SWIFT ENERGY CO
Form 10-Q
November 17, 2014

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

FORM 10-Q

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

For the quarterly period ended September 30, 2014
Commission File Number 1-8754
SWIFT ENERGY COMPANY
(Exact Name of Registrant as Specified in Its Charter)

Texas	20-3940661
(State of Incorporation)	(I.R.S. Employer Identification No.)

16825 Northchase Drive, Suite 400
Houston, Texas 77060
(281) 874-2700
(Address and telephone number of principal executive offices)
Securities registered pursuant to Section 12(b) of the Act:

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, and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ

Indicate the number of shares outstanding of each of the Issuer’s classes
of common stock, as of the latest practicable date.

Common Stock ($.01 Par Value) (Class of Stock)	43,859,472 Shares (Outstanding at October 31, 2014)

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Preliminary Note

Immediately prior to the filing of this report, we filed a Form 10-K/A report for the fiscal year ended December 31, 2013 and Form 10-Q/A reports for the fiscal quarters ended March 31, 2014 and June 30, 2014, restating our financial statements for these periods. These filings were made to correct errors we discovered in our ceiling test calculations for prior periods and to make certain other adjustments with respect to the periods covered by those reports. Certain details regarding those errors and adjustments are discussed in Note 1A - “Restatement of Previously Issued Condensed Consolidated Financial Statements” of this Form 10-Q.

Restatement Background

On November 10, 2014, the Audit Committee of our Board of Directors (the “Audit Committee”), after discussion with management and Ernst & Young LLP (“EY”), our independent registered public accounting firm, determined that the following financial statements previously filed with the SEC should no longer be relied upon: (1) the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2013; (2) the unaudited condensed consolidated financial statements included in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2013, June 30, 2013, and September 30, 2013; and (3) the unaudited condensed consolidated financial statements included our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2014 and June 30, 2014.

In connection with the preparation of our financial statements for the quarter ended September 30, 2014, we determined that an error occurred in our model used for the ceiling test calculation we prepared at December 31, 2013, March 31, 2009 and December 31, 2008, to determine whether the net book value of the Company's oil and gas properties exceed the ceiling. Specifically, this error related to incorrectly including the deferred income tax effect of the Company's asset retirement obligations when computing the ceiling test limitation of its oil and natural gas properties under the full-cost method of accounting. The Company determined that the error caused a material overstatement of its full-cost ceiling test write-down of oil and gas properties in periods prior to 2014.

As a result of this error, we are restating our unaudited consolidated financial statements for the three and nine months ended September 30, 2013. The correction of the error principally resulted in an increase in our depreciation, depletion and amortization expense for the three and nine months ended September 30, 2013 of approximately $0.3 million and $1.0 million, respectively, and decreased net income for the three and nine months ended September 30, 2013 by approximately $0.2 million and $0.6 million, respectively, (net of an decrease to the income tax provision for the three and nine months ended September 30, 2013, of approximately $0.1 million and $0.4 million, respectively). Please refer to Note 1A - “Restatement of Previously Issued Consolidated Financial Statements” of this Form 10-Q for more information regarding the impact of these adjustments.

Along with restating our financial statements to correct the error discussed above, we are making adjustments for certain previously identified immaterial accounting errors related to the periods covered by this form 10-Q. When these financial statements were originally issued, we assessed the impact of these errors and concluded that they were not material to our financial statements for the three and nine months ended September 30, 2013. However, in conjunction with our need to restate our financial statements as a result of the error noted above, we have determined that it would be appropriate within this Form 10-Q to make adjustments for all such previously unrecorded adjustments. Please refer to Note 1A - “Restatement of Previously Issued Consolidated Financial Statements” of this Form 10-Q for more information regarding the impact of these adjustments.

Because these revisions are treated as corrections of errors to our prior period financial results, the revisions are considered to be a “restatement” under U.S. generally accepted accounting principles. Accordingly, the revised financial information included in this Quarterly Report on Form 10-Q has been identified as “restated”.

Internal Control Consideration

Our management has determined that there was a deficiency in our internal control over financial reporting that constitutes a material weakness, as defined by SEC regulations, at September 30, 2014. For a discussion of management's consideration of our disclosure controls and procedures and the material weakness identified, see Part I, Item 4 included in this Form 10-Q.

SWIFT ENERGY COMPANY

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014
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Condensed Consolidated Balance Sheets
Swift Energy Company and Subsidiaries (in thousands, except share amounts)

	September 30, 2014 (unaudited)	December 31, 2013 (As Restated)
ASSETS		
Current Assets:		
Cash and cash equivalents	$9,041	$3,277
Accounts receivable	63,385	70,897
Deferred tax asset	9,693	10,715
Other current assets	42,063	7,600
Total Current Assets	124,182	92,489
Property and Equipment:		
Property and Equipment, including $65,767 and $71,452 of unproved property costs not being amortized, respectively	5,863,650	5,714,099
Less – Accumulated depreciation, depletion, and amortization	(3,326,908)	(3,125,282)
Property and Equipment, Net	2,536,742	2,588,817
Other Long-Term Assets	14,235	17,199
Total Assets	$2,675,159	$2,698,505
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$100,493	$82,318
Accrued capital costs	48,498	61,164
Accrued interest	12,986	21,561
Undistributed oil and gas revenues	13,089	10,990
Total Current Liabilities	175,066	176,033
Long-Term Debt	1,079,269	1,142,368
Deferred Tax Liabilities	253,689	241,205
Asset Retirement Obligation	67,155	63,225
Other Long-Term Liabilities	9,631	10,324
Commitments and Contingencies	—	—
Stockholders' Equity:		
Preferred stock, $.01 par value, 5,000,000 shares authorized, none outstanding	—	—
Common stock, $.01 par value, 150,000,000 shares authorized, 44,296,246 and 43,915,346 shares issued, and 43,857,765 and 43,401,920 shares outstanding, respectively	443	439
Additional paid-in capital	769,663	762,242
Treasury stock held, at cost, 438,481, and 513,426 shares, respectively	(9,744)	(12,575)
Retained earnings	329,987	315,244
Total Stockholders' Equity	1,090,349	1,065,350
Total Liabilities and Stockholders' Equity	$2,675,159	$2,698,505

See accompanying Notes to Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Operations (Unaudited)
Swift Energy Company and Subsidiaries (in thousands, except per-share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013 (As Restated)	2014	2013 (As Restated)
Revenues:				
Oil and gas sales	$133,896	$152,981	$441,440	$442,015
Price-risk management and other, net	4,898	(2,048)	(2,472)	(714)
Total Revenues	138,794	150,933	438,968	441,301
Costs and Expenses:				
General and administrative, net	10,981	11,146	33,565	35,062
Depreciation, depletion, and amortization	65,331	67,274	201,072	187,503
Accretion of asset retirement obligation	1,445	1,478	4,246	4,732
Lease operating cost	22,067	23,078	70,606	76,919
Transportation and gas processing	5,107	5,783	16,412	15,386
Severance and other taxes	10,191	11,695	28,829	32,221
Interest expense, net	18,197	17,495	55,295	51,297
Total Costs and Expenses	133,319	137,949	410,025	403,120
Income Before Income Taxes	5,475	12,984	28,943	38,181
Provision for Income Taxes	3,001	5,625	14,200	15,235
Net Income	$2,474	$7,359	$14,743	$22,946
Per Share Amounts-				
Basic: Net Income	$0.06	$0.17	$0.34	$0.53
Diluted: Net Income	$0.06	$0.17	$0.33	$0.53
Weighted Average Shares Outstanding - Basic	43,850	43,389	43,768	43,308
Weighted Average Shares Outstanding - Diluted	44,473	43,704	44,299	43,624

See accompanying Notes to Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Stockholders' Equity
Swift Energy Company and Subsidiaries (in thousands, except share amounts)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total
Balance, December 31, 2012 (As Restated)	$435	$748,517	$(13,855)	$317,686	$1,052,783
Stock issued for benefit plans (104,890 shares)	—	(1,171)	2,793	—	1,622
Shares issued from option exercises (1,125 shares)	—	4	—	—	4
Purchase of treasury shares (98,020 shares)	—	—	(1,513)	—	(1,513)
Tax shortfall from share-based compensation	—	(1,607)	—	—	(1,607)
Employee stock purchase plan (72,273 shares)	1	945	—	—	946
Issuance of restricted stock (391,581 shares)	3	(3)	—	—	—
Amortization of share-based compensation	—	15,557	—	—	15,557
Net Loss	—	—	—	(2,442)	(2,442)
Balance, December 31, 2013 (As Restated)	$439	$762,242	$(12,575)	$315,244	$1,065,350
Stock issued for benefit plans (154,665 shares) (1)	—	(1,876)	3,785	—	1,909
Purchase of treasury shares (79,720 shares) (1)	—	—	(954)	—	(954)
Employee stock purchase plan (71,825 shares) (1)	1	823	—	—	824
Issuance of restricted stock (309,075 shares) (1)	3	(3)	—	—	—
Amortization of share-based compensation (1)	—	8,477	—	—	8,477
Net Income (1)	—	—	—	14,743	14,743
Balance, September 30, 2014	$443	$769,663	$(9,744)	$329,987	$1,090,349

(1) Unaudited

See accompanying Notes to Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Cash Flows (Unaudited)
Swift Energy Company and Subsidiaries (in thousands)

	Nine Months Ended September 30,	
	2014	2013 (As Restated)
Cash Flows from Operating Activities:		
Net income	$14,743	$22,946
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation, depletion, and amortization	201,072	187,503
Accretion of asset retirement obligation	4,246	4,732
Deferred income taxes	13,507	15,235
Share-based compensation expense	5,571	8,454
Other	(390)	(4,093)
Change in assets and liabilities-		
(Increase) decrease in accounts receivable and other current assets	14,159	(3,293)
Increase (decrease) in accounts payable and accrued liabilities	7,299	2,588
Increase (decrease) in income taxes payable	543	(208)
Increase (decrease) in accrued interest	(8,575)	(8,257)
Net Cash Provided by Operating Activities	252,175	225,607
Cash Flows from Investing Activities:		
Additions to property and equipment	(316,972)	(435,722)
Proceeds from the sale of property and equipment	145,535	6,990
Funds withdrawn from restricted cash account	6,501	—
Funds deposited into restricted cash account	(18,345)	—
Net Cash Used in Investing Activities	(183,281)	(428,732)
Cash Flows from Financing Activities:		
Proceeds from bank borrowings	639,000	968,500
Payments of bank borrowings	(702,000)	(764,900)
Net proceeds from issuances of common stock	824	946
Purchase of treasury shares	(954)	(1,494)
Net Cash Provided by (Used in) Financing Activities	(63,130)	203,052
Net increase (decrease) in Cash and Cash Equivalents	5,764	(73)
Cash and Cash Equivalents at Beginning of Period	3,277	170
Cash and Cash Equivalents at End of Period	$9,041	$97
Supplemental Disclosures of Cash Flows Information:		
Cash paid during period for interest, net of amounts capitalized	$61,983	$57,990
Cash paid during period for income taxes	$150	$208

See accompanying Notes to Condensed Consolidated Financial Statements.

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Notes to Condensed Consolidated Financial Statements
Swift Energy Company and Subsidiaries

(1) General Information

The condensed consolidated financial statements included herein have been prepared by Swift Energy Company ("Swift Energy," the "Company," or "we") and reflect necessary adjustments, all of which were of a recurring nature unless otherwise disclosed herein, and are in the opinion of our management necessary for a fair presentation. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission. We believe that the disclosures presented are adequate to allow the information presented not to be misleading. The condensed consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2013 as filed with the Securities and Exchange Commission on November 17, 2014.

(1A) Restatement of Previously Issued Condensed Consolidated Financial Statements

Overview. In connection with the preparation of our financial statements for the quarter ended September 30, 2014, we determined that the ceiling test calculation we had prepared at December 31, 2013, March 31, 2009 and December 31, 2008, to determine whether the net book value of the Company's oil and gas properties exceed the ceiling, incorrectly included the deferred income tax effect of the Company's asset retirement obligations when computing the ceiling test limitation of its oil and natural gas properties under the full-cost method of accounting. The Company determined that the error caused a material overstatement of its full-cost ceiling test write-down of oil and gas properties in periods prior to 2014, more specifically in the fourth quarter of 2013, in the first quarter of 2009 and the fourth quarter of 2008, including associated depletion for all periods presented. As a result of this error, in this Form 10-Q we are restating our unaudited condensed consolidated financial information for the three and nine months ended September 30, 2013.

For the 2013 periods presented herein, the correction of the error principally results in an increase in our depreciation, depletion and amortization expense for the three and nine months ended September 30, 2013 of approximately $0.3 million and $1.0 million, respectively, and decreased net income for the three and nine months ended September 30, 2013 by approximately $0.2 million and $0.6 million, respectively (net of a decrease to the income tax benefit for the three and nine months ended September 30, 2013, of approximately $0.1 million and $0.4 million, respectively).

Along with restating our financial statements to correct the error discussed above, we have recorded adjustments for certain previously identified immaterial accounting errors related to the periods covered by this Form 10-Q. When these financial statements were originally issued, we assessed the impact of these errors and concluded that they were not material to our financial statements for the three and nine months ended September 30, 2013. However, in conjunction with our need to restate our financial statements as a result of the error noted above, we have determined that it would be appropriate to make adjustments within this Form 10-Q for all such previously unrecorded adjustments.

The combined impacts of all adjustments to the applicable line items in our unaudited condensed consolidated financial statements for the periods covered by this Form 10-Q are provided in the tables below.

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The following tables present the effect of the correction of the error and other adjustments on selected line items of our previously reported unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2013 (in thousands):

	Condensed Consolidated Statements of Operations For the Three Months Ended September 30, 2013			Condensed Consolidated Statements of Operations For the Nine Months Ended September 30, 2013		
	(As Reported)	Adjustments	(As Restated)	(As Reported)	Adjustments	(As Restated)
Oil and Gas Sales	$155,049	$(2,068)	$152,981	$442,418	$(403)	$442,015
Total Revenues	153,001	(2,068)	150,933	441,704	(403)	441,301
Depreciation, depletion, and amortization	66,948	326	67,274	186,526	977	187,503
Lease operating cost	23,078	—	23,078	77,459	(540)	76,919
Transportation and gas processing	5,783	—	5,783	16,678	(1,292)	15,386
Severance and other taxes	11,695	—	11,695	31,971	250	32,221
Total Costs and Expenses	137,623	326	137,949	403,725	(605)	403,120
Income (Loss) from Continuing Operations Before Income Taxes	15,378	(2,394)	12,984	37,979	202	38,181
Provision (Benefit) for Income Taxes	6,492	(867)	5,625	15,162	73	15,235
Net Income (Loss)	8,886	(1,527)	7,359	22,817	129	22,946
Basic EPS: Net Income (Loss)	$0.20	$(0.03)	$0.17	$0.53	$—	$0.53
Diluted EPS: Net Income (Loss)	$0.20	$(0.03)	$0.17	$0.52	$0.01	$0.53

	Consolidated Statements of Cash Flows For the Nine Months Ended September 30, 2013		
	(As Reported)	Adjustments	(As Restated)
Net income (loss)	$22,817	$129	$22,946
Depreciation, depletion, and amortization	186,526	977	187,503
Deferred income taxes	15,162	73	15,235
Other	(3,796)	(297)	(4,093)
(Increase) decrease in accounts receivable	(3,696)	403	(3,293)
Increase (decrease) in accounts payable and accrued liabilities	3,873	(1,285)	2,588
Net Cash Provided by Operating Activities	225,607	—	225,607

(2) Summary of Significant Accounting Policies

Principles of Consolidation. The accompanying condensed consolidated financial statements include the accounts of Swift Energy and its wholly owned subsidiaries, which are engaged in the exploration, development, acquisition, and operation of oil and gas properties, with a focus on inland waters and onshore oil and natural gas reserves in Louisiana and Texas. Our undivided interests in oil and gas properties are accounted for using the proportionate consolidation method, whereby our proportionate share of each entity's assets, liabilities, revenues, and expenses are included in the appropriate classifications in the accompanying condensed consolidated financial statements. Intercompany balances and transactions have been eliminated in preparing the accompanying condensed consolidated financial statements.

Subsequent Events. We have evaluated subsequent events of our consolidated financial statements. There were no material subsequent events requiring additional disclosure in these financial statements.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires us to make estimates and assumptions that affect the reported amounts of certain assets

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and liabilities and the reported amounts of certain revenues and expenses during each reporting period. We believe our estimates and assumptions are reasonable; however, such estimates and assumptions are subject to a number of risks and uncertainties that may cause actual results to differ materially from such estimates. Significant estimates and assumptions underlying these financial statements include:

- the estimated quantities of proved oil and natural gas reserves used to compute depletion of oil and natural gas properties and the related present value of estimated future net cash flows therefrom,
- estimates related to the collectability of accounts receivable and the credit worthiness of our customers,
- estimates of the counterparty bank risk related to letters of credit that our customers may have issued on our behalf,
- estimates of future costs to develop and produce reserves,
- accruals related to oil and gas sales, capital expenditures and lease operating expenses,
- estimates of insurance recoveries related to property damage, and the solvency of insurance providers,
- estimates in the calculation of share-based compensation expense,
- estimates of our ownership in properties prior to final division of interest determination,
- the estimated future cost and timing of asset retirement obligations,
- estimates made in our income tax calculations,
- estimates in the calculation of the fair value of hedging assets and liabilities, and
- estimates in the assessment of current litigation claims against the company.

While we are not aware of any material revisions to any of our estimates, there will likely be future revisions to our estimates resulting from matters such as new accounting pronouncements, changes in ownership interests, payouts, joint venture audits, re-allocations by purchasers or pipelines, or other corrections and adjustments common in the oil and gas industry, many of which require retroactive application. These types of adjustments cannot be currently estimated and will be recorded in the period during which the adjustments occur.

We are subject to legal proceedings, claims, liabilities and environmental matters that arise in the ordinary course of business. We accrue for losses when such losses are considered probable and the amounts can be reasonably estimated.

Property and Equipment. We follow the “full-cost” method of accounting for oil and natural gas property and equipment costs. Under this method of accounting, all productive and nonproductive costs incurred in the exploration, development, and acquisition of oil and natural gas reserves are capitalized. Such costs may be incurred both prior to and after the acquisition of a property and include lease acquisitions, geological and geophysical services, drilling, completion, and equipment. Internal costs incurred that are directly identified with exploration, development, and acquisition activities undertaken by us for our own account, and which are not related to production, general corporate overhead, or similar activities, are also capitalized. For the three months ended September 30, 2014 and 2013, such internal costs capitalized totaled $6.9 million and $7.9 million, respectively. For the nine months ended September 30, 2014 and 2013, such internal costs capitalized totaled $20.9 million and $23.9 million, respectively. Interest costs are also capitalized to unproved oil and natural gas properties. For the three months ended September 30, 2014 and 2013, capitalized interest on unproved properties totaled $1.2 million and $1.8 million, respectively. For the nine months ended September 30, 2014 and 2013, capitalized interest on unproved properties totaled $3.7 million and $5.6 million, respectively. Interest not capitalized and general and administrative costs related to production and general corporate overhead are expensed as incurred.

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The “Property and Equipment” balances on the accompanying condensed consolidated balance sheets are summarized for presentation purposes. The following is a detailed breakout of our “Property and Equipment” balances (in thousands):

	September 30, 2014	December 31, 2013 (As Restated)
Property and Equipment		
Proved oil and gas properties	$5,755,886	$5,600,279
Unproved oil and gas properties	65,767	71,452
Furniture, fixtures, and other equipment	41,997	42,368
Less – Accumulated depreciation, depletion, and amortization	(3,326,908)	(3,125,282)
Property and Equipment, Net	$2,536,742	$2,588,817

No gains or losses are recognized upon the sale or disposition of oil and natural gas properties, except in transactions involving a significant amount of reserves or where the proceeds from the sale of oil and natural gas properties would significantly alter the relationship between capitalized costs and proved reserves of oil and natural gas attributable to a cost center. Internal costs associated with selling properties are expensed as incurred.

Future development costs are estimated property-by-property based on current economic conditions and are amortized to expense as our capitalized oil and gas property costs are amortized.

We compute the provision for depreciation, depletion, and amortization (“DD&A”) of oil and natural gas properties using the unit-of-production method. Under this method, we compute the provision by multiplying the total unamortized costs of oil and gas properties, including future development costs, gas processing facilities, and both capitalized asset retirement obligations and undiscounted abandonment costs of wells to be drilled, net of salvage values, but excluding costs of unproved properties, by an overall rate determined by dividing the physical units of oil and natural gas produced during the period by the total estimated units of proved oil and natural gas reserves at the beginning of the period. This calculation is done on a country-by-country basis, and the period over which we will amortize these properties is dependent on our production from these properties in future years. Furniture, fixtures, and other equipment are recorded at cost and are depreciated by the straight-line method at rates based on the estimated useful lives of the property, which range between two and 20 years. Repairs and maintenance are charged to expense as incurred.

Geological and geophysical (“G&G”) costs incurred on developed properties are recorded in “Proved properties” and therefore subject to amortization. G&G costs incurred that are directly associated with specific unproved properties are capitalized in “Unproved properties” and evaluated as part of the total capitalized costs associated with a prospect. The cost of unproved properties not being amortized is assessed quarterly, on a property-by-property basis, to determine whether such properties have been impaired. In determining whether such costs should be impaired, we evaluate current drilling results, lease expiration dates, current oil and gas industry conditions, international economic conditions, capital availability, and available geological and geophysical information. Any impairment assessed is added to the cost of proved properties being amortized.

Full-Cost Ceiling Test. At the end of each quarterly reporting period, the unamortized cost of oil and natural gas properties (including natural gas processing facilities, capitalized asset retirement obligations, net of related salvage values and deferred income taxes, and excluding the recognized asset retirement obligation liability) is limited to the sum of the estimated future net revenues from proved properties (excluding cash outflows from recognized asset retirement obligations, including future development and abandonment costs of wells to be drilled, using the preceding 12-months’ average price based on closing prices on the first day of each month, adjusted for price differentials, discounted at 10%, and the lower of cost or fair value of unproved properties) adjusted for related

income tax effects ("Ceiling Test"). This calculation is done on a country-by-country basis.

The calculations of the Ceiling Test and provision for DD&A are based on estimates of proved reserves. There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting the future rates of production, timing, and plan of development. The accuracy of any reserves estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. Results of drilling, testing, and production subsequent to the date of the estimate may justify revision of such estimates. Accordingly, reserves estimates are often different from the quantities of oil and natural gas that are ultimately recovered.

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It is reasonably possible that our estimate of discounted future net cash flows from proved oil and natural gas reserves could change in the future and that non-cash write-downs of oil and natural gas properties could occur in the future. For example, if future capital expenditures out pace future discounted net cash flows in our reserve calculations, if we have significant declines in our oil and natural gas reserves volumes (which also reduces our estimate of discounted future net cash flows from proved oil and natural gas reserves) or if oil or natural gas prices decline, non-cash write-downs of our oil and natural gas properties could occur. We cannot estimate the amount or timing of any potential future non-cash write-down of our oil and natural gas properties.

Revenue Recognition. Oil and gas revenues are recognized when production is sold to a purchaser at a fixed or determinable price, when delivery has occurred and title has transferred, and if collectability of the revenue is probable. Swift Energy uses the entitlement method of accounting in which we recognize our ownership interest in production as revenue. If our sales exceed our ownership share of production, the natural gas balancing payables are reported in “Accounts payable and accrued liabilities” on the accompanying condensed consolidated balance sheets. Natural gas balancing receivables are reported in “Other current assets” on the accompanying condensed consolidated balance sheets when our ownership share of production exceeds sales. As of September 30, 2014 and December 31, 2013, we did not have any material natural gas imbalances.

Reclassification of Prior Period Balances. Certain reclassifications have been made to prior period amounts to conform to the current-year presentation.

Accounts Receivable. We assess the collectability of accounts receivable, and based on our judgment, we accrue a reserve when we believe a receivable may not be collected. At September 30, 2014 and December 31, 2013, we had an allowance for doubtful accounts of approximately $0.4 million and $0.1 million, respectively. The allowance for doubtful accounts has been deducted from the total “Accounts receivable” balance on the accompanying condensed consolidated balance sheets.

At September 30, 2014, our “Accounts receivable” balance included $51.9 million for oil and gas sales, $1.9 million for joint interest owners, $7.9 million for severance tax credit receivables and $1.7 million for other receivables. At December 31, 2013, our “Accounts receivable” balance included $56.9 million for oil and gas sales, $1.6 million for joint interest owners, $11.6 million for severance tax credit receivables and $0.8 million for other receivables.

Debt Issuance Costs. Legal fees, accounting fees, underwriting fees, printing costs, and other direct expenses associated with extensions of our bank credit facility and public debt offerings were capitalized and are amortized on an effective interest basis over the life of each of the respective senior note offerings and credit facility.

The 7.125% senior notes due in 2017 mature on June 1, 2017, and the balance of their issuance costs at September 30, 2014, was $1.4 million. The 8.875% senior notes due in 2020 mature on January 15, 2020, and the balance of their issuance costs at September 30, 2014, was $3.2 million. The 7.875% senior notes due in 2022 mature on March 1, 2022, and the balance of their issuance costs at September 30, 2014, was $6.1 million. The balance of revolving credit facility issuance costs at September 30, 2014, was $2.5 million.

Price-Risk Management Activities. The Company follows FASB ASC 815-10, which requires that changes in the derivative’s fair value are recognized in earnings. The changes in the fair value of our derivatives are recognized in "Price-risk management and other, net” on the accompanying condensed consolidated statements of operations. We have a price-risk management policy to use derivative instruments to protect against declines in oil and natural gas prices, mainly through the purchase of price swaps, floors, calls, collars and participating collars.

During the three months ended September 30, 2014 and 2013, we recorded a net gain of $5.0 million and a net loss of $2.0 million, respectively, relating to our derivative activities. The 2014 amount includes a revenue increase of $1.2

million during the third quarter of 2014 for the non-cash fair value adjustments on commodity derivatives. For the nine months ended September 30, 2014 and 2013, we recorded net losses of $2.7 million and $0.8 million, respectively, relating to our derivative activities. The effects of our derivatives are included in the "Other" section of our operating activities on the accompanying condensed consolidated statements of cash flows.

The fair values of our derivatives are computed using commonly accepted industry-standard models and are periodically verified against quotes from brokers. The fair value of our current unsettled derivative assets at September 30, 2014 was $0.7 million which was recognized on the accompanying condensed consolidated balance sheet in “Other current assets.” The fair values of our current and non-current unsettled derivative liabilities at September 30, 2014 were $0.5 million and $0.1 million which were recognized on the accompanying condensed consolidated balance sheet in “Accounts payable and accrued liabilities” and “Other Long-Term Liabilities”, respectively.

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At September 30, 2014, we had $1.0 million in receivables for settled derivatives which were recognized on the accompanying condensed consolidated balance sheet in “Accounts receivable” and were subsequently collected in October 2014. At September 30, 2014, we also had $0.1 million in payables for settled derivatives which were recognized on the accompanying condensed consolidated balance sheet in "Accounts payable and accrued liabilities" and were subsequently paid in October 2014.

The Company uses an International Swap and Derivatives Association "ISDA" master agreement for our derivative contracts. This is an industry standardized contract containing the general conditions of our derivative transactions including provisions relating to netting derivative settlement payments under certain circumstances (such as default). For reporting purposes, the Company has elected to not offset the asset and liability fair value amounts of its derivatives on the accompanying balance sheets. If all counterparties were in a default situation, the Company, under the right of set-off, would have shown a net derivative fair value asset of $0.1 million and liability of $0.1 million at September 30, 2014 and December 31, 2013, respectively. For further discussion related to the fair value of the Company's derivatives, refer to Note 7 of these condensed consolidated financial statements.

