# FORM 10-K

## WEBSTER FINANCIAL CORP - WBS

**Filed: March 31, 1998 (period: December 31, 1997)**

# Table of Contents

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, 1997 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 | 06702 |
| (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. X

Based upon the closing price of the registrant's common stock as of March 25, 1998, the aggregate market value of the voting stock held by non-affiliates of the registrant is $916,700,397. Solely for purposes of this calculation, the shares held by directors and executive officers of the registrant have been excluded because such persons may be deemed to be affiliates. This reference to affiliate status is not necessarily a conclusive determination for other purposes.

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 25, 1998: 13,701,649

## DOCUMENTS INCORPORATED BY REFERENCE

Part I and II: Portions of the Annual Report to Shareholders for fiscal year ended December 31, 1997

Part III: Portions of the Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 23, 1998.

WEBSTER FINANCIAL CORPORATION
1997 FORM 10-K ANNUAL REPORT

## TABLE OF CONTENTS

PAGE

PART I

# PART I

## ITEM 1. BUSINESS

### GENERAL

Webster Financial Corporation, ("Webster" or the "Corporation"), through its subsidiary, Webster Bank (the "Bank"), delivers financial services to individuals, families and businesses located throughout Connecticut. Webster Bank is organized along four business lines: consumer, business, mortgage banking and trust and investment management services, each supported by centralized administration and operations. The Corporation has grown significantly in recent years, primarily through a series of acquisitions which have expanded and strengthened its franchise.

At December 31, 1997, total assets were $7.0 billion as compared to $5.6 billion a year earlier. Net loans receivable amounted to $3.8 billion at December 31, 1997 as compared to $3.6 billion a year ago. Deposits were $4.4 billion at December 31,1997 as compared to $4.5 billion at December 31, 1996.

Webster expanded its banking operations by acquiring Sachem Trust National Association ("Sachem Trust") in August 1997, People's Savings Financial Corp. ("People's") in July 1997 and DS Bancor, Inc. ("Derby") in January 1997. (See "Recent Acquisitions"). In preceding years, Webster expanded its operations through the acquisitions of 20 former Shawmut Bank Connecticut National Association ("Shawmut") branch banking offices in the Greater Hartford banking market in 1996, Shelton Bancorp, Inc. ("Shelton") in 1995, Bristol Savings Bank ("Bristol") in 1994 and Shoreline Bank & Trust ("Shoreline") in 1994 (see "Recent Acquisitions") and the FDIC assisted acquisitions of First Constitution Bank ("First Constitution") in 1992 and Suffield Bank ("Suffield") in 1991. (See "FDIC Assisted Acquisitions"). These acquisitions have significantly expanded the market areas served by the Corporation.

At December 31, 1997, the assets of the Corporation, on an unconsolidated basis, consisted primarily of its investment in the Bank and $87.6 million of cash and investment securities. 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 22 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 at December 31, 1997, approximately 81% of the Bank's deposits were subject to BIF assessment rates and 19% were subject to Savings Association Insurance Fund ("SAIF") assessment rates. (See "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. Webster's executive offices are located at Webster Plaza, Waterbury, Connecticut, 06702. Its telephone number is (203) 753-2921.

## ACQUISITION PENDING CONSUMMATION

The Eagle Acquisition. During the second quarter of 1998, Webster expects to complete its acquisition of Eagle Financial Corp ("Eagle") and its subsidiary, Eagle Bank, a $2.1 billion savings bank headquartered in Bristol, Connecticut. In connection with the acquisition of Eagle, Webster had expected to issue 5.1 million shares of its common stock for all the outstanding shares of Eagle common stock. Under the original terms of the argeement, each outstanding share of Eagle common stock was expected to be converted into .84 shares of Webster common stock. On March 17, 1998, Webster announced a two-for-one stock split to shareholders of record as of April 6, 1998, subject to shareholder approval of an amendment to the Corporation's Certificate of Incorporation to increase the authorized number of shares of Webster common stock from 30,000,000 to 50,000,000. Due to the stock split, and subject to shareholder approval of the Eagle acquisition on April 2, 1998, the exchange ratio will change to 1.68 shares and accordingly, approximately 10.2 million shares of Webster common stock are expected to be issued for all of the outstanding shares of Eagle common stock. This acquisition will be accounted for as a pooling of interests, and as such, future Consolidated Financial Statements of the Corporation will include Eagle's financial data as if Eagle had been combined at the beginning of the earliest period presented.

## RECENT ACQUISITIONS

The Sachem Acquisition. On August 1, 1997, Webster acquired Sachem Trust, a trust company headquartered in Guilford, Connecticut with $300 million of assets under management, in a tax-free stock-for-stock exchange. Under the terms of the agreement, Webster issued 83,385 shares of Webster common stock for all 173,000 outstanding shares of Sachem Trust. This acquisition was accounted for as a purchase, and as such, results are reported in the Corporation's Consolidated Financial Statements only for the periods subsequent to the acquisition date.

The People's Acquisition. On July 31, 1997, Webster acquired People's and its subsidiary, People's Savings Bank & Trust, headquartered in New Britain, Connecticut, which had $482 million of assets. In connection with the acquisition of People's, Webster issued 1,575,996 shares of its common stock for all the outstanding shares of People's common stock. Under the terms of the merger agreement each outstanding share of People's common stock was converted into .85 shares of Webster common stock. This acquisition was accounted for as a pooling of interests, and as such, the Corporation's Consolidated Financial Statements include People's financial data as if People's had been combined at the beginning of the earliest period presented.

The Derby Acquisition. On January 31, 1997, Webster acquired Derby and its subsidiary, Derby Savings Bank, headquartered in Derby, Connecticut, which had $1.2 billion of assets. In connection with the acquisition of Derby, Webster issued 3,501,370 shares of its common stock for all the outstanding shares of Derby common stock. Under the terms of the merger agreement, each outstanding share of Derby common stock was converted into 1.14158 shares of Webster common stock. This acquisition was accounted for as a pooling of interests, and as such, the Corporation's Consolidated Financial Statements include Derby's financial data as if Derby had been combined at the beginning of the earliest period presented.

The Shawmut Transaction. On February 16, 1996, Webster Bank acquired 20 branches in the Greater Hartford market from Shawmut (the "Shawmut Transaction"), as part of a divesture in connection with the merger of Shawmut and Fleet Bank. In the branch purchase, Webster Bank acquired approximately $845 million in deposits and $586 million in loans. As a result of this transaction, Webster recorded $44.2 million as a core deposit intangible asset. In connection with the Shawmut Transaction, Webster raised net proceeds of $32.1 million through the sale of 1,249,600 shares of its common stock in an underwritten public offering in December 1995. The Shawmut Transaction was accounted for as a purchase, and as such, results are reported in the Corporation's Consolidated Financial Statements only for the periods 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, headquartered in Shelton, Connecticut, which had $295 million of assets. In connection with the acquisition of Shelton, Webster issued 1,292,549 shares of its common stock for all the outstanding shares of Shelton common stock, based on an exchange ratio of .92 shares of Webster common stock for each of Shelton's outstanding shares of common stock. This acquisition was accounted for as a pooling of interests, and as such, 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 commercial bank headquartered in Madison, Connecticut, which had $51 million of assets. Shoreline was merged into Webster Bank and its Madison banking office became a full service office of Webster Bank. In connection with the acquisition, 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, and as such, 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 Bank and Bristol were merged and concurrently renamed as Webster Bank.

FDIC ASSISTED ACQUISITIONS

Webster Bank significantly expanded its retail banking operations through assisted acquisitions of First Constitution in October 1992 and Suffield in September 1991 from the 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.

LENDING ACTIVITIES

General. Webster originates residential, consumer and business loans. Total loans receivable, before the allowance for loan losses, were $3.8 billion at December 31, 1997 and $3.6 billion at December 31, 1996. 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, 1997, first mortgage loans secured by one-to-four family properties comprised 73.9% of the Corporation's loan portfolio. The allowance for losses on residential mortgage loans was $22.0 million at December 31, 1997.

Nonaccrual loans, which include loans delinquent 90 days or more, were $37.7 million at December 31, 1997, compared to $41.6 million at December 31, 1996, out of a total loan portfolio, before net items, of approximately $3.9 billion at December 31, 1997 and $3.7 billion at December 31, 1996. The ratio of nonaccrual loans to total loans before net items was 1.0% and 1.1% at December 31, 1997 and 1996, respectively. Nonaccrual assets, which include nonaccrual loans and foreclosed properties were $45.9 million and $54.8 million at December 31, 1997 and 1996, respectively.

One-to-Four Family First Mortgage Loans. Webster originates both fixed-rate and adjustable-rate residential mortgage loans. At December 31, 1997, approximately 55% of Webster's total residential mortgage loans before net items were adjustable-rate loans. Webster offers adjustable-rate mortgage loans at initial interest rates discounted from the fully indexed rate. Adjustable-rate loans originated during 1997, when fully indexed, will be 2.75% above the constant maturity one-year U.S. Treasury yield index.

At December 31, 1997, $1.3 billion or approximately 45% 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, 1997, Webster had $1.7 million of adjustable and fixed-rate mortgage loans held for sale.

Commercial and Commercial Real Estate Mortgage Loans. Webster had $493.8 million, or 12.9% of its total loans receivable, net of fees and costs, in commercial and commercial real estate loans outstanding as of December 31, 1997, excluding Segregated Assets. At December 31, 1997, $19.2 million of Webster's $49.8 million allowance for loan losses was allocated to commercial and commercial real estate loans. See "Management's Discussion and Analysis of Financial Condition & Results of Operations" ("MD&A") contained in the Annual

Report to Shareholders incorporated herein by reference. Portions of the Annual Report are filed as an exhibit hereto. Also see "Business -- Lending Activities - --Nonaccrual Assets and Delinquencies" for more information about Webster's asset quality, allowance for loan losses and provisions for loan losses.

Consumer Loans. At December 31, 1997, consumer loans were $455.0 million or 11.9% of Webster's total loans receivable net of fees and costs. 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 $8.6 million at December 31, 1997.

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, | | | | | |
|---|---|---|---|---|---|---|
| | 1997 | | 1996 | | 1995 | |
| (DOLLARS IN THOUSANDS) | AMOUNT | % | AMOUNT | % | AMOUNT | % |
| Residential mortgage loans: | | | | | | |
| 1-4 family units.............................. | $ 2,824,280 | 73.9% | $ 2,686,792 | 73.8% | $ 2,379,622 | 79.2% |
| Multi-family units............................ | 787 | 0.0 | 21,151 | 0.5 | 28,226 | 0.9 |
| Construction.................................. | 100,524 | 2.6 | 93,973 | 2.6 | 60,836 | 2.0 |
| Total residential mortgage loans............ | 2,925,591 | 76.5 | 2,801,916 | 76.9 | 2,468,684 | 82.1 |
| Commercial loans: | | | | | | |
| Commercial real estate........................ | 251,997 | 6.6 | 245,714 | 6.8 | 172,836 | 5.8 |
| Commercial construction....................... | 22,203 | 0.6 | 9,079 | 0.2 | 9,895 | 0.3 |
| Commercial non-mortgage....................... | 219,610 | 5.7 | 202,900 | 5.6 | 72,253 | 2.4 |
| Total commercial loans...................... | 493,810 | 12.9 | 457,693 | 12.6 | 254,984 | 8.5 |
| Consumer loans: | | | | | | |
| Home equity credit lines...................... | 384,274 | 10.1 | 343,112 | 9.4 | 262,634 | 8.8 |
| Other consumer.............................. | 70,680 | 1.8 | 82,986 | 2.3 | 68,993 | 2.3 |
| Total consumer loans........................ | 454,954 | 11.9 | 426,098 | 11.7 | 331,627 | 11.1 |
| Loans receivable (net of fees and costs)......... | 3,874,355 | 101.3 | 3,685,707 | 101.2 | 3,055,295 | 101.7 |
| Allowance for loan losses....................... | 49,753 | 1.3 | 43,185 | 1.2 | 50,281 | 1.7 |
| Loans receivable, net ....................... | $ 3,824,602 | 100.0% | $ 3,642,522 | 100.0% | $ 3,005,014 | 100.0% |

| | AT DECEMBER 31, | | | |
|---|---|---|---|---|
| | 1994 | | 1993 | |
| (DOLLARS IN THOUSANDS) | AMOUNT | % | AMOUNT | % |
| Residential mortgage loans: | | | | |
| 1-4 family units.............................. | $2,377,182 | 81.0% | $2,098,920 | 85.3% |
| Multi-family units............................ | 18,512 | 0.7 | 12,220 | 0.5 |
| Construction.................................. | 59,252 | 2.0 | 33,930 | 1.4 |
| Total residential mortgage loans............ | 2,454,946 | 83.7 | 2,145,070 | 87.2 |
| Commercial loans: | | | | |
| Commercial real estate........................ | 167,364 | 5.7 | 71,637 | 2.9 |
| Commercial construction....................... | 4,237 | 0.1 | 2,083 | 0.1 |
| Commercial non-mortgage....................... | 69,094 | 2.4 | 42,214 | 1.7 |
| Total commercial loans...................... | 240,695 | 8.2 | 115,934 | 4.7 |

| | | | | |
|---|---|---|---|---|
| Consumer loans: | | | | |
| Home equity credit lines...................... | 243,097 | 8.3 | 212,059 | 8.6 |
| Other consumer................................ | 51,595 | 1.7 | 40,702 | 1.7 |
| Total consumer loans........................ | 294,692 | 10.0 | 252,761 | 10.3 |
| Loans receivable (net of fees and costs)......... | 2,990,333 | 101.9 | 2,513,765 | 102.2 |
| Allowance for loan losses....................... | 55,366 | 1.9 | 54,370 | 2.2 |
| Loans receivable, net ....................... | $2,934,967 | 100.0% | $ 2,459,395 | 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, 1997.

| | CONTRACTUAL MATURITY | | | |
|---|---|---|---|---|
| | ONE YEAR OR LESS | MORE THAN ONE TO FIVE YEARS | MORE THAN FIVE YEARS | TOTAL |
| (IN THOUSANDS) | | | | |
| Contractual Maturity: | | | | |
| Construction loans: | | | | |
| Residential mortgage.............. | $ 100,378 | $ 146 | $ -- | $ 100,524 |
| Commercial mortgage............... | 3,529 | 15,987 | 2,687 | 22,203 |
| Commercial non-mortgage loans........ | 93,688 | 84,533 | 41,389 | 219,610 |
| Total ......................... | $ 197,595 | $ 100,666 | $ 44,076 | $ 342,337 |
| Interest-Rate Sensitivity: | | | | |
| Fixed rates.......................... | $ 23,120 | $ 24,854 | $ 8,510 | $ 56,484 |
| Variable rates....................... | 174,475 | 75,812 | 35,566 | 285,853 |
| Total ......................... | $ 197,595 | $ 100,666 | $ 44,076 | $ 342,337 |

Purchase and Sale of Loans and Loan Servicing. Webster has been a seller and purchaser of whole loans and participations in the secondary market. Webster, in general sells fixed-rate mortgage loans and retains servicing for the loans sold whenever possible. During the 1997 period, Webster reduced its level of mortgage loans sold as it retained both fixed and variable-rate loans for its own loan portfolio. Loans purchased in the secondary market by Webster are typically adjustable-rate mortgage loans and purchased, in most cases, with serving retained by the seller.

The following table sets forth information as to Webster's mortgage loan servicing portfolio at the dates shown. The increase of total loans serviced for 1996 is primarily due to the loans acquired in the Shawmut Transaction and purchased mortgage loan servicing.

| | AT DECEMBER 31, | | | | | |
|---|---|---|---|---|---|---|
| | 1997 | | 1996 | | 1995 | |
| (DOLLARS IN THOUSANDS) | AMOUNT | % | AMOUNT | % | AMOUNT | % |
| Loans owned and serviced.............. | $ 2,553,336 | 69.0% | $ 2,571,474 | 68.5% | $ 2,313,355 | 70.5% |
| Loans serviced for others............. | 1,146,853 | 31.0 | 1,184,713 | 31.5 | 967,008 | 29.5 |
| Total loans serviced by Webster.... | $3,700,189 | 100.0% | $3,756,187 | 100.0% | $ 3,280,363 | 100.0% |

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

| (IN THOUSANDS) | AT DECEMBER 31 , 1997 | 1996 | 1995 |
|---|---|---|---|
| **First mortgage loan originations and purchases:** | | | |
| Permanent: | | | |
| Mortgage loans originated | $ 406,870 | $ 411,967 | $ 338,122 |
| Construction: | | | |
| 1-4 family units | 152,298 | 61,844 | 64,528 |
| Total permanent and construction loans originated | 559,168 | 473,811 | 402,650 |
| Loans and participations purchased | 187,815 | 77,440 | 99,224 |
| Loans acquired in the Shawmut Transaction | -- | 344,036 | -- |
| Total loans originated and purchased | 746,983 | 895,287 | 501,874 |
| **First mortgage loan sales and principal reductions:** | | | |
| Loans securitized and sold | 56,649 | 84,838 | 145,655 |
| Loan principal reductions | 542,124 | 459,076 | 326,706 |
| Reclassified to Foreclosed Properties | 24,535 | 18,141 | 15,775 |
| Total loans sold and principal reductions | 623,308 | 562,055 | 488,136 |
| Increase in mortgage loans receivable | $ 123,675 | $ 333,232 | $ 13,738 |

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.

Interest on nonaccrual loans that would have been recorded as additional income for the years ended December 31, 1997, 1996 and 1995 had the loans been current in accordance with their original terms approximated $3,178,000, $3,984,000, and $5,528,000, respectively.

See MD&A and Note 1(e) to the Consolidated Financial Statements contained in the Annual Report to Shareholders incorporated herein by reference for further nonaccrual loan information and a description of Webster's nonaccrual loan policy.

The following table sets forth information as to delinquent loans in Webster's loans receivable portfolio before net items. Delinquency information for Segregated Assets has been excluded.

AT DECEMBER 31,

1997 1996

| (DOLLARS IN THOUSANDS) | PRINCIPAL BALANCES | % | PRINCIPAL BALANCES | % |
|---|---|---|---|---|
| Past due 30-89 days and still accruing: | | | | |
| Residential real estate.................... | $ 30,986 | 0.79% | $ 54,260 | 1.47% |
| Commercial................................. | 12,689 | 0.33 | 5,214 | 0.14 |
| Consumer................................... | 6,413 | 0.16 | 7,810 | 0.21 |
| Total................................. | $ 50,088 | 1.28% | $ 67,284 | 1.82% |

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 to continue to report them 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, 1997, the Bank's classified assets totaled $72.9 million, consisting of $70.8 million in loans classified as "substandard," $2.1 million in loans classified as "doubtful" and none classified as "loss". At December 31, 1996, the Bank's classified loans totaled $91.7 million, consisting of $89.6 million in loans classified as "substandard," $1.4 million in loans classified as "doubtful" and $700,000 classified as "loss." In addition, at December 31, 1997 and 1996, the Bank had $8.9 million and $13.2 million, respectively, of special mention loans.

Allowance for Loan Losses. Webster's allowance for loan losses at December 31, 1997 totaled $49.8 million. See MD&A - "Asset Quality" and "Comparison of 1997 and 1996 Years" contained in the Annual Report to Shareholders 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 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 loan receivable portfolio.

| | DECEMBER 31, | | | | | |
|---|---|---|---|---|---|---|
| | 1997 | | 1996 | | 1995 | |
| (DOLLARS IN THOUSANDS) | AMOUNT | % | AMOUNT | % | AMOUNT | % |
| Balance at End of Period Applicable to: | | | | | | |
| Residential mortgage loans.............. | $ 21,979 | 75.51% | $ 14,090 | 75.26% | $ 23,898 | 80.43% |
| Commercial mortgage loans............... | 10,711 | 7.08 | 10,549 | 7.65 | 12,385 | 6.47 |
| Commercial non-mortgage loans........... | 8,448 | 5.67 | 10,975 | 5.50 | 4,185 | 2.25 |
| Consumer loans.......................... | 8,615 | 11.74 | 7,571 | 11.59 | 9,813 | 10.85 |
| Total.............................. | $ 49,753 | 100.00% | $ 43,185 | 100.00% | $ 50,281 | 100.00% |

| | DECEMBER 31, | | | |
|---|---|---|---|---|
| | 1994 | | 1993 | |
| (DOLLARS IN THOUSANDS) | AMOUNT | % | AMOUNT | % |

| | | | | |
|---|---|---|---|---|
| Balance at End of Period Applicable to: | | | | |
| Residential mortgage loans............. | $ 30,787 | 81.81% | $ 41,010 | 84.86% |
| Commercial mortgage loans.............. | 11,426 | 6.16 | 3,820 | 3.59 |
| Commercial non-mortgage loans.......... | 4,325 | 2.18 | 1,992 | 1.52 |
| Consumer loans......................... | 8,828 | 9.85 | 7,548 | 10.03 |
| Total.............................. | $ 55,366 | 100.00% | $ 54,370 | 100.00% |

During 1997, Webster recorded an additional $7.2 million to the provision for loan losses related to the loans acquired in the Derby and People's acquisitions in order to bring the allowance allocated to these loans into conformity with Webster's allowance policy.

During 1996, Webster sold $18.0 million of nonaccrual residential and foreclosed properties in a bulk sale, and incurred charge-offs of $6.3 million related to the sale. Approximately 50% of the assets sold were secured by two-four family properties, condominiums or non-owner occupied single family properties. Charge-offs of $6.3 million reduced the allowance for residential mortgage loans and had no impact on 1996 earnings. The increase in the allowance for commercial non-mortgage loans in 1996 was primarily a result of acquired allowances for purchased loans related to the Shawmut Transaction.

SEGREGATED ASSETS

Segregated Assets consist of the assets purchased from the FDIC in the First Constitution acquisition which are subject to a loss-sharing arrangement with the FDIC.

The following table sets forth information regarding Segregated Assets delinquencies and nonaccruals at December 31, 1997 and 1996:

| | AT DECEMBER 31, | |
|---|---|---|
| | 1997 | 1996 |
| (IN THOUSANDS) | | |
| Past due 30-89 days and still accruing: | | |
| Commercial real estate loans............... | $ 1,967 | $ 1,318 |
| Multi-family loans......................... | -- | 769 |
| | 1,967 | 2,087 |
| Loans accounted for on a nonaccrual basis: | | |
| Commercial real estate loans............... | 2,912 | 3,337 |
| Commercial non-mortgage loans.............. | 500 | 192 |
| Multi-family real estate loans............. | -- | 495 |
| | 3,412 | 4,024 |
| Total.................................. | $ 5,379 | $ 6,111 |

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 $374,000, $433,000 and $1,207,000 for the years ended December 31, 1997, 1996 and 1995, 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, 1997.

| | | CONTRACTUAL MATURITY | | |
|---|---|---|---|---|
| | ONE YEAR OR LESS | MORE THAN ONE TO FIVE YEARS | MORE THAN FIVE YEARS | TOTAL |
| (IN THOUSANDS) | | | | |
| Contractual Maturity: | | | | |
| Commercial loans................ | $ 500 | $ 1,914 | $ 1,903 | $ 4,317 |

Source: WEBSTER FINANCIAL CO, 10-K, March 31, 1998

|  |  |  |  |  |
|---|---|---|---|---|
| Interest Rate Sensitivity: |  |  |  |  |
| Fixed Rates.................... | $ -- | $ 198 | $ -- | $ 198 |
| Variable Rates................. | 500 | 1,716 | 1,903 | 4,119 |
| Total...................... | $ 500 | $ 1,914 | $ 1,903 | $ 4,317 |

Additional information concerning Segregated Assets is included in the MD&A and in Note 5 of the Consolidated Financial Statements contained in the 1997 Annual Report to Shareholders incorporated herein by reference.

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, federal funds and mortgage-backed securities and collateralized mortgage obligations. 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 regulatory minimum levels which vary from time to time. See "Regulation."

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.

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 the 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 and increasing in value as interest rates decrease. If interest rates decrease, as had been the case during 1997, the market value of loans and mortgage-backed securities generally will increase causing the level of prepayments to increase. Webster also utilizes interest-rate financial instruments to hedge mismatches in interest rate maturities to reduce exposure to movements in interest rates. The objective of interest-rate financial instruments is to offset the change in value of the available for sale securities and trading account portfolios. See Notes 3 and 11 contained in the Annual Report to Shareholders incorporated herein by reference. Except for $85.8 million invested by Webster at the holding company level in common and preferred stock of certain entities and mutual funds at December 31, 1997, Webster's investments, directly and through the Bank, were investments of the type permitted by 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 average remaining life of the securities portfolio, exclusive of equity securities with no maturity, is 23.4 and 22.6 years at December 31,1997 and 1996, 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. At December 31, 1997, the duration of the trading, available for sale and held to maturity portfolios: were approximately less than one month, 1.7 years and 1.6 years, respectively.

Additional information for Investments is included in Note 3 of the Consolidated Financial Statements contained in the 1997 Annual Report to Shareholders incorporated herein by reference.

TRUST ACTIVITIES

The Bank through its subsidiary trust company, manages the assets of individuals, small to medium size companies, as well as non-profit organizations. At December 31, 1997, approximately $646 million in trust assets were under management.

SOURCES OF FUNDS

Deposits, loan repayments, securities payments and maturities, as well as earnings, are the primary sources of the Bank's funds for use in its lending and investment activities. While scheduled loan repayments and securities payments are a relatively stable source of funds, deposit flows and loan prepayments are influenced by prevailing interest rates, money market and local economic conditions. The Bank also derives funds from Federal Home Loan Bank ("FHL Bank") advances and other borrowings, as necessary, when the cost of these alternative sources of funds are favorable.

Webster's main sources of liquidity are dividends from the Bank and net proceeds from capital offerings and borrowings, while the main outflows are the payments of dividends to common stockholders, capital securities expense and the payment of interest to holders of Webster's 8 3/4% Senior Notes.

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 and overall asset/liability management strategies.

Deposit Activities. Webster has developed a variety of innovative deposit programs that are designed to meet depositors needs and attract both short-term and long-term deposits from the general public. Webster's checking account programs offer a full line of accounts with varying features that include non-interest-bearing and interest-bearing account types. Webster's savings account programs includes statement and passbook accounts, money market savings accounts, club accounts and certificate of deposit accounts that offer short and long-term maturity options. Webster offers IRA savings and certificate of deposit accounts that earn interest on a tax-deferred basis. Webster also offers special rollover IRA accounts for individuals who have received lump-sum distributions. Webster's checking and savings deposit accounts have several features that include: ATM Card and Check Card use, direct deposit, combined statements, 24 hour automated telephone banking services, bank by mail services and overdraft protection. Deposit customers can access their accounts in a variety of ways including ATMs, PC banking, telephone banking or by visiting a nearby branch. Webster had $25.0 million of brokered certificate of deposit accounts at December 31, 1997.

Webster receives retail and commercial deposits through its 84 full service banking offices. Webster relies primarily on competitive pricing policies and effective advertising to attract and retain deposits while emphasizing the objectives of quality customer service and customer convenience. The WebsterOne Account is a banking relationship that affords customers the opportunity to avoid fees, receive free checks, earn premium rates on savings and simplify their bookkeeping with one combined account statement that links account balances. Webster's Check Card can be used at over twelve million Visa merchants worldwide to pay for purchases with money in a linked checking account. The Check Card also serves as a ATM Card for receiving cash, for processing deposits and transfers, and to obtain account balances 24 hours per day. Customer services also include ATM facilities that use state-of-the-art technology with membership in NYCE and PLUS networks and provide 24 hour access to linked accounts. The Bank's PC Banking service allows customers the ability to transfer money between accounts, review statements, check balances and pay bills through personal computer use. The Bank's First Call telephone banking service provides automated customer access to account information 24 hours per day, seven days per week and also to service representatives at certain established hours. Customers can transfer account balances, process stop payments and address changes, place check reorders, open deposit accounts, inquire about account transactions and request general information about Webster's products and services. Webster's services provide for automatic loan payment features from its accounts as well as for direct deposit of Social Security, payroll, and other retirement benefits.

Additional information concerning the deposits of Webster is included in Note 8 of the Consolidated Financial Statements contained in the Annual Report to Shareholders incorporated herein by reference.

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

| (DOLLARS IN THOUSANDS) | AT DECEMBER 31, 1997 WEIGHTED AVERAGE RATE | 1997 AMOUNT | 1997 % OF TOTAL DEPOSITS | 1996 WEIGHTED AVERAGE RATE | 1996 AMOUNT | 1996 % OF TOTAL DEPOSITS |
|---|---|---|---|---|---|---|
| Balance by account type: | | | | | | |
| Demand deposits and NOW accounts... | 1.36% | $ 784,850 | 18.0% | 1.66% | $ 711,498 | 16.0% |
| Regular savings.................... | 2.44 | 956,285 | 21.9 | 2.34 | 935,312 | 21.0 |
| Money market accounts.............. | 3.76 | 103,765 | 2.4 | 3.49 | 208,932 | 4.6 |
| Time deposits...................... | 5.35 | 2,520,856 | 57.7 | 5.39 | 2,601,819 | 58.4 |
| Total deposits............................. | 3.84% | $ 4,365,756 | 100.0% | 3.95% | $ 4,457,561 | 100.0% |

| (DOLLARS IN THOUSANDS) | AT DECEMBER 31, 1995 WEIGHTED AVERAGE RATE | AMOUNT | % OF TOTAL DEPOSITS |
|---|---|---|---|
| Balance by account type: | | | |
| Demand deposits and NOW accounts... | 1.85% | $ 451,733 | 11.9% |
| Regular savings.................... | 2.06 | 766,413 | 20.2 |
| Money market accounts.............. | 5.12 | 300,636 | 7.9 |
| Time deposits...................... | 5.61 | 2,278,930 | 60.0 |
| Total deposits............................. | 4.33% | $ 3,797,712 | 100.0% |

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. Under its current credit policies, the FHL Bank limits advances based on a member's assets, total borrowings and net worth.

The 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, 1997, the Bank had outstanding FHL Bank advances of $1.1 billion and other borrowings of $956.6 million compared with FHL Bank Advances of $559.9 million and other borrowings of $166.1 million at December 31, 1996.

During 1997, reverse repurchase agreement transactions, federal funds purchased and lines of credit with correspondent banks also were used as a source of short-term borrowings. The Bank uses reverse repurchase agreements and the aforementioned alternate sources of borrowed funds when the cost of such borrowings are favorable as compared to other funding sources. The Bank's Money Desk operation provided business and governmental customers short-term investment services primarily through repurchase agreement and certificate of deposit transactions.

Additional information concerning FHL Bank advances and other borrowings of Webster is included in Notes 9 and 10 of the Consolidated Financial Statements contained in the 1997 Annual Report to Shareholders incorporated herein by reference.

## BANK SUBSIDIARIES

At December 31, 1997, the Bank's direct investment in its service subsidiary corporation, Webster Investment Services, Inc., totaled $496,000. As of December 31, 1997, 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's direct investment in its trust subsidiary, Webster Trust Company, N.A., totaled $9.7 million at December 31, 1997. The trust had approximately $645.6 million in trust assets under management at December 31, 1997.

The Bank's direct investment in its operating subsidiary corporation, FCB Properties, Inc., totaled $1.7 million at December 31, 1997. The primary function of this operating subsidiary is the disposal of foreclosed properties.

The Bank also has a real estate investment trust ("REIT") operating subsidiary corporation, Webster Preferred Capital Corporation. The primary purpose of the REIT is to provide a cost effective means of raising funds, including capital, on a consolidated basis for the Bank. The REIT's strategy is to acquire, hold and manage real estate mortgage assets. At December 31, 1997, the Bank's direct investment in this subsidiary totaled $737.1 million.

## EMPLOYEES

At December 31, 1997, Webster had 1,449 employees (including 290 part-time

employees), none of whom were represented by a collective bargaining group. Webster maintains a comprehensive employee benefit program providing, among other benefits, group medical and dental insurance, life insurance, disability insurance, 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 83 branch offices in Waterbury, Ansonia, Bethany, Branford, Cheshire, Derby, East Haven, Hamden, Madison, Milford, Naugatuck, New Haven, North Haven, Orange, Oxford, Prospect, Seymour, Southbury and West Haven (New Haven County): Watertown (Litchfield County); Fairfield, Shelton, Stratford and Trumbull (Fairfield County); Avon, Berlin, Bristol, East Hartford, East Windsor, Enfield, Farmington, Glastonbury, Hartford, Manchester, Meriden, New Britain, Newington, Plainville, Rocky Hill, Simsbury, Southington, Suffield, Terryville, West Hartford, Wethersfield, Windsor and Windsor Locks (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 technology companies. Webster has trust offices located in the towns of Guilford, Westport, Greenwich, New Britain and Meriden.

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, mutual 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.

## REGULATION

Webster, as a savings and loan holding company, and Webster Bank, as a federally chartered savings bank, are subject to extensive regulation, supervision and examination by the OTS as their primary federal regulator. Webster Bank is also subject to regulation, supervision and examination by the FDIC and as to certain matters by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). See "MD&A" and "Notes to Consolidated Financial Statements," incorporated herein by reference in the 1997 Annual Report to Shareholders, as to the impact of certain laws, rules and regulations on the operations of the Corporation and Webster Bank. Set forth below is a description of certain regulatory developments.

Legislation was enacted in September 1996 to address the undercapitalization of the

SAIF of the FDIC (the "SAIF Recapitalization Legislation"). The SAIF Recapitalization Legislation, in addition to providing for a special assessment to recapitalize the insurance fund, also contemplated the merger of the SAIF with the BIF, of which Webster Bank is a member, and which generally insures deposits in national and state-chartered banks. The combined deposit insurance fund, which would be formed no earlier than January 1, 1999, would insure deposits at all FDIC insured depository institutions. As a condition to the combined insurance fund, however, no insured depository institution can be chartered as a savings association (such as Webster Bank). Several proposals for abolishing the federal thrift charter were introduced in Congress during 1997 in bills addressing financial services modernization, including a proposal from the Treasury Department developed pursuant to requirements of the SAIF Recapitalization Legislation. While no legislation was passed in 1997, it is anticipated that the issue will be taken up again by Congress in 1998. If legislation is passed abolishing the federal thrift charter, Webster Bank may be required to convert its federal charter to either a new federal type of bank charter or state depository institution charter. Such future legislation also may result in the Corporation becoming regulated as a bank holding company by the Federal Reserve Board rather than a savings and loan holding company regulated by the OTS. Regulation by the Federal Reserve Board could subject the Corporation to capital requirements that are not currently applicable to the Corporation as a holding company under OTS regulation and may result in statutory limitations on the type of business activities in which the Corporation may engage at the holding company level, which business activities currently are not restricted. The Corporation and Webster Bank are unable to predict whether such legislation will be enacted.

