000 shares of its common stock in related subscription and public offerings. The Bristol acquisition was accounted for as a purchase, and results of operations relating to Bristol from March 3, 1994 are included in the accompanying Consolidated Financial Statements. Negative goodwill of $2.3 million represented the net effect of all purchase accounting adjustments and is recorded as a reduction of premises and equipment.

First Constitution Acquisition

On October 2, 1992, Webster Bank's predecessor, First Federal, acquired most of the assets, all of the deposits and certain other liabilities of First Constitution Bank ("First Constitution"), New Haven, Connecticut, from the FDIC in an assisted transaction (the "First Constitution acquisition"). The acquisition increased First Federal's assets by over $1.3 billion and added 14 banking offices in New Haven County and two banking offices in Fairfield County.

The financial terms of the First Constitution acquisition included five primary components. First, the FDIC made a cash purchase of $30 million of Webster's Series A Cumulative Perpetual Preferred Stock (the "Series A Stock"). Webster redeemed $11.75 million of the Series A Stock on December 30, 1992 and the remaining $18.25 million on June 29, 1993. Second, First Federal received a $24.2 million cash payment from the FDIC to purchase certain assets and assume certain liabilities of First Constitution in the acquisition. The payment increased cash, which was offset on the consolidated statement of condition by various adjustments reflecting the market value of the assets and liabilities acquired, and had no impact on the consolidated statement of income. First Federal purchased approximately $1.3 billion of First Constitution's assets, including: $817 million in one-to-four family home loans; $30 million in home equity loans; $34 million in consumer loans; $257 million in "Segregated Assets" (consisting of multi-family, commercial and commercial real estate loans); and $155 million in cash, cash equivalents, U.S. agency obligations and mortgage-backed securities. First Federal assumed approximately $1.2 billion in deposit balances of First Constitution (including approximately $300 million of brokered or out-of-state deposits, most of which were withdrawn prior to December 31, 1992 as planned by First Federal) and $29 million of other borrowings and liabilities. Third, the FDIC retained approximately $225 million of First Constitution's higher-risk assets, including other real estate owned ("OREO"), "in-substance foreclosed" loans, commercial loan participations, real estate investments, and investments in subsidiaries. Fourth, the FDIC agreed to reimburse First Federal quarterly for 80% of the total net charge-offs and certain related expenses on all Segregated Assets purchased in the acquisition for five years after the acquisition date, with such reimbursement increasing to 95% (less recoveries in years six and seven) as to

such charge-offs and expenses in excess of $49.2 million (with payment at the end of the seventh year as to such excess).

Fifth, the FDIC also agreed to reimburse First Federal, as a contingent reserve payment, for 80% of the excess over $52 million for four years after the acquisition date, up to a maximum reimbursement of $20 million of (i) the total net charge-offs on all First Constitution one-to-four family home, home equity and consumer loans purchased in the acquisition plus (ii) the unreimbursed portion of the total net charge-offs and certain related expenses on the Segregated Assets. As part of the First Constitution acquisition, First Federal established a reserve for the estimated unreimbursed portion of losses on Segregated Assets of $10.7 million and an additional reserve of $46.5 million for the estimated unreimbursed portion of losses on the one-to-four family home, home equity and consumer loans acquired in the First Constitution acquisition (including those held for sale).

Suffield Bank Acquisition

In September 1991, Webster's predecessor, First Federal, acquired certain assets and liabilities of Suffield Bank, Suffield, Connecticut, from the FDIC in an assisted transaction in which First Federal received a $2.5 million cash payment from the FDIC in connection with the acquisition to reflect its negative bid. This acquisition involved an assumption of $247 million of deposit liabilities (including $93 million of brokered and out-of-state deposits) and $5 million of other liabilities and a purchase of $48 million of performing one-to-four family home loans, passbook loans and installment loans and $26 million of cash, cash equivalents and U.S. agency obligations. In addition, First Federal received $181 million in cash from the FDIC, representing the difference between the liabilities assumed less the assets purchased.

Note 3
Securities

A summary of securities follows:

(In Thousands)	December 31, 1995 Book Value	1995 Estimated Fair Value	1994 Book Value	1994 Estimated Fair Value
Trading Securities:				
Mortgage-Backed Securities:				
GNMA	$ 14,766	$ 14,766	$ 13,706	$ 13,706
FHLMC	29,838	29,838	--	--
Collateralized Mortgage Obligations	--	--	9,311	9,311
Equity Securities	--	--	78	78
	44,604	44,604	23,095	23,095
Available for Sale Portfolio:				
U.S. Treasury Notes:				
Matures within 1 year	1,000	1,000	6,416	6,332
Matures over 1 within 5 years	--	--	7,530	7,300
U.S. Government Agency:				
Matures within 1 year	--	--	100	99
Matures over 1 within 5 years	12,901	12,522	33,480	31,857
Corporate Bonds and Notes:				
Matures over 1 within 5 years	23,005	23,005	--	--
Matures over 5 within 10 years	2,737	2,730	2,985	2,974
Mutual Funds*	34,077	33,947	20,146	19,509
Equity Securities:				
Stock in Federal Home Loan Bank of Boston	30,039	30,039	26,269	26,269
Other Equity Securities	9,195	11,930	13,619	13,231
Mortgage-Backed Securities:				
FNMA	139,860	142,827	11,316	11,560
FHLMC	62,572	63,221	--	--
GNMA	20,443	20,512	--	--

Collateralized Mortgage Obligations	155,321	155,539	57,121	56,083
Unamortized Hedge	816	816	--	--
Unrealized Securities Gains (Losses), Net	6,122	--	(3,768)	--
	498,088	498,088	175,214	175,214

(In Thousands)	December 31, 1995 Book Value	1995 Estimated Fair Value	1994 Book Value	1994 Estimated Fair Value
Held to Maturity Portfolio:				
U.S. Treasury Notes:				
Matures within 1 year	1,577	1,577	3,318	3,248
Matures over 1 within 5 years	8,262	8,445	19,567	18,595
U.S. Government Agency:				
Matures within 1 year	1,003	1,006	--	--
Matures over 1 within 5 years	39,868	41,330	61,822	60,239
Matures over 5 within 10 years	999	1,008	1,000	938
Corporate Bonds and Notes:				
Matures within 1 year	--	--	702	698
Matures over 1 within 5 years	2,555	2,579	2,564	2,459
Matures over 5 within 10 years	330	325	418	389
Mortgage-Backed Securities:				
FHLMC	42,877	43,714	87,650	82,393
FNMA	31,785	32,457	167,254	158,683
GNMA	1,622	1,698	1,919	1,922
Collateralized Mortgage Obligations	370,762	371,342	283,861	269,492
Other Mortgage-Backed Securities	308	294	374	356
	501,948	505,775	630,449	599,412
Total	$ 1,044,640	$ 1,048,467	$ 828,758	$ 797,721

<FN>
* Mutual funds consist primarily of funds that invest in U.S. Government securities, Mortgage-backed securities and money market instruments.
</FN>

</TABLE>
A summary of realized gains and losses follows:

(In Thousands)	December 31,								
	1995			1994			1993		
	Gains	Losses	Net	Gains	Losses	Net	Gains	Losses	Net
Trading Securities:									
Mortgage-Backed Securities	$ 1,901	$ (194)	$ 1,707	$2,086	$(3,247)	$(1,161)	$ 545	$ (426)	$119
Futures and Options Contracts	3,517	(5,333)	(1,816)	5,127	(3,826)	1,301	1,293	(1,224)	69
Equity Securities	--	--	--	128	(128)	--	21	(4)	17
	5,418	(5,527)	(109)	7,341	(7,201)	140	1,859	(1,654)	205
Available for Sale:									
Mortgage-Backed Securities	898	(878)	20	--	--	--	--	--	--
U.S. Treasury Notes	363	--	363	--	--	--	--	--	--
U.S. Government Agency	--	(284)	(284)	--	--	--	--	--	--
Mutual Funds	--	(139)	(139)	72	(1,653)	(1,581)	160	(1)	159
Other Equity Securities	1,322	--	1,322	28	(27)	1	47	--	47
	2,583	(1,301)	1,282	100	(1,680)	(1,580)	207	(1)	206
Total	$ 8,001	$(6,828)	$ 1,173	$ 7,441	$(8,881)	$(1,440)	$ 2,066	$(1,655)	$411

During 1995, sales from the available for sale portfolio consisted of treasury, agency, mortgage-backed securities and equities. There were no sales of debt securities from the held to maturity portfolio for the years ended December 31, 1995 and 1994. During the 1995 fourth quarter the Bank elected under guidelines issued by the Financial Accounting Standards Board to transfer certain securities from the held to maturity to the available for sale portfolio. These securities had an approximate book value of $301.4 million and fair market value of $299.9 million. Under this one-time provision, the Bank was able to reassess the appropriateness of the classifications of all securities and account for any resulting reclassifications at fair market value. This one-time election to reclassify securities was required to be completed by December 31, 1995. The Bank reclassified certain securities to allow greater flexibility in managing interest-rate risk and to enhance its ability to react to changes in market conditions.