The following tables summarize the weighted average prices and future production volumes for our unsettled derivative contracts in place as of September 30, 2014:

Natural Gas Derivatives (NYMEX Henry Hub Settlements)	Total Volumes (MMBtu)	Swap Fixed Price	Collars Floor Price	Ceiling Price
2014 Contracts				
Swaps	3,330,000	$4.32		
Collars	1,035,000		$4.15	$4.55
2015 Contracts				
Swaps	900,000	$4.42		

Natural Gas Basis Derivatives (East Texas Houston Ship Channel Settlements)	Total Volumes (MMBtu)	Swap Fixed Price
2014 Contracts		
Swaps	4,200,000	$(0.11)
2015 Contracts		
Swaps	8,200,000	$(0.02)

Supervision Fees. Consistent with industry practice, we charge a supervision fee to the wells we operate including our wells in which we own up to a 100% working interest. Supervision fees are recorded as a reduction to “General and administrative, net”, on the accompanying condensed consolidated statements of operations. Our supervision fees are based on COPAS industry guidelines. The amount of supervision fees charged for the three and nine months ended September 30, 2014 and 2013 did not exceed our actual costs incurred. The total amount of supervision fees charged to the wells we operated were $3.5 million and $2.8 million for the three months ended September 30, 2014 and 2013, respectively and $9.2 million and $8.9 million for the nine months ended September 30, 2014 and 2013, respectively.

Inventories. Inventories consist primarily of tubulars and other equipment and supplies that we expect to place in service in production operations. Inventories carried at cost (weighted average method) are included in “Other current assets” on the accompanying condensed consolidated balance sheets totaling $3.1 million and $3.5 million at September 30, 2014 and December 31, 2013, respectively.

Income Taxes. Under guidance contained in FASB ASC 740-10, deferred taxes are determined based on the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities, given the provisions of the enacted tax laws.

We follow the recognition and disclosure provisions under guidance contained in FASB ASC 740-10-25. Under this guidance, tax positions are evaluated for recognition using a more-likely-than-not threshold, and those tax positions requiring recognition are measured as the largest amount of tax benefit that is greater than fifty percent likely of being realized upon ultimate

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settlement with a taxing authority that has full knowledge of all relevant information. Our policy is to record interest and penalties relating to uncertain tax positions in income tax expense. At September 30, 2014, we did not have any accrued liability for uncertain tax positions and do not anticipate recognition of any significant liabilities for uncertain tax positions during the next 12 months.

Our U.S. Federal income tax returns for 2007 forward, our Louisiana income tax returns from 1999 forward and our Texas franchise tax returns after 2008 remain subject to examination by the taxing authorities. There are no material unresolved items related to periods previously audited by these taxing authorities. No other jurisdiction returns are significant to our financial position.

For the nine months ended September 30, 2014, we recognized an income tax expense increase of $2.1 million related to a shortfall between the tax deduction received with respect to prior restricted stock grants that vested during the year versus the actual book expense recorded over the life of those grants.

Accounts Payable and Accrued Liabilities. The “Accounts payable and accrued liabilities” balances on the accompanying condensed consolidated balance sheets are summarized below (in thousands):

	September 30, 2014	December 31, 2013 (As Restated)
Trade accounts payable (1)	$ 25,624	$ 30,769
Accrued operating expenses	14,451	16,016
Accrued payroll costs	11,212	10,938
Asset retirement obligation – current portion	13,292	15,859
Accrued taxes	9,626	5,845
Deposit liability (2)	22,685	—
Other payables	3,603	2,891
Total accounts payable and accrued liabilities	$ 100,493	$ 82,318

(1) Included in “trade accounts payable” are liabilities of approximately $9.6 million and $26.1 million at September 30, 2014 and December 31, 2013, respectively, for outstanding checks.
(2) This amount equals the liability related to funds received from Saka Energi that are maintained in a restricted cash account. Refer to the "Short-Term Restricted Cash" discussion below for further information.

Cash and Cash Equivalents. We consider all highly liquid instruments with an initial maturity of three months or less to be cash equivalents. These amounts do not include cash balances that are contractually restricted.

Short-Term Restricted Cash (Saka Energi Transaction). On July 15, 2014, we closed our transaction with PT Saka Energi Indonesia ("Saka Energi") to fully develop 8,300 acres of Fasken area Eagle Ford shale properties owned by Swift Energy in Webb County, Texas. Swift Energy sold a 36% full participating interest in the Fasken properties to Saka Energi.

Subject to the terms of the transaction, Swift Energy and Saka Energi are required to deposit cash on a monthly basis into a separate Swift Energy-owned bank account to fund their respective portions of the on-going Fasken development program for the following month. All cash deposited in the account is contractually restricted for use in the Fasken development program and therefore is recorded as restricted cash until the Company has performed the related development activities.

As of September 30, 2014, we recorded $34.5 million of restricted cash including $11.8 million for deposits from Swift Energy with the remaining deposits from Saka Energi. The restricted cash balance is reported in “Other current assets” while the related deposit liability is reported in “Accounts payable and accrued liabilities” on the accompanying

condensed consolidated balance sheets.

During the quarter Saka Energi deposited $29.8 million into the account while $7.1 million was withdrawn from the account in order to fund on-going development operations in the Fasken area. The cash changes from the account relating to Saka Energi's contributions are shown in the operating activities section of the accompanying condensed consolidated statements of cash flows. The cash changes from the account relating to Swift Energy's contributions are reported in the investing activities section on the accompanying condensed consolidated statements of cash flows.

Long-term Restricted Cash. Long-term restricted cash includes amounts held in escrow accounts to satisfy plugging and abandonment obligations. As of September 30, 2014 and December 31, 2013, these assets were approximately $1.0 million.

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These amounts are restricted as to their current use and will be released when we have satisfied all plugging and abandonment obligations in certain fields. These restricted cash balances are reported in "Other Long-Term Assets" on the accompanying condensed consolidated balance sheets.

Asset Retirement Obligation. We record these obligations in accordance with the guidance contained in FASB ASC 410-20. This guidance requires entities to record the fair value of a liability for legal obligations associated with the retirement obligations of tangible long-lived assets in the period in which it is incurred. When the liability is initially recorded, the carrying amount of the related long-lived asset is increased. The liability is discounted from the expected date of abandonment. Over time, accretion of the liability is recognized each period, and the capitalized cost is depreciated on a unit-of-production basis as part of depreciation, depletion, and amortization expense for our oil and gas properties. Upon settlement of the liability, the Company either settles the obligation for its recorded amount or incurs a gain or loss upon settlement which is included in the "Property and Equipment" balance on our accompanying condensed consolidated balance sheets. This guidance requires us to record a liability for the fair value of our dismantlement and abandonment costs, excluding salvage values.

The following provides a roll-forward of our asset retirement obligation (in thousands):

	2014
Asset Retirement Obligation recorded as of January 1	$ 79,084
Accretion expense	4,246
Liabilities incurred for new wells and facilities construction	470
Reductions due to sold and abandoned wells and facilities	(2,914)
Revisions in estimates	(439)
Asset Retirement Obligation as of September 30	$ 80,447

At September 30, 2014 and December 31, 2013, approximately $13.3 million and $15.9 million of our asset retirement obligation was classified as a current liability in "Accounts payable and accrued liabilities" on the accompanying condensed consolidated balance sheets.

New Accounting Pronouncements. In May 2014, the FASB issued ASU 2014-09, providing a comprehensive revenue recognition standard for contracts with customers that supersedes current revenue recognition guidance. The guidance is effective for annual and interim reporting periods beginning after December 15, 2016 and upon adoption, entities are required to recognize revenue using the following five-step model: identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue as the entity satisfies each performance obligation. Adoption of this standard could result in retrospective application, either in the form of recasting all prior periods presented or a cumulative adjustment to equity in the period of adoption. We plan to review and assess the effect and implement any necessary requirements as needed.

(3) Share-Based Compensation

We have various types of share-based compensation plans. Refer to our definitive proxy statement for our annual meeting of shareholders filed with the SEC on April 2, 2014, as well as Note 6 of our consolidated financial statements in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2013, for additional information related to these share-based compensation plans. We follow guidance contained in FASB ASC 718 to account for share-based compensation.

We receive a tax deduction for certain stock option exercises during the period the stock options are exercised, generally for the excess of the market value on the exercise date over the exercise price of the stock option awards.

We receive an additional tax deduction when restricted stock awards vest at a higher value than the value used to recognize compensation expense at the date of grant. In accordance with guidance contained in FASB ASC 718, we are required to report excess tax benefits from the award of equity instruments as financing cash flows. For the three and nine months ended September 30, 2014, we recognized an income tax shortfall in earnings of $0.2 million and $2.1 million, respectively, primarily related to restricted stock awards that vested at a price lower than the grant date fair value. For the three and nine months ended September 30, 2013, we did not recognize any material excess tax benefit or shortfall in earnings. There were no stock option exercises for the nine months ended September 30, 2014 and 2013.

Share-based compensation expense for awards issued to both employees and non-employees, which was recorded in "General and administrative, net" in the accompanying condensed consolidated statements of operations, was $1.7 million and

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$2.2 million for the three months ended September 30, 2014 and 2013, respectively and $5.1 million and $7.8 million for the nine months ended September 30, 2014 and 2013, respectively. Share-based compensation recorded in lease operating cost was $0.1 million for the three months ended September 30, 2014 and 2013 and was $0.2 million for the nine months ended September 30, 2014 and 2013, respectively. We also capitalized $0.9 million and $1.2 million of share-based compensation for the three months ended September 30, 2014 and 2013, respectively, and capitalized $2.9 million and $4.4 million for the nine months ended September 30, 2014 and 2013, respectively. We view stock option awards and restricted stock awards with graded vesting as single awards with an expected life equal to the average expected life of component awards and amortize the awards on a straight-line basis over the life of the awards.

Stock Option Awards

We use the Black-Scholes-Merton option pricing model to estimate the fair value of stock option awards. During the nine months ended September 30, 2014 and 2013 we did not grant any stock option awards.

At September 30, 2014, we had $0.2 million of unrecognized compensation cost related to stock option awards, which is expected to be recognized over a weighted-average period of 0.4 years. The following table represents stock option award activity for the nine months ended September 30, 2014:

	Shares	Wtd. Avg. Exercise Price
Options outstanding, beginning of period	1,488,314	$ 33.38
Options granted	—	$ —
Options canceled	(90,527)	$ 25.20
Options exercised	—	$ —
Options outstanding, end of period	1,397,787	$ 33.88
Options exercisable, end of period	1,295,616	$ 33.98

Our stock option awards outstanding and exercisable at September 30, 2014 were out of the money and therefore had no aggregate intrinsic value. At September 30, 2014, the weighted average contract life of stock option awards outstanding was 4.8 years and the weighted average contract life of stock option awards exercisable was 4.6 years. There were no stock option exercises for the nine months ended September 30, 2014 and 2013.

Restricted Stock Awards

The plans, as described in Note 6 of our consolidated financial statements in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2013, allow for the issuance of restricted stock awards that generally may not be sold or otherwise transferred until certain restrictions have lapsed. The unrecognized compensation cost related to these awards is expected to be expensed over the period the restrictions lapse (generally one to three years).

The compensation expense for these awards was determined based on the closing market price of our stock at the date of grant applied to the total number of shares that were anticipated to fully vest. As of September 30, 2014, we had unrecognized compensation expense of $12.4 million related to restricted stock awards which is expected to be recognized over a weighted-average period of 1.7 years. The grant date fair value of shares vested during the nine months ended September 30, 2014 was $10.6 million.

The following table represents restricted stock award activity for the nine months ended September 30, 2014:

	Shares	Wtd. Avg. Grant Price

Restricted shares outstanding, beginning of period	1,267,110	$21.54
Restricted shares granted	743,150	$11.58
Restricted shares canceled	(139,973)	$15.16
Restricted shares vested	(308,825)	$34.27
Restricted shares outstanding, end of period	1,561,462	$14.85

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Performance-Based Restricted Stock Units

For the nine months ended September 30, 2014 and 2013, the Company granted 185,250 and 189,700 units, respectively, of performance-based restricted stock units containing predetermined market and performance conditions with a cliff vesting period of 3.1 years. These units were granted at 100% of target payout while the conditions of the grants allow for a payout ranging between no payout and 200% of target.

The compensation expense for the market condition is based on the per unit grant date valuation using a Monte-Carlo simulation. The performance condition is remeasured quarterly and compensation expense is recorded based on the closing market price of our stock per unit on the grant date multiplied by the expected payout level. The payout level is calculated based on actual performance achieved during the performance period compared to a defined peer group.

As of September 30, 2014, we had unrecognized compensation expense of $2.8 million related to our restricted stock units which is expected to be recognized over a weighted-average period of 2.0 years. No shares vested during the nine months ended September 30, 2014 and 2013. The weighted average grant date fair value for the restricted stock units granted during the nine months ended September 30, 2014 and 2013 was $11.68 and $15.01 per unit, respectively.

The following table represents restricted stock unit activity for the nine months ended September 30, 2014:

	Shares	Wtd. Avg. Grant Price
Restricted stock units outstanding, beginning of period	189,700	$ 15.01
Restricted stock units granted	185,250	$ 11.68
Restricted stock units canceled	—	$ —
Restricted stock units vested	—	$ —
Restricted stock units outstanding, end of period	374,950	$ 13.36

(4) Earnings Per Share

The Company computes earnings per share in accordance with FASB ASC 260-10. Basic earnings per share (“Basic EPS”) has been computed using the weighted average number of common shares outstanding during each period. Diluted earnings per share ("Diluted EPS") assumes, as of the beginning of the period, exercise of stock options and restricted stock grants using the treasury stock method. Diluted EPS also assumes conversion of performance-based restricted stock units to common shares based on the number of shares (if any) that would be issuable, according to predetermined performance and market goals, if the end of the reporting period was the end of the performance period. Certain of our stock options and restricted stock grants that would potentially dilute Basic EPS in the future were also antidilutive for the three and nine months ended September 30, 2014 and 2013, and are discussed below.

The following is a reconciliation of the numerators and denominators used in the calculation of Basic and Diluted EPS for the three and nine months ended September 30, 2014 and 2013 (in thousands, except per share amounts):

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013 (As Restated)		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic EPS:						
Net Income and Share Amounts	$ 2,474	43,850	$ 0.06	$ 7,359	43,389	$ 0.17
Dilutive Securities:						

Restricted Stock Awards		564			288	
Restricted Stock Units		59			27	
Diluted EPS:						
Net Income and Assumed Share Conversions	$2,474	44,473	$0.06	$7,359	43,704	$0.17

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	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013 (As Restated)		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic EPS:						
Net Income and Share Amounts	$ 14,743	43,768	$ 0.34	$ 22,946	43,308	$ 0.53
Dilutive Securities:						
Restricted Stock Awards		469			249	
Restricted Stock Units		62			67	
Diluted EPS:						
Net Income and Assumed Share Conversions	$ 14,743	44,299	$ 0.33	$ 22,946	43,624	$ 0.53

Approximately 1.4 million and 1.6 million stock options to purchase shares were not included in the computation of Diluted EPS for the three months ended September 30, 2014 and 2013, respectively, and approximately 1.4 million and 1.6 million stock options to purchase shares were not included in the computation of Diluted EPS for the nine months ended September 30, 2014 and 2013 because these stock options were antidilutive. Approximately 0.2 million restricted stock awards were not included in the computation of Diluted EPS for the three months ended September 30, 2014 and 2013, and approximately 0.3 million restricted stock awards were not included in the computation of Diluted EPS for the nine months ended September 30, 2014 and 2013 because they were antidilutive. Approximately 0.7 million and 0.4 million shares for three and nine months ended September 30, 2014 and 2013, respectively, related to performance-based restricted stock units that could be converted to common shares based on predetermined performance and market goals were not included in the computation of Diluted EPS because the performance and market conditions had not been met, assuming the end of the reporting period was the end of the performance period.

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(5) Long-Term Debt

Our long-term debt as of September 30, 2014 and December 31, 2013, was as follows (in thousands):

	September 30, 2014	December 31, 2013
7.125% senior notes due in 2017	$ 250,000	$ 250,000
8.875% senior notes due in 2020 (1)	222,691	222,446
7.875% senior notes due in 2022 (1)	404,578	404,922
Bank Borrowings due in 2017	202,000	265,000
Long-Term Debt (1)	$ 1,079,269	$ 1,142,368

(1) Amounts are shown net of any debt discount or premium

As of September 30, 2014, we had $202.0 million of outstanding bank borrowings on our credit facility which has a maturity date of November 1, 2017. The maturities on our senior notes are $250.0 million in 2017, $225.0 million in 2020 and $400.0 million in 2022.

We have capitalized interest on our unproved properties in the amount of $1.2 million and $1.8 million for the three months ended September 30, 2014 and 2013, respectively, and we have capitalized interest on our unproved properties in the amount of $3.7 million and $5.6 million for the nine months ended September 30, 2014 and 2013, respectively.

Bank Borrowings. Effective October 17, 2014, our syndicate of 11 banks reaffirmed the borrowing base and commitment amount of $417.6 million on our $500.0 million credit facility. The maturity date of November 1, 2017 remained unchanged.

We had $202.0 million and $265.0 million in outstanding borrowings under our credit facility at September 30, 2014 and December 31, 2013, respectively. The interest rate on our credit facility is either (a) the lead bank’s prime rate plus an applicable margin or (b) the Eurodollar rate plus an applicable margin. However with respect to (a), if the lead bank’s prime rate is not higher than each of the federal funds rate plus 0.5%, and the adjusted London Interbank Offered Rate (“LIBOR”) plus 1%, the greatest of these three rates will then apply. The applicable margins vary depending on the level of outstanding debt with escalating rates of 50 to 150 basis points above the Alternative Base Rate and escalating rates of 150 to 250 basis points for Eurodollar rate loans. At September 30, 2014, the lead bank’s prime rate was 3.25%. The commitment fee associated with the credit facility fluctuated between 0.38% and 0.50% for the three months ended September 30, 2014.

The terms of our credit facility include, among other restrictions, a limitation on the level of cash dividends (not to exceed $15.0 million in any fiscal year), a remaining aggregate limitation on purchases of our stock of $50.0 million, requirements as to maintenance of certain minimum financial ratios (principally pertaining to adjusted working capital ratios and EBITDAX as defined in the terms of our credit facility) and limitations on incurring other debt. Since inception, no cash dividends have been declared on our common stock. As of September 30, 2014, we were in compliance with the provisions of this agreement. The credit facility is secured by our oil and natural gas properties. Under the terms of the credit facility, the commitment amount can be less than or equal to the total amount of the borrowing base with unanimous consent of the bank group as it might change from time to time.

Interest expense on the credit facility, including commitment fees and amortization of debt issuance costs, totaled $1.7 million and $1.6 million for the three months ended September 30, 2014 and 2013, respectively. Interest expense on the credit facility, including commitment fees and amortization of debt issuance costs, totaled $5.9 million and $4.0 million for the nine months ended September 30, 2014 and 2013, respectively. The amount of commitment fees included in interest expense, net was $0.2 million for the three months ended September 30, 2014 and 2013, and was $0.6 million and $0.9 million for the nine months ended September 30, 2014 and 2013.

Senior Notes Due In 2022. These notes consist of $400.0 million of 7.875% senior notes that will mature on March 1, 2022. On November 30, 2011, we issued $250.0 million of these senior notes at a discount of $2.1 million or 99.156% of par, which equates to an effective yield to maturity of 8%. The original discount of $2.1 million is recorded in "Long-Term Debt" on our condensed consolidated balance sheets and will be amortized over the life of the notes using the effective interest method. On October 3, 2012, we issued an additional $150.0 million of these senior notes at 105% of par, which equates to a yield to worst of 6.993%. The premium of $7.5 million is recorded in "Long-Term Debt" on our condensed consolidated balance sheets and will be amortized over the life of the notes using the effective interest method. The notes are senior unsecured obligations that rank equally with all of our existing and future senior unsecured indebtedness, are effectively subordinated to all our existing and future secured indebtedness to the extent of the value of the collateral securing such indebtedness, including borrowing under our bank

credit facility, and will rank senior to any future subordinated indebtedness of Swift Energy. Interest on these notes is payable semi-annually on March 1 and September 1 and commenced on March 1, 2012. On or after March 1, 2017, we may redeem some or all of these notes, with certain restrictions, at a redemption price, plus accrued and unpaid interest, of 103.938% of principal, declining in twelve-month intervals to 100% in 2020 and thereafter. In addition, prior to March 1, 2015, we may redeem up to 35% of the principal amount of the notes with the net proceeds of qualified offerings of our equity at a redemption price of 107.875% of the principal amount of the notes, plus accrued and unpaid interest. We incurred approximately $7.5 million of debt issuance costs related to these notes, which is included in "Other Long–Term Assets" on the accompanying condensed consolidated balance sheets and will be amortized to interest expense, net over the life of the notes using the effective interest method. In the event of certain changes in control of Swift Energy, each holder of notes will have the right to require us to repurchase all or any part of the notes at a purchase price in cash equal to 101% of the principal amount, plus accrued and unpaid interest to the date of purchase. The terms of these notes include, among other restrictions, limitations on our ability to repurchase shares, incur debt, create liens, make investments, transfer or sell assets, enter into transactions with affiliates and consolidate, merge or transfer all or substantially all of our assets. We were in compliance with the provisions of the indenture governing these senior notes as of September 30, 2014.

Interest expense on the senior notes due in 2022, including amortization of debt issuance costs and debt premium, totaled $7.9 million for the three months ended September 30, 2014 and 2013 and $23.7 million for the nine months ended September 30, 2014 and 2013.

Senior Notes Due In 2020. These notes consist of $225.0 million of 8.875% senior notes issued at 98.389% of par, which equates to an effective yield to maturity of 9.125%. The notes were issued on November 25, 2009 with an original discount of $3.6 million and will mature on January 15, 2020. The original discount of $3.6 million is recorded in "Long-Term Debt" on our condensed consolidated balance sheets and will be amortized over the life of the notes using the effective interest method. The notes are senior unsecured obligations that rank equally with all of our existing and future senior unsecured indebtedness, are effectively subordinated to all our existing and future secured indebtedness to the extent of the value of the collateral securing such indebtedness, including borrowing under our bank credit facility, and will rank senior to any future subordinated indebtedness of Swift Energy. Interest on these notes is payable semi-annually on January 15 and July 15 and commenced on January 15, 2010. On or after January 15, 2015, we may redeem some or all of these notes, with certain restrictions, at a redemption price, plus accrued and unpaid interest, of 104.438% of principal, declining in twelve-month intervals to 100% in 2018 and thereafter. We incurred approximately $5.0 million of debt issuance costs related to these notes, which is included in "Other Long–Term Assets" on the accompanying condensed consolidated balance sheets and will be amortized to interest expense, net over the life of the notes using the effective interest method. In the event of certain changes in control of Swift Energy, each holder of notes will have the right to require us to repurchase all or any part of the notes at a purchase price in cash equal to 101% of the principal amount, plus accrued and unpaid interest to the date of purchase. The terms of these notes include, among other restrictions, limitations on our ability to repurchase shares, incur debt, create liens, make investments, transfer or sell assets, enter into transactions with affiliates and consolidate, merge or transfer all or substantially all of our assets. We were in compliance with the provisions of the indenture governing these senior notes as of September 30, 2014.

Interest expense on the senior notes due in 2020, including amortization of debt issuance costs and debt discount, totaled $5.2 million for the three months ended September 30, 2014 and 2013 and $15.6 million and $15.5 million for the nine months ended September 30, 2014 and 2013, respectively.

Senior Notes Due In 2017. These notes consist of $250.0 million of 7.125% senior notes due in 2017, which were issued on June 1, 2007 at 100% of the principal amount and will mature on June 1, 2017. The notes are senior unsecured obligations that rank equally with all of our existing and future senior unsecured indebtedness, are effectively subordinated to all our existing and future secured indebtedness to the extent of the value of the collateral

securing such indebtedness, including borrowing under our bank credit facility, and will rank senior to any future subordinated indebtedness of Swift Energy. Interest on these notes is payable semi-annually on June 1 and December 1, and commenced on December 1, 2007. We may redeem some or all of these notes, with certain restrictions, starting at a redemption price of 102.375% of the principal, plus accrued and unpaid interest, declining in twelve-month intervals to 100% on June 1, 2015 and thereafter. We incurred approximately $4.2 million of debt issuance costs related to these notes, which is included in "Other Long-Term Assets" on the accompanying condensed consolidated balance sheets and will be amortized to interest expense, net over the life of the notes using the effective interest method. In the event of certain changes in control of Swift Energy, each holder of notes will have the right to require us to repurchase all or any part of the notes at a purchase price in cash equal to 101% of the principal amount, plus accrued and unpaid interest to the date of purchase. The terms of these notes include, among other restrictions, limitations on our ability to repurchase shares, incur debt, create liens, make investments, transfer or sell assets, enter into transactions with affiliates and consolidate, merge or transfer all or substantially all of our assets. We were in compliance with the provisions of the indenture governing these senior notes as of September 30, 2014.

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Interest expense on the senior notes due in 2017, including amortization of debt issuance costs, totaled $4.6 million for the three months ended September 30, 2014 and 2013 and $13.7 million for the nine months ended September 30, 2014 and 2013.

(6) Acquisitions and Dispositions

On July 15, 2014, we closed our transaction with Saka Energi to fully develop 8,300 acres of Fasken area Eagle Ford shale properties owned by Swift Energy in Webb County, Texas, with an effective date of January 1, 2014. Swift Energy sold a 36% full participating interest in the Fasken properties to Saka Energi for $175 million in total cash consideration, with $125 million paid at closing (subject to adjustments for the interim period between the effective date and the closing date) and $50 million in cash to be paid by Saka Energi over time to carry a portion of Swift Energy's field development costs incurred after the effective date. As of September 30, 2014, approximately $35 million remained of Saka Energi's original $50 million carry obligation. At closing, the company received approximately $147 million in proceeds, including a $12.5 million deposit received during the prior quarter which was held in an escrow account until the closing date, as well as adjustments for the interim period between the effective date and the closing date. The proceeds initially were used to reduce our outstanding borrowings on our credit facility which were partially offset by additional borrowings against the credit facility during the quarter to fund development expenditures. No gain or loss was recognized for the transaction as the proceeds were applied to the full cost pool.

(7) Fair Value Measurements

FASB ASC 820-10 defines fair value, establishes guidelines for measuring fair value and expands disclosure about fair value measurements. It does not create or modify any current GAAP requirements to apply fair value accounting. However, it provides a single definition for fair value that is to be applied consistently for all prior accounting pronouncements.

Our financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, accounts payable, bank borrowings, and senior notes. The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, and accounts payable approximate fair value due to the highly liquid or short-term nature of these instruments.

Based upon quoted market prices as of September 30, 2014 and December 31, 2013, the fair value and carrying value of our senior notes was as follows (in millions):

	September 30, 2014		December 31, 2013	
	Fair Value	Carrying Value	Fair Value	Carrying Value
7.125% senior notes due in 2017	$251.9	$250.0	$256.7	$250.0
8.875% senior notes due in 2020	$225.0	$222.7	$239.1	$222.4
7.875% senior notes due in 2022	$411.0	$404.6	$409.0	$404.9

Our senior notes due in 2017, 2020 and 2022 are stated as liabilities at carrying value on our accompanying condensed consolidated balance sheets, net of any discount or premium. If we recorded these notes at fair value they would be Level 1 in our fair value hierarchy as they are traded in an active market with quoted prices for identical instruments.