Various proposals were introduced in Congress in 1997 to permit the payment of interest on required reserve balances, and to permit savings institutions and other regulated financial institutions to pay interest on business demand accounts. While this legislation appears to have strong support from many constituencies, Webster and Webster Bank are unable to predict whether such legislation will be enacted.

During 1997, the OTS continued its comprehensive review of its regulations to eliminate duplicative, unduly burdensome and unnecessary regulations. The OTS revised or has proposed revising regulations addressing liquidity requirements, capital distributions, deposit accounts and application processing. The recently adopted revisions to the OTS liquidity requirements lowered the minimum liquidity requirement for a federal savings institution from 5% to 4%, but made clear that an institution must maintain sufficient liquidity to ensure its safe and sound operation. The revisions also added certain mortgage-related securities and mortgage loans to the types of assets that can be used to meet liquidity requirements, and provided alternatives for measuring compliance with the requirements.

The recently proposed revisions to the OTS capital distribution regulation would conform the definition of "capital distribution" to the definition used in the OTS prompt corrective action regulations, and would delete the three classifications of institutions. Under the proposal, there would be no specific limitation on the amount of permissible capital distributions, but the OTS could disapprove a capital distribution if the institution would not be at least adequately capitalized under the OTS prompt correction action regulations following the distribution, if the distribution raised safety or soundness concerns, or if the distribution violated a prohibition contained in any statute, regulation, or agreement between the institution and the OTS, or a condition imposed on the institution by the OTS. The OTS would consider the amount of the distribution when determining whether it raised safety or soundness concerns.

TAXATION

Federal. Webster, on behalf of itself and its subsidiaries, files a calendar tax year

consolidated federal income tax return, except for the Bank's REIT subsidiary, which files a stand alone return. Webster and its subsidiaries report their income and expenses using the accrual method of accounting. Tax law changes were enacted in August 1996 to eliminate the "thrift bad debt" method of calculating bad debt deductions for tax years after 1995 and to impose a requirement to recapture into taxable income (over a six-year period) all bad debt reserves accumulated after 1987. Since Webster previously recorded a deferred tax liability with respect to these post 1987 reserves, its total tax expense for financial reporting purposes will not be affected by the recapture requirement. The tax law changes also provide that taxes associated with the recapture of pre-1988 bad debt reserves would become payable under more limited circumstances than under prior law. Under the tax laws, as amended, events that would result in recapture of the pre-1988 bad debt reserves include stock and cash distributions to the holding company from the Bank in excess of specified amounts. Webster does not expect such reserves to be recaptured into taxable income. At December 31, 1997, Webster had pre-1988 reserves of approximately $27.2 million.

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 alternative 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).

Webster's federal income tax returns have been examined by the Internal Revenue Service for tax years through 1993.

State. State income taxation is in accordance with the corporate income tax laws of the State of Connecticut and other states on an apportioned basis. For the State of Connecticut, the Bank and its subsidiaries, exclusive of the REIT Subsidiary, are required to pay taxes under the larger of two methods but no less than the minimum tax of $250 per entity. Method one is 10.50% (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.

## ITEM 2. PROPERTIES

At December 31, 1997, Webster had 31 banking offices in New Haven County, 41 banking offices in Hartford County, 7 banking offices in Fairfield County, 2 banking offices in

Litchfield County and 3 banking offices in Middlesex County. Of these, 46 offices are owned and 38 offices are leased. Lease expiration dates range from 1 to 24 years with renewal options of 3 to 10 years. Additionally, the Bank maintains five trust offices: two in New Haven County, two in Fairfield County and one in Hartford county.

The total net book value of properties and furniture and fixtures owned and used for banking offices at December 31, 1997 was $39.9 million, which includes the aggregate net book value of leasehold improvements on properties used for offices of $2.3 million at that date.

## ITEM 3. LEGAL PROCEEDINGS

At December 31, 1997, there were no material pending legal proceedings, other than ordinary routine litigation incident to its business, 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 EQUITY 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 1997 and 1996. Webster increased its quarterly dividend to $.20 per share in 1997.

| | Common Stock (Per Share) | | | |
|---|---|---|---|---|
| | | Market Price | | |
| | Cash Dividends Declared | Low | High | End of Period |
| 1997: | | | | |
| Fourth............. | $ .20 | $ 57 | $ 67 3/4 | $ 66 1/2 |
| Third.............. | .20 | 43 3/8 | 59 3/4 | 58 3/4 |
| Second............. | .20 | 34 5/8 | 45 3/4 | 45 1/2 |
| First.............. | .20 | 35 1/8 | 41 3/8 | 35 1/8 |
| 1996: | | | | |
| Fourth............. | $ .18 | $ 33 1/2 | $ 38 1/4 | $ 36 3/4 |
| Third.............. | .18 | 28 | 35 3/4 | 35 1/4 |
| Second............. | .16 | 26 3/4 | 29 3/8 | 28 |
| First.............. | .16 | 27 1/2 | 30 1/4 | 28 |

Payment of dividends from Webster Bank to Webster is subject to certain regulatory and other restrictions. 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 issued and outstanding preferred stock.

Other Events

Webster announced on March 17, 1998 that its Board of Directors declared a two-for-one stock split. The stock split is subject to approval by Webster's shareholders of an amendment to Webster's certificate of incorporation to increase the authorized number of shares of Webster common stock from 30,000,000 to 50,000,000 shares, which will be considered by shareholders at a special meeting to be held on April 2, 1998. Webster issued a press release on March 17, 1998 describing the stock split and providing additional information about Webster.

ITEM 6. SELECTED FINANCIAL DATA

STATEMENT OF CONDITION DATA (DOLLARS IN THOUSANDS EXCEPT SHARE DATA)*

| | AT DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| AT OR FOR YEAR ENDED: | 1997 | 1996 | 1995 | 1994 | 1993 |
| Total assets | $7,019,621 | $5,607,210 | $4,883,402 | $4,677,859 | $4,032,451 |
| Loans receivable, net | 3,824,602 | 3,642,522 | 3,005,014 | 2,934,967 | 2,459,395 |
| Securities | 2,787,240 | 1,577,702 | 1,505,919 | 1,300,793 | 1,135,168 |
| Intangible assets | 48,919 | 49,448 | 10,865 | 12,806 | 16,083 |
| Deposits | 4,365,756 | 4,457,561 | 3,797,712 | 3,781,393 | 3,272,262 |
| Shareholders' equity | 382,186 | 336,832 | 334,580 | 264,404 | 235,151 |

| OPERATING DATA | YEARS ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | 1997 | 1996 | 1995 | 1994 | 1993 |
| Net interest income | $191,925 | $ 169,037 | $ 135,331 | $ 140,612 | $ 117,785 |
| Provision for loan losses | 15,835 | 9,788 | 5,726 | 5,609 | 8,082 |
| Noninterest income | 35,990 | 32,179 | 27,902 | 17,467 | 20,024 |
| Noninterest expenses: | | | | | |
| Merger and acquisition expenses (a) | 27,058 | 500 | 4,271 | 700 | -- |
| Other noninterest expenses | 131,489 | 130,055 | 108,465 | 112,599 | 89,001 |
| Total noninterest expenses | 158,547 | 130,555 | 112,736 | 113,299 | 89,001 |

Source: WEBSTER FINANCIAL CO, 10-K, March 31, 1998

| | | | | | |
|---|---|---|---|---|---|
| Income before taxes | 53,533 | 60,873 | 44,771 | 39,171 | 40,726 |
| Income taxes | 19,735 | 22,372 | 15,450 | 11,211 | 17,033 |
| Net income before cumulative change | 33,798 | 38,501 | 29,321 | 27,960 | 23,693 |
| Cumulative effect of change in method of accounting for income taxes | -- | -- | -- | -- | 6,408 |
| NET INCOME | 33,798 | 38,501 | 29,321 | 27,960 | 30,101 |
| Preferred stock dividends | -- | 1,149 | 1,296 | 1,716 | 2,653 |
| Income available to common shareholders | $ 33,798 | $ 37,352 | $ 28,025 | $ 26,244 | $ 27,448 |

SIGNIFICANT STATISTICAL DATA

| | | | | | |
|---|---|---|---|---|---|
| Interest-rate spread | 3.02% | 3.12% | 2.80% | 3.18% | 3.03% |
| Net interest margin | 3.17% | 3.23% | 2.96% | 3.27% | 3.14% |
| Return on average shareholders' equity | 9.72% | 11.20% | 10.08% | 10.76% | 10.17% |
| Net income per common share (b) | | | | | |
| Basic | $ 2.51 | $ 2.82 | $ 2.35 | $ 2.30 | $ 2.04 |
| Diluted | $ 2.44 | $ 2.66 | $ 2.22 | $ 2.17 | $ 1.94 |
| Dividends declared per common share (c) | $ 0.80 | $ 0.68 | $ 0.64 | $ 0.52 | $ 0.50 |
| Dividend payout ratio | 32.79% | 25.56% | 28.83 | 23.96% | 25.77% |
| Noninterest expenses to average assets | 2.50% | 2.38% | 2.37% | 2.47% | 2.27% |
| Noninterest expenses (excluding foreclosed property expenses and provisions, net) to average assets | 2.46% | 2.32% | 2.24% | 2.25% | 2.00% |
| Diluted weighted average shares | 13,828 | 14,460 | 13,202 | 12,877 | 11,810 |
| Book value per common share | $ 27.99 | $ 25.18 | $ 24.41 | $ 21.37 | $ 20.74 |
| Tangible book value per common share | $ 24.41 | $ 21.61 | $ 23.57 | $ 20.26 | $ 19.16 |
| Shareholders' equity to total assets | 5.44% | 6.01% | 6.85% | 5.65% | 5.83% |

* Information for all periods presented has been restated to reflect the inclusion of the results of People's Savings Financial Corp., DS Bancor, Inc., Shelton Bancorp, Inc. and Shoreline Bank and Trust Company which were acquired on July 31, 1997, January 31, 1997, November 1, 1995 and December 16, 1994, respectively, and were accounted for using the pooling of interests method.

(a) See Management's Discussion and Analysis, Comparison of 1997 and 1996 Years and 1996 and 1995 Years and Note 18 to the Consolidated Financial Statements in the Corporation's 1997 Annual Report to Shareholders which is incorporated herein by reference.

(b) Before cumulative change in the method of accounting for Income Taxes in 1993. After such cumulative change, basic net income per common share for 1993 was $2.72 and diluted net income per share was $2.48.

(c) 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.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION & RESULTS OF OPERATIONS

"Management's Discussion and Analysis of Financial Condition and Results of Operations" on Pages 19 to 28 of the Corporation's 1997 Annual Report to Shareholders is incorporated herein by reference.

## ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The required information is incorporated herein by reference from pages 22 to 24 of the Corporation's 1997 Annual Report to Shareholders.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The required information is incorporated herein by reference from Pages 29 to 60 of the Corporation's 1997 Annual Report to Shareholders.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

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 herein 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, FINANCIAL 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, 1997, 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, 1997 and 1996

Consolidated Statements of Income - Years Ended December 31, 1997, 1996 and 1995

Consolidated Statements of Shareholders' Equity - Years Ended December 31, 1997, 1996 and 1995

Consolidated Statements of Cash Flows - Years Ended December 31, 1997, 1996 and 1995

Notes to Consolidated Financial Statements

Independent Auditor's Report

(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. 2. Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession.

2.1 Agreement and Plan of Merger, dated as of October 26, 1997, by and between the Corporation and Eagle Financial Corp. (incorporated herein by reference to Exhibit 2.1 to the Corporation's Current Report on Form 8-K filed on November 24, 1997).

2.2 Stock Option Agreement, dated October 26, 1997, between Eagle

Financial Corp. and the Corporation (incorporated herein by reference to Exhibit 2.2 to the Corporation's Current Report on Form 8-K filed on November 24, 1997).

Exhibit No. 3. Certificate of Incorporation and Bylaws.

3.1 Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 to the Corporation's Form 10-K filed on March 27, 1997).

3.2 Certificate of Amendment of Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.2 to the Corporation's Form 10-K filed on March 27, 1997).

3.3 Certificate of Designation for the Series C Participating Preferred Stock (incorporated herein by reference to Exhibit 3.5 to the Corporation's Form 10-K filed on March 27, 1997).

3.4 Certificate of Amendment to Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.6 to the Corporation's Form 10-K filed on March 27, 1997).

3.5 Bylaws of Registrant.

Exhibit No. 10. 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, 1994).

10.4 Amendment No. 2 to 1992 Stock Option Plan.

10.5 Short-Term Incentive Compensation Plan (incorporated by reference to Exhibit 10.4 to the Corporation's Form 10-K filed on March 31, 1995).

10.6 Economic Value Added Incentive Plan (the description of the plan in the first full paragraph on page 15 of the Corporation's definitive proxy materials for the 1998 Annual Meeting of Shareholders is incorporated herein by reference).

10.7 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).

10.8 Performance Incentive Plan (incorporated by reference to Exhibit A to the Corporation's definitive proxy materials for the Corporation's 1996 Annual Meeting of Shareholders).

10.9 First Federal Bank Deferred Compensation Plan for Directors and Officers, effective December 7, 1987 (incorporated herein by reference to Exhibit 10(1) to the Corporation's Form 10-K filed on March 29, 1988).

10.10 Directors Retainer Fees Plan (incorporated herein by reference to Exhibit B to the Corporation's definitive proxy materials for the Corporation's 1996 Annual Meeting of Shareholders).

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 10.15 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 10.16 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 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, 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 Employment Agreement, dated as of January 1, 1998, among Webster Bank, the Corporation and James C. Smith. See Schedule 10.27 for a list of other executive officers of the Corporation and Webster Bank who have an Employment Agreement substantially identical in all material respects to the Employment Agreement of Mr. Smith, except as to the name of the executive who is a party to the agreement and as otherwise indicated on Schedule 10.27.

10.28 Amendment To Employment Agreement, entered into as of March 17, 1998, by and among Webster Bank, the Corporation and James C. Smith. See Schedule 10.28 for a list of other executive officers of the Corporation and Webster Bank who have an Amendment To Employment Agreement substantially identical in all material respects to the Amendment To Employment Agreement of Mr. Smith, except as to the name of the executive who is a party to the agreement.

10.29 Change of Control Employment Agreement, dated as of December 15, 1997, by and between the Corporation and James C. Smith. See Schedule 10.29 for a list of other executive officers of the Corporation who have a Change of Control Employment Agreement substantially identical in all material respects to the Change of Control Employment Agreement of Mr. Smith, except as to the name of the executive who is a party to the agreement.

10.30 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).

10.31 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).

10.32 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).

10.33 Junior Subordinated Indenture, dated January 29, 1997 between the Corporation and the Bank of New York as Trustee, relating to the Corporation's Junior Subordinated Deferrable Interest Debentures (incorporated herein by reference to Exhibit 10.44 to the Corporation's Form 10-K filed on March 27, 1997).

Exhibit No. 13. Annual Report to Shareholders.

Exhibit No. 21. Subsidiaries.

Exhibit No. 23. Consent of KPMG Peat Marwick LLP.

Exhibit No. 27. Financial Data Schedule.

27.1 Financial Data Schedule.

27.2 Restated Financial Data Schedule.

27.3 Restated Financial Data Schedule.

(b) The following current reports on Form 8-K were filed by the Registrant during the last quarter of the fiscal year 1997.

(i) Current Report on Form 8-K filed on November 7, 1997 (date of report October 26, 1997) relating to the proposed acquisition of Eagle Financial Corp. by the Corporation.

(ii) Current Report on Form 8-K filed on November 24, 1997 (date of report October 26, 1997) attaching the Agreement and Plan of Merger and Stock Option Agreement in connection with the proposed acquisition of Eagle Financial Corp. by the Corporation.

(iii) Current Report on Form 8-K filed on November 17, 1997 (date of report November 17, 1997) attaching the consolidated financial statements of the Corporation restated to reflect the acquisition of People's Savings Financial Corp. (as amended by the Form 8-K/As filed on January 26, 1998, January 26, 1998 and February 6, 1998).

(c) 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, as of March 31, 1998.

WEBSTER FINANCIAL CORPORATION
-----------------------------
Registrant

BY: /s/ James C. Smith
---------------------------
James C. Smith, Chairman
and Chief Executive Officer

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 31, 1998.

By: /s/ James C. Smith
-------------------------------------------
James C. Smith, Chairman and
Chief Executive Officer
Principal Executive Officer

By: /s/ John V. Brennan

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

By: /s/ Achille A. Apicella

Achille A. Apicella
Director

By: /s/ Joel S. Becker

Joel S. Becker
Director

By: /s/ O. Joseph Bizzozero, Jr.

O. Joseph Bizzozero, Jr.
Director

By:

John J. Crawford
Director

By: /s/ Harry P. DiAdamo, Jr.

Harry P. DiAdamo, Jr.
Director

By: /s/ Robert A. Finkenzeller

Robert A. Finkenzeller
Director

By: /s/ Walter R. Griffin

Walter R. Griffin
Director

By: /s/ J. Gregory Hickey

J. Gregory Hickey
Director

By:

C. Michael Jacobi
Director

By: /s/ Marguerite F. Waite

Marguerite F. Waite
Director

EXHIBIT INDEX*

| NUMBER | DESCRIPTION |
|---|---|
| 2.1 | Agreement and Plan of Merger, dated as of October 26, 1997, by and between the Corporation and Eagle Financial Corp. (incorporated herein by reference to Exhibit 2.1 to the Corporation's Current Report on Form 8-K filed on November 24, 1997). |
| 2.2 | Stock Option Agreement, dated October 26, 1997, between Eagle Financial Corp. and the Corporation (incorporated herein by reference to Exhibit 2.2 to the Corporation's Current Report on Form 8-K filed on November 24, 1997). |
| 3.1 | Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 to the Corporation's Form 10-K filed on March 27, 1997). |
| 3.2 | Certificate of Amendment of Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.2 to the Corporation's Form 10-K filed on March 27, 1997). |

3.3 Certificate of Designation for the Series C Participating Preferred Stock (incorporated herein by reference to Exhibit 3.5 to the Corporation's Form 10-K filed on March 27, 1997).

3.4 Certificate of Amendment to Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.6 to the Corporation's Form 10-K filed on March 27, 1997).

3.5 Bylaws of Registrant.

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, 1994).

10.4 Amendment No. 2 to 1992 Stock Option Plan.

10.5 Short-Term Incentive Compensation Plan (incorporated by reference to Exhibit 10.4 to the Corporation's Form 10-K filed on March 31, 1995).

10.6 Economic Value Added Incentive Plan (the description of the plan in the first full paragraph on page 15 of the Corporation's definitive proxy materials for the 1998 Annual Meeting of Shareholders is incorporated herein by reference).

10.7 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).

10.8 Performance Incentive Plan (incorporated by reference to Exhibit A to the Corporation's definitive proxy materials for the Corporation's 1996 Annual Meeting of Shareholders).

10.9 First Federal Bank Deferred Compensation Plan for Directors and Officers, effective December 7, 1987 (incorporated herein by reference to Exhibit 10(1) to the Corporation's Form 10-K filed on March 29, 1988).

10.10 Directors Retainer Fees Plan (incorporated herein by reference to Exhibit B to the Corporation's definitive proxy materials for the Corporation's 1996 Annual Meeting of Shareholders).

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 10.15 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 10.16 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 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, 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 Employment Agreement, dated as of January 1, 1998, among Webster Bank, the Corporation and James C. Smith. See Schedule 10.27 for a list of other executive officers of the Corporation and Webster Bank who have an Employment Agreement substantially identical in all material respects to the Employment Agreement of Mr. Smith, except as to the name of the executive who is a party to the agreement and otherwise indicated on Schedule 10.27.

10.28 Amendment To Employment Agreement, entered into as of March 17, 1998, by and among Webster Bank, the Corporation and James C. Smith. See Schedule 10.28 for a list of other executive officers of the Corporation and Webster Bank who have an Amendment To Employment Agreement substantially identical in all material respects to the Amendment To Employment Agreement of Mr. Smith, except as to the name of the executive who is a party to the agreement.

10.29 Change of Control Employment Agreement, dated as of December 15, 1997, by and between the Corporation and James C. Smith. See Schedule 10.29 for a list of other executive officers of the Corporation who have a Change of Control Employment Agreement substantially identical in all material respects to the Change of Control Employment Agreement of Mr. Smith, except as to the name of the executive who is a party to the agreement.

10.30 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).

10.31 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).

10.32 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).

10.33 Junior Subordinated Indenture, dated January 29, 1997 between the Corporation and the Bank of New York as Trustee, relating to the Corporation's Junior Subordinated Deferrable Interest Debentures (incorporated herein by reference to Exhibit 10.44 to the Corporation's Form 10-K filed on March 27, 1997).

13. Annual Report to Shareholders.

21. Subsidiaries.

| | |
|---|---|
| 23. | Consent of KPMG Peat Marwick LLP. |
| 27.1 | Financial Data Schedule. |
| 27.2 | Restated Financial Data Schedule. |
| 27.3 | Restated Financial Data Schedule. |

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

# BYLAWS

# OF

# WEBSTER FINANCIAL CORPORATION

(hereinafter called the "Corporation")

(As amended effective November 24, 1997)

## ARTICLE I

## OFFICES

SECTION 1. Registered Office. The registered office of the Corporation shall be in the city of Wilmington, County of New Castle, State of Delaware.

SECTION 2. Other Offices. The Corporation may also have offices at such other places both within and without the State of Delaware as the board of directors may from time to time determine.

## ARTICLE II

## MEETINGS OF SHAREHOLDERS

SECTION 1. Place of Meetings. Meetings of shareholders for the election of directors or for any other purpose shall be held at such time and place, either within or without the State of Delaware, as shall be designated from time to time by the board of directors and stated in the notice of the meeting or in a duly executed waiver of notice thereof.

SECTION 2. Annual Meetings. The annual meetings of shareholders shall be held at First Federal Plaza, Waterbury, Connecticut on the third Thursday of April at 11:00 a.m. or at such other place, date and hour as shall be designated from time to time by the board of directors and stated in the notice of the meeting, at which meetings the shareholders shall elect by a plurality vote a board of directors and transact such other business as may properly be brought before the meeting. Written notice of the annual meeting stating the place, date and hour of the meeting shall be given to each shareholder entitled to vote at such meeting not less than 20 nor more than 50 days before the date of the meeting. The notice shall also set forth the purpose or purposes for which the meeting is called.

SECTION 3. Business at Annual Meeting. At an annual meeting of the shareholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, (b) otherwise properly brought before the meeting by or at the direction of the board of directors, or (c) otherwise properly brought before the meeting by a shareholder.

For business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the secretary of the Corporation. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than 30 days nor more than 90 days prior to the meeting; provided, however, that in the event that less than 45 days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be so received not later than the close of business on the 15th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. A shareholder's notice to the secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the Corporation's books, of the shareholder proposing such business, (c) the class and number of shares of the Corporation which are beneficially owned by the shareholder, and (d) any material interest of the shareholder in such business. Notwithstanding anything in these bylaws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 3. The chairman of an annual meeting shall, if the facts warrant, determine and declare to the annual meeting that a matter of business was not properly brought before the meeting in accordance with the provisions of this Section 3, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

Source: WEBSTER FINANCIAL CO, 10-K, March 31, 1998

SECTION 4. Special Meetings. Special meetings of shareholders for any purpose may be called only as provided in the Certificate of Incorporation. Written notice of a special meeting stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called shall be given not less than 20 nor more than 50 days before the date of the meeting to each shareholder entitled to vote at such meeting.

SECTION 5. Quorum. The holders of one-third of the capital stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the shareholders for the transaction of business. If, however, such quorum shall not be present or represented at any meeting of the shareholders, the shareholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each shareholder entitled to vote at the meeting.

SECTION 6. Voting. Except as otherwise required by law, the Certificate of Incorporation or these bylaws, any matter brought before any meeting of shareholders shall be decided by the affirmative vote of the majority of the votes cast on the matter. Each shareholder represented at a meeting of shareholders shall be entitled to cast one vote for each share of the capital stock entitled to vote thereat held by such shareholder. The board of directors, in its discretion, may require that any votes cast at such meeting shall be cast by written ballot.

SECTION 7. List of Shareholders Entitled to Vote. The officer of the Corporation who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of shareholders, a complete list of the shareholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each shareholder and the number of shares registered in the name of each shareholder. Such list shall be open to the examination of any shareholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any shareholder of the Corporation who is present.

SECTION 8. Stock Ledger. The stock ledger of the Corporation shall be the only evidence as to who are the shareholders entitled to examine the list required by Section 7 of this Article II or to vote in person or

by proxy at any meeting of shareholders.

SECTION 9. Proxies. At all meetings of shareholders, a shareholder may vote by proxy executed in writing by the shareholder or his duly authorized attorney-in-fact. Proxies solicited on behalf of the board of directors shall be voted as directed by the shareholder or, in the absence of such direction, as determined by a majority of the board of directors. No proxy shall be valid after three years from its date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power.

SECTION 10. Voting of Shares in the Name of Two or More Persons. If shares or other securities having voting power stand of record in the names of two or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety or otherwise, or if two or more persons have the same fiduciary relationship respecting the same shares, unless the secretary of the Corporation is given written notice to the contrary and is furnished with a copy of the instrument or order appointing them or creating the relationship wherein it is so provided, their acts with respect to voting shall have the following effect: (1) if only one votes, his act binds all; (2) if more than one vote, the act of the majority so voting binds all; (3) if more than one vote, but the vote is evenly split on any particular matter, each faction may vote the securities in question proportionally, or any person voting the shares, or a beneficiary, if any, may apply to the Court of Chancery of the State of Delaware or such other court as may have jurisdiction to appoint an additional person to act with the persons so voting the shares, which shall then be voted as determined by a majority of such persons and the person appointed by the Court. If the instrument so filed shows that any such tenancy is held in unequal interests, a majority or even-split for the purposes of this subsection shall be a majority or even-split in interest.

SECTION 12. Voting of Shares by Certain Holders. Shares standing in the name of another corporation may be voted by any officer, agent or proxy as the bylaws of such corporation may prescribe, or, in absence of such provision, as the board of directors of such corporation may determine. Shares held by an administrator, executor, guardian or conservator may be voted by him, but no trustees shall be entitled to vote shares held by him without a transfer of such shares into his name. Shares standing in the name of a receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer into his name if authority so to do is contained in an appropriate order of the court or other public authority by which such receiver was appointed.

A shareholder whose shares are pledged shall be entitled to vote such shares unless in the transfer by the pledgor on the books of the Corporation he has expressly empowered that pledgee to vote thereon, in which case only the pledgee, or his proxy, may represent such stock and vote thereon.

Neither treasury shares of its own stock held by the Corporation, nor shares held by another corporation, if a majority of shares entitled to vote for the election of directors of such other corporation are held by the Corporation, shall be voted at any meeting or counted in determining the total number of outstanding shares at any given time for purposes of any meeting.

SECTION 13. Inspectors of Election. In advance of any meeting of shareholders, the board of directors may appoint any persons other than nominees for office as inspectors of election to act at such meeting or any adjournment thereof. The number of inspectors shall be either one or three. If the board of directors so appoints either one or three such inspectors, that appointment shall not be altered at the meeting. If inspectors of election are not so appointed, the chairman of the board or the president may, and on the

request of not less than ten percent of the votes represented at the meeting shall, make such appointments at the meeting. If appointed at the meeting, the majority of the votes present shall determine whether one or three inspectors are to be appointed. In case any person appointed as inspector fails to appear or fails or refuses to act, the vacancy may be filled by appointment by the board of directors in advance of the meeting or by the chairman of the board or the president.

Unless otherwise prescribed by law, the duties of such inspectors shall include: determining the number of shares of stock entitled to vote, the voting power of each share, the shares of stock represented at the meeting, the existence of a quorum, the authenticity, validity and effect of proxies; receiving votes, ballots or consents; hearing and determining all challenges and questions in any way arising in connection with the right to vote; counting and tabulating all votes or consents; determining the result; and such acts as may be proper to conduct the election or the vote with fairness to all shareholders.

SECTION 14. Conduct of Meetings. Annual and special meetings shall be conducted in accordance with rules prescribed by the presiding officer of the meeting, unless otherwise prescribed by law or these bylaws. The board of directors shall designate, when present, either the chairman of the board or the president to preside at such meetings.

## ARTICLE III

## DIRECTORS

SECTION 1. Number and Election of Directors. The number of directors shall be eleven. Directors need not be residents of the State of Delaware. To be eligible for nomination as a director, a nominee must be a resident of the State of Connecticut at the time of his nomination or, if not then a resident, have been previously a resident for at least three years.

Directors shall be elected only by shareholders at annual meetings of shareholders, other than the initial board of directors and except as provided in Section 2 of this Article III in the case of vacancies and newly created directorships.

Each director elected shall hold office for the term for which he is elected and until his successor is elected and qualified or until his earlier resignation or removal. After the Corporation becomes publicly-owned, each director is required to own not less than 100 shares of the common stock of the Corporation.

SECTION 2. Classes; Terms of Office; Vacancies. The board of directors shall divide the directors into three classes; and, when the number of directors is changed, shall determine the class or classes to which the increased or decreased number of directors shall be apportioned; provided, further, that no decrease in the number of directors shall affect the term of any director then in office. At each annual meeting of shareholders, directors elected to succeed those whose terms are expiring shall be elected for a term of office to expire at the third succeeding annual meeting of shareholders and when their respective successors are elected and qualified.

Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled, for the unexpired term, by the concurring vote of a majority of the directors then in office, whether or not a quorum, and any director so chosen shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified.

SECTION 3. Duties and Powers. The business of the Corporation shall be managed by or under the direction of the board of directors which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation, or by these bylaws directed or required to be exercised or done by the shareholders. The board of directors shall annually elect a chairman of the board and a president from among its members and shall designate, when present, either the chairman of the board or the president to preside at its meetings.

SECTION 4. Meetings. The board of directors of the Corporation may hold meetings, both regular and special, either within or without the State of Delaware. The annual regular meeting of the board of directors shall be held without other notice than this bylaw immediately after, and at the same place as, the annual meeting of the shareholders. Additional regular meetings of the board of directors shall be held monthly, and may be held without notice at such time and at such place as may from time to time be determined by the board of directors. Special meetings of the board of directors may be called by the chairman of the board, the president or a majority of directors then in office. Notice thereof stating the place, date and hour of the meeting shall be given to each director either by mail not less than 48 hours before the date of the meeting, or by telephone or telegram on 24 hours' notice.

SECTION 5. Quorum. Except as may be otherwise specifically provided by law, the Certificate of Incorporation or these bylaws, at all meetings of the board of directors, a majority of the directors then in office shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors. If a quorum shall not be present at any meeting of the board of directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

SECTION 6. Actions Without Meeting. Any action required or permitted to be taken at any meeting of the board of directors or of any committee thereof may be taken without a meeting, if all the members of the board of directors or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the board of directors or committee.

SECTION 7. Meetings by Means of Conference Telephone. Members of the board of directors of the Corporation, or any committee designated by the board of directors, may participate in a meeting of the board of directors or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 7 shall constitute presence in person at such meeting.

SECTION 8. Compensation. The board of directors shall have the authority to fix the compensation of directors. The directors may be paid their reasonable expenses, if any, of attendance at each meeting of the board of directors and may be paid a reasonable fixed sum for actual attendance at each meeting of the board of directors. Directors, as such, may receive a stated salary for their services. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

SECTION 9. Interested Directors. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer

is present at or participates in the meeting of the board of directors or committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose if (i) the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the board of directors or the committee, and the board of directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (ii) the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the shareholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the shareholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified by the board of directors, a committee thereof or the shareholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the board of directors or of a committee which authorizes the contract or transaction.

SECTION 10. Corporate Books. The directors may keep the books of the Corporation outside of the State of Delaware at such place or places as they may from time to time determine.

SECTION 11. Presumption of Assent. A director of the Corporation who is present at meeting of the board of directors at which action on any matter is taken shall be presumed to have assented to the action taken unless his dissent or abstention shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the secretary of the Corporation within five days after the date he receives a copy of the minutes of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

SECTION 12. Resignation. Any director may resign at any time by sending a written notice of such resignation to the chairman of the board or the president of the Corporation. Unless otherwise specified therein such resignation shall take effect upon receipt thereof by the chairman of the board or the president. More than three consecutive absences from regular meetings of the board of directors, unless excused by resolution of the board of directors, shall automatically constitute a resignation, effective when such resignation is accepted by the board of directors.

SECTION 13. Nominees. Only persons who are nominated in accordance with the procedures set forth in this Section 13 shall be eligible for election as directors. Nominations of persons for election to the board of directors of the Corporation may be made at a meeting of shareholders by or at the direction of the board of directors or by any shareholder of the Corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section 13. Such nominations, other than those made by or at the direction of the board of directors, shall be made pursuant to timely notice in writing to the secretary of the Corporation. To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than 30 days nor more than 90 days prior to the meeting; provided, however, that in the event that less than 45 days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be so received not later than the close of business on the 15th day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. Such shareholder's notice shall set forth (a) as to each person whom the shareholder proposes to nominate for election or reelection as a director, (i) the name, age, business address and residence address of such person, (ii) the principal occupation or employment of such person, (iii) the class and number of shares of the Corporation which are beneficially owned by such person, and (iv) any other information relating to such person that is required to be disclosed in solicitations or proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including without limitation such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); and (b) as to the shareholder giving notice (i) the name and address, as they appear on the Corporation's books, of such shareholder and (ii) the class and number of shares of the Corporation which are beneficially owned by such shareholder. At the request of the board of directors, any person nominated by the board of directors for election as a director shall furnish to the secretary of the Corporation that information required to be set forth in a shareholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 13. The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with procedures prescribed by the bylaws, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

## ARTICLE IV

## EXECUTIVE AND OTHER COMMITTEES

SECTION 1. Appointment. The board of directors, by resolution adopted by a majority of the full board, may designate the chief executive officer and two or more other directors to constitute an executive committee. The chairman of the board shall serve as the chairman of the executive committee, unless a different director is designated as chairman by the board of directors. The designation of any committee pursuant to this Article IV and the delegation of authority thereto shall not operate to relieve the board of directors, or any director, of any responsibility imposed by law or regulation.

