



FORM 10-K

WEBSTER FINANCIAL CORP - WBS

Filed: March 21, 2001 (period: December 31, 2000)

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

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

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Fiscal Year Ended December 31, 2000.

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
(State or other jurisdiction of incorporation or organization)

06-1187536
(I.R.S. Employer Identification No.)

WEBSTER PLAZA, WATERBURY, CONNECTICUT
(Address of principal executive offices)

06702
(Zip Code)

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

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

Common Stock, \$.01 par value
(Securities registered pursuant to Section 12(g) of the Act,
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 No

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

Based upon the closing price of the registrant's common stock as of February 28, 2001, the aggregate market value of the voting common stock held by non-affiliates of the registrant is \$1,342,805,066. 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:

Common Stock (par value \$.01)	49,104,678 Shares
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Class	Issued and Outstanding at February 28, 2001

DOCUMENTS INCORPORATED BY REFERENCE

Part III: Portions of the Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 26, 2001.

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WEBSTER FINANCIAL CORPORATION
2000 FORM 10-K ANNUAL REPORT
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PART I

ITEM 1. BUSINESS

GENERAL

Webster Financial Corporation ("Webster" or the "Company"), through its subsidiaries, Webster Bank (the "Bank"), Damman Associates, Inc. ("Damman") and Webster D&P Holdings, Inc. ("Duff & Phelps"), delivers financial services to individuals, families and businesses primarily in Connecticut and financial advisory services to public and private companies throughout the United States. Webster provides business and consumer banking, mortgage lending, trust and investment services and insurance services through 114 banking offices and other offices, over 200 ATM's and the internet (www.websterbank.com). Webster's online mortgage subsidiary Nowlending, LLC, at www.nowlending.com originates residential mortgages throughout the United States. Webster Bank was founded in 1935 and converted from a federal mutual to a federal stock institution in 1986.

Webster on a consolidated basis at December 31, 2000 and 1999 had total assets of \$11.2 billion and \$9.9 billion, total securities of \$3.4 billion and \$3.1 billion and net loans receivable of \$6.8 billion and \$6.0 billion, respectively. At December 31, 2000 and 1999 total deposits were \$6.9 billion and \$6.2 billion, respectively. At December 31, 2000 and 1999 shareholders' equity was \$890.4 million and \$635.7 million, respectively.

At December 31, 2000, the assets of Webster on an unconsolidated basis consisted primarily of its investments in the Bank, Damman and Duff & Phelps that totaled \$1.0 billion, investment securities of \$95.0 million, \$40.4 million of cash and interest-bearing deposits and receivables and other assets of \$24.8 million. Primary sources of income to Webster on an unconsolidated basis are dividend payments received from the Bank, interest from and gains on sale of investment securities and income from interest-bearing deposits. Primary expenses of Webster on an unconsolidated basis are interest expense on borrowings, capital securities and allocated operating expenses. See Notes 18 and 21 to the Consolidated Financial Statements.

Deposits in the Bank are federally insured by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is a Bank Insurance Fund ("BIF") member

institution and at December 31, 2000, approximately 75% of the Bank's deposits were subject to BIF assessment rates and 25% were subject to Savings Association Insurance Fund ("SAIF") assessment rates. See the "Regulation" section under this item.

Webster, as a holding company, and the Bank are subject to comprehensive regulation, examination and supervision by the Office of Thrift Supervision (the "OTS"), as the primary federal regulator. Webster 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. The telephone number is (203) 753-2921.

BUSINESS COMBINATIONS

POOLING OF INTERESTS TRANSACTION

Since January 1, 1999, Webster has completed one acquisition which was accounted for under the pooling of interests method of accounting and includes financial data as if the business combination occurred at the beginning of the earliest period presented.

THE NECB ACQUISITION

On December 1, 1999, Webster acquired New England Community Bancorp., Inc., ("NECB"), a multi-bank holding company headquartered in Windsor, Connecticut. Three of its wholly-owned bank subsidiaries, New England Bank and Trust, Equity Bank and Community Bank, were located in Connecticut and one, Olde Port Bank and Trust, was located in New Hampshire. In connection with the merger with NECB, Webster issued 7,298,788 shares of its common stock for all of the outstanding shares of NECB's common stock. Under the terms of the merger agreement, each outstanding share of NECB's common stock was converted into 1.06 shares of Webster common stock.

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PURCHASE TRANSACTIONS

The following acquisitions, effective since January 1, 1999, were accounted for as purchase transactions, and as such, results of operations are included in the Consolidated Financial Statements subsequent to acquisition.

THE DUFF & PHELPS ACQUISITION

In November 2000, Webster, through its newly formed company Duff & Phelps, acquired a 65% interest in Duff & Phelps, LLC, a privately-owned company which has offices in Chicago, New York, Los Angeles, and Raleigh-Durham, NC. Duff & Phelps provides expertise in middle-market mergers and acquisitions, private placements, fairness opinions, valuations, ESOP and ERISA advisory services, and special financial advisory services. Duff & Phelps is expected to add in excess of \$20 million of fee-based revenue on an annual basis, and further accelerates progress toward the strategic objective of broadening commercial bank product offerings and increasing revenue from fee-based services.

THE FLEETBOSTON BRANCH ACQUISITION

In August 2000, Webster purchased four Connecticut branches from FleetBoston Financial Corporation that were divested as the result of the Fleet-BankBoston merger. The branches had approximately \$138 million in deposit balances at the time of closing and are located in Brookfield, Guilford, Meriden, and Thomaston. The transaction includes the purchase of deposits and loans for individual and small business customers associated with these branches. This transaction strengthened and extended the Bank's retail franchise.

THE MECHANICS ACQUISITION

In June 2000, Webster acquired MECH Financial, Inc. ("Mechanics"), the holding company for Mechanics Savings Bank, in a non taxable, stock-for-stock exchange. Mechanics Savings Bank was a state-chartered, Hartford based savings bank with \$1.1 billion in assets and 16 branch offices in the capital region. Based on the terms of the agreement, Mechanics shareholders received 1.52 shares of Webster common stock for each share of Mechanics common stock. The acquisition strengthened Webster's market share in Hartford County, where Webster already ranked second in deposit market share.

THE CHASE BRANCH ACQUISITION

In May 2000, Webster purchased six Connecticut branches from The Chase Manhattan Bank, located in Cheshire, Middlebury, North Haven, Waterbury (2) and Watertown with approximately \$135 million in deposit balances. The transaction included the purchase of consumer deposits, small business deposits and loans, and brokerage and custody accounts associated with these branches. This transaction strengthened and extended the Bank's retail franchise.

THE FOLLIS, WYLIE & LANE ACQUISITION AND THE LEVINE ACQUISITION

Webster also actively engaged during 2000 in building a dynamic statewide insurance operation, purchasing the Louis Levine Agency, Inc. ("Levine") and Follis Wylie & Lane, Inc. ("Follis"). Webster entered the insurance agency business in 1998. Webster Insurance offers a full line of commercial and personal insurance; risk management services; employee benefit plans; life insurance and annuities, and writes in excess of \$180 million in annual premiums. In April 2000, Webster through its wholly-owned insurance subsidiary Damman acquired Follis, a privately owned Hamden, Connecticut-based insurance

agency. Follis offers a full range of insurance services, including property and casualty, life and health. In February 2000, through Damman, Webster acquired Levine, a privately-owned Waterford and Norwich, Connecticut based insurance agency. Founded in 1928, the company includes three entities: Louis Levine Agency, Inc., Levine Financial Services, Inc. and Retirement Planning Associates, Inc.

THE VILLAGE ACQUISITION

In May 1999, Webster acquired Village Bancorp, Inc. ("Village"), the holding company for The Village Bank & Trust Company in a non taxable, stock-for-stock exchange. Village had approximately \$215 million in total assets and \$200 million in deposits at six branches.

THE MARITIME ACQUISITION

In April 1999, Webster acquired Maritime Bank & Trust Company ("Maritime"), in a non taxable, stock-for-stock exchange. Maritime had approximately \$95 million in total assets and \$85 million in deposits at three branches.

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THE ACCESS ACQUISITION

In January 1999, Webster completed its acquisition of Access National Mortgage, Inc. ("Access"). Access was founded in 1996 as a privately held Internet-based mortgage lender located in Wilmington, Massachusetts. In October 1999, Access National Mortgage, LLC was renamed Nowlending, LLC. Nowlending, LLC originates mortgages in 47 states.

SALE TRANSACTION

THE OLDE PORT BANK & TRUST BRANCH SALE

On December 29, 2000, Webster completed the sale of its two branches that were located in New Hampshire. The branches were sold to Granite Bank, a New Hampshire state-chartered commercial bank. The branches had approximately \$43 million of loans and \$39 million of deposits at the date of sale.

PURCHASE TRANSACTIONS SUBSEQUENT TO DECEMBER 31, 2000

THE CENTER CAPITAL ACQUISITION

In March 2001, Webster acquired Center Capital Corporation ("Center Capital"), a privately-owned Farmington, Connecticut-based equipment financing company with assets of \$260 million. Center Capital finances commercial and industrial equipment including trucks, tractors, trailers, machine tools and other heavy equipment through leasing programs to customers throughout the United States.

THE MUSANTE REIHL ACQUISITION

In January 2001, through Damman, Webster acquired Musante Reihl Associates ("Musante"), a privately-owned Cheshire, Connecticut based insurance agency. Musante specializes in group benefits, long-term care and life insurance, has seven employees and had revenues of \$850,000 in 2000.

LENDING ACTIVITIES

GENERAL

Webster, through its consolidated Bank subsidiary, originates various types of residential, commercial and consumer loans. Total gross loans receivable before the allowance for loan losses were \$6.9 billion and \$6.1 billion at December 31, 2000 and 1999, respectively. The Bank offers commercial and residential permanent and construction mortgage loans, commercial and industrial loans and various types of consumer loans including home equity lines of credit, home equity loans and other types of small business and consumer loans. At December 31, 2000 and 1999, residential loans represented 60% and 64% of Webster's loan portfolio, respectively.

The Bank's middle market lending unit has lending relationships with companies primarily located in the State of Connecticut with annual sales of \$5 to \$250 million. This portfolio has grown due to internal growth as well as the retention of acquired customers. The Bank provides these customers with a complete array of traditional commercial credit facilities such as lines of credit, term loans, owner occupied commercial mortgages, asset based lending and interest-rate protection products. In addition, the Bank provides state of the art cash management services including automated investments, lock box and account reconciliation services. In support of customer's international business, the Bank provides letters of credit and offers them various export programs of the Ex-Im Bank.

Webster Bank originates construction, construction-to-permanent, and permanent commercial real estate loans throughout the New England region. At December 31, 2000, outstanding commercial real estate loans totaled \$857.0 million, compared to \$741.2 million as of December 31, 1999. The Bank's strategy is to originate loans with quality income producing real estate as collateral. The Bank develops relationships with quality regional developers and participates in loans with selected banks.

Small Business Banking (SBB) provides a full array of loan and deposit products to small businesses located throughout Connecticut. Webster's SBB target market is businesses with annual revenues of up to \$5 million. This market represents a

significant percentage of commercial businesses located in Connecticut. SBB uses the Bank's branch network as well as dedicated business development officers to fully service its existing customer base and call on potential new customers.

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In addition to personal customer contact, SBB utilizes a variety of direct mail and telemarketing programs to increase market penetration. SBB also plays a major role in supporting the Bank's Community Reinvestment Act goals by providing credit facilities for numerous local not-for-profit organizations. SBB uses the Fair-Isaac credit scoring model to assist in loan approvals of up to \$250,000 and offers a \$50,000 same day line of credit approval program. SBB provides all commercial loan products including lines of credit, letters of credit, term loans and mortgages on owner occupied real estate. The unit has a conservative loan policy and has a fully staffed portfolio management function to monitor credit quality. As a result of its expansion efforts, SBB serves as a referral source for other Bank products including cash management, insurance, international products and investments. The Bank is also a Small Business Administration ("SBA") preferred lender authorized to offer all SBA loan guaranty products and is also active in several loan programs provided through the Connecticut Development Authority.

The Bank, as part of its strategy to expand its commercial loan portfolio, has formed a specialized lending unit. The specialized lending unit's objective is to obtain geographic and industry diversification within the overall commercial loan portfolio by participating in the syndicated lending market. The loans administered by the specialized lending unit are monitored by the Shared National Credit Program ("SNCP"). The SNCP is designed to provide consistent review and classification by bank regulatory agencies of any loan or loan commitment that totals \$20 million or more and is shared by three or more supervised institutions. These bank regulatory agencies include the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

At December 31, 2000 and 1999, the specialized lending unit administered \$439.9 million and \$296.6 million, respectively, of funded loans against commitments of \$637.9 million and \$461.2 million. This represented approximately 6.4% and 4.9% of the total loan portfolio at December 31, 2000 and 1999, respectively.

A summary of loans administered by the specialized lending unit follows:

(In thousands)

INDUSTRY	PRINCIPAL BALANCES OUTSTANDING AT DECEMBER 31,	
	2000	1999
Manufacturing	\$ 128,704	\$ 77,031
Wireless Communications	71,706	43,402
Cable	56,163	53,042
Collateralized debt obligations	45,480	38,520
Radio/TV broadcasting	33,146	26,068
Other Telecom (a)	34,306	9,370
Advertising/Publishing	33,067	23,011
All other (b)	37,372	26,131
Total	\$ 439,944	\$ 296,575

<FN>

(a) Includes PCS, CLEC, ICP and Towers

(b) Includes Service, Leisure and Environmental services

</FN>

In addition to the loans administered by the specialized lending unit, Webster had \$130.5 million of participation loans that are also monitored by the SNCP against commitments of \$198.1 million at December 31, 2000. These participation loans are located primarily in the Northeast region and represent service related industrial loans and real estate loans. The loans are funded through Webster's regional commercial divisions, whose focus is primarily middle market lending. The SNCP participation loans are distinguished from the specialized lending unit SNCP loans by being relatively smaller transactions where the Bank in most cases, has a direct relationship with the borrower.

The Bank's credit administration department monitors credit risk, which includes risk that may result from the participation in the specialized lending market. At December 31, 2000, the Bank had one specialized lending borrower with a total nonaccrual relationship of \$5.1 million.

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The Bank originates both fixed-rate and adjustable-rate residential mortgage loans. At December 31, 2000, approximately \$2.3 billion or 57% of Webster's

total residential mortgage loans 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 2000 and 1999, when fully indexed, will be 2.75% above the constant maturity one-year U.S. Treasury yield index. At December 31, 2000, approximately \$1.8 billion or 43% of Webster's total residential mortgage loans had a fixed rate. Webster sells residential mortgage loans in the secondary market in a manner consistent with its asset/liability management objectives. At December 31, 2000, Webster had \$17.7 million of residential mortgage loans held for sale.

The following table sets forth the composition of the Bank's loan portfolio in dollar amounts and percentages at the dates shown.

(Dollars in thousands)	2000		At December 31, 1999		1998	
	Amount	%	Amount	%	Amount	%
Residential mortgage loans:						
1-4 family units	\$ 3,778,522	55.41%	\$ 3,544,060	58.85%	\$ 3,679,213	66.81%
Construction	302,776	4.44	302,310	5.02	200,417	3.64
Multi-family units	65,482	0.96	52,573	0.87	689	0.01
Total residential mortgage loans	4,146,780	60.81	3,898,943	64.74	3,880,319	70.46
Commercial loans:						
Commercial non-mortgage	1,207,398	17.70	915,035	15.20	548,734	9.96
Commercial real estate	784,817	11.51	695,520	11.55	548,487	9.96
Commercial construction	72,216	1.06	45,648	0.76	67,717	1.23
Total commercial loans	2,064,431	30.27	1,656,203	27.51	1,164,938	21.15
Consumer loans:						
Home equity credit loans	609,293	8.93	492,684	8.18	458,981	8.33
Other consumer	89,514	1.32	47,064	0.78	68,081	1.24
Total consumer loans	698,807	10.25	539,748	8.96	527,062	9.57
Loans receivable (net of fees and costs)	6,910,018	101.33	6,094,894	101.21	5,572,319	101.18
Allowance for loan losses	(90,809)	(1.33)	(72,658)	(1.21)	(65,201)	(1.18)
Loans receivable, net	\$ 6,819,209	100.00%	\$ 6,022,236	100.00%	\$ 5,507,118	100.00%

<CAPTION>

(Dollars in thousands)	1997		At December 31, 1996	
	Amount	%	Amount	%
<S>	<C>	<C>	<C>	<C>
Residential mortgage loans:				
1-4 family units	\$ 3,900,224	70.60%	\$ 3,720,878	70.66%
Construction	117,619	2.13	109,923	2.09
Multi-family units	16,736	0.30	39,257	0.75
Total residential mortgage loans	4,034,579	73.03	3,870,058	73.50
Commercial loans:				
Commercial non-mortgage	369,658	6.69	328,375	6.24
Commercial real estate	530,080	9.59	525,697	9.98
Commercial construction	58,888	1.07	34,749	0.66
Total commercial loans	958,626	17.35	888,821	16.88
Consumer loans:				
Home equity credit loans	494,537	8.95	465,220	8.83
Other consumer	108,775	1.97	104,681	1.99
Total consumer loans	603,312	10.92	569,901	10.82
Loans receivable (net of fees and costs)	5,596,517	101.30	5,328,780	101.20
Allowance for loan losses	(71,599)	(1.30)	(63,047)	(1.20)
Loans receivable, net	\$ 5,524,918	100.00%	\$ 5,265,733	100.00%

</TABLE>

The following table sets forth the contractual maturity and interest-rate sensitivity of residential and commercial construction mortgage loans and commercial non-mortgage loans at December 31, 2000. Additionally, at December 31, 2000, the amount of these loans due after one year with fixed interest rates

was \$452.3 million and with adjustable or floating rates was \$716.4 million.

(In thousands)	Contractual Maturity			Total
	One Year or Less	One to Five Years	More Than Five Years	
CONTRACTUAL MATURITY				
Construction loans:				
Residential mortgage	\$ --	\$ 302,776	\$ --	\$ 302,776
Commercial mortgage	38,567	19,486	14,163	72,216
Commercial non-mortgage loans	375,100	469,459	362,839	1,207,398
Total	\$ 413,667	\$ 791,721	\$ 377,002	\$ 1,582,390
INTEREST-RATE SENSITIVITY				
Fixed rates	\$ 32,343	\$ 305,743	\$ 146,568	\$ 484,654
Variable rates	381,324	485,978	230,434	1,097,736
Total	\$ 413,667	\$ 791,721	\$ 377,002	\$ 1,582,390

WHOLESALE LENDING

Webster's wholesale expansion initiative allows Webster to expand outside its footprint absent the costs associated with retail offices. The Bank anticipates increased loan origination volume with the use of licensed mortgage brokers initially throughout the eastern United States. Mortgage loans are approved, closed, and funded by Webster Bank. The majority of loans are sold in the secondary market primarily to Fannie Mae, Federal Home Loan Mortgage Corporation or Government National Mortgage Association as mortgage-backed securities in order to achieve optimal pricing while not retaining the assets on Webster's balance sheet. Through the wholesale initiative, Webster Bank also expects to offer consumer lending and insurance products. These products include equity loans, equity lines of credit, as well as homeowners and auto insurance.

NONACCRUAL ASSETS AND DELINQUENCIES

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" Item 7 - "Asset Quality" within this report.

INVESTMENT ACTIVITIES

Webster has the authority to acquire, hold and transact various types of investment securities that are in accordance with applicable federal regulations, state statutes and within the guidelines of its internal investment policy. The types of investments that the Bank may invest in include: interest-bearing deposits of federally insured banks, federal funds, U.S. government treasuries and agencies including agency mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMOs"), private issue MBS and CMOs, municipal securities, corporate debt, commercial paper, banker's acceptances, structured notes, trust preferred securities, mutual funds and equity securities subject to restrictions applicable to federally chartered institutions. The Corporation's asset/liability management objectives also influence investment activities at both the holding company and Bank. The Bank is required to maintain liquid assets at regulatory minimum levels, which vary from time to time. The Bank uses various investments as permitted by regulation for meeting its liquidity requirement. See "Regulation" section within this report.

Webster, directly or through its bank subsidiary, maintains an investment portfolio that is primarily structured to provide a source of liquidity for operating demands, generate interest income and to provide a means to balance interest-rate sensitivity. The investment portfolio is classified into three major categories consisting of: available for sale, held to maturity, and trading securities.

The Bank uses interest-rate financial instruments within internal policy guidelines to hedge and manage interest-rate risk as part of its asset/liability strategy. See Note 10 to the Consolidated Financial Statements within this report.

At December 31, 2000, the combined investment portfolios of Webster and the Bank totaled \$3.4 billion, with \$3.3 billion and \$95.0 million held by the Bank and Webster, respectively. At December 31, 2000 and 1999, the Bank's portfolio consisted primarily of mortgage-backed securities and agency securities. At December 31, 1999, the combined investment portfolios of the Bank and Webster totaled \$3.1 billion, with \$2.9 billion and \$118.6 million held by the Bank and Webster, respectively. At December 31, 2000 and 1999, all of Webster's portfolio was classified as available for sale and consisted primarily of equity, mutual funds and corporate trust preferred securities.

The securities and investment portfolio of the Bank and Webster are managed by the Bank's Treasury Group in accordance with regulatory guidelines and established internal corporate investment policy. See Note 3 to the Consolidated Financial Statements within this report.

TRUST ACTIVITIES

The Bank, through its wholly-owned subsidiary, Webster Trust Company, N.A. ("Webster Trust"), manages the assets of and provides a comprehensive range of trust, custody, estate and administrative services to individuals, small to medium size companies and not-for-profit organizations (endowments and foundations). At December 31, 2000 and 1999, there were approximately \$1.0 billion and \$828.0 million of trust assets held and \$706.0 million and \$620.0 million of assets under management, respectively.

In 2000 Webster Trust established Webster Financial Advisors ("WFA"), a team of professionals that offers a full range of financial services for high-net-worth individuals and institutions. WFA offers clients one comprehensive source for all their financial needs. Services include investment management, trust and estate planning, retirement wealth management and tax planning and sophisticated credit and banking solutions. WFA also offers institutional services to Connecticut businesses and not-for-profit organizations.