The following table presents our assets and liabilities that are measured at fair value as of September 30, 2014 and December 31, 2013, and are categorized using the fair value hierarchy. For additional discussion related to the fair value of the Company's derivatives, refer to Note 2 of these condensed consolidated financial statements. The fair value hierarchy has three levels based on the reliability of the inputs used to determine the fair value (in millions):

	Fair Value Measurements at			
	Total Assets / Liabilities	Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2014				
Assets:				
Natural Gas Derivatives	$0.7	$—	$0.7	$—
Liabilities:				
Natural Gas Basis Derivatives	0.6	—	0.6	—
December 31, 2013				
Assets:				
Natural Gas Derivatives	0.5	—	0.5	—
Oil Derivatives	0.3	—	0.3	—
Liabilities:				
Natural Gas Derivatives	0.7	—	0.7	—
Oil Derivatives	0.2	—	0.2	—

Our unsettled derivative assets and liabilities in the table above are measured at gross fair value and are shown on the accompanying condensed consolidated balance sheets in “Other current assets” and "Accounts payable and accrued liabilities", respectively.

Level 1 – Uses quoted prices in active markets for identical, unrestricted assets or liabilities. Instruments in this category have comparable fair values for identical instruments in active markets.

Level 2 – Uses quoted prices for similar assets or liabilities in active markets or observable inputs for assets or liabilities in non-active markets. Instruments in this category are periodically verified against quotes from brokers and include our commodity derivatives that we value using commonly accepted industry-standard models which contain inputs such as contract prices, risk-free rates, volatility measurements and other observable market data that are obtained from independent third-party sources.

Level 3 – Uses unobservable inputs for assets or liabilities that are in non-active markets. We do not have any assets or liabilities in this category that are not supported by market activity and have significant unobservable inputs.

(8) Condensed Consolidating Financial Information

Swift Energy Company (the parent) is the issuer and Swift Energy Operating, LLC (a wholly owned indirect subsidiary of Swift Energy Company) is the sole guarantor of our senior notes due in 2017, 2020 and 2022. Swift Energy Company does not have any independent assets or operations. The guarantees on our senior notes due in 2017, 2020 and 2022 are full and unconditional. All subsidiaries of Swift Energy Company, other than Swift Energy Operating, LLC, are minor.

(9) Commitments and Contingencies

During 2014, the Company entered into additional gas transportation agreements. As of September 30, 2014, the minimum commitments under these agreements total approximately $36.3 million covering transportation from 2015 through 2020.

We had no other material changes from amounts referenced under Note 5 in our Notes to Consolidated Financial Statements from our Annual Report on Form 10-K/A for the year ending December 31, 2013.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis in conjunction with our financial information and our consolidated financial statements and accompanying notes included in this report and our annual report on Form 10-K/A for the year ended December 31, 2013. The following information contains forward-looking statements; see "Forward-Looking Statements" on page 29 of this report.

Restatement

As discussed in the Preliminary Note and in Note 1A of the Notes to Consolidated Financial Statements included in this Form 10-Q, we are restating our unaudited condensed consolidated financial statements and related disclosures for the three and nine months ended September 30, 2013. The following discussion and analysis of our financial condition and results of operations incorporates the restated amounts. For this reason, the data set forth in this Item 2 may not be comparable to the discussion and data in our previously filed quarterly report on Form 10-Q for the quarter ended September 30, 2013.

Overview

We are an independent oil and natural gas company formed in 1979, and we are engaged in the exploration, development, acquisition and operation of oil and natural gas properties, with a focus on our reserves and production from our Texas properties as well as onshore and inland waters of Louisiana. We hold a large acreage position in Texas prospective for Eagle Ford shale and Olmos tight sands development and are one of the largest producers of crude oil in the state of Louisiana. Oil production accounted for 29% of our third quarter 2014 production and 62% of our oil and gas sales, and combined production of both oil and natural gas liquids ("NGLs") constituted 45% of our third quarter 2014 production and 74% of our oil and gas sales.

Recent Events and 2015 Capital Spending Plans and Expectations

- Recent crude oil price decline: Both natural gas and crude oil prices are volatile and significant price movement can impact our profitability and cash flows. Oil prices started to decline in the third quarter of 2014 and this decline accelerated during the month of October 2014. Between June 30, 2014 and October 31, 2014, WTI crude oil prices decreased 24% with the most rapid decline occurring in October 2014. Although the effect of this price decrease was somewhat muted on our third quarter results, we expect fourth quarter 2014 results will be affected in a more significant way as 60% of the Company's oil and gas sales for the first nine months of 2014 were derived from crude oil sales.

- Update of 2014 planned capital expenditures: For 2014, the Company is targeting annual production levels of 12.2 to 12.3 MMBoe with an average daily production rate of 33.4 to 33.7 MBoe/d, which is an increase from our previous expectation of 11.9 to 12.1 MMBoe. This increase is based on planned full-year capital expenditures of $390 to $400 million, which is an increase from our most recent estimate of $375 to $400 million. We will continue to fund our 2014 capital expenditures with our operating cash flow and a portion of the proceeds received from the recently closed Saka Energi transaction.

- 2015 capital spending and expectations: We expect the current significantly lower oil and natural gas prices to reduce operating cash flows and we therefore have meaningfully reduced our capital spending plans for 2015. We currently plan to spend between $240 to $260 million next year, with a focus on drilling activity in our Fasken area as well as in our South Texas oil and condensate properties. Based on this level of capital expenditures, we currently expect 2015 production to remain level with our current year average production, which is expected to average 33.4 to 33.7 MBoe/d for 2014. A portion of our capital expenditure program is discretionary and may be deferred if necessary. We

forecast our capital expenditures will exceed our operating cash flows by approximately $60 to $70 million using commodity prices as of November 1, 2014. We expect to cover this level of spending through a combination of asset dispositions, joint ventures or other partnerships and will use excess proceeds to reduce borrowings on our credit facility and/or retire a portion of our long-term debt. Between June 30, 2014 and September 30, 2014, the outstanding balance under our credit facility had been reduced by approximately $100 million using a portion of the proceeds from the July 2014 closing of the Saka Energi transaction. We will continue to work with a prospective buyer for all of our Central Louisiana properties, although we remain uncertain when or if this transaction will occur. At this point, if no sale of these assets were to occur, we anticipate investing a limited amount of capital in this area during 2015 in low risk projects to maintain the value of these assets, and we will continue to consider offering portions of these properties for sale in separate parcels.

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Third Quarter 2014 Activities

- Saka Energi transaction: On July 15, 2014, we closed a transaction with Saka Energi to fully develop 8,300 acres of natural gas Eagle Ford shale properties in our Fasken area. Saka Energi purchased a 36% full participating interest in the properties for $175 million in total cash consideration, with $125 million paid at closing and $50 million in cash to be paid by Saka Energi over time to carry a portion of Swift Energy's field development costs incurred after the effective date, January 1, 2014. As of September 30, 2014, approximately $35 million remained of Saka Energi's original $50 million carry obligation, which is expected to be fulfilled by the end of calendar year 2016 but is dependent on the pace of drilling in the Fasken area. At closing, Swift received proceeds of approximately $147 million, composed of the initial $125 million in cash consideration plus Saka Energi's share of capital costs, net of revenue between the January 1, 2014 effective date and the closing date. The consideration included a $12.5 million deposit received during the prior quarter that was held in an escrow account until the closing date. The proceeds from this transaction initially were used to pay down our credit facility which were partially offset by additional borrowings against the credit facility during the quarter to fund development expenditures. We expect this transaction to allow accelerated drilling and development of our Fasken properties.

- Fasken production: In Fasken, we have grown our Eagle Ford dry gas gross production from 28.3 million cubic feet of gas per day (“MMcf/d”) during the second quarter of 2013 to over 100 MMcf/d during the third quarter of 2014. We have contracted firm transportation capacity of 75 MMcf/d and have also been able to access interruptible capacity in excess of that amount during the third quarter of 2014. We also contracted for an increase in this firm transportation capacity to 160 MMcf/d, which is now in place and ready for service. We currently expect to reach our fully committed capacity production levels before the end of the first quarter of 2015.

- Production: Our production volumes decreased by 2% in the third quarter of 2014 when compared to volumes in the same period in 2013, as oil volumes decreased by 13% and NGL volumes decreased by 20%, while natural gas production volumes increased by 13%. Sequentially, production volumes decreased by 13% in the third quarter of 2014 compared to second quarter of 2014 levels as natural gas production volumes decreased by 23% (primarily due to the sale of a 36% interest in our Fasken properties to Saka Energi in July 2014), oil volumes decreased by 2% and NGL volumes increased by 11%.

- Pricing: Our weighted average sales price in the third quarter of 2014 decreased by 11% when compared to average price levels in the third quarter of 2013 and sequentially decreased 2% when compared to second quarter of 2014 average prices. When compared to pricing in the third quarter of 2013, oil prices in the third quarter of 2014 decreased 11%, NGL prices increased 5% and natural gas prices increased 13%. Sequentially over the past quarter, oil prices decreased 5%, NGL prices decreased 2% and natural gas prices decreased 15%.

- Revenues and net income: Our 2014 third quarter revenues of $138.8 million decreased 8% compared to $150.9 million for the third quarter of 2013 and sequentially decreased 11% compared to the $156.0 million of total revenues in the second quarter of 2014. Net income of $2.5 million for the third quarter of 2014 decreased from net income of $7.4 million for the third quarter of 2013 and $6.8 million in the second quarter of 2014.

- Expenses and tightening of service and supply costs: Our expenses in the third quarter of 2014 decreased $4.6 million, or 3%, compared to those in the third quarter of 2013 and sequentially decreased $10.9 million, or 8%, compared to expenses in the second quarter of 2014. We have seen some tightening in the availability of services and supplies including some upward pressure on service costs, but we believe that these costs could potentially decrease from current levels if the recent decline in oil prices continues.

Liquidity and Capital Resources

- Outstanding bank borrowings: At September 30, 2014, we had $202.0 million in outstanding borrowings under our credit facility. As of October 17, 2014, our borrowing base and commitment amount were reaffirmed at $417.6 million after being automatically reduced from $450.0 million effective July 15, 2014, due to the Saka Energi transaction. The proceeds of approximately $147 million received at closing were immediately used to pay down our outstanding borrowing under the credit facility, with additional borrowings against the credit facility during the quarter to fund development activities.

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- 2014 capital expenditures: Our capital expenditures on a cash flow basis were $317.0 million in the first nine months of 2014, compared to $435.7 million in the first nine months of 2013. The expenditures were devoted to drilling and completion activity in our South Texas core region as we drilled 16 wells in our AWP Eagle Ford field and 12 wells in our Fasken field during the year. These expenditures were funded by $252.2 million of cash provided by operating activities along with borrowings under our credit facility and proceeds from the Saka Energi transaction.

- Net cash provided by operating activities: For the first nine months of 2014, our net cash provided by operating activities was $252.2 million, representing a $26.6 million or 12% increase, compared to $225.6 million generated during the same period of 2013, primarily due to working capital changes.

- Working capital and debt to capitalization ratio: Our working capital increased from a deficit of $83.5 million at December 31, 2013, to a deficit of $50.9 million at September 30, 2014. Working capital, which is calculated as current assets less current liabilities, can be used to measure both a company's operational efficiency and short-term financial health. The Company uses this measure to track its short-term financial position. Our working capital ratio does not include available liquidity through our credit facility. Our debt to capitalization ratio was 50% at September 30, 2014 and 52% at December 31, 2013.

Competitive Advantages

- Enhancing Eagle Ford asset value through operating improvements and completion technology: Our South Texas drilling activities continue to benefit from optimized well design as we are drilling longer laterals in our horizontal wells and performing more frac stages per well. We are using proprietary 3D seismic techniques to identify a narrow high quality interval of the lower Eagle Ford within which to steer our laterals, resulting in marked improvement in our well results. Before completion operations commence, we conduct GEOFRAC logging of the horizontal well bore, which has led to more effective placement of frac stages and has also assisted in identifying sections of rock that are ideal for stimulation. These techniques have been effectively deployed in wells drilled in our Fasken and North AWP areas as well as the joint venture area in the central portion of AWP, proving the transferability of this technology. We have observed that longer laterals with additional frac stages and more intense treatment of each stage have resulted in improved rates of return of our Eagle Ford horizontal wells when comparing results using normalized oil and gas prices. Our current process allowed us to drill a well in our Fasken area during the third quarter with a lateral of approximately 7,500 feet and over 20 frac stages. We believe the successful extension of lateral lengths, increased number of frac stages and engineered spacing of these stages will result in further improvements in our economic returns across our acreage.

- Improved value of Eagle Ford shale assets through reductions in per well costs: We have seen improved performance this year in our initial production (IP) rates for Eagle Ford wells and have also seen our per well drilling costs come down from those experienced in the prior year. For the nine months ended September 2014, our average drilling cost per well decreased to $3.1 million from $4.0 million during the prior year, even though our drilling cost per well included an average of approximately 650 more feet of lateral per well in the current year. We have also experienced efficiency gains in our hydraulic fracturing activities, lowering the overall frac cost per stage while achieving better overall results as measured by rates of return and net present value. For the nine months ended September 2014, our average per well completion cost decreased to $4.0 million from $4.2 million during the prior year, even though we are performing an average of two more frac stages per well and using approximately 270 more pounds of proppant, per lateral foot, in each stimulated stage. We believe progression along this technology learning curve is important to improving performance and reducing costs and represents a competitive, transferable skill set we can use across all of our South Texas acreage.

- Ability to capitalize on increased commodity prices in the future: Current natural gas prices are lower than historical highs but have improved from the low prices seen in recent periods. With increasing demand, including the volume of

LNG export capacity increasing over the next several years, we believe natural gas prices will increase from current levels and that selected natural gas properties can be economically developed in today's market, although much of the potential for natural gas development will require higher prices. Our Fasken properties in Webb County, which include some of the best Eagle Ford rock in South Texas as defined by porosity, total organic content and other geologic and petrophysical qualities, can be economically developed today, while areas such as our South AWP area in McMullen County may require a higher price environment to provide adequate economic returns. Our strategy includes a balanced approach to oil and natural gas, and we plan to continue development on our prolific natural gas properties, such as Fasken, along with development in economic liquids-rich areas as commodity prices improve.

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Results of Operations

Revenues — Three Months Ended September 30, 2014 and 2013

Our oil and gas sales in the third quarter of 2014 decreased by 12% compared to oil and gas sales in the third quarter of 2013, primarily due to lower oil production and prices, partially offset by higher natural gas production. Average oil prices we received were 11% lower than those received during the third quarter of 2013, while natural gas prices were 13% higher and NGL prices were 5% higher.

Crude oil production was 29% and 33% of our production volumes in the third quarters of 2014 and 2013, respectively. Crude oil sales were 62% and 70% of oil and gas sales in the third quarters of 2014 and 2013, respectively. Natural gas production was 55% and 48% of our production volumes in the third quarters of 2014 and 2013, respectively. Natural gas sales were 26% and 18% of oil and gas sales in the third quarters of 2014 and 2013, respectively. The remaining production and sales in each period came from NGLs.

The following table provides additional information regarding our oil and gas sales, excluding any effects of our hedging activities, for the three months ended September 30, 2014 and 2013:

Core Regions	Oil and Gas Sales (In Millions)

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Loans

Table 16: Loan portfolio composition at December 31,

	2008		2007		2006		2005		2004	
(Dollars in thousands)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Residential mortgage loans:										
1-4 family	$ 2,939,025	24.2	$ 3,440,056	27.5	$ 4,180,985	32.3	$ 4,621,051	37.6	$ 4,594,817	39.2
Permanent NCLC	58,625	0.4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Construction	42,138	0.3	106,553	0.9	230,240	1.8	186,864	1.5	159,274	1.3
Liquidating construction (a)	18,735	0.2	83,253	0.7	N/A	N/A	N/A	N/A	N/A	N/A
Total residential mortgage loans	3,058,523	25.1	3,629,862	29.1	4,411,225	34.1	4,807,915	39.1	4,754,091	40.5
Consumer loans:										
Home equity loans	2,952,366	24.2	2,844,094	22.8	3,129,391	24.2	2,705,520	22.0	2,581,946	22.0
Liquidating portfolio (a)	283,645	2.3	340,662	2.7	N/A	N/A	N/A	N/A	N/A	N/A
Other consumer	28,886	0.3	32,498	0.3	35,061	0.3	35,731	0.3	31,898	0.3
Total consumer loans	3,264,897	26.8	3,217,254	25.8	3,164,452	24.5	2,741,251	22.3	2,613,844	22.3
Commercial loans:										
Commercial non-mortgage	1,795,738	14.7	1,736,644	13.9	1,728,815	13.4	1,433,424	11.7	1,404,630	12.0
Asset-based loans	753,143	6.2	793,023	6.4	765,843	5.9	661,119	5.4	551,273	4.7
Equipment financing	1,022,718	8.4	970,857	7.8	875,548	6.8	766,600	6.3	617,275	5.3
Total commercial loans	3,571,599	29.3	3,500,524	28.1	3,370,206	26.1	2,861,143	23.4	2,573,178	22.0
Commercial real estate:										
Commercial real estate	1,908,312	15.7	1,635,385	13.1	1,436,793	11.1	1,328,906	10.8	1,309,547	11.2
Commercial construction	165,610	1.3	185,983	1.5	229,420	1.8	244,543	2.0	218,488	1.9
Residential development	161,553	1.3	242,039	1.9	242,525	1.9	240,135	1.9	191,038	1.6

Total commercial real estate	2,235,475	18.3	2,063,407	16.5	1,908,738	14.8	1,813,584	14.7	1,719,073	14.7
Net unamortized premiums	14,580	0.1	18,055	0.1	41,877	0.3	24,471	0.2	20,459	0.2
Net deferred costs	42,517	0.4	46,841	0.4	26,993	0.2	36,922	0.3	32,130	0.3
Total loans	12,187,591	100.0	12,475,943	100.0	12,923,491	100.0	12,285,286	100.0	11,712,775	100.0
Less: allowance for loan losses	(235,329)		(188,086)		(147,719)		(146,486)		(150,112)	
Loans, net	$ 11,952,262		$ 12,287,857		$ 12,775,772		$ 12,138,800		$ 11,562,663	

(a) In 2007 Webster discontinued indirect residential construction lending and indirect home equity lending outside of its primary market area. Webster placed these two portfolios into a liquidating portfolio and disclosed this as a separate category from its continuing portfolio. Comparable information for the liquidating portfolio for the years ending December 31, 2006,2005 and 2004 is therefore not available as the portfolio was established in the fourth quarter of 2007.

The decrease in total loans as of December 31, 2008 is due primarily to the securitization of $466.5 million in residential mortgage loans from the continuing portfolio and $138.1 million in net charge-offs offset by approximately $423.0 million in net loan growth, primarily in commercial real estate, commercial non-mortgage, equipment financing and consumer loans.

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Table 17: Contractual maturities and interest-rate sensitivity of selected loan categories at December 31, 2008.

	Contractual Maturity			
(In thousands)	One Year or less	More than One to Five Years	More than Five Years	Total
Contractual Maturity				
Residential mortgage loans:				
1-4 family	$ 1,652	$ 45,346	$ 2,892,027	$ 2,939,025
Permanent NCLC			58,625	58,625
Construction			42,138	42,138
Liquidating construction	14,369		4,366	18,735
Total residential mortgage loans	16,021	45,346	2,997,156	3,058,523
Consumer loans:				
Home equity loans 1st lien	11,672	333,596	2,607,098	2,952,366
Liquidating portfolio	84		283,561	283,645
Other consumer	17,259	9,354	2,273	28,886
Total consumer loans	29,015	342,950	2,892,932	3,264,897
Commercial loans:				
Commercial non-mortgage	358,794	1,099,025	337,919	1,795,738
Asset-based loans	224,356	525,698	3,089	753,143
Equipment financing	34,549	816,378	171,791	1,022,718
Total commercial loans	617,699	2,441,101	512,799	3,571,599
Commercial real estate:				
Commercial real estate	141,053	804,630	962,629	1,908,312
Commercial construction	136,615	2,541	26,454	165,610
Residential development	17,603	143,950		161,553
Total commercial real estate loans	295,271	951,121	989,083	2,235,475
Total	$ 958,006	$ 3,780,518	$ 7,391,970	$ 12,130,494
Interest-Rate Sensitivity				
Fixed rate	$ 196,255	$ 1,287,554	$ 3,918,148	$ 5,401,957
Variable rate	761,751	2,492,964	3,473,822	6,728,537
Total	$ 958,006	$ 3,780,518	$ 7,391,970	$ 12,130,494

The contractual maturities are expected gross receipts from borrowers. The balances of the contractual maturities reflected in Table 17 do not include $14.6 million in net unamortized premiums and $42.5 million in net deferred costs.

Asset Quality

Webster s lending strategy focuses on direct relationship lending within its primary New England market area. The quality of the assets underwritten is an important factor in the successful operation of a financial institution. Management strives to maintain asset quality through its underwriting standards, servicing of loans and management of nonperforming assets.

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

Table 18: Asset Quality at December 31,

	2008		2007		2006		2005		2004	
(Dollars in thousands)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Nonaccrual loans	$ 220,592	84.5	$ 94,842	81.1	$ 58,768	95.1	$ 60,541	91.3	$ 34,986	92.0
Restructured loans	11,974	4.4	18,061	13.0	144	0.2	12	0.0	20	0.0
Foreclosed property	30,623	11.1	8,169	5.9	2,913	4.7	5,785	8.7	3,038	8.0
Nonperforming assets	$ 263,189	100.0	$ 121,072	100.0	$ 61,825	100.0	$ 66,338	100.0	$ 38,044	100.0
Loans 90 days or more past due and still accruing	$ 1,110		$ 1,891		$ 1,499		$ 6,676		$ 1,122	
Asset Quality Ratios: (a)										
Nonaccrual and restructured loans as a percentage of total loans		1.91%		0.90%		0.46%		0.50%		0.30%
Nonperforming assets as a percentage of:										
Total assets		1.50		0.70		0.36		0.37		0.22
Total loans plus foreclosed property		2.15		0.97		0.48		0.54		0.32
Net charge-offs as a percentage of average loans		1.09		0.20		0.13		0.03		0.10
Allowance for loan losses as a percentage of total loans		1.93		1.51		1.14		1.19		1.28
Allowance for credit losses as a percentage of total loans		2.02		1.58		1.20		1.27		1.28
Ratio of allowance for loan losses to:										
		1.70x		7.48x		9.03x		45.71x		14.63x

Net charge-offs					
Nonaccrual and restructured loans	1.01	1.67	2.51	2.42	4.29

(a) Total loans exclude unamortized premiums and deferred costs.

Nonperforming assets, loan delinquency and credit losses are considered to be key measures of asset quality. Asset quality is one of the key factors in the determination of the level of the allowance for credit losses. See Allowance for Credit Losses contained elsewhere within this section for further information on the allowance.

During 2008 the domestic and global financial and capital markets experienced significant disruption and volatility which, along with turmoil in the mortgage market, has led to a significant credit and liquidity crisis. These market conditions were attributable to a variety of factors; in particular the fallout associated with subprime mortgage loans (a type of lending never actively pursued by Webster). The disruption has been exacerbated by the continued value declines in the real estate and housing markets. Webster is not immune to some negative consequences arising from overall economic weakness and, in particular, a sharp downturn in the housing market, both locally and nationally. Decreases in real estate values could adversely affect the value of property used as collateral for loans. Adverse changes in the economy may have a further negative effect on the ability of Webster s borrowers to make timely loan payments, which would have an adverse impact on the Company s earnings. A further increase in loan delinquencies would decrease net interest income and increase loan losses, causing potential increases in the provision and allowance for credit losses.

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Nonperforming Assets

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

Table 19: Nonperforming assets at December 31,

	2008		2007		2006		2005		2004	
(Dollars in thousands)	**Amount**	**% (1)**	**Amount**	**% (1)**	**Amount**	**% (1)**	**Amount**	**% (1)**	**Amount**	**% (1)**
Loans:										
Continuing Portfolio:										
Consumer finance										
Residential	$ 52,502	1.73	$ 22,352	0.63	$ 11,307	0.26	$ 6,979	0.15	$ 7,796	0.16
Consumer	29,939	1.00	14,455	0.50	6,266	0.20	1,829	0.07	1,894	0.07
Total consumer finance	82,441	1.37	36,807	0.57	17,573	0.23	8,808	0.12	9,690	0.13
Commercial										
Commercial banking	49,987	1.96	26,804	1.10	21,105	0.85	26,002	1.24	13,502	0.67
Equipment financing	13,138	1.28	6,473	0.67	2,616	0.30	3,065	0.40	3,383	0.55
Total commercial	63,125	1.77	33,277	1.03	23,721	0.70	29,067	1.02	16,885	0.66
Commercial real estate	8,032	0.39	12,896	0.63	17,618	0.92	22,678	1.25	8,431	0.49
Residential development	48,628	30.10								
Total commercial real estate	56,660	2.53	12,896	0.63	17,618	0.92	22,678	1.25	8,431	0.49
Non performing loans continuing portfolio	202,226	1.71	82,980	0.69	58,912	0.46	60,553	0.50	35,006	0.30
Liquidating Portfolio:										
NCLC	13,402	71.53	22,797	27.29						
Consumer (home equity)	16,938	5.97	7,126	2.09						
Non performing loans liquidating portfolio	30,340	10.03	29,923	7.06						

Total non performing loans	232,566	1.92	112,903	0.91	58,912	0.46	60,553	0.50	35,006	0.30
Foreclosed and repossessed assets:										
Residential and consumer	7,755		5,958		991		659		214	
Commercial	22,868		2,211		1,922		5,126		2,824	
Total foreclosed and repossessed assets	30,623		8,169		2,913		5,785		3,038	
Total non performing assets	263,189		121,072		61,825		66,338		38,044	

(1) Percentage represents the balance of nonaccrual loans to the total loans outstanding excluding unamortized premiums and deferred costs within the comparable category.

It is Webster s policy that all loans 90 or more days past due are placed in non-accruing status. There are, on occasion, circumstances that cause commercial loans to be placed in the 90 days and accruing category, for example, loans that are considered to be well secured and in the process of collection. Loans past due 90 days or more and still accruing are disclosed in Table 21 below.

Nonperforming loans were $232.6 million at December 31, 2008, compared to $112.9 million at December 31, 2007. Nonperforming loans are defined as non-accruing loans. Nonperforming assets (nonperforming loans plus foreclosed and repossessed assets) from the continuing portfolios totaled $232.8 million, or 1.9% of total loans and foreclosed property at December 31, 2008 as compared to $91.1 million, or 0.7% of total loans and foreclosed property at December 31, 2007. C&I, residential development, 1-4 family mortgages and residential

construction loans represented $100.0 million of the $137.5 million increase from December 31, 2007. The majority of the increase is a result of $44.3 million in nonaccrual residential development loans and $25.9 million in nonaccrual residential loans which reflect the continuing challenge of the residential housing market, the slowing demand for new housing and the general deterioration of economic condition.

Non-performing loans in the liquidating indirect national construction and indirect out of footprint home equity portfolio totaled $13.4 million and $16.9 million at December 31, 2008, respectively, and $22.8 million and $7.1 million a year ago. There were no foreclosed assets from the liquidating portfolio at December 31, 2008 and 2007. Webster s liquidating portfolios, consisting of indirect, out of market, home equity and national construction loans, had $302.4 million outstanding at December 31, 2008 compared to $423.9 million when the liquidating portfolios were established at December 31, 2007. The total of $302.4 million consists of $18.7 million in construction loans and $283.7 million in home equities.

Interest on nonaccrual loans (continuing and liquidating portfolios) that would have been recorded as additional interest income for the years ended December 31, 2008, 2007 and 2006 had the loans been current in accordance with their original terms approximated $16.7 million, $7.8 million and $2.7 million, respectively. See Note 1 of Notes to Consolidated Financial Statements contained elsewhere within this report for information concerning the nonaccrual loan policy.