SECTION 2. Authority. The executive committee, when the board of directors is not in session, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it, except to the extent, if any, that such powers and authority shall be limited by the resolution appointing the executive committee; and except also that the executive committee shall not have the power or authority of the board of directors with reference to amending the Certificate of Incorporation; adopting an agreement of merger or consolidation; recommending to the shareholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets; recommending to the shareholders a dissolution of the Corporation or a revocation of a dissolution; amending the bylaws of the Corporation; filling a vacancy or creating a new directorship; or approving a transaction in which any member of the executive committee, directly or indirectly, has any material beneficial interest; and unless the resolution or bylaws expressly so provide, the executive committee shall not have the power or authority to declare a dividend or to authorize the issuance of stock or securities convertible into or exercisable for stock.

SECTION 3. Tenure. Subject to the provisions of Section 8 of this Article IV, each member of the executive committee shall hold office until the next annual regular meeting of the board of directors following his designation and until his successor is designated as a member of the executive committee.

SECTION 4. Meetings. Regular meetings of the executive committee may be held without notice at such times and places as the executive committee may fix from time to time by resolution. Special meetings of the executive committee may be called by the chairman of the executive committee, the chief executive officer or any two members thereof upon not less than one day's notice stating the place, date and hour of the meeting, which notice may be written or oral. Any member of the executive committee may waive notice of any meeting and no notice of any meeting need be given to any member thereof who attends in

person. The notice of a meeting of the executive committee need not state the business proposed to be transacted at the meeting.

SECTION 5. Quorum. A majority of the members of the executive committee shall constitute a quorum for the transaction of business at any meeting thereof, and action of the executive committee must be authorized by the affirmative vote of a majority of the members present at a meeting at which a quorum is present.

SECTION 6. Action Without a Meeting. Any action required or permitted to be taken by the executive committee at a meeting may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the members of the executive committee and the writings are filed with the minutes of the proceedings of the committee.

SECTION 7. Vacancies. Any vacancy in the executive committee may be filled by a resolution adopted by a majority of the full board of directors.

SECTION 8. Resignations and Removal. Any member of the executive committee may be removed at any time with or without cause by resolution adopted by a majority of the full board of directors. Any member of the executive committee may resign from the executive committee at any time by giving written notice to the chairman of the board or the president of the Corporation. Unless otherwise specified therein, such resignation shall take effect upon receipt. The acceptance of such resignation shall not be necessary to make it effective.

SECTION 9. Procedure. The executive committee may fix its own rules of procedure which shall not be inconsistent with these bylaws. It shall keep regular minutes of its proceedings and report the same to the full board of directors for its information at the meeting thereof held next after the proceedings shall have been taken.

SECTION 10. Other Committees. The board of directors by resolution shall establish an audit committee, and a stock option committee, composed in each case only of directors who are not employees of the Corporation or any subsidiary thereof. The board of directors by resolution may also establish such other committees composed of directors as they may determine to be necessary or appropriate for the conduct of the business of the Corporation and may prescribe the duties and powers thereof.

## ARTICLE V

## OFFICERS

SECTION 1. Positions. The officers of the Corporation shall be a president, one or more vice presidents, a secretary and a treasurer, each of whom shall be elected by the board of directors. The board of directors may also designate the chairman of the board as an officer. The president shall be the chief executive officer, unless the board of directors designates the chairman of the board as the chief executive officer. The president may serve as the chairman of the board, if so designated by the board of directors. The offices of the secretary and treasurer may be held by the same person and a vice president may also be either the secretary or the treasurer. The board of directors may designate one or more vice presidents as executive vice president or senior vice president. The board of directors may also elect or authorize the appointment of such other officers as the business of the Corporation may require. The officers shall have such authority and perform such duties as the board of directors may from time to time authorize or determine. In the absence of action by the board of directors, the officers shall have such powers and

duties as generally pertain to their respective offices.

SECTION 2. Election. The board of directors at its first meeting held after the annual meeting of shareholders shall elect annually the officers of the Corporation who shall exercise such powers and perform such duties as shall be set forth in these bylaws and as determined from time to time by the board of directors; and all officers of the Corporation shall hold office until their successors are chosen and qualified, or until their earlier resignation or removal. Any officer elected by the board of directors may be removed at any time by the affirmative vote of a majority of the board of directors. Any vacancy occurring in any office of the Corporation shall be filled by the board of directors. The salaries of all officers of the Corporation shall be fixed by the board of directors.

SECTION 3. Removal. Any officer may be removed by the board of directors whenever in its judgment the best interests of the Corporation will be served thereby, but such removal, other than for cause, shall be without prejudice to the contract rights, if any, of the person so removed.

SECTION 4. Voting Securities Owned by the Corporation. Powers of attorney, proxies, waivers of notice of meeting, consents and other instruments relating to securities owned by the Corporation may be executed in the name of and on behalf of the Corporation by the chairman of the board, the president or any vice president, and any such officer may, in the name of and on behalf of the Corporation, take all such action as any such officer may deem advisable to vote in person or by proxy at any meeting of security holders of any corporation in which the Corporation may own securities and at any such meeting shall possess and may exercise any and all rights and powers incident to the ownership of such securities and which, as the owner thereof, the Corporation might have exercised and possessed if present. The board of directors may, by resolution, from time to time confer like powers upon any other person or persons.

## ARTICLE VI

## STOCK

SECTION 1. Form of Certificates. Every holder of stock in the Corporation shall be entitled to have a certificate signed by or in the name of the Corporation by (i) the chairman of the board or the president and (ii) by the secretary or an assistant secretary of the Corporation, representing the number of shares registered in certificate form.

SECTION 2. Signatures. Any and all of the signatures on a certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer at the date of issue.

SECTION 3. Lost Certificates. The chairman of the board, the president or any vice president may direct a new certificate to be issued in place of any certificate theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate, the chairman of the board, the president or any vice president may, in his discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or his legal representative, to advertise the same in such manner as such officer may require and/or to give the Corporation a bond in such sum as he may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

SECTION 4. Transfers. Stock of the Corporation shall be transferable in the manner prescribed by law and in these bylaws. Transfer of stock shall be made on the books of the Corporation only by the person named in the certificate or by his attorney lawfully constituted in writing and upon the surrender of the certificate therefor, which shall be canceled before a new certificate shall be issued.

SECTION 5. Record Date. In order that the Corporation may determine the shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than 50 days nor less than 20 days before the date of such meeting, nor more than 50 days prior to any other action. A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

SECTION 6. Beneficial Owners. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not the Corporation shall have express or other notice thereof, except as otherwise required by law.

## ARTICLE VII

## NOTICES

SECTION 1. Notices. Whenever written notice is required by law, the Certificate of Incorporation or these bylaws to be given to any director, members of a committee or shareholder, such notice may be given by mail, addressed to such director, members of a committee or shareholder, at his address as it appears on the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the Unites States mail. Written notice may also be given personally or by telegram, telex or cable.

SECTION 2. Waivers of Notice. Whenever any notice is required by law, the Certificate of Incorporation or these bylaws to be given to any director, member of a committee or shareholder, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting with the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at nor the purpose of any regular or special meeting of the shareholders, directors, or members of a committee of directors need be specified in any other waiver of notice unless so required by the Certificate of Incorporation or these bylaws.

## ARTICLE VIII

## GENERAL PROVISIONS

SECTION 1. Dividends. Dividends upon the capital stock of the Corporation, subject to the provisions of

the Certificate of Incorporation and the laws of the State of Delaware, may be declared by the board of directors at any regular or special meeting, and may be paid in cash, in property, or in shares of capital stock of the Corporation.

Subject to the provisions of the General Corporation Law of the State of Delaware, such dividends may be paid either out of surplus, out of the net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year.

SECTION 2. Disbursement. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the board of directors may from time to time designate.

SECTION 3. Fiscal Year. The fiscal year of the Corporation shall be December 31.

SECTION 4. Corporate Seal. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words. "Corporate Seal, Delaware." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

## ARTICLE IX

## INDEMNIFICATION

SECTION 1. Power to Indemnify in Actions, Suits or Proceedings Other Than Those by or in the Right of the Corporation. Subject to Section 3 of this Article IX, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, and any appeal therein, whether civil, criminal, administrative, arbitrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was a director, officer, trustee, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, trustee, employee or agent of another corporation, association, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines, penalties and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding, and any appeal therein, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding, and any appeals therein, by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

SECTION 2. Power to Indemnify in Actions, Suits or Proceedings by or in the Right of the Corporation. Subject to Section 3 of this Article IX, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, trustee, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, trustee, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against amounts paid in settlement and expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit, If he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best

interests of the Corporation; provided, however, that no indemnification shall be made against expenses in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation or against amounts paid in settlement unless and only to the extent that there is a determination (as set forth in Section 3 of this Article IX) that despite the adjudication of liability or the settlement, but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses or amounts paid in settlement.

SECTION 3. Authorization of Indemnification. Any indemnification under this Article IX (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, trustee, employee or agent is proper in the circumstances because such director, officer, trustee, employee or agent has met the applicable standard of conduct set forth in Section 1 or Section 2 of this Article IX and, if applicable, is fairly and reasonably entitled to indemnity as set forth in the proviso in Section 2 of this Article IX, as the case may be. Such determination shall be made (i) by the board of directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, (ii) if such a quorum is not obtainable, or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (iii) by the shareholders. To the extent, however, that a director, officer, trustee, employee or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding described above, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith, without the necessity of authorization in the specific case. No director, officer, trustee, employee or agent of the Corporation shall be entitled to indemnification in connection with any action, suit or proceeding voluntarily initiated by such person unless the action, suit or proceeding was authorized by a majority of the entire board of directors.

SECTION 4. Good Faith Defined. For purposes of any determination under Section 3 of this Article IX, a person shall be deemed to have acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, or, with respect to any criminal action or proceeding, to have had no reasonable cause to believe his conduct was unlawful, if his action is based on the records or books of account of the Corporation or another enterprise, or on information supplied to him by the officers of the Corporation or another enterprise in the course of their duties, or on the advice of legal counsel for the Corporation or another enterprise or on information or records given or reports made to the Corporation or another enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Corporation or another enterprise. The term "another enterprise" as used in this Section 4 shall mean any other corporation or any association, partnership, joint venture, trust or other enterprise of which such person is or was serving at the request of the Corporation as a director, officer, trustee, employee or agent. The provisions of this Section 4 shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met the applicable standards of conduct set forth in Sections 1 or 2 of this Article IX, as the case may be.

SECTION 5. Indemnification by a Court. Notwithstanding any contrary determination in the specific case under Section 3 of this Article IX, and notwithstanding the absence of any determination thereunder, any director, officer, trustee, employee or agent may apply to any court of competent jurisdiction in the State of Delaware for indemnification to the extent otherwise permissible under Sections 1 and 2 of this Article IX. The basis of such indemnification by a court shall be a determination by such court that indemnification of the director, officer, trustee, employee or agent is proper in the circumstances because he has met the applicable standards of conduct set forth in Sections 1 and 2 of this Article IX, as the case may be. Notice of any application for indemnification pursuant to this Section 5 shall be given to the

Corporation promptly upon the filing of such application. Notwithstanding any of the foregoing, unless otherwise required by law, no director, officer, trustee, employee or agent of the Corporation shall be entitled to indemnification in connection with any action, suit or proceeding voluntarily initiated by such person unless the action, suit or proceeding was authorized by a majority of the entire board of directors.

SECTION 6. Expenses Payable in Advance. Expenses incurred in connection with a threatened or pending action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the director, officer, trustee, employee or agent to repay such amount if it shall be determined that he is not entitled to be indemnified by the Corporation as authorized in this Article IX.

SECTION 7. Contract, Non-exclusivity and Survival of Indemnification. The indemnification provided by this Article IX shall be deemed to be a contract between the Corporation and each director, officer, employee and agent who serves in such capacity at any time while this Article IX is in effect, and any repeal or modification thereof shall not affect any rights or obligations then existing with respect to any state of facts then or theretofore existing or any action, suit or proceeding theretofore or thereafter brought based in whole or in part upon any such state of facts. Further, the indemnification and advancement of expenses provided by this Article IX shall not be deemed exclusive of any other rights to which those seeking indemnification and advancement of expenses may be entitled under any certificate of incorporation, bylaw, agreement, contract, vote of shareholders or disinterested directors or pursuant to the direction (howsoever embodied) of any court of competent jurisdiction or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, it being the policy of the Corporation that, subject to the limitation in Section 3 of this Article IX concerning voluntary initiation of actions, suits or proceedings, indemnification of the person specified in Sections 1 and 2 of this Article IX shall be made to the fullest extent permitted by law. The provisions of this Article IX shall not be deemed to preclude the indemnification of any person who is not specified in Sections 1 and 2 of this Article IX but whom the Corporation has the power or obligation to indemnify under the provisions of the law of the State of Delaware. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article IX shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, trustee, employee or agent and shall inure to the benefit of the heirs, executors and administrators of each person.

SECTION 8. Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, trustee, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, trustee, employee or agent of another corporation, association, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power or the obligation to indemnify him against such liability under the provisions of this Article IX.

SECTION 9. Meaning of "Corporation" for Purposes of Article IX. For purposes of this Article IX, references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, association, partnership, joint venture, trust or other enterprises, shall stand in the same position under the provisions of this Article IX with respect to the

resulting of surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

## ARTICLE X

## AMENDMENTS

The board of directors or the shareholders may from time to time amend the bylaws of the Corporation. Such action by the board of directors shall require the affirmative vote of at least two-thirds of the directors then in office at a duly constituted meeting of the board of directors called for such purpose. Such action by the shareholders shall require the affirmative vote of at least two-thirds of the total votes eligible to be voted at a duly constituted meeting of shareholders called for such purpose.

***************

The foregoing bylaws were originally adopted by the board of directors on October 6, 1986.

WEBSTER FINANCIAL CORPORATION

# AMENDMENT NUMBER 2
# TO 1992 STOCK OPTION PLAN

The Webster Financial Corporation 1992 Stock Option Plan, as amended (the "Plan") is hereby amended as set forth below, effective March 18, 1996 ( the "Adoption Date"), subject to approval of this Amendment Number 2 by the shareholders of Webster Financial Corporation (the "Corporation"), as provided below:

1. The second sentence of Section 3 of the Plan is further amended to increase the number of shares covered by the Plan by 375,000 shares by substituting the figure "780,500" for the figure "405,500."

2. Section 4(b) is amended to read in its entirety as follows:

> "(b) Non-Employee Directors. Each Non-Employee Director who is elected by the shareholders of the Corporation to serve on the Board for a term beginning after March 18, 1996 shall be granted an Option on the date of such election to purchase 2,000 shares of the Stock at the price on the date of such election and upon the other terms and conditions specified in the Plan, except that if a Non-Employee Director is elected to serve on the Board for a term of less than three years, the Option shall cover a number of shares of Stock equal to 2,000, multiplied by a fraction, the numerator is the number of whole months of the term to which such Non-Employee Director was elected and the denominator of which is 36, rounded to the nearest whole share, The foregoing numbers of shares of Stock shall be subject to adjustment pursuant to Section 17 hereof. Except as provided in this Section 4(b), no Non-Employee Director shall be eligible to be granted Options under this Plan."

3. The Plan shall otherwise be unchanged by this Amendment Number 2.

4. This Amendment Number 2 is adopted subject to approval within one year of the Adoption Date by a majority of the votes present, in person or by proxy, and entitled to vote at a duly held meeting of the shareholders of the Corporation at which a quorum representing a majority of all outstanding voting stock is present, in person or by proxy; provided, however, that upon approval of Amendment Number 2 by the shareholders of the Corporation as set forth above, any options granted under the Plan on or after the Adoption Date pursuant to Amendment Number 2 shall be fully effective as if the shareholders of the Corporation had approved Amendment Number 2 on the Adoption Date. If the shareholders fail to approve Amendment Number 2 within one year of the Adoption Date, any options granted covering shares of stock in excess of the number permitted under the Plan (as in effect before the Adoption Date) shall be null and void and of no effect.

* * *

Amendment Number 2 to the Plan was duly adopted and approved by the Board of Directors of the Corporation by resolution at a meeting held on March 18, 1996, subject to approval of Amendment Number 2 shareholders of the Corporation.

/s/ Lee A. Gagnon
-------------------------
Lee A. Gagnon, Secretary

# JAMES C. SMITH
# EMPLOYMENT AGREEMENT

AGREEMENT, dated as of January 1, 1998, among WEBSTER BANK (the "Bank"), WEBSTER FINANCIAL CORPORATION (the "Company") and James C. Smith (the "Employee").

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

WHEREAS, the Employee is currently serving as the Chief Executive Officer, of both the Company and the Bank under an Employment Agreement dated as of January 1, 1997 (the "Prior Agreement");

WHEREAS, the parties desire to enter into this Agreement to set forth the terms and conditions for the employment relationships of the Employee with the Company and the Bank and to replace and supersede the Prior Agreement.

NOW, THEREFORE, it is AGREED as follows:

1. EMPLOYMENT. The Prior Agreement is hereby replaced and superseded and the Prior Agreement shall be of no further force or effect after the date of this Agreement. The Employee is employed as the Chief Executive Officer, of both the Company and the Bank from the date hereof through the term of this Agreement. As an executive of the Company and of the Bank, the Employee shall render executive, policy, and other management services to the Company and the Bank of the type customarily performed by persons serving in similar executive officer capacities. The Employee shall also perform such duties as the Chief Executive Officer and the Boards of Directors of the Company and of the Bank may from time to time reasonably direct. During the term of this Agreement, there shall be no material increase or decrease in the duties and responsibilities of the Employee otherwise than as provided herein, unless the parties otherwise agree in writing. During the term of this Agreement, the Employee shall not be required to relocate to an area more than 35 miles from the Bank's home office in order to perform the services hereunder.

2. SALARY. The Bank agrees to pay the Employee during the term of this Agreement a base salary as follows: from the date hereof through December 31, 1998, a salary at an annual rate equal to $ 550,000, which salary may be adjusted in January of each subsequent year during the term of this Agreement as determined by the Boards of Directors of the Company and the Bank. In determining salary adjustments, the Board of Directors may compensate the Employee for increases in the cost of living and may also provide for performance or merit adjustments. The salary under this Section 2 shall be payable by the Bank to the Employee not less frequently than monthly. The Company shall reimburse the Bank for a portion of the salary paid to the Employee hereunder, which portion shall represent an appropriate allocation for the services rendered to the Company hereunder. The Employee shall not be entitled to receive fees for serving as a director of the Company or of the Bank or for serving as a member of any committee of the Board of Directors of the Company or of the Bank if he is elected to such positions.

3. DISCRETIONARY BONUSES. In addition to his salary under Section 2 hereof, the Employee shall be eligible to receive such discretionary bonuses as may be authorized, declared, and paid by the Board of Directors of the Company or of the Bank. No other compensation provided for in this Agreement shall be deemed a substitute for such bonuses when and as declared by the Board of Directors of the Company or the Bank.

4. PARTICIPATION IN RETIREMENT AND EMPLOYEE BENEFIT PLANS; FRINGE BENEFITS. The Employee shall be eligible to participate in any plan of the Company or of the Bank relating to stock options, stock purchases, pension, thrift, profit sharing, employee stock ownership, group life insurance, medical coverage, disability insurance, education, or other retirement or employee benefits that the Bank or the Company has adopted or may adopt for the benefit of its executive employees. The Employee shall also be eligible to participate in any other fringe benefits which are now or may be or become applicable to the Company's or the Bank's executive employees. In addition, the Employee shall be provided with a standard automobile or an automobile allowance for business use. Participation in these plans and fringe benefits shall not reduce the salary payable to the Employee under Section 2 hereof.

5. TERM. The initial term of employment under this Agreement shall be for a period commencing on the date hereof and ending on December 31, 2000. The Company and the Bank may renew this Agreement by written notice to the Employee for one additional year on December 31, 1998 and each subsequent December 31 during the term of this Agreement, unless the Employee gives contrary written notice to the other parties hereto prior to such renewal date. Each initial term and all such renewed terms are collectively referred to herein as the term of this Agreement.

6. STANDARDS. The Employee shall perform the Employee's duties and

responsibilities under this Agreement in accordance with such reasonable standards as may be established from time to time by the Boards of Directors of the Company or the Bank. The reasonableness of such standards shall be measured against standards for executive performance generally prevailing in the savings institutions industry.

7. VACATIONS. The Employee shall be entitled to an annual paid vacation of at least four weeks per year, or such longer period as the Board of Directors of the Company or the Bank may approve, in accordance with the vacation policy of the Company or the Bank, as applicable. The timing of paid vacations shall be scheduled in a reasonable manner by the Employee.

8. TERMINATION OF EMPLOYMENT.

(a) (i) The Board of Directors of the Company or the Bank may terminate the Employee's employment at any time, but any termination by such Board of Directors other than termination for cause shall not prejudice the Employee's right to compensation or other benefits under this Agreement. The Employee shall have no right to receive compensation or other benefits for any period after termination for cause. 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, or material breach of any provision of this Agreement. In determining incompetence, the acts or omissions shall be measured against standards generally prevailing in the savings institutions industry; provided, that it shall be the Company's or the Bank's burden to prove the alleged acts and omissions and the prevailing nature of the standards the Company or the Bank shall have alleged are violated by such acts and/or omissions.

(ii) The parties acknowledge and agree that damages which will result to the Employee for termination without cause shall be extremely difficult or impossible to establish or prove, and agree that, unless the termination is for cause, the Bank shall be obligated, concurrently with such termination, to make a lump sum cash payment to the Employee as liquidated damages of an amount equal to the sum of (a) the Employee's then current annual base salary under Section 2 of this Agreement and (b) the amount of any bonuses paid to the Employee pursuant to the Webster Financial Corporation and Webster Bank Annual Incentive Compensation Plan during the then current fiscal year (which was earned with respect to the prior fiscal year) multiplied by a fraction, the numerator of which is the number of full months during the then current fiscal year in which the Employee was employed hereunder and the denominator of which is 12. The Employee agrees that, except for such other payments and benefits to which the Employee may be entitled as expressly provided by the terms of this Agreement, such liquidated damages shall be in lieu of all other claims which Employee may make by reason of such termination. Such payment to the Employee shall be made on or before the Employee's last day of employment with the Company or the Bank. The liquidated damages amount shall not be reduced by any compensation which the Employee may receive for other employment with another employer after termination of his employment with the Company or the Bank.

(iii) In addition to the liquidated damages above described that are payable to the Employee for termination without cause, the following shall apply in the event of any termination without cause: (1) the Employee shall continue to be entitled to medical and dental coverage as if his employment had not been terminated until the earliest of (A) the expiration of one year after the date his employment terminates, (B) the expiration of the remaining term of this Agreement under Section 5, and (C) the date on which the Employee accepts other employment on a substantially full time basis and (2) all insurance or other provisions for indemnification, defense or hold-harmless of officers or directors of the Company or the Bank which are in effect on the date the notice of termination is sent to the Employee shall continue for the benefit of the Employee with respect to all of his 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) If the Employee is suspended and/or temporarily prohibited from participating in the conduct of the Bank's affairs by a notice served under Section 8(e)(3) or (g)(1) of the Federal Deposit Insurance Act, as amended, the Company's and the Bank's obligations under this Agreement shall be suspended as of the date of service, unless stayed by appropriate proceedings. If the charges in the notice are dismissed, the Bank may in its discretion (i) pay the Employee all or part of the compensation withheld while such contractual obligations were suspended, and (ii) reinstate in whole or in part any of its obligations which were suspended.

(c) If the Employee is removed and/or permanently prohibited from participating in the conduct of the Bank's affairs by an order issued under Section 8(e)(4) or (g)(1) of the Federal Deposit Insurance Act, as amended, all obligations of the Company and the Bank under this Agreement shall terminate as of the effective date of the order, but vested rights of the parties shall not be affected.

(d) If the Bank is in default (as defined in Section 3(x)(1) of the Federal Deposit Insurance Act, as amended), all obligations under this Agreement shall terminate as of the date of default, but this paragraph shall not affect any vested rights of the parties.

(e) All obligations under this Agreement shall be terminated, except to the extent determined that continuation of this Agreement is necessary for the continued operation of the Bank, (i) by the Director of the Office of Thrift Supervision (the "Director") or his or her designee, at the time the Federal Deposit Insurance Corporation or Resolution Trust Company enters into an agreement to provide assistance to or on behalf of the Bank under the authority contained in Section 13(c) of the Federal Deposit Insurance Act, as amended, or (ii) by the Director or his or her designee at the time the Director or his or her designee approves a supervisory merger to resolve problems related to operation of the Bank or when the Bank is determined by the Director or his or her designee to be in an unsafe or unsound condition. Any rights of the parties that have already vested, however, shall not be affected by any termination hereunder.

(f) The Employee shall have no right to terminate employment under this Agreement prior to the end of the term of this Agreement, unless such termination is approved by the Board of Directors of the Company or the Bank. In the event that the Employee violates this provision, the Company and the Bank shall be entitled, in addition to its other legal remedies, to enjoin the employment of the Employee with any significant competitor of the Bank for a period of one year or the remaining term of this Agreement plus six months, whichever is less. The term "significant competitor" shall mean any commercial bank, savings bank, savings and loan association, or mortgage banking company, or a holding company affiliate of any of the foregoing, which at the date of its employment of the Employee has an office out of which the Employee would be primarily based within 35 miles of the Bank's home office.

(g) In the event the employment of the Employee is terminated by the Company or the Bank without cause under Section 8(a) hereof and the Bank fails to make timely payment of the amounts then owed to the Employee under this Agreement, the Employee shall be entitled to reimbursement for all reasonable costs, including attorneys' fees, incurred by the Employee in taking action to collect such amounts or otherwise to enforce this Agreement, plus interest on such amounts at the rate of one percent above the prime rate (defined as the base rate on corporate loans at large U.S. money center commercial banks as published by The Wall Street Journal), compounded monthly, for the period from the date the payment is due to be paid to the Employee until payment is made. Such reimbursement and interest shall be in addition to all rights which the Employee is otherwise entitled to under this Agreement.

(h) If during the term of this Agreement, the Employee's employment with the Company and the Bank is terminated (whether voluntarily or involuntarily), the Employee agrees

to maintain the confidentiality of, and not to use, any non-public information which he acquired during his employment concerning the Company or the Bank, their respective subsidiaries, or any director, officer, employee or agent of the aforesaid entities, including any information as to the customers, business or personnel practices of such entities. The Employee agrees, for a period of one year after the date of termination of his employment with the Company and the Bank, that he will not (i) offer employment (or a consulting, agency, independent contractor or other similar paid position) to any employee of the Company, the Bank or any of their respective subsidiaries, or (ii) induce, encourage or solicit any such employee to accept employment (or any aforesaid position) with any company or entity with which the Employee may then be employed or otherwise affiliated.

9. DISABILITY. If the Employee shall become disabled or incapacitated to the extent that the Employee is unable to perform the Employee's duties and responsibilities hereunder, the Employee shall be entitled to receive disability benefits of the type provided for other executive employees of the Company and the Bank and the obligations of the Company and the Bank hereunder shall be limited to providing such benefits for the period of such disability.

10. NO ASSIGNMENTS; SUCCESSORS. 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 party 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. The Company and/or the Bank shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the

business and/or assets of the Company or the Bank expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company and the Bank would have been required to perform if no succession had taken place. All references herein to the "Company" and the "Bank" shall refer to any such successor.

11. OTHER CONTRACTS. The Employee shall not, during the term of this Agreement, have any other paid employment other than with a subsidiary of the Company, except with the prior approval of the Boards of Directors of the Company and the Bank.

12. 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 the 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, to give any consents or waivers of provisions of this Agreement, or to take any other action under this Agreement including any termination of employment with or without cause under Section 8(a) hereof.

13. 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.

14. SEVERABILITY. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof.

15. GOVERNING LAW. This Agreement shall be governed by the laws of the United States to the extent applicable and otherwise by the laws of the State of Connecticut, excluding the choice of law rules thereof.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement, or caused this Agreement to be duly executed on their behalf, as of the day and year first above written.

| | |
|---|---|
| Attest: | WEBSTER FINANCIAL CORPORATION |
| /s/ Renee P. Seefried | By /s/ Joel S. Becker |
| | Chairman, Personnel Resources Committee |
| Attest: | WEBSTER BANK |
| /s/ Renee P. Seefried | By /s/ Joel S. Becker |
| | Chairman, Personnel Resources Committee |

EMPLOYEE

/s/ James C. Smith

James C. Smith

## SCHEDULE 10.27 TO EXHIBIT 10.27

Set forth below are the names of the executive officers of Webster Financial Corporation and Webster Bank who have an Employment Agreement that is substantially identical in all material respects to the Employment Agreement of Mr. Smith as well as the material details of those agreements that differ from the agreement of Mr. Smith:

John V. Brennan:
Current position with the Corporation and Webster Bank:
Executive Vice President, Treasurer and Chief Financial Officer
Current salary: $235,000

William T. Brommage
Current position with the Corporation and Webster Bank:
Executive Vice President, Business Banking
Current salary: $210,000

Source: WEBSTER FINANCIAL CO, 10-K, March 31, 1998

Peter K. Mulligan
Current position with the Corporation and Webster Bank:
Executive Vice President, Consumer and Small Business Banking
Current Salary: $200,000

Ross M. Strickland
Current position with the Corporation and Webster Bank:
Executive Vice President of Mortgage Banking
Current salary: $195,000

Exhibit 10.28

# AMENDMENT TO EMPLOYMENT AGREEMENT

This Amendment to Employment Agreement by and among the employee named below (James C. Smith), Webster Financial Corporation (the "Corporation"), a Delaware corporation, and Webster Bank (the "Bank"), is entered into as of March 17, 1998.

WHEREAS, the parties have entered into an Employment Agreement dated as of January 1, 1998 (the "Employment Agreement"); and

WHEREAS, the Corporation and the Employee have entered into a Change of Control Employment Agreement dated as of December 15, 1997 (the "Change of Control Employment Agreement"); and

WHEREAS, the parties desire to amend the Employment Agreement to provide that the Employment Agreement will terminate upon the Effective Date under the Change of Control Employment Agreement;

NOW, THEREFORE, the parties hereby agree that the Employment Agreement shall be amended as follows:

1. Section 5 of the Employment Agreement is amended by adding the following new sentence at the end thereof:

> "This Agreement shall terminate on the "Effective Date" (as defined in the Change of Control Employment Agreement referred to immediately below) of that certain Change of Control Employment Agreement, dated as of December 15, 1997, by and between the Company and the Employee, and this Agreement shall be of no further force or effect after such Effective Date."

2. In all other respects, the Employment Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment to Employment Agreement effective as of the date first above written.

WEBSTER FINANCIAL CORPORATION

ATTEST: /s/ John D. Benjamin
(Assistant Secretary)

By: /s/ Harriet M. Wolfe
Its: Secretary

WEBSTER BANK

ATTEST: /s/ John D. Benjamin
(Assistant Secretary)

By: /s/ Harriet M. Wolfe
Its: Secretary

EMPLOYEE

/s/ James C. Smith
Name: James C. Smith

## SCHEDULE 10.28 TO EXHIBIT 10.28

Set forth below are the names of the executive officers of Webster Financial Corporation and Webster Bank who have an Amendment To Employment Agreement that is substantially identical in all material respects to the Amendment To Employment Agreement of Mr. Smith:

John V. Brennan

William T. Brommage

Peter K. Mulligan

Ross M. Strickland

# CHANGE OF CONTROL
# EMPLOYMENT AGREEMENT

AGREEMENT by and between Webster Financial Corporation, a Delaware corporation (the "Company") and James C. Smith (the "Executive"), dated as of the 15th day of December, 1997.

The Board of Directors of the Company (the "Board"), has determined that it is in the best interests of the Company and its shareholders to assure that the Company will have the continued dedication of the Executive, notwithstanding the possibility, threat or occurrence of a Change of Control (as defined below) of the Company. The Board believes it is imperative to diminish the inevitable distraction of the Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control and to encourage the Executive's full attention and dedication to the Company currently and in the event of any threatened or pending Change of Control, and to provide the Executive with compensation and benefits arrangements upon a Change of Control which ensure that the compensation and benefits expectations of the Executive will be satisfied and which are competitive with those of other corporations. Therefore, in order to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Certain Definitions. (a) The "Effective Date" shall mean the first date during the Change of Control Period (as defined in Section 1(b)) on which a Change of Control (as defined in Section 2) occurs. Anything in this Agreement to the contrary notwithstanding, if a Change of Control occurs and if the Executive's employment with the Company is terminated prior to the date on which the Change of Control occurs, and if it is reasonably demonstrated by the Executive that such termination of employment (i) was at the request of a third party who has taken steps reasonably calculated to effect a Change of Control or (ii) otherwise arose in connection with or anticipation of a Change of Control, then for all purposes of this Agreement the "Effective Date" shall mean the date immediately prior to the date of such termination of employment.

(b) The "Change of Control Period" shall mean the period commencing on the date hereof and ending on the second anniversary of the date hereof; provided, however, that commencing on the date one year after the date hereof, and on each annual anniversary of such date (such date and each annual anniversary thereof shall be hereinafter referred to as the "Renewal Date"), unless previously terminated, the Change of Control Period shall be automatically extended so as to terminate two years from such Renewal Date, unless at least 60 days prior to the Renewal Date the Company shall give notice to the Executive that the Change of Control Period shall not be so extended.