WFA delivers tailored and sophisticated services through professionals who live and work in Connecticut and who are readily available for in-person consultations. In addition, WFA has the expertise that business clients and not-for-profit organizations require for addressing their retirement plan, foundation and endowment needs. WFA is based in Waterbury and has offices in several Connecticut communities, including Hartford, Kensington, New Haven, Westport and Wethersfield.

INSURANCE ACTIVITIES

Webster, through its wholly-owned subsidiary, Damman, offers a full range of insurance plans to both individuals and businesses. Damman, which operates under the name Webster Insurance, is a regional insurance brokerage agency with three operating divisions: individual and family insurance, financial services, and business and professional insurance. Insurance products and services include: commercial and personal property and casualty insurance; life, health, disability and long-term care insurance for individuals and businesses; annuities and investment products; risk management services; and pension and 401(k) plan administration. Webster Insurance is one of the largest insurance agencies based in Connecticut and writes in excess of \$180 million in annual premiums with \$14.4 million of insurance commissions in 2000.

FINANCIAL ADVISORY SERVICES

In November 2000, Webster, through its newly formed company Duff & Phelps, acquired a 65% interest in Duff & Phelps, LLC, a privately-owned company which has offices in Chicago, New York, Los Angeles, and Raleigh-Durham, NC. Duff & Phelps provides expertise in middle-market mergers and acquisitions, private placements, fairness opinions, valuations, ESOP and ERISA advisory services, and special financial advisory services. Duff & Phelps is expected to add in excess of \$20 million of fee-based revenue on an annual basis, and further accelerates progress toward the strategic objective of broadening commercial bank product offerings and increasing revenue from fee-based services.

SOURCES OF FUNDS

Deposits, loan repayments, securities sales proceeds and maturities, borrowings and earnings are the primary sources of the Bank's funds available for use in its lending and investment activities and in meeting its operational needs. 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 and local economic conditions. The Bank also uses funding from Federal Home Loan Bank ("FHLB") advances, repurchase agreements and various other borrowings.

Webster's main sources of liquidity are dividends from the Bank, interest and dividends on securities and net proceeds from borrowings and capital offerings. The main outflow of funds are payments of dividends to common stockholders and interest expense on capital securities, senior notes and other borrowings.

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

DEPOSIT ACTIVITIES

The Bank 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. The Bank's checking account programs offer a full line of accounts with varying features that include noninterest-bearing and interest-bearing account types. The Bank's savings account programs include statement and passbook accounts, money market savings accounts, club accounts and certificate of deposit accounts that offer short and long-term maturity options. The Bank offers IRA savings and certificate of deposit accounts that earn interest on a tax-deferred basis. The Bank also offers special rollover IRA accounts for individuals who have received lump-sum distributions. The Bank'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, Web banking, telephone banking or by visiting a nearby branch. The Bank had \$25.0 million and \$50.0 million of brokered certificate of deposits, at December 31, 2000, and 1999, respectively. The decrease in brokered deposits was due to the maturity of \$25.0 million during 2000.

The Bank receives retail and commercial deposits through its 114 full-service banking offices in Connecticut. The Bank 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. The Bank's Check Card can be used at over eighteen million Visa merchants worldwide to pay for purchases with money in a linked checking account. The Check Card also serves as an ATM Card for receiving cash, for processing deposits and transfers and obtaining 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 Internet 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 telephone banking service provides automated customer access to account information 24 hours per day, seven days per week, and 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 The Bank's products and services. The Bank'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. See Note 7 to the Consolidated Financial Statements for deposit information.

BORROWINGS

The FHLB system functions in a reserve credit capacity for savings institutions and certain other home financing institutions. Members of the FHLB system are required to own capital stock in the FHLB. Members are authorized to apply for advances on the security of such stock and certain home mortgages and other assets (principally securities which are obligations of, or guaranteed by, the United States Government) provided certain creditworthiness

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standards have been met. Under its current credit policies, the FHLB limits advances based on a member's assets, total borrowings and net worth.

The Bank uses long-term and short-term FHLB advances as a source of funding to meet liquidity and planning needs when the cost of these funds are favorable as compared to alternate funding sources. At December 31, 2000 and 1999, FHLB advances totaled \$2.4 billion and \$1.7 billion and represented 79% and 61%, respectively, of total outstanding borrowed funds.

Additional funding sources are available to the Bank through securities sold under agreement to repurchase, purchased federal funds and lines of credit with correspondent banks. Total other borrowings were \$650.2 million and \$1.1 billion at December 31, 2000 and 1999 and represented 21% and 39%, respectively, of borrowed funds. Outstanding borrowings through securities sold under agreement to repurchase totaled \$489.4 and \$943.8 million at December 31, 2000 and 1999, respectively.

In November 2000, Webster completed a registered offering of \$126.0 million of 8.72% Senior Notes due 2007 (the "Senior Notes"). The net proceeds from the note placement were generated for general corporate purposes. The Senior Notes are not redeemable prior to the maturity date of November 30, 2007. The senior notes outstanding as of December 31, 1999, in the amount of \$40 million at 8.75%, originated from a 1993 offering that matured on June 30, 2000.

BANK SUBSIDIARIES

The Bank's investment in its service corporation subsidiary, Webster Investment Services, Inc., totaled \$4.4 million and \$1.5 million at December 31, 2000 and 1999, respectively. The activities of this broker-dealer subsidiary consist primarily of the selling of mutual funds and annuities. Webster Investment Services plans to introduce new products and services, including asset management products and various financial planning tools.

The Bank's investment in its trust subsidiary corporation, Webster Trust, totaled \$8.2 and \$8.6 million at December 31, 2000 and 1999, respectively. The trust had approximately \$1.0 billion and \$828.0 million of trust assets held and \$706.0 million and \$620.0 million in assets under management at December 31, 2000 and 1999, respectively.

The Bank's investment in its operating subsidiary corporation, FCB Properties, Inc., totaled \$157,000 and \$2.0 million at December 31, 2000 and 1999, respectively. The primary function of this operating subsidiary is to dispose of foreclosed properties.

The Bank's investment in its real estate investment trust ("REIT") operating subsidiary corporation, Webster Preferred Capital Corporation, totaled \$917.8 million and \$916.7 million at December 31, 2000 and 1999, respectively. The primary function 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.

The Bank's investment in its internet lending subsidiary, Nowlending LLC, totaled \$3.0 million and \$2.3 million at December 31, 2000 and 1999, respectively. The primary function of this subsidiary is to provide an efficient national network for the origination of residential mortgages through the internet.

The Bank's investment in its passive investment subsidiary, Webster Mortgage Investment Corporation totaled \$2.5 billion and \$2.1 billion at December 31, 2000 and 1999, respectively. The primary function of this subsidiary is to provide servicing on passive investments, which include loans secured by real estate. This passive investment company derives additional state income tax benefits.

EMPLOYEES

At December 31, 2000, Webster had 2,197 employees (including 369 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

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employee 401(k) investment plan, an employee stock purchase 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 113 branch offices that are located in the state of Connecticut. The branches are in Waterbury, Ansonia, Bethany, Branford, Cheshire, Derby, East Haven, Guilford, Hamden, Madison, Meriden, Middlebury, Milford, Naugatuck, New Haven, North Haven, Orange, Oxford, Prospect, Seymour, Southbury, Wallingford and West Haven (New Haven County); New Milford, Thomaston, Torrington, Watertown and Winsted (Litchfield County); Brookfield, Danbury, Fairfield, Ridgefield, Shelton, Stratford, Trumbull, Westport and Wilton (Fairfield County); Avon, Berlin, Bloomfield, Bristol, Canton, East Hartford, East Windsor, Enfield, Farmington, Forestville, Glastonbury, Hartford, Kensington, Manchester, New Britain, Newington, Plainville, Poquonock, Rocky Hill, Simsbury, Southington, South Windsor, Suffield, Terryville, West Hartford, Wethersfield and Windsor (Hartford County); Cromwell, Essex, Middletown and Old Saybrook (Middlesex County); Old Lyme (New London County) and Ellington, Somers and Vernon (Tolland 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, healthcare, industrial and technology companies.

The Bank faces substantial competition for deposits and loans throughout its market areas. The primary factors stressed by the Bank in competing for deposits are interest rates, personalized services, the quality and range of financial services, convenience of office locations, automated services and office hours. Competition for deposits comes primarily from other savings institutions, commercial banks, credit unions, 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.

Webster Trust has offices located in Kensington, New Haven, Waterbury, Westport and Wethersfield, Connecticut. Webster Investment Services is headquartered in Bristol, Connecticut with offices located throughout Webster's branch network. Webster Insurance has offices in Cheshire, East Hartford, Norwich, Wallingford, Westport and Waterford, Connecticut. Duff & Phelps has offices in Chicago, New York, Los Angeles and Raleigh-Durham.

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 Management's Discussion and Analysis of Financial Condition & Results of Operations and Notes to the Consolidated Financial Statements within this report as to the impact of certain laws, rules and regulations on the operations of the Company and the Bank. Set forth below is a description of certain regulatory developments.

The Bank is subject to substantial regulatory restrictions on its ability to pay dividends to Webster. Under OTS capital distribution regulations that became effective in early 1999, provided that as long as the Bank meets the OTS capital requirements before and after the payment of dividends, the Bank may pay dividends to Webster, without prior OTS approval, equal to the net income to date over the calendar year, plus retained net income over the preceding two years. In addition, the OTS has discretion to prohibit any otherwise permitted capital distributions on general safety and soundness grounds, and must be given 30 days' advance notice of all capital distributions, during which time it may object to any proposed distribution.

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Legislation, adopted in December 2000, deleted the provisions of the Home Owners' Loan Act that required federal savings banks to hold a specific percentage of liquid assets. It is anticipated that the OTS will revise its liquidity regulations to conform to the legislative changes.

This legislation also made revisions to the Home Owners' Loan Act that will allow savings and loan holding companies such as Webster to acquire non-controlling interests of up to 24.9% in another savings association or savings and loan holding company, subject to receiving the prior approval of the OTS. Webster does not have any plans to make such an acquisition at this time.

TAXATION

FEDERAL INCOME TAXES

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 and Duff & Phelps, LLC, which file stand alone returns. Webster and its subsidiaries report 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, 2000 and 1999, Webster had pre-1988 reserves of approximately \$50.0 million and \$41.0 million, respectively.

Webster will be subject to the alternative minimum tax if such tax is larger than the regular federal tax otherwise payable. Generally, alternative minimum taxable income is a taxpayer's regular taxable income, increased by the taxpayer's tax preference items for the year and adjusted by computing certain deductions in a special manner which negates the acceleration of such deductions under the regular federal tax. This amount is then reduced by an exemption amount and is subject to tax at a 20% rate. In the past, Webster has not generally paid alternative minimum tax and does not expect to do so for the 2000 year.

Webster's federal income tax returns have been examined by the Internal Revenue Service or the statute of limitations have expired for tax years through 1996.

Webster and its subsidiaries are under examination by the Internal Revenue Service for the tax years ended December 31, 1997 and 1998. No significant changes to the Company's financial statement position are anticipated to result from these examinations.

STATE INCOME TAXES

The State of Connecticut enacted tax law changes in May 1998, allowing for the formation of a Passive Investment Company ("PIC") by financial institutions. This legislation exempts PIC's from state income taxation in Connecticut, and exempts from inclusion in Connecticut taxable income the dividends paid from a PIC to a related financial institution. Webster Bank qualifies as a financial institution under the statute, and has organized a PIC that began operations in the first quarter of 1999. The legislation is effective for tax year beginning on or after January 1, 1999. Webster's formation of a PIC has reduced its

Connecticut tax expense in 1999 and, as a result of the PIC's formation, a deferred tax charge was taken in the fourth quarter of 1998. 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 Corporation and its subsidiaries, exclusive of the REIT subsidiary and PIC 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 7.5% 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), is an amount equal to 3 and 1/10 mills per dollar on its average capital. The Bank is not required to compute tax under method two.

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Webster expects to pay no state taxes to Connecticut for the foreseeable future, due to the operation of its PIC subsidiary. Webster also pays state tax in the States of Massachusetts and New Hampshire due to having business locations in New Hampshire and business activity in Massachusetts. Duff & Phelps pays state taxes in Illinois, California, New York and North Carolina, due to its investment in Duff & Phelps, LLC. These state taxes are minimal.

ITEM 2. PROPERTIES

At December 31, 2000, Webster had 114 offices, which includes 31 banking offices, including its main office, in New Haven County, 53 banking offices in Hartford County, 13 banking offices in Fairfield County, 9 banking offices in Litchfield County, 4 banking offices in Middlesex County, 3 banking offices in Tolland County, and 1 banking office in New London County. Of these, 55 offices are owned and 59 offices are leased. Lease expiration dates range from 1 to 87 years with renewal options of 3 to 35 years. Additionally, the Bank maintains five trust offices: one in Fairfield County, two in Hartford County and two in New Haven County.

The total net book value of properties and furniture and fixtures owned and used for banking and trust offices at December 31, 2000 was \$94.3 million. The following table provides detail for the total book value amount.

	At December 31, 2000
(In thousands)	Book Value
Land & improvements, net	\$ 12,325
Buildings & improvements, net	39,112
Leasehold improvements, net	7,060
Furniture & equipment, net	35,766
Total	\$ 94,263

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings, other than ordinary routine litigation incidental to its business, to which Webster or any of its subsidiaries is a party or of which any of their property is the subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

- (a) Not applicable
- (b) Not applicable
- (c) Not applicable
- (d) Not applicable

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The common stock of Webster is traded 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 2000 and 1999. Webster increased its quarterly dividend to \$.16 per share in 2000.

COMMON STOCK (PER SHARE)

2000	Cash Dividends Declared	Market Price		End of Period
		Low	High	
Fourth	\$.16	\$ 21.88	\$ 29.63	\$ 28.31
Third	.16	21.19	27.06	26.94
Second	.16	20.19	25.19	22.19
First	.14	20.13	24.19	23.00

1999	Cash Dividends Declared	Market Price		End of Period
		Low	High	
Fourth	\$.12	\$ 21.88	\$ 28.75	\$ 23.56
Third	.12	24.75	28.81	25.50
Second	.12	26.19	32.00	27.13
First	.11	27.44	31.13	28.88

Webster had approximately 12,437 shareholders of common stock at February 28, 2001. The number of shareholders of record was determined by Webster's stock transfer agent, American Stock Transfer and Trust Company.

Payment of dividends from the 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 two preceding fiscal years. 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

The annual meeting of shareholders of Webster will be held on April 26, 2001.

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ITEM 6. SELECTED FINANCIAL DATA

	December 31,				
	2000	1999	1998	1997	1996
(Dollars in thousands, except per share data)					
STATEMENT OF CONDITION					
Total assets	\$ 11,249,508	\$ 9,931,744	\$ 9,836,029	\$ 9,902,775	\$ 8,061,569
Loans receivable, net	6,819,209	6,022,236	5,507,118	5,524,918	5,265,733
Securities	3,405,080	3,066,901	3,662,829	3,770,670	2,263,374
Intangible assets	326,142	138,829	83,227	83,731	86,400
Deposits	6,941,522	6,191,091	6,312,974	6,411,505	6,441,412
FHLB advances and other borrowings	3,030,225	2,788,445	2,575,608	2,588,178	963,614
Shareholders' equity	890,374	635,667	626,454	585,603	535,087
OPERATING INCOME					
Net interest income	\$ 326,516	\$ 303,513	\$ 282,611	\$ 285,758	\$ 252,643
Provision for loan losses	11,800	9,000	8,103	26,449	15,741
Noninterest income	128,821	92,630	82,638	47,723	56,833
Noninterest expenses:					
Acquisition-related expenses	--	9,500	20,993	31,989	500
Other noninterest expenses	267,130	234,961	208,440	197,544	196,686
Total noninterest expenses	267,130	244,461	229,433	229,533	197,186
Income before income taxes	176,407	142,682	127,713	77,499	96,549
Income taxes	58,116	47,332	49,694	29,887	35,713
Net income	118,291	95,350	78,019	47,612	60,836
Preferred stock dividends	--	--	--	--	1,149
Income available to common shareholders	\$ 118,291	\$ 95,350	\$ 78,019	\$ 47,612	\$ 59,687
SIGNIFICANT STATISTICAL INFORMATION					
Interest-rate spread	3.16%	3.18%	2.83%	3.18%	3.22%
Net interest margin	3.29	3.32	2.97	3.35	3.40
Return on average shareholders' equity	16.72	15.33	12.82	8.61	11.44
Return on average assets	1.11	0.98	0.77	0.53	0.75
Allowance for loan losses/gross loans	1.31	1.19	1.17	1.28	1.18
Net income per common share:					
Basic	\$ 2.58	\$ 2.14	\$ 1.72	\$ 1.06	\$ 1.38
Diluted	2.55	2.10	1.69	1.04	1.32
Dividends declared per common share	0.62	0.47	0.44	0.40	0.33
Dividend payout ratio	24.31%	22.38%	26.04%	38.46%	25.00%
Fee income as a percentage of total revenue	25.20	21.67	17.48	12.81	12.73
Noninterest expenses to average assets	2.51	2.51	2.28	2.57	2.52
Noninterest expenses to average assets, adjusted (a)	2.11	2.07	1.78	2.04	2.40
Diluted weighted-average shares	46,428	45,393	46,118	45,966	46,434
Book value per common share	\$ 18.19	\$ 14.09	\$ 14.02	\$ 13.15	\$ 12.08
Tangible book value per common share	11.53	11.02	12.16	11.27	10.10

Source: WEBSTER FINANCIAL CO, 10-K, March 21, 2001

Average shareholders' equity to average assets 6.65% 6.38% 6.04% 6.18% 6.80%

<FN>

(a) Excludes non-recurring items, intangible amortization, capital securities, preferred dividend and foreclosed property expenses.

</FN>

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

RESULTS OF OPERATIONS

For the year 2000, Webster reported net income of \$118.3 million, or \$2.55 per diluted common share which exceeded net income of \$95.4 million for the previous year period by \$22.9 million or 24%. The improvement for the current year period was the result of increased net interest income combined with higher noninterest income that more than offset an increase in operating expenses. The increase in net interest income primarily reflects an increase of \$720.5 million in average interest-earning assets and higher realized yields for the current year period. Interest-rate spread was 3.16% and interest margin was 3.29% for the current year period. Noninterest income reached \$128.8 million and increased \$36.2 million or 39% when compared to \$92.6 million for the previous year period. The increase in noninterest income was primarily due to increased income from fees, service charges, commissions and financial advisory services that were \$27.0 million over the previous year period. Noninterest expenses compared to the previous year, excluding \$9.5 million of acquisition-related costs, increased \$32.2 million. The increase in noninterest expenses, for the current year period is primarily the result of purchase acquisitions that were completed during the 2000 year period that increased compensation and benefits expense, occupancy and furniture and fixture expenses and intangible amortization expense. See Note 2 to the Consolidated Financial Statements for information concerning the purchase acquisitions.

COMPARISON OF 2000 AND 1999 YEARS

NET INTEREST INCOME

Net interest income before provision for loan losses increased \$23.0 million in 2000 to \$326.5 million from \$303.5 million in 1999. The increase is due primarily to a higher level of average interest-earning assets and increased yields on the assets that more than offset the effect of higher interest-bearing liabilities and higher costs on the liabilities. See "Interest Income" and "Interest Expense" discussions that follow. Interest-rate spread for 2000 was 3.16% as compared to 3.18% for 1999. The decrease in interest-rate spread was primarily due to higher costs incurred on time deposits and borrowed funds.

INTEREST INCOME

Total interest income for 2000 amounted to \$738.9 million, an increase of \$93.1 million or 14.4% when compared to \$645.8 million in 1999. The higher interest income for 2000 was due primarily to an increase in the average volume of loans and higher yields realized on loans and securities. The average balance on loans increased \$739.2 million in 2000 and the rate earned on loans increased 42 basis points when 2000 is compared to 1999. The increase on the average balance for loans is due primarily to higher balances for commercial loans of \$458.2 million and residential mortgages of \$188.3 million for 2000. The average balance on securities decreased \$18.7 million in 2000, however the rate earned on the securities increased 19 basis points when compared to 1999.

INTEREST EXPENSE

Interest expense for 2000 totaled \$412.4 million, an increase of \$70.1 million when compared to \$342.3 million in 1999. The increased interest expense was due primarily to higher interest costs on borrowings that increased 92 basis points for 2000. Average funds for borrowings increased by \$410.5 million for 2000 due primarily to FHLB advances that increased \$462.3 million which were offset partially by lower repurchase agreement borrowings of \$43.0 million. Higher costs on interest-bearing deposits, particularly time deposits, combined with an average fund increase of \$261.8 million were also contributing factors to increased interest expense in 2000 when compared to 1999.

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 or paid by Webster.

(Dollars in thousands)	Years ended December 31,					
	2000			1999		
Average Balance	Average Interest	Average Yields	Average Balance	Average Interest	Average Yields	
Loans, net (a)	\$ 6,541,659	\$ 518,315(b)	7.92%	\$ 5,802,453	\$ 435,326(b)	7.50%
Securities and interest-bearing deposits	3,298,959	220,596	6.49(c)	3,317,708	210,466	6.30(c)

Total interest-earning assets	\$ 9,840,618	\$ 738,911	7.43%	\$ 9,120,161	\$ 645,792	7.06%
Other assets	799,597			624,963		

Total assets	\$10,640,215			\$ 9,745,124		

Savings and escrow	\$ 1,509,414	\$ 31,036	2.06%	\$ 1,477,856	\$ 34,058	2.30%
Money market savings, NOW and DDA	1,821,948	19,894	1.09	1,519,929	15,185	1.00
Time deposits	3,308,228	173,364	5.24	3,228,480	154,562	4.79
FHLB advances	2,047,743	128,447	6.27	1,585,458	84,498	5.33
Repurchase agreements and other borrowings	935,629	56,744	6.06	978,581	50,316	5.14
Senior notes	31,142	2,910	9.34	40,000	3,660	9.15

Total interest-bearing liabilities	\$ 9,654,104	\$ 412,395	4.27%	\$ 8,830,304	\$ 342,279	3.88%
Other liabilities	78,870			93,252		
Capital securities and minority interest	199,577			199,577		
Shareholders' equity	707,664			621,991		

Net interest income and interest-rate spread		\$ 326,516	3.16%		\$ 303,513	3.18%

Total liabilities and shareholders' equity	\$10,640,215			\$ 9,745,124		

NET INTEREST MARGIN			3.29%			3.32%

Years ended December 31,

(Dollars in thousands)	1998		Average Yields
	Average Balance	Interest	
Loans, net (a)	\$ 5,416,531	\$ 430,636(b)	7.95%
Securities and interest-bearing deposits	4,058,354	251,601	6.15(c)

Total interest-earning assets	\$ 9,474,885	\$ 682,237	7.16%
Other assets	604,943		

Total assets	\$10,079,828		

Savings and escrow	\$ 1,399,519	\$ 34,503	2.47%
Money market savings, NOW and DDA	1,346,043	13,798	1.03
Time deposits	3,651,017	192,880	5.28
FHLB advances	1,675,789	96,140	5.74
Repurchase agreements and other borrowings	1,049,520	58,645	5.59
Senior notes	40,000	3,660	9.15

Total interest-bearing liabilities	\$ 9,161,888	\$ 399,626	4.33%
Other liabilities	109,993		
Capital securities and minority interest	199,577		
Shareholders' equity	608,370		

Net interest income and interest-rate spread		\$ 282,611	2.83%

Total liabilities and shareholders' equity	\$10,079,828		

NET INTEREST MARGIN			2.97%

<FN>

(a) Interest on nonaccrual loans has been included only to the extent reflected in the Consolidated Statements of Income. Nonaccrual loans, however, are included in the average balances outstanding.