Summaries of unrealized gains and losses for the available for sale and held to maturity portfolios follow:

(In Thousands)	December 31,					
	1995			1994		
	Gains	Losses	Net	Gains	Losses	Net
Available for Sale:						
U.S. Treasury Notes	$ --	$ --	$ --	$ --	$ (314)	$ (314)
U.S. Government Agency	--	(379)	(379)	--	(1,623)	(1,623)
Corporate Bonds and Notes	--	(7)	(7)	--	(11)	(11)
Mutual Funds	18	(148)	(130)	--	(638)	(638)
Equity Securities	3,012	(278)	2,734	372	(760)	(388)
Mortgage-Backed Securities	6,615	(2,711)	3,904	433	(1,227)	(794)
	9,645	(3,523)	6,122	805	(4,573)	(3,768)
Held to Maturity Portfolio:						
U.S. Treasury Notes:	--	--	--	8	(1,228)	(1,220)
Matures within 1 year	1	(1)	--	--	--	--
Matures over 1 within 5 years	184	(1)	183	--	--	--
U.S. Government Agency						
Matures within 1 year	3	--	3	--	--	--
Matures over 1 within 5 years	1,465	(2)	1,463	--	(1,405)	(1,405)
Matures over 5 within 10 years	8	--	8	--	(62)	(62)
Corporate Bonds and Notes						
Matures within 1 year	--	--	--	1	(5)	(4)
Matures over 1 within 5 years	26	(2)	24	4	(109)	(105)
Matures over 5 within 10 years	--	(5)	(5)	2	(31)	(29)
Mortgage-Backed Securities	4,844	(2,693)	2,151	1,175	(29,387)	(28,212)
	6,531	(2,704)	3,827	1,190	(32,227)	(31,037)
Total	$ 16,176	$ (6,227)	$ 9,949	$ 1,995	$ (36,800)	$ (34,805)

Webster holds short futures positions to minimize the price volatility of certain adjustable-rate assets held as Trading Securities. At December 31, 1995, Webster held 385 short positions in Eurodollar futures contracts ($385 million notional amount) and 98 short positions in 5 and 10 year Treasury note futures ($9.8 million notional amount). Changes in the market value of short futures positions are recognized as a gain or loss in the period for which the change occurred. All gains and losses resulting from short futures positions are reflected in gains (losses) on sale of securities, net in the consolidated statement of income.

Note 4
Loans Receivable, Net

A summary of loans receivable, net follows:

(In Thousands)	December 31, 1995	December 31, 1994
Loans Secured by Mortgages on Real Estate:		
Conventional, VA and FHA	$ 1,504,506	$ 1,486,342
Conventional, VA and FHA Loans Held for Sale	2,872	24,735
Residential Participation	9,368	11,720
Residential Construction	54,410	53,779
Commercial Construction	8,887	4,237
Other Commercial	135,843	135,855
	1,715,886	1,716,668
Consumer Loans:		
Home Equity Credit Lines	122,737	128,828
Other Consumer Loans	49,546	38,228
	172,283	167,056
Commercial Non-Mortgage Loans	53,194	45,055
Gross Loans Receivable	1,941,363	1,928,779
Less:		
Loans in Process	20,642	26,697
Allowance for Losses on Loans	41,797	46,772
Premiums on Loans Purchased, Deferred Loan Fees, and Unearned Discounts, Net	(13,032)	(13,906)
Loans Receivable, Net	$1,891,956	$1,869,216

Included above at December 31, 1995 and 1994 are $466.9 million and $531.5 million, respectively, of residential and consumer loans acquired from the FDIC in the First Constitution acquisition ("Reserve Assets"). For four years after the acquisition date, the FDIC is required to reimburse the Bank quarterly, in an aggregate amount up to $20 million, for 80% of all net charge-offs on the Reserve Assets and the Bank's share of net charge-offs and expenses associated with Segregated Assets ("Webster Bank's Shared Losses"), if such charge-offs on the Reserve Assets and Webster Bank's portion of the Shared Losses collectively exceed $52 million. Cumulative net charge-offs on Reserve Assets and the Bank's share of net charge-offs and expenses associated with Segregated Assets from acquisition date through 1995 totaled $34.7 million. No contingent reserve payments will be made by the FDIC after expiration of the four-year period following the acquisition date. The Bank established $46.5 million in allowances for loan losses and allowances for loans held for sale through purchase accounting adjustments to cover its portion of losses on the Reserve Assets.

Webster adopted SFAS No. 114 "Accounting by Creditors for Impairment of a Loan" on January 1, 1995, with no impact on its results of operations. At December 31, 1995, Webster had $9.3 million of impaired loans, of which $4.5 million was measured based upon the fair value of the underlying collateral and $4.8 million was measured based upon the expected future cash flows of the impaired loans. Of the total impaired loans of $9.3 million, $6.9 million had allowances for losses on impaired loans of $2.1 million. In 1995, the average balance of impaired loans was $12.8 million. The allowance for losses on impaired loans was established as a result of an allocation from the allowance for losses on loans.

In October 1994, the Financial Accounting Standards Board issued SFAS No. 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosure", amending SFAS No. 114. SFAS No. 118 allows institutions to use existing methods for recognizing interest income on impaired loans. Webster's policy with regard to the recognition of interest income on impaired loans includes an individual assessment of each loan. Interest which is more than 90 days past due is not accrued. When payments on impaired loans are received, Webster records interest income on a cash basis or applies the total payment to principal based on an individual assessment of each loan. Cash basis interest income recognized on impaired loans for the twelve months ended December 31, 1995 amounted to $50,362.

A detail of the changes in the allowances for loan losses for the three years follows:

(In Thousands)	December 31,				
	1995				
	Loans	Impaired Loans	Total Allowance	1994	1993
Balance at Beginning of Period	$ 46,772	$ --	$ 46,772	$ 45,168	$ 49,780
Provisions Charged to Operations	3,100	--	3,100	2,780	3,597
Additions to Allowance for Purchased Loans	--	--	--	12,819	--
Transfer from Allowance for Losses for:					
Loans Held for Sale	--	--	--	--	2,390
Allocation from General Allowance	(2,426)	2,426	--	--	--
Charge-offs	(10,527)	(333)	(10,860)	(17,099)	(11,667)
Recoveries	2,785	--	2,785	3,104	1,068
Balance at End of Period	$ 39,704	$ 2,093	$ 41,797	$ 46,772	$ 45,168

Webster is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments included commitments to extend credit and commitments to sell residential first mortgage loans. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized on the balance sheet.

The fair value of commitments to extend credit is considered to approximate the contract amount. Future loan commitments represent residential mortgage loan commitments, letters of credit, standby letters of credit, and unused home equity credit lines. Rates for these loans are generally established shortly before closing. The rates on home equity lines of credit vary with the prime rate.

At December 31, 1995 and 1994 residential mortgage commitments outstanding totaled $45.8 million and $35.2 million, respectively. Residential commitments outstanding at December 31, 1995 consist of adjustable and fixed-rate mortgages of $17.4 million and $28.4 million, respectively, at rates ranging from 4.8% to 9.8%. Commitments to originate loans generally expire within 60 days. In addition, at December 31, 1995 and 1994, there were unused portions of home equity credit lines extended by Webster of $158.5 million and $100.1 million, respectively. Unused commercial lines of credit, letters of credit, standby letters of credit and outstanding commercial new loan commitments totaled $40.3 million and $29.5 million at December 31, 1995 and 1994, respectively.