2. Change of Control. For the purpose of this Agreement, a "Change of Control" shall mean:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (i) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Section 2; or

(b) Individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

3. Employment Period. The Company hereby agrees to continue the Executive in its employ, and the Executive hereby agrees to remain in the employ of the Company subject to the terms and conditions of this Agreement, for the period commencing on the Effective Date and ending on the second anniversary of such date (the "Employment Period").

4. Terms of Employment. (a) Position and Duties. (i) During the Employment Period, (A) the Executive's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Effective Date and (B) the Executive's services shall be performed at the location where the Executive was employed immediately preceding the Effective Date or any office or location less than 35 miles from such location.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the Effective Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Effective Date shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Company.

(b) Compensation. (i) Base Salary. During the Employment Period, the Executive shall receive an annual base salary ("Annual Base Salary"), which shall be paid at a monthly rate, at least equal to twelve times the highest monthly base salary paid or payable, including any base salary which has been earned but deferred, to the Executive by the Company and its affiliated companies in respect of the twelve-month period immediately preceding the month in which the Effective Date occurs. During the Employment Period, the Annual Base Salary shall be reviewed no more than 12 months after the last salary increase awarded to the Executive prior to the Effective Date and thereafter at least annually. Any increase in Annual Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement. Annual Base Salary shall not be reduced after any such increase and the term Annual Base Salary as utilized in this Agreement shall refer to Annual Base Salary as so increased. As used in this Agreement, the term "affiliated companies" shall include any company controlled by, controlling or under common control with the Company.

(ii) Annual Bonus. In addition to Annual Base Salary, the Executive shall be awarded, for each fiscal year ending during the Employment Period, an annual bonus (the "Annual Bonus") in cash at least equal to the Executive's highest bonus under the Company's EVA Incentive Plan, or any comparable bonus under any predecessor or successor plan, for the last three full fiscal years prior to the Effective Date (annualized in the event that the Executive was not employed by the Company for the whole of such fiscal year) (the "Recent Annual Bonus"). Each such Annual Bonus shall be paid no later than the end of the third month of the fiscal year next following the fiscal year for which the Annual Bonus is awarded, unless the Executive shall elect to defer the receipt of such Annual Bonus.

(iii) Incentive, Savings and Retirement Plans. During the Employment Period, the Executive shall be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs applicable generally to other peer executives of the Company and its affiliated companies, but in no event shall such plans, practices, policies and programs provide the Executive with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities, in each case, less favorable, in the aggregate, than the most favorable of those provided by the Company and its affiliated companies for the Executive under such plans, practices, policies and programs as in effect at any time during the 120-day period immediately preceding the Effective Date or if more favorable to the Executive, those provided generally at any time after the Effective Date to other peer executives of the Company and its affiliated companies.

(iv) Welfare Benefit Plans. During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its affiliated companies (including, without limitation, medical, prescription, dental, disability, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Company and its affiliated companies, but in no event shall such plans, practices, policies and programs provide the Executive with benefits which are less favorable, in the aggregate, than the most favorable of such plans, practices, policies and programs in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, those provided generally at any time after the Effective Date to other peer executives of the Company and its affiliated companies.

(v) Expenses. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the most favorable policies, practices and procedures of the Company and its affiliated companies in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(vi) Fringe Benefits. During the Employment Period, the Executive shall be entitled to fringe benefits, including, without limitation, tax and financial planning services, payment of club dues, and, if applicable, use of an automobile and payment of related expenses, in

accordance with the most favorable plans, practices, programs and policies of the Company and its affiliated companies in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(vii) Office and Support Staff. During the Employment Period, the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to exclusive personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Company and its affiliated companies at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as provided generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(viii) Vacation. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the most favorable plans, policies, programs and practices of the Company and its affiliated companies as in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

5. Termination of Employment. (a) Death or Disability. The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. If the Company determines in good faith that the Disability of the Executive has occurred during the Employment Period (pursuant to the definition of Disability set forth below), it may give to the Executive written notice in accordance with Section 12(b) of this Agreement of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from the Executive's duties with the Company on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative.

(b) Cause. The Company may terminate the Executive's employment during the Employment Period for Cause. For purposes of this Agreement, "Cause" shall mean:

> (i) the willful and continued failure of the Executive to perform substantially the Executive's duties with the Company or one of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Executive by the Board or the Chief Executive Officer of the Company which specifically identifies the manner in which the Board or Chief Executive Officer believes that the Executive has not substantially performed the Executive's duties, or

> (ii) the willful engaging by the Executive in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company.

For purposes of this provision, no act or failure to act, on the part of the Executive, shall be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without reasonable belief that the Executive's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of the Chief Executive Officer or a senior officer of the Company or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company. The cessation of employment of the Executive shall not be deemed to be for Cause unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice is provided to the Executive and the Executive is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Executive is guilty of the conduct described in subparagraph (i) or (ii) above, and specifying the particulars thereof in detail.

(c) Good Reason. The Executive's employment may be terminated by the Executive for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

> (i) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 4(a) of this Agreement, or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;
>
> (ii) any failure by the Company to comply with any of the provisions of Section 4(b) of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;
>
> (iii) the Company's requiring the Executive to be based at any office or location other than as provided in Section 4(a)(i)(B) hereof or the Company's requiring the Executive to travel on Company business to a substantially greater extent than required immediately prior to the Effective Date;
>
> (iv) any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement; or
>
> (v) any failure by the Company to comply with and satisfy Section

11(c) of this Agreement.

For purposes of this Section 5(c), any good faith determination of "Good Reason" made by the Executive shall be conclusive. Anything in this Agreement to the contrary notwithstanding, a termination by the Executive for any reason during the 30-day period immediately following the first anniversary of the Effective Date shall be deemed to be a termination for Good Reason for all purposes of this Agreement.

(d) Notice of Termination. Any termination by the Company for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 12(b) of this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than thirty days after the giving of such notice). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

(e) Date of Termination. "Date of Termination" means (i) if the Executive's employment is terminated by the Company for Cause, or by the Executive for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (ii) if the Executive's employment is terminated by the Company other than for Cause or Disability, the Date of Termination shall be the date on which the Company notifies the Executive of such termination and (iii) if the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Executive or the Disability Effective Date, as the case may be.

6. Obligations of the Company upon Termination. (a) Good Reason; Other Than for Cause, Death or Disability. If, during the Employment Period, the Company shall terminate the Executive's employment other than for Cause or Disability or the Executive shall terminate employment for Good Reason:

(i) the Company shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

A. the sum of (1) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (2) the product of (x) the higher of (I) the Recent Annual Bonus and (II) the Annual Bonus paid or payable, including any bonus or portion thereof which has been earned but deferred (and annualized for any fiscal year consisting of less than twelve full months or during which the Executive was employed for less than twelve full months), for the most recently completed fiscal year during the Employment Period, if any (such higher amount being referred to as the "Highest Annual Bonus") and (y) a fraction, the numerator

of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365 and (3) any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon) and any accrued vacation pay, in each case to the extent not theretofore paid (the sum of the amounts described in clauses (1), (2), and (3) shall be hereinafter referred to as the "Accrued Obligations"); and

B. the amount equal to the product of (1) three and (2) the sum of (x) the Executive's Annual Base Salary and (y) the Highest Annual Bonus; and

C. an amount equal to the excess of (a) the actuarial equivalent of the benefit under the Company's qualified defined benefit retirement plan (the "Retirement Plan") (utilizing actuarial assumptions no less favorable to the Executive than those in effect under the Company's Retirement Plan immediately prior to the Effective Date), and any excess or supplemental retirement plan in which the Executive participates (together, the "SERP") which the Executive would receive if the Executive's employment continued for three years after the Date of Termination assuming for this purpose that all accrued benefits are fully vested, and, assuming that the Executive's compensation in each of the three years is that required by Section 4(b)(i) and Section 4(b)(ii), over (b) the actuarial equivalent of the Executive's actual benefit (paid or payable), if any, under the Retirement Plan and the SERP as of the Date of Termination;

(ii) for three years after the Executive's Date of Termination, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, the Company shall continue benefits to the Executive and/or the Executive's family at least equal to those which would have been provided to them in accordance with the plans, programs, practices and policies described in Section 4(b)(iv) of this Agreement if the Executive's employment had not been terminated or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies and their families, provided, however, that if the Executive becomes reemployed with another employer and is eligible to receive medical or other welfare benefits under another employer provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. For purposes of determining eligibility (but not the time of commencement of benefits) of the Executive for retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed until three years after the Date of Termination and to have retired on the last day of such period;

(iii) the Company shall, at its sole expense as incurred, provide the Executive with outplacement services the scope and provider of which shall be selected by the Executive in his sole discretion; and

(iv) to the extent not theretofore paid or provided, the Company shall timely pay or provide to the Executive any other amounts or benefits required to be paid or provided

or which the Executive is eligible to receive under any plan, program, policy or practice or contract or agreement of the Company and its affiliated companies (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits").

(b) Death. If the Executive's employment is terminated by reason of the Executive's death during the Employment Period, this Agreement shall terminate without further obligations to the Executive's legal representatives under this Agreement, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination. With respect to the provision of Other Benefits, the term Other Benefits as utilized in this Section 6(b) shall include, without limitation, and the Executive's estate and/or beneficiaries shall be entitled to receive, benefits at least equal to the most favorable benefits provided by the Company and affiliated companies to the estates and beneficiaries of peer executives of the Company and such affiliated companies under such plans, programs, practices and policies relating to death benefits, if any, as in effect with respect to other peer executives and their beneficiaries at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive's estate and/or the Executive's beneficiaries, as in effect on the date of the Executive's death with respect to other peer executives of the Company and its affiliated companies and their beneficiaries.

(c) Disability. If the Executive's employment is terminated by reason of the Executive's Disability during the Employment Period, this Agreement shall terminate without further obligations to the Executive, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination. With respect to the provision of Other Benefits, the term Other Benefits as utilized in this Section 6(c) shall include, and the Executive shall be entitled after the Disability Effective Date to receive, disability and other benefits at least equal to the most favorable of those generally provided by the Company and its affiliated companies to disabled executives and/or their families in accordance with such plans, programs, practices and policies relating to disability, if any, as in effect generally with respect to other peer executives and their families at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive and/or the Executive's family, as in effect at any time thereafter generally with respect to other peer executives of the Company and its affiliated companies and their families.

(d) Cause; Other than for Good Reason. If the Executive's employment shall be terminated for Cause during the Employment Period, this Agreement shall terminate without further obligations to the Executive other than the obligation to pay to the Executive (x) his Annual Base Salary through the Date of Termination, (y) the amount of any compensation previously deferred by the Executive, and (z) Other Benefits, in each case to the extent theretofore unpaid. If the Executive voluntarily terminates employment during the Employment Period, excluding a termination for Good Reason, this Agreement shall terminate

Source: WEBSTER FINANCIAL CO, 10-K, March 31, 1998

without further obligations to the Executive, other than for Accrued Obligations and the timely payment or provision of Other Benefits. In such case, all Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.

7. Non-exclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies and for which the Executive may qualify, nor, subject to Section 12(f), shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliated companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

8. Full Settlement. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and such amounts shall not be reduced whether or not the Executive obtains other employment. The Company agrees to pay as incurred, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement), plus in each case interest on any delayed payment at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Internal Revenue Code of 1986, as amended (the "Code").

9. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding and except as set forth below, in the event it shall be determined that any payment or distribution by the Company or its affiliates to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 9) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. Notwithstanding the foregoing provisions of this Section 9(a), if it shall be determined that the Executive is entitled to a Gross-Up Payment, but that the Payments do not exceed 110% of the greatest amount (the "Reduced Amount") that could be paid to the Executive such that the receipt of Payments would not give rise to any Excise Tax, then no Gross-Up Payment shall be made to the Executive and the Payments, in the aggregate, shall be reduced to the Reduced Amount.

(b) Subject to the provisions of Section 9(c), all determinations required to be made under this Section 9, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by KPMG Peat Marwick LLP or such other certified public accounting firm as may be designated by the Executive (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, the Executive shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company.

Source: WEBSTER FINANCIAL CO, 10-K, March 31, 1998

Any Gross-Up Payment, as determined pursuant to this Section 9, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 9(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(c) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim,

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(iii) cooperate with the Company in good faith in order effectively to contest such claim, and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 9(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 9(c), the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 9(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 9(c), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

10. Confidential Information. The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company or any of its affiliated companies and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Company, the Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted violation of the provisions of this

Section 10 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

11. Successors. (a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

12. Miscellaneous. (a) This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:
James C. Smith
33 Birchwood Terrace
Middlebury, CT 06762

If to the Company:
Webster Financial Corporation
Webster Plaza
145 Bank Street
Waterbury, Connecticut 06702
Attention: Counsel

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Company may withhold from any amounts payable under this Agreement such Federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) The Executive's or the Company's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 5(c)(i)-(v) of this Agreement, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) The Executive and the Company acknowledge that, except as may otherwise be provided under any other written agreement between the Executive and the Company, the employment of the Executive by the Company is "at will" and, subject to Section 1(a) hereof, prior to the Effective Date, the Executive's employment and/or this Agreement may be terminated by either the Executive or the Company at any time prior to the Effective Date, in which case the Executive shall have no further rights under this Agreement. From and after the Effective Date this Agreement shall supersede any other agreement between the parties with respect to the subject matter hereof.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from its Board of Directors, the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

/s/ James C. Smith
------------------
James C. Smith

WEBSTER FINANCIAL CORPORATION

By /s/ Joel S. Becker
---------------------
Joel S. Becker

SCHEDULE 10.29 TO EXHIBIT 10.29

Set forth below are the names of the executive officers of Webster Financial Corporation and Webster Bank who have a Change of Control Employment Agreement that is substantially identical in all material respects to the Change of Control Employment Agreement of Mr. Smith.

John V. Brennan

William T. Brommage

Peter K. Mulligan

Ross M. Strickland

DIRECTORS

JAMES C. SMITH, Chairman and Chief Executive Officer
ACHILLE A. APICELLA, President, Apicella, Testa & Company, P.C.
JOEL S. BECKER, Chairman and Chief Executive Officer, Torrington Supply Company Co., Inc.
O. JOSEPH BIZZOZERO, Jr., M.D., President, Bizzozero Assoc. P.C.
JOHN J. CRAWFORD, President and Chief Executive Officer, South Central Connecticut Regional Water Authority and Chairman and Chief Executive Officer, Aristotle Corporation
HARRY P. DIADAMO, Former President, Derby Savings Bank
ROBERT A. FINKENZELLER, President, Eyelet Crafters, Inc.
WALTER R. GRIFFIN, Esq., Griffin, Griffin & O'Brien, P.C.
J. GREGORY HICKEY, Retired Managing Partner of Hartford Office of Ernst & Young, LLP
C. MICHAEL JACOBI, President and Chief Executive Officer, Timex Corporation
J. ALLEN KOSOWSKY*, J. Allen Kosowsky, CPA, P.C.
Sr. MARGUERITE WAITE, President, Chief Executive Officer and Treasurer, St. Mary's Hospital
JOSEPH A. WELNA*, M.D., New Britain Obstetrical & Gynecological Group

SENIOR MANAGEMENT GROUP

JAMES C. SMITH, Chairman and Chief Executive Officer
JOHN V. BRENNAN, Executive Vice President, Chief Financial Officer and Treasurer
WILLIAM T. BROMAGE, Executive Vice President, Business Banking
GEORGE M. BROPHY*, Executive Vice President, Information Technologies
JEFFREY N. BROWN*, Executive Vice President, Marketing and Communications
STEPHEN M. CARTA, President, Webster Trust Company, N.A.
PETER K. MULLIGAN, Executive Vice President, Consumer and Small Business Banking
RENEE P. SEEFRIED*, Executive Vice President, Human Resources
ROSS M. STRICKLAND, Executive Vice President, Mortgage Banking
HARRIET MUNRETT WOLFE, Senior Vice President, Counsel and Secretary

*Webster Bank only

## WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
## FINANCIAL HIGHLIGHTS

| | At or For the Year Ended | | |
|---|---|---|---|
| Dollars in thousands, expect share data | 1997 | 1996 | 1995 |
| FOR THE YEAR: | | | |
| Net interest income | $191,925 | $169,037 | $135,331 |
| Noninterest income | 35,990 | 32,179 | 27,902 |
| Merger and acquisition expenses | 27,058 | 500 | 4,271 |
| Other noninterest expenses | 131,489 | 130,055 | 108,465 |
| Net income | 33,798 | 38,501 | 29,321 |
| Operating net income(a) | 53,844 | 41,534 | 33,016 |
| PER COMMON SHARE: | | | |
| Diluted earnings | $ 2.44 | $ 2.66 | $ 2.22 |
| Diluted operating earnings(a) | 3.89 | 2.87 | 2.50 |
| Book value (year-end) | 27.99 | 25.18 | 24.41 |
| Tangible book value (year-end) | 24.41 | 21.61 | 23.57 |
| Annual dividend | 0.80 | 0.68 | 0.64 |
| AT YEAR-END: | | | |
| Total assets | $7,019,621 | $5,607,210 | $4,883,402 |
| Loans receivable,net | 3,824,602 | 3,642,522 | 3,005,014 |
| Securities | 2,787,240 | 1,577,702 | 1,505,919 |
| Intangible assets | 48,919 | 49,448 | 10,865 |

Source: WEBSTER FINANCIAL CO, 10-K, March 31, 1998

| | | | |
|---|---|---|---|
| Deposits | 4,365,756 | 4,457,561 | 3,797,712 |
| Shareholders' equity | 382,186 | 336,832 | 334,580 |
| Diluted weighted average shares | 13,828 | 14,460 | 13,202 |
| Market price | 66.50 | 36.75 | 29.50 |
| OPERATING RATIOS: | | | |
| Net interest margin | 3.17% | 3.23% | 2.96% |
| Return on average shareholders' equity | 9.72 | 11.20 | 10.08 |
| Operating return on average shareholders' equity(a) | 15.48 | 12.08 | 11.35 |
| Efficiency ratio(a)(b) | 54.81 | 58.93 | 61.65 |
| Noninterest expense to average assets | 2.50 | 2.38 | 2.37 |
| Operating noninterest expense to average assets(c) | 1.89 | 2.22 | 2.14 |

(a) Excludes merger and acquisition expenses including provisions for loan losses related to mergers and acquisitions of $34.2 million, $500,000, and $4.3 million for the periods ended December 31, 1997, 1996 and 1995, respectively. Also excludes Savings Association Insurance Fund ("SAIF") assessment of $4.7 million for the period ended December 31, 1996 and name change and subsidiary merger expense of $2.1 million for the period ended December 31, 1995.

(b) Excludes intangible amortization and foreclosed property expenses.

(c) Excludes the following: merger and acquisition expenses, the SAIF assessment in 1996, name change and subsidiary merger expense in 1995 and capital securities and dividends on preferred stock of subsidiary corporation expense in 1997.

## GLOSSARY OF TERMS

Allowance for Loan Losses: A reserve for estimated loan losses at a particular balance sheet date.

Capital Components and Ratios for Webster Bank:

Leverage Ratio: Tier 1 capital as a percentage of adjusted total assets.

Risk-Weighted Assets: The sum of risk-weighted assets plus the risk-weighted credit equivalent amounts of off-balance sheet items, less core deposit intangibles and certain other non-qualifying intangible assets and the non-qualifying portion of the allowance for loan losses.

Tier 1 Capital: The sum of common shareholders' equity (excluding net unrealized gains or losses on securities, except for net unrealized gains/losses on marketable equity securities) less other non-qualifying intangible assets.

Tier 1 Risk-Weighted Capital Ratio: The ratio of Tier 1 capital to net risk-weighted assets.

Total Capital: The sum of Tier 1 capital plus the qualifying portion of the allowance for loan losses.

Total Risk-Weighted Capital Ratio: The ratio of total capital to net risk-weighted assets.

Core Deposit Intangible: The excess of the purchase price over the fair value of the tangible net assets acquired in a purchase transaction that represents the estimated value of the deposit base.

Derivatives: Interest-rate or currency swaps, futures, forwards, option contracts, interest-rate caps and floors or other off-balance sheet financial instruments used for asset/liability management or trading purposes. These instruments derive their values or contractually determined cash flows from the price of an underlying asset or liability, reference rate, index or other security.

EVA: Economic Value Added. A measure of financial performance to maximize long-term growth and profitability.

Foreclosed Properties: Real estate acquired in foreclosure or comparable proceedings under which possession of the collateral has been taken.

Interest-Earning Assets: The sum of loans, segregated assets, mortgage loans held for sale, securities and short-term investments.

Interest-Bearing Liabilities: The sum of interest-bearing deposits, securities sold under agreements to repurchase and other borrowings.

Interest-Rate Spread: The difference between the average yields earned on interest-earning assets and the average rates paid interest-bearing liabilities.

Net Interest Margin: Net interest income as a percentage of average interest-earning assets.

Nonaccrual Assets: The sum of nonaccrual loans plus foreclosed properties.

Nonaccrual Loans: The sum of loans on nonaccrual status for purposes of interest income recognition.

Operating Net Income: Net income excluding merger and acquisition expenses, provisions for loan losses related to mergers and acquisitions, Savings Association Insurance Fund ("SAIF") assessment and costs associated with changing the name of and merging together subsidiary banks.

Operating Return on Average Equity: Operating net income as a percentage of average shareholders' equity.

Operating Noninterest Expenses to Average Assets: Noninterest expenses excluding merger and acquisition expenses, SAIF assessment and costs associated with changing the name of and merging together subsidiary banks as a percentage of average assets.

Reserve Coverage: Allowance for loan losses divided by nonaccrual loans.

Return on Average Equity: Net income as a percentage of average shareholders' equity.

## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION & RESULTS OF OPERATIONS (MD&A)

## INTRODUCTION

Webster Financial Corporation, ("Webster"), through its subsidiary, Webster Bank (the "Bank"), delivers financial services to individuals, families and businesses throughout Connecticut. The Bank is organized along four business lines - consumer, business, mortgage banking, and trust and investment management services, each supported by centralized administration and operations. The Corporation has grown significantly in recent years, primarily through a series of acquisitions which have expanded and strengthened its franchise.

Assets at December 31, 1997 were $7.0 billion compared to $5.6 billion a year earlier. Net loans receivable amounted to $3.8 billion at December 31, 1997 compared to $3.6 billion a year ago. Deposits were $4.4 billion at December 31, 1997 compared to $4.5 billion at December 31, 1996.

## BUSINESS COMBINATIONS SUBSEQUENT TO DECEMBER 31, 1997

During the second quarter of 1998, Webster expects to acquire by merger Eagle Financial Corp. ("Eagle") and its subsidiary, Eagle Bank, a $2.1 billion savings bank with headquarters in Bristol, Connecticut. In connection with the merger with Eagle, Webster expects to issue 5.1 million shares of its common shares for all the outstanding shares of Eagle common stock. Under the terms of the agreement, each outstanding share of Eagle common stock is expected to be converted into .84 shares of Webster common stock. This acquisition will be accounted for as a pooling of interests, and as such, future consolidated financial statements will include Eagle's financial data as if Eagle had been combined at the beginning of the earliest period presented.

## BUSINESS COMBINATIONS

### The Sachem Acquisition

On August 1, 1997, Webster acquired Sachem Trust National Association ("Sachem Trust"), a trust company headquartered in Guilford, Connecticut with $300 million of assets under management, in a tax-free stock-for-stock exchange. Under the terms of the agreement, Webster issued 83,385 shares of Webster common stock for all 173,000 outstanding shares of Sachem Trust. This acquisition was accounted for as a purchase.

### The People's Acquisition

On July 31, 1997, Webster acquired People's Savings Financial Corp. ("People's") and its subsidiary, People's Savings Bank & Trust, based in New Britain, Connecticut which had $482 million of assets. In connection with the merger with

People's, Webster issued 1,575,996 shares of its common stock for all the outstanding shares of People's common stock. Under the terms of the merger agreement each outstanding share of People's common stock was converted into .85 shares of Webster common stock. This acquisition was accounted for as a pooling of interests, and as such, Consolidated Financial Statements include People's financial data as if People's had been combined at the beginning of the earliest period presented.

### The Derby Acquisition

On January 31, 1997, Webster acquired DS Bancor, Inc. ("Derby") and its subsidiary, Derby Savings Bank, based in Derby, Connecticut which had $1.2 billion of assets. In connection with the merger with Derby, Webster issued 3,501,370 shares of its common stock for all the outstanding shares of Derby common stock. Under the terms of the merger agreement each outstanding share of Derby common stock was converted into 1.14158 shares of Webster common stock. This acquisition was accounted for as a pooling of interests, and as such, Consolidated Financial Statements include Derby's financial data as if Derby had been combined at the beginning of the earliest period presented.

### The Shawmut Transaction

On February 16, 1996, Webster Bank acquired 20 branches in the Greater Hartford market from Shawmut Bank Connecticut National Association (the "Shawmut Transaction"), as part of a divestiture in connection with the merger of Shawmut and Fleet Bank. In the branch purchase, Webster Bank acquired approximately $845 million in deposits and $586 million in loans. As a result of this transaction, Webster recorded $44.2 million as a core deposit intangible asset. In connection with the Shawmut Transaction, Webster raised net proceeds of $32.1 million through the sale of 1,249,600 shares of its common stock in an underwritten public offering in December 1995. The Shawmut Transaction was accounted for as a purchase, therefore transaction results are reported only for the periods subsequent to the consummation of the Shawmut Transaction.

Prior to the Shawmut Transaction in 1996, Webster completed five acquisitions as follows:

| Date | | Assets Acquired | Accounting Treatment |
|---|---|---|---|
| 1995 | Shelton Bancorp | $295 million | Pooling of Interests |
| 1994 | Shoreline Bank & Trust | $ 51 million | Pooling of Interests |
| 1994 | Bristol Savings Bank | $486 million | Purchase |
| 1992 | First Constitution Bank | $1.1 billion | Purchase |
| 1991 | Suffield Bank | $264 million | Purchase |

## ASSET QUALITY

### General

Webster devotes significant attention to maintaining high asset quality through conservative underwriting standards, active servicing of loans, aggressively managing nonaccrual assets and maintaining adequate reserve coverage on nonaccrual assets. At year end 1997, residential and consumer loans comprised over 87% of the total loan portfolio. All investments are either U.S. Government or Agency securities or have an investment rating in the top two rating categories by a major rating service at time of purchase.

### Nonaccrual Assets

The aggregate amount of nonaccrual assets decreased to $45.9 million at December 31, 1997 from $54.8 million at December 31, 1996 and declined as a percentage of total assets to .65% at December 31, 1997 from .98% at December 31, 1996. Nonaccrual loans decreased $3.9 million in 1997 and foreclosed properties decreased $5.0 million due to write-downs and sales of foreclosed properties. The allowance for loan losses at December 31, 1997 was $49.8 million and represented 132.09% of nonaccrual loans. Total allowances for nonaccrual assets of $50.3 million represented 108.40% of nonaccrual assets. The following table details nonaccrual assets for the last five years.

| | December 31, | | | | |
|---|---|---|---|---|---|
| (In thousands) | 1997 | 1996 | 1995 | 1994 | 1993 |
| Nonaccrual Assets: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Loans accounted for on a nonaccrual basis: | | | | | |
| Residential real estate | $ 23,651 | $ 25,393 | $ 28,522 | $27,712 | $ 43,652 |
| Commercial | 11,563 | 12,874 | 20,355 | 20,935 | 7,347 |
| Consumer | 2,451 | 3,339 | 3,455 | 2,590 | 3,249 |
| Foreclosed Properties: | | | | | |
| Residential and Consumer | 5,091 | 5,305 | 7,850 | 11,063 | 24,766 |
| Commercial | 3,098 | 7,909 | 13,216 | 21,909 | 11,098 |
| Total | $ 45,854 | $ 54,820 | $ 73,398 | $ 84,209 | $90,112 |

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

| | For the Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| (Dollars in thousands) | 1997 | 1996 | 1995 | 1994 | 1993 |
| Balance at beginning of period | $43,185 | $50,281 | $55,366 | $54,370 | $65,662 |
| Charge-offs: | | | | | |
| Residential real estate | (9,302) | (14,466) | (8,667) | (14,512) | (10,395) |
| Consumer | (3,098) | (3,649) | (894) | (1,452) | (2,433) |
| Commercial | (2,516) | (6,750) | (4,438) | (4,394) | (3,447) |
| | (14,916) | (24,865) | (13,999) | (20,358) | (16,275) |
| Recoveries: | | | | | |
| Residential real estate | 3,872 | 670 | 870 | 437 | 413 |
| Consumer | 470 | 332 | 1,032 | 1,822 | 815 |
| Commercial | 1,307 | 1,979 | 1,286 | 1,042 | 246 |
| Net charge-offs | (9,267) | (21,884) | (10,811) | (17,057) | (14,801) |
| Allowances for purchase transactions | - | 5,000 | - | 12,819 | - |
| Acquired allowance adjustment | - | - | - | - | (5,963) |
| Transfer from allowance for losses for loans held for sale | - | - | - | - | 2,390 |
| Provisions charged to operations | 15,835 | 9,788 | 5,726 | 5,234 | 7,082 |
| Balance at end of period | $49,753 | $ 43,185 | $ 50,281 | $55,366 | $ 54,370 |
| Ratio of net charge-offs to average loans outstanding | 0.2% | 0.6% | 0.4% | 0.6% | 0.6% |

Net charge-offs decreased $12.6 million to $9.3 million in 1997 due primarily to decreases in the residential and commercial portfolios. Included in the 1996 loan charge-offs were write-downs of $6.3 million related to a bulk sale of $18.0 million of nonaccrual residential loans and foreclosed properties. The 1997 provisions charged to operations include $7.2 million specifically related to the Derby and People's acquisitions. 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 at December 31, 1997 is adequate to cover expected losses in the portfolio.

## SEGREGATED ASSETS

Segregated Assets consist of all commercial real estate, commercial, and multi-family loans acquired from the Federal Deposit Insurance Corporation ("FDIC") in the First Constitution Bank ("First Constitution") acquisition. Segregated Assets, before the allowance for losses of $2.6 million, totaled $43.6 million at December 31, 1997, down from $256.6 million at acquisition in 1992. Segregated Assets are subject to a loss-sharing arrangement with the FDIC. The FDIC was required to reimburse the Bank quarterly for 80% of the total net charge-offs and certain related expenses on Segregated Assets through December 1997, 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). During 1998 and 1999, the Bank 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. The Bank is entitled to retain 20% of such recoveries during the sixth and seventh years following the First Constitution acquisition and 100% thereafter. During the second quarter of 1997, the Bank sold approximately $13.7 million in multi-family loans that included all multi-family Segregated Asset loans. Any losses incurred on the sale of these segregated multi-family loans were reimbursed under the loss-sharing arrangement and the transaction had no impact on the Consolidated Statements of Income. At December 31, 1997, cumulative net charge-offs and expenses aggregated $58.9 million. During the first quarter of

1996, Webster began recording the additional 15% reimbursement (the difference between the 80% and 95% reimbursement levels) as a receivable from the FDIC. 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 $4.9 million for 1997. During 1997, the Bank received $4.5 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 for charge-offs and related expenses are recorded as receivables. Such reimbursements are made on a quarterly basis to the Bank by the FDIC and when received are invested in interest-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:

| | For the Years Ended December 31, | |
|---|---|---|
| (In thousands) | 1997 | 1996 |
| Balance at beginning of period | $2,859 | $3,235 |
| Charge-offs | (267) | (621) |
| Recoveries | 31 | 245 |
| Balance at end of period | $2,623 | $ 2,859 |

At December 31, 1997 and 1996, nonaccrual Segregated Assets were classified as follows:

| | December 31, | |
|---|---|---|
| (In thousands) | 1997 | 1996 |
| Segregated Assets accounted for on a nonaccrual basis: | | |
| Commercial real estate loans | $2,912 | $ 3,337 |
| Commercial loans | 500 | 192 |
| Multi-family real estate loans | - | 495 |
| Foreclosed Properties: | | |
| Commercial real estate | 281 | 269 |
| Multi-family real estate | - | 138 |
| Total | $3,693 | $ 4,431 |

## LIQUIDITY AND CAPITAL RESOURCES

The 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 net withdrawable deposits and short-term borrowings. The required liquidity ratio as revised by the OTS is currently 4.00% and the Bank's liquidity ratio at December 31, 1997 exceeded the requirement. Webster Bank is also required by regulation to maintain sufficient liquidity to ensure safe and sound operations. Adequate liquidity as assessed by the OTS may vary from institution to institution depending on such factors as the institution's overall asset/liability structure, market conditions, competition and the requirements of the institution's deposit and loan customers. The OTS considers both an institution's adherence to the liquidity ratio requirement, as well as safety and soundness issues, in assessing whether an institution has sufficient liquidity.

The primary sources of liquidity for Webster are net cash flows provided from operating, investing and financing activities. Net cash flows from operating activities primarily include net income, the sale of loans originated for sale, trading account net changes, net changes in other assets and liabilities and adjustments for noncash items such as depreciation, investment securities net amortization and accretion and the provisions for loan losses and foreclosed properties. Net cash flows from investing activities primarily include the purchase, sale, maturity and paydowns of investment securities and mortgage-backed securities that are classified as available for sale or held to maturity, the net change in loans, interest-bearing deposits and Segregated Assets. Net cash flows from financing activities primarily include proceeds and repayments related to Federal Home Loan Bank ("FHL Bank") advances and other borrowings, the net change in deposits, minority interest and net changes in capital generally related to stock issuances, repurchases and dividend payments.

While scheduled loan amortization, maturing securities, short-term investments and securities paydowns 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 loans and mortgage-backed securities is the ability of such instruments to incur prepayments of principal prior to maturity at 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 loans and mortgage-backed securities are sensitive to fluctuations in market interest rates, declining in value as interest rates rise. If interest rates decrease, the market value of fixed-rate loans and mortgage-backed securities generally will tend to increase with the level of prepayments also normally increasing. Lower yields on such loans and mortgage-backed securities may be offset by a lower cost of funds. Material changes in the level of nonaccrual assets held also affect liquidity. The utilization of particular sources of funds depends on comparative costs and availability. The 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. The Bank manages the prices of its deposits to maintain a stable, cost-effective deposit base as a source of liquidity.