(b) Includes amortization of net deferred loan costs (net of fees) and premiums (net of discounts) of: \$1.5 million, \$496,000 and \$1.9 million in 2000, 1999 and 1998, respectively.

(c) Unrealized gains (losses) are excluded from the average yield calculations.

</FN>

Net interest income also can be understood 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 impacted Webster's interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior rate), (ii) changes attributable to changes in rates (changes in rates multiplied by prior volume) and (iii) the net change. The change attributable to the combined impact of volume and rate has been allocated proportionately to the change due to volume and the change due to rate.

(In thousands)	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Rate	Volume	Total	Rate	Volume	Total
Interest on Interest-earning Assets:						
Loans	\$ 25,341	\$ 57,648	\$ 82,989	\$ (17,729)	\$ 22,419	\$ 4,690
Securities	17,737	(7,607)	10,130	6,694	(47,829)	(41,135)
Total	\$ 43,078	\$ 50,041	\$ 93,119	\$ (11,035)	\$ (25,410)	\$ (36,445)
Interest on Interest-bearing Liabilities:						
Deposits	\$ 6,891	\$ 13,598	\$ 20,489	\$ (31,096)	\$ (6,280)	\$ (37,376)
FHLB advances and other borrowings	25,962	23,665	49,627	(11,028)	(8,943)	(19,971)
Total	\$ 32,853	\$ 37,263	\$ 70,116	\$ (42,124)	\$ (15,223)	\$ (57,347)
Net change in net interest income	\$ 10,225	\$ 12,778	\$ 23,003	\$ 31,089	\$ (10,187)	\$ 20,902

PROVISION FOR LOAN LOSSES

The provision for loan losses for 2000 was \$11.8 million compared to \$9.0 million in 1999. The increase for 2000 is primarily attributable to the increase in gross loans of \$815.1 million and a shift within the loan portfolio to a higher concentration of commercial loans. The allowance for losses on loans totaled \$90.8 million and represented 221% of nonaccrual loans at December 31, 2000 versus \$72.7 million or 189% of nonaccrual loans at December 31, 1999. The allowance for loan losses to gross loans increased to 1.31% at December 31, 2000 from 1.19% at December 1999, reflecting the changing asset mix.

NONINTEREST INCOME

Noninterest income for 2000 totaled \$128.8 million, compared to \$92.6 million in 1999. Fees and service charges were \$93.9 million in 2000, which was an increase of \$27.0 million, or 40% from 1999 due primarily to revenue related to trust and investment services, financial advisory services, insurance commissions and expanded product offerings to Webster's growing customer base. Trust, investment service and financial advisory services increased \$9.2 million to \$19.5 million in 2000 compared to \$10.2 million in 1999. Insurance commissions increased \$7.2 million or 100%, to \$14.4 million in 2000. Gain on the sale of securities amounted to \$8.4 million in 2000 compared to \$4.2 million in 1999. The gain on the sale of deposits of \$4.9 million was the result of the sale of two New Hampshire branches in December 2000. A one-time life insurance benefit of \$1.1 million is included in noninterest income for the year 2000.

NONINTEREST EXPENSES

Noninterest expenses for 2000 were \$267.1 million compared to \$244.5 million in 1999. The 1999 results include acquisition-related expenses totaling \$9.5 million related to the NECB acquisition that occurred in December 1999. Excluding acquisition-related expenses, noninterest expenses for 2000 increased \$32.2 million compared to 1999. The increase in noninterest expense for 2000 is due primarily to purchase acquisitions that were completed during 2000 that increased compensation and benefits expense, occupancy and furniture and equipment expense and intangible amortization expense. Included in noninterest expenses for 2000 was \$1.7 million in non-recurring facilities expenses. Intangible amortization expense increased \$8.6 million to \$22.4 million in 2000.

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INCOME TAXES

Income tax expense for 2000 increased to \$58.1 million from \$47.3 million in 1999. The increase in income tax expense is due primarily to a \$33.7 million increase in income before taxes. The effective tax rate was 33% for the years ended December 31, 2000 and 1999.

COMPARISON OF 1999 AND 1998 YEARS

GENERAL

For 1999, Webster reported net income of \$95.4 million, or \$2.10 per diluted share. Included in the 1999 results are before-tax acquisition-related expenses of \$9.5 million. Excluding the effect of acquisition-related expenses, net income for the 1999 year was \$102.2 million or \$2.25 per diluted share. Net income for 1998 amounted to \$78.0 million or \$1.69 per share on a diluted basis. Included in the 1998 results are before-tax acquisition-related expenses of \$21.0 million and provisions for loan losses of \$1.5 million specifically related to the Eagle acquisition. Also, included in the 1998 results is a non-recurring net tax expense of \$3.2 million. Excluding the effect of acquisition-related expenses, provisions for loan losses and non-recurring net tax expense, net income for the 1998 year was \$97.0 million or \$2.10 per diluted share.

NET INTEREST INCOME

Net interest income before provision for loan losses increased \$20.9 million in 1999 to \$303.5 million from \$282.6 million in 1998. The increase is primarily attributable to a reduction of the cost of interest-bearing liabilities. The cost of interest-bearing liabilities was lower in 1999 due primarily to lower rates on deposits and borrowings. The average balance for interest-bearing deposits was \$5.6 billion with a yield of 3.63% for 1999 compared to \$5.8 billion with a yield of 4.13% for 1998. Interest-rate spread for 1999 increased to 3.18% compared to 2.83% in 1998.

INTEREST INCOME

Total interest income for 1999 amounted to \$645.8 million, a decrease of \$36.4 million, or 5.3% compared to \$682.2 million in 1998. The lower interest income for 1999 was due primarily to a decrease in total average interest-earning assets and lower yields that were partially offset by an increase in net loans. The yield on the interest-earning assets was 7.06% in 1999 and 7.16% in 1998. The average balance for investment securities was \$3.3 billion with a yield of 6.30% for the 1999 year compared to \$4.1 billion with a yield of 6.15% for 1998.

INTEREST EXPENSE

Interest expense for 1999 totaled \$342.3 million, a decrease of \$57.3 million compared to \$399.6 million in 1998. The lower interest expense for 1999 was due primarily to a decrease in total interest-bearing liabilities and a lower cost on these funds. The cost of deposits and borrowings decreased for the 1999 period.

PROVISION FOR LOAN LOSSES

The provision for loan losses for 1999 was \$9.0 million compared to \$8.1 million in 1998. The increase for 1999 is attributable to the increase in gross loans and a shift within the loan portfolio to a higher concentration of commercial loans. The allowance for losses on loans totaled \$72.7 million and represented 189% of nonaccrual loans at December 31, 1999 versus \$65.2 million or 212% of nonaccrual loans at December 31, 1998.

NONINTEREST INCOME

Noninterest income for 1999 totaled \$92.6 million compared to \$82.6 million in 1998. Fees and service charges were \$66.9 million in 1999, an increase of \$19.7 million, or 42% from 1998 due primarily to an increase in the customer base and fees generated as a result of our expanded product offerings, including insurance and trust and investment services. Gain on the sale of loans and mortgage loan servicing rights decreased to \$4.4 million in 1999 compared to \$5.8 million in 1998, due primarily to the 1998 sale of the credit card portfolio. Gain on the sale of securities amounted to \$4.2 million in 1999 compared to \$17.0 million in 1998. Other noninterest income was \$9.1 million in 1999, an increase of \$2.1 million from \$7.0 million in 1998.

NONINTEREST EXPENSES

Noninterest expenses for 1999 were \$244.5 million compared to \$229.4 million in 1998. Included in the 1999 total are acquisition-related expenses totaling \$9.5 million for the NECB acquisition. The 1998 results include acquisition-related expenses totaling \$21.0 million, which include: \$17.4 million for the Eagle acquisition, \$3.4 million for the Bank of

South Windsor acquisition and \$200,000 for the Olde Port acquisition. Excluding acquisition-related expenses, noninterest expenses for 1999 increased \$26.5 million compared to 1998. In 1998, compensation and benefits expense included a \$1.5 million reduction in expenses related to the consolidation of the former Eagle pension and post-retirement benefits plans into Webster's plans.

INCOME TAXES

Income tax expense for 1999 decreased to \$47.3 million from \$49.7 million in 1998. The decrease in income tax expense is due to a \$3.2 million non-recurring net tax expense in 1998, related primarily to the formation of a Connecticut Passive Investment Company and the related reduction in Connecticut income tax in 1999 (see "Tax Legislation").

FINANCIAL CONDITION

At December 31, 2000, Webster's total assets were \$11.2 billion reflecting an increase of \$1.3 billion or 13.3% as compared to total assets of \$9.9 billion at December 31, 1999. The increase in total assets for the current year period was primarily due to increases in net loans receivable and investment securities of \$797.0 million and \$338.0 million, respectively, as compared to balances at December 31, 1999. At December 31, 2000, Webster's allowance for loan losses totaled \$90.8 million and was 221% of nonaccrual loans and was 1.31% of outstanding loans. See "Asset Quality" within this section for more information concerning the allowance for loan losses and delinquencies. Total liabilities increased \$1.1 billion for the current year period primarily due to increases in deposits and borrowings of \$750.4 million and \$241.8 million, respectively. Total equity at December 31, 2000 totaled \$890.4 million, which was a \$254.7 million increase from \$635.7 million at December 31, 1999. Webster Bank's capital ratios presented in the following table remained strong at December 31, 2000 and exceeded all required regulatory capital ratio levels. See Note 13 to the Consolidated Financial Statements for information concerning shareholder's equity.

At December 31, 2000 and 1999, the Bank was in full compliance with all applicable regulatory capital requirements as detailed below:

(Dollars in thousands)	Actual Amount	Ratio	OTS Minimum Capital Requirements		Well Capitalized	
			Amount	Ratio	Amount	Ratio

AT DECEMBER 31, 2000							
Total capital (to risk-weighted assets)	\$	773,773	11.45%	\$	540,672	8.00%	\$ 675,839 10.00%
Tier 1 capital (to risk-weighted assets)		689,234	10.20		270,336	4.00	405,504 6.00
Tier 1 capital (to adjusted total assets)		689,234	6.39		431,200	4.00	539,000 5.00
Tangible capital (to adjusted total assets)		686,166	6.37		217,388	2.00	No Requirement
AT DECEMBER 31, 1999							
Total capital (to risk-weighted assets)	\$	727,399	12.30%	\$	473,243	8.00%	\$ 591,554 10.00%
Tier 1 capital (to risk-weighted assets)		656,561	11.10		236,621	4.00	354,932 6.00
Tier 1 capital (to adjusted total assets)		656,561	6.73		390,374	4.00	487,967 5.00
Tangible capital (to adjusted total assets)		652,439	6.69		195,104	2.00	No Requirement

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 is currently 4.00% and the Bank's liquidity ratio at December 31, 2000 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 nature of the institution's deposit and loan customers. The OTS considers both an institution's liquidity ratio as well as safety and soundness issues in assessing whether an institution has sufficient liquidity.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity management allows Webster to meet cash needs at a reasonable cost under various operating environments. Liquidity is actively managed and reviewed in order to maintain stable cost effective funding to support the balance

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sheet. Liquidity comes from a variety of sources such as the cash flow from operating activities including principal and interest payments on loans and investments, unpledged securities which can be sold or utilized to secure funding and by maintaining the ability to attract new deposits. Webster's goal is to maintain a strong base of core deposits to support its growing balance sheet.

Management monitors current and projected cash needs and adjusts liquidity as necessary. Webster has a detailed liquidity contingency plan, which is designed to respond to liquidity concerns in a prompt and comprehensive manner. It is designed to provide early detection of potential problems and details specific actions required to address liquidity risks.

Webster is a member of the Federal Home Loan Bank ("FHLB") system and has additional borrowing capacity from the FHLB of approximately \$2.0 billion at December 31, 2000. At that date, the Bank had FHLB advances outstanding of \$2.4 billion compared to \$1.7 billion at December 31, 1999. See Note 8 to the Consolidated Financial Statements.

Webster's main sources of liquidity at the holding company level are dividends from the Bank, investment income and net proceeds from borrowings and capital offerings. The main uses of liquidity are purchases of available for sale securities, the payment of dividends to common stockholders, repurchases of Webster's common stock, and the payment of interest to holders of Webster's Senior Notes and capital securities. In November 2000, Webster issued \$126.0 million of Senior Notes with a fixed rate of 8.72%. See Note 9 to the Consolidated Financial Statements for further information on the Senior Notes. There are certain restrictions on the payment of dividends by the Bank to Webster. See Note 13 to the Consolidated Financial Statements for further information on dividend restrictions. Webster also maintains \$100.0 million in revolving lines of credit with correspondent banks.

During 2000, Webster repurchased a total of 4,952,814 shares of its common stock under a repurchase program. See Note 13 to the Consolidated Financial Statements for further information concerning stock repurchases.

Applicable OTS regulations require the Bank, as a federal savings bank, to satisfy certain minimum capital requirements, including a leverage capital requirement and risk-based capital requirements. As an OTS regulated savings institution, the Bank is also subject to a minimum tangible capital requirement. At December 31, 2000, the Bank was in full compliance with all applicable capital requirements. See Note 13 to the Consolidated Financial Statements for further information concerning capital.

ASSET/LIABILITY MANAGEMENT AND MARKET RISK

Interest-rate risk is the sensitivity of the market value of Webster's interest-sensitive assets and liabilities and the sensitivity of Webster's earnings to changes in interest rates over short-term and long-term time horizons. The primary goal of interest-rate risk management is to control risk within limits approved by the Board of Directors. Webster's Asset & Liability Management Committee manages interest-rate risk to maximize net interest income and net market value over time in changing interest-rate environments. Management measures interest-rate risk using simulation analyses with particular

emphasis on measuring changes in net market value and net interest income in different rate environments. Market value is measured as the net present value of future cash flows. Simulation analysis incorporates assumptions about balance sheet changes such as asset and liability growth, loan and deposit pricing and changes due to the mix of assets and liabilities. Key assumptions relate to the behavior of interest rates and spreads, fluctuations in product balances, prepayment speeds and decay rates on deposits. From such simulations, interest-rate risk is quantified and appropriate strategies are formulated and implemented.

To a limited degree, Webster also uses various interest-rate contracts including futures and options, interest-rate swaps and interest-rate caps and floors. Webster utilizes these financial instruments to manage interest-rate risk by reducing net exposures. 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 on the value of the instruments. The notional amount of interest-rate financial instruments is the amount upon which interest and other payments under the contract are based. The notional amount is not exchanged and therefore, the notional amounts should not be taken as a measure of credit risk. See Notes 3 and 10 to the Consolidated Financial Statements.

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Webster holds futures and options positions and interest-rate contracts to minimize the price volatility of certain assets held as trading securities. Changes in the market value of these positions are recognized 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, 2000 and 1999, and the projected change to market values if interest rates instantaneously increase or decrease by 100 basis points.

(Dollars in thousands)	Book Value	Market Value	Estimated Market Value Impact	
			-100 BP	+100 BP
2000				
Interest Sensitive Assets:				
Trading	\$ 6	\$ 6	\$ --	\$ --
Non-trading	10,111,134	10,166,579	197,377	(232,838)
Interest Sensitive Liabilities	10,011,353	10,033,507	(175,746)	165,869
Net Impact			21,631	(66,969)
Net Impact as % of interest sensitive assets			.21%	(.66)%
1999				
Interest Sensitive Assets:				
Trading	\$ 50,854	\$ 50,854	\$ 181	\$ (479)
Non-trading	8,780,473	8,695,323	223,137	(256,650)
Interest Sensitive Liabilities	9,219,951	8,838,371	(139,222)	129,373
Net Impact			84,096	(127,756)
Net Impact as % of interest sensitive assets			.96%	(1.46)%

The tables above exclude interest-earning assets that are not directly impacted by changes in interest rates. These assets include equity securities of \$175.7 million at December 31, 2000 and \$198.0 million at December 31, 1999 and nonaccrual loans of \$41.0 million at December 31, 2000 and \$38.4 million at December 31, 1999. Values for mortgage servicing rights have been included in the tables above as movements in interest rates affect the valuation of the servicing rights. Equity securities and nonaccrual assets not included in the above tables are, however, subject to fluctuations in market value based on other risks. The equity securities include \$125.3 million of FHLB stock which is not sensitive to market fluctuations. The remaining \$50.4 million of equity securities includes \$8.2 million of preferred stock and \$42.2 million in common stock at December 31, 2000. See Note 3 to the Consolidated Financial Statements for further information concerning investment securities. Also see "Asset Quality" within the MD&A section of this report for further information concerning nonaccrual loans

Interest-sensitive assets, net of interest-sensitive liabilities, when impacted by a minus 100 basis point rate change, result in a favorable \$21.6 million change in net market values for 2000 compared to a favorable \$84.1 million net market value change in 1999. These changes represent .21% of interest-sensitive assets in 2000 and .96% in 1999. A plus 100 basis point rate change results in an unfavorable \$67.0 million or .66% change in 2000 compared to an unfavorable \$127.8 million or 1.46% change in 1999.

Based on Webster's asset/liability mix at December 31, 2000, management estimates that an instantaneous 100 basis point increase in interest rates would decrease net interest income over the next twelve months by 3.6% compared to a 3.4% decrease at December 31, 1999. An instantaneous 100 basis point decline in interest rates would increase net interest income by 0.7% compared to 5.0% at December 31, 1999. These estimates assume that management takes no action to mitigate any negative effects from changing interest rates.

The market values and net interest income estimates are subject to factors that could cause actual results to differ. Management believes that Webster's interest-rate risk position at December 31, 2000, represents a reasonable level of risk.

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ASSET QUALITY

Nonaccrual assets, loan delinquency and credit losses are considered by Webster to be key measures of asset quality. Asset quality, accordingly, affects Webster's determination of the allowance for loan losses. See "Allowance for Loan Losses" within this section for further loan allowance information.

NONACCRUAL ASSETS

Webster devotes significant attention to maintaining high asset quality through conservative underwriting standards, active servicing of loans and aggressively managing nonaccrual assets. Nonaccrual assets, which include nonaccrual loans and foreclosed properties were \$44.3 million and \$43.3 million at December 31, 2000 and 1999, respectively. Nonaccrual loans increased \$2.6 million in 2000 and foreclosed properties decreased \$1.6 million. The aggregate amount of nonaccrual assets decreased as a percentage of total assets to .39% at December 31, 2000 from .44% at December 31, 1999. Total allowances for loan losses and nonaccrual assets of \$91.0 million and \$72.9 million represented 204% and 167% of nonaccrual assets, respectively, at December 31, 2000 and 1999.

Nonaccrual loans were \$41.0 million at December 31, 2000, compared to \$38.4 million at December 31, 1999. The ratio of nonaccrual loans to total loans was .59% and .63% at December 31, 2000 and 1999, respectively. The allowance for loan losses at December 31, 2000 was \$90.8 million and represented 221% of nonaccrual loans and 1.3% of total loans. The allowance for loan losses at December 31, 1999 was \$72.7 million and represented 189% of nonaccrual loans and 1.2% of total loans. See "Allowance for Loan Losses" within this section for further allowance for loan loss information. Interest on nonaccrual loans that would have been recorded as additional income for the years ended December 31, 2000, 1999 and 1998 had the loans been current in accordance with their original terms approximated \$3.6 million, \$3.0 million, and \$2.8 million, respectively. See Note 1 of the "Notes to Consolidated Financial Statements" within this report for information concerning Webster's nonaccrual loan policy.

The following table details nonaccrual assets for the last five years.

(In thousands)	December 31,				
	2000	1999	1998	1997	1996
NONACCRUAL ASSETS:					
Loans accounted for on a nonaccrual basis:					
Residential	\$ 8,842	\$ 11,490	\$ 12,418	\$ 34,731	\$ 37,073
Commercial	29,868	25,722	16,449	13,626	18,416
Consumer	2,324	1,182	1,852	3,624	6,143
FORECLOSED PROPERTIES:					
Residential and Consumer	2,284	2,698	1,715	8,804	11,099
Commercial	1,011	2,210	3,447	6,335	11,157
Total	\$ 44,329	\$ 43,302	\$ 35,881	\$ 67,120	\$ 83,888

LOANS PAST DUE 90 DAYS OR MORE AND ACCRUING

The following table shows the Bank's loans ninety days or more past due and accruing at the periods indicated.

(In thousands)	Years ended December 31,				
	2000	1999	1998	1997	1996
LOANS PAST DUE 90 DAYS OR MORE AND ACCRUING:					
Residential	\$ --	\$ --	\$ --	\$ --	\$ --
Commercial Real Estate	--	--	--	--	--
Commercial and Industrial	--	698	1,209	1,060	395
Consumer	--	--	--	--	--
Total	\$ --	\$ 698	\$ 1,209	\$ 1,060	\$ 395

expected net charge-offs. Pooled loans are loans that are homogeneous in nature, such as residential and consumer loans.

- o The loan portfolios are characterized by historical statistics such as default rates, cure rates, loss in event of default rates and internal risk ratings.