On November 13, 2008 Webster announced a 90-day moratorium on home foreclosures for Webster owned mortgages that were 30 days or more delinquent as of November 4, 2008. Webster also announced a plan to expand mortgage assistance programs to keep families in there homes. Eligible borrowers were required to occupy the home collateralizing the loan as their principal residence, be working in good faith to stay current on their mortgage and provide evidence of sufficient income to support affordable mortgage payments. Mortgage assistance focuses on creating affordable, sustainable payments plans, and may include such options as: temporarily reducing the monthly payment, extending fixed payment periods on adjustable loans, extending mortgages beyond the current length, refinancing or adjusting interest rates. The use of these options are based on underwriting criteria designed to ensure that borrowers can afford the new terms. At December 31, 2008 Webster had modified, or was in the process of negotiating modifications, for approximately $26.2 million in mortgages. Approximately $64.1 million in mortgages were pending review at December 31, 2008. On February 19, 2009, Webster announced the extension of the home foreclosure moratorium through March 31, 2009.

Table 20: Troubled debt restructures.

A loan whose terms have been modified due to the financial difficulties of a borrower are reported by Webster as a troubled debt restructure (TDR). All TDRs are placed in non-accruing status until the loan qualifies for return to accrual status. Loans qualify for return to accrual status once they have demonstrated performance with the restructured terms of the loan agreement for a minimum of six months. All fees and expenses associated with a TDR are expensed as incurred. The following table presents loans that have been restructured as a TDR as of the date presented.

	At December 31,				
(In thousands)	**2008**	**2007**	**2006**	**2005**	**2004**
Commercial	$ 7,803	$ 18,026	$	$	$
Residential	3,698	35	144		
Consumer	473			12	20
Total	$ 11,974	$ 18,061	$ 144	$ 12	$ 20

The increase in residential and consumer troubled debt restructures reflect the impact of Webster s expansion of mortgage assistance programs to keep borrowers in their homes.

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Webster individually reviews classified loans greater than $250,000 for impairment based on the fair value of collateral or expected cash flows. At December 31, 2008 impaired loans totaled $203.4 million including loans of $32.6 million with an impairment allowance of $28 million. At December 31, 2007, there were $67.1 million of impaired loans including loans of $19.4 million with an impairment allowance of $5.8 million. The decrease in impaired loans is directly related to the $112.9 million increase in net charge offs for the year ended December 31, 2008 as compared to 2007.

Table 21: Loans past due 30 days or more.

The following table sets forth information regarding Webster s delinquent loans, excluding loans held for sale and nonaccrual loans, at December 31.

(Dollars in thousands)	**2008 Principal Balances**	**%[(1)]**	**2007 Principal Balances**	**%[(1)]**	**2006 Principal Balances**	**%[(1)]**	**2005 Principal Balances**	**%[(1)]**	**2004 Principal Balances**	**%[(1)]**
Past due 30-89 days:										
Continuing Portfolio:										
Residential	$ 45,909	1.51	$ 23,710	0.67	$ 14,954	0.34	$ 17,717	0.37	$ 11,296	0.24
Consumer	33,848	1.14	22,347	0.78	14,018	0.44	10,878	0.39	3,777	0.14
Commercial	29,353	0.82	18,935	0.54	7,115	0.21	46,343	1.61	21,338	0.83
Commercial real estate	7,158	0.35	8,178	0.45	26,476	1.39	31,680	1.75	6,611	0.39
Residential development	2,096	1.29	3,876	1.60						
Past Due 30-89 days Continuing portfolio	118,364		77,046		62,563		106,618		43,022	
Liquidating Portfolio:										
NCLC	4,487	23.95	13,143	15.78						
Consumer (home equity)	15,621	5.51	8,793	2.58						
Past Due 30-89 days Liquidating portfolio	20,108		21,936							
Past due 90 days or more and accruing:										
Commercial	459	0.01	1,141	0.03	1,490	0.04	6,676	0.23	1,122	0.04
Commercial real estate	450	0.02	550	0.03						
Residential development	201	0.12	200	0.08						
Total	$ 139,582		$ 100,873		$ 64,053		$ 113,294		$ 44,144	

(1) Percentage represents the balance of past due loans to the total loans outstanding within the comparable category.

Delinquencies in home equity loans within the continuing consumer portfolio increased as loans greater than 30 days past due were 1.12% at December 31, 2008 up from 0.78% at September 30, 2008 while the nonaccrual rate increased to 1.0% from 0.80% at September 30, 2008, reflective of the current economic environment.

Allowance for Credit Losses

Methodology

The allowance for credit losses, which comprises the allowance for loan losses and the reserve for unfunded credit commitments, is maintained at a level estimated by management to provide adequately for probable losses inherent in the loan portfolio and unfunded commitments. Probable losses are estimated based upon a quarterly review of the loan portfolio, past loss experience, specific problem loans, economic conditions and other pertinent factors which, in management s judgment, deserve current recognition in estimating credit losses. In assessing the specific risks inherent in the portfolio, management takes into consideration the risk of loss on nonaccrual loans, criticized loans and watch list loans including an analysis of the collateral for such loans.

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Management considers the adequacy of the allowance for credit losses a critical accounting policy. The adequacy of the allowance for credit losses is subject to judgment in its determination. Actual loan losses could differ materially from management s estimate if actual loss factors and conditions differ significantly from the assumptions utilized. These factors and conditions include the general economic conditions within Webster s market and nationally, trends within industries where the loan portfolio is concentrated, real estate values, interest rates and the financial condition of individual borrowers. While management believes the allowance for credit losses is adequate as of December 31, 2008, actual results may prove different and these differences could be significant.

Webster s Credit Risk Management Committee, which was established in 2008 as one of the outcomes of the Company s organization review, meets on a quarterly basis to review and conclude on the adequacy of the allowance and the results are reviewed by executive management and reported to the Enterprise Risk Management Committee. In addition, findings from the loan review function are reported to the Enterprise Risk Management Committee and the Risk Committee of the Board of Directors on a quarterly basis.

Webster s methodology for assessing the appropriateness of the allowance consists of several key elements. The loan portfolio is segmented into pools of loans that are similar in type and risk characteristic. These homogeneous pools are tracked over time and historic delinquency, nonaccrual and loss information is collected and analyzed. In addition, problem loans are identified and analyzed individually on an ongoing basis to detect specific probable losses. Webster collects industry delinquency, nonaccrual and loss data for the same portfolio segments for comparison purposes.

The data is analyzed and estimates of probable losses in the portfolio are estimated by calculating formula allowances for homogeneous pools of loans and classified loans and specific allowances for impaired loans. The formula allowance is calculated by applying loss factors to the loan pools based on historic default and loss rates, internal risk ratings, and other risk-based characteristics. Changes in risk ratings, and other risk factors, from period to period for both performing and nonperforming loans affect the calculation of the formula allowance. Loss factors are based on Webster s loss experience, and may be adjusted for significant conditions that, in management s judgment, affect the collectability of the portfolio as of the evaluation date. The following is considered when determining probable losses:

Webster utilizes migration models, which track the dynamic business characteristics inherent in the specific portfolios. The assumptions are updated periodically to match changes in the business cycle.

Pooled loan loss factors (not individually graded loans) are based on expected net charge-offs. Pooled loans are loans that are homogeneous in nature, such as residential and consumer loans.

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

Webster statistically evaluates the impact of larger concentrations in the commercial loan portfolio.

Comparable industry charge-off statistics by line of business, broadly defined as residential, consumer, home equity and second mortgages, commercial real estate and commercial and industrial lending, are utilized as factors in calculating loss estimates in the loan portfolios.

Actual losses by portfolio segment are reviewed to validate estimated probable losses.
At December 31, 2008, the allowance for loan losses was $235.3 million, or 1.9% of the total loan portfolio, and 101.2% of total nonperforming loans. This compares with an allowance of $188.1 million or 1.5% of the total loan portfolio, and 166.6% of total nonperforming loans at December 31, 2007. The allowance for loan losses that related to the continuing portfolio was $202.7 million at December 31, 2008 and represented 1.7% of the total loans in the continuing portfolio. Liquidating portfolio charge-offs of $46.9 million for the year consisted of $22.5 million in gross charges for construction loans and $24.4 million in gross charges for consumer home equity loans. Charge-offs from the liquidating portfolios were taken against the special reserves established in the

fourth quarter of 2007 which was increased by $40.6 million during the year ended December 31, 2008. The increase in charge-off activity reflects the expedited resolution approach taken by management for the NCLC portfolio for the year ended December 31, 2008. The allowance for loan losses that related to the liquidating portfolio was $43.2 million at December 31, 2008 and represented 13.5% of the total loans in the liquidating portfolio. The allowance for loan losses does not include reserve for unfunded credit commitments. The allowance for loan losses does not include the reserve for unfunded credit commitments that is discussed in the following paragraph. The increase in the allowance for credit losses year over year reflects the need for increased reserve levels in light of deteriorating economic conditions across all lines of business.

The allowance for credit losses analysis includes consideration of the risks associated with unfunded loan commitments and letters of credit. These commitments are converted to estimates of potential loss using loan equivalency factors, and include internal and external historic loss experience. At December 31, 2008, the reserve for unfunded credit commitments was $10.5 million, which represents 4.3% of the total allowance for credit losses. This compares with a reserve for unfunded credit commitments of $9.5 million, which represents 4.8% of the total allowance for credit losses at December 31, 2007. As part of its risk management process, the Company closely monitors all draw activity for trends.

The allowance for credit losses incorporates the range of probable outcomes as part of the loss estimate calculation, as well as an estimate of loss representing inherent risk not captured in quantitative modeling and methodologies. These factors include, but are not limited to, imprecision in loss estimate methodologies and models, internal asset quality trends, changes in portfolio characteristics and loan mix, significant volatility in historic loss experience, and the uncertainty associated with industry trends, economic uncertainties and other external factors.

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Table 22: Allowance for credit losses activity.

	Years ended December 31,				
(Dollars in thousands)	**2008**	**2007**	**2006**	**2005**	**2004**
Continuing portfolio:					
Balance at beginning of year	$ 147,680	$ 154,994	$ 155,632	$ 150,112	$ 121,674
Allowances from purchase transactions			4,724		20,698
Writedown of loans transferred to held for sale				(775)	
Provision	145,683	3,629	11,000	9,500	18,000
Charge-offs:					
Residential	(7,918)	(1,163)	(385)	(833)	(1,629)
Consumer	(15,011)	(6,474)	(1,320)	(633)	(613)
Commercial (a)	(36,503)	(8,687)	(17,125)	(8,288)	(12,709)
Commercial real estate	(1,557)	(117)			
Residential development	(34,030)				
Total charge-offs continuing portfolio	(95,019)	(16,441)	(18,830)	(9,754)	(14,951)
Recoveries:					
Residential	288	404	175	548	689
Consumer	925	1,600	105	187	259
Commercial	2,369	3,494	2,188	5,814	3,743
Total recoveries continuing portfolio	3,582	5,498	2,468	6,549	4,691
Net loan charge-offs continuing portfolio	(91,437)	(10,943)	(16,362)	(3,205)	(10,260)
Balance at end of year continuing portfolio	$ 201,926	$ 147,680	$ 154,994	$ 155,632	$ 150,112
Liquidating portfolio:					
Beginning balance	$ 49,906	$	N/A	N/A	N/A
Provision	40,617	64,121	N/A	N/A	N/A
Charge-offs:					
NCLC	(23,346)	(9,259)	N/A	N/A	N/A
Consumer (home equity)	(24,444)	(4,956)	N/A	N/A	N/A
Total charge-offs liquidating portfolio	(47,790)	(14,215)	N/A	N/A	N/A
Recoveries:					
NCLC	1,152		N/A	N/A	N/A
Consumer (home equity)	18		N/A	N/A	N/A
Total recoveries liquidating portfolio	1,170		N/A	N/A	N/A
Net loan charge-offs liquidating portfolio	(46,620)	(14,215)	N/A	N/A	N/A
Ending balance liquidating portfolio	43,903	49,906	N/A	N/A	N/A
	$ 245,829	$ 197,586	$ 154,994	$ 155,632	$ 150,112

Ending balance total allowance for credit losses					
Components:					
Allowance for loan losses	$ 235,329	$ 188,086	$ 147,719	$ 146,486	$ 150,112
Reserve for unfunded credit commitments (b)	10,500	9,500	7,275	9,146	
Allowance for credit losses	$ 245,829	$ 197,586	$ 154,994	$ 155,632	$ 150,112
Allowance for credit losses/total loans	2.02%	1.58%	1.20%	1.27%	1.28%

(a) All Business & Professional Banking loans, both commercial and commercial real estate, are considered commercial for purposes of reporting charge-offs and recoveries.

(b) Effective December 31, 2005, Webster transferred the portion of the allowance for loan losses related to commercial and consumer lending commitments and letters of credit to the reserve for unfunded credit commitments.

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Table 23: Net charge-offs to average outstanding loans by category.

	For the years ended December 31,				
	2008	**2007**	**2006**	**2005**	**2004**
Net charge-offs continuing					
Residential	0.22%	0.02%	%	0.01%	0.02%
Consumer	0.47	0.15	0.04	0.02	0.01
Commercial (a)	1.01	0.10	0.30	0.09	0.38
Commercial real estate	1.57	0.01			
Net charge-offs continuing	0.74%	0.09%	0.13%	0.03%	0.09%
Net charge-offs liquidating					
NCLC	53.67%	11.12%	n/a	n/a	n/a
Consumer (home equity)	7.80	2.66	n/a	n/a	n/a
Net charge-offs liquidating	12.74	5.28	n/a	n/a	n/a
Total net charge-offs to total average loans	1.09%	0.20%	0.13%	0.03%	0.09%

(a) All Business & Professional Banking loans, both commercial and commercial real estate, are considered commercial for purposes of reporting charge-offs and recoveries.

Table 24: Allocation of allowance for credit losses at December 31,

	2008		**2007**		**2006**		**2005**		**2004**	
(Dollars in thousands)	**Amount**	**%(1)**	**Amount**	**%(1)**	**Amount**	**%(1)**	**Amount**	**%(1)**	**Amount**	**%(1)**
Allowance for credit losses at end of year applicable to:										
Continuing portfolio:										
Residential	$ 17,956	0.6%	$ 12,689	0.4%	$ 15,964	0.4%	$ 17,198	0.4%	$ 16,848	0.4%
Consumer	19,385	0.7	21,517	0.7	15,102	0.5	17,909	0.6	17,897	0.7
Commercial	121,008	3.4	85,900	2.5	91,843	2.7	92,318	3.2	87,661	3.4
Commercial real estate	43,578	1.9	27,574	1.3	32,085	1.7	28,207	1.6	27,706	1.6
Liquidating portfolio:										
NCLC	5,623	30.0	17,200	20.7	N/A	N/A	N/A	N/A	N/A	N/A
Consumer	38,279	13.5	32,706	9.6	N/A	N/A	N/A	N/A	N/A	N/A
Total	$ 245,829		$ 197,586		$ 154,994		$ 155,632		$ 150,112	

(1) Percentage represents the allocated allowance for credit losses to the total loans outstanding within the comparable category.

Sources of Funds

Cash flows from deposits, loan and mortgage-backed securities repayments, securities sales proceeds and maturities, borrowings and earnings are the primary sources of Webster Bank s funds available for use in its lending and investment activities and in meeting its operational needs. While scheduled loan and securities repayments are a relatively stable source of funds, deposit flows and loan and investment security prepayments are influenced by prevailing interest rates and local economic conditions and are inherently uncertain. The borrowings primarily include Federal Home Loan Bank (FHLB) advances and repurchase agreement borrowings. See Notes 11, 12 and 13 of Notes to Consolidated Financial Statements contained elsewhere within this report for further borrowing information.

Webster Bank attempts to control the flow of funds in its deposit accounts according to its need for funds and the cost of alternative sources of funding. Webster s Retail Pricing Committee meets regularly to determine pricing

and marketing initiatives. It influences the flow of funds primarily by the pricing of deposits, which is affected to a large extent by competitive factors in its market area and asset/liability management strategies.

Deposit Activities

Webster Bank offers a wide variety of deposit products designed to meet the transactional, savings and investment needs of our consumer and business customers. A key strategic objective is to grow the base of checking customers by continuing to attract new customers while retaining existing relationships. The deposit base provides an important source of funding for the bank as well as an ongoing stream of fee revenue. Checking and savings products offer a variety of features including ATM and check card use, direct deposit, ACH payments, combined statements, automated telephone banking services, Internet-based banking, bank by mail as well as overdraft protection via a line of credit or transfer from another deposit account. Savings accounts include both statement and passbook accounts as well as money market accounts and premium rate money market accounts. In addition, certificate of deposit accounts are offered to consumers that include both short and long term maturity options up to five years. Webster Bank continues to offer special IRA products, which include savings accounts, certificate of deposits and rollovers for individuals who receive lump sum distributions. Effective advertising, convenient access, quality service and competitive pricing policies are strategies that attract and retain deposits.

Webster Bank gathers and services retail and commercial deposits through 181 banking offices throughout Connecticut (139 locations), Massachusetts (24 locations), Rhode Island (10 locations) and New York (8 locations). Deposit customers can access their accounts in a variety of ways including branch banking, ATMs, internet banking or telephone banking. Customer services also include 489 ATM facilities with membership in NYCE and PLUS networks and provide 24-hour access to linked accounts. Of the 489 total ATM facilities, 147 in-store, Webster branded ATMs were placed on-line during 2008 in select Walgreens locations in Massachusetts (115 locations, primarily in the eastern part of the state), Rhode Island (23 locations) and Connecticut (9 locations). This branding agreement complements Webster s branch expansion program and establishes another distribution platform for future growth in Rhode Island and Massachusetts. Webster Bank s internet service allows, among other things, customers the ability to open an account, transfer money between accounts, review statements, check balances and pay bills through the use of a personal computer. The telephone banking service provides automated customer access to account information 24 hours per day, seven days per week and access to customer service representatives at certain established hours. Customers can transfer account balances, process stop payments and change addresses, place check orders, open deposit accounts, inquire about account transactions and request general information about products and services. Additional services include automatic loan payment from accounts as well as direct deposit of Social Security benefits, payroll, and other retirement benefits.

Although not an integral part of its deposit strategies, from time to time, brokered deposits are used as an alternative means of funds generation. As with any other funding source, Webster Bank considers its needs, relative cost and availability in determining the suitability of brokered deposits. At December 31, 2008 and 2007, outstanding brokered deposits totaled $194.2 million and $236.3 million, respectively.

Webster also attracts deposits in health savings accounts through HSA Bank. At December 31, 2008 and 2007, HSA Bank had $530.7 million and $403.9 million, respectively in deposits. HSA Bank also had $52.6 million and $57.9 million in brokerage account balances at December 31, 2008 and 2007, respectively. See Note 10 of Notes to Consolidated Financial Statements contained elsewhere within this report for additional deposit information.

Borrowings

Webster is a member of the Federal Home Loan Bank of Boston, which is a part of the Federal Home Loan Bank System. Members are required to own capital stock of the FHLB, and borrowings are collateralized by qualifying assets not otherwise pledged (principally single-family residential

mortgage loans and securities). The maximum

amount of credit which the FHLB will extend varies from time to time, depending on its policies and the amount of qualifying collateral the member can pledge. Webster satisfied its collateral requirement at December 31, 2008. Long-term and short-term borrowings are utilized as a source of funding to meet liquidity and planning needs when the cost of these funds are favorable compared to alternative funding sources. At December 31, 2008 and 2007, FHLB advances totaled $1.3 billion and $1.0 billion, respectively, and represented 37.1% and 34.5%, respectively, of total outstanding borrowed funds.

Webster Bank s wholesale funding sources include securities repurchase agreements whereby Webster delivers securities to counterparties under an agreement to repurchase the securities at a fixed price in the future. At December 31, 2008 and 2007 borrowings under repurchase agreements totaled $924.5 million and $754.8 million, respectively, and represented 26.0% and 25.8%, respectively, of total outstanding borrowed funds. Other funding sources include purchases of term and overnight Federal funds, which amounted to $474.4 million and $348.8 million at December 31, 2008 and 2007, respectively. The Bank often participates and is awarded U.S. Treasury operating funds in auctions conducted by the Federal Reserve System, which amounted to $150.0 million and $130.0 million at December 31, 2008 and 2007, respectively.

On April 2, 2007, Webster prepaid $105.0 million of its Webster Capital Trust I (Trust I) and Webster Capital Trust II (Trust II) securities at call prices of 104.68% and 105.0%, respectively, plus accrued and unpaid interest. The sole assets of Trust I and Trust II were $103.1 million of 9.36% junior subordinated deferrable interest debentures and $51.5 million of 10.0% subordinated debentures, respectively. Webster recorded a net pretax charge to income in the second quarter of 2007 of $6.8 million ($8.9 million related to the redemption premiums and unamortized issuance costs, partially offset by a $2.1 million gain on Trust I and II securities held by Webster).

On June 20, 2007, Webster and Webster Capital Trust IV, a statutory trust organized under Delaware law pursuant to a trust agreement dated as of February 6, 2004 (Trust IV), completed the sale of $200 million of the Trust IV s 7.65% Fixed to Floating Rate Trust Preferred Securities (the Trust Securities). The Trust Securities were issued at a discount of approximately $656,000, which will be amortized into interest expense over the life of the Trust Securities. The proceeds from the sale of the Trust Securities were used to purchase $200,010,000 aggregate principal amount of Webster s 7.65% Fixed to Floating Rate Junior Subordinated Notes (the Junior Subordinated Notes). The Trust Securities are guaranteed on a subordinated basis by Webster pursuant to a Guarantee Agreement (the Guarantee), between Webster and The Bank of New York, as Guarantee Trustee.

The Junior Subordinated Notes will bear interest from the date of issuance to but excluding June 15, 2017 at the annual rate of 7.65% of their principal amount. From and including June 15, 2017 to but excluding June 15, 2037, the initial scheduled maturity date, the Junior Subordinated Notes will bear interest at a floating annual rate equal to three-month LIBOR plus 1.89%. If any Junior Subordinated Notes remain outstanding after June 15, 2037, they will bear interest at a floating annual rate equal to one-month LIBOR plus 2.89%, provided that if Webster elects to extend the scheduled maturity date for the Junior Subordinated Notes, they will bear interest from June 15, 2037 to but excluding the scheduled maturity date at a floating annual rate equal to three-month LIBOR plus 2.89% and thereafter at a floating annual rate equal to one-month LIBOR plus 2.89%. The scheduled maturity date of the Junior Subordinated Notes may be extended at Webster s option up to two times, in each case for an additional 10-year period if certain criteria are satisfied. Webster may, at its option from time to time, defer interest payments on the Junior Subordinated Notes as provided for in the Indenture.

On June 15, 2007, Webster sold an interest rate swap hedging the forecasted Trust Securities transaction which qualified for hedge accounting in accordance with FAS 133 for a gain of $2.7 million. The $2.7 million gain was deferred and added to the carrying value of the Junior Subordinated Notes and is being amortized and recorded to interest expense over ten years, which represents the fixed rate term of the Junior Subordinated Notes. The effect of this transaction reduces the net cost of the Trust Securities to 7.5% through June 15, 2017.

On June 20, 2007, in connection with the closing of the Trust Securities offering, the Company entered into a Replacement Capital Covenant (the RCC), whereby the Company agreed for the benefit of

certain of its debt holders named therein that it would not cause the redemption or repurchase of the Trust Securities or the Junior

Subordinated Notes during the time period specified in the RCC unless such repurchases or redemptions are made from the proceeds of the issuance of certain qualified securities and pursuant to the other terms and conditions set forth in the RCC. The initial series of indebtedness benefiting from the RCC is the Company s 5.125% senior notes due April 15, 2014, CUSIP No. 947890AF6.

The proceeds from the issuance of the Junior Subordinated Notes were used for general corporate purposes.

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 growth in the balance 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 the ability to attract new deposits. Despite reporting a net loss from continuing operations of $318.8 million, after the exclusion of non-cash charges related to the provision for credit losses, other-than-temporary impairment of investment securities and impairment of its goodwill for the year ended December 31, 2008 Webster generated $485.2 million in cash flow from its operating activities an increase of $179.7 million or 58.8% when compared to 2007. Webster s goal is to maintain a strong, increasing base of core deposits to support the growth in the loan portfolios.

The main sources of liquidity are customer deposits, wholesale borrowings, payments of principal and interest from our loan and securities portfolio and the ability to use our loan and securities portfolios as collateral for secured borrowings. Webster Bank is a member of the FHLB system. At December 31, 2008, outstanding FHLB advances totaled $1.3 billion and there was additional borrowing capacity from the FHLB of $1.6 billion. Additionally, investment securities were not fully utilized as collateral, and had all securities been used for collateral, Webster Bank would have additional borrowing capacity of approximately $1.0 billion. There is also the ability to borrow funds through repurchase agreements, using the securities portfolio as collateral. At December 31, 2008, outstanding repurchase agreements and other short-term borrowings totaled $1.6 billion. At December 31, 2008, Webster Bank also had additional borrowing capacity from unused collateral at the Federal Reserve of $0.3 billion, and had $309.8 million in capacity to issue FDIC backed debt through the TLGP. FHLB advances, repurchase agreements and other borrowings increased $0.3 billion from the prior year end, primarily to fund asset growth.

Other factors affecting liquidity include loan origination volumes, loan prepayment rates, maturity structure of existing loans, core deposit growth levels, time deposit maturity structure and retention, credit ratings, investment portfolio cash flows, the composition, characteristics and diversification of wholesale funding sources, and the market value of investment securities that can be used to collateralize FHLB advances and repurchase agreements. The liquidity position is influenced by general interest rate levels, economic conditions and competition. For example, as interest rates decline, payments of principal from the loan and mortgage-backed securities portfolio accelerate, as borrowers are more willing to prepay. Additionally, the market value of the securities portfolio generally increases as rates decline, thereby increasing the amount of collateral available for funding purposes.

Management monitors current and projected cash needs and adjusts liquidity as necessary. Liquidity policy ratios are designed to measure the liquidity from several different perspectives: maturity concentration, diversification, and liquidity reserve. Actual ratios are measured against policy limits. In addition to funding under normal market conditions, there is a contingency funding plan which is designed for dealing with liquidity under a crisis so that measures can be implemented in an orderly and timely manner.

Webster s main sources of liquidity at the parent company level are dividends from Webster 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 principal and interest to holders of senior notes and capital securities. There are certain restrictions on the payment of dividends. See Note 15 of Notes to Consolidated Financial Statements contained elsewhere within this report for further information on such dividend restrictions. As of December 31,

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2008, Webster had liquidity on hand at the parent holding company sufficient to pay five years of dividends on its preferred shares issued pursuant to the CPP, convertible preferred shares, trust preferred securities and senior notes.

During 2008 and 2007, a total of 33,524 and 4,416,271 shares, respectively, of common stock were repurchased at a cost of approximately $0.6 million and $178.5 million, respectively. The majority of the repurchased shares were part of Board approved programs. See Note 14 of Notes to Consolidated Financial Statements contained elsewhere within this report for further information concerning stock repurchases.

Webster Bank is required by regulations adopted by the OCC to maintain liquidity sufficient to ensure safe and sound operations. Adequate liquidity, as assessed by the OCC, may vary from institution to institution depending on such factors as the overall asset/liability structure, market conditions, competition and the nature of the institution s deposit and loan customers. At December 31, 2008, Webster Bank exceeded all regulatory requirements.