The Bank had additional borrowing capacity from the FHL Bank of $1.7 billion at December 31, 1997. At that date, the Bank had FHL Bank advances outstanding of $1.1 billion compared to $559.9 million at December 31, 1996. 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 net proceeds from capital offerings and borrowings, while the main outflows are the payment of dividends to preferred and common stockholders, repurchases of Webster's common stock, and the payment of interest to holders of Webster's 8 3/4% Senior Notes and Webster's 9.36% Capital Trust I Capital Securities. There are certain restrictions on the payment of dividends by the Bank to Webster. See Note 15 to the Consolidated Financial Statements. Webster also maintains a $20 million line of credit with a correspondent bank. On January 31, 1997, Webster completed the sale of $100 million of Webster Capital Trust I Capital Securities further increasing its capital resources. The Capital Trust I Capital Securities are further discussed in Note 19 to the Consolidated Financial Statements.

On November 19, 1996, Webster completed a previously announced common stock repurchase program which resulted in total repurchases of 549,800 shares and also announced its intention to repurchase up to 300,000 additional shares. The purpose of the announced repurchase plan was to offset future dilution from shares of common stock that were issued in January 1997, in connection with conversions of preferred stock or issued upon exercise of options under Webster's stock option plans. At December 31, 1996, shares totaling 255,100 had been repurchased under the new repurchase plan with the remaining 44,900 shares under the plan repurchased in January 1997. On September 4, 1997, Webster completed the repurchase of 85,333 common shares under a repurchase plan announced in May 1997. The repurchased shares under the plan were reissued in connection with the purchase of Sachem Trust.

Applicable OTS regulations require the Bank, as a federal savings 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 risk-weighted assets). As an OTS regulated savings institution, the Bank also is subject to a minimum tangible capital requirement (expressed as a ratio of tangible capital to adjusted total assets). At December 31, 1997, the Bank was in full compliance with all applicable capital requirements detailed as follows:

| | December 31, 1997 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Tangible Capital Requirement | | Tier 1 Core Capital Requirement | | Tier 1 Risk-Based Capital Requirement | | Total Risk-Based Capital Requirement | |
| (Dollars in thousands) | Amount | % | Amount | % | Amount | % | Amount | % |
| Capital for regulatory purposes | $ 380,896 | 5.54% | $ 385,599 | 5.61% | $ 385,599 | 12.15% | $ 425,398 | 13.41% |
| Minimum regulatory requirement | 103,046 | 1.50 | 206,234 | 3.00 | 126,915 | 4.00 | 253,829 | 8.00 |
| Excess over requirement | $ 277,850 | 4.04% | $ 179,365 | 2.61% | $ 258,684 | 8.15% | $ 171,569 | 5.41% |

## ASSET/LIABILITY MANAGEMENT

Interest-rate risk is the sensitivity of the market value of assets and liabilities to changes in interest rates over short-term and long-term time horizons. The market values of certain financial assets and liabilities of Webster are sensitive to fluctuations in market interest rates. Changes in interest rates can affect the number of loans originated by the Bank, as well as the value of its loans and other interest-earning assets. Also, 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 increases at a rate that is greater than the increase in yields on interest-earning assets, the interest-rate spread would be negatively affected. Changes in Webster's asset and liability mix also affects interest-rate spread. Webster is unable to predict fluctuation in interest rates.

The primary goal of interest-rate risk management is to control this risk within limits approved by the Board of Directors and narrower guidelines established by the Asset/Liability Committee while managing interest-rate risk so as to maximize net interest income and net market value over time in changing interest-rate environments. To this end, Webster's strategies for controlling 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 simulation, duration, and GAP analyses with particular emphasis on measuring changes in the market value of portfolio equity and changes in net interest income in different interest-rate environments. Market value is measured as the net present value of future cash flows. The simulation 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. The key assumptions relate to the behavior of interest rates and spreads, the fluctuations in product balances, and prepayment and decay rates on loans and deposits. 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 during 1997 to improve the interest-rate sensitive position included, (i) promotion of adjustable-rate mortgage loans, particularly three-year adjustable rate mortgage loans which have lower prepayment speeds than one-year adjustable rate mortgage loans, (ii) emphasis on the origination of variable-rate home equity credit lines and commercial loans, (iii) emphasis on the purchase of short duration mortgage-backed securities, (iv) the purchase of prepayment protected mortgage-backed securities, and (v) emphasis on deposits and borrowed funds that meet asset/liability management objectives.

Webster also uses as part of its asset/liability management strategy various interest-rate contracts including short futures positions, interest-rate swaps and interest-rate caps and floors. Webster utilized interest-rate financial instruments to hedge mismatches in interest-rate maturities to reduce exposure to movements in interest rates. 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 counterparty 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 instruments. 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.

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 Statements of Income in the period for which the change occurred.

The following table summarizes the estimated market value of Webster's interest-sensitive assets and interest-sensitive liabilities at December 31, 1997, and the projected change to market values if interest rates instantaneously increase or decrease by 100 basis points.

|  |  |  | Estimated Market Value Impact |  |
|---|---|---|---|---|
| (In thousands) | Book Value | Market Value | -100 BP | +100BP |

| | | | | |
|---|---|---|---|---|
| Interest-Sensitive Assets: | | | | |
| Trading | $84,749 | $84,749 | $(438) | $ (399) |
| Non-Trading | 6,451,488 | 6,540,286 | 81,174 | (122,591) |
| Interest-Sensitive Liabilities | 6,566,843 | 6,583,018 | (35,540) | 36,305 |

The table above excludes earning assets that are not directly impacted by changes in interest rates. These assets include equity securities of $204.9 million (See Note 3 to Consolidated Financial Statements) and nonaccrual loans of $41.1 million (See "Asset Quality" and "Segregated Assets" within the MD&A). Values for mortgage servicing rights have been included in the table above as movement in interest rates affect the valuation of the servicing rights. Equity securities and nonaccrual assets not included in the above table are however, subject to fluctuations in market value based on other risks.

Based on Webster's asset/liability mix at December 31, 1997, management's sensitivity analysis of the effects of changing interest rates estimates that an instantaneous 100 basis point increase in interest rates would decrease net interest income over the next twelve months by about 4.1% and an instantaneous 100 basis point decline in interest rates would increase net interest income over the next twelve months by about 1.8%. The estimated market values in the above table are subject to factors that could cause actual results to differ from such projections and estimates.

The following table sets forth the estimated maturity/repricing structure of Webster's interest-earning assets and interest-bearing liabilities at December 31, 1997. 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. At December 31, 1997, Webster was primarily liability sensitive in the 0-3 year time horizon and asset sensitive in the 3-20 year time horizon. In a declining interest-rate environment, a liability sensitive position would primarily result in a favorable effect on net interest income and in an increasing interest-rate environment net interest income would be adversely affected. Management believes that Webster's interest-rate risk position at December 31, 1997, presents a reasonable level of risk.

| (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 | $ 1,397,800 | $ 633,340 | $ 658,338 | $ 370,492 | $ 376,020 | $ 304,279 | $ 136,389 | $ 3,876,658 |
| Securities | 1,173,251 | 670,698 | 304,095 | 142,141 | 218,904 | 202,019 | 106,636 | 2,817,744 |
| Total Rate-Sensitive Assets | $ 2,571,051 | $1,304,038 | $ 962,433 | $ 512,633 | $ 594,924 | $ 506,298 | $ 243,025 | $ 6,694,402 |
| Liabilities | | | | | | | | |
| Deposits | $ 1,552,479 | $ 861,853 | $1,222,305 | $ 257,865 | $ 107,573 | $ 582 | $ 363,099 | $ 4,365,756 |
| Borrowings | 1,875,989 | 109,700 | 24,820 | 41,000 | - | - | - | 2,051,509 |
| Total Rate-Sensitive Liabilities | $ 3,428,468 | $ 971,553 | $1,247,125 | $ 298,865 | $ 107,573 | $ 582 | $ 363,099 | $ 6,417,265 |
| Consolidated GAP | $ (857,417) | $ 332,485 | $ (284,692) | $ 213,768 | $ 487,351 | $ 505,716 | $ (120,074) | N/A |
| GAP to Total Assets Percent | (12.21)% | 4.74% | (4.06)% | 3.05% | 6.94% | 7.20% | (1.71)% | N/A |
| Cumulative GAP | $ (857,417) | $ (524,932) | $ (809,624) | $ (595,856) | $ (108,505) | $ 397,211 | $ 277,137 | N/A |
| Cumulative GAP to Total Assets Percent | (12.21)% | (7.48)% | (11.53)% | (8.49)% | (1.55)% | 5.66% | 3.95% | N/A |
| Total Assets | $ 7,019,621 | $7,019,621 | $7,019,621 | $7,019,621 | $7,019,621 | $7,019,621 | $7,019,621 | |

## COMPARISON OF 1997 AND 1996 YEARS

GENERAL. For 1997, Webster reported net income of $33.8 million, or $2.44 per share on a diluted basis. Included in the 1997 results are merger and acquisition expenses of $27.1 million and provisions for loan losses of $7.2 million specifically related to the Derby and People's acquisitions. Excluding the effect of merger and acquisition expenses and additional provisions for loan losses, net income for the 1997 year would have been $53.8 million or $3.89 per diluted share. Net income for 1996 amounted to $38.5 million, or $2.66 per share on a diluted basis. Included in the 1996 results are expenses of $4.7 million related to a special assessment associated with the recapitalization of the

Source: WEBSTER FINANCIAL CO, 10-K, March 31, 1998

Savings Association Insurance Fund ("SAIF") and $500,000 of acquisition related charges for the Shawmut Transaction. Excluding the effects of these expenses, net income for the 1996 year would have been $41.5 million or $2.87 per diluted share. Results for the Shawmut Transaction are included in the accompanying Consolidated Financial Statements from the date of acquisition on February 16, 1996.

NET INTEREST INCOME. Net interest income before provision for loan losses increased $22.9 million in 1997 to $191.9 million from $169.0 million in 1996. The increase is primarily attributable to an increased volume of average interest-earning assets and interest-bearing liabilities as a result of balance sheet growth. The balance sheet growth was due in part to the utilization of the proceeds of the Capital Trust I Capital Securities offering in January 1997, which supported increases in interest-earning assets and interest-bearing liabilities. See Note 19 to Consolidated Financial Statements. The interest-rate spread for the 1997 year decreased to 3.02% compared to 3.12% in 1996 due primarily to the change in mix of interest-earning assets and interest-bearing

liabilities. During 1997, the average balance of securities increased $660.6 million and the average balance of borrowings increased $759.7 million from the year earlier period.

INTEREST INCOME. Total interest income for 1997 amounted to $445.8 million, an increase of $59.3 million, or 15.3% compared to $386.5 million in 1996. This improvement was due primarily to an increase in the average volume of loans and securities offset by a decrease in the average cost of funds on all interest-earning assets to 7.34% in 1997 from 7.39% in 1996.

INTEREST EXPENSE. Interest expense for 1997 totaled $253.9 million, an increase of $36.5 million compared to $217.4 million in 1996. The higher interest expense was due primarily to an increase in the average volume of borrowings and an increase in the average cost of funds on all interest-bearing liabilities to 4.32% in 1997 from 4.27% in 1996. The following table shows the major categories of average assets and average liabilities together with their respective interest income or expense and the rates earned and paid by Webster.

| | Years Ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1997 | | | 1996 | | | 1995 | | |
| (Dollars in thousands) | Average Balance | Interest | Average Yield | Average Balance | Interest | Average Yield | Average Balance | Interest | Average Yield |
| Loans, net (a) | $3,758,448 | $293,925(b) | 7.82% | $ 3,566,695 | $ 279,143(b) | 7.83% | $ 3,014,715 | $228,341(b) | 7.57% |
| Segregated Assets, net (a) | 59,500 | 5,133 | 8.63 | 93,034 | 6,470 | 6.95 | 123,293 | 9,592 | 7.78 |
| Securities | 2,187,351 | 143,267 | 6.55(c) | 1,526,736 | 98,568 | 6.46(c) | 1,428,377 | 92,945 | 6.51(c) |
| Interest-Bearing Deposits | 61,256 | 3,523 | 5.75 | 39,679 | 2,277 | 5.64 | 43,472 | 2,044 | 4.64 |
| Total Interest-Earning Assets | 6,066,555 | 445,848 | 7.34 | 5,226,144 | 386,458 | 7.39 | 4,609,857 | 332,922 | 7.22 |
| Other Assets | 287,599 | | | 259,704 | | | 149,748 | | |
| Total Assets | $6,354,154 | | | $ 5,485,848 | | | $ 4,759,605 | | |
| Savings and Escrow | $992,806 | 24,721 | 2.49% | $ 966,205 | 21,813 | 2.26% | $ 805,099 | 17,785 | 2.21% |
| Money Market Savings, NOW and DDA | 841,286 | 10,952 | 1.30 | 904,136 | 16,101 | 1.78 | 753,398 | 20,480 | 2.72 |
| Time Deposits | 2,539,857 | 132,917 | 5.23 | 2,510,975 | 136,020 | 5.42 | 2,292,391 | 119,367 | 5.21 |
| FHL Bank Advances | 856,520 | 49,672 | 5.72 | 527,414 | 31,765 | 6.02 | 522,884 | 33,333 | 6.37 |
| Repurchase Agreements and Other Borrowings | 575,126 | 32,001 | 5.49 | 144,543 | 8,062 | 5.58 | 49,945 | 2,966 | 5.94 |
| Senior Notes | 40,000 | 3,660 | 9.15 | 40,000 | 3,660 | 9.15 | 40,000 | 3,660 | 9.15 |
| Total Interest-Bearing Liabilities | 5,845,595 | 253,923 | 4.32 | 5,093,273 | 217,421 | 4.27 | 4,463,717 | 197,591 | 4.42 |
| Other Liabilities | 160,754 | | | 48,773 | | | 4,953 | | |
| Shareholders' Equity | 347,805 | | | 343,802 | | | 290,935 | | |
| Net Interest Income and Interest-Rate Spread | | $191,925 | 3.02% | | $169,037 | 3.12% | | $135,331 | 2.80% |
| Total Liabilities and Shareholders' Equity | $6,354,154 | | | $5,485,848 | | | $ 4,759,605 | | |
| Net Interest Margin | | | 3.17% | | | 3.23% | | | 2.96% |

(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 amortization of net deferred expense (income) of: $4.0 million, $1.6 million and ($869,000) in 1997, 1996 and 1995, respectively.

(c) Yields are adjusted to a fully tax equivalent basis.

Source: WEBSTER FINANCIAL CO, 10-K, March 31, 1998

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.

| | Years Ended December 31, 1997 v. 1996 | | | Years Ended December 31, 1996 v. 1995 | | |
|---|---|---|---|---|---|---|
| | Increase (Decrease) Due to | | | Increase (Decrease) Due to | | |
| (In thousands) | Rate | Volume | Total | Rate | Volume | Total |
| Interest on interest-earning assets: | | | | | | |
| Loans and Segregated Assets | $ 1,055 | $ 12,390 | $ 13,445 | $ 7,137 | $ 40,543 | $ 47,680 |
| Securities | 1,430 | 44,515 | 45,945 | (232) | 6,088 | 5,856 |
| Total | 2,485 | 56,905 | 59,390 | 6,905 | 46,631 | 53,536 |
| Interest on interest-bearing liabilities: | | | | | | |
| Deposits | (5,049) | (295) | (5,344) | (4,572) | 20,874 | 16,302 |
| FHL Bank advances and other borrowings | (2,087) | 43,933 | 41,846 | (2,264) | 5,792 | 3,528 |
| Total | (7,136) | 43,638 | 36,502 | (6,836) | 26,666 | 19,830 |
| Net change in net interest income | $ 9,621 | $ 13,267 | $ 22,888 | $ 13,741 | $ 19,965 | $ 33,706 |

PROVISION FOR LOAN LOSSES. The provision for loan losses for 1997 was $15.8 million compared to $9.8 million in 1996. The increase for 1997 is attributable to $7.2 million in provisions made at the time of the acquisitions of Derby and People's. The allowance for losses on loans totaled $49.8 million and represented 132.1% of nonaccrual loans at December 31, 1997 versus $43.2 million or 103.8% of nonaccrual loans at December 31, 1996.

NONINTEREST INCOME. Noninterest income for 1997 totaled $36.0 million, compared to $32.2 million in 1996. Fees and service charges were $27.7 million in 1997, an increase of $5.4 million, or 24.5% from 1996 due primarily to an increase in the customer base. Gains on the sale of loans and mortgage loan servicing rights amounted to $669,000 in 1997 compared to $737,000 in 1996. Gains on the sale of securities amounted to $3.2 million in 1997 compared to $4.1 million in 1996. Other noninterest income was $4.5 million for 1997 and $5.1 million for 1996.

NONINTEREST EXPENSES. Noninterest expenses for 1997 were $158.5 million compared to $130.6 million in 1996. Included in the 1997 results are merger and acquisition expenses totaling $27.1 million which include: $19.9 million related to the Derby acquisition and $7.2 million related to the People's acquisition. Other components of the increase were higher occupancy, furniture and equipment, intangible amortization, Capital Securities and other operating expenses. Offsetting such increases were lower salaries and employee benefits due to decreases in pension and post-retirement benefits and decreased foreclosed property expenses and provisions due to fewer foreclosed properties. Included in the 1996 results are expenses of $4.7 million related to a special assessment associated with the recapitalization of the SAIF and $500,000 related to the Shawmut Transaction. Also included in the 1996 results were benefits from the Bank Insurance Fund ("BIF") and SAIF related to deposit premium reductions. At December 31, 1997, approximately 81% of the Bank's deposits are assessed premiums at the BIF rate and 19% at the SAIF rate.

INCOME TAXES. Income tax expense for 1997 decreased to $19.7 million from $22.4 million in 1996. The decrease in income tax expense is due primarily to merger and acquisition expenses and to lower state income tax rates. Included in the 1997 and 1996 results are $1.1 million and $2.0 million, respectively, of benefits from the reduction of the deferred tax asset valuation allowance. The decrease in the valuation allowance was due to favorable reassessments of known risks during 1997 and 1996.

COMPARISON OF 1996 AND 1995 YEARS

---

GENERAL. For 1996, Webster reported net income of $38.5 million, or $2.66 per share on a diluted basis. Included in the 1996 results are expenses of $4.7 million related to a special assessment associated with the recapitalization of the SAIF and $500,000 of acquisition related charges for the Shawmut Transaction. Excluding the effect of these expenses, net income for the 1996 year would have been $41.5 million or $2.87 per diluted share. Net income for 1995 amounted to $29.3 million, or $2.22 per share on a diluted basis. Included in the 1995 results are expenses of $3.3 million related to the Shelton acquisition, $2.1 million related to changing the name of and merging together Webster's banking subsidiaries, and $1.0 million related to the Shawmut Transaction. Excluding the effects of these expenses, net income for the 1995 year would have been $33.0 million or $2.50 per diluted share. Results for the Shawmut Transaction are included in the accompanying Consolidated Financial Statements only from the date of acquisition on February 16, 1996.

NET INTEREST INCOME. Net interest income before provision for loan losses increased $33.7 million in 1996 to $169.0 million from $135.3 million in 1995. The increase is primarily due to an increased volume of average interest-earning assets and interest-bearing liabilities related to the Shawmut Transaction. Interest-rate spread for the 1996 year increased to 3.12% compared to 2.80% in 1995 also due primarily to lower costing liabilities acquired in the Shawmut Transaction.

INTEREST INCOME. Total interest income for 1996 amounted to $386.5 million, an increase of $53.6 million, or 16.1% compared to $332.9 million in 1995. The higher interest income was due primarily to an increase in the average volume of loans and securities and to a higher average yield on all interest-earning assets which rose to 7.39% in 1996 from 7.22% in 1995.

INTEREST EXPENSE. Interest expense for 1996 totaled $217.4 million, an increase of $19.8 million compared to $197.6 million in 1995. The higher interest expense was due primarily to an increase in the average volume of deposits and borrowings partially offset by a decrease in the average yield on all interest-bearing liabilities to 4.27% in 1996 from 4.42% in 1995. The lower average yield on interest-bearing liabilities is due primarily to the higher number of noninterest bearing and other deposits acquired in the Shawmut Transaction.

PROVISION FOR LOAN LOSSES. The provision for loan losses for 1996 was $9.8 million compared to $5.7 million in 1995. The increased provision for the 1996 year is attributable to an increase in the balance of outstanding loans and the change in portfolio mix. The allowance for losses on loans was $43.2 million and represented 103.8% of nonaccrual loans at December 31, 1996 versus $50.3 million or 96.1% of nonaccrual loans at December 31, 1995.

NONINTEREST INCOME. Noninterest income for 1996 was $32.2 million, compared to $27.9 million in 1995. Fees and service charges totaled $22.2 million in 1996, an increase of $4.5 million, or 25.1% from 1995 due primarily to the increase in customers from acquisitions. Gains on the sale of loans and mortgage loan servicing rights were $737,000 in 1996 compared to $4.6 million in 1995. The 1995 results included gains on the sale of mortgage loan servicing rights of $2.1 million. Gains on the sale of securities were $4.1 million in 1996 compared to $532,000 in 1995. Other noninterest income was $5.1 million for 1996 and $5.0 million for 1995.

NONINTEREST EXPENSES. Noninterest expenses for 1996 amounted to $130.6 million compared to $112.7 million in 1995. The increase of $17.9 million is due primarily to increased salaries and employee benefits, occupancy, furniture and equipment, core deposit intangible amortization, marketing, and other operating expenses with all such increases related primarily to the Shawmut Transaction. Offsetting such increases were lower foreclosed property expenses and provisions due to a decrease in the outstanding balance of foreclosed properties. Included in the 1996 results are expenses of $4.7 million related to a special assessment associated with the recapitalization of the SAIF and $500,000 related to the Shawmut Transaction. Also, included in the 1996 results were benefits from the BIF and SAIF related to deposit premium reductions. At December 31, 1996, approximately 81% of the Bank's deposits were assessed premiums at the BIF rate and 19% at the SAIF rate. Included in the 1995 results were expenses of $3.3 million related to the Shelton acquisition, $2.1 million related to changing the name and merging Webster's banking subsidiaries, and $1.0 million related to the Shawmut Transaction.

INCOME TAXES. Income tax expense for 1996 increased to $22.4 million from $15.5 million in 1995. The increase in income tax expense is due primarily to an increase in income before taxes. Included in the 1996 and 1995 results are $2.0 million and $2.3 million, respectively, of benefits from the reduction of the deferred tax asset valuation allowance. The decrease in the valuation allowance was due to favorable reassessments of known risks during 1996 and 1995.

## 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 June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information." This statement establishes standards for the method in which public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim reports issued to shareholders. This statement requires that public business enterprises report quantitative and qualitative information about its reportable segments, including profit or loss, certain specific revenue and expense items and segment assets. Webster plans to report segment information along its four business lines: consumer, business, mortgage banking and trust and investment management services. This statement also requires reconciliations of total segment revenues, total segment profit or loss, total segment assets and other amounts disclosed for segments to corresponding amounts in the Consolidated Financial Statements. This statement is effective for financial statements for periods beginning after December 15, 1997 and in the initial year of application, comparative information for earlier years is required. Comparative interim information is required in the year subsequent to the adoption.

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." This statement establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. The objective of this statement is to report a measure of all changes in equity of an enterprise that result from transactions and other economic events of the period other than transactions with owners. Comprehensive income is the total of net income and all other non-owner changes in equity. This statement is effective for fiscal years beginning after December 15, 1997 and reclassification of financial statements of earlier periods for comparative purposes is required.

In February 1997, the FASB issued SFAS No. 129, "Disclosure of Information about Capital Structure." This statement establishes standards for disclosing information about an entity's capital structure. This statement is effective for financial statements issued for periods ending after December 15, 1997.

In February 1997, the FASB issued SFAS No. 128, "Earnings Per Share." This statement simplifies the standards for computing and presenting earnings per share previously found in APB Opinion No. 15 and makes them comparable to international standards. It replaces the presentation of primary earnings per share with a presentation of basic earnings per share and requires dual presentation of basic and diluted earnings per share on the face of the income statement for all entities with complex capital structures. This statement is effective for financial statements issued for periods ending after December 15, 1997, including interim periods. Webster implemented this statement in the fourth quarter of 1997. See Notes 1 and 16.

## RECENT TAX LEGISLATION

Tax law changes were enacted in August 1996 to eliminate the "thrift bad debt" method of calculating bad debt deductions for tax years after 1995 and to impose a requirement to recapture into taxable income (over a six-year period) all bad debt reserves accumulated after 1987. Since Webster previously recorded a deferred tax liability with respect to these post 1987 reserves, its total income tax expense for financial reporting purposes will not be affected by the recapture requirement. The tax law changes also provide that taxes associated with the recapture of pre-1988 bad debt reserves would become payable under more limited circumstances than under prior law. Under the tax laws, as amended, events that would result in recapture of the pre-1988 bad debt reserves include stock and cash distributions to the holding company from the Bank in excess of specified amounts. Webster does not expect such reserves to be recaptured into taxable income.

## YEAR 2000 IMPACT

The "Year 2000" issue refers to the potential impact of the failure of computer programs and equipment to give proper recognition of dates beyond December 31, 1999 and other issues related to the Year 2000 century date change. Webster has completed its assessment of Year 2000 issues and has developed and began implementing a plan to modify or replace software and hardware systems to ensure proper date recognition. The Corporation is utilizing internal and external resources for this purpose. The total cost of the Year 2000 project is estimated to be $1.5 million.

Webster has initiated formal communications with all significant vendors to determine the extent to which vendors will be Year 2000 compliant. Webster requires compliance as a condition of future business. Contingency plans for vendor failure to comply are incorporated in Webster's Year 2000 plan. There can be no guarantee that the systems on which Webster relies will be in compliance. The estimated cost of the Year 2000 project is based on management's best estimates which could differ from actual results.

## CONSOLIDATED STATEMENTS OF CONDITION

(Dollars in thousands, except share data)

| | December 31, | |
|---|---|---|
| ASSETS | 1997 | 1996 |
| Cash and Due from Depository Institutions | $ 122,267 | $ 105,226 |
| Interest-bearing Deposits | 30,504 | 4,536 |
| Securities: (Note 3) | | |
| Trading at Fair Value | 84,749 | 59,331 |
| Available for Sale, at Fair Value | 2,290,254 | 983,699 |
| Held to Maturity, (Market Value: $412,061 in 1997; $528,473 in 1996) | 412,237 | 534,672 |
| Loans Receivable, Net (Note 4) | 3,824,602 | 3,642,522 |
| Segregated Assets, Net (Note 5) | 41,038 | 75,670 |
| Accrued Interest Receivable | 40,755 | 35,430 |
| Premises and Equipment, Net (Note 6) | 58,640 | 58,711 |
| Foreclosed Properties, Net (Note 13) | 8,189 | 13,214 |
| Intangible Assets (Note 2) | 48,919 | 49,448 |
| Prepaid Expenses and Other Assets (Note 7) | 57,467 | 44,751 |
| Total Assets | $ 7,019,621 | $ 5,607,210 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Deposits (Note 8) | $ 4,365,756 | $ 4,457,561 |
| Federal Home Loan Bank Advances (Note 9) | 1,071,620 | 559,880 |
| Reverse Repurchase Agreements and Other Borrowings (Note 10) | 956,554 | 166,127 |
| Advance Payments by Borrowers for Taxes and Insurance | 23,335 | 31,106 |
| Accrued Expenses and Other Liabilities | 70,593 | 55,704 |
| Total Liabilities | 6,487,858 | 5,270,378 |
| Corporation-Obligated Mandatorily Redeemable Capital Securities of Subsidiary Trust (Note 19) | 100,000 | -- |
| Preferred Stock of Subsidiary Corporation (Note 20) | 49,577 | -- |
| SHAREHOLDERS' EQUITY: (NOTES 15, 16 AND 17) | | |
| Cumulative Convertible Preferred Stock, Series B:<br>0 shares issued and outstanding at December 31, 1997 and<br>98,084 shares issued and outstanding at December 31, 1996 | -- | 1 |
| Common Stock, $.01 par value:<br>Authorized - 30,000,000 shares;<br>Issued - 13,676,136 shares at December 31, 1997 and 13,561,540 shares in 1996 | 137 | 136 |
| Paid-in Capital | 171,659 | 186,451 |
| Retained Earnings | 193,267 | 169,637 |
| Less Treasury Stock at cost, 22,958 shares at December 31, 1997 and 575,274 shares at December 31, 1996 | (1,116) | (18,801) |
| Less Employee Stock Ownership Plan Shares Purchased with Debt | (1,971) | (2,574) |
| Unrealized Gains on Securities, Net | 20,210 | 1,982 |
| Total Shareholders' Equity | 382,186 | 336,832 |
| Commitments and Contingencies (Notes 4, 6 and 21) | | |
| Total Liabilities and Shareholders' Equity | $ 7,019,621 | $ 5,607,210 |

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

| | Years Ended December 31, | | |
|---|---|---|---|
| (Dollars in thousands, except per share data) | 1997 | 1996 | 1995 |
| INTEREST INCOME: | | | |
| Loans and Segregated Assets | $299,058 | $285,614 | $237,933 |
| Securities and Interest-bearing Deposits | 146,790 | 100,844 | 94,989 |
| Total Interest Income | 445,848 | 386,458 | 332,922 |
| INTEREST EXPENSE: | | | |
| Interest on Deposits (Note 8) | 168,590 | 173,934 | 157,631 |
| Interest on Borrowings | 85,333 | 43,487 | 39,960 |
| Total Interest Expense | 253,923 | 217,421 | 197,591 |
| Net Interest Income | 191,925 | 169,037 | 135,331 |
| Provision for Loan Losses (Note 4) | 15,835 | 9,788 | 5,726 |
| Net Interest Income After Provision for Loan Losses | 176,090 | 159,249 | 129,605 |
| NONINTEREST INCOME: | | | |
| Fees and Service Charges | 27,685 | 22,242 | 17,775 |
| Gain on Sale of Loans and Loan Servicing, Net (Note 4) | 669 | 737 | 4,644 |
| Gain on Sale of Securities, Net (Note 3) | 3,152 | 4,133 | 532 |
| Other Noninterest Income | 4,484 | 5,067 | 4,951 |
| Total Noninterest Income | 35,990 | 32,179 | 27,902 |
| NONINTEREST EXPENSES: | | | |
| Salaries and Employee Benefits | 57,651 | 60,702 | 52,725 |
| Occupancy Expense of Premises | 12,807 | 12,337 | 9,132 |
| Furniture and Equipment Expenses | 12,140 | 11,176 | 8,255 |
| Federal Deposit Insurance Premiums | 993 | 1,577 | 5,888 |
| SAIF Recapitalization Expense | -- | 4,730 | -- |
| Foreclosed Property Expenses and Provisions, Net (Note 13) | 2,150 | 3,507 | 6,254 |
| Intangible Amortization | 6,262 | 5,338 | 1,444 |
| Marketing Expenses | 5,730 | 5,900 | 4,829 |
| Merger and Acquisition Expenses (Note 18) | 27,058 | 500 | 4,271 |
| Name Change and Subsidiary Merger Expense | -- | -- | 2,100 |
| Capital Securities Expense (Note 19) | 8,845 | -- | -- |
| Dividends on Preferred Stock of Subsidiary Corporation (Note 20) | 85 | -- | -- |
| Other Operating Expenses | 24,826 | 24,788 | 17,838 |
| Total Noninterest Expenses | 158,547 | 130,555 | 112,736 |
| Income Before Income Taxes | 53,533 | 60,873 | 44,771 |
| Income Taxes (Note 14) | 19,735 | 22,372 | 15,450 |
| NET INCOME | 33,798 | 38,501 | 29,321 |
| Preferred Stock Dividends | -- | 1,149 | 1,296 |
| Net Income Available to Common Shareholders | $ 33,798 | $ 37,352 | $ 28,025 |
| NET INCOME PER COMMON SHARE (NOTE 16): | | | |
| Basic | $ 2.51 | $ 2.82 | $ 2.35 |
| Diluted | 2.44 | 2.66 | 2.22 |