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- o Webster statistically evaluates the impact of larger concentrations in the commercial loan portfolio.
- o Comparable industry charge-off statistics by line of business, broadly defined as residential, consumer, home equity & second mortgages, commercial real estate and commercial & industrial lending, are utilized as factors in calculating loss estimates in the Webster loan portfolios.
- o Webster reviews actual losses by portfolio segment to validate estimated future probable losses.

At December 31, 2000, Webster's allowance for loan losses was \$90.8 million, or 1.31% of the total loan portfolio, and 221% of total nonaccrual loans. This compares with an allowance for loan losses of \$72.7 million or 1.19% of the total loan portfolio, and 189% of total nonaccrual loans at December 31, 1999.

The increase in Webster's allowance for loan losses for commercial loans was due to a reallocation of the loan loss allowance from the residential mortgage loans. The residential allowance for loan losses were \$18.3 million and \$25.2 million at December 31, 2000 and December 31, 1999, respectively. The decrease of \$6.9 million in the allowance for loan losses for residential mortgages reflects a lower estimated requirement based upon the actual losses experienced over the preceding two years. Management considered the actual loss experience as part of its decision to reallocate a portion of the residential mortgage loan loss allowance to the commercial loan loss allowance. In addition, the mix of the overall loan portfolio changed, which resulted in an increase in commercial loans. This was due to internal growth and the acquisitions of New England Community Bank and Mechanics Savings Bank.

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)	2000	1999	1998	1997	1996
Balance at beginning of period	\$ 72,658	\$ 65,201	\$ 71,599	\$ 63,047	\$ 69,091
CHARGE-OFFS:					
Residential	(1,583)	(3,246)	(13,662)	(16,281)	(21,218)
Commercial	(3,781)	(2,376)	(4,044)	(6,039)	(8,895)
Consumer	(1,452)	(1,784)	(3,556)	(4,305)	(4,350)
	(6,816)	(7,406)	(21,262)	(26,625)	(34,463)
RECOVERIES:					
Residential	372	838	1,081	4,368	1,103
Commercial	1,571	1,079	2,755	1,697	2,278
Consumer	244	299	302	555	416
Net charge-offs	(4,629)	(5,190)	(17,124)	(20,005)	(30,666)
Allowances from purchase transactions	10,980	3,647	--	2,108	8,881
Reclassification of allowance for segregated asset losses	--	--	2,623	--	--
Provisions charged to operations	11,800	9,000	8,103	26,449	15,741
Balance at end of period	\$ 90,809	\$ 72,658	\$ 65,201	\$ 71,599	\$ 63,047
Ratio of net charge-offs to average loans outstanding	0.1%	0.1%	0.3%	0.4%	0.6%

LOAN LOSSES

Net charge-offs for 2000 totaled \$4.6 million as compared to \$5.2 million for 1999 reflecting a decrease in net charge-offs of \$561,000 for the current period. The decrease was primarily the result of residential and consumer net charge-offs being \$1.5 million lower for 2000 that was partially offset by commercial loan net charge-offs being \$913,000 higher for the current year period. The increase in the allowance for loan losses of \$18.2 million from December 31, 1999 to 2000 is the result of a provision of \$11.8 million, an allowance of \$11.0 million acquired in a purchase acquisition completed during 2000 and net charge-offs of \$4.6 million. The \$11.0 million increase was primarily related to the Mechanics purchase acquisition completed in June 2000. See Item 1 "Business Combinations" under Part I of this report for information concerning acquisitions completed during 2000. Included in the 1998 charge-offs were write-downs of \$8.6 million related to the bulk sales of \$26.3 million of primarily nonaccrual and delinquent loans. Included in the 1997

Unlike most industrial companies, substantially 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 Webster'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.

RECENT FINANCIAL ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS"), No. 133, "Accounting for Derivative Instruments and Hedging Activities" (the "Standard"). This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. Under this statement, an entity that elects to apply hedge accounting is required to establish at the inception of the hedge the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. Those methods must be consistent with the entity's approach to managing risk. SFAS No. 133, as amended by SFAS No. 137, is now effective for all fiscal quarters of fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138, "Accounting for Derivative Instruments and Hedging Activities, an amendment to the SFAS Statement No. 133". This statement amends the accounting and reporting standards of SFAS No. 133 for certain derivative instruments and certain hedging activities. The Company adopted SFAS No. 133 and the related amendments on January 1, 2001. The effect of adoption was approximately a \$3 million, net of taxes, charge to earnings on January 1, 2001. On January 1, 2001, in accordance with the provisions of SFAS No. 133, Webster reclassified all held to maturity securities as available for sale securities.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", a replacement of SFAS No. 125. SFAS No. 140 addresses implementation issues that were identified in applying SFAS No. 125. This statement revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of the provisions of SFAS No. 125 without reconsideration. SFAS 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. SFAS No. 140 is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. This statement is to be applied prospectively with certain exceptions. Other than those exceptions, earlier or retroactive application is not permitted.

TAX LEGISLATION

Federal 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.

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The State of Connecticut enacted tax law changes in May 1998, allowing for the formation of a Passive Investment Company ("PIC") by financial institutions. This legislation exempts PICs from state income taxation in Connecticut, and exempts from inclusion in Connecticut taxable income the dividends paid from a passive investment company to a related financial institution. Webster Bank qualifies as a financial institution under the statute, and has organized a PIC that began operations in the first quarter of 1999. The legislation is effective for tax years beginning on or after January 1, 1999. Webster's formation of a PIC has reduced its Connecticut tax expense in 1999 and, as a result of the PIC's formation, a deferred tax charge was taken in the fourth quarter of 1998.

FORWARD LOOKING STATEMENTS

This annual report contains forward-looking statements within the meaning of the Securities and Exchange Act of 1934, as amended. Actual results could differ materially from those management expectations, projections and estimates. Factors that could cause future results to vary from current management expectations include, but are not limited to, general economic conditions, legislative and regulatory changes, monetary and fiscal policies of the federal government, changes in tax policies, rates and regulations of federal, state and local tax authorities, changes in interest rates, deposit flows, the cost of funds, demand for loan products, demand for financial services, competition,

changes in the quality or composition of Webster's loan and investment portfolios, changes in accounting principles, policies or guidelines, and other economic, competitive, governmental and technological factors affecting Webster's operations, markets, products services and prices. Such developments could have an adverse impact on Webster's financial position and results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information regarding quantitative and qualitative disclosures about market risk appears under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," on pages 22 through 23 under the caption "Asset/Liability Management and Market Risk".

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Pages F-1 through F-43.

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

None.

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.

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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 herein 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 Consolidated Financial Statements of Registrant and its subsidiaries are included within Item 8 of Part II of this 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 to First Federal Bank now mean Webster Bank:

EXHIBIT NO.	EXHIBIT DESCRIPTION
Exhibit No. 3.	Certificate of Incorporation and Bylaws.
3.1	Second Restated Certificate of Incorporation (filed as Exhibit 3.1 to the Corporation's Annual Report on Form 10-K filed within the SEC on March 29, 2000 and incorporated

herein by reference).

3.2 Certificate of Amendment (filed as Exhibit 3.2 to the Corporation's Annual Report on Form 10-K filed with the SEC on March 29, 2000 and incorporated herein by reference).

3.3 Bylaws, as amended (filed as Exhibit 3 to the Corporation's Registration Statement on Form S-8 filed with the SEC on July 25, 2000 and incorporated herein by reference).

Exhibit No. 4 Instruments Defining the Rights of Security Holders.

4.1 Specimen common stock certificate (filed as Exhibit 4.1 to the Corporation's Registration Statement on Form S-3 (File No. 333-81563) filed with the SEC on June 25, 1999 and incorporated herein by reference).

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4.2 Rights Agreement, dated as of February 5, 1996, between the Corporation and Chemical Mellon Shareholder Services, L.L.C. (filed as Exhibit 1 to the Corporation's Current Report on Form 8-K filed with the SEC on February 12, 1996 and incorporated herein by reference).

4.3 Amendment No. 1 to Rights Agreement, entered into as of November 4, 1996, by and between the Corporation and ChaseMellon Shareholder Services, L.L.C. (filed as an exhibit to the Corporation's Current Report on Form 8-K filed with the SEC on November 25, 1996 and incorporated herein by reference).

4.4 Amendment No. 2 to Rights Agreement, entered into as of October 30, 1998, between the Corporation and American Stock Transfer & Trust Company (filed as Exhibit 1 to the Corporation's Current Report on Form 8-K filed with the SEC on October 30, 1998 and incorporated herein by reference).

Exhibit No. 10. Material Contracts.

10.1 1986 Stock Option Plan, of Webster Financial Corporation (filed as Exhibit 10(a) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1986 and incorporated here in by reference).

10.2 Amendment to [1986] Stock Option Plan (filed as Exhibit 10.3 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 and incorporated herein by reference).

10.3 Mechanics Savings Bank 1996 Officer Stock Plan (filed as Exhibit 10.1 of MECH Financial, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).

10.4 Amendment No. 1 to Mechanics Savings Bank 1996 Officer Stock Option Plan (filed as Exhibit 4.1 (b) of MECH Financial Inc.'s Registration Statement on Form S-8 as filed with the SEC on April 2, 1998 and incorporated herein by reference).

10.5 Mechanics Savings Bank 1996 Director Stock Option Plan (incorporated by reference to Exhibit 10.2 of MECH Financial, Inc.'s Annual Report on Form 10-K filed with the SEC on March 30, 1998 and incorporated herein by reference).

10.6 Amendment No.1 to Mechanics Savings Bank 1996 Director Stock Option Plan (filed as Exhibit 4.2 (b) of MECH Financial, Inc.'s Registration Statement on Form S-8 as filed with the SEC on April 2, 1998 and incorporated herein by reference).

10.7 New England Community Bancorp, Inc., 1997 Non-Officer's Directors' Stock Option Plan (filed as Exhibit 4.1 of New England Community Bancorp, Inc.'s Registration Statement on Form S-8 as filed with the SEC on October 6, 1998 and incorporated herein by reference).

10.8 1992 Stock Option Plan, as amended (filed as Exhibit 99.2 to the Corporation's Registration Statement on Form S-8, filed with the SEC on October 25, 2000 and incorporated herein by reference).

10.9 Economic Value Added Incentive Plan (the description of the plan in the last paragraph that begins on page 17 of the Corporation's definitive proxy materials for the 2000 Annual Meeting of Shareholders is incorporated herein by reference).

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

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10.11 Amendment to Webster Financial Corporation Performance Incentive Plan as amended and restated effective January 1, 1996 (filed as Exhibit 10.11 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 and incorporated herein by reference).

10.12 Amended and Restated Deferred Compensation Plan for Directors and Officers of Webster Bank (filed as Exhibit 10.12 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 and incorporated herein by reference).

10.13 First Amended and Restated Directors Retainer Fees Plan (filed as Exhibit 10.3 to the Corporation's Quarterly Report on Form 10-Q filed with the SEC on August 14, 1998 and incorporated herein by reference).

10.14 Supplemental Retirement Plan for Employees of First Federal Bank, as amended and restated effective as of October 1, 1994 (filed as Exhibit 10.26 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1994 and incorporated herein by reference).

10.15 Amendment No. 1 to the Supplemental Retirement Plan for Employees of First Federal Bank (filed as Exhibit 10.15 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 and incorporated herein by reference).

10.16 Amendment No. 2 to the Supplemental Retirement Plan for Employees of First Federal Bank (filed as Exhibit 10.16 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 and incorporated herein by reference).

10.17 Amendment No. 3 to the Supplemental Retirement Plan for Employees of Webster Bank (filed as Exhibit 10.17 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 and incorporated herein by reference).

10.18 Qualified Performance-Based Compensation Plan (filed as Exhibit A to the Corporation's definitive proxy materials for the Corporation's 1998 Annual Meeting of Shareholders and incorporated herein by reference).

10.19 Employee Stock Purchase Plan (filed as Appendix A to the Company's Definitive Proxy Statement filed with the SEC on March 23, 2000).

10.20 Employment Agreement, dated as of January 1, 1998, among James C. Smith, the Corporation and Webster Bank (filed as Exhibit 10.27 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and incorporated herein by reference; see Schedule 10.27 to that (Exhibit 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).

10.21 Amendment to Employment Agreement, entered into as of March 17, 1998, by and among Webster Bank, the Corporation and James C. Smith (filed as Exhibit 10.28 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and incorporated herein by reference; see Schedule 10.28 to that (Exhibit 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).

10.22 Change of Control Employment Agreement, dated as of December 15, 1997, by and between the Corporation and James C. Smith (filed as Exhibit 10.29 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and

10.29 to that (Exhibit 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).

- 10.23 Purchase and Assumption Agreement, dated as of October 2, 1992, among the Federal Deposit Insurance Corporation (the "FDIC"), in its corporate capacity as receiver of First Constitution Bank, the FDIC and First Federal Bank (filed as Exhibit 2 to the Corporation's Current Report on Form 8-K filed with the SEC on October 19, 1992 and incorporated herein by reference).
- 10.24 Amendment No. 1 to Purchase and Assumption Agreement, made as of August 8, 1994, by and between the FDIC, the FDIC as receiver of First Constitution Bank, and First Federal Bank (filed as Exhibit 10.36 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1994 and incorporated herein by reference).
- 10.25 Indenture, dated as of June 15, 1993, between the Corporation and Chemical Bank, as trustee, relating to the Corporation's 8 3/4% Senior Notes due 2000 (filed as Exhibit 99.5 to the Corporation's Current Report on Form 8-K/A filed with the SEC on November 10, 1993 and incorporated herein by reference).
- 10.26 Junior Subordinated Indenture, dated as of January 29, 1997 between the Corporation and The Bank of New York, as trustee, relating to the Corporation's Junior Subordinated Deferrable Interest Debentures (filed as Exhibit 10.41 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 and incorporated herein by reference).

Exhibit No. 21 Subsidiaries.

Exhibit No. 23 Consent of KPMG L.L.P.

(b) Reports on Form 8-K

No reports were filed for the fourth quarter period ending December 31, 2000.

(c) Exhibits to this Form 10-K are attached or incorporated herein 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, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, as of March 1, 2001.

WEBSTER FINANCIAL CORPORATION

By /s/ James C. Smith

James C. Smith
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of March 1, 2001.

Name: Title:

/s/ James C. Smith Chairman and Chief Executive Officer

----- James C. Smith	(Principal Executive Officer)
 /s/ Peter J. Swiatek ----- Peter J. Swiatek	 Controller (Acting Principal Financial Officer and Acting Principal Accounting Officer)
 /s/ Richard H. Alden ----- Richard H. Alden	 Director
 /s/ Achille A. Apicella ----- Achille A. Apicella	 Director
 /s/ Joel S. Becker ----- Joel S. Becker	 Director
 /s/ O. Joseph Bizzozero, Jr. ----- O. Joseph Bizzozero, Jr.	 Director
 /s/ George T. Carpenter ----- George T. Carpenter	 Director
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 /s/ John J. Crawford ----- John J. Crawford	 Director
 /s/ Robert A. Finkenzeller ----- Robert A. Finkenzeller	 Director
 /s/ Edgar C. Gerwig ----- Edgar C. Gerwig	 Director
 /s/ P. Anthony Giorgio ----- P. Anthony Giorgio	 Director
 /s/ C. Michael Jacobi ----- C. Michael Jacobi	 Director
 /s/ John F. McCarthy ----- John F. McCarthy	 Director
 /s/ Michael G. Morris ----- Michael G. Morris	 Director
 /s/ Sister Marguerite F. Waite ----- Sister Marguerite F. Waite	 Director

EXHIBIT INDEX

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Exhibit No. 21 Subsidiaries.

Exhibit No. 23 Consent of KPMG L.L.P.

(b) Reports on Form 8-K

No reports were filed for the fourth quarter period ending December 31, 2000.

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

(d) Not applicable.

SUBSIDIARIES

Webster Bank, a federally chartered savings bank, is a direct subsidiary of Webster. Webster also owns all of the common securities of Webster Capital Trust I, Webster Capital Trust II and Webster Capital Trust III, which are Delaware business trusts, all of the common stock of Damman Associates, Inc., a Connecticut corporation and Webster D&P Holdings, Inc. Webster D&P Holdings, Inc. owns a 65% interest in Duff & Phelps, LLC. Webster Bank has six wholly-owned subsidiaries: Webster Trust Company, N.A., FCB Properties, Inc., Webster Investment Services, Inc., and Access National Mortgage, Inc. Access National Mortgage, Inc. holds 100% of the equity interests of Nowlending, LLC. Webster Bank also directly owns all of the outstanding common stock of Webster Preferred Capital Corporation, a publicly traded real estate investment trust and Webster Mortgage Investment Corporation, a passive investment subsidiary. Damman Associates, Inc. has one subsidiary, LLIA, Inc., which has one subsidiary, the Louis Levine Agency, Inc. (the "Agency"). The Agency has one subsidiary, Retirement Planning Associates, Inc.

WEBSTER SUBSIDIARIES

NAME OF SUBSIDIARY	JURISDICTION OF ORGANIZATION	NAMES UNDER WHICH THE SUBSIDIARY DOES BUSINESS
Webster Bank	United States	same
Webster Capital Trust I	Delaware	same
Webster Capital Trust II	Delaware	same
Webster Capital Trust III	Delaware	same
Webster D&P Holdings, Inc.	Delaware	Duff & Phelps
Damman Associates, Inc.	Connecticut	Damman Insurance Associates; Webster Insurance

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, 33-38286, 333-37530, 333-88021, 333-33228, 333-71141, 333-71983 and 333-48548) on Forms S-8 and the registration statements (Nos. 333-37714, 333-81563 and 333-71707) on Form S-3 of Webster Financial Corporation of our report dated January 23, 2001, relating to the Consolidated Statements of Condition of Webster Financial Corporation and subsidiaries as of December 31, 2000 and 1999, and the related Consolidated Statements of Income, Comprehensive Income, Shareholders' Equity and Cash Flows for each of the years in the three-year period ended December 31, 2000, which report appears in the December 31, 2000 annual report on Form 10-K of Webster Financial Corporation.

/s/ KPMG LLP

Hartford, Connecticut
March 20, 2001

WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

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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 Independent Auditors' Report. These statements were prepared in conformity with accounting principles generally accepted in the United States of America and include amounts that are based on the best estimates and judgment of management.

Webster has internal controls which provide 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. The internal control components include 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 independent outside directors, meets periodically with management, the internal auditors and the independent auditors to review internal 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

James C. Smith
Chairman and Chief Executive Officer

/s/ Peter J. Swiatek

Peter J. Swiatek
Controller

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, 2000 and 1999, and the related Consolidated Statements of Income, Comprehensive Income, Shareholders' Equity and Cash Flows for each of the years in the three-year period ended December 31, 2000. These Consolidated Financial Statements are the responsibility of the Company'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 auditing standards generally accepted in the United States of America. 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, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

January 23, 2001
Hartford, Connecticut

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share and per share data)	December 31,	
	2000	1999
ASSETS:		
Cash and due from depository institutions	\$ 265,035	\$ 245,783
Interest-bearing deposits	1,751	37,838
Securities: (Note 3 and 9)		
Trading, at fair value	6	50,854
Available for sale, at fair value	3,143,327	2,700,585
Held to maturity, (fair value: \$248,215 in 2000; \$300,282 in 1999)	261,747	315,462
Loans receivable, net (Note 4)	6,819,209	6,022,236
Accrued interest receivable	69,733	58,918
Premises and equipment, net (Note 5)	94,263	103,403
Intangible assets	326,142	138,829
Cash surrender value of life insurance	174,295	148,252
Prepaid expenses and other assets (Note 6)	94,000	109,584
Total assets	\$ 11,249,508	\$ 9,931,744
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Deposits (Note 7)	\$ 6,941,522	\$ 6,191,091
Federal Home Loan Bank advances (Note 8)	2,380,074	1,714,441
Securities sold under agreement to repurchase and other borrowings (Note 9)	650,151	1,074,004
Advance payments by borrowers for taxes and insurance	39,606	41,605
Accrued expenses and other liabilities	148,204	75,359
Total liabilities	\$ 10,159,557	\$ 9,096,500
Corporation-obligated mandatorily redeemable capital securities of subsidiary trusts (Note 18)	\$ 150,000	\$ 150,000
Preferred stock of subsidiary corporation (Note 19)	49,577	49,577
SHAREHOLDERS' EQUITY: (NOTE 13)		
Common stock, \$.01 par value:		
Authorized - 200,000,000 shares at December 31, 2000 and 1999;		
Issued - 49,502,843 shares at December 31, 2000	495	452
and 45,243,770 shares at December 31, 1999		
Paid-in capital	416,334	301,336
Retained earnings	490,078	400,413
Less Treasury stock at cost, 563,417 shares at December 31, 2000 and 140,000 shares at December 31, 1999	(13,361)	(3,274)
Unearned compensation	(1,640)	--
Less employee stock ownership plan shares purchased with debt	(642)	(1,127)
Accumulated other comprehensive loss	(890)	(62,133)
Total shareholders' equity	\$ 890,374	\$ 635,667
Commitments and contingencies (Notes 4, 5 and 20)		
Total liabilities and shareholders' equity	\$ 11,249,508	\$ 9,931,744

See accompanying notes to consolidated financial statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	Years Ended December 31,		
	2000	1999	1998
INTEREST INCOME:			
Loans	\$ 518,315	\$ 435,326	\$ 430,636
Securities and interest-bearing deposits	220,596	210,466	251,601
Total interest income	738,911	645,792	682,237

Source: WEBSTER FINANCIAL CO, 10-K, March 21, 2001

INTEREST EXPENSE:			
Deposits (Note 7)	224,294	203,805	241,181
Borrowings	188,101	138,474	158,445

Total interest expense	412,395	342,279	399,626

Net interest income	326,516	303,513	282,611
Provision for loan losses (Note 4)	11,800	9,000	8,103

Net interest income after provision for loan losses	314,716	294,513	274,508

NONINTEREST INCOME:			
Fees and service charges	60,059	49,523	37,543
Trust and investment services	18,184	10,246	6,045
Financial advisory services	1,290	--	--
Insurance commissions	14,360	7,167	3,662
Gain on sale of loans and loan servicing, net	3,956	4,434	5,754
Gain on sale of securities, net (Note 3)	8,445	4,248	17,015
Gain on sale of deposits	4,859	--	--
Increase in cash surrender value of life insurance	8,555	7,892	5,607
Other noninterest income	9,113	9,120	7,012