Webster uses forward commitments to sell residential first mortgage loans which are entered into for the purpose of reducing the market risk associated with originating loans held for sale. The types of risk that may arise are from the possible inability of Webster or the other party to fulfill the contracts. At December 31, 1995 and 1994, Webster had forward commitments to sell loans totaling $2.9 million and $4.4 million, respectively, at rates between 5.5% and 8.0% and 8.0% and 9.5%, respectively. The estimated fair value of commitments to sell loans approximated the commitment price at December 31, 1995 and 1994.

At December 31, 1995, 1994 and 1993, Webster serviced, for the benefit of others, mortgage loans aggregating approximately $753.1 million, $944.5 million and $357.7 million, respectively. During 1995, Webster sold $290.0 million in mortgage loan servicing rights and recorded a $2.2 million gain on their sale.

Note 5
Segregated Assets, Net

Segregated Assets, Net are certain assets purchased from the FDIC in the First Constitution acquisition which are subject to a loss-sharing arrangement with the FDIC (see Note 2):

(In Thousands)	At December 31,	
	1995	1994
Commercial Real Estate Loans	$ 79,995	$ 98,813
Commercial Loans	10,439	15,377
Multi-Family Real Estate Loans	16,341	18,124
Other Real Estate Owned	1,299	9,202

	108,074	141,516
Allowance for Segregated Asset Losses	(3,235)	(4,420)
Segregated Assets, Net	$ 104,839	$ 137,096

During the first five years after the First Constitution acquisition date, the FDIC is required to reimburse Webster quarterly for 80% of all net charge-offs (i.e., the excess of charge-offs over recoveries) and certain permitted expenses related to the Segregated Assets acquired by Webster.

During the sixth and seventh years after the First Constitution acquisition, Webster is required to pay quarterly to the FDIC an amount equal to 80% of the recoveries during such years on Segregated Assets which were previously charged off after deducting certain permitted expenses related to those assets. Webster is entitled to retain 20% of such recoveries during the sixth and seventh years following the First Constitution acquisition and 100% thereafter.

Upon termination of the seven-year period after the First Constitution acquisition, if the sum of Webster's 20% share of net charge-offs on Segregated Assets for the first five years after the acquisition date plus permitted expenses during the entire seven-year period, less any recoveries during the sixth and seventh year on Segregated Assets charged off during the first five years, exceeds $49.2 million, the FDIC is required to pay Webster an additional 15% of any such excess over $49.2 million at the end of the seventh year. As of December 31, 1995, Webster had received a total of $38.0 million in reimbursements for net charge-offs and permitted expenses from the FDIC. At December 31, 1995 and 1994, Webster had allowances for losses of $3.2 million and $4.4 million, respectively, to cover its portion of Segregated Assets losses.

A detail of changes in the allowance for Webster's share of losses for Segregated Assets follows:

(In Thousands)	At December 31,	
	1995	1994
Balance at Beginning of Period	$ 4,420	$ 5,042
Provisions Charged to Operations	--	375
Charge-offs	(1,772)	(1,505)
Recoveries	587	508
Balance at End of Period	$ 3,235	$ 4,420

At December 31, 1995 and 1994, nonperforming Segregated Assets are classified as follows:

(In Thousands)	At December 31,	
	1995	1994
Commercial Real Estate Loans	$ 2,604	$ 13,795
Commercial Loans	1,203	3,678
Multi-Family Real Estate Loans	1,432	576
Foreclosed Property:		
Commercial Real Estate	648	7,753
Multi-Family Real Estate	651	1,449
Total	$ 6,538	$ 27,251

Note 6
Premises and Equipment, Net

A summary of premises and equipment, net follows:

(In Thousands)	December 31,	
	1995	1994
Land	$ 6,162	$ 5,925
Buildings and Improvements	29,809	28,509
Leasehold Improvements	1,772	1,765
Furniture, Fixtures and Equipment	27,020	23,520
Total Premises and Equipment	64,763	59,719
Accumulated Depreciation and Amortization	24,109	23,087
Premises and Equipment, Net	$ 40,654	$ 36,632

At December 31, 1995, Webster was obligated under various non-cancelable operating leases for properties used as branch office facilities. The leases contain renewal options and escalation clauses which provide for increased rental expense based primarily upon increases in real estate taxes over a base year. Rental expense under leases was $827,000, $950,000 and $702,000 in 1995, 1994 and 1993, respectively. Webster is also entitled to rental income under various non-cancelable operating leases for properties owned. Rental income under these leases was $1,682,000, $1,474,000 and $638,000 in 1995, 1994 and 1993, respectively.

The following is a schedule of future minimum rental payments and receipts required under these leases as of December 31, 1995 (in thousands):

Years ending December 31:	Payments	Receipts
1996	$ 833	$ 933
1997	746	367
1998	683	311
1999	574	288
2000	405	247
Later years	2,098	1,038
Total	$ 5,339	$ 3,184

Note 7
Prepaid Expenses and Other Assets

A summary of prepaid expenses and other assets follows:

(In Thousands)	December 31,	
	1995	1994
Core Deposit Intangible	$ 4,729	$ 5,457
Due from FDIC	1,174	2,008
Income Taxes Receivable	1,809	1,857
Deferred Tax Asset, Net (Note 14)	14,820	12,590
Other Assets	6,043	16,668
Prepaid Expenses and Other Assets	$ 28,575	$ 38,580

The reduction in the Core Deposit Intangible balance at December 31, 1995 is the result of normal monthly amortization only. The core deposit intangible recorded as a purchase accounting adjustment in the First Constitution acquisition was reduced by an additional $5.0 million at December 31, 1994. A write-down of the core deposit intangible was deemed necessary after a review of the recoverability of this asset was made. An evaluation of the core deposit intangible at December 31, 1995 was performed and no further impairment was noted. Periodic evaluations of the core deposit

intangible asset will continue to be made and any further impairment, if any, will be recorded as a charge to the Consolidated Statement of Income.

The amount due from FDIC of $1.2 million at December 31, 1995 represents Webster's 80% reimbursement for fourth quarter net charge-offs and expenses on Segregated Assets. The reduction in the due from FDIC balance at December 31, 1995 reflects a decrease in the volume of segregated loan charge-offs for the fourth quarter as compared to the same quarter for the previous year. Other Assets are primarily comprised of capitalized mortgage servicing rights, prepaid expenses and various miscellaneous assets. The reduction in the Other Assets balance at December 31, 1995 is due primarily to lower balances related to mortgage servicing rights and prepaid FDIC deposit insurance premiums.

During the 1995 second quarter, Webster adopted Statement of Financial Accounting Standard No. 122 ("SFAS 122") "Accounting for Mortgage Servicing Rights". SFAS No. 122 requires that a mortgage banking entity recognize as a separate asset the value of the right to service mortgage loans for others, regardless of how those servicing rights are acquired. During 1995, Webster capitalized $181,000 in connection with selling loans while retaining the right to service those loans. At December 31, 1995, the combined book value of Purchased Mortgage Servicing Rights ("PMSR") and Excess Mortgage Servicing Rights ("EMSR") was $2.6 million. At December 31, 1995, the fair value of PMSR and EMSR approximated book value.