Applicable OCC regulations require Webster Bank, as a commercial bank, to satisfy certain minimum leverage and risk-based capital requirements. As an OCC regulated commercial institution, it is also subject to a minimum tangible capital requirement. At December 31, 2008, Webster Bank was in full compliance with all applicable capital requirements and met the FDIC requirements for a well capitalized institution. See Note 15 of Notes to Consolidated Financial Statements contained elsewhere within this report for further information concerning capital.

Table 25: Contractual obligations and commercial commitments at December 31, 2008.

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

		Payments Due by Period			
(In thousands)	**Total**	**Less than one year**	**1-3 years**	**3-5 years**	**After 5 years**
Contractual Obligations:					
FHLB advances	$ 1,331,197	$ 792,616	$ 335,783	$ 200,400	$ 2,398
Senior notes	150,000				150,000
Subordinated notes	200,000			200,000	
Junior subordinated debt	300,019				300,019
Securities sold under agreements to repurchase	924,543	451,543	73,000	100,000	300,000
Other borrowed funds	643,308	643,308			
Operating leases	167,424	19,236	35,185	27,994	85,009
Total contractual cash obligations	$ 3,716,491	$ 1,906,703	$ 443,968	$ 528,394	$ 837,426

		Amount of Commitment Expirations Per Period			
(In thousands)	**Total amounts committed**	**Less than one year**	**1-3 years**	**3-5 years**	**After 5 years**
Commercial Commitments:					

Commercial lines of credit	$ 1,950,840	$ 599,361	$ 812,454	$ 479,828	$ 59,197
Standby letters of credit	173,413	39,819	80,355	52,445	794
Other commercial commitments	334,495	102,513	151,266	34,262	46,454
Total commercial commitments	$ 2,458,748	$ 741,693	$ 1,044,075	$ 566,535	$ 106,445
Consumer Commitments:					
Consumer lines of credit-continuing	$ 1,968,774	$ 50,048	$ 3,000	$ 6,187	$ 1,909,539
Consumer lines of credit-liquidating	21,792		159		21,633
Residential loan commitments	85,291				85,291
Total consumer commitments	$ 2,075,857	$ 50,448	$ 3,159	$ 6,187	$ 2,016,463
Totals	$ 4,534,605	$ 791,741	$ 1,047,234	$ 572,722	$ 2,122,908

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The Company s Treasury unit proactively monitors the level of unused commitments against its available sources of liquidity from its investment portfolio, from deposit gathering activities as well as available unused borrowing capacity from the FHLB, Federal Reserve, repurchase agreements and ability to issue FDIC backed debt via the TLGP and reports the results monthly to the Asset/ Liability Committee and the Enterprise Risk Management Committee

Issuance of Preferred Stock

8.50% Series A Non-Cumulative Perpetual Convertible Preferred Stock

In June 2008, Webster issued 225,000 shares of 8.50% Series A Non-Cumulative Perpetual Convertible Preferred Stock, par value $0.01 per share (Series A Preferred Stock). Dividends on the Series A Preferred Stock are payable quarterly in arrears, when, as and if authorized and declared by Webster s board of directors, at an annual rate of 8.50% on the liquidation preference of $1,000 per share. The dividend payment dates are the fifteenth day of each March, June, September and December, and Webster commenced paying dividends on September 15, 2008. Dividends on the Preferred Stock are non-cumulative. With certain limited exceptions, if Webster has not paid or set aside for payment full quarterly dividends on the Series A Preferred Stock for a particular dividend period, Webster may not declare or pay dividends on, or redeem, purchase or acquire, its common stock or other junior securities during the next succeeding dividend period. For the year ended December 31, 2008, Webster paid $9.8 million in dividends to the shareholders of the Series A Preferred Stock.

Each share of Series A Preferred Stock may be converted at any time, at the option of the holder, into 36.8046 shares of Webster s common stock plus cash in lieu of fractional shares, subject to adjustment under certain circumstances. On or after June 15, 2013, if the closing price of Webster s common stock exceeds 130% of the then-applicable conversion price for 20 trading days during any 30 consecutive trading day period, including the last trading day of such period, ending on the trading day preceding the date Webster gives notice of conversion, Webster may at its option cause some or all of the Series A Preferred Stock to be automatically converted into Webster common stock at the then prevailing conversion rate. If Webster exercises its right to cause the automatic conversion of Series A Preferred Stock on June 30, 2013, it will still pay any accrued dividends payable on June 15, 2013 to the applicable holders of record.

The shares of Series A Preferred Stock are not subject to the operation of a sinking fund and have no participation rights. The holders of this series have no general voting rights. If any quarterly dividend payable on this series is in arrears for six or more dividend periods (whether consecutive or not), the holders of this series, voting together as a single class with holders of any and all other series of voting preferred stock then outstanding ranking equally as for payment of dividends and upon which equivalent voting rights have been conferred and are exercisable, will be entitled to vote for the election of two additional members of Webster s board of directors subject to certain limitations. These voting rights and the terms of any preferred stock directors terminate when Webster has paid in full dividends on this series for at least four consecutive dividend periods following the dividend arrearage.

Series B Fixed Rate Cumulative Perpetual Preferred Stock

On November 21, 2008, as part of the Capital Purchase Program established by the U.S. Department of the Treasury (Treasury) under the Emergency Economic Stabilization Act of 2008 (the EESA), Webster entered into a Letter Agreement (which included the Securities Purchase Agreement, the Purchase Agreement) with Treasury pursuant to which the Company issued and sold to Treasury 400,000 shares of the Company s Fixed Rate Cumulative Perpetual Preferred Stock, Series B, par value $0.01 per share, having a liquidation preference of $1,000 per share (the Series B Preferred Stock)

Cumulative dividends on the Series B Preferred Stock accrue on the liquidation preference at an annual rate of 5% for the first five years, and at an annual rate of 9% thereafter, but will be paid only when declared by the Company s Board of Directors. The Series B Preferred Stock has no maturity date and ranks senior to the

Common Stock (and *pari passu* with the Company s Series A Preferred Stock) with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding up of the Company. The dividend payment dates are the fifteenth day of each February, May, August and November. At December 31, 2008 Webster had accrued $2.2 million for Series B Preferred Stock dividends scheduled to be paid on February 15, 2009.

The Series B Preferred Stock generally is non-voting, other than class voting on certain matters that could adversely affect the Series B Preferred Stock. If dividends on the Series B Preferred Stock have not been paid for an aggregate of six quarterly dividend periods or more, whether consecutive or not, the Company s authorized number of directors will be automatically increased by two and the holders of the Series B Preferred Stock, voting together with the holders of any then outstanding voting parity stock, will have the right to elect those directors at the Company s next annual meeting of stockholders or at a special meeting of stockholders called for that purpose. These two directors will be elected annually and will serve until all accrued and unpaid dividends on the Series B Preferred Stock have been paid.

The Company may redeem the Series B Preferred Stock after February 15, 2012. Prior to this date, the Company may redeem the Series B Preferred Stock if (i) the Company has raised aggregate gross proceeds in one or more Qualified Equity Offerings (as defined in the Purchase Agreement) in excess of $100 million and (ii) the aggregate redemption price does not exceed the aggregate net cash proceeds from such Qualified Equity Offerings. Any redemption is subject to the consent of the Board of Governors of the Federal Reserve System.

Prior to November 21, 2011, unless the Company has redeemed the Series B Preferred Stock or Treasury has transferred the Series B Preferred Stock to a third party, the consent of Treasury will be required for Webster to (1) increase its common stock dividend or (2) redeem, purchase or acquire any shares of its common stock or other equity or capital securities, other than in connection with benefit plans consistent with past practice and certain other circumstances specified in the Purchase Agreement.

Warrant for Common Stock

In connection with the issuance of the Series B Preferred Stock, Webster issued a warrant to purchase an aggregate 3,282,276 shares of Webster s common stock. The initial exercise price of the warrant is $18.28 per share. Webster allocated the proceeds of $400.0 million from the issuance of the Series B Preferred Stock and warrant on a relative fair value basis. The value allocated to the warrant was $8.7 million which was recorded as a component of Webster s paid in capital. The warrant will not impact earnings per share during periods in which Webster has net losses attributable to common shareholders since the effect would be anti-dilutive or during periods in which the exercise price of the warrant exceeds the average price of shares of Webster s commons stock.

The warrant is immediately exercisable. In the event the Company completes one or more Qualified Equity Offerings on or prior to December 31, 2009 that result in the Company receiving aggregate gross proceeds of not less than $400 million, the number of the shares of common stock underlying the portion of the warrant then held by Treasury will be reduced by one-half of the shares of common stock originally covered by the warrant. Pursuant to the Purchase Agreement, Treasury has agreed not to exercise voting power with respect to any shares of common stock issued upon exercise of the warrant. The warrant will expire on November 21, 2018.

The Series B Preferred Stock and the warrant were issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. The Company has agreed to register the resale or secondary offering of the Series B Preferred Stock, the warrant and the shares of common stock issuable upon exercise of the warrant (the Warrant Shares) as soon as practicable after the date of the issuance of the Series B Preferred Stock and the warrant. Neither the Series B Preferred Stock nor the warrant is subject to any contractual restrictions on transfer, except that Treasury may only transfer or exercise an aggregate of one-half of the Warrant Shares prior to the earlier of (i) the date on which the Company has received aggregate gross proceeds of not less than

$400 million from one or more Qualified Equity Offerings and (ii) December 31, 2009.

Off-Balance Sheet Arrangements

In the normal course of operations, Webster engages in a variety of financial transactions that, in accordance with U.S. generally accepted accounting principles, are not recorded in the financial statements, or are recorded in amounts that differ from the notional amounts. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used for general corporate purposes or for customer needs. Corporate purpose transactions are used to help manage credit, interest rate and liquidity risk or to optimize capital. Customer transactions are used to manage customers requests for funding.

For the year ended December 31, 2008, Webster Bank did not engage in any off-balance sheet transactions that would have a material effect on its consolidated financial condition.

Asset/Liability Management and Market Risk

An effective asset/liability management process must balance the risks and rewards from both short and long-term interest rate risks in determining management strategy and action. To facilitate and manage this process, Webster has an Asset/Liability Committee (ALCO). The primary goal of ALCO is to manage interest rate risk to maximize net income and net economic value over time in changing interest rate environments subject to Board of Director approved risk limits. The Board sets limits for earnings at risk for parallel ramps in interest rates over 12 months of plus and minus 100, 200 and 300 basis points. Economic value or equity at risk limits are set for parallel shocks in interest rates of plus and minus 100 and 200 basis points. Based on the historic lows in short-term interest rates as of December 31, 2008, the declining interest rate scenarios for both the earnings at risk for parallel ramps and the equity as risk for parallel shocks have been temporarily suspended per ALCO policy. ALCO also regularly reviews earnings at risk scenarios for non-parallel changes in rates, as well as longer term earnings at risk for up to four years in the future.

Management measures interest rate risk using simulation analyses to calculate earnings and equity at risk. These risk measures are quantified using simulation software from one of the leading firms in the field of asset/liability modeling. Key assumptions relate to the behavior of interest rates and spreads, prepayment speeds and the run-off of deposits. From such simulations, interest rate risk is quantified and appropriate strategies are formulated and implemented.

Earnings at risk is defined as the change in earnings due to changes in interest rates. Interest rates are assumed to change up or down in a parallel fashion and net income results are compared to a flat rate scenario as a base. The flat rate scenario holds the end of the period yield curve constant over the twelve month forecast horizon. Earnings simulation analysis incorporates assumptions about balance sheet changes such as asset and liability growth, loan and deposit pricing and changes to the mix of assets and liabilities. It is a measure of short-term interest rate risk. Equity at risk is defined as the change in the net economic value of assets and liabilities due to changes in interest rates compared to a base net economic value. Equity at risk analyzes sensitivity in the present value of cash flows over the expected life of existing assets, liabilities and off-balance sheet contracts. It is a measure of the long-term interest rate risk to future earnings streams embedded in the current balance sheet.

Key assumptions underlying the present value of cash flows include the behavior of interest rates and spreads, asset prepayment speeds and attrition rates on deposits. Cash flow projections from the model are continually compared to market expectations for similar collateral types and adjusted based on experience with Webster Bank s own portfolio. The model s valuation results are compared to observable market prices for similar instruments whenever possible. The behavior of deposit and loan customers is studied using historical time series analysis to model future customer behavior under varying interest rate environments.

The equity at risk simulation process uses multiple interest rate paths generated by an arbitrage-free trinomial lattice term structure model. The Base Case rate scenario, against which all others are compared, uses the month-end LIBOR/Swap yield curve as a starting point to derive forward rates for future months. Using interest

rate swap option volatilities as inputs, the model creates multiple rate paths for this scenario with forward rates as the mean. In shock scenarios, the starting yield curve is shocked up or down in a parallel fashion. Future rate paths are then constructed in a similar manner to the Base Case.

Cash flows for all instruments are created for each scenario and each rate path using product specific prepayment models and account specific system data for properties such as maturity date, amortization type, coupon rate, repricing frequency and repricing date. The asset/liability simulation software is enhanced with a mortgage prepayment model and a Collateralized Mortgage Obligation database. Instruments with explicit options (i.e., caps, floors, puts and calls) and implicit options (i.e., prepayment and early withdrawal ability) require such a rate and cash flow modeling approach to more accurately quantify value and risk. On the asset side, risk is impacted the most by mortgage loans and mortgage-backed securities, which can typically prepay at any time without penalty and may have embedded caps and floors. On the liability side, there is a large concentration of customers with indeterminate maturity deposits who have options to add or withdraw funds from their accounts at any time. Webster Bank also has the option to change the interest rate paid on these deposits at any time.

Webster s earnings and equity at risk models incorporate certain non-interest income and expense items that vary with interest rates. These items include mortgage banking income, mortgage servicing rights and derivative mark-to-market adjustments.

Four main tools are used for managing interest rate risk: (1) the size and duration of the investment portfolio, (2) the size and duration of the wholesale funding portfolio, (3) off balance sheet interest rate contracts and (4) the pricing and structure of loans and deposits. ALCO meets at least monthly to make decisions on the investment and funding portfolios based on the economic outlook, the Committee s interest rate expectations, the risk position and other factors. ALCO delegates pricing and product design responsibilities to individuals and sub-committees, but monitors and influences their actions on a regular basis.

Various interest rate contracts, including futures and options, interest rate swaps and interest rate caps and floors can be used to manage interest rate risk. As of December 31, 2008, Webster was paying the floating rate side of $350 million in interest rate swaps of varying maturities. These swaps were entered into during 2003 and 2004 to effectively convert fixed rate FHLB senior notes and subordinated debt into floating rate liabilities. Webster was paying the fixed rate side of a $100 million interest rate swap maturing in 2013. This swap was entered into during 2008 to effectively convert a floating rate FHLB advance into a fixed rate liability. All of the swaps qualify for fair value or cash flow hedge accounting treatment under FAS 133. These interest rate contracts involve, to varying degrees, credit risk and interest rate risk. Credit risk is the possibility that a loss may occur if a counter party to a transaction fails to perform according to the terms of the contract. The notional amount of interest rate contracts is the amount upon which interest and other payments are based. The notional amount is not exchanged and therefore, the notional amounts should not be taken as a measure of credit risk. Assets of $38.2 million and liabilities of $7.4 million were recognized for the fair value of these swaps at December 31, 2008. Liabilities of $0.7 million were recognized for the fair value of the swaps at December 31, 2007. See Notes 1 and 18 of Notes to Consolidated Financial Statements contained elsewhere within this report for additional information.

Certain derivative instruments, primarily forward sales of mortgage-backed securities, are utilized by Webster Bank in its efforts to manage risk of loss associated with its mortgage banking activities. Prior to closing and funds disbursement, an interest-rate lock commitment is generally extended to the borrower. During such time, Webster Bank is subject to risk that market rates of interest may change impacting pricing on loan sales. In an effort to mitigate this risk, forward delivery sales commitments are established, thereby setting the sales price.

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The following table summarizes the estimated impact that gradual 100 and 200 basis point changes in interest rates over a twelve month period starting December 31, 2008 and December 31, 2007 might have on Webster s net income for the subsequent twelve month period, compared to net income assuming no change in interest rates.

Table 26: Earnings sensitivity (Earnings at risk).

	-200 bp	**-100 bp**	**+100 bp**	**+200 bp**
December 31, 2008	N/A	N/A	+1.9%	+5.3%
December 31, 2007	-1.9%	-0.5%	-0.7%	-0.6%

Interest rates are assumed to change up or down in a parallel fashion and net income results are compared to a flat rate scenario as a base. The flat rate scenario holds the end of period yield curve constant over a twelve month forecast horizon. Webster is well within policy limits for all scenarios. The flat rate scenario at the end of 2007 assumed a Fed funds rate of 4.25%. The flat rate scenario as of December 31, 2008 has a Fed funds rate of 0.25%. The increase in earnings volatility to higher rates since year end is mainly due to mix change toward more floating rate loans, lengthening of time deposit and borrowing maturities, and an increase in fixed rate funding via the issuance of preferred equity. The interest rate risk position has been modified in recognition of historically low market interest rates and in anticipation of eventual increases in market interest rates. Webster is well within policy limits for all scenarios.

Webster can also hold futures and options positions 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 during which the change occurred.

The following table summarizes the estimated impact that immediate non-parallel changes in interest rates might have on Webster s net income for the subsequent twelve month period starting December 31, 2008.

Table 27: Yield Curve Twist.

	Short End of the Yield Curve				**Long End of the Yield Curve**			
	-100 BP	**-50 BP**	**+50 BP**	**+100 BP**	**-100 BP**	**-50 BP**	**+50 BP**	**+100 BP**
December 31, 2008	N/A	N/A	-3.5%	-5.0%	-16.2%	-7.6%	+6.6%	+12.3%
December 31, 2007	+5.0%	+2.4%	-2.9%	-5.5%	-6.5%	-2.8%	+2.3%	+4.4%

The non-parallel scenarios are modeled with the short end of the yield curve moving up or down 50 and 100 basis points while the long end of the yield curve remains unchanged and vice versa. The short end of the yield curve is defined as terms less than 18 months and the long end as terms of greater than 18 months. Webster s net income generally benefits from a fall in short term interest rates since more new and existing liabilities than assets are tied to short term rates. The ultimate benefit Webster derives from this mismatch is dependent on the pricing elasticity of its large managed rate core deposit base and the impact of any rate floors on those deposits. An increase in short term interest rates has the opposite effect on net income. Webster s net income generally benefits from a rise in long term interest rates since more new and existing assets than liabilities are tied to long term rates. The decrease in net income from a fall in long term rates is typically greater than the increase in net income from a rise in long term rates due to the acceleration of asset prepayment activity as rates fall. These results reflect the annualized impact to earnings of immediate rate changes. The actual impact can be uneven during

the year especially in the Short End scenarios where asset yields tied to Prime or LIBOR change immediately while certain deposit rate changes take more time. Webster introduced policy limits for these yield curve twist scenarios in 2007 and is within policy for all scenarios except the Long End declines. The risk arising from Long End declines is primarily driven by mortgage prepayments. The assumptions for the 30 year conforming fixed rate mortgage in the -50BP scenario and -100 BP scenarios as of December 31, 2008 are 4.94% and 4.44%, respectively. The prevailing distress in the housing market has created added uncertainty as to the predictability of mortgage prepayments for declines in market interest rates. ALCO has approved the exception to the policy limits and continues to evaluate prepayment projections for these scenarios as well as potential hedging strategies.

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Table 28: Market value sensitivity (Equity at risk).

(Dollars in thousands)	Book Value	Estimated Economic Value	Estimated Economic Value Change -100 BP	Estimated Economic Value Change +100 BP
December 31, 2008				
Assets	$ 17,583,537	$ 17,092,247	N/A	$ (316,917)
Liabilities	15,709,418	15,101,199	N/A	(230,612)
Total	$ 1,874,119	$ 1,991,048	N/A	$ (86,305)
Net change as % base net economic value				(4.3)%
December 31, 2007				
Assets	$ 17,201,960	$ 16,564,733	$ 296,729	$ (347,718)
Liabilities	15,455,751	14,883,770	195,971	(177,071)
Total	$ 1,746,209	$ 1,680,963	$ 100,758	$ (170,647)
Net change as % base net economic value			6.0%	(10.2)%

The book value of assets exceeded the estimated market value at December 31, 2008 and 2007 because the equity at risk model assigns no value to goodwill and other intangible assets, which totaled $563.9 million and $768.0 million, respectively. The above table includes interest-earning assets that are not directly impacted by changes in interest rates. Assets include available for sale equity securities of $30.8 million and $75.2 million, FHLB and FRB stock of $134.9 million and $111.0 million as of December 31, 2008 and 2007, respectively. See Note 3 of Notes to Consolidated Financial Statements contained elsewhere within this report for further information concerning investment securities. Values for mortgage servicing rights have been included in the tables above as movements in interest rates affect their valuation.

Changes in economic value can be best described using duration. Duration is a measure of the price sensitivity of financial instruments for small changes in interest rates. For fixed rate instruments it can also be thought of as the weighted average expected time to receive future cash flows. For floating rate instruments it can be thought of as the weighted average expected time until the next rate reset. The longer the duration, the greater the price sensitivity for given changes in interest rates. Floating rate instruments may have a duration as short as one day and therefore have very little price sensitivity due to changes in interest rates. Increases in interest rates typically reduce the value of fixed rate assets as future discounted cash flows are worth less at higher discount rates. A liability s value decreases for the same reason in a rising rate environment. A reduction in value of a liability is a benefit, however, as this is an obligation of Webster.

At the end of 2008 Webster s net economic value was less sensitive to changing rates than in 2007. The change in sensitivity was primarily due to the previously mentioned change toward more floating rate loans, lengthening of time deposit and borrowing maturities, and increase in fixed rate funding via the issuance of preferred equity.

Duration gap is the difference between the duration of assets and the duration of liabilities. A duration gap near zero implies that the balance sheet is matched and would exhibit no change in estimated economic value for a small change in interest rates. Webster s duration gap was positive 0.1 at the end of 2008. At the end of 2007, the duration gap was positive 0.7. A positive duration gap implies that assets are longer than liabilities and therefore, they have more economic price sensitivity than liabilities

and will reset their interest rates slower than liabilities. Consequently, Webster s net estimated economic value would decrease when interest rates rise as the increased value of liabilities would not offset the decreased value of assets. The opposite would occur when interest rates fall. Net income would also generally be expected to decrease when interest rates rise and increase when rates fall over the long term absent the effects of new business booked in the future. The change in Webster s duration gap is due to asset duration falling 0.3 to 1.7 and liability duration rising 0.3 to 1.6 in 2008 for the reasons discussed above.

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These estimates assume that management does not take any action to mitigate any positive or negative effects from changing interest rates. The net income and economic values estimates are subject to factors that could cause actual results to differ. Management believes that Webster s interest rate risk position at December 31, 2008 represents a reasonable level of risk given the current interest rate outlook. Management, as always, is prepared to act in the event that interest rates do change rapidly.

Impact of Inflation and Changing Prices

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

Unlike most industrial companies, 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.

Forward Looking Statements

This Annual Report contains forward-looking statements within the meaning of the Securities Exchange Act of 1934, as amended. Actual results could differ materially from 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, or any combination thereof, 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, under the caption Asset/Liability Management and Market Risk .

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of

Webster Financial Corporation:

We have audited the accompanying consolidated statements of condition of Webster Financial Corporation and subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2008. 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 the standards of the Public Company Accounting Oversight Board (United States). 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, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 27, 2009 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP
Hartford, Connecticut
February 27, 2009

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)	December 31, 2008	December 31, 2007
Assets:		
Cash and due from depository institutions	$ 259,208	$ 306,654
Short-term investments	22,154	5,112
Investment securities:		
Trading, at fair value	77	2,340
Available for sale, at fair value	1,188,705	639,364
Held-to-maturity (fair value of $2,559,745 and $2,094,566)	2,522,511	2,107,227
Other securities	134,874	110,962
Total investment securities	3,846,167	2,859,893
Loans held for sale	24,524	221,568
Loans, net	11,952,262	12,287,857
Goodwill	529,887	728,038
Cash surrender value of life insurance	279,807	269,366
Premises and equipment	185,928	193,063
Assets held for disposition	5,571	51,603
Other intangible assets	34,039	39,977
Deferred tax asset, net	189,337	58,126
Accrued interest receivable and other assets	254,653	180,703
Total assets	$ 17,583,537	$ 17,201,960
Liabilities and Shareholders Equity:		
Deposits	$ 11,884,890	$ 12,354,158
Federal Home Loan Bank advances	1,335,996	1,052,228
Securities sold under agreements to repurchase and other short-term debt	1,570,971	1,238,012
Long-term debt	687,797	650,643
Liabilities held for disposition		9,261
Accrued expenses and other liabilities	220,187	151,449
Total liabilities	15,699,841	15,455,751
Preferred stock of subsidiary corporation	9,577	9,577
Shareholders equity:		
Preferred stock, $0.01 par value; Authorized 3,000,000 shares;		
Series A Issued and outstanding 224,900 shares at December 31, 2008	224,900	
Series B Issued and outstanding 400,000 shares at December 31, 2008	391,426	
Common stock, $.01 par value; Authorized 200,000,000 shares		
Issued 56,607,177 shares and 56,594,469 shares	566	566
Paid-in capital	733,487	734,604

Retained earnings	783,875	1,183,621
Less: Treasury stock, at cost; 3,723,527 shares and 4,119,374 shares	(154,225)	(166,263)
Accumulated other comprehensive loss, net	(105,910)	(15,896)
Total shareholders equity	1,874,119	1,736,632
Total liabilities and shareholders equity	$ 17,583,537	$ 17,201,960

See accompanying Notes to Consolidated Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)	**Years ended December 31, 2008**	**2007**	**2006**
Interest Income:			
Loans	$ 710,621	$ 837,711	$ 843,398
Investments	157,055	136,324	154,127
Loans held for sale	1,597	21,560	17,213
Total interest income	869,273	995,595	1,014,738
Interest Expense:			
Deposits	250,182	361,307	310,199
Borrowings	113,300	126,096	195,989
Total interest expense	363,482	487,403	506,188
Net interest income	505,791	508,192	508,550
Provision for credit losses	186,300	67,750	11,000
Net interest income after provision for credit losses	319,491	440,442	497,550
Non-interest Income:			
Deposit service fees	120,132	114,645	96,765
Loan related fees	29,067	30,830	34,389
Wealth and investment services	28,140	29,164	27,183
Mortgage banking activities	1,230	9,316	8,542
Increase in cash surrender value of life insurance	10,441	10,386	9,603
Net (loss) gain on investment securities	(4,034)	1,721	1,289
Loss on write-down of investments to fair value	(219,277)	(3,565)	(48,879)
Loss on sale of FNMA/FHLMC preferred stock	(2,060)		
Gain on Webster Capital Trust I and II securities		2,130	
Loss on sale of mortgage loans			(5,713)
Visa share redemption	1,625		
Other income	6,684	7,685	8,426
Total non-interest income	(28,052)	202,312	131,605
Non-interest Expense:			
Compensation and benefits	239,701	244,570	229,556
Occupancy	53,043	49,378	46,083
Furniture and equipment	61,155	59,771	54,828
Intangible assets amortization	5,939	10,374	13,865
Marketing	13,956	14,213	15,417
Outside services	15,758	15,038	15,927
Foreclosed and repossessed property expenses	8,943	2,010	118
Debt redemption premium		8,940	
Severance and other costs	16,158	15,608	
Acquisition costs			2,951
FDIC deposit insurance assessment	4,698	1,520	1,610
Other expenses	58,306	62,548	55,980
Goodwill impairment	198,379		