Total noninterest income	128,821	92,630	82,638

NONINTEREST EXPENSES:			
Compensation and benefits	122,257	106,493	92,506
Occupancy expense	24,774	20,892	19,068
Furniture and equipment expense	26,302	22,302	19,335
Intangible amortization expense	22,400	13,780	10,033
Marketing expense	9,118	9,584	7,392
Professional services expense	7,399	9,144	10,257
Acquisition-related expenses (Note 16)	--	9,500	20,993
Capital securities expense (Note 18)	14,323	14,645	14,708
Dividends on preferred stock of subsidiary corporation (Note 19)	4,151	4,151	4,151
Other operating expenses	36,406	33,970	30,990

Total noninterest expenses	267,130	244,461	229,433

Income before income taxes	176,407	142,682	127,713
Income taxes (Note 12)	58,116	47,332	49,694

NET INCOME	\$ 118,291	\$ 95,350	\$ 78,019

NET INCOME PER COMMON SHARE (NOTE 14):			
Basic	\$ 2.58	\$ 2.14	\$ 1.72
Diluted	2.55	2.10	1.69

See accompanying notes to consolidated financial statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands, except per share data)	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Unearned Compen- sation	Employee Stock Ownership Plan Shares Purchased With Debt	Accumulated Other Compre- hensive Income (Loss)	Total
Balance, December 31, 1997	\$ 450	\$ 302,469	\$ 263,947	\$ (1,116)	\$ --	\$ (1,971)	\$ 21,824	\$ 585,603

Net income for 1998	--	--	78,019	--	--	--	--	78,019
Dividends paid:								
\$.44 per common share	--	--	(17,687)	--	--	--	--	(17,687)
Cash dividends declared by pooled companies prior to mergers	--	--	(3,371)	--	--	--	--	(3,371)
Allocation of ESOP shares	--	411	--	--	--	632	--	1,043
Exercise of stock options	(1)	7,349	--	3,778	--	--	--	11,126
Common stock repurchased	--	--	--	(39,873)	--	--	--	(39,873)
Common stock issued in consideration for purchase acquisitions	--	185	--	9,083	--	--	--	9,268
Pooling adjustments, net	(2)	(1,906)	--	--	--	--	133	(1,775)
Net unrealized loss on securities available for sale, net of taxes	--	--	--	--	--	--	(1,302)	(1,302)
Adjustment for the effect of the change of Eagle's fiscal year end	--	--	4,898	--	--	--	--	4,898
Other, net	10	282	(1)	214	--	--	--	505

Balance, December 31, 1998	\$ 457	\$ 308,790	\$ 325,805	\$ (27,914)	\$ --	\$ (1,339)	\$ 20,655	\$ 626,454

Net income for 1999	--	--	95,350	--	--	--	--	95,350
Dividends paid:								
\$.47 per common share	--	--	(17,532)	--	--	--	--	(17,532)
Cash dividends declared by pooled companies prior to mergers	--	--	(3,197)	--	--	--	--	(3,197)
Allocation of ESOP shares	--	348	--	--	--	212	--	560
Exercise of stock options	--	(3,130)	--	12,472	--	--	--	9,342
Common stock repurchased	--	--	--	(72,161)	--	--	--	(72,161)
Common stock issued in consideration for purchase acquisitions	(5)	(4,672)	--	84,456	--	--	--	79,779

Source: WEBSTER FINANCIAL CO, 10-K, March 21, 2001

Net unrealized loss on securities available for sale, net of taxes	--	--	--	--	--	--	(82,788)	(82,788)
Other, net	--	--	(13)	(127)	--	--	--	(140)
Balance, December 31, 1999	\$ 452	\$ 301,336	\$ 400,413	\$ (3,274)	\$ --	\$ (1,127)	\$ (62,133)	\$ 635,667

See accompanying notes to consolidated financial statements.

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

(In thousands, except per share data)	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Unearned Compensation	Employee Stock Ownership Plan Shares Purchased With Debt	Accumulated Other Comprehensive Income (Loss)	Total
Net income for 2000	--	--	118,291	--	--	--	--	118,291
Dividends paid:								
\$.62 per common share	--	--	(28,645)	--	--	--	--	(28,645)
Allocation of ESOP shares	--	814	--	--	--	485	--	1,299
Exercise of stock options	9	13,299	--	--	--	--	--	13,308
Common stock repurchased	--	--	--	(110,797)	--	--	--	(110,797)
Consideration granted for purchase acquisitions	34	104,274	--	99,758	--	--	--	204,066
Restricted stock grants, net of amortization	--	(23)	(35)	952	(1,640)	--	--	(746)
Net unrealized gain on securities available for sale, net of taxes	--	--	--	--	--	--	61,243	61,243
Common stock retired for purchase acquisitions	--	(3,603)	--	--	--	--	--	(3,603)
Other, net	--	237	54	--	--	--	--	291
Balance, December 31, 2000	\$ 495	\$ 416,334	\$ 490,078	\$ (13,361)	\$ (1,640)	\$ (642)	\$ (890)	\$ 890,374

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	Years Ended December 31,		
	2000	1999	1998
Net Income	\$ 118,291	\$ 95,350	\$ 78,019
Other comprehensive income (loss), net of tax			
Unrealized net holding gain (loss) on securities available for sale arising during year (net of income tax effect of \$44,297, \$(54,370), and \$6,410 for 2000, 1999 and 1998, respectively)	67,973	(79,865)	9,407
Reclassification adjustment for net gains included in net income (net of income tax effect of \$3,315, \$1,992 and \$7,206 for 2000, 1999, and 1998, respectively)	(6,730)	(2,923)	(10,576)
Other comprehensive income (loss)	61,243	(82,788)	(1,169)
Comprehensive income	\$ 179,534	\$ 12,562	\$ 76,850

See accompanying notes to consolidated financial statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Years Ended December 31,		
	2000	1999	1998
OPERATING ACTIVITIES:			
Net income	\$ 118,291	\$ 95,350	\$ 78,019
Adjustments to reconcile net income to net cash provided by operating activities:			

Source: WEBSTER FINANCIAL CO, 10-K, March 21, 2001

Provision for loan losses	11,800	9,000	8,103
Provision for foreclosed property losses	--	100	330
Provision for depreciation on premises and equipment	20,606	13,190	14,131
(Accretion) amortization of securities and loan premiums, net	(457)	4,753	7,371
Amortization of intangible assets	22,400	13,780	10,033
Amortization of hedging costs, net	3,985	4,696	4,669
Amortization of mortgage servicing rights	1,614	1,639	1,303
Gain on sale of deposits	(4,859)	--	--
Gain on sale of foreclosed properties, net	(906)	(906)	(822)
Gain on sale of loans and servicing, net	(3,956)	(4,434)	(5,754)
Gain on sale of securities, net	(10,045)	(4,722)	(17,782)
Losses on trading securities, net	1,600	474	767
Decrease (increase) in trading securities	49,346	39,786	(7,132)
Loans originated for sale	(187,921)	(221,171)	(106,156)
Proceeds from sale of loans, originated for sale	179,591	228,280	111,109
Other loan sales	--	--	46,400
(Increase) decrease in interest receivable	(5,072)	3,734	(2,509)
(Increase) decrease in prepaid expenses and other assets	(15,411)	3,847	15,430
Increase (decrease) in interest payable	9,294	(12,513)	2,890
Increase (decrease) in accrued expenses and other liabilities, net	31,194	(334)	(8,006)
Increase in cash surrender value of life insurance, net	(7,940)	(7,193)	(5,621)
Adjustment to conform Eagle's fiscal year end	--	--	4,898
Net cash provided by operating activities	213,154	167,356	151,671
INVESTING ACTIVITIES:			
Purchases of securities, available for sale	(1,294,590)	(1,150,893)	(2,501,136)
Purchases of securities, held to maturity	--	(1,283)	(152,662)
Principal collected on investment securities	293,263	648,648	988,390
Maturities of securities	13,872	446,910	253,893
Proceeds from sales of securities, available for sale	955,214	513,714	1,527,959
Proceeds from sales of securities, held to maturity	--	15,458	--
Decrease (increase) in interest-bearing deposits	48,087	(18,654)	76,856
Purchase of loans	--	--	(66,173)
(Increase) decrease in loans, net	(135,167)	(325,366)	21,395
Proceeds from sale of foreclosed properties	10,376	10,081	16,383
Purchases of life insurance, net	--	--	(122,700)
Purchase of premises and equipment, net	(6,893)	(16,339)	(22,050)
Net cash received (paid) for purchase acquisitions and sale transaction	221,625	16,706	(67)
Net cash provided by investing activities	105,787	138,982	20,088
FINANCING ACTIVITIES:			
Net decrease in deposits	(79,095)	(405,124)	(98,531)
Repayment of FHLB advances	(3,290,442)	(2,976,192)	(4,425,651)
Proceeds from FHLB advances	3,629,171	2,888,794	4,688,547
Repayment of securities sold under agreement to repurchase and other borrowings	(24,620,062)	(47,272,507)	(19,133,606)
Proceeds from securities sold under agreement to repurchase and other borrowings	24,195,676	47,567,986	18,858,140
Net proceeds from issuance of capital securities	--	--	5,000
Cash dividends to common and preferred shareholders	(28,645)	(20,729)	(21,058)
Net (decrease) increase in advance payments for taxes and insurance	(8,803)	6,894	1,629
Exercise of stock options	13,308	9,342	11,126
Common stock repurchased	(110,797)	(72,161)	(39,873)
Net cash used by financing activities	(299,689)	(273,697)	(154,277)

See accompanying notes to consolidated financial statements.

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

(In thousands)	Years Ended December 31,		
	2000	1999	1998
Increase in cash and cash equivalents	19,252	32,641	17,482
Cash and cash equivalents at beginning of year	245,783	213,142	195,660
Cash and cash equivalents at end of year	\$ 265,035	\$ 245,783	\$ 213,142

(In thousands)	Years Ended December 31,		
	2000	1999	1998

SUPPLEMENTAL DISCLOSURES:			
Income taxes paid	\$ 49,230	\$ 50,862	\$ 39,324
Interest paid	405,502	353,414	395,806

Source: WEBSTER FINANCIAL CO, 10-K, March 21, 2001

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Transfer of loans to foreclosed properties	7,577	9,022	5,498
Transfer of securities from held to maturity to available for sale	--	--	2,492

Assets acquired and liabilities assumed in purchase business combinations and assets sold and liabilities extinguished in sale transaction were as follows:

(In thousands)	Twelve Months Ended December 31,		
	2000	1999	1998
Fair value of noncash assets acquired in purchase acquisitions	\$ 1,011,434	\$ 283,609	\$ 1,160
Fair value of liabilities assumed in purchase acquisitions	1,232,409	289,918	1,991
Common stock issued in purchase acquisitions	200,463	79,779	9,268
Fair value of net assets sold in sale transaction	45,591	--	--
Fair value of liabilities sold in sale transaction	35,795	--	--

See accompanying notes to consolidated financial statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) BUSINESS

Webster Financial Corporation ("Webster" or the "Company"), through its subsidiaries, Webster Bank (the "Bank"), Damman Associates, Inc. ("Damman") and Webster D&P Holdings, Inc. ("Duff & Phelps"), delivers financial services to individuals, families and businesses primarily in Connecticut and financial advisory services to public and private companies throughout the United States. Webster provides business and consumer banking, mortgage lending, trust and investment services and insurance services through 114 banking offices and other offices, over 200 ATM's and the internet (www.websterbank.com). Webster's online mortgage subsidiary Nowlending, LLC, at www.nowlending.com originates residential mortgages throughout the United States. 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 restated to include the accounts of New England Community Bancorp., Inc. ("NECB") acquired on December 1, 1999, as though this pooling of interests merger had occurred at the beginning of the earliest period presented (see Note 2). The number of common shares has been restated for stock dividends and stock splits (see Note 13). The Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America and all significant intercompany transactions have been eliminated in consolidation.

The preparation of the Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, as of the date of the Consolidated Financial Statements and the reported amounts of 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 and the valuation allowance for the deferred tax asset.

C) FORECLOSED PROPERTIES

Foreclosed properties consist of properties acquired through foreclosure or by acceptance of a deed in lieu of foreclosure. These assets are recorded at the lower of fair value of the asset acquired less estimated costs to sell or "cost" (defined as the fair value at initial foreclosure). At the time of foreclosure, or when foreclosure occurs in-substance, the excess, if any, of the loan over fair market value of the assets received, less estimated selling costs, is charged to the allowance for loan losses and any subsequent valuation writedowns are charged to other expense. Operating costs associated with the properties are charged to expense as incurred. Gains on sale of foreclosed properties are included in income when title has passed and the sale has met minimum down payment requirements prescribed by generally accepted accounting principles.

D) LOANS RECEIVABLE, NET

A significant portion of the Company's loans are secured by real estate in the

state of Connecticut. In addition, a substantial portion of foreclosed properties are located in the state of Connecticut. Accordingly, the ultimate collectibility of a substantial portion of the Company's loan portfolio, and the recovery of the carrying amount of foreclosed properties are dependent on economic and market conditions in Connecticut.

Loans receivable are stated at the principal amounts outstanding, net of deferred loan fees and/or costs and an allowance for loan losses. Interest on loans is credited to income as earned based on the rate applied to principal amounts outstanding. Loans are placed on nonaccrual status when timely collection of principal and interest in accordance with contractual terms is doubtful. Loans are transferred to a nonaccrual basis generally when principal or interest payments become 90 days delinquent, unless the loan is well secured and in process of collection, or sooner when management concludes circumstances indicate that borrowers may be unable to meet contractual principal or interest payments.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accrual of interest is discontinued if the loan is placed on nonaccrual status. When a loan is transferred to nonaccrual status, unpaid accrued interest is reversed and charged against income. If ultimate repayment of a nonaccrual loan is expected, any payments received are applied in accordance with contractual terms. If ultimate repayment is not expected or management judges it to be prudent, any payment received on a nonaccrual loan is applied to principal until ultimate repayment becomes expected. Loans are removed from nonaccrual status when they become current as to principal and interest or demonstrate a period of performance under contractual terms and, in the opinion of management, are fully collectible as to principal and interest.

Commercial type loans are considered impaired when it is probable that the borrower will not repay the loan according to the original contractual terms of the loan agreement, and all loan types are considered impaired if the loan is restructured in a troubled debt restructuring subsequent to January 1, 1995. Impaired loans included in nonperforming loans generally are nonaccrual commercial type loans, commercial type loans past due 90 days or more and still accruing interest, and all loans restructured in a troubled debt restructuring subsequent to January 1, 1995.

The allowance for loan losses related to impaired loans is based on discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain loans where repayment of the loan is expected to be provided solely by the underlying collateral (collateral dependent loans). The Company considers estimated costs to sell on a discounted basis, when determining the fair value of collateral in the measurement of impairment if these costs are expected to reduce the cash flows available to repay or otherwise satisfy the 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.

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 fair value in the aggregate as determined by outstanding loan commitments from investors or current market prices for loans with no sale commitments. Net unrealized losses on loans held for sale, if any, are recognized in a valuation allowance by charges to income.

E) SECURITIES

Securities are classified as either, available for sale, held to maturity or trading. Management determines the appropriate classification of securities at the time of purchase. Securities are classified as held to maturity when the Company has the intent and ability to hold the securities to maturity. Held to maturity securities are stated at amortized cost. Securities classified as trading are carried at fair value, with net unrealized gains and losses recognized currently in income. Securities not classified as held to maturity or trading are classified as available for sale and are stated at fair value. Unrealized gains and losses, net of tax, on available for sale securities are included in accumulated other comprehensive income (loss), net of income taxes - a separate component of shareholders' equity. The value at which held to maturity or available for sale securities are reported are adjusted for amortization of premiums or accretion of discounts over the estimated terms of the securities using a method which approximates the level yield method. Such amortization and accretion is included in interest income from securities. Unrealized losses on securities are charged to earnings when the decline in fair value of a security is judged to be other than temporary. The specific

identification method is used to determine realized gains and losses on sales of securities.

F) INTEREST-RATE INSTRUMENTS

Webster uses derivatives (swaps, caps, floors, futures and options) in connection with its risk management strategies. These products are used to reduce the volatility in earnings and market value arising from mismatches in assets and liabilities during periods of changing interest rates.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Risk management strategies that meet the criteria for hedge accounting treatment are designated as hedges and are accounted for as such. Interest income or expense associated with derivative products are recorded as a component of net interest income. Derivatives that hedge available for sale assets are marked to fair value monthly with adjustments to shareholders' equity as a component of accumulated other comprehensive income (loss), net of income taxes. Premiums paid are amortized as an adjustment to interest income or expense of the asset or liability being hedged. If the derivative is disposed of prior to the end of the hedge period, any gain or loss is realized over the remainder of the period that was being hedged. If the asset or liability is disposed of prior to the end of the period being hedged, the related derivative is marked to fair value, with any gain or loss recognized in current period income as an adjustment to the gain or loss on the disposed asset or liability.

G) INTEREST-BEARING DEPOSITS

Interest-bearing deposits consist primarily of deposits in the Federal Home Loan Bank ("FHLB") or other short-term investments. These deposits are carried at cost, which approximates market value.

H) PREMISES AND EQUIPMENT

Premises and equipment are carried at cost, less accumulated depreciation. 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 and any resulting gains and losses are credited or charged to income.

I) INTANGIBLE ASSETS

Intangible assets consist of core deposit intangibles and goodwill. Intangible assets equal the excess of the purchase price over the fair value of the tangible net assets acquired in acquisitions accounted for using the purchase method of accounting. The core deposit intangibles are being amortized on a straight-line basis over a period of seven to ten years from the acquisition dates. On a periodic basis, management assesses the recoverability of the core deposit intangibles. Goodwill is being amortized on a straight-line basis over periods up to twenty years from the acquisition dates. The Company 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, and impairment is recognized as a charge to income if a permanent loss in value is indicated.

J) 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, by a charge or credit to tax expense, as facts and circumstances warrant.

K) EMPLOYEE RETIREMENT 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.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

L) NET INCOME PER COMMON SHARE

Basic net income per common 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 common share is calculated by dividing adjusted net income by the weighted-average diluted common shares, including the effect of potential common stock. Potential common stock consists of common stock options. Unallocated employee stock ownership plan ("ESOP") shares are not included in the weighted-average number of common shares outstanding for either basic or diluted earnings per share.

M) STOCK-BASED 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 Principles Board Opinion No. 25 ("APB No. 25") "Accounting for Stock Issued to Employees." Entities electing to continue to follow 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 15.

Compensation expense in connection with the Company's ESOP is recorded based on the average market value of the Company's common stock and the number of shares committed to be released.

N) STATEMENTS OF CASH FLOWS

For the purposes of the Statements of Cash Flows, cash on hand and in banks is reflected as cash and cash equivalents.

O) LOAN SALES AND SERVICING SALES

Gains or losses on sales of loans are recognized at the time of sale. SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", 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 (fixed or adjustable) and amortization type. To the extent that the carrying value of mortgage servicing rights exceeds fair value by individual stratum, a valuation allowance is established by a charge to earnings. The allowance is adjusted for subsequent changes in fair value. The cost basis of mortgage servicing rights is amortized into noninterest income over the estimated period of servicing revenue.

P) CASH SURRENDER VALUE OF LIFE INSURANCE

The investment in life insurance represents the cash surrender value of life insurance policies on officers of the Bank. Increases in the cash surrender value are recorded as other noninterest income. Decreases are the result of collection on the policies due to the death of an insured.

Q) COMPREHENSIVE INCOME

Comprehensive income includes net income and any changes in equity from non-owner sources that bypass the statements of income (such as changes in net unrealized gains and losses on securities available for sale). At the Company, comprehensive income represents net income plus other comprehensive income, which consists of the net change in unrealized gains or losses in securities available for sale, net of income taxes, for the period. Accumulated other comprehensive income represents the net unrealized gains or losses on securities available for sale, net of income taxes, as of the balance sheet dates.

R) RECLASSIFICATIONS

Certain financial statement balances as previously reported have been reclassified to conform to the 2000 Consolidated Financial Statements presentation.

WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: BUSINESS COMBINATIONS

POOLING OF INTERESTS TRANSACTION

Since January 1, 1999, Webster has completed one acquisition which was accounted for under the pooling of interests method of accounting and includes financial data as if the business combination occurred at the beginning of the earliest period presented.

THE NECB ACQUISITION

On December 1, 1999, Webster acquired New England Community Bancorp., Inc., ("NECB"), a multi-bank holding company headquartered in Windsor, Connecticut. Three of its wholly-owned bank subsidiaries, New England Bank and Trust, Equity Bank and Community Bank, were located in Connecticut and one, Olde Port Bank and Trust, was located in New Hampshire. In connection with the merger with NECB, Webster issued 7,298,788 shares of its common stock for all of the outstanding shares of NECB's common stock. Under the terms of the merger agreement, each outstanding share of NECB's common stock was converted into 1.06 shares of Webster common stock.

PURCHASE TRANSACTIONS

The following acquisitions, effective since January 1, 1999, were accounted for as purchase transactions, and as such, results of operations are included in the Consolidated Financial Statements subsequent to acquisition.

THE DUFF & PHELPS ACQUISITION

In November 2000, Webster, through its newly formed company Duff & Phelps, acquired a 65% interest in Duff & Phelps, LLC, a privately-owned company which has offices in Chicago, New York, Los Angeles, and Raleigh-Durham, NC. Duff & Phelps provides expertise in middle-market mergers and acquisitions, private placements, fairness opinions, valuations, ESOP and ERISA advisory services, and special financial advisory services. Duff & Phelps is expected to add in excess of \$20 million of fee-based revenue on an annual basis, and further accelerates progress toward the strategic objective of broadening commercial bank product offerings and increasing revenue from fee-based services.

THE FLEETBOSTON BRANCH ACQUISITION

In August 2000, Webster purchased four Connecticut branches from FleetBoston Financial Corporation that were divested as the result of the Fleet-BankBoston merger. The branches had approximately \$138 million in deposit balances at the time of closing and are located in Brookfield, Guilford, Meriden, and Thomaston. The transaction includes the purchase of deposits and loans for individual and small business customers associated with these branches. This transaction strengthened and extended the Bank's retail franchise.