Note 8
Deposits

Deposits and weighted average rates are summarized as follows:

(In Thousands)	December 31,					
	1995			1994		
	Weighted Average Rate	Balance	% of Total	Weighted Average Rate	Balance	% of Total

Regular Savings	2.09%	$ 471,588	19.6%	2.09%	$ 561,196	23.1%
NOW and DDA Accounts	1.18	351,189	14.6	.98	327,094	13.4
Money Market Deposit Accounts	4.03	87,371	3.6	4.89	125,987	5.2
Certificate Accounts:						
Up to 12 months	5.19	707,540	29.5	3.91	611,300	25.1
13 to 24 months	5.92	521,104	21.7	4.77	509,984	21.0
25 to 36 months	5.52	70,812	3.0	5.07	79,124	3.3
Over 36 months	6.16	190,598	8.0	6.08	217,260	8.9
Total Certificates	5.59	1,490,054	62.2	4.62	1,417,668	58.3
Total Deposits	4.20%	$ 2,400,202	100.0%	3.56%	$ 2,431,945	100.0%

Interest expense on deposits is summarized as follows:

(In Thousands)	Years Ended December 31,		
	1995	1994	1993
Regular Savings	$ 11,284	$ 12,139	$ 12,240
NOW Accounts	2,838	3,906	3,222
Money Market Deposit Accounts	5,139	4,946	3,125
Certificate Accounts	78,874	55,844	50,100
Total	$ 98,135	$ 76,835	$ 68,687

The following table presents the amount of time deposits in amounts of $100,000 or more at December 31, 1995 maturing during the periods indicated:

(In Thousands)

Maturing	Amount
January 1, 1996 to March 31, 1996	$ 33,848
April 1, 1996 to June 30, 1996	33,070
July 1, 1996 to December 31, 1996	29,964
January 1, 1997 and beyond	32,918
Total	$ 129,800

Note 9
Federal Home Loan Bank Advances

Advances payable to the Federal Home Loan Bank of Boston are summarized as follows:

(In Thousands)	At December 31,	
	1995	1994
Fixed Rate:		
4.23% to 8.11% Due 1995	$ --	$ 212,000
4.82% to 8.61% Due 1996	295,400	85,000
5.45% to 7.39% Due 1997	50,000	16,000
5.40% to 6.05% Due 1998	15,000	15,000
8.86% Due 1999	700	700
6.31% Due 2000	10,000	10,000
	371,100	338,700
Variable Rate:		
6.38% Due in 1995	--	20,000
5.94% to 6.41% Due in 1996	12,000	12,000
	12,000	32,000
Total Federal Home Loan Bank Advances	$ 383,100	$ 370,700

The weighted average cost of the Federal Home Loan Bank Advances at December 31, 1995 and 1994 was 6.31% and 6.28%, respectively.

At December 31, 1995, the Bank had additional borrowing capacity of over $1.4 billion from the Federal Home Loan Bank, including a line of credit of approximately $40.0 million. Advances are secured by the Banks' investment in FHLB stock and a blanket security agreement. This agreement requires the Bank to maintain as collateral certain qualifying assets principally mortgage loans and securities. At December 31, 1995 and 1994, the Bank was in compliance with all

Federal Home Loan Bank requirements.

Note 10
Other Borrowings

Other borrowings outstanding consisted of borrowings by the ESOP totaling $3.2 million and $3.7 million at December 31, 1995 and 1994, respectively, Senior Notes (as defined below) totaling $40.0 million at both December 31, 1995 and 1994 and reverse repurchase agreements outstanding totaling $126.9 million at December 31, 1995. There were no reverse repurchase agreements outstanding at December 31, 1994. The ESOP borrowings are from a commercial bank at a floating rate based on the commercial bank's base (prime) rate and such rates at December 31, 1995 and 1994 were 8.30% and 8.00%, respectively. The estimated fair value of the ESOP borrowing approximates book value at December 31, 1995 and 1994. The terms of the loan agreements call for the ESOP to make annual scheduled principal repayments through 2001. Interest is paid quarterly and the borrowings are secured and guaranteed by Webster. See Note 15 for a description of the increase in the ESOP's outstanding indebtedness that was incurred in connection with the Bristol acquisition.

On June 29, 1993, Webster completed a registered offering of $40 million in aggregate principal of 8 3/4% Senior Notes due 2000 ("the Senior Notes"). Webster used $18.25 million from the net proceeds of the offering to redeem the remaining shares of Series A Stock issued by Webster to the FDIC in connection with the First Constitution Acquisition. The Senior Notes may not be redeemed by Webster prior to maturity and are not exchangeable for any shares of Webster's common stock.

Information concerning borrowings under reverse repurchase agreements is summarized below:

(Dollars In Thousands)

Balance at December 31, 1995	Maturity Date	Book Value Of Collateral	Market Value Of Collateral
$126,884	Less than six months	$130,325	$132,621

The securities underlying the reverse repurchase agreements are all U.S. Agency collateral and have been delivered to the broker-dealers who arrange the transactions. Webster uses reverse repurchase agreements when the cost of such borrowings is favorable as compared to other funding sources. The average balance and the maximum amount of outstanding reverse repurchase agreements at any month-end during 1995 was $37.8 million and $126.9 million, respectively. The weighted-average interest rate of the reverse repurchase agreements outstanding at December 31, 1995 was 5.80%.

Note 11
Interest Rate Financial Instruments

Webster utilizes as part of its asset liability management strategy various interest rate contracts including short futures positions, interest rate swaps and interest rate caps. (See Note 3 for disclosures on futures positions). These interest rate financial instruments involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur if a counter party to a transaction fails to perform according to the terms of the contract. Market risk is the effect of a change in interest rates or currency rates on the value of the financial instrument. The notional amount of interest rate financial instruments is the amount upon which interest and other payments under the contract are based. For interest rate financial instruments, the notional amount is not exchanged and therefore, the notional amounts should not be taken as a measure of credit or market risk.

The fair value, which approximates the cost to replace the contract at the current market rates is generally representative of market risk. There is no credit risk related to the interest rate swaps at December 31, 1995 due to the fact that Webster is currently paying amounts that are greater than it is receiving. There is no credit risk related to the interest rates caps at December 31, 1995.

The following table represents a summary of interest rate financial instruments at December 31, 1995:

</TABLE>

(In Thousands)	Notional Amount	Fair Market Value	Maturity Date	Book Value

Interest rate swap agreements	$ 100,000	$ (4,191)	5/23/00	--
	50,000	(763)	6/05/98	--
Total	$ 150,000	$ (4,954)		--
Interest rate cap agreements	$ 75,000	$ 37	7/23/97	$ 320
	50,000	136	6/23/98	496
Total	$ 125,000	$ 173		$ 816

Interest rate swap agreements involve the exchange of fixed and variable interest payments based upon notional amounts paid to a maturity date. At December 31, 1995, Webster had two swap agreements in which the corporation received a variable rate based on LIBOR and paid a fixed rate of 6.66% and 6.04% on each swap. Total net interest expense paid on

swap agreements totaled $312,000 for the year ended December 31, 1995. There were no swap agreements outstanding at December 31, 1994 and 1993.

Interest rate cap agreements are similar to interest rate swap agreements except that interest rate payments are made or received only if current interest rates rise above a predetermined interest rate. At December 31, 1995, Webster had two outstanding cap agreements with an interest rate cap of 7%. The amount paid for entering into the interest rate cap is amortized over the life of the agreement as an adjustment to mortgage-backed securities available for sale interest income. At December 31, 1995, Webster had $816,000 of unamortized cap balances and during the 1995 period amortized $250,000.

Note 12
Summary of Estimated Fair Values

A summary of estimated fair values consisted of the following:

(In Thousands)	December 31,			
	1995		1994	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Securities (Note 3)	$ 1,044,640	$ 1,048,467	$ 828,758	$ 797,721
Residential Loans	1,560,823	1,620,103	1,566,795	1,512,972
Consumer Loans	49,814	51,892	38,228	38,987
Home Equity Loans	123,724	127,794	128,828	129,747
Commercial Loans	199,392	199,040	182,137	174,309
Less Allowance for Loan Losses	41,797	--	46,772	--
Segregated Assets, Net (Note 5)	104,839	104,839	137,096	137,096
Interest Rate Contracts (Note 11)	816	173	--	--
Other Assets	177,419	177,419	218,781	218,781
Total	$ 3,219,670	$ 3,329,727	$ 3,053,851	$ 3,009,613
Liabilities:				
Deposits Other than Certificates	$ 910,148	$ 910,148	$ 1,014,277	$ 1,014,277
Certificate Accounts:				
Maturing in Less than One Year	1,109,471	1,111,199	676,515	674,682
Maturing in One Year and Beyond	380,583	389,233	741,153	736,615
Federal Home Loan Bank Advances	383,100	385,678	370,700	367,300
Other Borrowings	170,014	170,890	43,675	41,575
Other Liabilities	56,381	56,381	50,724	50,724
Total	$ 3,009,697	$ 3,023,529	$ 2,897,044	$ 2,885,173

In December 1991, the Financial Accounting Standards Board issued Statement No. 107, "Disclosures about Fair Value of Financial Instruments", which requires all entities to disclose the fair value of financial instruments, including both assets and liabilities recognized and not recognized in the statement of financial position, for which it is practicable to estimate fair value.