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Employee

Source: WEBSTER FINANCIAL CO, 10-K, March 31, 1998

(In thousands, except per share data)

| | Preferred Stock | Common Stock | Paid-In Capital | Retained Earnings | Treasury Stock | Stock Ownership Plan Shares Purchased With Debt | Unrealized Gains (Losses) On Securities, Net | Total |
|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 1994 | $ 2 | $ 124 | $ 158,251 | $ 125,329 | $ (3,692) | $(3,675) | $(11,935) | $ 264,404 |
| Net Income for 1995 | -- | -- | -- | 29,321 | -- | -- | -- | 29,321 |
| Dividends Paid: | | | | | | | | |
| $.64 Per Common Share | -- | -- | -- | (4,382) | -- | -- | -- | (4,382) |
| Cash Dividends Declared by Pooled Companies Prior to Mergers | -- | -- | -- | (1,718) | -- | -- | -- | (1,718) |
| 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 | -- | -- | 1,331 | -- | 402 | -- | -- | 1,733 |
| Proceeds from Sale of Common Stock | -- | 12 | 32,100 | -- | -- | -- | -- | 32,112 |
| Stock Dividends Declared by Pooled Companies Prior to Mergers | -- | -- | 6,950 | (6,960) | -- | -- | -- | (10) |
| Pooling Adjustments, Net | -- | -- | (829) | -- | -- | -- | (37) | (866) |
| Net Unrealized Gain on Securities Available for Sale, Net of Taxes | -- | -- | -- | -- | -- | -- | 14,830 | 14,830 |
| Other, Net | -- | (1) | 1 | -- | -- | -- | -- | -- |
| Balance, December 31, 1995 | $ 2 | $ 135 | $ 197,788 | $ 140,294 | $ (3,290) | $(3,207) | $ 2,858 | $ 334,580 |
| Net Income for 1996 | -- | -- | -- | 38,501 | -- | -- | -- | 38,501 |
| Dividends Paid: | | | | | | | | |
| $.68 Per Common Share | -- | -- | -- | (5,546) | -- | -- | -- | (5,546) |
| Cash Dividends Declared by Pooled Companies Prior to Mergers | -- | -- | -- | (2,463) | -- | -- | -- | (2,463) |
| Dividends Paid or Accrued: | | | | | | | | |
| Preferred Series B | -- | -- | -- | (1,149) | -- | -- | -- | (1,149) |
| Allocation of ESOP Shares | -- | -- | 94 | -- | -- | 633 | -- | 727 |
| Exercise of Stock Options | -- | 1 | 614 | -- | 3,351 | -- | -- | 3,966 |
| Conversion of Preferred Series B to Common Stock | (1) | -- | (8,724) | -- | 8,725 | -- | -- | -- |
| Common Stock Repurchased | -- | -- | -- | -- | (27,611) | -- | -- | (27,611) |
| Pooling Adjustments, Net | -- | -- | (3,216) | -- | -- | -- | (1,365) | (4,581) |
| Net Unrealized Gain on Securities Available for Sale, Net of Taxes | -- | -- | -- | -- | -- | -- | 489 | 489 |
| Other, Net | -- | -- | (105) | -- | 24 | -- | -- | (81) |
| Balance, December 31, 1996 | $ 1 | $ 136 | $ 186,451 | $ 169,637 | $(18,801) | $(2,574) | $ 1,982 | $ 336,832 |
| Net Income for 1997 | -- | -- | -- | 33,798 | -- | -- | -- | 33,798 |
| Dividends Paid: | | | | | | | | |
| $.80 Per Common Share | -- | -- | -- | (9,037) | -- | -- | -- | (9,037) |
| Cash Dividends Declared by Pooled Companies Prior to Mergers | -- | -- | -- | (1,069) | -- | -- | -- | (1,069) |
| Allocation of ESOP Shares | -- | -- | 166 | -- | -- | 603 | -- | 769 |
| Exercise of Stock Options | -- | 3 | (590) | -- | 5,058 | -- | -- | 4,471 |
| Conversion of Preferred Series B to Common Stock | (1) | -- | (18,499) | -- | 8,500 | -- | -- | -- |

(In thousands, except per 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 |
|---|---|---|---|---|---|---|---|---|
| Common Stock Repurchased | -- | -- | -- | -- | (6,020) | -- | -- | (6,020) |
| Common Stock Issued in Consideration for Sachem Trust | -- | 1 | 3,971 | -- | -- | -- | -- | 3,972 |
| Net Unrealized Gain on Securities Available for Sale, Net of Taxes | -- | -- | -- | -- | -- | -- | 18,576 | 18,576 |
| Other, Net | -- | (3) | 160 | (62) | 147 | -- | (348) | (106) |
| Balance, December 31, 1997 | $-- | $ 137 | $ 171,659 | $ 193,267 | $ (1,116) | $(1,971) | $ 20,210 | $ 382,186 |

See accompanying notes to consolidated financial statements

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| (In thousands) | Years Ended December 31,<br>1997 | 1996 | 1995 |
|---|---|---|---|
| OPERATING ACTIVITIES: | | | |
| Net Income | $ 33,798 | $ 38,501 | $ 29,321 |
| Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities: | | | |
| Provision for Loan Losses | 15,835 | 9,788 | 5,726 |
| Provision for Foreclosed Property Losses | 746 | 1,866 | 3,532 |
| Provision for Depreciation and Amortization | 9,503 | 8,598 | 6,097 |
| (Accretion) Amortization of Securities Premiums, Net | (3,148) | 4,110 | 1,513 |
| Amortization and Write-down of Intangibles | 6,262 | 5,338 | 1,444 |
| Amortization of Hedging Costs | 2,985 | 780 | 250 |
| Mortgage Servicing Rights Amortization and Provision | 1,101 | 491 | 715 |
| Gains on Sale of Foreclosed Properties | (1,240) | (1,354) | (735) |
| Gains on Sale of Loans and Securities | (3,592) | (4,019) | (4,697) |
| Gains on Sale of Trading Securities | (229) | (851) | (479) |
| (Increase) Decrease in Trading Securities | (40,952) | 7,587 | (14,211) |
| Loans Originated for Sale | (44,819) | (70,955) | (105,720) |
| Sale of Loans, Originated for Sale | 56,649 | 84,838 | 147,154 |
| (Increase) Decrease in Interest Receivable | (5,325) | 316 | (3,792) |
| Increase (Decrease) in Interest Payable | 17,353 | (747) | 976 |
| Increase (Decrease) in Accrued Expenses and Other Liabilities, Net | 13,200 | (17,610) | 6,044 |
| (Increase) Decrease in Prepaid Expenses and Other Assets | (25,890) | (10,651) | 543 |
| Net Cash Provided by Operating Activities | 32,237 | 56,026 | 73,681 |
| INVESTING ACTIVITIES: | | | |
| Purchases of Securities, Available for Sale | (1,719,047) | (602,853) | (298,409) |
| Purchases of Securities, Held to Maturity | (21,347) | (100,426) | (317,786) |
| Maturities of Securities | 185,038 | 153,489 | 115,775 |
| Proceeds from Sales of Securities, Available for Sale | 126,223 | 292,594 | 216,774 |
| Net (Increase) Decrease in Interest-bearing Deposits | (25,968) | 45,132 | 19,026 |
| Purchase of Loans | (187,815) | (77,440) | (99,235) |
| Net Increase in Loans | (36,262) | (10,530) | (15,420) |
| Proceeds from Sale of Foreclosed Properties | 20,520 | 21,017 | 16,269 |
| Net Decrease in Segregated Assets | 20,932 | 29,169 | 28,941 |
| Sale of Segregated Assets | 13,700 | -- | -- |
| Principal Collected on Mortgage-Backed Securities | 279,281 | 191,064 | 118,174 |
| Purchase of Premises and Equipment, Net | (9,432) | (11,454) | (9,608) |
| Net Cash and Cash Equivalents Received from Bank Acquisition | -- | 113,551 | -- |
| Net Cash (Used) Provided by Investing Activities | (1,354,177) | 43,313 | (225,499) |
| FINANCING ACTIVITIES: | | | |
| Net (Decrease) Increase in Deposits | (91,225) | (91,561) | 16,103 |
| Net Proceeds from Sale of Common Stock | -- | -- | 32,112 |
| Repayment of FHL Bank Advances | (3,316,780) | (1,676,469) | (1,122,986) |
| Proceeds from FHL Bank Advances | 3,828,520 | 1,737,423 | 1,106,618 |
| Repayment of Other Borrowings | (4,424,506) | (1,439,207) | (61,193) |
| Proceeds from Other Borrowings | 5,215,701 | 1,436,048 | 188,077 |
| Net Proceeds from Issuance of Capital Securities | 97,700 | -- | -- |
| Net Proceeds from Preferred Stock of Subsidiary Corporation | 49,577 | -- | -- |
| Cash Dividends to Common and Preferred Shareholders | (10,106) | (9,158) | (7,396) |
| Net (Decrease) Increase in Advance Payments for Taxes and Insurance | (8,351) | 2,987 | 249 |
| Exercise of Stock Options | 4,471 | 3,966 | 1,733 |
| Common Stock Repurchased | (6,020) | (27,611) | -- |
| Net Cash Provided (Used) by Financing Activities | 1,338,981 | (63,582) | 153,317 |
| Increase in Cash and Cash Equivalents | 17,041 | 35,757 | 1,499 |
| Cash and Cash Equivalents at Beginning of Period | 105,226 | 69,469 | 67,970 |
| Cash and Cash Equivalents at End of Period | $ 122,267 | $ 105,226 | $ 69,469 |

See accompanying notes to consolidated financial statements

| (In thousands) | Years Ended December 31,<br>1997 | 1996 | 1995 |
|---|---|---|---|
| SUPPLEMENTAL DISCLOSURES: | | | |
| Income Taxes Paid | $ 24,581 | $ 24,749 | $ 14,401 |
| Interest Paid | 242,467 | 215,097 | 196,873 |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES: | | | |
| Transfer of Loans to Foreclosed Properties | 26,058 | 19,788 | 20,162 |

Source: WEBSTER FINANCIAL CO, 10-K, March 31, 1998

| | | | |
|---|---|---|---|
| Transfer of Securities from Held to Maturity to Available for Sale | -- | -- | 340,613 |

Assets acquired and liabilities assumed in 1996 purchase business combinations were as follows:

| (In thousands) | Year Ended December 31, 1996 |
|---|---|
| ASSETS ACQUIRED: | |
| Loans | $ 586,235 |
| Premises and Equipment | 6,327 |
| Other Assets | 3,059 |
| Total Assets Acquired | 595,621 |
| LIABILITIES ASSUMED: | |
| Deposits | 846,412 |
| Less Deposits Exchanged | (95,163) |
| Net Deposits Assumed | 751,249 |
| Other Liabilities | 922 |
| Total Liabilities Assumed | 752,171 |
| Net Liabilities Assumed | 156,550 |
| Net Premium Paid for Deposits | (42,999) |
| Net Cash and Cash Equivalents Received from Bank Acquisition | $ 113,551 |

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"), through its subsidiary, Webster Bank (the "Bank"), delivers financial services to individuals, families and businesses throughout Connecticut. Webster Bank is organized along four business lines - consumer, business, mortgage banking, and trust and investment services, each supported by centralized administration and operations. Webster has grown significantly in recent years, primarily through a series of acquisitions which have expanded and strengthened its franchise in Connecticut. Webster Bank was founded in 1935 and converted from a federal mutual to a federal stock institution in 1986.

b) Basis of Financial Statement Presentation
The Consolidated Financial Statements include the accounts of Webster and its subsidiaries. The Consolidated Financial Statements and notes hereto have been retroactively restated to include the accounts of People's Savings Financial Corp. ("People's") acquired on July 31, 1997, DS Bancor, Inc. ("Derby") acquired on January 31, 1997, Shelton Bancorp, Inc. ("Shelton") acquired on November 1, 1995 and Shoreline Bank and Trust Company ("Shoreline") acquired on December 16, 1994 as if the mergers had occurred at the beginning of the period of the earliest date presented (See Note 2). 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 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. Effective January 1,

1995, Webster adopted Statement of Financial Accounting Standard ("SFAS") No. 114, "Accounting by Creditors for Impairment of a Loan," as amended by SFAS No. 118. Under this standard, commercial and commercial real estate loans are considered impaired when it is probable that Webster will not collect all amounts due in accordance with the contractual terms of the loan. Certain loans are exempt from the provisions of SFAS No. 114, including large groups of smaller balance homogenous loans that are collectively evaluated for impairment, such as consumer and residential mortgage loans.

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 are 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 value. Operating expenses are charged to current period earnings and gains and losses upon disposition are reflected in the Consolidated 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 eceived. 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

Securities are 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 using 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, which include collateralized mortgage obligations ("CMOs"), are either U.S. Government Agency securities or are rated in at least the top two ratings categories by at least one of the major rating agencies at the time of purchase. One of the risks inherent when investing in mortgage-backed securities and CMOs 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 could affect earnings.

g) Interest-rate Instruments

Webster uses as part of its asset/liability management strategy various interest-rate contracts including short futures positions, interest-rate swaps and interest-rate caps and floors. 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 Statements of Income in the period for which the change occurred.

Interest-rate caps, interest-rate floors and interest-rate 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 was being hedged. 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 instruments 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 ("FHL Bank") or other short-term overnight investments. 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 Bank ("First Constitution") acquisition. In addition, Segregated Assets contain foreclosed properties that have been so classified subsequent to the acquisition date. These assets are subject to a loss-sharing arrangement with the Federal Deposit Insurance Corporation ("FDIC") as discussed in Notes 2 and 5.

Interest on Segregated Assets is credited to income earned on loans and Segregated Assets 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) Intangible Assets

Intangible assets consist of core deposit intangibles and goodwill. Core deposit intangible is the excess of the purchase price over the fair value of the tangible net assets acquired in bank acquisitions accounted for using the purchase accounting method and allocated to deposits. The core deposit intangibles are being amortized on a straight-line basis over a period of ten years from the acquisition dates. On a periodic basis, management assesses the recoverability of the core deposit intangibles. Such assessments encompass a projection of future earnings from the deposit base as compared to the original expectations, based upon a discounted cash flow analysis. If an assessment of the core deposit intangibles indicates that they are impaired, a charge to income for the most recent period is recorded for the amount of the impairment. Goodwill is the excess of cost over the fair value of tangible net assets acquired in bank acquisitions accounted for using the purchase accounting method and not allocated to any specific asset or liability category. Goodwill is being amortized on a straight-line basis over periods up to fifteen years from the acquisition date. The Corporation also reviews goodwill on a periodic basis for events or changes in circumstances that may indicate that the carrying amount of goodwill may not be recoverable.

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. 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. A valuation allowance has been provided for a portion of the deferred tax asset that may not be realized. The valuation allowance is adjusted as facts and circumstances warrant.

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 and are funded in accordance with the requirements of the Employee Retirement Income Security Act ("ERISA"). The Bank also accrues costs related to post-retirement benefits.

n) Net Income Per Share

Basic net income per share is calculated by dividing net income available to common shareholders by the weighted-average number of shares of common stock outstanding. Diluted net income per share is calculated by dividing adjusted net income by the weighted-average 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 common stock equivalents consist of common stock options and warrants. The weighted-average number of shares used in the computation of basic earnings per share for the years ended December 31, 1997, 1996 and 1995 were 13,474,117, 13,252,237 and 11,936,050 respectively, and diluted earnings per share were 13,828,499, 14,459,953 and 13,202,259 for the same periods, respectively.

o) Stock Compensation

SFAS No. 123 "Accounting for Stock-Based Compensation," encourages all companies to adopt a new fair value based method of accounting for stock-based employee compensation plans. Under the provisions of this statement, Webster has elected to continue to measure compensation for its stock option plans using the accounting method prescribed by Accounting Principal Board Opinion No. 25 ("APB No. 25") "Accounting for Stock Issued to Employees." Entities electing to maintain accounting standards under APB No. 25 must make pro forma disclosures for net income and earnings per share as if the fair value based method of accounting had been applied. See Note 17.

p) Statements of Cash Flows

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

q) Loan Sales and Servicing Sales

Gains or losses on sales of loans are recognized at the time of the sale. During the 1995 second quarter, Webster elected early adoption of SFAS No. 122 "Accounting for Mortgage Servicing Rights," that was superseded by SFAS No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." 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. Fair values are estimated considering loan prepayment predictions, historical prepayment rates, interest rates, and other economic factors. For purposes of impairment evaluation and measurement, Webster stratifies mortgage servicing rights based on predominate risk characteristics of the underlying loans including loan type, interest rate and amortization type (fixed or adjustable). To the extent that the carrying value of mortgage servicing rights exceeds fair value by individual stratum, a valuation allowance is established. The allowance may be adjusted for changes in fair value. The cost basis of mortgage servicing rights is amortized into noninterest income over the estimated period of servicing revenue. See Note 7.

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.

r) Reclassifications

Certain financial statement balances as previously reported have been reclassified to conform to the 1997 Consolidated Financial Statements presentation.

NOTE 2: BUSINESS COMBINATIONS

---

POOLING OF INTEREST TRANSACTION PENDING CONSUMMATION IN 1998 (Unaudited)

During the second quarter of 1998, Webster expects to acquire Eagle Financial Corp. ("Eagle") and its subsidiary, Eagle Bank, a $2.1 billion savings bank, headquartered in Bristol, Connecticut. In connection with the merger with Eagle, Webster expects to issue 5.1 million shares of its common shares for all the outstanding shares of Eagle common stock. Under the terms of the agreement, each outstanding share of Eagle common stock will be converted into .84 shares of Webster common stock. This acquisition will be accounted for as a pooling of interests, and as such, future Consolidated Financial Statements will include Eagle's financial data as if Eagle had been combined at the beginning of the earliest period presented.

The pro forma combined amounts in the table below are presented for informational purposes and are not necessarily indicative of the results of operations of the combined company that would have actually occurred had the merger been consummated as of the earliest period presented. The pro forma combined amounts are not necessarily indicative of future results of the combined company. In particular, Webster expects to achieve significant operating cost savings as a result of the merger. No adjustment has been included in the pro forma combined company financial statements for anticipated operating cost savings. Webster's fiscal year ends December 31 and Eagle's fiscal year ends September 30. The unaudited pro forma combined financial data combines the financial information of Webster at and for the fiscal years ended December 31, 1997, 1996 and 1995 with the financial information of Eagle for the fiscal years ended September 30, 1997, 1996 and 1995, respectively.

The following table sets forth unaudited pro forma results of operations of the combining entities:

| | Year Ended December 31, 1997 | | |
|---|---|---|---|
| (In thousands, except per share data) | Webster | Eagle | Combined |
| Net Interest Income | $191,925 | $ 59,125 | $251,050 |
| Provision for Loan Losses | 15,835 | 8,978 | 24,813 |
| Net Income | 33,798 | 7,315 | 41,113 |
| Diluted Earnings Per Share | $2.44 | $1.12 | $2.15 |

| | Year Ended December 31, 1996 | | |
|---|---|---|---|
| (In thousands, except per share data) | Webster | Eagle | Combined |
| Net Interest Income | $169,037 | $ 53,081 | $222,118 |
| Provision for Loan Losses | 9,788 | 3,266 | 13,054 |
| Net Income | 38,501 | 15,493 | 53,994 |
| Diluted Earnings Per Share | $2.66 | $2.42 | $2.72 |

| | Year Ended December 31, 1995 | | |
|---|---|---|---|
| (In thousands, except per share data) | Webster | Eagle | Combined |
| Net Interest Income | $135,331 | $ 53,315 | $188,646 |
| Provision for Loan Losses | 5,726 | 4,138 | 9,864 |
| Net Income | 29,321 | 12,046 | 41,367 |
| Diluted Earnings Per Share | $2.22 | $1.92 | $2.24 |

## POOLING OF INTERESTS TRANSACTIONS

All acquisitions accounted for under the pooling of interests method include financial data as if the combination occurred at the beginning of the earliest period presented.

### THE PEOPLE'S ACQUISITION

On July 31, 1997, Webster acquired People's and its subsidiary, People's Savings Bank & Trust, a $482 million savings bank headquartered in New Britain, Connecticut. In connection with the merger with People's, Webster issued 1,575,996 shares of its common stock for all the outstanding shares of People's common stock. Under the terms of the agreement, each outstanding share of People's common stock was converted into .85 shares of Webster common stock.

### THE DERBY ACQUISITION

On January 31, 1997, Webster acquired Derby and its subsidiary, Derby Savings Bank, a $1.2 billion savings bank headquartered in Derby, Connecticut. In connection with the merger with Derby, Webster issued 3,501,370 shares of its common stock for all the outstanding shares of Derby common stock. Under the terms of the agreement each outstanding share of Derby common stock was converted into 1.14158 shares of Webster common stock.

### THE SHELTON ACQUISITION

On November 1, 1995, Webster acquired Shelton and its subsidiary, Shelton Savings Bank, a $295 million savings bank headquartered 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 shares of Webster common stock for each of Shelton's outstanding shares of common stock.

### THE SHORELINE ACQUISITION

On December 16, 1994, Webster acquired Shoreline, based in Madison, Connecticut which had $51 million of assets. 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.

## PURCHASE TRANSACTIONS

The following acquisitions were accounted for as purchase transactions, and as such, results of operations are included in the Consolidated Financial Statements subsequent to acquisition.

### THE SACHEM ACQUISITION

On August 1, 1997, Webster acquired Sachem Trust National Association ("Sachem Trust"), a trust company headquartered in Guilford, Connecticut which had approximately $300 million of trust assets under management, in a tax- free stock-for-stock exchange. Under the terms of the agreement, Webster issued 83,385 shares of Webster common stock for all 173,000 outstanding shares of Sachem Trust. As a result of this transaction ,Webster recorded $5.8 million as goodwill.

### THE SHAWMUT TRANSACTION

On February 16, 1996, Webster Bank acquired 20 branches in the Hartford market from Shawmut Bank Connecticut National Association, as part of a divestiture in connection with the merger of Shawmut and Fleet Bank (the "Shawmut Transaction"). In the branch purchase, Webster Bank acquired approximately $845 million in deposits and $586 million in loans. As a result of this transaction, Webster recorded $44.2 million as a core deposit intangible asset. In connection with the Shawmut Transaction, Webster raised net proceeds of $32.1 million through the sale of 1,249,600 shares of its common stock in an underwritten public offering in December 1995.

### BRISTOL SAVINGS BANK ACQUISITION

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. Bristol had 5 banking offices in Hartford County. In connection with the conversion, Webster completed the sale of 1,150,000 shares of its common stock in related subscription and public offerings. 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 and is being amortized over a 10 year period. Bristol was merged with the Bank in November 1995.

### FDIC ASSISTED ACQUISITIONS

Webster 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 FDIC. These acquisitions involved financial assistance from the FDIC and extended Webster'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 5 to the Consolidated Financial Statements for additional information concerning the terms of these assisted acquisitions.

## NOTE 3: SECURITIES

A summary of securities follows:

| | December 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1997 | | | | 1996 | | | |
| | Amortized | Unrealized | | Estimated | Amortized | Unrealized | | Estimated |
| (In thousands) | Cost | Gains | Losses | Fair Value | Cost | Gains | Losses | Fair Value |
| Trading Securities: | | | | | | | | |

Source: WEBSTER FINANCIAL CO, 10-K, March 31, 1998

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Mortgage-Backed Securities | $ 84,749(a) | $ -- | $ -- | $ 84,749 | $ 59,331(a) | $ -- | $ -- | $ 59,331 |
| | 84,749 | -- | -- | 84,749 | 59,331 | -- | -- | 59,331 |
| Available for Sale Portfolio: | | | | | | | | |
| U.S. Treasury Notes | 6,507 | 31 | (3) | 6,535 | 2,508 | 40 | (4) | 2,544 |
| U.S. Government Agency | 42,229 | 201 | (24) | 42,406 | 78,105 | 277 | (381) | 78,001 |
| Corporate Bonds and Notes | 6,662 | 4 | (201) | 6,465 | 10,299 | 13 | (7) | 10,305 |
| Equity Securities | 183,560 | 21,914 | (609) | 204,865(b) | 96,078 | 4,419 | (144) | 100,353 |
| Mortgage-Backed Securities | 2,001,372 | 27,339 | (6,545) | 2,022,166 | 786,723 | 8,559 | (6,822) | 788,460 |
| Purchased Interest-Rate Contracts | 15,079 | - | (7,262) | 7,817 | 5,460 | -- | (1,424) | 4,036 |
| | 2,255,409 | 49,489 | (14,644) | 2,290,254 | 979,173 | 13,308 | (8,782) | 983,699 |
| Held to Maturity Portfolio: | | | | | | | | |
| U.S. Treasury Notes | 2,447 | 28 | -- | 2,475 | 944 | 12 | -- | 956 |
| U.S. Government Agency | 32,274 | 14 | (65) | 32,223 | 39,453 | 948 | (340) | 40,061 |
| Municipal Bonds and Notes | 12,500 | 93 | (1) | 12,592 | -- | -- | -- | -- |
| Corporate Bonds and Notes | 1,199 | 3 | -- | 1,202 | 1,577 | 6 | (8) | 1,575 |
| Money Market Preferred Stock | 1,000 | -- | -- | 1,000 | 8,000 | -- | -- | 8,000 |
| Mortgage-Backed Securities | 362,817 | 2,533 | (2,781) | 362,569 | 484,698 | 2,110 | (8,927) | 477,881 |
| | 412,237 | 2,671 | (2,847) | 412,061 | 534,672 | 3,076 | (9,275) | 528,473 |
| Total | $2,752,395 | $52,160 | $(17,491) | $2,787,064 | $1,573,176 | $16,384 | $(18,057) | $1,571,503 |

(a) Stated at fair market value.

(b) Equity securities at December 31, 1997, consisted of FHL Bank stock of $64.3 million, mutual funds of $37.5 million, preferred stock of $46.5 million and common stock of $56.6 million.

A summary of realized gains and losses follows:

| | Years Ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1997 | | | 1996 | | | 1995 | | |
| (In thousands) | Gains | Losses | Net | Gains | Losses | Net | Gains | Losses | Net |
| Trading Securities: | | | | | | | | | |
| Mortgage-Backed Securities | $ 4,052 | $ (2,647) | $ 1,405 | $ 2,962 | $ (2,712) | $ 250 | $ 1,901 | $ (194) | $ 1,707 |
| U.S. Treasury Notes | -- | -- | -- | -- | -- | -- | 18 | (5) | 13 |
| U.S. Government Agencies | -- | -- | -- | -- | -- | -- | 3 | -- | 3 |
| Futures and Options Contracts | 7,318 | (8,494) | (1,176) | 10,704 | (10,434) | 270 | 3,517 | (5,333) | (1,816) |
| Equity Securities | -- | -- | -- | 366 | (35) | 331 | 708 | (123) | 585 |
| | 11,370 | (11,141) | 229 | 14,032 | (13,181) | 851 | 6,147 | (5,655) | 492 |
| Available for Sale: | | | | | | | | | |
| Mortgage-Backed Securities | 532 | -- | 532 | 1,211 | (590) | 621 | 1,127 | (891) | 236 |
| U.S. Treasury Notes | 6 | -- | 6 | -- | (7) | (7) | 363 | -- | 363 |
| U.S. Government Agencies | 13 | -- | 13 | 11 | (28) | (17) | -- | (1,886) | (1,886) |
| Corporate Debt | -- | -- | -- | -- | -- | -- | 37 | (555) | (518) |
| Mutual Funds | 1,179 | (58) | 1,121 | 227 | (174) | 53 | 3 | (199) | (196) |
| Other Equity Securities | 938 | (21) | 917 | 2,773 | (197) | 2,576 | 2,042 | (1) | 2,041 |
| Other | 920 | (586) | 334 | 56 | -- | 56 | -- | -- | -- |
| | 3,588 | (665) | 2,923 | 4,278 | (996) | 3,282 | 3,572 | (3,532) | 40 |
| Total | $ 14,958 | $(11,806) | $ 3,152 | $ 18,310 | $ (14,177) | $4,133 | $ 9,719 | $(9,187) | 532 |

There were no sales of securities from the held to maturity portfolio for the years ended December 31, 1997, 1996 and 1995. During the 1995 fourth quarter, the Bank elected, under guidelines issued by the Financial Accounting Standards Board ("FASB"), to transfer certain securities from the held to maturity to the available for sale portfolio. These securities had an approximate book value of $340.6 million and fair market value of $339.2 million. Under this one-time provision, the Bank was able to reassess the appropriateness of the classifications of all securities held and account for any resulting reclassifications at fair market value. 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.

Webster holds short futures positions to minimize the price volatility of certain adjustable-rate assets held as Trading Securities. At December 31, 1997, Webster held 237 short positions in Eurodollar futures contracts ($237.0 million notional amount) and 385 short positions in 5 and 10 year Treasury note futures ($38.5 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 Statements of Income.

The following table sets forth the contractual maturities of the Bank's securities and mortgage-backed securities at December 31, 1997 and the weighted-average yields of such securities (based upon the financial statement carrying amount of such securities).

| | Due Within One Year | | Due After One, But Within Five Years | | Due After Five, But Within 10 Years | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | Amount | Weighted Average Yield | Amount | Weighted Average Yield | Amount | Weighted Average Yield |
| Trading Portfolio: | | | | | | |
| Mortgage-Backed Securities | $ -- | --% | $ -- | --% | $ -- | --% |
| | -- | -- | -- | -- | -- | -- |
| Available For Sale Portfolio: | | | | | | |
| U.S. Treasury Notes | 3,504 | 6.08 | 3,031 | 6.42 | -- | -- |
| U.S. Government Agency | 9,986 | 5.44 | 24,664 | 6.58 | 5,031 | 6.95 |
| Corporate Bonds and Notes | 4,411 | 5.96 | 2,054 | 6.16 | -- | -- |
| Equity Securities | 204,865 | 3.86 | -- | -- | -- | -- |
| Mortgage-Backed Securities | 973 | 5.50 | 42,399 | 5.90 | 137,128 | 7.17 |
| Purchased Interest-Rate Contracts | -- | -- | 2,115 | -- | 5,702 | -- |
| | 223,739 | 4.01 | 74,263 | 5.98 | 147,861 | 6.89 |
| Held to Maturity Portfolio: | | | | | | |
| U.S. Treasury Notes | 443 | 5.13 | 2,004 | 6.25 | -- | -- |
| U.S. Government Agencies | 24,775 | 5.55 | 6,999 | 5.56 | 500 | 6.40 |
| Municipal Bonds and Notes(a) | -- | -- | -- | -- | 12,500 | 6.68 |
| Corporate Bonds and Notes | 749 | 5.57 | 350 | 6.54 | -- | -- |
| Money Market Preferred Stock | 1,000 | 5.68 | -- | -- | -- | -- |
| Mortgage-Backed Securities | 6,307 | 5.90 | 48,131 | 6.09 | 3,299 | 7.98 |
| | 33,274 | 5.61 | 57,484 | 6.03 | 16,299 | 6.93 |
| Totals | $257,013 | 4.22% | $131,747 | 6.01% | $164,160 | 6.89% |

| | Due After 10 Years | | Total | |
|---|---|---|---|---|
| (Dollars in thousands) | Amount | Weighted Average Yield | Amount | Weighted Average Yield |
| Trading Portfolio: | | | | |
| Mortgage-Backed Securities | $ 84,749 | 5.79% | $ 84,749 | 5.79% |
| | 84,749 | 5.79 | 84,749 | 5.79 |
| Available For Sale Portfolio: | | | | |
| U.S. Treasury Notes | -- | -- | 6,535 | 6.23 |
| U.S. Government Agency | 2,725 | 7.18 | 42,406 | 6.39 |
| Corporate Bonds and Notes | -- | -- | 6,465 | 6.02 |
| Equity Securities | -- | -- | 204,865 | 3.86 |
| Mortgage-Backed Securities | 1,841,666 | 6.48 | 2,022,166 | 6.52 |
| Purchased Interest-Rate Contracts | -- | -- | 7,817 | -- |
| | 1,844,391 | 6.49 | 2,290,254 | 6.25 |
| Held to Maturity Portfolio: | | | | |
| U.S. Treasury Notes | -- | -- | 2,447 | 6.05 |
| U.S. Government Agencies | -- | -- | 32,274 | 5.56 |
| Municipal Bonds and Notes(a) | -- | -- | 12,500 | 6.68 |
| Corporate Bonds and Notes | 100 | 6.29 | 1,199 | 5.91 |
| Money Market Preferred Stock | -- | -- | 1,000 | 5.68 |
| Mortgage-Backed Securities | 305,080 | 7.33 | 362,817 | 7.15 |

Source: WEBSTER FINANCIAL CO, 10-K, March 31, 1998

| | | | | |
|---|---|---|---|---|
| | 305,180 | 7.33 | 412,237 | 7.00 |
| Totals | $2,234,320 | 6.57% | $2,787,240 | 6.35% |

(a)Adjusted to a fully tax equivalent basis.

The above table shows contractual maturities of securities. At December 31, 1997 the duration of the trading, available for sale and held to maturity portfolios, are approximately less than one month, 1.7 years, and 1.6 years, respectively.

## NOTE 4: LOANS RECEIVABLE, NET

A summary of loans receivable, net follows:

| | December 31, | | | |
|---|---|---|---|---|
| (Dollars in THOUSANDS) | 1997 | | 1996 | |
| | Amount | % | Amount | % |
| Loans Secured by Mortgages on Real Estate: | | | | |
| Conventional, VA and FHA | $ 2,849,827 | 74.5% | $2,689,005 | 73.8% |
| Conventional, VA and FHA Loans Held for Sale | 1,685 | 0.1 | 5,075 | 0.1 |
| Residential Participation | 12,244 | 0.3 | 16,394 | 0.5 |
| Residential Construction | 100,524 | 2.6 | 94,596 | 2.6 |
| Commercial Construction | 22,203 | 0.6 | 23,383 | 0.6 |
| Other Commercial | 249,164 | 6.5 | 258,456 | 7.1 |
| | 3,235,647 | 84.6 | 3,086,909 | 84.7 |
| Consumer Loans: | | | | |
| Home Equity Loans | 381,151 | 10.0 | 339,885 | 9.3 |
| Other Consumer Loans | 37,020 | 1.0 | 68,651 | 1.9 |
| Credit Cards | 33,112 | 0.8 | 14,893 | 0.4 |
| | 451,283 | 11.8 | 423,429 | 11.6 |
| Commercial Non-Mortgage Loans | 220,450 | 5.8 | 195,643 | 5.4 |
| Gross Loans Receivable | 3,907,380 | 102.2 | 3,705,981 | 101.7 |
| Less: | | | | |
| Loans in Process | 51,263 | 1.4 | 35,924 | 1.0 |
| Allowance for Losses on Loans | 49,753 | 1.3 | 43,185 | 1.2 |
| Premiums on Loans Purchased, Deferred Loan Fees and Unearned Discounts, Net | (18,238) | (0.5) | (15,650) | (0.5) |
| Loans Receivable, Net | $3,824,602 | 100.0% | $3,642,522 | 100.0% |

Webster adopted SFAS No. 114 "Accounting by Creditors for Impairment of a Loan," on January 1, 1995 as amended by SFAS No. 118, with no impact on its results of operations. At December 31, 1997, Webster had $13.5 million of impaired loans, of which $7.3 million were measured based upon the fair value of the underlying collateral and $6.2 million were measured based upon the expected future cash flows of the impaired loans. In 1997, 1996 and 1995, the average balance of impaired loans was $20.0 million, $26.3 million and $27.6 million, respectively.

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, interest income is recorded on a cash basis or is applied 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, 1997, 1996 and 1995 amounted to $355,986, $120,746 and $50,362, respectively.