THE MECHANICS ACQUISITION

In June 2000, Webster acquired MECH Financial, Inc. ("Mechanics"), the holding company for Mechanics Savings Bank, in a non taxable, stock-for-stock exchange. Mechanics Savings Bank was a state-chartered, Hartford based savings bank with \$1.1 billion in assets and 16 branch offices in the capital region. Based on the terms of the agreement, Mechanics shareholders received 1.52 shares of Webster common stock for each share of Mechanics common stock. The acquisition strengthened Webster's market share in Hartford County, where Webster already ranked second in deposit market share.

THE CHASE BRANCH ACQUISITION

In May 2000, Webster purchased six Connecticut branches from The Chase Manhattan Bank, located in Cheshire, Middlebury, North Haven, Waterbury (2) and Watertown with approximately \$135 million in deposit balances. The transaction included the purchase of consumer deposits, small business deposits and loans, and brokerage and custody accounts associated with these branches. This transaction strengthened and extended the Bank's retail franchise.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE FOLLIS, WYLIE & LANE ACQUISITION AND THE LEVINE ACQUISITION

Webster also actively engaged during 2000 in building a dynamic statewide insurance operation, purchasing the Louis Levine Agency, Inc. ("Levine") and Follis Wylie & Lane, Inc. ("Follis"). Webster entered the insurance agency business in 1998. Webster Insurance offers a full line of commercial and personal insurance; risk management services; employee benefit plans; life insurance and annuities, and writes in excess of \$180 million in annual premiums. In April 2000, Webster through its wholly-owned insurance subsidiary Damman acquired Follis, a privately owned Hamden, Connecticut-based insurance agency. Follis offers a full range of insurance services, including property and casualty, life and health. In February 2000, through Damman, Webster acquired Levine, a privately-owned Waterford and Norwich, Connecticut based insurance agency. Founded in 1928, the company includes three entities: Louis Levine Agency, Inc., Levine Financial Services, Inc. and Retirement Planning Associates, Inc.

THE VILLAGE ACQUISITION

In May 1999, Webster acquired Village Bancorp, Inc. ("Village"), the holding company for The Village Bank & Trust Company in a non taxable, stock-for-stock exchange. Village had approximately \$215 million in total assets and \$200 million in deposits at six branches.

THE MARITIME ACQUISITION

In April 1999, Webster acquired Maritime Bank & Trust Company ("Maritime"), in a non taxable, stock-for-stock exchange. Maritime had approximately \$95 million in

total assets and \$85 million in deposits at three branches.

THE ACCESS ACQUISITION

In January 1999, Webster completed its acquisition of Access National Mortgage, Inc. ("Access"). Access was founded in 1996 as a privately held Internet-based mortgage lender located in Wilmington, Massachusetts. In October 1999, Access National Mortgage, LLC was renamed Nowlending, LLC. Nowlending, LLC originates mortgages in 47 states.

SALE TRANSACTION

THE OLDE PORT BANK & TRUST BRANCH SALE

On December 29, 2000, Webster completed the sale of its two branches that were located in New Hampshire. The branches were sold to Granite Bank, a New Hampshire state-chartered commercial bank. The branches had approximately \$43 million of loans and \$39 million of deposits at the date of sale.

PURCHASE TRANSACTIONS SUBSEQUENT TO DECEMBER 31, 2000

THE CENTER CAPITAL ACQUISITION

In March 2001, Webster acquired Center Capital Corporation ("Center Capital"), a privately-owned Farmington, Connecticut-based equipment financing company with assets of \$260 million. Center Capital finances commercial and industrial equipment including trucks, tractors, trailers, machine tools and other heavy equipment through leasing programs to customers throughout the United States.

THE MUSANTE REIHL ACQUISITION

In January 2001, through Damman, Webster acquired Musante Reihl Associates ("Musante"), a privately-owned Cheshire, Connecticut based insurance agency. Musante specializes in group benefits, long-term care and life insurance, has seven employees and had revenues of \$850,000 in 2000.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: SECURITIES

A summary of securities follows:

(In thousands)	December 31,								
	2000				1999				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	
TRADING SECURITIES:									
Securities (a)	\$ 6 (b)	\$ --	\$ --	\$ 6	\$ 50,854 (b)	\$ --	\$ --	\$ 50,854	
AVAILABLE FOR SALE PORTFOLIO:									
U.S. Treasury Notes	\$ 11,042	\$ 3	\$ --	\$ 11,045	\$ 17,070	\$ 18	\$ (233)	\$ 16,855	
U.S. Government Agency	46,246	3	(353)	45,896	92,733	--	(4,338)	88,395	
Municipal bonds and notes	34,401	530	(47)	34,884	27,591	3	(1,463)	26,131	
Corporate bonds and notes	73,265	--	(15,379)	57,886	75,068	--	(9,895)	65,173	
Equity securities (c)	177,061	4,501	(5,877)	175,685	201,352	7,684	(11,060)	197,976	
Mortgage-backed securities (a)	2,796,365	29,852	(11,571)	2,814,646	2,379,491	6,330	(88,848)	2,296,973	
Purchased interest-rate contracts (Note 10)	6,317	--	(3,032)	3,285	10,874	--	(1,792)	9,082	
	\$3,144,697	\$34,889	\$(36,259)	\$3,143,327	\$2,804,179	\$14,035	\$(117,629)	\$2,700,585	
HELD TO MATURITY PORTFOLIO:									
U.S. Treasury Notes	\$ 3,786	\$ 5	\$ (2)	3,789	\$ 10,396	\$ --	\$ (112)	\$ 10,284	
U.S. Government Agency	--	--	--	--	1,520	--	(6)	1,514	
Municipal bonds and notes	23,267	173	(31)	23,409	24,861	39	(783)	24,117	
Corporate bonds and notes	135,404	--	(12,879)	122,525	135,476	405	(12,322)	123,559	
Mortgage-backed securities (a)	99,290	558	(1,356)	98,492	143,209	544	(2,945)	140,808	
	\$ 261,747	\$ 736	\$(14,268)	\$ 248,215	\$ 315,462	\$ 988	\$(16,168)	\$ 300,282	
Total	\$3,406,450	\$35,625	\$(50,527)	\$3,391,548	\$3,170,495	\$15,023	\$(133,797)	\$3,051,721	

(In thousands)	December 31,			
	1998			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
TRADING SECURITIES:				
Securities (a)	\$ 91,114 (b)	\$ --	\$ --	\$ 91,114
AVAILABLE FOR SALE PORTFOLIO:				
U.S. Treasury Notes	\$ 25,617	\$ 400	\$ --	\$ 26,017
U.S. Government Agency	106,427	1,018	(109)	107,336
Municipal bonds and notes	27,874	776	(29)	28,621

Source: WEBSTER FINANCIAL CO, 10-K, March 21, 2001

Corporate bonds and notes	92,062	601	(2,178)	90,485
Equity securities (c)	244,670	8,107	(4,763)	248,014
Mortgage-backed securities (a)	2,616,695	40,469	(5,299)	2,651,865
Purchased interest-rate contracts (Note 10)	15,985	--	(3,437)	12,548
	\$3,129,330	\$51,371	\$(15,815)	\$3,164,886
HELD TO MATURITY PORTFOLIO:				
U.S. Treasury Notes	\$ 2,955	\$ 18	\$ --	\$ 2,973
U.S. Government Agency	7,399	24	--	7,423
Municipal bonds and notes	15,339	477	--	15,816
Corporate bonds and notes	151,801	2,631	(1,171)	153,261
Mortgage-backed securities (a)	229,335	2,432	(1,044)	230,723
	\$ 406,829	\$ 5,582	\$(2,215)	\$ 410,196
Total	\$3,627,273	\$56,953	\$(18,030)	\$3,666,196

<FN>

(a) Includes mortgage-backed securities, which are guaranteed by Fannie Mae, Federal Home Loan Mortgage Corporation and Government National Mortgage Association and represent participating interests in direct pass through pools of mortgage loans originated and serviced by the issuers of the securities, short and long futures positions.

(b) Stated at fair value, including the effect of short and long futures positions.

(c) As of December 31, 2000, the fair value of equity securities consisted of Federal Home Loan Bank ("FHLB") stock of \$125.3 million, preferred stock of \$8.2 million and common stock of \$42.2 million. The fair value of equity securities at December 31, 1999 consisted of FHLB stock of \$103.9 million, mutual funds of \$13.6 million, preferred stock of \$24.3 million and common stock of \$56.2 million. As of December 31, 1998, the fair value of equity securities consisted of FHLB stock of \$102.5 million, mutual funds of \$35.1 million, preferred stock of \$45.7 million and common stock of \$64.7 million.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of realized gains and losses follows:

(In thousands)	Years ended December 31,								
	2000			1999			1998		
	Gains	Losses	Net	Gains	Losses	Net	Gains	Losses	Net
TRADING SECURITIES:									
Mortgage-backed securities	\$ 3,069	\$ (2,273)	\$ 796	\$ 2,006	\$ (5,328)	\$ (3,322)	\$ 4,789	\$ (3,548)	\$ 1,241
Futures and options contracts	10,505	(12,901)	(2,396)	13,107	(10,259)	2,848	8,015	(10,023)	(2,008)
	13,574	(15,174)	(1,600)	15,113	(15,587)	(474)	12,804	(13,571)	(767)
HELD TO MATURITY:									
Corporate debt	--	--	--	--	(193)	(193)	--	--	--
AVAILABLE FOR SALE:									
Mortgage-backed securities	2,857	(292)	2,565	2,704	(428)	2,276	7,149	(230)	6,919
U.S. Treasury Notes	13	(154)	(141)	15	(5)	10	5	--	5
U.S. Government Agencies	5	(849)	(844)	38	(556)	(518)	49	(6)	43
Corporate debt	--	(71)	(71)	210	(118)	92	--	(6)	(6)
Mutual funds	--	(640)	(640)	263	(90)	173	1,156	--	1,156
Other equity securities	9,644	(418)	9,226	3,456	(429)	3,027	9,627	(899)	8,728
Other	--	(50)	(50)	27	(172)	(145)	982	(45)	937
	12,519	(2,474)	10,045	6,713	(1,798)	4,915	18,968	(1,186)	17,782
Total	\$ 26,093	\$ (17,648)	\$ 8,445	\$ 21,826	\$ (17,578)	\$ 4,248	\$ 31,772	\$ (14,757)	\$ 17,015

During the first quarter of 1999, Webster sold \$15.5 million of securities classified as held to maturity, which resulted in a loss of \$193,000. The securities were sold due to a regulator's request that Webster divest of the holdings as the securities did not meet regulatory guidelines published subsequent to the acquisition of the securities. There were no sales of securities from the held to maturity portfolio for the years ended December 31, 2000 and 1998.

Webster enters into short and long futures and options positions to minimize the price volatility of certain assets held as trading securities and to profit from trading opportunities. At December 31, 2000, Webster had 200 short and 200 long contracts of 10 year Treasury note futures (\$20.0 million notional amount for each). At December 31, 1999, Webster had 321 short positions of Eurodollar futures contracts (\$321.0 million notional amount) and 310 short contracts of 5 year Treasury note futures (\$310 million notional amount). Changes in the market value of futures and options positions are recognized as a gain or loss in the period for which the change occurred. All gains and losses resulting from futures and options positions are reflected in gains (losses) on sale of securities, net in the Consolidated Statements of Income.

WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the amortized cost, estimated fair value and weighted-average yield (based on amortized cost) of debt securities at December 31, 2000, by contractual maturity. Mortgage-backed securities are included by final contractual maturity. Actual maturities will differ from contractual maturities because certain issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

As of December 31, 2000									
(In thousands)	TRADING SECURITIES			AVAILABLE FOR SALE			HELD TO MATURITY		
	Amortized Cost	Estimated Fair Value	Weighted-average Yield	Amortized Cost	Estimated Fair Value	Weighted-average Yield	Amortized Cost	Estimated Fair Value	Weighted-average Yield
Within 1 year	\$ 6	\$ 6	--%	\$ 10,797	\$ 10,810	5.02%	\$ 8,458	\$ 8,433	5.87%
After 1 but within 5 years	--	--	--	51,671	52,198	6.41	13,708	13,753	5.97
After 5 but within 10 years	--	--	--	466,674	466,346	6.51	28,987	29,032	6.39
After 10 years	--	--	--	2,432,177	2,435,003	6.69	210,594	196,997	7.67
	\$ 6	\$ 6	--%	\$2,961,319	\$2,964,357	6.65%	\$ 261,747	\$ 248,215	7.38%

At December 31, 2000, the Bank held securities with the following single issuers whose aggregate book value exceeded ten percent of total stockholders' equity, or \$89.0 million.

At December 31, 2000			
Issuer	(In thousands)	Aggregate Book Value	Aggregate Market Value
FHLB		\$ 137,482	\$ 137,353
FHLMC		887,538	898,567
FNMA		1,069,875	1,083,103
GNMA		118,973	120,996
Nomura Asset Security Corp		100,415	100,797

WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: LOANS RECEIVABLE, NET

A summary of loans receivable, net follows:

(Dollars in thousands)	December 31,			
	2000		1999	
	Amount	%	Amount	%
MORTGAGE LOANS SECURED BY REAL ESTATE:				
Conventional, VA and FHA	\$ 3,802,169	55.7%	\$ 3,558,636	59.1%
Conventional, VA and FHA loans held for sale	17,730	0.3	7,022	0.1
Residential participation	28,795	0.4	15,895	0.3
Residential construction	433,489	6.4	427,186	7.1
Commercial construction	72,216	1.0	45,648	0.8
Other commercial	791,200	11.6	695,442	11.5
	5,145,599	75.4	4,749,829	78.9
COMMERCIAL LOANS:				
Commercial loans	1,211,011	17.7	918,583	15.3
Commercial loans held for sale	3,410	0.1	--	0.0
	1,214,421	17.8	918,583	15.3
CONSUMER LOANS:				
Home equity loans	605,673	8.9	489,257	8.1
Other consumer loans	88,229	1.3	46,737	0.8

	693,902	10.2	535,994	8.9
GROSS LOANS RECEIVABLE	7,053,922	103.4	6,204,406	103.1
Loans in process	(136,090)	(2.0)	(129,665)	(2.2)
Allowance for loan losses (Discounts) premiums on loans purchased and acquired, net	(90,809)	(1.3)	(72,658)	(1.2)
Deferred costs, net	(23,217)	(0.3)	10,496	0.2
	15,403	0.2	9,657	0.1
LOANS RECEIVABLE, NET	\$ 6,819,209	100.0%	\$ 6,022,236	100.0%

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

(In thousands)	December 31,		
	2000	1999	1998
Balance at beginning of year	\$ 72,658	\$ 65,201	\$ 71,599
Provisions charged to operations	11,800	9,000	8,103
Allowances from purchase transactions	10,980	3,647	--
Reclassification of allowance for segregated asset losses	--	--	2,623
Charge-offs	(6,816)	(7,406)	(21,262)
Recoveries	2,187	2,216	4,138
Balance at end of year	\$ 90,809	\$ 72,658	\$ 65,201

At December 31, 2000, Webster had \$21.3 million of impaired loans as defined by SFAS No. 114, of which \$14.2 million were measured based upon the expected fair value of the underlying collateral and \$7.1 million were measured based upon the expected future cash flows of the impaired loans. The \$14.2 million of impaired loans have an allowance for loan losses of \$1.2 million and \$7.1 million of impaired loans had an allowance for loan losses of \$146,000. At December 31, 1999, Webster had \$8.1 million of impaired loans, of which \$4.8 million were measured based upon the fair value of the underlying collateral and \$3.3 million were measured based upon the expected future cash flows of the impaired loans. The \$4.8 million of impaired loans had an allowance for loan losses of \$1.5 million and the \$3.3 million

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

of impaired loans had an allowance for loan losses of \$291,000. In 2000, 1999 and 1998, the average balance of impaired loans was \$16.3 million, \$13.1 million and \$18.3 million, respectively.

Webster's policy with regard to the recognition of interest income on commercial impaired loans includes an individual assessment of each loan. Interest that is more than 90 days past due is not accrued. When payments on commercial 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 commercial impaired loans for the years 2000, 1999 and 1998 amounted to \$414,000, \$782,000 and \$603,000, respectively.

At December 31, 2000 and 1999, the Bank had total troubled debt restructurings of approximately \$5.7 million and \$5.9 million, respectively. Interest income booked for 2000 under the restructured terms totaled \$469,000 as compared to \$813,000 that would have been booked had the restructured loans been under their original terms during 2000. Interest income booked for 1999 under the restructured terms totaled \$421,000 as compared to \$746,000 that would have been booked had the restructured loans been under their original terms during 1999.

Webster's nonaccrual loans totaled \$41.0 million and \$38.4 million, respectively at December 31, 2000 and 1999. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" Item 7 - "Asset Quality" for further information on nonaccrual loans and delinquencies.

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 include commitments to extend credit and commitments to sell residential first mortgage loans and commercial loans. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized on the Consolidated Statements of Condition.

The estimated fair value of commitments to extend credit is considered insignificant at December 31, 2000 and 1999. Future loan commitments represent residential and commercial mortgage loan commitments, commercial loan commitments, letters of credit, and unused home equity and commercial unused 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.

As of December 31, 2000 and 1999, residential mortgage commitments totaled \$75.3 million and \$71.4 million, respectively. Residential commitments outstanding at December 31, 2000 consisted of adjustable-rate and fixed-rate mortgages of \$15.6 million and \$59.7 million, respectively, at rates ranging from 6.5% to 10.7%. Residential commitments outstanding at December 31, 1999 consisted of adjustable-rate and fixed-rate mortgages of \$48.7 million and \$22.7 million, respectively, at rates ranging from 5.3% to 11.5%. Commitments to originate loans generally expire within 60 days. In addition, at December 31, 2000 and 1999, there were unused portions of home equity credit lines extended of \$471.8 million and \$367.3 million, respectively. Unused commercial lines of credit, letters of credit, standby letters of credit and outstanding commercial new loan commitments totaled \$823.5 million and \$610.6 million at December 31, 2000 and 1999, respectively.

Webster uses forward commitments to sell residential 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, 2000 and 1999, Webster had forward commitments to sell loans totaling \$27.8 million and \$7.0 million, respectively, at rates between 6.0% and 8.4%, and 6.5% and 8.8%, respectively. The estimated fair value of commitments to sell loans is considered insignificant at December 31, 2000 and 1999.

At December 31, 2000 and 1999, Webster serviced, for the benefit of others, mortgage loans aggregating approximately \$1.1 billion and \$1.3 billion, respectively.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During 2000 and 1999, Webster capitalized mortgage servicing assets of \$652,000 and \$801,000, respectively, related to originating loans and selling them with servicing retained. During 2000, Webster sold mortgage servicing rights with a book value of \$694,000. Amortization of mortgage servicing rights was \$1.6 million for each of the 2000 and 1999 periods.

NOTE 5: PREMISES AND EQUIPMENT, NET

A summary of premises and equipment, net follows:

(In thousands)	December 31,	
	2000	1999
Land	\$ 13,474	\$ 15,841
Buildings and improvements	72,976	78,392
Leasehold improvements	14,428	10,182
Furniture, fixtures and equipment	103,242	87,240
Total premises and equipment	204,120	191,655
Accumulated depreciation and amortization	(109,857)	(88,252)
Premises and equipment, net	\$ 94,263	\$ 103,403

At December 31, 2000, 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 \$8.9 million, \$7.1 million and \$6.3 million in 2000, 1999, and 1998, respectively. Webster is also entitled to rental income under various non-cancelable operating leases for properties owned. Rental income under these leases was \$1.3 million, \$2.4 million and \$3.1 million in 2000, 1999 and 1998, respectively.

The following is a schedule of future minimum rental payments and receipts required under these leases as of December 31, 2000:

(In thousands)	Payments	Receipts
Years ending December 31:		
2001	\$ 11,299	\$ 1,253
2002	10,388	909
2003	9,277	686
2004	7,521	438
2005	5,697	354
Later years	38,314	1,075
Total	\$ 82,496	\$ 4,715

WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6: PREPAID EXPENSES AND OTHER ASSETS

A summary of prepaid expenses and other assets follows:

(In thousands)	December 31,	
	2000	1999
Deferred tax asset, net (Note 12)	\$ 33,917	\$ 68,744
Venture capital investments	14,333	3,266
Receivables	13,534	7,782
Unsettled securities sales	8,334	--
Prepays	6,764	6,166
Mortgage servicing rights, net	4,962	6,429
Foreclosed properties	3,295	4,909
Unamortized issuance costs	3,720	2,994
Income taxes receivable	104	2,077
Due from FDIC	--	679
Other assets	5,037	6,538
Prepaid expenses and other assets	\$ 94,000	\$ 109,584

NOTE 7: DEPOSITS

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

(Dollars in thousands)	December 31,								
	2000		1999		1998				
	Weighted average rate	Amount	% of total deposits	Weighted average rate	Amount	% of total deposits	Weighted average rate	Amount	% of total deposits
BALANCE BY ACCOUNT TYPE:									
Demand deposits	--%	\$ 851,071	12.3%	--%	\$ 675,449	10.9%	--%	\$ 626,996	9.9%
NOW accounts	.77	752,600	10.8	1.20	700,243	11.3	1.24	694,074	11.0
Regular savings and money market deposit accounts	2.49	1,916,543	27.6	2.56	1,719,562	27.8	2.52	1,582,424	25.1
Time deposits	5.24	3,421,308	49.3	4.84	3,095,837	50.0	5.07	3,409,480	54.0
Total	3.35%	\$ 6,941,522	100.0%	3.26%	\$ 6,191,091	100.0%	3.53%	\$ 6,312,974	100.0%

Interest expense on deposits is summarized as follows:

(In thousands)	Years ended December 31,		
	2000	1999	1998
NOW accounts	\$ 6,195	\$ 14,587	\$ 12,724
Regular savings and money market deposit accounts	44,746	34,655	35,935
Time deposits	173,353	154,563	192,522
Total	\$ 224,294	\$ 203,805	\$ 241,181

WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table represents the amount of time deposits maturing during the periods indicated:

(In thousands)	Totals

Maturing:	
January 1, 2001 to December 31, 2001	\$ 2,545,806
January 1, 2002 to December 31, 2002	680,581
January 1, 2003 to December 31, 2003	104,686
January 1, 2004 to December 31, 2004	26,542
January 1, 2005 to December 31, 2005	36,817
January 1, 2006 and beyond	26,876

Total	\$ 3,421,308

Time deposits of \$100,000 or more amounted to \$590.1 million and \$493.6 million and represented approximately 8.5% and 8.0% of total deposits at December 31, 2000 and 1999, respectively.