The carrying amounts for interest-bearing deposits approximate fair value since they mature in 90 days or less and do not present unanticipated credit concerns. The fair value of securities (Note 3) is estimated based on prices published in financial newspapers or quotations received from securities dealers or pricing services. The fair value of interest rate contracts was based on the amount the Corporation would receive or pay to terminate the agreements. Federal Home Loan Bank stock has no active market and is required to be held by member banks. The estimated fair value of Federal Home Loan Bank stock equals the carrying amount.

In estimating the fair value of loans, portfolios with similar financial characteristics were classified by type. Loans were segmented into four generic types: residential, consumer, home equity and commercial. Residential loans were further

segmented into fifteen and thirty year fixed-rate contractual maturities, with the remaining classified as variable-rate loans. The fair value of each category is calculated by discounting scheduled cash flows through estimated maturity using market discount rates. Adjustments were made to reflect credit and rate risks inherent in the portfolio.

Due to the loss-sharing arrangement with the FDIC, a yield on Segregated Assets that approximates a market yield and the allowance for Webster's share of losses on Segregated Assets, Webster believes that the estimated fair value of Segregated Assets approximates their carrying amount of $104.8 million and $137.0 million at December 31, 1995 and December 31, 1994, respectively.

The estimated fair value of deposits with no stated maturity, such as noninterest bearing demand deposits, regular savings, NOW accounts and money market accounts, is equal to the amount payable on demand. The estimated fair values of certificates of deposit, Federal Home Loan Bank Advances, reverse repurchase agreements and Senior Notes were calculated using the discounted cash flow method. The discount rate is estimated using rates currently offered for deposits and Federal Home Loan Bank Advances of similar remaining maturities. The discount rate used for the Senior Notes was calculated using a spread over Treasury Notes consistent with the spread used to price the Senior Notes at their inception. The carrying amount of purchased mortgage servicing rights and excess mortgage servicing rights approximates market value at December 31, 1995 and 1994.

The calculation of fair value estimates of financial instruments is dependent upon certain subjective assumptions and involves significant uncertainties, resulting in variability in estimates with changes in assumptions. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in the amounts disclosed. Fair value estimates are not intended to reflect the liquidation value of the financial instruments.

Note 13
Foreclosed Property Expenses and Provisions, Net and Allowance for Losses on Foreclosed Properties

Foreclosed property expenses and provisions, net are summarized as follows:

(In Thousands)	Years Ended December 31,		
	1995	1994	1993
Gain (Loss) on Sale of Foreclosed Properties Acquired in Settlement of Loans, Net	$ 918	$ (465)	$ 245
Provision for Losses on Foreclosed Properties	(2,000)	(3,082)	(1,996)
Rental Income	646	1,017	536
Foreclosed Property Expenses	(3,589)	(4,419)	(3,870)
Total	$ (4,025)	$ (6,949)	$ (5,085)

Webster has an allowance for losses on foreclosed properties. A detail of the changes in the allowance follows:

(In Thousands)	Years Ended December 31,		
	1995	1994	1993
Balance at Beginning of Period	$ 2,504	$ 1,036	$ 1,730
Provisions	2,000	3,082	1,996
Losses Charged to Allowance	(3,795)	(8,966)	(2,694)
Recoveries Credited to Allowance	282	852	4
Additions to Allowance for Acquired Foreclosed Properties	--	6,500	--
Balance at End of Period	$ 991	$ 2,504	$ 1,036

In connection with the Bristol acquisition, a purchase accounting adjustment of $5.9 million for the allowance for losses on foreclosed properties was recorded at the time of the acquisition and added to Bristol's existing allowance of $600,000 to reflect an accelerated disposition strategy.

Note 14
Income Taxes

As discussed more fully in Note 1, Webster adopted Statement 109 as of January 1, 1993. The cumulative effect of this change in accounting for income taxes of $4.6 million was determined as of January 1, 1993 and is reported separately in the consolidated statements of income. Prior period consolidated financial statements have not been restated to apply the provisions of Statement 109.

Charges for income taxes in the Consolidated Statements of Income are comprised of the following:

(In Thousands)	Years Ended December 31,		
	1995	1994	1993
Current:			
Federal	$ 10,370	$ 7,929	$ 9,385
State	3,170	2,751	3,305
	13,540	10,680	12,690
Deferred:			
Federal	(4,171)	(4,452)	(1,553)
State	(1,123)	(1,378)	(542)
	(5,294)	(5,830)	(2,095)
Total:			
Federal	6,199	3,477	7,832
State	2,047	1,373	2,763
	$ 8,246	$ 4,850	$ 10,595

Income tax expense of $8.2, $4.9 and $10.6 million for the years ended December 31, 1995, 1994 and 1993, differed from the amounts computed by applying the Federal income tax rate of 35% in 1995, 1994 and 1993 to pre-tax income as a result of the following:

(In Thousands)	Years Ended December 31,		
	1995	1994	1993
Computed "Expected" Tax Expense	$ 9,298	$ 8,238	$ 8,713
Reduction in Income Taxes Resulting From:			
Dividends Received Deduction	(123)	(135)	(65)
State Income Taxes, Net of Federal Income Tax Benefit, Including Change in Valuation Allowance and Rate	1,330	895	1,800
Adjustment to Deferred Tax Assets and Liabilities:			
Change in Tax Rate (Federal)	--	(265)	(88)
Change in Valuation Allowance (Federal)	(2,294)	(3,781)	--
Other, Net	35	(102)	235
Income Taxes	$ 8,246	$ 4,850	$ 10,595

At December 31, 1995 Webster had a net deferred tax asset of $14.8 million. In order to fully realize the net deferred tax asset, Webster must either generate tax losses to carryback or generate future taxable income. Based on Webster's historical and current taxable earnings, management believes it is more likely than not that Webster will realize the net deferred tax asset. There can be no assurance, however, that Webster will in the future generate any taxable earnings or any specific level of continuing taxable earnings.

In March 1994, Webster acquired Bristol, as discussed more fully in Note 2. The acquisition of Bristol resulted in significant tax benefits, which are reflected in the deferred tax asset at December 31, 1995 and 1994. On the date of acquisition Bristol's deferred tax asset of approximately $14 million had a 100% valuation allowance, due to an unfavorable earnings history of Bristol and the uncertain nature of generating future taxable income. Since the acquisition, Bristol generated net income and there was an expectation that it would continue to operate profitably in the future.

As a result of the merger of First Federal into Bristol and the subsequent renaming of the Bank to Webster Bank (see Note 1 a.) any tax loss carryforwards and all other tax attributes associated with the Bristol acquisition have been retained. As a result of the Bristol acquisition, Webster has Connecticut net operating loss carryovers approximating $13 million which expire in various years through 1998. Webster has recognized a portion of the deferred tax asset valuation allowance in the current year, which offsets current income tax expense.

Webster's valuation allowance is principally for a portion of temporary differences that may be subject to review by taxing authorities. The primary source of recovery of the deferred tax assets are federal taxes paid that are available for carryback of approximately $9.0 million in 1995. The net decrease of $3.0 million in the valuation allowance was due to favorable reassessment of expected future earnings and resulted in a reduction of income tax expense.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1995 and 1994 are presented below.

(In Thousands)	December 31,	
Deferred Tax Assets:	1995	1994
Loan Loss Allowances & Other Allowances, Net	$ 23,285	$ 24,075
Accrued Compensation and Pensions	1,995	1,311
Unrealized Losses on Securities	--	1,415
Tax Loss Carryforwards	2,025	5,439
Intangibles	2,786	2,930
Other	2,506	2,156
Total Gross Deferred Tax Assets	32,597	37,326
Less: Valuation Allowance	(8,207)	(11,191)
Deferred Tax Asset After Valuation Allowance	24,390	26,135
Deferred Tax Liabilities:		
Loan Discount	6,132	11,861
Plant and Equipment, Principally due to Differences in Depreciation	281	933
Unrealized Gains on Securities	1,649	--
Other	1,508	751
Total Gross Deferred Tax Liabilities	9,570	13,545
Net Deferred Tax Asset	$ 14,820	$ 12,590

Note 15
Shareholders' Equity

In December 1995, Webster completed the sale of 1,249,600 shares of common stock in an underwritten public offering raising $32.1 million of additional capital, net of expenses, which was invested in the Bank to facilitate its completion of the Shawmut Transaction and to have the Bank remain well capitalized for regulatory purposes.