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

| | December 31, | | |
|---|---|---|---|
| | 1997 | 1996 | 1995 |

| (In thousands) | Loans | Impaired Loans | Total Allowance | Total Allowance | Total Allowance |
|---|---|---|---|---|---|
| Balance at Beginning of Period | $ 42,629 | $556 | $ 43,185 | $ 50,281 | $ 55,366 |
| Provisions Charged to Operations | 15,535 | 300 | 15,835 | 9,788 | 5,726 |
| Acquired Allowance for Purchased Loans | -- | -- | -- | 5,000 | -- |
| Charge-offs | (14,916) | -- | (14,916) | (24,865) | (13,999) |
| Recoveries | 5,649 | -- | 5,649 | 2,981 | 3,188 |
| Balance at End of Period | $ 48,897 | $856 | $ 49,753 | $ 43,185 | $ 50,281 |

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 estimated fair value of commitments to extend credit is considered insignificant at December 31, 1997 and 1996. Future loan commitments represent residential mortgage loan commitments, letters of credit, standby letters of credit, credit card lines and unused home equity credit lines. Rates for these loans are generally established shortly before closing. The rates on home equity lines of credit generally vary with the prime rate.

At December 31, 1997 and 1996, residential mortgage commitments outstanding totaled $74.1 million and $51.9 million, respectively. Residential commitments outstanding at December 31, 1997 consisted of adjustable-rate and fixed-rate mortgages of $29.8 million and $44.3 million, respectively, at rates ranging from 4.9% to 8.3%. Commitments to originate loans generally expire within 60 days. In addition, at December 31, 1997 and 1996, there were unused portions of home equity credit lines extended of $273.4 million and $257.9 million, respectively. Unused commercial lines of credit, letters of credit, standby letters of credit and outstanding commercial new loan commitments totaled $114.9 million and $104.5 million at December 31, 1997 and 1996, respectively. Additionally, unused credit card lines were $102.3 million and $36.5 million at December 31, 1997 and 1996, 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, 1997 and 1996, Webster had forward commitments to sell loans totaling $1.7 million and $4.8 million, respectively, at rates between 5.75% and 8.0% and 5.75% and 9.0%, respectively. The estimated fair value of commitments to sell loans is considered insignificant at December 31, 1997 and 1996.

At December 31, 1997, 1996 and 1995, Webster serviced, for the benefit of others, mortgage loans aggregating approximately $1.1 billion, $1.2 billion and $967.0 million, respectively.

## 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:

| | December 31, | | | |
|---|---|---|---|---|
| (In thousands) | 1997 | | 1996 | |
| | Amount | % | Amount | % |
| Commercial Real Estate Loans | $ 39,063 | 89.5% | $58,745 | 74.8% |
| Commercial Loans | 4,317 | 9.9 | 6,606 | 8.4 |
| Multi-Family Real Estate Loans | -- | -- | 12,772 | 16.3 |
| Foreclosed Properties | 281 | 0.6 | 406 | 0.5 |
| | 43,661 | 100.0% | 78,529 | 100.0% |
| Allowance for Segregated Asset Losses | (2,623) | | (2,859) | |

Source: WEBSTER FINANCIAL CO, 10-K, March 31, 1998

|  |  |  |
|---|---|---|
| Segregated Assets, Net | $ 41,038 | $75,670 |

The FDIC was required to reimburse the Bank quarterly through December 31, 1997 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.

During 1998 and 1999, the Bank 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. The Bank 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 (December 1999), if the sum of the Bank'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 the Bank an additional 15% of any such excess over $49.2 million at the end of the seventh year. At December 31, 1997, cumulative net charge-offs and expenses aggregated $58.9 million. During the first quarter of 1996, the Bank began recording the additional 15% reimbursement as a receivable from the FDIC (See Note 7). As of December 31, 1997, the Bank had received a total of $46.7 million in reimbursements for net charge-offs and permitted expenses from the FDIC and the amount due from the FDIC totals $1.7 million. At December 31, 1997 and 1996, the Bank had allowances for losses of $2.6 million and $2.9 million, respectively, to cover its portion of Segregated Assets losses.

During the second quarter of 1997, the Bank sold approximately $13.7 million in multi-family loans including all multi-family Segregated Asset Loans. Any losses incurred on the sale of these segregated multi-family loans was covered under the loss-sharing arrangement with the FDIC and the transaction had no impact on the Consolidated Statements of Income.

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

|  | December 31, |  |
|---|---|---|
| (In thousands) | 1997 | 1996 |
| Balance at Beginning of Period | $ 2,859 | $ 3,235 |
| Charge-offs | (267) | (621) |
| Recoveries | 31 | 245 |
| Balance at End of Period | $ 2,623 | $ 2,859 |

At December 31, 1997 and 1996, nonperforming Segregated Assets are classified as follows:

|  | December 31, |  |
|---|---|---|
| (In thousands) | 1997 | 1996 |
| Commercial Real Estate Loans | $ 2,912 | $ 3,337 |
| Commercial Loans | 500 | 192 |
| Multi-Family Real Estate Loans | -- | 495 |
| Foreclosed Property: |  |  |
| Commercial Real Estate | 281 | 269 |
| Multi-Family Real Estate | -- | 138 |
| Total | $ 3,693 | $ 4,431 |

NOTE 6: PREMISES AND EQUIPMENT, NET

A summary of premises and equipment, net follows:

| (In thousands) | December 31,<br>1997 | <br>1996 |
|---|---|---|
| Land | $ 9,294 | $ 8,138 |
| Buildings and Improvements | 43,447 | 44,685 |
| Leasehold Improvements | 4,425 | 4,801 |
| Furniture, Fixtures and Equipment | 46,069 | 41,966 |
| Total Premises and Equipment | 103,235 | 99,590 |
| Accumulated Depreciation and Amortization | 44,595 | 40,879 |
| Premises and Equipment, Net | $ 58,640 | $ 58,711 |

At December 31, 1997, 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 $3.5 million, $3.4 million and $2.0 million in 1997, 1996 and 1995, respectively. Webster is also entitled to rental income under various non-cancelable operating leases for properties owned. Rental income under these leases was $2.0 million, $1.9 million and $1.7 million in 1997, 1996 and 1995, respectively.

The following is a schedule of future minimum rental payments and receipts required under these leases as of December 31, 1997:

| (In thousands) | Payments | Receipts |
|---|---|---|
| Years ending December 31: | | |
| 1998 | $ 3,957 | $ 843 |
| 1999 | 3,251 | 645 |
| 2000 | 2,621 | 551 |
| 2001 | 2,171 | 373 |
| 2002 | 1,963 | 235 |
| Later years | 7,555 | 1,034 |
| Total | $21,518 | $ 3,681 |

NOTE 7: PREPAID EXPENSES AND OTHER ASSETS

A summary of prepaid expenses and other assets follows:

| (In thousands) | December 31,<br>1997 | <br>1996 |
|---|---|---|
| Due from FDIC | $ 1,660 | $ 1,420 |
| Income Taxes Receivable | 4,641 | 6,913 |
| Deferred Tax Asset, Net (Note 14) | 16,318 | 20,411 |
| Mortgage Servicing Rights, Net | 5,342 | 5,607 |
| Bank Owned Life Insurance | 12,750 | -- |
| Other Assets | 16,756 | 10,400 |
| Prepaid Expenses and Other Assets | $ 57,467 | $44,751 |

Of the $1.7 million due from FDIC at December 31, 1997, $387,000 represents Webster's 80% reimbursement for fourth quarter net charge-offs and expenses on Segregated Assets which will be received in the first quarter of 1998. The remaining $1.3 million represents the additional 15% reimbursement for charge-offs and expenses which Webster will receive at the end of 1999 (See Note 5). Other Assets are primarily comprised of prepaid expenses and various miscellaneous assets.

During the 1995 second quarter, Webster adopted SFAS No. 122 "Accounting for Mortgage Servicing Rights," superseded by SFAS 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This statement 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. Amortization of mortgage servicing rights was $797,000, $491,000 and $715,000 for the years ended December 31, 1997, 1996 and 1995, respectively. During 1997 and 1996, Webster capitalized mortgage servicing assets of $895,000 and $508,000, respectively, related to originating loans and selling them servicing retained. Also, during 1996, Webster purchased mortgage loan servicing assets with a principal balance of $272.5 million and recorded a mortgage loan servicing asset of $2.8 million. In 1996, Webster established an allowance to provide for the decrease in value of mortgage servicing rights due to declining interest rates and an increased rate of prepayments. At December 31, 1997 and 1996, the allowance totaled $458,000 and $95,000, respectively. During 1997 and 1996, provisions to this allowance totaled $363,000 and $95,000, respectively.

## NOTE 8: DEPOSITS

Deposits categories are summarized as follows:

| | December 31, | | | |
|---|---|---|---|---|
| | 1997 | | 1996 | |
| (Dollars in thousands) | Balance | % of Total | Balance | % of Total |
| Demand Deposits and NOW Accounts | $ 784,850 | 18.0% | $ 711,498 | 16.0% |
| Regular Savings and Money Market Deposit Accounts | 1,060,050 | 24.3 | 1,144,244 | 25.6 |
| Time Deposits | 2,520,856 | 57.7 | 2,601,819 | 58.4 |
| Total Deposits | $4,365,756 | 100.0% | $4,457,561 | 100.0% |

Interest expense on deposits is summarized as follows:

| | Years Ended December 31, | | |
|---|---|---|---|
| (In thousands) | 1997 | 1996 | 1995 |
| NOW Accounts | $ 8,332 | $ 6,123 | $ 3,933 |
| Regular Savings and Money Market Deposit Accounts | 27,341 | 31,719 | 34,274 |
| Time Deposits | 132,917 | 136,092 | 119,424 |
| Total | $168,590 | $173,934 | $157,631 |

Time deposits of $100,000 or more amounted to $345.7 million and represented 7.92% of total deposits at December 31, 1997. The following table presents the amount of these deposits maturing during the periods indicated:

(In thousands)

| Maturing | Amount |
|---|---|
| January 1, 1998 to March 31, 1998 | $ 98,141 |
| April 1, 1998 to June 30, 1998 | 68,689 |
| July 1, 1998 to December 31, 1998 | 90,403 |
| January 1, 1999 and beyond | 88,433 |
| Total | $345,666 |

## NOTE 9: FEDERAL HOME LOAN BANK ADVANCES

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

| | December 31, | |
|---|---|---|
| (Dollars in thousands) | 1997 | 1996 |
| Fixed Rate: | | |
| 4.82% to 9.80% Due 1997 | $ -- | $414,590 |
| 5.20% to 6.40% Due 1998 | 1,050,800 | 76,800 |

Source: WEBSTER FINANCIAL CO, 10-K, March 31, 1998

|  |  |  |
|---|---|---|
| 5.54% to 8.86% Due 1999 | 6,400 | 6,400 |
| 6.31% to 9.16% Due 2000 | 13,420 | 13,420 |
| 6.69% Due in 2001 | 1,000 | 1,000 |
| 4.00% Due in 2008 | -- | 150 |
|  | 1,071,620 | 512,360 |
| Variable Rate: |  |  |
| 7.32% Due in 1997 | -- | 47,520 |
| Total Federal Home Loan Bank Advances | $1,071,620 | $559,880 |

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

|  | December 31, |  |  |
|---|---|---|---|
| (Dollars in thousands) | 1997 | 1996 | 1995 |
| Average amount outstanding during the period | $ 788,928 | $379,969 | $ 374,910 |
| Amount outstanding at end of period | 1,050,800 | 462,110 | 392,366 |
| Highest month end balance | 1,050,800 | 475,693 | 493,340 |
| Weighted-average interest rate at end of period | 5.76% | 5.71% | 5.94% |
| Weighted-average interest rate during the period | 5.66% | 5.61% | 6.01% |

At December 31, 1997, the Bank had additional borrowing capacity of over $1.7 billion from the FHL Bank, including a line of credit of approximately $41.3 million. Advances are secured by the Bank's investment in FHL Bank 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, 1997 and 1996, the Bank was in compliance with the FHL Bank collateral requirements.

## NOTE 10: REVERSE REPURCHASE AGREEMENTS AND OTHER BORROWINGS

The following table summarizes reverse repurchase agreements and other borrowings:

|  | December 31, |  |
|---|---|---|
| (In thousands) | 1997 | 1996 |
| Reverse Repurchase Agreements | $ 904,576 | $ 99,085 |
| Senior Notes | 40,000 | 40,000 |
| Bank Line of Credit | 10,000 | 18,000 |
| ESOP Borrowings | 1,978 | 2,546 |
| Other Borrowings | - | 6,496 |
| Total | $ 956,554 | $ 166,127 |

The weighted-average rates for other borrowed funds for the 1997 and 1996 year periods were 5.73% and 6.26%, respectively.

During 1997, reverse repurchase agreement transactions inclusive of dollar roll transactions were the primary source of borrowed funds with the exception of FHL Bank advance borrowings (See Note 9). The average balance and weighted- average rate for reverse repurchase agreements for the 1997 year period were $556.6 million and 5.65% as compared to $132.7 million and 5.53% for the 1996 year period. Securities underlying the reverse repurchase transactions held as collateral are primarily U.S. government agency securities consisting of FNMA, GNMA and FHLMC securities. Securities for reverse repurchase agreements related to Webster's funding operations are delivered to broker-dealers who arrange the transactions. Webster also enters into reverse repurchase agreement transactions directly with certain customers through its money desk operations.

Source: WEBSTER FINANCIAL CO, 10-K, March 31, 1998

Information concerning short-term and long-term borrowings under reverse repurchase agreements as of the end of the current period is summarized below:

(Dollars in thousands)

| Balance at December 31, 1997 | Weighted Average Rate | Weighted Average Maturity Date | Book Value of Collateral | Market Valuee of Collateral |
|---|---|---|---|---|
| $904,576 | 5.80% | 3.1 months | $895,965 | $906,340 |

While the Bank used several types of short-term borrowings as part of funding its daily operations, only reverse repurchase agreement transactions had an average balance that was 30% or more of the Bank's total equity at the end of the 1997 and 1996 periods. The following table sets forth certain information as to the Bank's reverse repurchase agreement short-term borrowings at the dates and for the years indicated.

| | December 31, | |
|---|---|---|
| (Dollars in thousands) | 1997 | 1996 |
| Average amount outstanding during the period | $556,364 | $132,666 |
| Amount outstanding at end of period | 899,577 | 99,085 |
| Highest month end balance | 899,577 | 202,204 |
| Weighted-average interest rate at end of period | 5.80% | 5.52% |
| Weighted-average interest rate during the period | 5.65% | 5.53% |

During 1997, Webster at times also used a variable-rate $20 million line of credit through a correspondent bank and purchased federal funds. Webster has established multiple sources of funding and uses the most favorable source under the circumstances in conjunction with asset and liability management strategies. The Employee Stock Ownership Plan ("ESOP") borrowings are from a correspondent bank at a floating rate based on the correspondent bank's base (prime) rate and the weighted rates at December 31, 1997 and 1996 were 8.26% and 7.90%, respectively. The terms of the loan agreements call for the ESOP to make annual scheduled principal repayments through the year 2004. Interest is paid quarterly and the borrowings are guaranteed and secured by unallocated shares of Webster common stock under the ESOP Plan.

On June 29, 1993, Webster completed a registered offering of $40 million 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.

NOTE 11: INTEREST-RATE FINANCIAL INSTRUMENTS

Webster employs as part of its asset/liability management strategy various interest-rate contracts including short futures positions, interest-rate swaps and interest-rate caps and floors. See Note 3 for disclosures on futures positions. Webster used interest-rate financial instruments to hedge mismatches in interest-rate maturities to reduce exposure to movements in interest rates. 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 counterparty 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. Credit risk related to the interest-rate swaps, interest-rate caps and floors at December 31, 1997 is not considered to be significant due to counterparty ratings. In the event of a default by a counterparty, the cost to Webster, if any, would be the replacement cost of the contract at the current market rate.

Interest-rate financial instruments are summarized as follows:

| | Notional Amount | | Fair Market Value | | Amortized Cost | |
|---|---|---|---|---|---|---|
| | December 31, | | December 31, | | December 31, | |
| (In thousands) | 1997 | 1996 | 1997 | 1996 | 1997 | 1996 |
| Interest-rate swap agreements | $ 50,000 | $ 50,000 | $ (18) | $ (15) | $ - | $ - |
| Interest-rate floor agreements | 100,000 | 100,000 | 954 | 1,602 | 1,138 | 1,482 |
| Interest-rate cap agreements | 460,000 | 225,000 | 6,881 | 2,449 | 13,941 | 3,978 |
| Total (Classified in available for sale securities) | 610,000 | 375,000 | 7,817 | 4,036 | 15,079 | 5,460 |
| Interest rate swap agreements (Classified in time reports) | 25,000 | - | 309 | - | - | - |
| Total | $ 635,000 | $ 375,000 | $ 8,126 | $ 4,036 | $ 15,079 | $ 5,460 |

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, 1997, Webster had two interest-rate swap agreements, one hedging available for sale securities and the other hedging $25 million of brokered certificates of deposit. The swap, classified as a hedge of available for sale securities, has Webster paying a fixed rate of 6.04% while receiving a variable rate based on LIBOR. The swap, classified as a hedge of brokered certificates of deposit, has Webster receiving a fixed rate of 6.65% while paying a variable rate based on LIBOR. For the year ended December 31, 1997, net expense recorded on the available for sale swap was $25,000 and net revenue recorded on the brokered certificates of deposit swap was $18,000.

Interest-rate cap agreements will result in cash payments to be received by Webster only if current interest rates rise above a predetermined interest rate. At December 31, 1997, Webster had six outstanding cap agreements with interest-rate caps ranging from 6.00% to 9.00%. 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, 1997, Webster had $13.9 million of unamortized interest-rate cap balances and during the 1997 period amortized $2.6 million as a reduction of available for sale interest income. Similarly, interest-rate floor agreements will result in cash payments to be received by Webster only if current interest rates fall below a predetermined interest rate. At December 31, 1997, Webster had one outstanding interest-rate floor agreement with a floor of 5.75%. The amount paid for entering into an interest-rate floor agreement is amortized over the life of the agreement as an adjustment to mortgage-backed securities available for sale interest income. At December 31, 1997, Webster had $1.1 million of unamortized floor costs and during the 1997 period amortized $344,000 as a reduction of available for sale interest income.

## NOTE 12: SUMMARY OF ESTIMATED FAIR VALUES

A summary of estimated fair values consisted of the following:

| | December 31, | | | |
|---|---|---|---|---|
| | 1997 | | 1996 | |
| (In thousands) | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Assets: | | | | |
| Cash and Due from Depository Institutions | $ 122,267 | $ 122,267 | $ 105,226 | $ 105,226 |
| Interest-bearing Deposits | 30,504 | 30,504 | 4,536 | 4,536 |
| Securities | 2,779,423 | 2,779,247 | 1,573,666 | 1,567,467 |
| Residential Loans | 2,925,591 | 3,001,667 | 2,785,592 | 2,852,213 |
| Consumer Loans | 70,680 | 71,168 | 141,291 | 141,478 |
| Home Equity Loans | 384,274 | 398,352 | 285,912 | 293,104 |
| Commercial Loans | 493,810 | 490,920 | 472,912 | 469,098 |
| Less Allowance for Loan Losses | 49,753 | - | 43,185 | - |
| Segregated Assets, Net | 41,038 | 42,417 | 75,670 | 75,670 |
| Interest-rate Contracts | 7,817 | 7,817 | 4,036 | 4,036 |
| Mortgage Servicing Rights, Net | 5,342 | 7,808 | 5,607 | 6,433 |
| Other Assets | 208,628 | 208,628 | 195,947 | 195,947 |

|  |  |  |  |  |
|---|---|---|---|---|
| Liabilities: |  |  |  |  |
| Deposits Other than Certificates | $1,844,900 | $ 1,844,900 | $1,855,742 | $1,855,742 |
| Time Deposits: |  |  |  |  |
| Maturing in Less than One Year | 1,872,462 | 1,877,962 | 1,628,618 | 1,631,181 |
| Maturing in One Year and Beyond | 648,394 | 650,671 | 973,201 | 974,182 |
| Federal Home Loan Bank Advances | 1,071,620 | 1,071,863 | 559,880 | 560,421 |
| Other Borrowings | 956,554 | 956,903 | 166,127 | 166,175 |
| Other Liabilities | 93,928 | 93,928 | 86,810 | 86,810 |
| Capital Securities and Preferred Stock of Subsidiary Corp. | 149,577 | 157,384 | -- | -- |

In December 1991, the FASB issued SFAS 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 (See 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 Webster would receive or pay to terminate the agreements. FHL Bank stock has no active market and is required to be held by member banks. The estimated fair value of FHL 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 15 and 30 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.

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 time deposits, FHL Bank advances, and other borrowings were calculated using the discounted cash flow method. The discount rate is estimated using rates currently offered for deposits and FHL 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 discount rates used for the capital securities and minority interest liabilities were calculated using market rates for current instruments with similar terms.

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:

|  | Years Ended December 31, |  |  |
|---|---|---|---|
| (In thousands) | 1997 | 1996 | 1995 |
| (Gain) on Sale of Foreclosed Properties Acquired in Settlement of Loans, Net | $ (1,240) | $ (1,354) | $ (735) |
| Provision for Losses on Foreclosed Properties | 746 | 1,866 | 3,532 |
| Rental Income | (86) | (262) | (782) |
| Foreclosed Property Expenses | 2,730 | 3,257 | 4,239 |
| Total | $ 2,150 | $ 3,507 | $ 6,254 |

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

|  | Years Ended December 31, |  |  |
|---|---|---|---|
| (In thousands) | 1997 | 1996 | 1995 |

| | | | |
|---|---|---|---|
| Balance at Beginning of Period | $ 740 | $ 1,233 | $ 2,943 |
| Provisions | 746 | 1,866 | 3,532 |
| Losses Charged to Allowance | (1,033) | (2,503) | (5,524) |
| Recoveries Credited to Allowance | 121 | 144 | 282 |
| Balance at End of Period | $ 574 | $ 740 | $ 1,233 |

## NOTE 14: INCOME TAXES

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

| | Years Ended December 31, | | |
|---|---|---|---|
| (In thousands) | 1997 | 1996 | 1995 |
| Current: | | | |
| Federal | $ 25,233 | $ 18,774 | $ 16,034 |
| State | 3,615 | 4,025 | 5,156 |
| | 28,848 | 22,799 | 21,190 |
| Deferred: | | | |
| Federal | (7,758) | (1,781) | (4,526) |
| State | (1,355) | 1,354 | (1,214) |
| | (9,113) | (427) | (5,740) |
| Total: | | | |
| Federal | 17,475 | 16,993 | 11,508 |
| State | 2,260 | 5,379 | 3,942 |
| | $ 19,735 | $ 22,372 | $ 15,450 |

Income tax expense of $19.7 million, $22.4 million and $15.5 million for the years ended December 31, 1997, 1996 and 1995, respectively, differed from the amounts computed by applying the Federal income tax rate of 35% in 1997, 1996 and 1995 to pre-tax income as a result of the following:

| | Years Ended December 31, | | |
|---|---|---|---|
| (In thousands) | 1997 | 1996 | 1995 |
| Computed "Expected" Tax Expense | $ 18,737 | $ 21,246 | $ 15,615 |
| Reduction in Income Taxes Resulting From: | | | |
| Dividends Received Deduction | (364) | (603) | (324) |
| State Income Taxes, Net of Federal Income Tax Benefit, Including Change in Valuation Allowance and Rate | 1,469 | 3,822 | 2,581 |
| Adjustment to Deferred Tax Assets and Liabilities: | | | |
| Change in Valuation Allowance (Federal) | (1,100) | (2,000) | (2,294) |
| Merger Related Costs | 1,225 | -- | -- |
| Other, Net | (232) | (93) | (128) |
| Income Taxes | $ 19,735 | $ 22,372 | $ 15,450 |

<

/TABLE>

At December 31, 1997, Webster had a net deferred tax asset of $16.3 million. In order to fully realize the net deferred tax asset, Webster must either incur tax losses to carryback or generate future taxable income. Based on Webster's historical and current taxable earnings, management believes that Webster will realize the net deferred tax asset. There can be no assurance, however, that Webster will generate taxable earnings or a specific level of continuing taxable earnings in the future.

The deferred tax valuation allowance is principally for a portion of temporary differences that may be subject to review by taxing authorities. The net decreases in the valuation allowance in 1997, 1996 and 1995 were due to favorable reassessments of known risks and resulted in reductions of income tax expense in these years.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1997 and 1996 are presented below.

| (In thousands) | December 31, 1997 | December 31, 1996 |
|---|---|---|
| Deferred Tax Assets: | | |
| Loan Loss Allowances & Other Allowances, Net | $ 26,224 | $ 21,657 |
| Accrued Compensation and Pensions | 3,256 | 3,620 |
| Deferred Expenses | 3,671 | - |
| Intangibles | 4,598 | 3,743 |
| Other | 2,106 | 3,362 |
| Total Gross Deferred Tax Assets | 39,855 | 32,382 |
| Less Valuation Allowance | (5,107) | (6,207) |
| Deferred Tax Asset after Valuation Allowance | 34,748 | 26,175 |
| Deferred Tax Liabilities: | | |
| Loan Discount | 2,665 | 2,826 |
| Unrealized Gain on Securities | 14,635 | 1,427 |
| Other | 1,130 | 1,511 |
| Total Gross Deferred Tax Liabilities | 18,430 | 5,764 |
| Net Deferred Tax Asset | $ 16,318 | $ 20,411 |

NOTE 15: SHAREHOLDERS' EQUITY

Shareholders' equity increased $45.4 million to $382.2 million at December 31, 1997 from $336.8 million at December 31, 1996 due primarily to net income of $33.8 million and the tax-effected unrealized gain on securities available for sale of $18.6 million.

On July 31, 1997, Webster acquired People's (see Note 2). In connection with the acquisition, Webster issued 1,575,996 shares of its common stock for all the outstanding shares of People's common stock. Under the terms of the agreement, People's shareholders received .85 shares of Webster common stock in a tax-free exchange for each of their shares of People's common stock

On January 31, 1997, Webster acquired Derby (see Note 2). In connection with the acquisition, Webster issued 3,501,370 shares of its common stock for all the outstanding shares of Derby common stock. Under the terms of the agreement, Derby shareholders received 1.14158 shares of Webster common stock in a tax-free exchange for each of their shares of Derby common stock.

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 stock

Retained earnings at December 31, 1997 included $27.2 million of earnings of the Bank appropriated to bad debt reserves (pre-1988), which were deducted for federal income tax purposes. Tax law changes were enacted in August 1996 to eliminate the "thrift bad debt" method of calculating bad debt deductions for tax years after 1995 and to impose a requirement to recapture into taxable income (over a six-year period) all bad debt reserves accumulated after 1987. Since Webster previously recorded a deferred tax liability with respect to these post-1987 reserves, its total income tax expense for financial reporting purposes will not be affected by the recapture requirement. The tax law changes also provide that taxes associated with the recapture of pre-1988 bad debt reserves would become payable under more limited circumstances than under prior law. Under the tax laws, as amended, events that would result in recapture of the pre-1988 bad debt reserves include stock and cash distributions to the holding company from the Bank in excess of specified amounts. Webster does not expect such reserves to be recaptured into taxable income.

Applicable Office of Thrift Supervision ("OTS") regulations require federal savings banks such as the 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 risk-weighted assets). As an OTS regulated institution, the Bank is also subject to a minimum tangible capital requirement (expressed as a ratio of tangible capital to adjusted total assets). At December 31, 1997, the Bank exceeded all OTS regulatory capital requirements and met the FDIC requirements for a "well capitalized" 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%. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that if undertaken, could have a direct material effect on Webster's Consolidated Financial Statements. Webster's capital amounts and classifications are also subject to qualitative judgments by the OTS about components, risk weightings, and other factors.

At December 31, 1997, the Bank was in full compliance with all applicable capital requirements as detailed below:

| | Actual | | OTS Minimum Capital Requirements | | Well Capitalized | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| At December 31, 1997 | | | | | | |
| Total Capital (to Risk-Weighted Assets) | $ 425,398 | 13.41% | $253,829 | 8.00% | $317,286 | 10.00% |
| Tier 1 Capital (to Risk-Weighted Assets) | 385,599 | 12.15 | 126,915 | 4.00 | 190,372 | 6.00 |
| Tier 1 Capital (to Adjusted Total Assets) | 385,599 | 5.61 | 206,234 | 3.00 | 343,723 | 5.00 |
| Tangible Capital (to Adjusted Total Assets) | 380,896 | 5.54 | 103,046 | 1.50 | No Requirement | |
| At December 31, 1996 | | | | | | |
| Total Capital (to Risk-Weighted Assets) | $ 364,951 | 12.40% | $235,423 | 8.00% | $294,278 | 10.00% |
| Tier 1 Capital (to Risk-Weighted Assets) | 330,306 | 11.22 | 117,711 | 4.00 | 176,557 | 6.00 |
| Tier 1 Capital (to Adjusted Total Assets) | 330,306 | 6.00 | 165,096 | 3.00 | 275,160 | 5.00 |
| Tangible Capital (to Adjusted Total Assets) | 325,905 | 5.92 | 82,547 | 1.50 | No 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 the Bank's capital levels exceeded all fully phased-in OTS capital requirements at December 31, 1997, 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, 1997, the Bank had $128.2 million available for the payment of dividends under the OTS capital distribution regulations. The Bank has paid dividends to Webster amounting to $42.7 million and $21.5 million for 1997 and 1996, respectively. Under the prompt corrective action regulations adopted by the OTS and the FDIC, the Bank is precluded from paying any dividends 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 17. Since Webster has secured and guaranteed the ESOP debt, the outstanding ESOP loan balance which is considered unearned compensation expense, is recorded as a reduction of shareholders' equity. Both the loan obligation and the unearned compensation expense are reduced by the amount of any loan repayments made by the ESOP. Principal repayments totaled $568,025, $583,000 and $545,000 during the years ended December 31, 1997, 1996 and 1995, respectively.

In February 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 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: EARNINGS PER SHARE

On February 1997, the FASB issued SFAS No. 128, "Earnings Per Share." This statement simplifies the standards for computing and presenting earnings per share previously found in APB Opinion No. 15 and makes them comparable to international standards. It replaces the presentation of primary earnings per share with basic earnings per share and replaces fully diluted earnings per share with diluted earnings per share. SFAS No. 128 requires dual presentation of basic and diluted earnings per share on the face of the income statement for all entities with complex capital structures.

The following tables reconcile the components of basic and diluted earnings per share.

| | Years Ended December 31, | | |
|---|---|---|---|
| (Dollars in thousands, except per share data) | 1997 | 1996 | 1995 |
| BASIC EPS: | | | |
| Net income | $ 33,798 | $ 38,501 | $ 29,321 |
| Preferred stock dividends | -- | 1,149 | 1,296 |
| Income available to common stockholders | $ 33,798 | $ 37,352 | $ 28,025 |
| Weighted-average common shares outstanding | 13,474,117 | 13,252,237 | 11,936,050 |
| Basic earnings per share | $2.51 | $2.82 | $2.35 |
| DILUTED EPS: | | | |
| Net income | $ 33,798 | $ 38,501 | $ 29,321 |
| Weighted-average common shares outstanding | 13,474,117 | 13,252,237 | 11,936,050 |
| Dilutive common stock equivalents: | | | |
| Effect of conversion of preferred stock series B | 17,053 | 888,086 | 986,403 |
| Common stock equivalents due to dilutive effect of options | 240,285 | 284,936 | 279,806 |
| Common stock equivalents due to dilutive effect of warrant | 97,044 | 34,694 | -- |
| Total weighted-average diluted shares | 13,828,499 | 14,459,953 | 13,202,259 |
| Diluted earnings per share | $2.44 | $2.66 | $2.22 |

At December 31, 1997, options to purchase 119,700 shares of common stock at exercise prices between $49.63 and $64.50 were not included in the computation of diluted earnings per share since the options' exercise price was greater than the average market price of Webster common shares for 1997.

## NOTE 17: 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 savings 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 $1.0 million, $909,000 and $593,000 for the years ended December 31, 1997, 1996 and 1995, 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 Bank's 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 participation service under the ESOP. Operations were charged with $870,000, $847,000 and $848,000 for the

years ended December 31, 1997, 1996 and 1995, respectively, for costs related to the ESOP. The 1997 ESOP charge includes $568,025 for principal payments, $55,513 of interest payments (net of $31,387 of dividends on unallocated ESOP shares) and $46,178 of administrative costs. As required under the Accounting Standards Executive Committee's Statement of Position 93-6, "Employers Accounting for Stock Ownership Plans," additional compensation expense of approximately $200,284 was recorded for the 1997 period.

The following table sets forth the funded status of the Bank's pension plan and amounts recognized in Webster's Consolidated Statements of Condition at December 31, 1997 and 1996.

| | December 31, | |
|---|---|---|
| (In thousands) | 1997 | 1996 |
| Actuarial present value of benefit obligations: | | |
| Vested benefit obligation | $ 13,484 | $ 15,266 |
| Nonvested benefit obligation | 1,369 | 1,380 |
| Accumulated benefit obligation | 14,853 | 16,646 |
| Effect of projected future compensation levels | 4,094 | 4,155 |
| Projected benefit obligation for service rendered to date | 18,947 | 20,801 |
| Plan assets at fair value, primarily listed stocks and U.S. bonds | 22,179 | 18,694 |
| Excess (Deficiency) of plan assets over benefit obligation | 3,232 | (2,107) |
| Items not yet recognized in earnings: | | |
| Unrecognized prior service cost | (1,403) | (2,221) |
| Unrecognized net gain (loss) | (3,531) | 1,878 |
| Unrecognized net asset at January 1, 1987 being recognized over 20.9 years | (121) | (313) |
| Unfunded Accrued Pension Liability | $ (1,823) | $ (2,763) |

The reduction in the unfunded accrued pension liability balance at December 31, 1997, as compared to the December 31, 1996 balance, as shown in the above table is due primarily to favorable curtailment adjustments realized in 1997 that were directly related to the Derby and People's acquisitions. The following table summarizes the components of the net change in the unfunded accrued pension liability balance.

| (In thousands) | |
|---|---|
| Balance at December 31, 1996 | $(2,763) |
| Acquisition-Related Net Curtailments | 1,577 |
| Contributions | 702 |
| Net Periodic Cost | (1,339) |
| Balance at December 31, 1997 | $(1,823) |

The discount rate, the 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 7.0%, 4.75% and 9.0% for 1997 and 7.25%, 5.0% and 9.0% for 1996.