The following table represents the amount of time deposits of \$100,000 or more maturing during the periods indicated:

(In thousands)		Totals

Maturing:		
January 1, 2001 to March 31, 2001	\$	236,928
April 1, 2001 to June 30, 2001		105,962
July 1, 2001 to December 31, 2001		102,024
January 1, 2002 and beyond		145,229

Total	\$	590,143

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8: FEDERAL HOME LOAN BANK ADVANCES

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

	December 31,			
	2000		1999	

(In thousands)	Total Outstanding	Callable	Total Outstanding	Callable

FIXED RATE:				
4.75% to 6.68% due in 2000	\$ --	\$ --	\$ 833,860	\$ --
5.39% to 8.20% due in 2001	1,377,405	--	230,413	--
6.30% to 6.87% due in 2002	52,250	--	2,250	--
5.78% to 6.67% due in 2003	214,350	--	31,462	25,000
6.78% due in 2004	438	--	200,540	200,000
5.91% to 6.25% due in 2005	103,571	100,000	14,296	10,000
5.97% to 6.31% due in 2006	3,054	--	307,520	304,000
5.92% to 6.98% due in 2007	502,443	500,000	2,520	--
4.49% to 5.93% due in 2008	30,128	27,000	3,461	--
5.50% due in 2009	5,000	5,000	5,000	5,000
8.44% due in 2010	564	--	602	--
6.60% due in 2011	2,364	--	2,517	--
5.49% due in 2013	10,000	10,000	--	--

	\$ 2,301,567	\$ 642,000	\$ 1,634,441	\$ 544,000

VARIABLE RATE:				
6.81% due in 2004	80,000	--	80,000	--

Total	\$ 2,381,567	\$ 642,000	\$ 1,714,441	\$ 544,000

Unamortized discount on FHLB advances	(1,493)	--	--	--

Total Federal Home Loan Bank advances, net	\$ 2,380,074	\$ 642,000	\$ 1,714,441	\$ 544,000

The Bank had additional borrowing capacity of approximately \$2.0 billion from the FHLB at December 31, 2000 and \$1.4 billion at December 31, 1999. Advances are secured by a blanket security agreement. This agreement requires the Bank to maintain as collateral certain qualifying assets, principally mortgage loans and securities. At December 31, 2000, the callable advances had call dates ranging from October 3, 2000 to April 26, 2005. At December 31, 2000 and 1999, the Bank was in compliance with the FHLB collateral requirements.

The unamortized discount on FHLB advances at December 31, 2000, is a result of the Mechanics purchase acquisition in June 2000. The remaining balance of \$1.5

million is scheduled to be amortized over a remaining life of 2 years.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9: SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE AND OTHER BORROWINGS

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

(In thousands)	December 31,	
	2000	1999
Securities sold under agreement to repurchase	\$ 489,434 (a)	\$ 943,801 (a)
Senior notes	126,000	40,000
Treasury tax and loan	32,918	41,187
Note payable	1,000	--
Lines of credit	442	39,000
ESOP borrowings	357	766
Federal funds purchased	--	9,250
Total (b)	\$ 650,151	\$ 1,074,004

<FN>

(a) Of the \$489.4 million of securities sold under agreements to repurchase at December 31, 2000, none were structured to be callable by the broker. Of the \$943.8 million of securities sold under agreements to repurchase at December 31, 1999, \$75.0 million were structured so that the broker had the option to call the agreements in mid-2000.

(b) The weighted-average rates on these borrowings were 6.42% and 5.69% at December 31, 2000 and 1999, respectively.

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During 2000 and 1999, securities sold under agreements to repurchase ("repurchase agreements") were the primary source of borrowed funds with the exception of FHLB advances (see Note 8). The average balance and weighted-average rate for repurchase agreements were \$822.9 million and 5.83% for 2000 as compared to \$786.5 million and 5.14% for 1999. Repurchase agreements had an average balance that was 30% or more of the Bank's total equity at the end of the 2000 and 1999 periods. Repurchase agreements were primarily collateralized by U. S. Government agency mortgage-backed securities. The collateral for these repurchase agreements, related to Webster's funding operations, are delivered to broker/dealers. Repurchase agreements with broker/dealers are limited to primary dealers in government securities. Webster also enters into repurchase agreement transactions directly with commercial and municipal customers through its treasury sales desk.

Information concerning repurchase agreements as of the end of the current period is presented below:

(Dollars in thousands)

Original maturity	Balance at December 31, 2000	Book Value of Collateral	Market Value of Collateral	Weighted- Average Rate	Weighted- Average Maturity
Up to 30 days	\$ 344,304	\$ 344,589	\$ 344,445	5.60%	4.2 days
31 to 90 days	2,440	2,447	2,481	5.43	2.0 months
Over 90 days	142,690	149,508	148,381	6.39	3.2 months
Totals	\$ 489,434	\$ 496,544	\$ 495,307	5.83%	1.9 months

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table sets forth certain information concerning short-term borrowings under repurchase agreements at the dates and for the years indicated:

(Dollars in thousands)	December 31,		
	2000	1999	1998
Average amount outstanding during the period	\$ 822,855	\$ 786,536	\$ 953,789
Amount outstanding at end of period	489,434	861,160	620,034

Source: WEBSTER FINANCIAL CO, 10-K, March 21, 2001

Highest month end balance	1,094,493	938,285	1,222,750
Weighted-average interest rate at end of period	5.83%	5.49%	5.00%
Weighted-average interest rate during the period	5.96%	5.14%	5.06%

During 2000 and 1999, Webster also borrowed under lines of credit with correspondent banks and purchased federal funds, which are unsecured overnight loans with banks. The Employee Stock Ownership Plan ("ESOP") loan borrowing is from a correspondent bank at a floating rate based on the correspondent bank's base (prime) rate and the interest rates at December 31, 2000 and 1999 were 9.50% and 8.50%, respectively. In January 2001, the remaining principal on the ESOP borrowings was paid. Interest was paid quarterly and the borrowings were guaranteed and secured by unallocated shares of Webster common stock under the ESOP Plan.

In November 2000, Webster completed a private placement of \$126.0 million of 8.72% unsecured Senior Notes due in 2007 (the "Senior Notes"). The net proceeds from the note placement were generated for general corporate purposes. The Senior Notes outstanding as of December 31, 1999, in the amount of \$40.0 million at 8.75%, originated from a 1993 offering that matured on June 30, 2000.

A note payable of \$1.0 million at a fixed rate of 7.00% to Phoenix Duff & Phelps was acquired as a result of the purchase acquisition of Duff & Phelps. The note will mature June 30, 2001. Interest on the note is payable quarterly.

NOTE 10: INTEREST-RATE FINANCIAL INSTRUMENTS

Webster employs as part of its asset/liability management strategy various interest-rate contracts including short and long futures and options positions, interest-rate swaps and interest-rate caps and floors. See Note 3 for disclosures on futures positions. Webster uses financial instruments to hedge mismatches in 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 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.

Fair value, which approximates the cost to replace the contract at 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, 2000 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.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Interest-rate financial instruments are summarized as follows:

(In thousands)	December 31,					
	2000			1999		
	Notional Amount	Fair Value	Amortized Cost	Notional Amount	Fair Value	Amortized Cost
Swap agreements	\$ 25,000	\$ (7)	\$ --	\$ 25,000	\$ (1,226)	\$ --
Floor agreements	500,000	--	159	500,000	137	2,154
Cap agreements	260,000	3,292	6,158	410,000	8,945	8,720
Total	\$ 785,000	\$ 3,285	\$ 6,317	\$ 935,000	\$ 7,856	\$ 10,874

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, 2000 and 1999, Webster had one interest-rate swap agreement, hedging \$25.0 million of brokered certificates of deposit, in which Webster receives a fixed rate of 6.65% and pays a variable rate based on Libor. For the years ended December 31, 2000, 1999 and 1998, net income recorded on the deposit swap was \$57,000, \$360,000 and \$263,000, respectively.

Interest-rate cap agreements will result in cash payments to be received by Webster only if index rates rise above a predetermined rate. At December 31, 2000 and 1999, Webster had three outstanding cap agreements with notional amounts of \$260.0 million related to the available for sale securities portfolio with interest-rate caps ranging from 6.00% to 7.00%. At December 31, 2000, this

portfolio had \$6.2 million of unamortized interest-rate cap balances and during the 2000 period amortized \$2.0 million as a reduction of 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 strike. At December 31, 2000, Webster had two outstanding interest-rate floor agreements with notional amounts of \$500.0 million and interest-rate floors of 5.25% and 5.75%. At December 31, 2000, Webster had \$159,000 of unamortized floor expense and during the 2000 period amortized \$2.0 million as a reduction of available for sale interest income. The premium paid for caps and floors is amortized over the life of the contract.

At December 31, 1999, Webster had five outstanding cap agreements with notional amounts of \$410.0 million related to the available for sale securities portfolio with interest-rate caps ranging from 6.00% to 9.00%. At December 31, 1999, this portfolio had \$8.7 million of unamortized interest-rate cap balances and during the 1999 period amortized \$2.7 million as a reduction of interest income. At December 31, 1999, Webster had two outstanding interest-rate floor agreements with notional amounts of \$500.0 million and interest-rate floors of 5.25% and 5.75%. At December 31, 1999, Webster had \$2.2 million of unamortized floor expense and during the 1999 period amortized \$2.0 million as a reduction of available for sale interest income.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11: SUMMARY OF ESTIMATED FAIR VALUES

A summary of estimated fair values consisted of the following:

(In thousands)	December 31,			
	2000		1999	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
ASSETS:				
Cash and due from depository institutions	\$ 265,035	\$ 265,035	\$ 245,783	\$ 245,783
Interest-bearing deposits	1,751	1,751	37,838	37,838
Securities	3,401,795	3,388,263	3,057,819	3,042,639
Residential loans	4,146,780	4,193,086	3,898,943	3,869,912
Consumer loans	89,514	90,490	47,064	47,520
Home equity loans	609,293	615,163	492,684	492,106
Commercial loans	2,064,431	2,069,604	1,656,203	1,599,584
Allowance for loan losses	(90,809)	(90,809)	(72,658)	(72,658)
Interest-rate contracts	3,285	3,285	9,082	9,082
LIABILITIES:				
Deposits other than time deposits	\$ 3,520,214	\$ 3,520,214	\$ 3,095,254	\$ 3,095,254
Time deposits	3,421,308	3,419,898	3,095,837	3,115,113
Escrow	39,606	39,254	41,605	39,652
FHLB advances and other borrowings	3,030,225	3,054,731	2,788,445	2,778,170
Capital securities and preferred stock of subsidiary corp.	199,577	208,271	199,577	194,344

The carrying amounts for interest-bearing deposits other than time 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 or quotations received from third parties or pricing services. The fair value of interest-rate contracts was based on the amount Webster could receive or pay to terminate the agreements. FHLB stock has no active market and is required to be held by member banks. The estimated fair value of FHLB 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, FHLB advances, other borrowings, capital securities and preferred stock of subsidiary corporation were calculated using the discounted cash flow method. The discount rate for time deposits is based on a spread over Libor and the discount rates for FHLB advances and securities sold under agreements to repurchase is based on Libor rates that coincide with the 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 preferred stock of subsidiary corporation liabilities were calculated using a spread over Libor that coincides with the remaining maturities.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

one time Webster's entire holdings or any part of a particular financial instrument. Because no market exists for a significant portion of Webster's financial instruments, fair value estimates are based on judgements regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These factors are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Change in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For example, Webster has a substantial trust and investment management operation that contributes net fee income annually. The trust and investment operation is not considered a financial instrument, and its value has not been incorporated into the fair value estimates. Other significant assets and liabilities include the benefits resulting from the low-cost funding of deposit liabilities as compared to the cost of borrowing funds in the market, and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimate of fair value.

NOTE 12: INCOME TAXES

Income taxes in the Consolidated Statements of Income comprises the following:

(In thousands)	Years ended December 31,		
	2000	1999	1998
CURRENT:			
Federal	\$ 54,720	\$ 49,740	\$ 35,788
State	100	494	1,821
	54,820	50,234	37,609
DEFERRED:			
Federal	3,296	(2,902)	1,104
State	--	--	10,981
	3,296	(2,902)	12,085
TOTAL:			
Federal	58,016	46,838	36,892
State	100	494	12,802
	\$ 58,116	\$ 47,332	\$ 49,694

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income tax expense of \$58.1 million, \$47.3 million, and \$49.7 million for the years ended December 31, 2000, 1999 and 1998, respectively, differed from the amounts computed by applying the federal income tax rate of 35% in 2000, 1999 and 1998 to pre-tax income as a result of the following:

(In thousands)	Years ended December 31,		
	2000	1999	1998

Computed "expected" tax expense	\$ 61,742	\$ 49,939	\$ 44,699
Increase (decrease) in income taxes resulting from:			
Dividends received deduction	(566)	(1,091)	(756)
State income taxes, net of federal income tax benefit			
including change in state valuation allowance and tax rate	64	321	8,241
Tax exempt interest	(822)	(853)	(178)
Goodwill	2,536	1,158	459
Acquisition-related expenses	--	781	1,520
Increase in cash surrender value of life insurance	(3,372)	(2,762)	(1,963)

Other, net (1,466) (161)

Income taxes \$ 58,116 \$ 47,332 \$

</TABLE>

At December 31, 2000, Webster had a net deferred tax asset of \$33.9 million. In order to fully realize the net deferred tax asset, Webster must either generate future taxable income or incur tax losses to carry back. 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.

Federal net operating loss carryforwards ("NOL's") total \$2.1 million, expiring in various tax years through 2011. State NOL's total \$99.9 million (\$33.5 million expiring in 2004, and \$66.4 million in 2020). A 100% valuation allowance has been applied to the state NOL's because Webster does not expect any state taxable income for the foreseeable future.

A deferred tax valuation allowance has been established for the state portion of temporary differences that may not be realized due to having no expected state taxable income for the foreseeable future.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2000 and 1999 are presented below.

	December 31,	
(In thousands)	2000	1999
DEFERRED TAX ASSETS:		
Loan loss allowances and other allowances, net	\$ 35,214	\$ 28,808
Loan discount	12,720	--
Accrued compensation and pensions	6,076	6,557
Deferred expenses	1,779	3,061
Unrealized loss on securities	546	41,463
Intangibles	7,329	6,946
Net operating loss carryforwards	5,632	1,696
Other	2,450	2,007
Total gross deferred tax assets	71,746	90,538
Less state valuation allowance, net of federal benefit	(9,332)	(4,329)
Deferred tax asset after valuation allowance	62,414	86,209
DEFERRED TAX LIABILITIES:		
Loan premium	4,685	3,777
Intangibles	18,563	9,177
Accrued dividends	1,064	809
Mortgage servicing rights	863	1,127
Other	3,322	2,575
Total gross deferred tax liabilities	28,497	17,465
Net deferred tax asset	\$ 33,917	\$ 68,744

NOTE 13: SHAREHOLDERS' EQUITY

Applicable 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, 2000 and 1999, 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, 2000 and 1999, the Bank was in full compliance with all applicable capital requirements detailed as below:

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)	Actual Amount	Ratio	OTS Minimum Capital Requirements		Well Capitalized	
			Amount	Ratio	Amount	Ratio
AT DECEMBER 31, 2000						
Total capital (to risk-weighted assets)	\$ 773,773	11.45%	\$ 540,672	8.00%	\$ 675,839	10.00%
Tier 1 capital (to risk-weighted assets)	698,234	10.20	270,336	4.00	405,504	6.00
Tier 1 capital (to adjusted total assets)	698,234	6.39	431,200	4.00	539,000	5.00
Tangible capital (to adjusted total assets)	686,166	6.37	217,388	2.00	No Requirement	
AT DECEMBER 31, 1999						
Total capital (to risk-weighted assets)	\$ 727,399	12.30%	\$ 473,243	8.00%	\$ 591,554	10.00%
Tier 1 capital (to risk-weighted assets)	656,561	11.10	236,621	4.00	354,932	6.00
Tier 1 capital (to adjusted total assets)	656,561	6.73	390,374	4.00	487,967	5.00
Tangible capital (to adjusted total assets)	652,439	6.69	195,104	2.00	No Requirement	

Regulatory rules currently impose limitations on all capital distributions by savings institutions, including dividends, stock repurchases and cash-out mergers. Under current OTS capital distribution regulations, as long as the Bank meets the OTS capital requirements before and after the payment of dividends and meets the standards for expedited treatment of applications (including having certain regulatory composite, compliance and Community Reinvestment Act ratings), the Bank may pay dividends to Webster without prior OTS approval equal to the net income to date over the calendar year, plus retained net income over the preceding two years. In addition, the OTS has the discretion to prohibit any otherwise permitted capital distribution on general safety and soundness grounds, and must be given 30 days advance notice of all capital distributions during which time it may object to any proposed distribution. The Bank has paid dividends to Webster amounting to \$133.6 million, and \$60.8 million for 2000 and 1999, respectively.

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.

Retained earnings at December 31, 2000 and 1999 included \$50.0 million and \$41.0 million of earnings of the Bank appropriated to bad debt reserves (pre-1988), respectively, 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 is not 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.

On April 6, 1998, Webster's common stock split two-for-one; the stock split was effected in the form of a stock dividend. Basic and diluted common shares have been restated for all periods presented as if the stock split took place at the beginning of the earliest period shown. Also, shareholders' equity accounts for all periods presented have been restated to give retroactive recognition of the stock split.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

The Bank has an ESOP that invests in Webster common stock as discussed in Notes 9 and 15 to the Consolidated Financial Statements. Webster has secured and guaranteed the ESOP debt. The cost of unallocated shares held under the ESOP represents unearned compensation expense, and is recorded as a reduction of shareholders' equity. Both the loan obligation and the unearned compensation expense are reduced for any loan repayments made by the ESOP. Principal repayments totaled \$409,575 and \$601,275 during the years ended December 31, 2000 and 1999, respectively.

During 2000, Webster repurchased a total of 4,952,814 shares of its common stock. The majority of the shares repurchased were the result of a purchase plan in connection with the Mechanics acquisition. The Mechanics acquisition closed during the second quarter of 2000. In connection with the Follis, Wylie & Lane purchase acquisition that closed during the second quarter of 2000, 5,000 shares of common stock were repurchased. In connection with the Levine purchase acquisition that closed during the first quarter of 2000, 44,900 shares of common stock were repurchased.

During 2000, the 1992 Stock Option Plan was amended to permit grants of restricted stock. The amendment was approved at the Annual Shareholders meeting held April 27, 2000. For the 2000 and 1999 year periods, there were a total of 92,717 shares of restricted common stock granted to senior management. The fair value of the restricted stock grants is measured on the grant date and the related unearned compensation cost is amortized over the respective vesting periods.

NOTE 14: NET INCOME PER COMMON SHARE

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

(In thousands, except share data)	Year ended December 31,		
	2000	1999	1998
BASIC EARNINGS PER SHARE:			
Net income	\$ 118,291	\$ 95,350	\$ 78,019
Weighted-average common shares outstanding	45,910,447	44,553,859	45,275,165
Basic earnings per share	\$ 2.58	\$ 2.14	\$ 1.72
DILUTED EARNINGS PER SHARE:			
Net income	\$ 118,291	\$ 95,350	\$ 78,019
Weighted-average common shares outstanding	45,910,447	44,553,859	45,275,165
Dilutive potential common stock:			
Options	517,060	839,629	842,376
Total weighted-average diluted shares	46,427,507	45,393,488	46,117,541
Diluted earnings per share	\$ 2.55	\$ 2.10	\$ 1.69

WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2000, 1999 and 1998, options to purchase 1,156,469, 711,097 and 664,423 shares of common stock at exercise prices from \$23.25 to \$35.38, \$28.25 to \$35.38 and \$31.75 to \$35.38, respectively, were not considered in the computation of diluted potential common stock since the options' exercise prices were greater than the average market price of Webster common stock for 2000,

1999 and 1998, respectively.

NOTE 15: EMPLOYEE BENEFIT AND STOCK OPTION PLANS

The Bank 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 \$1.9 million, \$1.6 million and \$1.5 million for the years ended December 31, 2000, 1999 and 1998, respectively, for employer matching contributions to the investment plan.

The Bank's ESOP, which is noncontributory by employees, is designed to invest in Webster common stock on behalf of eligible employees of the Bank who meet certain minimum age and service requirements. 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. At December 31, 2000, there were 61,900 unallocated shares of Webster common stock in the ESOP with 34,314 shares scheduled for release in early 2001.

Subsequent to the release, 27,586 unallocated shares will remain in the ESOP for future distributions. At December 31, 2000, the unallocated shares in the ESOP had an aggregate market value of approximately \$1.8 million. Operations were charged with \$1.4 million, \$727,000 and \$1.2 million for the year ended December 31, 2000, 1999 and 1998, respectively, for costs related to the ESOP. The 2000 ESOP charge includes \$1.3 million of compensation expense and \$59,000 of administrative costs. For the 2000 year period, all interest payments due on the ESOP loan principal balance were offset by dividend payments received on the unallocated shares.

The Bank established an Employee Stock Purchase Plan ("ESPP") in April 2000. The ESPP is governed by Section 423 of the Internal Revenue Code of 1986, as amended, and administered by Webster's stock transfer agent. The ESPP provides eligible employees the opportunity to invest up to 10% of their base compensation to purchase Webster common stock at a discounted price. During 2000, participants in the ESPP were able to purchase Webster common stock at 85% of the fair market value at the lower of the market price on either the first or last day of each offering period.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Bank maintains a noncontributory pension plan for employees who meet certain minimum service and age requirements. Pension benefits are based upon earnings of covered employees during the period of credited service. The following tables set forth changes in benefit obligation, changes in plan assets and the funded status of the Bank's pension plan and amounts recognized in Webster's Consolidated Statements of Condition at December 31, 2000 and 1999.