On November 1, 1995, Webster acquired Shelton (see Note 2). In connection with the acquisition, Webster issued 1,292,549 shares of its common stock for all the outstanding shares of Shelton common stock. Under the terms of the agreement, Shelton shareholders received .92 of a share of Webster common stock in a tax free exchange for each of their shares of Shelton common shares.

On December 16, 1994, Webster acquired Shoreline (see Note 2). In connection with the acquisition, Webster issued 266,500 shares of its common stock for all 533,000 outstanding shares of Shoreline common stock, based on an exchange ratio of 1 share of Webster's common stock for 2 shares of Shoreline's common stock.

On March 3, 1994, Webster completed the sale of 1,150,000 shares of its common stock in subscription and underwritten public offerings that were conducted in connection with the Bristol acquisition. Of the 1,150,000 shares sold in the subscription and public offerings, 100,000 shares were purchased by Webster Bank's ESOP. The ESOP's outstanding loan balance was increased by approximately $2.1 million in connection with the purchase.

On December 30, 1992, through a registered offering, Webster issued 250,000 shares of Series B 7 1/2% Cumulative Convertible Preferred Stock (the "Series B Stock") for $25 million. Webster used 50% of the net proceeds of $23.5 million from this equity offering to redeem $11.75 million of its Series A Preferred Stock (as defined). On June 29, 1993, Webster completed a registered offering of $40 million aggregate principal amount of 8 3/4% Senior Notes due 2000. Webster used $18.25 million of the proceeds from this note offering to redeem the remaining shares of its Series A Preferred Stock. During 1995 and 1994 holders of the Series B Stock converted 260 shares and 77,871 shares into 1,492 shares and 446,979 shares, respectively of Webster's common stock.

In connection with the First Constitution acquisition, Webster issued 1,200,000 shares of Series A Cumulative Perpetual Preferred Stock (the "Series A Stock) to the FDIC on October 6, 1992 at a purchase price of $25.00 per share for an aggregate investment of $30 million.

Retained earnings at December 31, 1995 included $16.4 million of earnings of the bank appropriated to bad debt reserves and deducted for federal income tax purposes, which retained earnings are not available for payment of cash dividends or other distributions to Webster, including distributions on redemption, dissolution, or liquidation, without payment of taxes by the Bank on the amount of such earnings removed from the reserves for such distribution at the then current tax rate.

Under applicable capital standards adopted by the Office of Thrift Supervision, ("OTS") savings institutions are required to satisfy a "Tier 1 capital requirement," a "Tier 1 risk-based capital requirement," and a "total risk-based capital requirement." At December 31, 1995, Webster Bank exceeded all OTS regulatory capital requirements and met the FDIC requirements for a "well capitalized" savings institution. In order to be considered "well capitalized," a depository institution must have a ratio of Tier 1 capital to adjusted total assets of 5%, a ratio of Tier 1 capital to risk-weighted assets of 6%, and a ratio of total capital to risk-weighted assets of 10%.

The OTS issued new regulations, effective January 1, 1994, which add an interest-rate risk component to the risk-based capital requirement. Under the new regulation, an institution is considered to have excess interest-rate risk if based upon a 200 basis point change in market interest rates, the market value of an institution's capital changes by more than 2%. The OTS has indefinitely delayed implementation of the new regulation. The interest-rate risk requirements, if implemented, are not expected to have a material effect on the ability of the Bank to meet its risk-based capital requirement.

At the time of the respective conversions of the Bank and certain predecessors from mutual to stock form, each institution established a liquidation account for the benefit of eligible depositors who continue to maintain their deposit accounts after conversion. In the event of a complete liquidation of the Bank, each eligible depositor will be entitled to receive a liquidation distribution from the liquidation account. The Bank may not declare or pay a cash dividend on or repurchase any of its capital stock if the effect thereof would cause its regulatory capital to be reduced below applicable regulatory capital requirements or the amount required for its liquidation accounts.

The OTS capital distribution regulations establish three tiers of institutions for purposes of determining the level of dividends that can be paid. Since Webster Bank's capital levels exceeded all fully phased-in OTS capital requirements at December 31, 1995, it is considered a Tier 1 Institution. Tier 1 Institutions generally are able to pay dividends up to an amount equal to one-half of their excess capital at the beginning of the year plus all income for the calendar year. In accordance with the OTS capital distribution regulations, the Bank must provide a 30 day notice prior to the payment of any dividends to Webster. As of December 31, 1995, the Bank had $85.1 million available for the payment of dividends under

the OTS capital distribution regulations. The Bank has paid dividends to Webster amounting to $13.1 million and$4.6 million for 1995 and 1994, respectively. Under the prompt corrective action regulations adopted by the OTS and the FDIC, the Bank is precluded from paying any dividend if such action would cause it to fail to comply with applicable minimum capital requirements.

The Bank has an ESOP that invests in Webster common stock as discussed in Notes 10 and 16. Since Webster has secured and guaranteed the ESOP debt, the outstanding ESOP loan balance is shown as a reduction of shareholders' equity. Shareholders' equity is increased by the amount of principal repayments on the ESOP loan. Principal repayments totaled $848,000, $384,000 and $352,000 during the years ended December 31, 1995, 1994 and 1993, respectively.

On February 6, 1996, Webster's Board of Directors adopted a stockholders' rights plan in which preferred stock purchase rights have been granted as a dividend at the rate of one Right for each share of common stock held of record as of the close of business on February 16, 1996. The plan is designed to protect all Webster shareholders against hostile acquirers who may seek to take advantage of Webster and its shareholders through coercive or unfair tactics aimed at gaining control of Webster without paying all shareholders a full and fair price. Each right initially would entitle the holder thereof to purchase under certain circumstances one 1/1,000th of a share of a new Series C Preferred Stock at an exercise price of $100 per share. The rights will expire in February 2006. The rights will be exercisable only if a person or group in the future becomes the beneficial owner of 15% or more of the common stock, or announces a tender or exchange offer which would result in its ownership of 15% or more of the common stock, or if the Board declares any person or group to be an "adverse person" upon a determination that such person or group has acquired beneficial ownership of 10% or more and that such ownership is not in the best interests of the company.

Note 16

Employee Benefit and Stock Option Plans

The Bank maintains a noncontributory pension plan for employees who meet certain minimum service and age requirements. Pensions are based upon earnings of covered employees during the period of credited service. The Bank also has an employee investment plan under section 401(k) of the Internal Revenue Code. Under the investment plan the Bank will match $.50 for every $1.00 of the employee's contribution up to 6% of the employee's annual compensation. Operations were charged with $438,000, $388,000 and $169,000 for the years ended December 31, 1995, 1994 and 1993, respectively, for contributions to the investment plan.

The Bank's ESOP, which is noncontributory by employees, is designed to invest, on behalf of employees of the Bank who meet certain minimum age and service requirements, in Webster common stock. The Bank may make contributions to the ESOP in such amounts as the board of directors may determine on an annual basis. To the extent that the Banks' contributions are used to repay the ESOP loan, Webster common stock is allocated to the accounts of participants in the ESOP. Stock and other amounts allocated to a participant's account become fully vested after the participant has completed five years of service under the ESOP. Operations were charged with $848,000, $384,000 and $352,000 for the years ended December 31, 1995, 1994 and 1993, respectively, for contributions to the ESOP. The 1995 ESOP charge includes $722,516 for principal payments and $125,484 of interest payments (net of $140,792 of dividends on unallocated ESOP shares). The number of new ESOP shares and shares committed to be released subject to the provisions of Statement of Position 93-6 were 100,000 and 10,687 respectively. See Note 14 for a description of the increase in the ESOP's outstanding indebtedness that was incurred in connection with the Bristol acquisition.

The following table sets forth the funded status of the Bank's pension plan and amounts recognized in Webster's Consolidated Statements of Condition as of December 31, 1995 and 1994. On November 1, 1995, Webster acquired Shelton in a transaction accounted for as a pooling of interests. The following pension plan disclosures exclude Shelton's noncontributory multi-employer pension plan, which had pension expense of $50,000, $85,000 and $52,000 for the years ended December 31, 1995, 1994 and 1993. Information concerning the actuarial present value of accumulated plan benefits, plan assets or benefits attributable to individual organizations participating in the Shelton pension plan is not provided by the plan administrator and, therefore, is not included on the following page.