Total non-interest expense	676,036	483,970	436,335
(Loss) income from continuing operations before income tax (benefit) expense	(384,597)	158,784	192,820
Income tax (benefit) expense	(65,840)	48,088	59,140
(Loss) income from continuing operations	(318,757)	110,696	133,680
(Loss) income from discontinued operations, net of tax	(3,073)	(13,923)	110
Net (loss) income	(321,830)	96,773	133,790
Preferred stock dividends and accretion of discount	12,087		
Net (loss) income applicable to common shareholders	$ (333,917)	$ 96,773	$ 133,790
Net (loss) income per common share:			
Basic			
(Loss) income from continuing operations	$ (6.36)	$ 2.03	$ 2.50
Net (loss) income applicable to common shareholders	(6.42)	1.78	2.50
Diluted			
(Loss) income from continuing operations	(6.36)	2.01	2.47
Net (loss) income applicable to common shareholders	(6.42)	1.76	2.47

See accompanying Notes to Consolidated Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME

(In thousands, except share and per share data)	Preferred Stock	Common Stock Shares	Common Stock Amount	Paid In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss)	Total
Balance, December 31, 2005	$	54,117,218	$ 541	$ 619,644	$ 1,073,255	$ (21,065)	$ (27,878)	$ 1,644,497
Comprehensive income:								
Net income for 2006					133,790			133,790
Other comprehensive income (loss), net of taxes								
Net unrealized gain on securities available for sale							2,627	2,627
Decrease in net unrealized loss on securities available for sale due to write-down to fair value							31,134	31,134
Amortization of unrealized loss on securities transferred to held to maturity							666	666
Amortization of deferred hedging gain							(168)	(168)
Other comprehensive income								34,259
Comprehensive income								168,049
Dividends paid of $1.06 per common share					(57,037)			(57,037)
Exercise of stock options, including excess tax benefits		190,148	3	5,150		4,583		9,736
Repurchase of 1,347,929 shares						(63,165)		(63,165)
Common stock issued in acquisition		1,964,204	20	95,568		77,254		172,842
Stock-based compensation expense				4,415				4,415
Restricted stock grants and expense		106,658		1,617		2,393		4,010
Employee Stock Purchase Plan		10,479		492				492

Adoption of SFAS No. 158 as of December 31, 2006						(9,705)	(9,705)
Balance, December 31, 2006	56,388,707	564	726,886	1,150,008		(3,324)	1,874,134
Comprehensive income:							
Net income for 2007				96,773			96,773
Other comprehensive income (loss), net of taxes							
Deferred gain on derivatives sold						2,645	2,645
Net unrealized loss on securities available for sale						(19,555)	(19,555)
Amortization of unrealized loss on securities transferred to held to maturity						464	464
Net actuarial loss and prior service cost for pension and other postretirement benefits						4,182	4,182
Amortization of deferred hedging gain						(308)	(308)
Other comprehensive loss							(12,572)
Comprehensive income							84,201
Dividends paid of $1.17 per common share				(64,560)			(64,560)
Exercise of stock options, including excess tax benefits	201,586	2	5,802		3,826		9,630
Repurchase of 4,416,271 shares					(178,480)		(178,480)
Stock-based compensation expense			3,525				3,525
Restricted stock grants and expense	4,176		(1,714)		6,911		5,197
Cumulative effect of change in accounting for uncertainties in income taxes				1,400			1,400
Business combination contingent consideration			105		1,480		1,585
Balance, December 31, 2007	$ 56,594,469	$ 566	$ 734,604	$ 1,183,621	$ (166,263)	$ (15,896)	$ 1,736,632

See accompanying Notes to Consolidated Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME, continued

(In thousands, except share and per share data)	Preferred Stock	Common Stock Shares	Common Stock Amount	Paid In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss)	Total
Balance, December 31, 2007	$	56,594,469	$ 566	$ 734,604	$ 1,183,621	$ (166,263)	$ (15,896)	$ 1,736,632
Comprehensive income:								
Net loss for 2008					(321,830)			(321,830)
Other comprehensive income (loss), net of taxes:								
Net unrealized loss on securities available for sale, net of taxes							(59,186)	(59,186)
Amortization of unrealized loss on securities transferred to held to maturity							349	349
Net actuarial loss and prior service cost for pension and other postretirement benefits							(23,300)	(23,300)
Unrealized gain on cash flow hedge							(7,441)	(7,441)
Amortization of deferred hedging gain							(436)	(436)
Other comprehensive loss								(90,014)
Comprehensive loss								(411,844)
Dividends paid on common stock of $1.20 per share					(63,063)			(63,063)

Dividends paid on Series A preferred stock $43.44 per share					(9,775)			(9,775)
Dividends incurred on Series B preferred stock					(2,167)			(2,167)
Exercise of stock options, including excess tax benefits		4,695		(228)		760		532
Repurchase of 33,524 shares						(644)		(644)
Preferred stock accretion	145				(145)			
Stock-based compensation expense				920				920
Restricted stock grants and expense		4,333		(3,223)	(1,842)	11,922		6,857
Conversion of Series A preferred stock	(100)	3,680		100				
Issuance of Series A convertible preferred stock, net of issuance costs	225,000			(7,405)				217,595
Issuance of Series B preferred stock and warrants, net of issuance costs	391,281			8,719				400,000
EITF 06-4 Adoption					(924)			(924)
Balance, December 31, 2008	$ 616,326	56,607,177	$ 566	$ 733,487	$ 783,875	$ (154,225)	$ (105,910)	$ 1,874,119

See accompanying Notes to Consolidated Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,		
(In thousands)	**2008**	**2007**	**2006**
Operating Activities:			
Net (loss) income	$ (321,830)	$ 96,773	$ 133,790
(Loss) income from discontinued operations, net of tax	(3,073)	(13,923)	110
(Loss) income from continuing operations	(318,757)	110,696	133,680
Adjustments to reconcile (loss) income from continuing operations to net cash provided by operating activities:			
Provision for credit losses	186,300	67,750	11,000
Deferred tax (benefit) expense	(89,914)	(13,483)	5,401
Depreciation and amortization	51,006	51,430	40,269
Amortization of intangible assets	5,939	10,374	13,865
Debt redemption premium		8,940	
Gain on Webster Capital trust I and II securities		(2,130)	
Stock-based compensation expense	7,777	8,722	8,425
Excess tax benefits from stock-based compensation	(1)	(498)	(1,213)
Net loss (gain) on sale of foreclosed properties	4,961	2,010	(48)
Impairment of goodwill	198,379		
Loss on write-down of investments to fair value	219,277	3,565	48,879
Net loss (gain) on sale of securities	6,339	(1,884)	(980)
Net gain on sale of loans and loan servicing	(1,230)	(9,316)	(2,829)
Net (gain) loss on trading securities	(245)	163	(309)
Decrease (increase) in trading securities	2,508	2,339	(2,276)
Increase in cash surrender value of life insurance	(10,441)	(10,386)	(9,603)
Loans originated for sale	(208,380)	(2,836,359)	(1,893,287)
Proceeds from sale of loans originated for sale	425,706	2,882,581	1,809,233
Decrease (increase) in interest receivable	6,125	10,133	(2,202)
Decrease in prepaid expenses and other assets	11,604	2,257	11,369
Net (decrease) increase in accrued expenses and other liabilities	(11,763)	18,296	(14,782)
Proceeds from surrender of life insurance contracts		338	
Contribution to stock purchased by the Employee Stock Purchase Plan			492
Net cash provided by operating activities	485,190	305,538	155,084
Investing Activities:			
Purchases of securities, available for sale	(917,822)	(613,562)	(1,479,348)
Proceeds from maturities and principal repayments of securities, available for sale	36,071	299,841	1,600,792
Proceeds from sales of securities, available for sale	18,481	11,025	1,938,139
(Purchase) proceeds from sales of Federal Home Loan Bank and Federal Reserve Stock, net	(23,912)	26,793	31,986

Purchases of held-to-maturity securities	(154,595)	(209,823)	(14,528)
Proceeds from maturities and principal repayments of held-to-maturity securities	205,318	188,508	124,177
Net (increase) decrease in short-term investments	(17,042)	170,536	(63,633)
Net increase in loans	(379,628)	(154,595)	(777,863)
Net proceeds from sale of mortgage loans			242,433
Proceeds from sale of foreclosed properties	16,319	6,195	5,876
Net purchases of premises and equipment	(33,734)	(34,540)	(32,557)
Net cash received due to acquisitions			11,181
Net cash (used in) provided by investing activities	(1,250,544)	(309,622)	1,586,655

See accompanying Notes to Consolidated Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Year ended December 31,		
(In thousands)	**2008**	**2007**	**2006**
Financing Activities:			
Net (decrease) increase in deposits	$ (469,268)	$ (104,238)	$ 217,844
Proceeds from FHLB advances	113,427,552	22,411,826	78,896,149
Repayment of FHLB advances	(113,140,513)	(22,431,292)	(80,073,985)
Increase (decrease) in securities sold under agreements to repurchase and other short-term borrowings	334,222	344,996	(627,731)
Other long-term debt issued		199,344	
Repayment of other long-term debt		(188,653)	(25,200)
Issuance of preferred stock	617,595		
Cash dividends to common shareholders	(63,063)	(64,560)	(57,037)
Cash dividends to preferred shareholders	(9,775)		
Exercise of stock options	532	9,630	9,736
Excess tax benefits from stock-based compensation	1	498	1,213
Contribution to stock purchased by the Employee Stock Purchase Plan			492
Common stock repurchased	(644)	(178,480)	(63,165)
Net cash provided by (used for) financing activities	696,639	(929)	(1,721,684)
Cash Flows from Discontinued Operations:			
Operating activities	(2,651)	1,154	1,597
Financing activities	23,920	(1,375)	(3,470)
Net cash provided by (used for) discontinued operations	21,269	(221)	(1,873)
(Decrease) increase in cash and cash equivalents	(47,446)	(5,234)	18,182
Cash and cash equivalents at beginning of year	306,654	311,888	293,706
Cash and cash equivalents at end of year	$ 259,208	$ 306,654	$ 311,888
Supplemental Disclosures:			
Interest paid	$ 365,556	$ 498,882	$ 514,558
Income taxes paid	24,173	56,423	37,003
Supplemental Schedule of Noncash Investing and Financing Activities:			
	$ 43,735	$ 13,460	$ 2,956

Transfer of loans and leases, net to foreclosed properties			
Issuance of loan to finance sale of subsidiary	18,000		
Transfer of property from premises and equipment to assets held for disposition	5,571		
Mortgage loans securitized and transferred to mortgage-backed securities held-to-maturity	466,550	632,897	371,133
Residential construction loans held-for-sale transferred to residential construction loan portfolio		96,324	
Transfer of loans to loans held for sale	19,052		
Purchase Transactions:			
Fair value of noncash assets acquired	$	$	$ 815,515
Fair value of liabilities assumed			653,854
Fair value of common stock issued			172,842
Sale Transactions:			
Fair value of noncash assets sold	$ 40,833	$	$
Fair value of liabilities extinguished	7,117		

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

1) Principles of Consolidation

The Consolidated Financial Statements include the accounts of Webster Financial Corporation and its consolidated subsidiaries (collectively, Webster), including Webster Bank, National Association, (Webster Bank) a national bank and, for periods prior to February 1, 2008, Webster Insurance, Inc., (Webster Insurance) an insurance agency. The operating results of Webster Insurance have been reported separately as discontinued operations, and as of December 31, 2007, the assets and liabilities of Webster Insurance have been reported separately as assets and liabilities held for disposition in the consolidated financial statements. The principal subsidiaries of Webster Bank include Center Capital Corporation (CCC), an equipment finance company; Webster Business Credit Corporation, an asset-based lender; Webster Preferred Capital Corporation, a publicly-traded real estate investment trust; and Webster Mortgage Investment Corporation, a Connecticut passive investment company. Subsidiaries of Webster Financial Corporation that have issued trust preferred securities, as described in Note 13, are not consolidated for financial reporting purposes in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised), *Consolidation of Variable Interest Entities.* The Consolidated Financial Statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) and all significant intercompany balances and transactions have been eliminated in consolidation.

2) Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of the Consolidated Financial Statements in conformity with GAAP 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 could differ from those estimates. Material estimates that are susceptible to near-term changes include the determination of the allowance for credit losses, the determination of impairment of goodwill, other-than-temporary impairment of investment securities, and the valuation allowance for the deferred tax asset.

Cash and Cash Equivalents

For the purposes of the Consolidated Statements of Cash Flows, cash on hand and in banks is reflected as cash and cash equivalents. Webster is required by the Federal Reserve System to maintain non-interest bearing cash reserves equal to a percentage of certain deposits. At December 31, 2008 and 2007, Webster was required by Federal Reserve Board regulations to maintain reserve balances of $25.7 million and $33.3 million, respectively, in cash on hand or at the Federal Reserve Bank.

Securities

Securities are classified as trading, available for sale or held to maturity. Management determines the appropriate classification of securities at the time of purchase. Securities are classified as held to maturity when the intent and ability is to hold the securities to maturity. Held to maturity securities are stated at amortized cost. Securities bought and held for the purpose of selling in the near term are classified as trading and are stated at fair value, with net unrealized gains and losses recognized currently in non-interest 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, which is a separate component of shareholders equity. Transfers from available for sale to held to maturity are recorded at fair value at the time of transfer. Any unrealized gain or loss on transferred

securities is reclassified as a separate component of accumulated other comprehensive income (loss) and amortized as an adjustment to interest income using a method that approximates the level yield method.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The amortized cost basis of held to maturity and available for sale securities reflects amortization of premiums or accretion of discounts using the level yield method. Such amortization and accretion is included in interest income from securities. Unrealized losses on securities are charged to non-interest income 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.

Loans

Loans are stated at the principal amounts outstanding, net of unamortized premiums and discounts and net of deferred loan fees and/or costs which are recognized as a yield adjustment using the interest method. These yield adjustments are amortized over the contractual life of the related loans adjusted for estimated prepayments when applicable. Interest on loans is credited to interest income as earned based on the interest 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.

Loans held for sale are stated at the lower of aggregate cost or fair value. Gains or losses on sales of loans held for sale are determined using the specific identification basis and are recognized, upon settlement, in non-interest income.

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 interest 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 the unpaid balance has been fully recovered. Any excess is then credited to interest income when received. 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 loans (commercial business and commercial real estate 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. Impaired 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.

Loans, or portions of loans, are charged-off against the allowance for loan losses when deemed by management to be uncollectible. Recoveries on previously charged off loans are credited to the allowance.

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.

Allowance for Credit Losses

The allowance for credit losses, which comprises the allowance for loan losses and the reserve for unfunded credit commitments, is maintained at a level adequate to absorb probable losses inherent in the loan portfolio and in unfunded credit commitments. This allowance is increased by provisions

charged to operations and by recoveries on loans previously charged-off, and reduced by charge-offs on loans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Management believes that the allowance for credit losses is adequate. While management uses available information to estimate the embedded loss within the loan portfolios, future additions to the allowance may be necessary based on changes in economic conditions and portfolio performance. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for credit losses and such agencies may require additions to the allowance for credit losses based on judgments different from those of management.

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). Estimated costs to sell are considered 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.

Derivative Instruments and Hedging Activities

All derivatives are recognized as either assets or liabilities in the Consolidated Statements of Condition and measured at fair value. Changes in the fair value of the derivatives are reported in either earnings or other comprehensive income (loss), depending on the use of the derivative and whether or not it qualifies for hedge accounting. Hedge accounting treatment is permitted only if specific criteria are met, including a requirement that the hedging relationship be highly effective both at inception of the hedge relationship and on an ongoing basis. Derivatives that qualify for hedge accounting treatment are designated as either a fair value hedge or a cash flow hedge. For fair value hedges, changes in the fair values of the derivative instruments are recognized in the results of operations together with changes in the fair values of the related assets and liabilities attributable to the hedged risk. For cash flow hedges, changes in the fair values of the derivative instruments are reported in other comprehensive income (loss) to the extent the hedge is effective. Derivatives that do not qualify for hedge accounting are recorded at fair value, with all changes therein recorded in current earnings.

When derivative contracts that were designated as hedging instruments in fair value hedges are terminated, the fair value adjustment related to the hedged item is amortized as a yield adjustment over the remaining life of the hedged item. When derivative contracts that were designated as hedging instruments in cash flow hedges are terminated, the fair value adjustment related to the derivative instrument that is classified in accumulated other comprehensive income (loss) is amortized as a yield adjustment over the remaining life of the hedged item.

Short-term Investments

Short-term investments consist primarily of interest-bearing deposits in the FHLB or other short-term money market investments. These deposits are carried at cost, which approximates fair value.

Non-Marketable Securities

Non-marketable securities, such as Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) stock, are carried at cost and are included as Other Securities on the Consolidated Balance Sheets.

Premises and Equipment and Depreciation

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. Amortization of leasehold improvements is calculated on a straight-line basis over the shorter of

the useful life of the improvement or the term of the related leases. Premises and equipment being actively marketed for sale are reported as assets held for disposition in the accompanying Consolidated Balance Sheet.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Maintenance and repairs are charged to non-interest 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.

Impairment of Long-lived Assets

Long-lived assets are evaluated for impairment when events occur that would more likely than not reduce the implied fair value of the assets below their carrying value. An assessment of recoverability is performed prior to any write-down of an asset. Non-interest expense would be charged in the current period for any such impairment.

Goodwill and Other Intangible Assets

The Company tests goodwill for impairment on an annual basis, or more often if events or circumstances indicate there may be impairment. Goodwill impairment testing is performed at the segment (or reporting unit) level. Goodwill, which represents the excess of the cost of an acquisition over the fair value of the net assets acquired, is assigned to reporting units at the date the goodwill is initially recorded. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or internally generated, are available to support the value of the goodwill.

The goodwill impairment analysis is a two-step test. The first step (Step1), used to identify potential impairment, involves comparing each reporting unit s estimated fair value to its carrying value, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment.

The second step (Step 2) involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated impairment. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, by measuring the excess of the estimated fair value of the reporting unit, as determined in the first step, over the aggregate estimated fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss cannot exceed the carrying value of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted. S*ee Note 7 Goodwill and Other Intangible Assets* for additional information regarding the impairment charges.

Other intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either separately or in combination with a related contract, asset or liability. Other intangible assets with finite useful lives are amortized to non-interest expense over their estimated useful lives and are subject to impairment testing if certain conditions exist or events occur. Any impairment write-down would be charged to non-interest expense.

Cash Surrender Value of Life Insurance

The investment in life insurance represents the cash surrender value of life insurance policies on certain officers of Webster. Increases in the cash surrender value are recorded as other non-interest income.

Decreases are the result of collection on the policies due to the death of an insured. Death benefit proceeds in excess of cash surrender value are recorded in non-interest income when received.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Investments in Limited Partnerships

As of December 31, 2008 and 2007, Webster held $12.4 million and $15.3 million, respectively, in limited partnership investments (direct investments), which have been reflected within other assets in the accompanying Consolidated Statements of Condition. These investments are accounted for in accordance with Emerging Issues Task Force Topic D-46 (EITF D-46), Accounting for Limited Partnership Investments . EITF D-46 requires application of the equity method for interests exceeding 3-5% of total limited partners interests. The cost method is used to account for interests held that are less than 3-5%. Due to the disruption in the market and the general economic downturn, Webster s investment in certain limited partnerships experienced declines in fair value that were judged to be other-than-temporary. For the years ended December 31, 2008 and 2007, Webster recognized a $1.9 million and $3.6 million charge to non-interest income for the loss on the write-down of these investments to fair value.

Income Taxes

Income taxes are accounted for using the asset and liability method. Accordingly, deferred tax assets and liabilities: (i) are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns; (ii) are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases; and (iii) are measured using enacted tax rates expected to apply in the years when those temporary differences are expected to be recovered or settled. Where applicable, deferred tax assets are reduced by a valuation allowance for any portions determined not likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period of enactment. The valuation allowance is adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant.

Tax benefits of uncertain tax positions are accounted for in accordance with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes.* FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 were applied to all tax positions upon initial adoption of this standard as of January 1, 2007, with the effect of adoption recognized in retained earnings as the cumulative effect of an accounting change. Tax positions must have met the more-likely-than-not recognition threshold at the effective date in order for the related tax benefits to be recognized or continue to be recognized.

Employee Retirement Benefit Plan

Webster Bank has a noncontributory defined benefit pension plan covering substantially all employees. Costs related to this qualified plan, based upon actuarial computations of current and future benefits for employees, are charged to non-interest expense and are funded in accordance with the requirements of the Employee Retirement Income Security Act (ERISA). A supplemental retirement plan is also maintained for executive level employees. Webster also provides postretirement healthcare benefits to certain retired employees.

Effective December 31, 2006, Webster adopted SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R).* As a result of the adoption of SFAS No. 158, an asset was recognized for the over funded status of the qualified pension plan; a liability was recognized for the under funded status of the

supplemental pension and other postretirement benefit plans; and the net impact was recognized as an after-tax charge to accumulated other

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

comprehensive income/loss. Subsequent to December 31, 2006, changes in the over funded or under funded status of these plans are recognized as a component of other comprehensive income.

Stock-based Compensation

Webster maintains stock-based employee and non-employee director compensation plans, as described more fully in Note 21. Webster recognizes the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards. Compensation cost is recognized over the requisite service period. Excess tax benefits are reported as a cash inflow from financing activities and a cash outflow from operating activities. Excess tax benefits result when tax-return deductions exceed recognized compensation cost determined using the fair value approach for financial statement purposes.

Loan and Loan Servicing Sales

Gains or losses on sales of loans are included in non-interest income and are recognized on the settlement date. These transactions are accounted for as sales based on the satisfaction of the criteria for such accounting which provide that the transferor (seller) has surrendered control over the loans. The Company also recognizes a separate asset for the value of the right to service mortgage loans for others, regardless of how those servicing rights are acquired. Webster has elected to measure servicing rights based upon the amortization method, which requires amortization into non-interest income over the estimated period of servicing revenue.

Fair values of mortgage servicing rights are estimated considering market-based assumptions for loan prepayment speeds, servicing costs, discount rates, and other economic factors. Webster stratifies its mortgage servicing rights into classes based on the predominate risk characteristics of the underlying loans. These risk characteristics include loan type, interest rate (fixed or adjustable) and amortization type. Servicing rights are assessed quarterly for impairment or increased obligation based on fair value. 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 non-interest income. The allowance is adjusted for subsequent changes in fair value.

Securities Sold Under Agreements to Repurchase

These agreements are accounted for as secured financing transactions since Webster maintains effective control over the transferred securities and the transfer meets the other criteria for such accounting. Obligations to repurchase securities sold are reflected as a liability in the Consolidated Statements of Condition. The securities underlying the agreements are delivered to a custodial account for the benefit of the dealer or bank with whom each transaction is executed. The dealers or banks, who may sell, loan or otherwise dispose of such securities to other parties in the normal course of their operations, agree to resell to Webster the same securities at the maturities of the agreements.

Fee Revenue

Generally, fee revenue from deposit service charges and loans is recognized when earned, except where ultimate collection is uncertain, in which case revenue is recognized when received. Insurance revenue is classified within income (loss) from discontinued operations. Revenue is recognized on property and casualty insurance on the later of the billing or effective date, net of cancellations. Customer policy cancellations may result in a partial refund of previously collected revenue and, therefore, an adjustment to income is made at that time. Revenue for other lines of insurance, such as life and health, is recognized when earned.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Trust revenue is recognized as earned on individual accounts based upon a percentage of asset value. Fee income on managed institutional accounts is accrued as earned and collected quarterly based on the value of assets managed at quarter end.

Comprehensive Income

Comprehensive income (loss) is defined as net income (loss) and any changes in equity from sources that are not reflected in the statements of income except those resulting from investments by or distributions to owners. Other comprehensive income (loss) includes items such as the following, net of income taxes: net changes in unrealized gains or losses on securities available for sale; unrealized gains or losses upon transfer of available for sale securities to held-to-maturity; changes in the net actuarial loss and prior service cost for pension and other postretirement benefits; and deferred gains on cash flow hedges. These amounts are reported in shareholders equity (accumulated other comprehensive income or loss) until they are recognized in the Consolidated Statements of Income.

Earnings Per Share

Basic net income per common share (EPS) is calculated by dividing net income (loss) available to common shareholders (net (loss) income less preferred dividends) by the weighted-average number of shares of common stock outstanding. Diluted EPS reflects the potential dilution that could occur if contracts to issue common stock (such as stock options, restricted stock, convertible preferred stock and warrants for common stock) were exercised or converted into common stock that would then share in the earnings of Webster. Diluted EPS is calculated by dividing net (loss) income by the weighted-average number of common shares outstanding, adjusted for the number of incremental common shares (computed using the treasury stock method) that would have been outstanding if all potentially dilutive common shares were issued during the reporting period. For each of the years in the two-year period ended December 31, 2007, the difference between basic and diluted weighted average shares outstanding was entirely due to the effects of stock-based compensation as potential common shares. For the year ended December 31, 2008 the effects of convertible preferred stock and the outstanding warrant in addition to the stock based compensation were taken into account as potential common shares. To the extent that inclusion of potential common stock is anti-dilutive to the computation of diluted earnings per share, those items are excluded for diluted EPS purposes. For the year ended December 31, 2008 all potential common stock was anti-dilutive and therefore excluded from the computation of dilutive EPS. Both basic and diluted EPS have been computed and disclosed for continuing operations, discontinued operations and total net income.

Standby Letters of Credit

Substantially all the outstanding standby letters of credit are performance standby letters of credit within the scope of FASB Interpretation No. 45. These are irrevocable undertakings by Webster, as guarantor, to make payments in the event a specified third party fails to perform under a nonfinancial contractual obligation. Most of the performance standby letters of credit arise in connection with lending relationships and have terms of one year or less. At December 31, 2008, standby letters of credit totaled $173.4 million. The fair value of standby letters of credit is considered insignificant to Webster s Consolidated Financial Statements.

Reclassifications

Certain financial statement balances as previously reported are reclassified whenever necessary to conform to the current year presentation.

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NOTE 2: Sale of Subsidiaries

The activities related to Webster Insurance have been reported separately, with prior period amounts reclassified as assets and liabilities held for disposition in the Consolidated Balance Sheets as of December 31, 2007 and operating results for the three years ended December 31, 2008, 2007 and 2006 have been reclassified as discontinued operations in the Consolidated Statements of Operations. Related disclosures in the notes to the consolidated financial statements have also been revised to incorporate the effect of the discontinued insurance operations.

On February 1, 2008, Webster completed the sale of Webster Insurance to USI Holdings Corporation. In connection with the sale, Webster Bank entered into a joint marketing arrangement with USI to provide expanded products and services to their respective clients. The sale resulted in the recognition of a loss of $2.2 million in the first quarter of 2008. A total of $40.4 million of assets held for disposition were transferred to the buyer as well as $6.3 million of liabilities.

On April 22, 2008, Webster announced that a definitive agreement had been reached to sell Webster Risk Services, a third-party workers compensation administrator. A $0.2 million loss, net of tax, was recorded upon completion of the sale on June 30, 2008.