(In thousands)	December 31,	
	2000	1999
CHANGE IN BENEFIT OBLIGATION:		
Projected benefit obligation-beginning of year	\$ 25,973	\$ 26,751
Service cost	3,488	3,053
Interest cost	2,006	1,741
Actuarial liability loss (gain)	1,935	(3,328)
Benefits paid and administrative expenses	(1,304)	(2,244)
Projected benefit obligation-end of year	\$ 32,098	\$ 25,973
CHANGE IN PLAN ASSETS:		
Plan assets at fair value-beginning of year	\$ 27,365	\$ 26,601
Actual return on plan assets	161	1,608
Employer contributions	4,789	1,400
Benefits paid and administrative expenses	(1,304)	(2,244)
Plan assets at fair value-end of year	\$ 31,011	\$ 27,365
Funded status under (over)	1,087	(1,392)
Unrecognized prior service cost	1,055	1,131
Unrecognized net (loss) gain	(1,320)	2,887
Unrecognized transition obligation (asset)	95	104
Accrued pension benefit cost liability	\$ 917	\$ 2,730

The pension plan held in its asset portfolio 62,000 shares of Webster common stock as of December 31, 2000 and 1999. The Webster shares had an approximate

market value of \$1.8 million and \$1.5 million at December 31, 2000 and 1999, respectively.

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 7.25%, 5.00% and 9.00%, respectively, for 2000 and 1999.

Net pension expense for 2000, 1999 and 1998 included the following components.

(In thousands)	Years ended December 31,		
	2000	1999	1998
Service cost-benefits earned during the period	\$ 3,488	\$ 3,053	\$ 2,257
Interest cost on projected benefit obligations	2,006	1,741	1,536
Expected return on plan assets	(2,432)	(2,412)	(2,242)
Amortization of prior service cost and transition obligation	(85)	(83)	(630)
Total	\$ 2,977	\$ 2,299	\$ 921

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Bank also provides other post-retirement benefits to certain retired employees. The following tables set forth the changes in benefit obligation and the funded status of the plan at December 31, 2000 and 1999:

(In thousands)	December 31,	
	2000	1999
CHANGE IN BENEFIT OBLIGATION:		
Accumulated post-retirement benefit obligation-beginning of year	\$ 3,034	\$ 3,743
Interest cost	210	202
Actuarial gain	(443)	(711)
Benefits paid	(274)	(200)
Plan amendments	960	--
Accumulated post-retirement benefit obligation-end of year	\$ 3,487	\$ 3,034
Fair value of plan assets	--	--
Funded status	\$ 3,487	\$ 3,034
Unrecognized prior service cost	(929)	--
Unrecognized net gain	757	352
Accumulated post-retirement benefit cost liability	\$ 3,315	\$ 3,386

The discount rate used in determining the accumulated post-retirement benefit obligation of 2000 and 1999 was 7.25%. The assumed healthcare cost-trend rate is 6.00% for 2000, decreasing 0.50% per year to 5.00% for 2002 and thereafter. An increase of 1.00% in the assumed healthcare cost-trend rate would increase net periodic post-retirement benefit cost by \$15,000 and increase the accumulated benefit obligation by \$228,000. A decrease of 1.00% in the assumed healthcare cost trend rate would decrease net periodic post-retirement cost by \$14,000 and decrease the accumulated benefit obligation by \$200,000.

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

(In thousands)	Years ended December 31,		
	2000	1999	1998
Service cost	\$ --	\$ --	\$ 11
Interest cost	210	202	277
Amortization of prior service cost and net (gains) losses recognized	(7)	--	112
Net periodic post-retirement benefit cost	\$ 203	\$ 202	\$ 400

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Webster maintains stock option plans (the "Option Plans") for the benefit of its directors and officers. Webster applies the provisions of APB Opinion No. 25 and related interpretations in accounting for the fixed stock option 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 in the Consolidated Statements of Income, Webster's net income and earnings per share would have been reduced to the pro forma amounts indicated as follows:

	Years ended December 31,		
	2000	1999	1998
(Dollars in thousands, except per share data)			
NET INCOME:			
As reported	\$ 118,291	\$ 95,350	\$ 78,019
Pro forma	116,212	93,981	74,005
BASIC EARNINGS PER SHARE:			
As reported	\$ 2.58	\$ 2.14	\$ 1.72
Pro forma	2.53	2.11	1.63
DILUTED EARNINGS PER SHARE:			
As reported	\$ 2.55	\$ 2.10	\$ 1.69
Pro forma	2.50	2.07	1.60

The fair value of each option is estimated on the grant date using the Black-Scholes Option-Pricing Model with the following weighted-average assumptions used for grants issued during 2000: expected option term of 9.0 years, expected dividend yield of 2.35%, expected volatility of 39.02%, expected forfeiture rate of 2.00%, and weighted risk-free interest rate of 6.76%. The weighted-average assumptions used for grants issued during 1999 were: 9.0 years, 2.35%, 33.94%, 2.00% and 5.89%, respectively; and for 1998 were 8.7 years, 1.70%, 31.19%, 2.13% and 4.96%, respectively.

A summary of the status of the fixed stock option plans at December 31, 2000, 1999 and 1998 and changes during the years then ended is presented below:

	2000		1999		1998	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding at beginning of year	2,924,905	\$ 19.00	3,036,414	\$ 17.30	3,174,383	\$ 13.23
Granted	686,193	22.81	340,147	25.56	627,350	31.92
Options issued in connection with purchase acquisitions	399,249	13.43	136,166	7.98	--	--
Exercised	(866,483)	12.02	(577,355)	11.51	(714,330)	11.63
Forfeited/canceled	(47,577)	20.37	(10,467)	21.37	(50,989)	23.47
Options outstanding at end of year	3,096,287	\$ 21.14	2,924,905	\$ 19.00	3,036,414	\$ 17.30
Options exercisable at year end	1,971,224		2,176,068		2,148,197	
Weighted-average per share fair value of options granted during the year		\$ 9.85		\$ 9.87		\$ 12.30

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes information about Webster's fixed stock option plans by price range for options outstanding and exercisable at December 31, 2000:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$ 3.55 - \$ 7.08	122,445	1.1	\$ 5.32	122,445	\$ 5.32

Source: WEBSTER FINANCIAL CO, 10-K, March 21, 2001

\$ 7.09 - \$ 10.61	433,866	3.5	9.52	433,866	9.52
\$ 10.62 - \$ 14.15	368,276	4.6	12.23	368,276	12.23
\$ 14.16 - \$ 17.69	95,258	6.5	16.58	86,860	16.61
\$ 17.70 - \$ 21.23	268,214	6.2	18.95	260,714	18.91
\$ 21.24 - \$ 24.76	916,150	9.5	23.22	39,335	22.91
\$ 24.77 - \$ 28.30	182,971	8.0	26.48	15,521	26.34
\$ 28.31 - \$ 31.84	240,107	7.2	31.27	212,207	31.49
\$ 31.85 - \$ 35.38	469,000	7.4	33.77	432,000	33.80
	3,096,287	6.9	\$ 21.14	1,971,224	\$ 19.40

Webster had nine active fixed stock option plans at December 31, 2000. Seven of the option plans were acquired through the Mechanic's, NECB, Village, Maritime, Eagle, People's and Derby acquisitions. The acquired plans had options outstanding of 500,271 at December 31, 2000. Webster's 1992 Stock Option Plan was amended in 2000 to permit grants of restricted stock and has been amended at various times since its inception. Webster also has two restricted stock plans consisting of a First Amended and Restated Directors Retainer Fees Plan, which was established in 1996, and a Restricted Stock Plan, which was established in 1992. Under this Plan, 605 shares were issued to each of the thirteen directors of Webster during 2000. The cost of the restricted shares was measured as of the grant date using the fair market value of Webster's stock as of the grant date. During 2000 and 1999, there were a total of 92,717 restricted common shares granted to senior management under the 1992 Stock Option Plan. There were 39,093 and 15,908 restricted common shares granted during 1999 and 1997 under the 1992 Restricted Stock Plan and no restricted shares granted during 1998. The cost of all restricted shares is amortized to compensation expense over the service or vesting period and such expense is reflected in Webster's Consolidated Statements of Income.

NOTE 16: ACQUISITION-RELATED EXPENSES

A summary of acquisition-related expenses follows:

(In thousands)	Years ended December 31,		
	2000	1999	1998
Eagle	\$ --	\$ --	\$ 17,400
OPBT	--	--	207
BSW	--	--	3,386
NECB	--	9,500	--
Total	\$ --	\$ 9,500	\$ 20,993

Webster did not record any accrued liabilities for expenses related to acquisitions accounted for under the pooling of interests method of accounting during 2000. Webster recorded \$9.5 million of expenses in connection with the acquisition of NECB, which was completed on December 1, 1999. In 1998, Webster recorded approximately \$17.4 million of expenses in connection with the acquisition of Eagle, which was completed on April 15, 1998. Webster also recorded in 1998 expenses of \$3.4 million and \$207,000 in connection with the acquisitions of BSW, which was completed on August 14, 1998, and OPBT, which was completed on August 10, 1998.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents a summary of the acquisition-related accrued liabilities:

(In thousands)	Derby	People's	Eagle	NECB	Total
Balance of acquisition-related accrued liabilities at December 31, 1998	\$ 3,800	\$ 1,600	\$ 1,400	\$ --	\$ 6,800
Additions/provisions	--	--	--	9,500	9,500
Payments and charges against the liabilities:					
Compensation (severance and related costs)	--	--	--	(3,000)	(3,000)
Data processing contract termination	(700)	--	--	(400)	(1,100)
Transaction costs (includes investment bankers, attorneys & accountants)	--	--	(50)	(1,300)	(1,350)
Writedown of fixed assets and facilities costs	(100)	(1,100)	(400)	(700)	(2,300)
Acquisition-related miscellaneous expenses	--	(100)	(175)	(800)	(1,075)
Balance of acquisition-related accrued liabilities at December 31, 1999	\$ 3,000	\$ 400	\$ 775	\$ 3,300	\$ 7,475
Payments and charges against the liabilities:					
Data processing contract termination	(689)	--	--	--	(689)
Transaction costs (includes investment bankers, attorneys & accountants)	--	--	--	(193)	(193)
Writedown of fixed assets and facilities costs	(1,764)	(205)	(462)	(238)	(2,669)
Acquisition-related miscellaneous expenses (a)	--	--	(22)	(1,202)	(1,224)

Source: WEBSTER FINANCIAL CO, 10-K, March 21, 2001

The remaining total accrued liability of \$2.7 million at December 31, 2000 includes \$2.4 million in reserves for remaining lease payments and other expenses of closed facilities. Disposition efforts for these closed facilities are ongoing. The remaining \$300,000 is for data processing contracts which will expire in mid 2001.

NOTE 17: BUSINESS SEGMENTS

Webster has three segments for purposes of business segment reporting. These segments include retail banking, business banking and treasury. The organizational hierarchies that define the business segments are periodically reviewed and revised. Results may be restated, when necessary, to reflect changes in the organizational structure. The following table presents the statement of operations and total assets for Webster's reportable segments.

Operating income and total assets by business segment are as follows:

YEAR ENDED DECEMBER 31, 2000				
(IN THOUSANDS)	RETAIL BANKING	BUSINESS BANKING	TREASURY	TOTAL SEGMENTS
Net interest income	\$ 257,400	\$ 51,702	\$ 17,414	\$ 326,516
Provision for loan losses	2,423	9,377	--	11,800
Net interest income after provision	254,977	42,325	17,414	314,716
Noninterest income	89,988	15,462	23,371	128,821
Noninterest expense	202,654	34,900	11,102	248,656
Income before income taxes	142,311	22,887	29,683	194,881
Income taxes	46,899	7,537	9,767	64,203
Net income after taxes	\$ 95,412	\$ 15,350	\$ 19,916	\$ 130,678
Total assets at period end	\$5,641,529	\$1,682,209	\$3,925,770	\$11,249,508

YEAR ENDED DECEMBER 31, 1999				
(IN THOUSANDS)	RETAIL BANKING	BUSINESS BANKING	TREASURY	TOTAL SEGMENTS
Net interest income	\$ 240,202	\$ 49,596	\$ 13,715	\$ 303,513
Provision for loan losses	5,109	3,891	--	9,000
Net interest income after provision	235,093	45,705	13,715	294,513
Noninterest income	60,585	15,132	16,913	92,630
Noninterest expense	169,785	33,016	13,364	216,165
Income before income taxes	125,893	27,821	17,264	170,978
Income taxes	41,760	9,236	5,727	56,723
Net income after taxes	\$ 84,133	\$ 18,585	\$ 11,537	\$ 114,255
Total assets at period end	\$5,123,912	\$1,316,305	\$3,491,527	\$9,931,744

WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The retail banking segment includes investment and insurance services, consumer lending and the Bank's deposit generation and direct banking activities, which include the operation of automated teller machines and telebanking customer support, sales and small business banking. The retail banking segment also includes the Bank's investment in residential real estate loan origination, servicing, secondary marketing activities and Webster Investment Services. The business banking segment includes the Bank's investment in commercial and industrial loans and commercial real estate loans. The business banking segment also includes business deposits, cash management activities for business banking, government finance and all trust activities including Webster Financial Advisors. The treasury segment includes the Bank's investment in assets and liabilities managed by Treasury and includes interest-bearing deposits, investment securities, Federal Home Loan Bank advances, repurchase agreements and other borrowings.

During 2000, as part of the management reorganization, Webster consolidated its consumer banking and mortgage lending segments and investment and insurance services which was previously included within the "all other" segment category, into one segment called retail banking. The trust function and government finance activities that were previously included within the "all other" segment category were transferred into the business segment.

During 1999, Webster changed its internal funds transfer pricing methodology, which charges or credits for the source or use of funds. This change effected net interest income for all reported segments for 1999 and thereafter. As a result of this change in methodology, there was an increase in interest income allocated to retail banking and an increase in interest expense allocated to treasury. The allocations are subject to periodic adjustment as the internal management accounting system is revised and business or product lines within the segments change. Also, because the development and application of these methodologies is a dynamic process, the financial results presented may be periodically revised.

Management allocates indirect expenses to its business segments. These expenses include administration, finance, operations and other support related functions. Net income (loss) after income taxes for the segments do not include certain income and expense categories that aggregate to net expenses of \$12.8 million for the year ended December 31, 2000 and \$18.9 million for the year ended December 31, 1999, that do not directly relate to segments. On a before tax basis, the net expenses were \$18.5 million for the year ended December 31, 2000 and \$28.3 million for the year ended December 31, 1999. The major categories not included in the segments for the year ended December 31, 2000, were (on a before tax basis) \$14.3 million of capital securities expense, \$4.2 million of dividend expense on the preferred stock of subsidiary corporation. For the year ended December 31, 1999, the major categories not included in the segments were (on a before tax basis) \$14.6 million of capital securities expense, \$4.2 million of dividend expense on preferred stock of subsidiary corporation and \$9.5 million of acquisition-related expense.

NOTE 18: CAPITAL SECURITIES OF SUBSIDIARY TRUSTS

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 \$100.0 million underwritten public offering of 9.36% Corporation-Obligated Mandatorily Redeemable Capital Securities of Webster Capital Trust I ("capital securities"). The sole asset of Trust I is the \$100.0 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.

On April 1, 1997, Eagle Financial Capital Trust I, subsequently renamed Webster Capital Trust II ("Trust II"), completed a \$50.0 million private placement of 10.00% capital securities. Proceeds from the issue were invested by Trust II in junior subordinated deferrable debentures issued by Eagle due in 2027. These debentures represent the sole assets of Trust II.

Total expenses for Trusts I and II were \$14.3 million, \$14.6 million and \$14.7 million for 2000, 1999 and 1998 respectively, inclusive of issuance cost amortization. The expense associated with Trust I and Trust II is tax deductible.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Webster organized Webster Capital Trust III in June 1999 and to date the trust has not been capitalized. Webster Capital Trust III was established for the sole purpose of issuing trust securities and investing the proceeds in an equivalent amount of subordinated debentures of Webster.

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 and Trust II, 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. The capital securities qualify as Tier I capital under regulatory definitions.

NOTE 19: 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 \$50.0 million in a public offering in which \$40.0 million was issued as Series A 7.375% cumulative redeemable preferred stock and \$10.0 million was issued as Series B 8.625% cumulative redeemable preferred

stock that is quoted under NASDAQ listing (WBSTP). All of WPC's common stock is owned by the Bank. Dividend expense on the preferred stock for 2000, 1999 and 1998, inclusive of issuance cost amortization, was \$12.6 million. 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. The \$40.0 million issued as Series A 7.375% cumulative redeemable preferred stock was redeemed in January 2001.

NOTE 20: 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.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21: PARENT COMPANY CONDENSED FINANCIAL INFORMATION

The Statements of Condition for 2000 and 1999 and the Statements of Income and Cash Flows for the three-year period ended December 31, 2000 (parent only) are presented below.

STATEMENTS OF CONDITION

(In thousands)	December 31,	
	2000	1999
ASSETS:		
Cash and due from depository institutions	\$ 55	\$ 7,032
Interest-bearing deposits	40,321	300
Securities available for sale	95,031	118,584
Investment in subsidiaries	1,014,678	732,085
Due from subsidiaries	108	2
Accrued interest receivable	1,304	1,263
Venture capital investments	14,333	3,266
Deferred tax asset	5,241	4,419
Unamortized issuance costs	3,720	2,994
Other assets	56	--
TOTAL ASSETS	\$ 1,174,847	\$ 869,945
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Senior notes	\$ 126,000	\$ 40,000
Lines of credit	--	39,000
ESOP borrowings	357	766
Due to subsidiaries	104	36
Other liabilities	8,012	4,476
Corporation-obligated mandatorily redeemable capital securities of subsidiary trusts	150,000	150,000
Shareholders' equity	890,374	635,667
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,174,847	\$ 869,945

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

STATEMENTS OF INCOME

(In thousands)	Years ended December 31,		
	2000	1999	1998
Dividends from subsidiary	\$ 133,552	\$ 50,806	\$ 80,776
Interest on securities	7,535	8,088	5,750
Gain on sale of securities	8,293	1,834	8,039
Other noninterest income	1	1	24
Interest expense on borrowings	7,383	5,541	5,018
Capital securities expense	14,323	14,645	14,708
Other noninterest expenses	4,701	7,304	7,104
Income before income taxes and equity	122,974	33,239	67,759
in undistributed earnings of subsidiaries	122,974	33,239	67,759
Income tax benefit	4,335	6,524	3,856
Income before equity in undistributed earnings of subsidiaries	127,309	39,763	71,615
Equity in undistributed earnings of subsidiaries	(9,018)	55,587	6,404

Source: WEBSTER FINANCIAL CO, 10-K, March 21, 2001

NET INCOME \$ 118,291 \$ 95,350 \$ 78,019

STATEMENTS OF CASH FLOWS

(In thousands)	Years ended December 31,		
	2000	1999	1998
Operating activities:			
Net income	\$ 118,291	\$ 95,350	\$ 78,019
Increase in interest receivable	(41)	(72)	(940)
(Increase) decrease in other assets	(10,356)	(1,500)	11,428
Gain on sale of securities	(8,293)	(1,834)	(8,039)
Equity in undistributed earnings of subsidiaries	9,018	(55,587)	(6,404)
Increase (decrease) in other liabilities	3,500	(2,557)	(3,036)
Other, net	--	1,080	1,038
Net cash provided by operating activities	112,119	34,880	72,066
Investing activities:			
Purchases of securities available for sale	(354,560)	(132,824)	(265,132)
Sales and maturities of securities available for sale	382,742	148,852	176,688
(Increase) decrease in interest-bearing deposits	(40,021)	435	2,158
Net cash paid for purchase acquisitions	(27,187)	--	--
Other, net	--	(183)	(1,265)
Distribution from bank subsidiary	(527)	10,000	50,000
Net cash (used) provided by investing activities	(39,553)	26,280	(37,551)
Financing activities:			
Repayment of borrowings	(856,649)	(151,607)	(85,611)
Proceeds from borrowings	903,240	180,006	95,000
Net proceeds from issuance of capital securities	--	--	4,846
Exercise of stock options	13,308	9,342	10,816
Cash dividends to shareholders	(28,645)	(20,729)	(20,848)
Common stock repurchases	(110,797)	(72,161)	(39,861)
Net cash used by financing activities	(79,543)	(55,149)	(35,658)
(Decrease) increase in cash and cash equivalents	(6,977)	6,011	(1,143)
Cash and cash equivalents at beginning of year	7,032	1,021	2,164
Cash and cash equivalents at end of year	\$ 55	\$ 7,032	\$ 1,021

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22: SELECTED QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

Selected quarterly data for 2000 and 1999 follows:

(In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2000:				
Interest income	\$ 169,643	\$ 174,946	\$ 197,600	\$ 196,722
Interest expense	93,371	95,915	111,790	111,319
Net interest income	76,272	79,031	85,810	85,403
Provision for loan losses	2,200	3,200	3,200	3,200
Gain on sale of loans, loan servicing and securities, net	3,657	3,244	4,431	1,069
Gain on sale of deposits	--	--	--	4,859
Other noninterest income	23,928	27,419	28,738	31,476
Noninterest expenses	61,549	64,604	68,601	72,376
Income before income taxes	40,108	41,890	47,178	47,231
Income taxes	13,297	13,783	15,595	15,441
Net income	\$ 26,811	\$ 28,107	\$ 31,583	\$ 31,790
NET INCOME PER COMMON SHARE:				
Basic	\$ 0.61	\$ 0.66	\$ 0.65	\$ 0.65
Diluted	0.61	0.66	0.64	0.64
1999:				
Interest income	\$ 160,026	\$ 159,813	\$ 162,179	\$ 163,774
Interest expense	87,340	83,372	84,331	87,236
Net interest income	72,686	76,441	77,848	76,538
Provision for loan losses	2,165	2,268	2,245	2,322
Gain (loss) on sale of loans, loan servicing and securities, net	3,444	3,572	(499)	2,165
Other noninterest income	18,132	18,998	22,402	24,416
Noninterest expenses	55,646	58,272	59,136	71,407
Income before income taxes	36,451	38,471	38,370	29,390
Income taxes	12,478	13,121	11,973	9,760

Source: WEBSTER FINANCIAL CO, 10-K, March 21, 2001

Net income	\$ 23,973	\$ 25,350	\$ 26,397	\$ 19,630

NET INCOME PER COMMON SHARE:				
Basic	\$ 0.55	\$ 0.57	\$ 0.58	\$ 0.44

Diluted	0.54	0.56	0.57	0.43

The quarter ended December 31, 1999, includes \$9.5 million of acquisition-related charges related to the acquisition of NECB.

All periods presented have been retroactively restated to reflect the inclusion of the results of NECB, which was acquired on December 1, 1999 and accounted for using the pooling of interests method.

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