(In Thousands)	December 31, 1995	December 31, 1994
Actuarial present value of benefit obligations:		
Vested benefit obligation	$ 7,518	$ 5,645
Nonvested benefit obligation	642	914
Accumulated benefit obligation	8,160	6,559
Effect of projected future compensation levels	1,740	1,176
Projected benefit obligation for service rendered to date	9,900	7,735
Plan assets at fair value, primarily listed stocks and U.S. bonds	10,782	8,540
Excess (Deficiency) of plan assets over benefit obligation	882	805
Items not yet recognized in earnings:		
Unrecognized prior service cost	(1,913)	(1,775)
Unrecognized net gain	(312)	(406)
Unrecognized net asset at January 1, 1987 being recognized over 20.9 years	(139)	(148)
Unfunded accrued pension cost	$ (1,482)	$ (1,524)

The following table sets forth a reconciliation of unfunded accrued pension costs for the Bank's pension plan :

(In Thousands)	
Unfunded accrued pension cost as of January 1, 1995	$ (1,524)
Contributions made during 1995	518
Pension costs for 1995	(476)
Unfunded accrued pension costs as of December 31, 1995	$ (1,482)

The weighted average discount rate, rate of increase of future compensation levels and the expected long-term rate of return on assets used in determining the actuarial present value of the projected benefit obligation were 7.25%, 5.0% and 9.0% for 1995 and 8.0%, 5.0% and 9.0% for 1994, respectively.

Net pension expense for 1995, 1994 and 1993 included the following components:

(In Thousands)	December 31,		
	1995	1994	1993
Service cost benefits earned during the period	$ 700	$ 922	$ 279
Interest cost on projected benefit obligations	665	462	216
Return on plan assets	(2,170)	517	(326)
Amortization and deferral	1,281	(1,131)	62
Total	$ 476	$ 770	$ 231

In December 1991, the Financial Accounting Standards Board, ("FASB"), issued Statement No. 106, "Employers' Accounting for Post Retirement Benefits Other Than Pension," which requires that employers accrue the costs and recognize the liability for benefits to be provided to retired employees over the employees' service period. This statement is effective for fiscal years beginning after December 15, 1992. During 1994, Webster accrued $900,000 representing cumulative postretirement benefits, $700,000 of which was a purchase accounting adjustment related to the Bristol acquisition.

The components of postretirement benefits cost were as follows:

(In Thousands)	Year Ended December 31,	
	1995	1994
Service cost	$ --	$ 20
Interest cost	39	58
Immediate recognition of net transition obligation	--	822
Net periodic postretirement benefit cost	$ 39	$ 900

The following table sets forth the status of Webster's accumulated postretirement benefit obligation, which was unfunded:

(In Thousands)	Year Ended December 31,	
	1995	1994
Accumulated benefit obligation	$550	$768
Unrecognized net gain	4	59
Postretirement benefit liability	$554	$827

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.25%. The assumed weighted average health care cost trend rate was 13% for 1995. Such rates decrease gradually to 4.25% through the year 2008 and remain level thereafter. An increase of 1% in the assumed health care cost trend rate would result in a recalculated accumulated benefit obligation of $49,000.

Webster maintains stock option plans (the "Option Plans") for the benefit of its directors, officers and other full-time employees. Options totaling 59,600, 194,780 and 146,750 shares were granted in 1995, 1994 and 1993, respectively, at the fair market value of Webster common stock on the various grant dates. All options issued prior to June 30, 1993 have been adjusted retroactively to give effect to a 10% stock dividend to common shareholders of record on June 4, 1993. No options were canceled or expired in 1995, 1994 and 1993. At December 31, 1995, options for 596,216 shares of common stock were outstanding at an average option price of $15.56. Options for 51,850 shares were exercised in 1995.

Note 17
Legal Proceedings

Webster is a party to various legal proceedings normally incident to the kind of business conducted. Management believes that no material liability will result from such proceedings.

Note 18
Parent Company Condensed Financial Information

The Statements of Condition for 1995 and 1994 and the Statements of Income and Cash Flows for the three-year period ended December 31, 1995 (parent only) are presented below.

Statements of Condition
(In Thousands)

	December 31,	
	1995	1994
Assets		
Cash and Due from Depository Institutions	$ 440	$ 1,290
Securities Available for Sale	61,400	16,878
Investment in Subsidiaries	191,661	178,757
Due from Subsidiaries	--	336
Other Assets	2,845	3,670
Total Assets	$ 256,346	$ 200,931
Liabilities and Shareholders' Equity		
Senior Notes due 2000	$ 40,000	$ 40,000
ESOP Borrowings	3,130	3,675
Other Liabilities	3,243	449
Shareholders' Equity	209,973	156,807
Total Liabilities and Shareholders' Equity	$ 256,346	$ 200,931

Statements of Income
(In Thousands)

		December 31,	
	1995	1994	1993
Dividends from Subsidiary	$ 13,072	$ 4,596	$ 11,997
Interest on Securities	1,098	964	756
Gain (Loss) on Sale of Securities	503	(413)	--
Other Noninterest Income	2	--	--
Senior Notes Interest Expense	3,660	3,660	1,850
Other Noninterest Expenses	3,453	1,475	493
Income Before Income Taxes and Equity in Undistributed Earnings of Subsidiaries	7,562	12	10,410
Income Tax Benefit	2,429	1,955	713
Income Before Equity in Undistributed Earnings of Subsidiaries	9,991	1,967	11,123
Equity in Undistributed Earnings of Subsidiaries	8,329	16,718	7,752
Net Income	18,320	18,685	18,875
Preferred Stock Dividends	1,296	1,716	2,653
Net Income Applicable to Common Shareholders	$ 17,024	$ 16,969	$ 16,222

Statements of Cash Flows
(In Thousands)

		December 31,	
	1995	1994	1993
Operating Activities:			
Net Income	$ 18,320	$ 18,685	$ 14,300
Increase in Interest Receivable	(16)	(15)	(66)
Decrease (Increase) in Other Assets	2,048	6,666	(7,874)
(Gain) Loss on Sales of Securities	(503)	413	--
Equity in Undistributed Earnings of Subsidiaries	(8,329)	(16,718)	(7,752)
Other, Net	1,932	511	1,507
Net Cash Provided by Operating Activities	13,452	9,542	115

Investing Activities:			
Purchases of Securities Available for Sale	(45,168)	(2,369)	(33,199)
Maturities of Securities Available for Sale	4,445	8,400	11,980
Net Cash (Used) Provided by Investing Activities	(40,723)	6,031	(21,219)
Financing Activities:			
Proceeds from Issuance of Senior Notes	--	--	40,000
Net Proceeds from Sale of Common Stock	32,112	21,923	--
Cash Dividends to Shareholders	(5,691)	(4,724)	(5,015)
Redemption of Series A Stock	--	--	(18,250)
Investment in Subsidiary	--	(32,000)	--
Net Cash Provided (Used) by Financing Activities	26,421	(14,801)	16,735
(Decrease) Increase in Cash and Cash Equivalents	(850)	772	(4,369)
Cash and Cash Equivalents at Beginning of Year	1,290	518	4,887
Cash and Cash Equivalents at End of Year	$ 440	$ 1,290	$ 518

Note 19
Selected Quarterly Consolidated Financial Information (Unaudited)

Selected quarterly data for 1995 and 1994 follows:

(In Thousands Except Per Share Data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1995:				
Interest Income	$ 50,954	$ 54,288	$ 56,548	$ 57,156
Interest Expense	28,907	32,380	34,907	35,339
Net Interest Income	22,047	21,908	21,641	21,817
Provision for Loan Losses	385	455	555	1,705
Loans and Securities Gains, Net	337	678	1,256	2,018
Other Noninterest Income	4,453	4,316	4,317	4,465
Noninterest Expenses	18,723	18,998	18,369	23,497
Income Taxes	2,495	2,226	2,718	807
Net Income	5,234	5,223	5,572	2,291
Preferred Stock Dividends	324	324	324	324
Net Income Applicable to Common Shareholders	$ 4,910	$ 4,899	$ 5,248	$ 1,967
Net Income Per Share:				
Primary	$ .71	$ .71	$ .76	$ .27
Fully Diluted	$ .67	$ .67	$ .70	$ .27
1994:				
Interest Income	$ 41,189	$ 47,999	$ 50,430	$ 51,202
Interest Expense	20,820	24,231	26,042	27,371
Net Interest Income	20,369	23,768	24,388	23,831
Provision for Loan Losses	935	700	550	970
Loans and Securities Gains (Losses), Net	235	74	13	(1,504)
Other Noninterest Income	3,034	4,042	3,901	3,834
Noninterest Expenses	15,859	19,435	20,141	23,860
Income Taxes (Benefit)	2,541	2,836	2,781	(3,308)
Net Income	4,303	4,913	4,830	4,639
Preferred Stock Dividends	469	468	469	310
Net Income Applicable to Common Shareholders	$ 3,834	$ 4,445	$ 4,361	$ 4,329
Net Income Per Share:				
Primary	$ .69	$ .70	$ .68	$ .64
Fully Diluted	$ .61	$ .63	$ .62	$ .59

Results of operations relating to Bristol are included in the Consolidated Financial Statements only for the period subsequent to the effective date of the acquisition of March 3, 1994. All periods presented have been retroactively restated to reflect the inclusion of the results of Shelton and Shoreline which were acquired on November 1, 1995 and December 16, 1994, respectively, and were accounted for using the pooling of interests method.