NOTE 3: Securities

A summary of securities follows:

			Unrealized		Estimated
(In thousands)	Par Value	Amortized Cost	Gains	Losses	Fair Value
December 31, 2008:					
Trading:					
Municipal bonds and notes					$ 77
Available for sale:					
Government Treasury Bills	$ 2,000	$ 1,998	$ 2	$	$ 2,000
Corporate bonds and notes	359,996	159,610		(66,092)	93,518
Equity securities	N/A	30,925	2,024	(2,174)	30,775
Mortgage-backed securities GSE	970,905	972,323	16,592	(152)	988,763
Mortgage-backed securities Commercial	135,000	133,814		(60,165)	73,649
Total available for sale	$ 1,467,901	$ 1,298,670	$ 18,618	$ (128,583)	$ 1,188,705
Held-to-maturity:					
Municipal bonds and notes	$ 703,944	$ 700,365	$ 9,627	$ (14,481)	$ 695,511
Mortgage-backed securities GSE	1,749,399	1,751,679	43,912		1,795,591
Mortgage-backed securities Other	70,493	70,467		(1,824)	68,643
Total held-to-maturity	$ 2,523,836	$ 2,522,511	$ 53,539	$ (16,305)	$ 2,559,745

Other securities:					
Federal Home Loan Bank stock	$ 93,159	$ 93,159	$	$	$ 93,159
Federal Reserve Bank stock	41,715	41,715			41,715
Total other securities	$ 134,874	$ 134,874	$	$	$ 134,874

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(In thousands)			Unrealized		
	Par Value	Amortized Cost	Gains	Losses	Estimated Fair Value
December 31, 2007:					
Trading:					
Municipal bonds and notes					$ 2,340
Available for sale:					
Corporate bonds and notes	$ 390,228	$ 350,209	$ 2,672	$ (20,583)	$ 332,298
Equity securities		78,354	1,763	(4,944)	75,173
Mortgage-backed securities GSE	145,920	145,958	587	(54)	146,491
Mortgage-backed securities Commercial	85,000	84,158	1,244		85,402
Total available for sale	$ 621,148	$ 658,679	$ 6,266	$ (25,581)	$ 639,364
Held-to-maturity:					
Municipal bonds and notes	$ 638,076	$ 635,103	$ 10,580	$ (2,470)	$ 643,213
Mortgage-backed securities GSE	1,389,096	1,390,831	2,748	(21,963)	1,371,616
Mortgage-backed securities Other	81,454	81,293		(1,556)	79,737
Total held-to-maturity	$ 2,108,626	$ 2,107,227	$ 13,328	$ (25,989)	$ 2,094,566
Other securities:					
Federal Home Loan Bank stock	$ 69,249	$ 69,249	$	$	$ 69,249
Federal Reserve Bank stock	41,713	41,713			41,713
Total other securities	$ 110,962	$ 110,962	$	$	$ 110,962

As of December 31, 2008, the fair value of equity securities consisted of common stock of $24.6 million and preferred stock of $6.2 million. The fair value of equity securities at December 31, 2007 consisted of common stock of $41.0 million and preferred stock of $34.2 million.

Management evaluates all investment securities with an unrealized loss in value, whether caused by adverse interest rates, credit movements or some other factor to determine if the loss is other-than-temporary. The following table provides information on the gross unrealized losses and fair value of Webster s investment securities with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment security category and length of time that individual investment securities have been in a continuous unrealized loss position at December 31, 2008.

	Less Than Twelve Months		Twelve Months or Longer		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses

Available for sale:						
Corporate bonds and notes	$ 5,116	$ (8,734)	$ 49,651	$ (57,358)	$ 54,767	$ (66,092)
Equity securities	9,028	(2,171)	15	(3)	9,043	(2,174)
Mortgage-backed securities-GSE	17,843	(8)	45,942	(144)	63,785	(152)
Mortgage-backed securities-Commercial	50,319	(24,399)	23,330	(35,766)	73,649	(60,165)
Total available for sale	$ 82,306	$ (35,312)	$ 118,938	$ (93,271)	$ 201,244	$ (128,583)
Held-to-maturity:						
Municipal bonds and notes	$ 273,335	$ (10,617)	$ 56,820	$ (3,864)	$ 330,155	$ (14,481)
Mortgage-backed securities-Other			68,643	(1,824)	68,643	(1,824)
Total held-to-maturity	$ 273,335	$ (10,617)	$ 125,463	$ (5,688)	$ 398,798	$ (16,305)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table provides information on the gross unrealized losses and fair value of Webster s investment securities with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment security category and length of time that individual investment securities have been in a continuous unrealized loss position at December 31, 2007.

	Less Than Twelve Months		Twelve Months or Longer		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale:						
Corporate bonds and notes	$ 284,385	$ (19,686)	$ 4,504	$ (897)	$ 288,889	$ (20,583)
Equity securities	47,001	(4,764)	639	(180)	47,640	(4,944)
Mortgage-backed securities-GSE	70,819	(54)			70,819	(54)
Total available for sale	$ 402,205	$ (24,504)	$ 5,143	$ (1,077)	$ 407,348	$ (25,581)
Held-to-maturity:						
Municipal bonds and notes	$ 143,177	$ (2,210)	$ 19,118	$ (260)	$ 162,295	$ (2,470)
Mortgage-backed securities-GSE			954,730	(21,963)	954,730	(21,963)
Mortgage-backed securities-other			79,737	(1,556)	79,737	(1,556)
Total held-to-maturity	$ 143,177	$ (2,210)	$ 1,053,585	$ (23,779)	$ 1,196,762	$ (25,989)
Total	$ 545,382	$ (26,714)	$ 1,058,728	$ (24,856)	$ 1,604,110	$ (51,570)

The following summarizes, by investment security type, the basis for the conclusion that the applicable investment securities within the Company s available for sale portfolio were not other-than-temporarily impaired at December 31, 2008:

Corporate bonds and notes The unrealized losses on the Company s investment in eleven corporate bonds and notes increased to $66.1 million at December 31, 2008 from $20.6 million at December 31, 2007, after the other-than-temporary impairment charges of $184.1 million for the year ended December 31, 2008. This portfolio consists of various trust preferred securities, both pooled and single issuer, that are investment grade, below investment grade and unrated. The Company believes the decline in fair value is attributable primarily to investors perception of credit and lack of liquidity in the marketplace. All of these securities were rated A or above at December 31, 2008. However, the Company continues to believe it will collect all scheduled payments based on its assessment of the companies financial condition (for single issuers) and the remaining credit subordination (for pooled securities). The Company also has the ability and intent to hold these investments until a recovery of amortized cost, which may be at maturity. As a result, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2008.

Equity securities The unrealized losses on the Company s investment in ten equity securities decreased to $2.2 million at December 31, 2008 from $4.9 million at December 31, 2007, after the other-than-temporary impairment charges of $33.2 million for the year ended December 31, 2008. This portfolio consists primarily of investments in the common and perpetual preferred stock of other

financial institutions ($30.5 million of the total fair value and $2.2 million of the total unrealized losses at December 31, 2008) and perpetual preferred stock of government sponsored enterprises ($0.3 million of the total fair value at December 31, 2008). Estimating the recovery period for equity securities in an unrealized loss position includes analyst forecasts, earnings assumptions and other company specific financial performance metrics. In addition, this assessment incorporates general market data, industry and sector cycles and related trends to determine a reasonable recovery period. The Company evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairment. Based on that evaluation and the Company s ability and intent to hold the investments for a reasonable period of time sufficient for a forecasted recovery of amortized cost, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2008.

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Mortgage-backed securities The unrealized losses on the Company s investment in seven mortgage-backed securities increased to $60.3 million at December 31, 2008 from $54,000 at December 31, 2007. There were no other-than-temporary impairment charges for mortgage-backed securities for the year ended December 31, 2008. These securities are AAA rated and the contractual cash flows for these investments are performing as expected. Management believes the decline in fair value is attributable to investors perception of credit and the lack of liquidity in the marketplace. The Company expects to collect all principal and interest on these securities and has the ability and intent to hold these investments until a recovery of amortized cost, which may be at maturity. The Company does not consider these investments to be other-than-temporarily impaired at December 31, 2008.

The following summarizes by investment security type the basis for the conclusion that the applicable investment securities within the Company s held-to-maturity portfolio were not other-than-temporarily impaired at December 31, 2008:

Municipal bonds and notes The unrealized losses on the Company s investment in municipal bonds and notes increased to $14.5 million at December 31, 2008 from $2.5 million at December 31, 2007. Approximately $3.9 million of the $14.5 million unrealized losses at December 31, 2008 had been in an unrealized loss position for twelve consecutive months or longer as compared to $0.3 million of the $2.5 million at December 31, 2007. These securities are primarily insured AAA and AA rated general obligation bonds with stable ratings. The $14.5 million unrealized loss was concentrated in 358 municipal bonds and notes with a fair value of $330.2 million. The Company expects to collect all principal and interest on these securities. The Company does not consider these investments to be other-than-temporarily impaired at December 31, 2008.

Mortgage-backed securities The unrealized loss on the Company s investment in mortgage backed securities of $1.8 million at December 31, 2008, a decrease of $21.7 million compared to the $23.5 million in unrealized losses at December 31, 2007. At December 31, 2008 mortgage-backed securities with a fair value of $68.6 million had been in an unrealized loss position for twelve consecutive months or longer as compared $23.5 million at December 31, 2007. These securities carry AAA ratings or Agency implied AAA credit ratings and are currently performing as expected. In December 2008, $466.5 million of loans were securitized and placed in Webster s held-to-maturity portfolio. A separate mortgage servicing asset was not recognized in these transactions. The held-to-maturity securities were recorded at an amortized cost equal to the carrying amount of the securitized loans. The Company expects to collect all principal and interest on these securities. The Company does not consider these investments to be other-than-temporarily impaired at December 31, 2008.

There were no significant credit downgrades during 2008, and these securities are currently performing as anticipated. Management does not consider these investments to be other-than-temporarily impaired and Webster has the ability and intent to hold these investments to full recovery of the cost basis. Management expects that recovery of these temporarily impaired securities will occur over the weighted-average estimated remaining life of these securities. To make the other-than temporary impairment determination, management used valuation methodologies specified by the Securities and Exchange Commission and the Financial Accounting Standards Board and considered a variety of factors. Management s assessment was extensive and complex and included broker quotes, credit data, and cash flow projections generated internally and by external parties.

The following summarizes, by investment security type, the basis for the conclusion that the applicable investment securities within the Company s available for sale portfolio were other-than-temporarily impaired at December 31, 2008:

Corporate bonds and notes:

Trust preferred securities the other-than-temporary impairment charges for these securities for the year ended December 31, 2008 was $166.7 million. Approximately $44.9 million was due to an

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unexpected disruption in expected cash flows due to the increase in the amount of participants in the pool electing to defer interest payments beginning the third quarter of 2008. Based on information received from the securities underwriters and the trustees, it is expected that these securities will resume payments in 2009 and/or 2010. Approximately $121.8 million of the impairment charges were due to management s determination that best estimate of cash flows used in determining the current fair value of the beneficial interest was adversely impacted. Accordingly, these securities were determined to be other-than-temporarily impaired and were written down to fair value as of December 31, 2008.

Income notes the other-than-temporary impairment charge for these securities was $17.4 million for the year ended December 31, 2008 due to management s determination that based on the best estimate of cash flows used in determining the current fair value of the beneficial interest, there was an implied adverse change in expected cash flows; accordingly, these securities were determined to be other-than-temporarily impaired and were written down to fair value as of December 31, 2008.

Equity securities the other-than-temporary impairment charge for these securities was $33.3 million for the year ended December 31, 2008. Of that amount, $9.6 million represents impairment charges taken on Fannie Mae and Freddie Mac preferred stock for the year ended December 31, 2008. The conclusion that the above equity securities were other-than-temporarily impaired was based on management s review of these securities and their prospects for a near term recovery.

To the extent that changes in interest rates, credit movements and other factors that influence the fair value of investments occur, the Company may be required to record additional impairment charges for other-than-temporary impairment in future periods. In addition, management expected the majority of cash flows from OTTI and temporarily impaired trust preferred securities to be higher than what their current fair values would suggest. At December 31, 2008, $15.0 million of available for sale securities were nonaccrual.

The following table summarizes the fair value (FV) and weighted-average yield (based on amortized cost) of debt securities at December 31, 2008 by contractual maturity. Mortgage-backed securities are included by final contractual maturity. Actual maturities will differ from contractual maturities because certain issuers have the right to call or prepay obligations with or without call or prepayment penalties.

	One Year or less		**After one year through five years**		**After five years through ten years**		**After ten years**		**Total**	
(Dollars in thousands)	**FV**	**Yield**	**FV**	**Yield**	**FV**	**Yield**	**FV**	**Yield**	**FV**	**Yield**
Trading:										
Municipal bonds and notes	$	0%	$ 77	4.3%	$	0.0%	$	0%	$ 77	4.3%
Available for sale:										
Corporate bonds and notes							93,518	3.8	93,518	3.8
Mortgage-backed securities					6,536	5.9	1,055,876	5.4	1,062,412	5.4
Total available for sale					6,536	5.9	1,149,394	5.3	1,155,930	5.3
Held-to-maturity:										

Municipal bonds and notes	12,795	3.1	4,206	4.5	42,362	4.3	636,148	4.4	695,511	4.4
Mortgage-backed securities					446,014	4.5	1,418,220	5.1	1,864,234	5.0
Total held-to-maturity	12,795	3.1	4,206	4.5	488,376	4.5	2,054,368	4.9	2,559,745	4.8
Total	$ 12,795	3.1%	$ 4,283	4.5%	$ 494,912	4.5%	$ 3,203,762	5.0%	$ 3,715,752	5.0%

The amortized cost at December 31, 2008 for the held to maturity securities with contractual maturities of one year or less was $12.8 million, for one year through five years was $4.2 million, for five years through ten years was $476.5 million and for over ten years was $2.0 billion.

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The following table is a summary of the impact of the recognition of other-than-temporary impairments and net realized gains and losses on sales of securities.

	Years ended December 31,								
	2008			2007			2006		
(In thousands)	Gains	Losses[a][b][c]	Net	Gains	Losses[c]	Net	Gains	Losses	Net
Trading securities:									
U.S. Treasury Notes	$	$	$	$	$	$	$ 116	$	$ 116
U.S. Government agency notes							1	(81)	(80)
Municipal bonds and notes	874	(647)	227	396	(289)	107	287	(214)	73
Corporate bonds and notes							25		25
Mortgage-backed securities				6	(153)	(147)	39	(260)	(221)
Futures and options contracts	18		18	206	(329)	(123)	618	(222)	396
Total trading	$ 892	$ (647)	$ 245	$ 608	$ (771)	$ (163)	$ 1,086	$ (777)	$ 309
Available for sale:									
U.S. Government agency notes	$ 24	$	$ 24	$	$	$	$	$ (6)	$ (6)
Municipal bonds and notes							4	(3)	1
Corporate bonds and notes	286	(188,466)	(188,180)	49	(889)	(840)	799		799
Equity securities	281	(35,874)	(35,593)	3,119	(395)	2,724	3,260	(664)	2,596
Mortgage-backed securities							740	(52,029)	(51,289)
Total available for sale	$ 591	$ (224,340)	$ (223,749)	$ 3,168	$ (1,284)	$ 1,884	$ 4,803	$ (52,702)	$ (47,899)
Total	$ 1,483	$ (224,987)	$ (223,504)	$ 3,776	$ (2,055)	$ 1,721	$ 5,889	$ (53,479)	$ (47,590)

(a) Other-than-temporary impairment charges were $184.1 million for the year ended December 31, 2008. There were no impairment charges for the year ended December 31,2007

(b) Other-than-temporary impairment charges were $33.2 million for the year ended December 31, 2008. There were no impairment charges for the year ended December 31, 2007.

(c) Losses for the years ended December 31, 2008 and 2007 exclude other than temporary impairments of direct investments of $1.9 million and $3.6 million, respectively. Direct investments are included in other assets in the accompanying Consolidated Balance Sheets.

The 2008 amounts include $2.1 million loss on the sale of FNMA/FHLMC preferred stock and $4.1 million of capital losses and exclude the effect of the $217.3 million loss on write-down of investments to fair value.

At December 31, 2008, securities of a single issuer with an aggregate value exceeding ten percent of total stockholders equity, or $187.4 million, were limited to Freddie Mac and Fannie Mae mortgage-backed securities and preferred stock with an amortized cost of $0.6 billion and $2.1 billion and a fair value of $0.6 billion and $2.2 billion, respectively.

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NOTE 4: Loans Held For Sale

Loans held for sale had a total carrying value of $24.5 million and $221.6 million at December 31, 2008 and 2007, respectively. The composition of loans held for sale at December 31, 2008 and 2007 follows:

	December 31, 2008		December 31, 2007	
(Dollars in thousands)	**Amount**	**%**	**Amount**	**%**
Residential 1-4 family mortgage loans	$ 5,472	22.3	$ 221,568	100.0
Commercial real estate	19,052	77.7		
Total loans held for sale	$ 24,524	100.0	$ 221,568	100.0

At December 31, 2008, residential mortgage origination commitments totaled $1.6 million compared to $145.8 million at December 31, 2007. The $144.2 million decline is a result of Webster s decision to discontinue all National Wholesale mortgage banking activities. Residential commitments outstanding at December 31, 2008 consisted of fixed rate mortgages of $1.6 million, at rates ranging from 5.38% to 6.13%. Residential commitments outstanding at December 31, 2007 consisted of fixed rate mortgages of $145.8 million at rates ranging from 5.25% to 8.75%. Commitments to originate loans generally expire within 60 days. At December 31, 2008 there was one syndicated commercial loan held for sale for $19.1 million.

NOTE 5: Loans, Net

A summary of loans, net follows:

	At December 31,			
	2008		2007	
(Dollars in thousands)	**Amount**	**%**	**Amount**	**%**
Residential mortgage loans:				
1-4 family	$ 2,939,025	24.2	$ 3,440,056	27.5
Permanent NCLC	58,625	0.4	N/A	N/A
Construction	42,138	0.3	106,553	0.9
Liquidating portfolio-construction loans	18,735	0.2	83,253	0.7
Total residential mortgage loans	3,058,523	25.1	3,629,862	29.1
Consumer loans:				
Home equity loans	2,952,366	24.2	2,844,094	22.8
Liquidating portfolio-home equity loans	283,645	2.3	340,662	2.7
Other consumer	28,886	0.3	32,498	0.3
Total consumer loans	3,264,897	26.8	3,217,254	25.8
Commercial loans:				
Commercial non-mortgage	1,795,738	14.7	1,736,644	13.9
Asset-based loans	753,143	6.2	793,023	6.4
Equipment financing	1,022,718	8.4	970,857	7.8

Total commercial loans	3,571,599	29.3	3,500,524	28.1
Commercial real estate:				
Commercial real estate	1,908,312	15.7	1,635,385	13.1
Commercial construction	165,610	1.3	185,983	1.5
Residential development	161,553	1.3	242,039	1.9
Total commercial real estate	2,235,475	18.3	2,063,407	16.5
Net unamortized premiums	14,580	0.1	18,055	0.1
Net deferred costs	42,517	0.4	46,841	0.4
Total unamortized premiums and deferred costs	57,097	0.5	64,896	0.5
Total loans	12,187,591	100.0	12,475,943	100.0
Less: allowance for loan losses	(235,329)		(188,086)	
Loans, net	$ 11,952,262		$ 12,287,857	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In 2007, Webster discontinued indirect residential construction lending and indirect home equity lending outside of its primary market area. At December 31, 2007, these two indirect out of market loan portfolios totaling $424.0 million ($340.7 million of indirect home equity products and $83.3 million of residential construction products), were placed into liquidating portfolios, and are currently being managed by a designated credit team. At December 31, 2008, the liquidating portfolios had declined to $302.4 million ($283.6 million of indirect home equity and $18.7 million of residential construction).

A majority of mortgage loans are secured by real estate in the State of Connecticut. Accordingly, the ultimate collectability of a substantial portion of the loan portfolio is dependent on economic and market conditions in Connecticut.

During 2008 the domestic and global financial and capital markets experienced significant disruption and volatility which, along with turmoil in the mortgage market, has led to a significant credit and liquidity crisis. These market conditions were attributable to a variety of factors; in particular the fallout associated with subprime mortgage loans (a type of lending never actively pursued by Webster). The disruption has been exacerbated by the continued value declines in the real estate and housing markets. Webster is not immune to some negative consequences arising from overall economic weakness and, in particular, a sharp downturn in the housing market, both locally and nationally. Decreases in real estate values could adversely affect the value of property used as collateral for loans. Adverse changes in the economy may have a further negative effect on the ability of Webster s borrowers to make timely loan payments, which would have an adverse impact on the Company s earnings. A further increase in loan delinquencies would decrease net interest income and increase loan losses, causing potential increases in the provision and allowance for credit losses.

Webster individually reviews classified loans greater than $250,000 for impairment based on the fair value of collateral or expected cash flows and it reviews loans under $250,000 as a homogeneous pool. At December 31, 2008, there were $203.4 million of impaired loans as defined by SFAS No. 114, including loans of $32.6 million with an impairment allowance of $2.8 million. At December 31, 2007, there were $67.1 million of impaired loans including loans of $19.4 million with an impairment allowance of $5.8 million. In 2008, 2007 and 2006, the average balance of impaired loans was $135.3 million, $65.6 million and $57.9 million, respectively.

Interest on loans that are more than 90 days past due, as well as certain other loans as determined by management, is no longer accrued and all previously accrued and unpaid interest is charged to interest income. The policy with regard to the recognition of interest income on commercial impaired loans includes an individual assessment of each loan. 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 2008, 2007 and 2006 amounted to approximately $12,000, $333,000 and $279,000, respectively.

At December 31, 2008 and 2007, total troubled debt restructurings approximated $12.0 million and $18.1 million, respectively. Interest income recognized in 2008, 2007 and 2006 on restructured loans was insignificant. At December 31, 2008, there were no commitments to lend any additional funds to debtors in troubled debt restructurings.

Nonaccrual loans totaled $232.6 million and $112.9 million at December 31, 2008 and 2007, respectively. Interest on nonaccrual loans that would have been recorded as additional interest income for the years ended December 31, 2008, 2007 and 2006 had the loans been current in accordance with their original terms totaled $16.7 million, $7.8 million and $2.7 million, respectively.

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Financial instruments with off-balance sheet risk

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 instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the Consolidated Balance Sheets.

The following table summarizes financial instruments with off-balance sheet risk:

	At December 31,	
(In thousands)	**2008**	**2007**
Unused commercial letters and lines of credit	$ 2,196,514	$ 2,350,367
Unused portion of home equity credit lines:		
Continuing portfolio	1,954,163	1,994,279
Liquidating portfolio	21,792	65,000
Unadvanced portion of closed construction consumer loans	14,611	452,321
Unadvanced portion of closed commercial construction loans	262,234	
Outstanding residential loan commitments	85,291	114,356
Total financial instruments with off-balance sheet risk	$ 4,534,605	$ 4,976,323

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NOTE 6: Allowance for Credit Losses

The allowance for credit losses is maintained at a level adequate to absorb probable losses inherent in the loan portfolio and in unfunded credit commitments. This allowance is increased by provisions charged to operations and by recoveries on loans previously charged-off, and reduced by charge-offs on loans.

A summary of the changes in the allowance for credit losses follows:

	Years ended December 31,		
(In thousands)	**2008**	**2007**	**2006**
Continuing portfolio:			
Balance at beginning of year	$ 147,680	$ 154,994	$ 155,632
Allowances from purchase transactions			4,724
Provision	145,683	3,629	11,000
Charge-offs			
Residential	(7,918)	(1,163)	(385)
Consumer	(15,011)	(6,474)	(1,320)
Commercial (a)	(36,503)	(8,687)	(17,125)
Commercial real estate	(1,557)	(117)	
Residential development	(34,030)		
Total charge-offs	(95,019)	(16,441)	(18,830)
Recoveries	3,582	5,498	2,468
Net loan charge-offs	(91,437)	(10,943)	(16,362)
Balance at end of year	$ 201,926	$ 147,680	$ 154,994
Liquidating portfolio: (b)			
Beginning balance	$ 49,906	$	N/A
Provision	40,617	64,121	N/A
Charge-offs			
NCLC	(23,346)	(9,259)	N/A
Consumer (home equity)	(24,444)	(4,956)	N/A
Total charge-offs	(47,790)	(14,215)	N/A
Recoveries	1,170		N/A
Net loan charge-offs	(46,620)	(14,215)	N/A
Ending balance liquidating portfolio	43,903	49,906	N/A
Ending balance total allowance for credit losses	$ 245,829	$ 197,586	$ 154,994
Components:			
Allowance for loan losses	$ 235,329	$ 188,086	$ 147,719
Reserve for unfunded credit commitments	10,500	9,500	7,275

Allowance for credit losses	$ 245,829	$ 197,586	$ 154,994
Allowance for credit losses/total loans	2.02%	1.58%	1.20%

(a) All Business & Professional Banking loans, both commercial and commercial real estate, are considered commercial for purposes of reporting charge-offs and recoveries.

(b) In 2007 Webster discontinued indirect residential construction lending and indirect home equity lending outside of its primary market area. Webster placed these two portfolios into a liquidating portfolio and disclosed this as a separate category from its continuing portfolio.

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NOTE 7: Goodwill and Other Intangible Assets

The following table sets forth the carrying values of goodwill and intangible assets, net of accumulated amortization.

(In thousands)	At December 31, 2008	2007
Balances not subject to amortization:		
Goodwill	$ 529,887	$ 728,038
Balances subject to amortization:		
Core deposit intangibles	32,741	38,612
Other identified intangibles	1,298	1,365
Total goodwill and other intangible assets	$ 563,926	$ 768,015

Changes in the carrying amount of goodwill for the year ended December 31, 2008 are as follows:

(In thousands)	Commercial Banking	Retail Banking	Consumer Finance	Other	Total
Balance at December 31, 2007	$ 6,681	$ 516,332	$ 149,391	$ 55,634	$ 728,038
Earnouts		228			228
Write-down	(6,681)		(149,391)	(42,307)	(198,379)
Balance at December 31, 2008	$	$ 516,560	$	$ 13,327	$ 529,887

Webster annually tests its goodwill for impairment in its third quarter. Accounting principles generally accepted in the U.S. (GAAP) require additional testing if events or circumstances indicate that impairment may exist. The credit market disruption and deterioration of Webster s market capitalization compared to its book value during 2008 triggered the requirement to perform additional testing for impairment. In addition to its annual requirement, Webster performed testing for impairment of its goodwill for the quarters ended June 30, 2008 and December 31, 2008.

In performing the first step (Step 1) of the goodwill impairment testing and measurement process to assess potential impairment, in accordance with GAAP, the estimated fair values of Webster s seven reporting units carrying goodwill (Retail Banking, Commercial Banking, Consumer Finance, Budget Installment Corporation (BIC), Center Capital Corporation (CCC), Webster Financial Advisors (WFA) and HSA Bank (HSA)) were estimated using discounted cash flow analyses, capitalized earnings analyses and observable market data to the extent available. The discount rates utilized in the capitalized earning calculations reflected market based estimates of capital costs and discount rates adjusted for management s assessment of a market participant s view with respect to execution, concentration and other risks associated with the projected cash flows of individual segments. The results of the discounted cash flow analysis and capitalized earning calculations along with market price to earnings multiples and tangible book value multiples of relevant, comparable peer companies. The results of this Step 1 process indicated potential impairment in the Commercial Banking, Consumer Finance, BIC, CCC and WFA segments, as the book values of each segment exceeded their respective estimated fair values. There was no indicated impairment for Retail Banking and HSA, as the estimated fair values for these segments exceeded their corresponding book values.

As a result, management performed a second step (Step 2) to quantify the amount of goodwill impairment, if any, for the potentially impaired segments identified as failing Step 1 in accordance with GAAP. In this step, the estimated fair values for each of the segments were allocated to their respective assets and liabilities in order to

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determine an implied value of goodwill, in a manner similar to the calculations performed in accounting for a business combination. The results of this second step indicated that the entire goodwill balance for each reporting segment evaluated was impaired, resulting in a $188.9 million charge in the fourth quarter.

Webster also performed the testing described above for impairment for the quarters ended June 30, 2008 and September 30, 2008. As a result of the testing performed, BIC was the only reporting unit identified with potential impairment as a result of Step 1 and management concluded that impairment existed after completing the Step 2 testing. Webster recorded charges of $8.5 million and $1.0 million for the impairment of BIC s goodwill as a result of the impairment testing performed for the quarters ended June 30, 2008 and September 30, 2008, respectively.