Net pension expense for 1997, 1996 and 1995 included the following components:

| (In thousands) | December 31,<br>1997 | 1996 | 1995 |
|---|---|---|---|
| Service cost benefits earned during the period | $ 1,759 | $ 1,961 | $ 1,286 |
| Interest cost on projected benefit obligations | 1,320 | 1,394 | 1,225 |
| Return on plan assets | (5,381) | (2,038) | (3,153) |
| Amortization and deferral | 3,641 | 338 | 1,704 |
| Total | $ 1,339 | $ 1,655 | $ 1,062 |

The following table sets forth the status of Webster's accumulated post-retirement benefit obligation:

| (In thousands) | December 31,<br>1997 | 1996 |
|---|---|---|
| Accumulated benefit obligation | $(1,912) | $(3,818) |
| Unrecognized transition obligation | - | 1,748 |
| Unrecognized net (loss) gain | 273 | (998) |
| Unfunded Accrued Post-Retirement Liability | $(1,639) | $(3,068) |

The reduction in the unfunded accrued post-retirement liability balance at December 31, 1997, as compared to the December 31, 1996 balance, as shown in the above table is due primarily to favorable curtailment adjustments realized in 1997 that were directly related to the Derby and People's acquisitions. The following table summarizes the components of the net change in the unfunded accrued post-retirement liability position:

| (In thousands) | |
|---|---|
| Balance at December 31, 1996 | $(3,068) |
| Acquisition-Related Net Curtailments | 1,495 |
| Contributions | 126 |
| Net Periodic Costs | (192) |
| Balance at December 31, 1997 | $(1,639) |

The discount rate used in determining the accumulated post-retirement benefit obligation was 7.0% and the assumed healthcare cost-trend rate was 5.0% for 1997. An increase of 1% in the assumed healthcare cost-trend rate would result in an increase in the accumulated benefit obligation by $133,400. The discount rate and healthcare cost-trend rate for 1996 were 7.25% and 4.25%, respectively.

The components of post-retirement benefits cost were as follows:

| (In thousands) | Years Ended December 31,<br>1997 | 1996 | 1995 |
|---|---|---|---|
| Service cost | $ 40 | $ 258 | $ 238 |
| Interest cost | 140 | 256 | 250 |
| Amortization | 12 | 78 | 68 |
| Net Periodic Post-Retirement Benefit Cost | $ 192 | $ 592 | $ 556 |

Webster maintains stock option plans (the "Option Plans") for the benefit of its directors and officers. In October 1995, the FASB issued SFAS No. 123 "Accounting for Stock-Based Compensation." This statement establishes financial accounting and reporting standards for stock-based employee and non-employee compensation plans. Under the provisions of this statement, Webster has elected to continue to measure compensation for its option plans using the accounting prescribed by APB Opinion No. 25 "Accounting for Stock Issued to Employees." Disclosure information requirements are effective for financial statements for fiscal years beginning after December 15, 1995, or for an earlier fiscal year for which this statement is initially adopted for recognizing compensation cost. Pro forma disclosures required for entities that elect to continue to measure compensation cost using APB Opinion No. 25 must include the effects of all awards granted in fiscal years that begin after December 31, 1994.

At December 31, 1997, Webster had multiple fixed stock option based compensation plans, which are described below. Webster applies the provisions of APB Opinion No. 25 and related interpretations in accounting for these plans. Accordingly, no compensation cost has been recognized for its fixed stock option plans in the Consolidated Statements of Income. Had compensation cost for Webster's stock option based compensation plans been determined consistent with SFAS No. 123 and recorded to the Consolidated Statements of Income, Webster's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

| | Year December 31, | | |
|---|---|---|---|
| (Dollars in thousands, except per share data) | 1997 | 1996 | 1995 |
| Net Income: | | | |
| As Reported | $ 33,798 | $ 38,501 | $ 29,321 |
| Pro Forma | 33,151 | 37,740 | 27,592 |
| Basic Earnings Per Share: | | | |
| As Reported | $ 2.51 | $ 2.82 | $ 2.35 |
| Pro Forma | 2.46 | 2.76 | 2.20 |
| Diluted Earnings Per Share: | | | |
| As Reported | $ 2.44 | $ 2.66 | $ 2.22 |
| Pro Forma | 2.40 | 2.61 | 2.09 |

Webster's five fixed stock option plans were established in 1995, 1994, 1992, 1986 and 1985. The 1995, 1994 and 1985 plans were acquired through bank acquisitions. Under these plans, the number of shares that may be granted are 212,500, 286,650, 780,500, 385,085 and 312,069, respectively, after having been adjusted for a 10% stock dividend that occurred in 1993 that affected the number of shares under the plans and amendments to the 1992 plan. The 1992 plan was amended in April 1994 and 1996 to increase shares under the Plan by an additional 235,000 and 375,000 shares, respectively. Stock appreciation rights ("SARS") were granted in tandem with stock options by Derby under the 1985 option plan. In accordance with generally accepted accounting principles, compensation expense is recorded when the market value of Webster's common stock exceeds the SARS' strike price. Compensation expense recorded for 1997, 1996 and 1995 was $229,000, $18,800 and $177,900. During the years ended December 31, 1997, 1996 and 1995, the number of SARS exercised for each respective period were: 525, 1,102 and 19,634, respectively. Under the terms of the plans, the exercise price of each option granted equals the approximate market price of Webster's stock on the date of grant and each option has a maximum contractual life of ten years. The tables that follow provide disclosures and information required under SFAS No. 123 and summarize stock compensation activity for the years 1997, 1996 and 1995 for which Consolidated Statements of Income are presented.

The fair value of each option grant is estimated based on the date of grant using the Black-Scholes Option-Pricing Model with the following weighted-average assumptions used for grants issued during 1997: expected option term 8.6 years, expected dividend yield 1.85%, expected volatility 25.14%, expected forfeiture rate 2.33%, and risk-free interest rate of 5.83% and the following weighted-average assumptions were used for grants issued during 1996: 10 years, 1.91%, 21.0%, 1.14% and 6.42%, respectively.

A summary of the status of Webster's fixed stock option plans at December 31, 1997, 1996, and 1995 and changes during the years ended on those dates is presented below:

| | 1997 | | 1996 | | 1995 | |
|---|---|---|---|---|---|---|
| | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| Options Outstanding at Beginning of Year | 812,029 | $ 21.75 | 1,196,024 | $ 17.37 | 889,297 | $ 14.50 |
| Granted | 156,153 | 56.18 | 194,729 | 31.19 | 394,361 | 22.89 |
| Exercised | (154,326) | 19.03 | (569,199) | 15.75 | (80,734) | 12.48 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Forfeited/Canceled | (14,100) | 33.71 | (9,525) | 22.41 | (6,900) | 18.75 |
| Options Outstanding at End of Year | 799,756 | $ 28.78 | 812,029 | $ 21.75 | 1,196,024 | $ 17.37 |
| Options Exercisable at Year End | 483,906 | | 498,929 | | 973,474 | |
| Weighted Average Per Share Fair Value of Options Granted During the Year | $ 21.58 | | $ 11.91 | | $ 9.77 | |

The following table summarizes information about Webster's fixed stock option plans by price range for options that are outstanding and exercisable at December 31, 1997:

| | OPTIONS OUTSTANDING | | | OPTIONS EXERCISABLE | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Weighted-Average Remaining Contractual Life (In years) | Weighted-Average Exercise Price | Number Exercisable | Weighted-Average Exercise Price |
| $4.55 - $6.45 | 12,980 | 2.9 | $4.55 | 12,980 | $4.55 |
| $6.46 - $12.90 | 69,350 | 2.9 | 9.87 | 69,350 | 9.87 |
| $12.91 - $19.35 | 156,107 | 5.5 | 17.97 | 156,107 | 17.97 |
| $19.36 - $25.80 | 220,325 | 6.5 | 21.29 | 171,275 | 21.29 |
| $25.81 - $32.25 | 96,973 | 7.9 | 27.86 | 48,123 | 27.65 |
| $32.26 - $38.70 | 121,821 | 9.0 | 37.80 | 26,071 | 37.64 |
| $38.71 - $45.15 | 2,500 | 9.1 | 39.38 | - | - |
| $45.16 - $51.60 | 15,000 | 9.6 | 49.75 | - | - |
| $51.61 - $58.05 | 2,000 | 9.6 | 51.75 | - | - |
| $58.06 - $64.50 | 102,700 | 10.0 | 63.52 | - | - |
| | 799,756 | 7.0 | $28.78 | 483,906 | $19.63 |

Webster also has two restricted stock plans consisting of a Director Fee Retainer Restricted Stock Plan, which was established in 1996 and a Restricted Stock Plan, which was established in 1992. Under the Director Fee Restricted Stock Plan, a total of 4,260 shares were issued to twelve directors in 1997 with each receiving 355 shares. These restricted shares were reissued from treasury stock and the cost was measured as of the grant date using the fair market value of Webster's stock as of the grant date. There were no shares granted in 1997, 1996 and 1995 under the Restricted Stock Plan. The cost of all restricted shares are amortized to compensation expense over the contractual service period and such expense is reflected in Webster's Consolidated Statements of Income.

NOTE 18: MERGER AND ACQUISITION EXPENSES

A summary of merger and acquisition expenses follows:

| | Years Ended December 31, | | |
|---|---|---|---|
| (In thousands) | 1997 | 1996 | 1995 |
| Shawmut Transaction | $ - | $ 500 | $ 1,000 |
| Shelton | - | - | 3,271 |
| Derby | 19,858 | - | - |
| People's | 7,200 | - | - |
| Total | $27,058 | $ 500 | $ 4,271 |

In connection with the acquisitions of Derby and People's, that were completed on January 31, 1997 and July 31, 1997, Webster recorded approximately $27.1 million of merger-related charges. The following table presents a summary of the merger-related accrued liabilities:

| (In thousands) | Derby | People's |
|---|---|---|
| Balance of merger-related accrued liabilities at December 31, 1996 | $ -- | $ -- |
| Additions | 19,900 | 7,200 |
| Compensation (severance and related costs) | (6,700) | (2,400) |

|  |  |  |
|---|---|---|
| Data processing contract termination | (1,600) | -- |
| Write-down of fixed assets | (1,200) | -- |
| Transaction costs (including investment bankers, attorneys and accountants) | (2,200) | (1,300) |
| Merger-related and miscellaneous expenses | (2,800) | (1,100) |
| Balance of merger-related accrued liabilities at December 31, 1997 | $ 5,400 | $ 2,400 |

The remaining accrued liability of $7.8 million represents, for the most part, an accrual for data processing contract termination costs payable over a future period, the estimated loss on sale of excess fixed assets due to consolidation of overlapping branch locations and compensation costs related to severance.

## NOTE 19: CAPITAL SECURITIES OF SUBSIDIARY TRUST

During 1997, Webster formed a statutory business trust, Webster Capital Trust I ("Trust I"), of which Webster owns all of the common stock. Trust I exists for the sole purpose of issuing trust securities and investing the proceeds in an equivalent amount of subordinated debentures of the Corporation. On January 31, 1997, Trust I completed a $100 million underwritten public offering of 9.36% Corporation-Obligated Manditorily Redeemable Capital Securities of Webster Capital Trust I ("capital securities"). The sole asset of Trust I is the $100 million of Webster's 9.36% junior subordinated deferrable interest debentures due in 2027 ("subordinated debt securities"), purchased by Trust I on January 30, 1997. The subordinated debt securities are unsecured obligations of Webster and are subordinate and junior in right of payment to all present and future senior indebtedness of Webster.

Webster has entered into a guarantee, which together with Webster's obligations under the subordinated debt securities and the declaration of trust governing Trust I, including its obligations to pay costs, expenses, debts and liabilities (other than trust securities), provides a full and unconditional guarantee of amounts on the capital securities.

## NOTE 20: PREFERRED STOCK OF SUBSIDIARY CORPORATION

The Bank formed and incorporated Webster Preferred Capital Corporation ("WPCC") in March 1997. WPCC was formed to provide a cost-effective means of raising funds, including capital, on a consolidated basis for the Bank. WPCC's strategy is to acquire, hold and manage real estate mortgage assets.

In December 1997, WPCC raised $50 million in a public offering in which $40 million was issued as Series A 7.375% cumulative redeemable preferred stock and $10 million was issued as Series B 8.625% cumulative redeemable preferred stock that is quoted under NASDAQ listing (WBSTP). All of WPCC's common stock is owned by the Bank. The preferred shares are not exchangeable into common stock or any other securities of the Bank or Webster, and will not constitute regulatory capital of either the Bank or Webster .

## NOTE 21: LEGAL PROCEEDINGS

Webster is 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 22: PARENT COMPANY CONDENSED FINANCIAL INFORMATION

The Statements of Condition for 1997 and 1996 and the Statements of Income and Cash Flows for the three-year period ended December 31, 1997 (parent only) are presented below.

STATEMENTS OF CONDITION

|  | December 31, |  |
|---|---|---|
| (In thousands) | 1997 | 1996 |
| Assets |  |  |
| Cash and Due from Depository Institutions | $ 1,830 | $ 2,248 |
| Securities Available for Sale | 85,819 | 17,072 |
| Investment in Subsidiaries | 439,308 | 374,747 |
| Due from Subsidiaries | - | 2,138 |
| Other Assets | 5,317 | 2,482 |
| Total Assets | $ 532,274 | $ 398,687 |
| Liabilities and Shareholders' Equity |  |  |
| Senior Notes due 2000 | $ 40,000 | $ 40,000 |

| | | |
|---|---|---|
| Line of Credit | - | 18,400 |
| ESOP Borrowings | 1,978 | 2,546 |
| Due to Subsidiaries | 2,691 | - |
| Other Liabilities | 5,419 | 909 |
| Corporation-Obligated Mandatorily Redeemable Capital Securities of Subsidiary Trust | 100,000 | - |
| Shareholders' Equity | 382,186 | 336,832 |
| Total Liabilities and Shareholders' Equity | $ 532,274 | $ 398,687 |

STATEMENTS OF INCOME

| | Years Ended December 31, | | |
|---|---|---|---|
| (In thousands) | 1997 | 1996 | 1995 |
| Dividends from Subsidiary | $ 42,671 | $ 21,526 | $ 18,072 |
| Interest on Securities | 1,821 | 984 | 1,148 |
| Gain on Sale of Securities | 937 | 1,520 | 503 |
| Other Noninterest Income | 11 | 139 | 70 |
| Interest Expense on Borrowings | 3,812 | 3,780 | 3,660 |
| Capital Securities Expense | 8,845 | - | - |
| Other Noninterest Expenses | 5,936 | 3,124 | 3,752 |
| Income Before Income Taxes and Equity in Undistributed Earnings of Subsidiaries | 26,847 | 17,265 | 12,381 |
| Income Tax Benefit | 5,984 | 1,597 | 2,504 |
| Income Before Equity in Undistributed Earnings of Subsidiaries | 32,831 | 18,862 | 14,885 |
| Equity in Undistributed Earnings of Subsidiaries | 967 | 19,639 | 14,436 |
| Net Income | 33,798 | 38,501 | 29,321 |
| Preferred Stock Dividends | - | 1,149 | 1,296 |
| Income Available to Common Shareholders | $ 33,798 | $ 37,352 | $ 28,025 |

STATEMENTS OF CASH FLOWS

| | Years Ended December 31, | | |
|---|---|---|---|
| (In thousands) | 1997 | 1996 | 1995 |
| Operating Activities: | | | |
| Net Income | $ 33,798 | $ 38,501 | $ 29,321 |
| (Increase) Decrease in Interest Receivable | (186) | 42 | (16) |
| (Increase) Decrease in Other Assets | (2,570) | 117 | 2,048 |
| Gains on Sale of Securities | (937) | (1,520) | (503) |
| Equity in Undistributed Earnings of Subsidiaries | (967) | (19,639) | (14,436) |
| Other, Net | 10,453 | (6,281) | (1,722) |
| Net Cash Provided by Operating Activities | 39,591 | 11,220 | 14,692 |
| Investing Activities: | | | |
| Purchases of Securities Available for Sale | (119,640) | (35,076) | (45,168) |
| Sales of Securities Available for Sale | 61,986 | 76,465 | 4,445 |
| Net Cash (Used) Provided by Investing Activities | (57,654) | 41,389 | (40,723) |
| Financing Activities: | | | |
| Repayment of Borrowings | (28,400) | (7,584) | (545) |
| Proceeds from Borrowings | 10,000 | 25,400 | - |
| Net Proceeds from Issuance of Capital Securities | 97,700 | - | - |
| Net Proceeds from Sale of Common Stock | - | - | 32,112 |
| Exercise of Stock Options | 4,471 | 12,929 | 1,733 |
| Cash Dividends to Shareholders | (10,106) | (9,158) | (7,396) |
| Common Stock Repurchases | (6,020) | (29,200) | (721) |
| Investment in Subsidiary | (50,000) | (44,000) | (50) |
| Net Cash Provided (Used) by Financing Activities | 17,645 | (51,613) | 25,133 |
| (Decrease) Increase in Cash and Cash Equivalents | (418) | 996 | (898) |
| Cash and Cash Equivalents at Beginning of Year | 2,248 | 1,252 | 2,150 |
| Cash and Cash Equivalents at End of Year | $ 1,830 | $ 2,248 | $ 1,252 |

Source: WEBSTER FINANCIAL CO, 10-K, March 31, 1998

## NOTE 23: SELECTED QUARTERLY CONSOLIDATED FINANCIAL INFORMATION

(UNAUDITED)

Selected quarterly data for 1997 and 1996 follows:

| (Dollars in thousands, except per share data) | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| 1997: | | | | |
| Interest Income | $ 100,542 | $109,799 | $ 116,088 | $ 119,419 |
| Interest Expense | 55,309 | 61,068 | 66,482 | 71,064 |
| Net Interest Income | 45,233 | 48,731 | 49,606 | 48,355 |
| Provision for Loan Losses | 7,265 | 2,645 | 3,550 | 2,375 |
| Gain on Sale of Loans and Securities, Net | 542 | 425 | 1,412 | 1,442 |
| Other Noninterest Income | 7,504 | 7,542 | 8,305 | 8,818 |
| Noninterest Expenses | 53,471 | 32,824 | 39,795 | 32,457 |
| Income Before Taxes | (7,457) | 21,229 | 15,978 | 23,783 |
| Income Taxes | (3,573) | 8,042 | 6,288 | 8,978 |
| Net Income | (3,884) | 13,187 | 9,690 | 14,805 |
| Preferred Stock Dividends | - | - | - | - |
| Income Available to Common Shareholders | $ (3,884) | $ 13,187 | $ 9,690 | $ 14,805 |
| Net Income Per Share: | | | | |
| Basic | $ (0.29) | $ 0.98 | $ 0.72 | $ 1.09 |
| Diluted | $ (0.28) | $ 0.94 | $ 0.70 | $ 1.06 |
| 1996: | | | | |
| Interest Income | $ 91,238 | $ 96,487 | $ 98,839 | $ 99,894 |
| Interest Expense | 53,074 | 53,386 | 55,079 | 55,882 |
| Net Interest Income | 38,164 | 43,101 | 43,760 | 44,012 |
| Provision for Loan Losses | 1,714 | 2,145 | 2,345 | 3,584 |
| Gain on Sale of Loans and Securities, Net | 608 | 904 | 871 | 2,487 |
| Other Noninterest Income | 5,692 | 7,221 | 7,372 | 7,024 |
| Noninterest Expenses | 29,047 | 31,999 | 36,824 | 32,685 |
| Income Before Taxes | 13,703 | 17,082 | 12,834 | 17,254 |
| Income Taxes | 5,127 | 6,007 | 4,613 | 6,625 |
| Net Income | 8,576 | 11,075 | 8,221 | 10,629 |
| Preferred Stock Dividends | 323 | 321 | 283 | 222 |
| Income Available to Common Shareholders | $ 8,253 | $ 10,754 | $ 7,938 | $ 10,407 |
| Net Income Per Share: | | | | |
| Basic | $ 0.62 | $ 0.81 | $ 0.60 | $ 0.79 |
| Diluted | $ 0.59 | $ 0.76 | $ 0.56 | $ 0.75 |

All periods presented have been retroactively restated to reflect the inclusion of the results of People's and Derby, which were acquired on July 31, 1997 and January 31, 1997, respectively, and were accounted for using the pooling of interests method.

## MANAGEMENT'S REPORT

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 Report of Independent Auditors. 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.

| | |
|---|---|
| /s/ James C. Smith | /s/ John V. Brennan |
| James C. Smith | John V. Brennan |
| Chairman and Chief Executive Officer | Executive Vice President,<br>Chief Financial Officer and Treasurer |

## INDEPENDENT AUDITORS' 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, 1997 and 1996, 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, 1997. 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, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1997, in conformity with generally accepted accounting principles.

/s/ KPMG Peat Marwick LLP
KPMG Peat Marwick LLP
Hartford, Connecticut
January 20, 1998

### Annual Meeting

The annual meeting of shareholders of Webster Financial Corporation will be held on April 23, 1998 at 4:00 P.M. at the Four Points Sheraton, 3580 East Main Street, Waterbury, Connecticut. As of February 28, 1998, there were 13,672,899 shares of common stock outstanding and approximately 4,792 shareholders of record.

### Corporate Headquarters

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

### Transfer Agent and Registrar

American Stock Transfer & Trust Co.
Shareholder Services
40 Wall Street
New York, NY 10005
1-800-937-5449

### Dividend Reinvestment and Stock Purchase Plan

Stockholders wishing to receive a prospectus for the Dividend Reinvestment and Stock Purchase Plan are invited to write to American Stock Transfer & Trust Co. at the address listed above, or call 1-800-278-4353.

### Stock Listing Information

The common stock of Webster is traded over-the-counter on the NASDAQ National Market System under the symbol "WBST." Investor Relations Contact: James M. Sitro, Vice President, Investor Relations (203) 578-2399

### 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 James M. Sitro, Vice President, Investor Relations, Webster Plaza, Waterbury, CT 06702.

Common Stock Dividends and Market Prices

The following table shows dividends declared and the market price per share by quarter for 1997 and 1996.

| Common Stock (Per Share) | | | | |
|---|---|---|---|---|
| | | Market Price | | |
| 1997 | Cash Dividends Declared | Low | High | End of Period |
| Fourth | $ .20 | $57 | $67 3/4 | $ 66 1/2 |
| Third | .20 | 43 3/8 | 59 3/4 | 58 3/4 |
| Second | .20 | 34 5/8 | 45 3/4 | 45 1/2 |
| First | .20 | 35 1/8 | 41 3/8 | 35 1/8 |
| 1996 | Cash Dividends Declared | Low | High | End of Period |
| Fourth | $ .18 | $33 1/2 | $38 1/4 | $ 36 3/4 |
| Third | .18 | 28 | 35 3/4 | 35 1/4 |
| Second | .16 | 26 3/4 | 29 3/8 | 28 |
| First | .16 | 27 1/2 | 30 1/4 | 28 |

MARKET MAKERS:
Advest, Inc.
Bear, Sterns & Co. Inc.
First Albany Corporation
Fox-Pitt, Kelton, Inc.
Friedman Billings Ramsey & Co.
Herzog, Heine, Geduld, Inc.
Keefe, Bruyette & Woods, Inc.
Legg Mason Wood Walker Inc.
Lehman Brothers Inc.
M.A. Schapiro & Co., Inc.
MacAllister Pitfield MacKay
Mayer & Schweitzer Inc.
Merrill Lynch, Pierce & Fenner
OTA Limited Partnership
Paine Webber Inc.
Ryan Beck & Co., Inc.
Sandler O'Neill & Partners
Sherwood Securities Corp.
Smith Barney Inc.
Troster Singer Corp.
Tucker Anthony Incorporated

ELECTRONIC COMMUNICATIONS NETWORK:
Inc Trading Corporation
Island Systems
B-Trade Services
Spear, Leeds & Kellogg

Webster Bank Information

For more information on Webster Bank products and services, call 1-800-325-2424, or write:

Webster Bank
Telebanking Center
P.O. Box 191
CH420

Waterbury, Connecticut 06720-0191
Worldwide Web Site
www.websterbank.com

Exhibit 21

# Subsidiaries

The Registrant operates one subsidiary, Webster Bank, a federally chartered savings Bank. Webster is the sponsor of Webster Capital Trust I, a Delaware business trust. Webster Bank has five wholly owned subsidiaries, Webster Investment Services, Inc., Webster Trust Company, National Association, FCB Properties, Inc., Bristol Financial Services, Inc. ("BFSI"), and Omni Financial Services, Inc. Webster Bank also owns all of the outstanding common stock of Webster Preferred Capital Corporation. In addition, BFSI has one wholly owned subsidiary, Pequabuck Capital Corporation.

Source: WEBSTER FINANCIAL CO, 10-K, March 31, 1998

KPMG PEAT MARWICK LLP
City Place 11
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, (No. 333-47269) on Form S-3 and (No. 333-46073) on Form S-4 of Webster Financial Corporation of our report dated January 20, 1998, relating to the consolidated statements of condition of Webster Financial Corporation and subsidiaries as of December 31, 1997 and 1996 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, 1997, which report appears in the December 31, 1997 annual report on Form 10-K of Webster Financial Corporation.

/s/ KPMG Peat Marwick LLP

\- ----------------------
Hartford, Connecticut
March, 31, 1998

```
<ARTICLE>                       9
<LEGEND>
     (Replace this text with the legend)
</LEGEND>
<CIK>                         0000801337
<NAME>                        Webster Financial Corporation
<MULTIPLIER>                                      1000
<CURRENCY>                                          US


<PERIOD-TYPE>                   YEAR
<FISCAL-YEAR-END>                           DEC-31-1997
<PERIOD-START>                              JAN-01-1997
<PERIOD-END>                                DEC-31-1997
<EXCHANGE-RATE>                                       1
<CASH>                                          122,207
<INT-BEARING-DEPOSITS>                                0
<FED-FUNDS-SOLD>                                      0
<TRADING-ASSETS>                                 84,749
<INVESTMENTS-HELD-FOR-SALE>                   2,290,254
<INVESTMENTS-CARRYING>                          412,237
<INVESTMENTS-MARKET>                            412,061
<LOANS>                                       3,874,355
<ALLOWANCE>                                      49,753
<TOTAL-ASSETS>                                7,019,621
<DEPOSITS>                                    4,365,756
<SHORT-TERM>                                  1,988,174
<LIABILITIES-OTHER>                              93,928
<LONG-TERM>                                      40,000
<PREFERRED-MANDATORY>                                 0
<PREFERRED>                                           0
<COMMON>                                            137
<OTHER-SE>                                      382,049
<TOTAL-LIABILITIES-AND-EQUITY>                7,019,621
<INTEREST-LOAN>                                 326,743
<INTEREST-INVEST>                               146,790
<INTEREST-OTHER>                                      0
<INTEREST-TOTAL>                                      0
<INTEREST-DEPOSIT>                              168,590
<INTEREST-EXPENSE>                              253,923
<INTEREST-INCOME-NET>                           191,925
<LOAN-LOSSES>                                    15,835
<SECURITIES-GAINS>                                3,152
<EXPENSE-OTHER>                                 158,547
<INCOME-PRETAX>                                  53,533
<INCOME-PRE-EXTRAORDINARY>                       53,533
<EXTRAORDINARY>                                       0
<CHANGES>                                             0
<NET-INCOME>                                     33,798
<EPS-PRIMARY>                                      2.51
<EPS-DILUTED>                                      2.44
<YIELD-ACTUAL>                                     3.17
<LOANS-NON>                                      37,665
<LOANS-PAST>                                          0
<LOANS-TROUBLED>                                      0
<LOANS-PROBLEM>                                       0
<ALLOWANCE-OPEN>                                 43,185
<CHARGE-OFFS>                                    14,916
<RECOVERIES>                                      5,649
<ALLOWANCE-CLOSE>                                49,753
<ALLOWANCE-DOMESTIC>                             49,753
<ALLOWANCE-FOREIGN>                                   0
<ALLOWANCE-UNALLOCATED>

                               0


</TABLE>
```

Source: WEBSTER FINANCIAL CO, 10-K, March 31, 1998

```
<ARTICLE>                                            9
<LEGEND>
     (Replace this text with the legend)
</LEGEND>
<CIK>                         0000801337
<NAME>                        Webster Financial Corporation
<MULTIPLIER>                                      1000
<CURRENCY>                                          US


<PERIOD-TYPE>                   12-MOS
<FISCAL-YEAR-END>                          DEC-31-1996
<PERIOD-START>                             JAN-01-1996
<PERIOD-END>                               DEC-31-1996
<EXCHANGE-RATE>                                      1
<CASH>                                         105,226
<INT-BEARING-DEPOSITS>                           4,536
<FED-FUNDS-SOLD>                                     0
<TRADING-ASSETS>                                     0
<INVESTMENTS-HELD-FOR-SALE>                    983,699
<INVESTMENTS-CARRYING>                         534,672
<INVESTMENTS-MARKET>                           528,473
<LOANS>                                      3,685,707
<ALLOWANCE>                                     43,185
<TOTAL-ASSETS>                               5,607,210
<DEPOSITS>                                   4,457,561
<SHORT-TERM>                                   686,007
<LIABILITIES-OTHER>                             86,810
<LONG-TERM>                                     40,000
<PREFERRED-MANDATORY>                                1
<PREFERRED>                                          0
<COMMON>                                           136
<OTHER-SE>                                     336,695
<TOTAL-LIABILITIES-AND-EQUITY>               5,607,210
<INTEREST-LOAN>                                285,614
<INTEREST-INVEST>                              100,844
<INTEREST-OTHER>                                     0
<INTEREST-TOTAL>                                     0
<INTEREST-DEPOSIT>                             173,934
<INTEREST-EXPENSE>                             217,421
<INTEREST-INCOME-NET>                          169,037
<LOAN-LOSSES>                                    9,788
<SECURITIES-GAINS>                               4,133
<EXPENSE-OTHER>                                130,555
<INCOME-PRETAX>                                 60,873
<INCOME-PRE-EXTRAORDINARY>                      60,873
<EXTRAORDINARY>                                      0
<CHANGES>                                            0
<NET-INCOME>                                    38,501
<EPS-PRIMARY>                                     2.82
<EPS-DILUTED>                                     2.66
<YIELD-ACTUAL>                                    3.17
<LOANS-NON>                                     41,606
<LOANS-PAST>                                         0
<LOANS-TROUBLED>                                     0
<LOANS-PROBLEM>                                      0
<ALLOWANCE-OPEN>                                50,281
<CHARGE-OFFS>                                   24,865
<RECOVERIES>                                     2,981
<ALLOWANCE-CLOSE>                               43,185
<ALLOWANCE-DOMESTIC>                            43,185
<ALLOWANCE-FOREIGN>                                  0
<ALLOWANCE-UNALLOCATED>

                              0


</TABLE>
```

Source: WEBSTER FINANCIAL CO, 10-K, March 31, 1998

```
<ARTICLE>                                            9
<LEGEND>
     (Replace this text with the legend)
</LEGEND>
<CIK>                         0000801337
<NAME>                        Webster Financial Corporation
<MULTIPLIER>                                      1000
<CURRENCY>                                          US


<PERIOD-TYPE>                   12-MOS
<FISCAL-YEAR-END>                          DEC-31-1995
<PERIOD-START>                             JAN-01-1995
<PERIOD-END>                               DEC-31-1995
<EXCHANGE-RATE>                                      1
<CASH>                                           69,469
<INT-BEARING-DEPOSITS>                           49,668
<FED-FUNDS-SOLD>                                      0
<TRADING-ASSETS>                                      0
<INVESTMENTS-HELD-FOR-SALE>                     841,854
<INVESTMENTS-CARRYING>                          618,290
<INVESTMENTS-MARKET>                            621,428
<LOANS>                                       3,055,295
<ALLOWANCE>                                      50,281
<TOTAL-ASSETS>                                4,883,402
<DEPOSITS>                                    3,798,712
<SHORT-TERM>                                    628,940
<LIABILITIES-OTHER>                              82,170
<LONG-TERM>                                      40,000
<PREFERRED-MANDATORY>                                 2
<PREFERRED>                                           0
<COMMON>                                            135
<OTHER-SE>                                      334,443
<TOTAL-LIABILITIES-AND-EQUITY>                4,883,402
<INTEREST-LOAN>                                 237,933
<INTEREST-INVEST>                                94,989
<INTEREST-OTHER>                                      0
<INTEREST-TOTAL>                                      0
<INTEREST-DEPOSIT>                              157,631
<INTEREST-EXPENSE>                              197,591
<INTEREST-INCOME-NET>                           135,331
<LOAN-LOSSES>                                     5,726
<SECURITIES-GAINS>                                  532
<EXPENSE-OTHER>                                 112,736
<INCOME-PRETAX>                                  44,771
<INCOME-PRE-EXTRAORDINARY>                       44,771
<EXTRAORDINARY>                                       0
<CHANGES>                                             0
<NET-INCOME>                                     29,321
<EPS-PRIMARY>                                      2.35
<EPS-DILUTED>                                      2.22
<YIELD-ACTUAL>                                     3.23
<LOANS-NON>                                      52,332
<LOANS-PAST>                                          0
<LOANS-TROUBLED>                                      0
<LOANS-PROBLEM>                                       0
<ALLOWANCE-OPEN>                                 55,366
<CHARGE-OFFS>                                    13,999
<RECOVERIES>                                      3,188
<ALLOWANCE-CLOSE>                                50,281
<ALLOWANCE-DOMESTIC>                             50,281
<ALLOWANCE-FOREIGN>                                   0
<ALLOWANCE-UNALLOCATED>

                               0


</TABLE>
```