Independent Auditors' Report and Management's Report

The Board of Directors and Shareholders of
Webster Financial Corporation
Waterbury, Connecticut:

We have audited the accompanying consolidated statements of condition of Webster Financial Corporation and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1995. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Webster Financial Corporation and subsidiaries as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1995, in conformity with generally accepted accounting principles.

As discussed in Notes to the Consolidated Financial Statements, the Corporation changed its method of accounting for mortgage servicing rights in 1995 and income taxes in 1993.

January 24, 1996, except as to Note 2 and the last paragraph of Note 15, as to which the date is February 16, 1996

To Our Shareholders:
The management of Webster is responsible for the integrity and objectivity of the financial and operating information contained in this annual report, including the consolidated financial statements covered by the Independent Auditors' Report. These statements were prepared in conformity with generally accepted accounting principles and include amounts that are based on the best estimates and judgments of management.

Webster has a system of internal accounting controls which provides management with reasonable assurance that transactions are recorded and executed in accordance with its authorizations, that assets are properly safeguarded and accounted for, and that financial records are maintained so as to permit preparation of financial statements in accordance with generally accepted accounting principles. This system includes

formal procedures, an organizational structure that segregates duties, and a comprehensive program of periodic audits by the internal auditors. Webster has also instituted policies which require employees to maintain the highest level of ethical standards.

In addition, the Audit Committee of the Board of Directors, consisting solely of outside directors, meets periodically with management, the internal auditors and the independent auditors to review internal accounting controls, audit results and accounting principles and practices, and annually recommends to the Board of Directors the selection of independent auditors.

James C. Smith	John V. Brennan
Chairman and	Executive Vice President,
Chief Executive Officer	Chief Financial Officer and Treasurer

Directors of Webster Financial Corporation

James C. Smith
Chairman and
Chief Executive Officer

Joel S. Becker
Chairman and
Chief Executive Officer,
Torrington Supply Company

O. Joseph Bizzozero, Jr., M.D.
BCB Medical Group

Robert A. Finkenzeller
President, Eyelet Crafters, Inc.

Walter R. Griffin Griffin,
Griffin & O'Brien, P.C.

J. Gregory Hickey, CPA
Retired Managing Partner
of Hartford office of
Ernst & Young

C. Michael Jacobi
President and
Chief Executive Officer,
Timex Corporation

Harold W. Smith
Chairman Emeritus

Sr. Marguerite Waite
President and
Chief Executive Officer,
St. Mary's Hospital

Executive Officers of Webster Financial Corporation

James C. Smith
Chairman and
Chief Executive Officer

John V. Brennan, CPA
Executive Vice President,
Chief Financial Officer and Treasurer

Lee A. Gagnon, CPA
Executive Vice President,
Chief Operating Officer and Secretary

Gary M. MacElhiney
Executive Vice President,

Business Banking

Peter K. Mulligan
Executive Vice President,
Consumer Banking

Ross M. Strickland
Executive Vice President,
Mortgage Banking

Shareholder Information

Annual Meeting

The annual meeting of Webster Financial Corporation shareholders will be held on April 25, 1996 at 4:00 P.M. at the Courtyard by Marriot, 63 Grand Street, Waterbury, Connecticut. As of March 9, 1996, there were 8,103,746 shares of common stock outstanding and approximately 2,792 shareholders of record.

Corporate Headquarters
Webster Financial Corporation and Webster Bank
Webster Plaza
Waterbury, CT 06702
(203) 753-2921

Transfer Agent and Registrar
Chemical Mellon Shareholder Services
Securityholder Relations
P.O. Box 24935, Church Street Station
New York, NY 10249
1-800-851-9677

Dividend Reinvestment and Stock Purchase Plan
Stockholders wishing to receive a prospectus for the Dividend Reinvestment and Stock Purchase Plan are invited to write or call to Chemical Mellon Shareholder Services at the address listed above.

Stock Listing Information
The common stock of Webster is traded over-the-counter on the NASDAQ National Market System under the symbol "WBST".

General Inquiries - Contact Lee A. Gagnon
Financial Inquiries - Contact John V. Brennan
Webster Financial Corporation
P.O. Box 191
Waterbury, Connecticut 06726-0191
(203) 753-2921

Form 10K and Other Reports
Our annual report to the Securities and Exchange Commission (Form 10K), additional copies of this report, and quarterly reports may be obtained free of charge by contacting Lee A. Gagnon, Executive Vice President and Secretary, at Corporate Headquarters.

Common Stock Dividends and Market Prices
The following table shows dividends declared and the market price per share by quarter for 1995 and 1994.

Common Stock (Per Share)

		Market Price		
1995	Cash Dividends Declared	Low	High	End of Period
Fourth	$ .16	$ 24 1/2	$ 29 1/2	$ 29 1/2
Third	.16	23	31	26 1/4
Second	.16	21 1/4	26	23 7/8
First	.16	18	22 1/4	21 1/4

1994				
Fourth	$ .13	$ 17 1/4	$ 23 1/2	18 1/2
Third	.13	22 1/2	25 1/2	23 1/4
Second	.13	18 3/8	24 3/4	22 1/2
First	.13	18 1/2	22 1/4	18 1/2

Market Makers

Advest, Inc.
Brean Murray, Foster Secs Inc.
First Albany Corporation
Herzog, Heine, Geduld, Inc.
Keefe, Bruyette & Woods, Inc.
Knight Securities L.P.
MacAllister Pitfield MacKay
Mayer & Schweitzer Inc.
Merrill Lynch, Pierce, Fenner & Smith
Paine Webber Inc.
Ryan Beck & Co., Inc.
Sandler O'Neill & Partners
Sherwood Securities Corp.
Troster Singer Corp.
Tucker, Anthony & R.L. Day

Webster Bank Information

For more information on Webster Bank products and services, call 1-800-325-2424, or write:
Webster Bank
Customer Information Center
P.O. Box 191
Waterbury, Connecticut 06726-0191

</TABLE>

Exhibit 21

Subsidiaries

The Registrant operates one subsidiary, Webster Bank. Webster Bank has five wholly owned subsidiaries, Webster investment Services, Inc., FCB Properties, Inc., Bristol Mortgage Corporation, Bristol Financial Services, Inc. ("BFSI"), and Omni Financial Services, Inc. In addition, BFSI has one wholly owned subsidiary, Pequabuck Capital Corporation.

Peat Marwick LLP

CityPlace II
Hartford, CT 06103-4103

Consent of Independent Auditors

The Board of Directors
Webster Financial Corporation:

We consent to the incorporation by reference in the registration statements (Nos. 33-13244 and 33-38286) on Forms S-8 and the registration statement (No. 33-65428) on Form S-3 of Webster Financial Corporation of our report dated January 24, 1996, except as to Note 2 and the last paragraph of Note 15, as to which the date is February 16, 1996, relating to the consolidated statements of condition of Webster Financial Corporation and subsidiaries as of December 31, 1995 and 1994 and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three year-period ended December 31, 1995, which report appears in the December 31, 1995 annual report on Form 10-K of Webster Financial Corporation.

Our report refers to a change in the methods of accounting for mortgage servicing rights in 1995 and income taxes in 1993.

KPMG PEAT MARWICK LLP

Hartford, Connecticut
March 28, 1996