The total goodwill impairment recorded by Webster for the year ended December 31, 2008 was $198.4 million. This charge had no effect on Webster s cash balances or liquidity. In addition, as goodwill and other intangible assets are not included in the calculation of regulatory capital, the regulatory ratios of Webster and Webster Bank, N.A., were not affected by this non-cash charge. As of December 31, 2008 the only reporting units with remaining goodwill were Retail Banking and HSA.

Webster s stock price has been trading below its book value and tangible book value for three consecutive quarters. Management attributes its low stock price to both the outlook for financial services industry-wide as well as Company specific factors. In the event that Webster s stock price continues trading at such levels in relation to book value and tangible book value, Webster would expect to continue assessing quarterly the status of its goodwill.

Should the future earnings and cash flows of the Retail and HSA segments decline and/or discount rates increase, an impairment to goodwill and other intangible assets may be required if book equity value exceeds the estimated fair value of the Company or of an individual reporting unit.

Amortization of intangible assets for 2008, 2007 and 2006 totaled $5.9 million, $10.4 million and $13.9 million, respectively. Other identified intangible assets include customer relationships, employment agreements and business relationship network. Estimated annual amortization expense of current intangible assets with finite useful lives, absent any future impairment or change in estimated useful lives, is summarized below for each of the next five years and thereafter.

(In thousands)

For years ending December 31,	
2009	$ 5,755
2010	5,684
2011	5,684
2012	5,516
2013	5,015
Thereafter	6,387

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NOTE 8: Premises and Equipment, Net

A summary of premises and equipment, net follows:

(In thousands)	At December 31, 2008	At December 31, 2007
Land	$ 16,805	$ 16,330
Buildings and improvements	100,673	113,695
Leasehold improvements	66,645	51,707
Equipment and software	192,000	180,214
Total premises and equipment	376,123	361,946
Less accumulated depreciation and amortization	(190,195)	(168,883)
Premises and equipment, net	$ 185,928	$ 193,063

At December 31, 2008, Webster was obligated under various non-cancelable operating leases for properties used as banking offices and other 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 $18.8 million, $19.2 million and $17.9 million in 2008, 2007 and 2006, respectively. Webster is also entitled to rental income under various non-cancelable operating leases for properties owned. Rental income was $1.2 million, $1.2 million and $1.1 million in 2008, 2007 and 2006, respectively.

The following is a schedule of future minimum rental payments and receipts required under these leases as of December 31, 2008:

(In thousands)	Rental Payments	Rental Receipts
For years ending December 31,		
2009	$ 18,699	$ 1,971
2010	17,719	1,691
2011	16,537	1,461
2012	14,899	1,315
2013	13,095	1,298
Thereafter	85,009	3,377
Total	$ 165,958	$ 11,113

During 2008 there were $8.8 million in transfers from buildings and improvements, $8.3 million to leasehold improvements and $0.5 million to equipment and software. $7.4 million of assets related to buildings were transferred to assets held for disposition in 2008, comprised of $5.9 million for an office complex in Swansea, MA and $1.5 million for a branch in New Bedford, MA. A write-down of $1.2 million was charged against the Swansea, MA office complex and a write-down of $0.6 million was charged against the New Bedford building. At December 31, 2008 assets held for disposition totaled $5.6 million.

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NOTE 9: Income Taxes

Income tax (benefit) expense applicable to (loss) income from continuing operations is comprised of the following:

	Years ended December 31,		
(In thousands)	**2008**	**2007**	**2006**
Current:			
Federal	$ 17,931	$ 56,842	$ 52,485
State and local	6,143	4,729	1,254
	24,074	61,571	53,739
Deferred:			
Federal	(87,057)	(13,846)	4,835
State and local	(2,857)	363	566
	(89,914)	(13,483)	5,401
Total:			
Federal	(69,126)	42,996	57,320
State and local	3,286	5,092	1,820
	$ (65,840)	$ 48,088	$ 59,140

The following is a reconciliation of Webster s reported income tax (benefit) expense applicable to (loss) income from continuing operations to the amount that would result from applying the federal statutory rate of 35%:

	Years ended December 31,		
	2008	**2007**	**2006**
(In thousands)	**Amount**	**Amount**	**Amount**
Income tax (benefit) expense at federal statutory rate	$ (134,609)	$ 55,574	$ 67,487
Reconciliation to reported income tax (benefit) expense:			
Goodwill impairment	68,868		
Valuation allowance recognized for capital losses	11,549	45	
State and local income taxes, net of federal benefit	2,136	3,563	1,182
Tax-exempt interest income, net	(9,628)	(6,881)	(5,786)
Increase in cash surrender value of life insurance	(3,654)	(3,635)	(3,361)
Other, net	(502)	(578)	(382)
Reported income tax (benefit) expense	$ (65,840)	$ 48,088	$ 59,140
Effective tax rate	17.1%	30.3%	30.7%

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The tax effects of significant temporary differences comprising the deferred tax assets and liabilities are summarized below:

(In thousands)	At December 31, 2008	At December 31, 2007
Deferred tax assets:		
Allowance for credit losses	$ 96,064	$ 76,955
Net operating loss and credit carry forwards	44,751	34,190
Net unrealized loss on securities available for sale	38,488	6,760
Compensation and employee benefit plans	33,745	17,423
Impairment losses on securities available for sale	82,057	
Other	21,128	10,115
Total deferred tax assets	316,233	145,443
Valuation allowance	(78,826)	(41,374)
Deferred tax assets, net of valuation allowance	237,407	104,069
Deferred tax liabilities:		
Deferred loan costs	16,451	19,918
Premises and equipment	2,508	3,454
Equipment financing leases	19,127	16,202
Purchase accounting and fair-value adjustments	6,308	2,034
Other	3,676	4,335
Total deferred tax liabilities	48,070	45,943
Deferred tax asset, net	$ 189,337	$ 58,126

Webster s $78.9 million valuation allowance at December 31, 2008 consists primarily of $67.1 million for net state deferred tax assets due to realization uncertainties, and $11.6 million for securities losses that are capital in nature which, to the extent realized for tax purposes, are deductible only to the extent of offsetting capital gains for U.S. tax purposes. The $41.4 million valuation allowance at December 31, 2007 consisted primarily of $41.1 million for net state deferred tax assets.

Management believes it is more likely than not that Webster will realize its net deferred tax assets (DTAs), which approximate $237 million net of the valuation allowance. An evaluation of the realizability of its DTAs was performed in accordance with the provisions of SFAS No. 109, *Accounting for Income Taxes*.

While Webster did incur a cumulative pre-tax loss over the 2006-through-2008 period of nearly $51 million including discontinued operations ($33 million applicable to continuing operations), only one year (2008) resulted in a pre-tax loss. Factors considered in evaluating the 2008 loss included a $198.4 million goodwill impairment which has no effect on the Company s ability to earn taxable income and realize tax benefits in future years.

In addition, other factors include Webster s 2008 taxable income for U.S. tax return purposes, estimated to be in excess of $67 million. The Company has sustained a strong earnings history for many years prior to 2008, and it would have been profitable for the three-year period without the goodwill impairment charges. While the current and future anticipated banking industry conditions are

challenging, the Company remains well capitalized.

Management believes that Webster will more likely than not realize its $237 million of DTAs (net of valuation allowance) because of future reversals of existing taxable temporary differences that are scheduled to reverse and

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offset deductible temporary differences in the future; recoverability of taxes paid in the available 2007 and 2008 carry-back years; and projected future taxable income.

Other factors that are not included in the above assessment but worthy of additional consideration in support of the overall position, include the fact that no future-originating temporary differences were factored into the projected taxes payable in future years, nor were any prudent and feasible available tax-planning strategies that, if implemented, would sustain the recognition of certain DTAs.

There can be no absolute assurance that any specific level of future income will be generated or that the Company s DTAs will ultimately be realized.

Connecticut net operating loss carryovers (NOLs) totaling nearly $912 million at December 31, 2008 are scheduled to expire in varying amounts during tax years 2020 through 2028. A full valuation allowance amounting to $44.5 million has been established for those NOLs due to uncertainties of realization, and is included in Webster s overall $67.1 million valuation allowance attributable to net state DTAs noted above.

Due to similar realization uncertainties, a full valuation allowance has also been established for the remaining Connecticut and Rhode Island net DTAs in addition to those from Connecticut NOLs. The state and local portions of net DTAs in jurisdictions where such uncertainties do not exist approximated $2.4 million at December 31, 2008, as compared to $0.4 million of net state deferred tax liabilities at December 31, 2007.

On January 1, 2007, Webster adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes.* FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

In addition, FIN 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 were applied to all tax positions upon initial adoption of the interpretation. Tax positions must have met the more-likely-than-not recognition threshold at the effective date in order for the related tax benefits to be recognized or continue to be recognized. As a result of the adoption of FIN 48, Webster recognized a $1.4 million decrease in the liability for unrecognized tax benefits (UTBs), which was accounted for as an addition to the January 1, 2007, balance of retained earnings.

The following is a summary reconciliation of the beginning and ending balances of Webster s UTBs:

(In thousands)	**Year ended December 31, 2008**	**2007**
Balance at beginning of year	$ 7,076	$ 7,022
Additions as a result of tax positions taken during the current year	1,800	1,589
Additions as a result of tax positions taken during prior years	2,300	113
Reductions as a result of tax positions taken during prior years	(1,296)	(1,494)
Reductions relating to settlements with taxing authorities	(1,889)	(29)
Reductions as a result of lapse of statutes of limitations		(125)
Balance at end of year	$ 7,991	$ 7,076

If recognized, $4.8 million of the $8.0 million of UTBs at December 31, 2008 would affect the effective tax rate.

Webster recognizes accrued interest and penalties related to UTBs, where applicable, in income tax expense. During the year ended December 31, 2008, Webster recognized $1.2 million of interest and penalties, and had accrued interest and penalties related to UTBs of $2.0 million at December 31, 2008.

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Webster has determined it is reasonably possible that its total UTBs could decrease by an amount in the range of $1.0 to $3.2 million by the end of 2009 as a result of potential settlements with state taxing authorities.

Webster is currently under examination by various tax authorities. Federal tax returns for all years subsequent to 2004 remain open to examination. For Webster s principal state tax jurisdictions of Connecticut, Massachusetts, Rhode Island and New York, tax returns for years subsequent to 2001 or 2004 remain either under or open to examination.

NOTE 10: Deposits

A summary of deposit types follows:

	December 31,								
	2008			2007			2006		
(Dollars in thousands)	**Amount**	**Average rate***	**% of total deposits**	**Amount**	**Average rate***	**% of total deposits**	**Amount**	**Average rate***	**% of total deposits**
Demand	$ 1,493,296		12.6	$ 1,538,083		12.5	$ 1,588,783		12.8
NOW	1,271,569	0.19%	10.7	1,314,899	0.48%	10.6	1,385,131	0.47%	11.1
Money market	1,356,360	1.53	11.4	1,828,656	3.33	14.8	1,908,496	3.69	15.3
Savings	2,361,169	1.18	19.9	2,259,747	1.72	18.3	1,985,201	1.41	15.9
Health savings accounts	530,681	1.90	4.5	403,858	2.94	3.3	286,647	2.88	2.3
Certificates of deposit	4,677,615	3.19	39.3	4,772,624	4.38	38.6	4,831,478	4.41	38.8
Brokered deposits	194,200	3.48	1.6	236,291	4.29	1.9	472,660	4.98	3.8
Total	$ 11,884,890	1.83%	100.0	$ 12,354,158	2.72%	100.0	$ 12,458,396	2.80%	100.0

*Average rate on deposits outstanding at year-end.
Interest expense on deposits is summarized as follows:

	Years ended December 31,		
(In thousands)	**2008**	**2007**	**2006**
NOW	$ 3,103	$ 6,648	$ 5,591
Money market	36,492	71,966	64,617
Savings	30,629	36,078	22,592
Health savings accounts	10,770	10,898	7,364
Certificates of deposit	161,626	219,633	176,861
Brokered deposits	7,562	16,084	33,174
Total	$ 250,182	$ 361,307	$ 310,199

The following table represents the amount of certificates of deposit, including brokered deposits, maturing for each of the next five years and thereafter:

(In thousands)	
Maturing in the years ending December 31:	
2009	$ 4,118,751
2010	439,321
2011	110,805
2012	34,632
2013	166,378
Thereafter	1,928
Total	$ 4,871,815

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Certificates of deposit of $100,000 or more amounted to $1.8 billion and $1.9 billion and represented approximately 15.3% and 15.4% of total deposits at December 31, 2008 and 2007, respectively.

The following table represents the amount of certificates of deposit of $100,000 or more at December 31, 2008 maturing during the periods indicated:

(In thousands)	
Maturing:	
January 1, 2009 to March 31, 2009	$ 628,326
April 1, 2009 to June 30, 2009	433,016
July 1, 2009 to December 31, 2009	528,808
January 1, 2010 and beyond	230,459
Total	$ 1,820,609

The following table represents deposit balances by business segment:

(In thousands)	Retail	Commercial	Consumer	Other	Total
Demand	$ 1,085,721	$ 233,280	$	$ 174,295	$ 1,493,296
NOW	1,239,042	11,007		21,520	1,271,569
Money market	724,453	108,137		523,770	1,356,360
Savings	2,315,803	8,249	28,890	8,227	2,361,169
Health savings accounts				530,681	530,681
Certificates of deposit	4,283,988	14,827	29	378,771	4,677,615
Brokered deposits				194,200	194,200
Total	$ 9,649,007	$ 375,500	$ 28,919	$ 1,831,464	$ 11,884,890

NOTE 11: Federal Home Loan Bank Advances

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

	December 31, 2008		December 31, 2007	
(In thousands)	Total Outstanding	Callable	Total Outstanding	Callable
Fixed Rate:				
2.67 % to 5.93 % due in 2008	$	$	$ 613,956	$ 67,000
0.07 % to 5.96 % due in 2009	792,616	123,000	142,616	123,000
4.16 % to 8.44 % due in 2010	235,099	135,000	235,175	135,000
3.19 % to 6.60 % due in 2011	100,684		947	
4.00 % to 4.00 % due in 2012	51,400			
3.54 % to 5.49 % due in 2013	149,000	49,000	49,000	49,000

0.00 % to 6.00 % due after 2013	2,398		2,464	
	1,331,197	307,000	1,044,158	374,000
Unamortized premiums	4,799		8,310	
Hedge accounting adjustments			(240)	
Total advances	$ 1,335,996	$ 307,000	$ 1,052,228	$ 374,000

Webster Bank had additional borrowing capacity from the FHLB of approximately $1.6 billion and $1.2 billion at December 31, 2008 and 2007, respectively. Advances are secured by a blanket security agreement, which requires Webster Bank to maintain as collateral certain qualifying assets, principally mortgage loans and securities. At December 31, 2008 and 2007, investment securities were not fully utilized as collateral, and had all

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securities been used for collateral, Webster Bank would have had additional borrowing capacity of approximately $1.0 billion and $0.4 billion, respectively. At December 31, 2008 and 2007, Webster Bank was in compliance with FHLB collateral requirements.

NOTE 12: Securities Sold Under Agreements to Repurchase and Other Short-term Debt

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

(In thousands)	At December 31, 2008	At December 31, 2007
Securities sold under agreements to repurchase	$ 924,543	$ 754,792
Federal funds purchased	474,380	348,820
Treasury tax and loan	5,748	130,000
Other	163,180	9
	1,567,851	1,233,621
Unamortized premiums	3,120	5,110
Hedge accounting adjustments		(719)
Total	$ 1,570,971	$ 1,238,012

During 2008 and 2007, securities sold under agreements to repurchase (repurchase agreements) were also used as a primary source of borrowed funds in addition to FHLB advances. Repurchase agreements were primarily collateralized by U.S. Government agency mortgage-backed securities. The collateral for these repurchase agreements is delivered to broker/dealers. Repurchase agreements with broker/dealers are limited to primary dealers in government securities or commercial and municipal customers through Webster s Treasury Sales desk. There were $300.0 million and $83.5 million of repurchase agreements that were structured to be callable at the option of the counterparty at December 31, 2008 and 2007, respectively. The weighted-average rates on total repurchase agreements and other borrowings were 1.75% and 3.90% at December 31, 2008 and 2007, respectively.

Information concerning repurchase agreements outstanding at December 31, 2008 is presented below:

(Dollars in thousands)	Balance	Amortized Cost of Collateral	Fair Value of Collateral	Weighted-Average Rate	Weighted-Average Original Maturity	
Original maturity:						
Up to 30 days	$ 246,376	$ 254,057	$ 260,391	0.85%	2.5	Days
31 to 90 days	3,967	4,218	4,270	2.43	3.4	Months
Over 90 days	674,200	738,399	757,723	5.6	63.01	Months
Totals	$ 924,543	$ 996,674	$ 1,022,384	2.85%	45.66	Months

The following table sets forth certain information concerning short-term repurchase agreements (with original maturities of one year or less) at the dates and for the years indicated:

(Dollars in thousands)	At and for the years ended December 31, 2008	2007	2006
Average amount outstanding during the period	$ 266,340	$ 283,478	$ 345,832
Amount outstanding at end of period	251,543	268,766	300,348
Highest month end balance during period	364,738	316,683	437,090
Weighted-average interest rate at end of period	0.88%	2.53%	3.46%
Weighted-average interest rate during the period	1.32	3.11	3.38

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NOTE 13: Long-Term Debt

Long-term debt consists of the following:

(In thousands)	At December 31, 2008	2007
Subordinated notes (due January 2013)	$ 200,000	$ 200,000
Senior notes (due April 2014)	150,000	150,000
Junior subordinated debt to related capital trusts (due 2027-2037):		
Webster Capital Trust IV	200,010	200,010
Webster Statutory Trust I	77,320	77,320
People s Bancshares Capital Trust II	10,309	10,309
Eastern Wisconsin Bancshares Capital Trust II	2,070	2,070
NewMil Statutory Trust I	10,310	10,310
	650,019	650,019
Unamortized premiums, net	(399)	326
Hedge accounting adjustments	38,177	298
Total long-term debt	$ 687,797	$ 650,643

In January 2003, Webster Bank completed an offering of $200.0 million of subordinated notes that bear an interest rate of 5.875% and mature on January 15, 2013. The notes were rated investment grade by the major rating agencies and supplement existing regulatory capital. A futures derivative contract was entered into to hedge the forecasted in anticipation of the debt issuance. The hedge qualified as a cash flow hedge under SFAS 133. A gain of $1.7 million realized on the termination of the futures contract was deferred and added to the carrying value of the subordinated notes and is being amortized and recorded to interest over the life of the notes. Approximately $168,000 of the gain will be reclassified into earnings in 2009.

In April 2004, Webster completed an offering of $150.0 million of senior notes which are not redeemable prior to their maturity on April 15, 2014, have an interest rate of 5.125% and were priced to yield 5.187%. Net proceeds from this offering were used to partially fund the $184.0 million cash portion of the purchase price of the acquisition of FIRSTFED AMERICA BANCORP, INC. (FIRSTFED).

In September 2003, a statutory business trust, Webster Statutory Trust I (ST I), was created of which Webster holds 100% of the common stock. The sole asset of ST I is the $77.3 million of Webster s floating rate subordinated debt securities due in 2033. The interest rate on the subordinated debt securities changes quarterly to 3-month LIBOR plus 2.95%. The subordinated debt securities may be redeemed in whole or in part quarterly, beginning in September 2008.

In May 2004, with the acquisition of FIRSTFED, Webster assumed junior subordinated debt (People s Bancshares Capital Trust II) of $10.3 million. This debt has a coupon rate of 11.695% and matures in July 2030. A purchase premium of $2.1 million resulted from the acquisition and is being amortized over the life of the subordinated debt as an adjustment to interest expense.

In February 2005, with the acquisition of HSA Bank, Webster assumed junior subordinated debt (Eastern Wisconsin Bancshares Capital Trust I & II) of $4.1 million and $2.07 million, respectively. Eastern Wisconsin Bancshares Capital Trust II (EWB Capital Trust II) has a coupon rate of 7.4% and

matures in November 2033.

In October 2006, with the acquisition of NewMil Bancorp, Webster assumed junior subordinated debt (NewMil Statutory Trust I) of $10.3 million. NewMil Statutory Trust has a coupon rate of 6.4% and matures in March 2033.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On April 2, 2007 Webster prepaid $105.0 million of its Webster Capital Trust I (Trust I) and Webster Capital Trust II (Trust II) securities at call prices of 104.68% and 105.0%, respectively, plus accrued and unpaid interest. The sole assets of Trust I and Trust II were $103.1 million or 9.36% junior subordinated deferrable interest debentures and $51.5 million of 10.0% subordinated debentures, respectively. Webster recorded a net pretax charge to income in the second quarter of 2007 of $6.8 million ($8.9 million related to the redemption premiums and unamortized issuance costs, partially offset by a $2.1 million gain on Trust I and II securities held by Webster).

On June 20, 2007, Webster and Webster Capital Trust IV, a statutory trust organized under Delaware law pursuant to a trust agreement dated as of February 6, 2004 (Trust IV), completed the sale of $200 million of Trust IV s 7.65% Fixed to Floating Rate Trust Preferred Securities (the Trust Securities). The Trust Securities were issued at a discount of approximately $656,000, which will be amortized into interest expense over the life of the Trust Securities. The proceeds from the sale of the Trust Securities were used to purchase $200,010,000 aggregate principal amount of Webster s 7.65% Fixed to Floating Rate Junior Subordinated Notes (the Junior Subordinated Notes). The Trust Securities are guaranteed on a subordinated basis by Webster pursuant to a Guarantee Agreement (the Guarantee), between Webster and The Bank of New York, as Guarantee Trustee.

The Junior Subordinated Notes will bear interest from the date of issuance to but excluding June 15, 2017 at the annual rate of 7.65% of their principal amount. From and including June 15, 2017 to but excluding June 15, 2037, the initial scheduled maturity date, the Junior Subordinated Notes will bear interest at a floating annual rate equal to three-month LIBOR plus 1.89%. If any Junior Subordinated Notes remain outstanding after June 15, 2037, they will bear interest at a floating annual rate equal to one-month LIBOR plus 2.89%, provided that if Webster elects to extend the scheduled maturity date for the Junior Subordinated Notes, they will bear interest from June 15, 2037 to but excluding the scheduled maturity date at a floating annual rate equal to three-month LIBOR plus 2.89% and thereafter at a floating annual rate equal to one-month LIBOR plus 2.89%. The scheduled maturity date of the Junior Subordinated Notes may be extended at Webster s option up to two times, in each case for an additional 10-year period if certain criteria are satisfied. Webster may, at its option from time to time, defer interest payments on the Junior Subordinated Notes as provided for in the Indenture.

On June 15, 2007, Webster terminated an interest rate swap entered to hedge the forecasted issuance of the Trust Securities which qualified for cash flow hedge accounting in accordance with SFAS 133. The $2.7 million termination gain was deferred and is being amortized from accumulated other comprehensive income (loss) and recorded to interest expense over ten years, which represents the fixed rate term of the Junior Subordinated Notes. The effect of this transaction reduces the net cost of the Trust Securities to 7.5% through June 15, 2017. Approximately $265,000 of the gain will be reclassified into earnings in 2008.

On June 20, 2007, in connection with the closing of the Trust Securities offering, the Company entered into a Replacement Capital Covenant (the RCC), whereby the Company agreed for the benefit of certain of its debt holders named therein that it would not cause the redemption or repurchase of the Trust Securities or the Junior Subordinated Notes during the time period specified in the RCC unless such repurchases or redemptions are made from the proceeds of the issuance of certain qualified securities and pursuant to the other terms and conditions set forth in the RCC.

The proceeds from the issuance of the Junior Subordinated Notes were used for general corporate purposes.

The subordinated debt securities are unsecured obligations of Webster and are subordinate to and junior in right of payment to all present and future senior indebtedness. Webster entered into a guarantee, which together with its obligations under the subordinated debt securities and the declaration of trust governing the various trusts, 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.

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NOTE 14: Shareholders Equity

A total of 33,524 shares of common stock were repurchased during 2008 at an average cost of $19.23 per common share. All shares repurchased were repurchased for acquisition and other corporate purposes and no shares were repurchased as part of Webster s share repurchase program. A total of 4,416,271 shares of common stock were repurchased during 2007 at an average cost of $40.41 per common share. Of the shares repurchased, 4,389,702 shares were repurchased as part of Webster s share repurchase programs and the remaining 26,569 shares were repurchased for acquisition and other corporate purposes.

The following table summarizes Webster s share repurchase activity for the years ended December 31, 2008 and 2007:

	Share Repurchase Programs			
	July 2003	June 2007	Sept. 2007	Total
Shares available to be repurchased as of January 1, 2007	1,000,902			1,000,902
Shares authorized to be repurchased under the June 2007 program		2,800,000		2,800,000
Shares authorized to be repurchased under the September 2007 program			2,700,000	2,700,000
Shares repurchased during the year ended December 31, 2007	(1,000,902)	(2,800,000)	(588,800)	(4,389,702)
Shares available to be repurchased as of January 1, 2008			2,111,200	2,111,200
Shares repurchased during the year ended December 31, 2008				
Shares available to be repurchased as of December 31, 2008			2,111,200	2,111,200

Accumulated other comprehensive loss is comprised of the following components:

	At December 31,	
(In thousands)	2008	2007
Unrealized (loss) gain on available for sale securities, net of tax	$ (71,530)	$ (12,344)
Unrealized loss upon transfer of available for sale securities to held to maturity, net of tax and amortization	(1,039)	(1,388)
Net actuarial loss and prior service cost for pension and other postretirement benefit plans, net of tax	(28,823)	(5,523)
Unrealized loss on cash flow hedge	(7,441)	
Deferred gain on hedge accounting transactions	2,923	3,359
Total	$ (105,910)	$ (15,896)

Retained earnings at both December 31, 2008 and 2007 included $58.0 million of certain thrift bad debt reserves established before 1988. For federal income tax purposes, Webster Bank deducted those reserves (including those deducted by certain thrift institutions later acquired by Webster) which are subject to recapture in certain circumstances, including: (i) distributions by Webster Bank in excess of certain earnings and profits; (ii) redemption of Webster Bank s stock; or (iii) liquidation. Because Webster does not expect those events to occur, no federal income tax liability has been provided for the reserves.

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8.50% Series A Non-Cumulative Perpetual Convertible Preferred Stock

In June 2008, Webster issued 225,000 shares of 8.50% Series A Non-Cumulative Perpetual Convertible Preferred Stock, par value $0.01 per share (Series A Preferred Stock). Dividends on the Series A Preferred Stock are payable quarterly in arrears, when, as and if authorized and declared by Webster s board of directors, at an annual rate of 8.50% on the liquidation preference of $1,000 per share. The dividend payment dates are the fifteenth day of each March, June, September and December, and Webster commenced paying dividends on September 15, 2008. Dividends on the Preferred Stock are non-cumulative. With certain limited exceptions, if Webster has not paid or set aside for payment full quarterly dividends on the Series A Preferred Stock for a particular dividend period, Webster may not declare or pay dividends on, or redeem, purchase or acquire, its common stock or other junior securities during the next succeeding dividend period. For the year ended December 31, 2008, Webster paid $9.8 million in dividends to the shareholders of the Series A Preferred Stock.

Each share of Series A Preferred Stock may be converted at any time, at the option of the holder, into 36.8046 shares of Webster s common stock plus cash in lieu of fractional shares, subject to adjustment under certain circumstances. On or after June 15, 2013, if the closing price of Webster s common stock exceeds 130% of the then-applicable conversion price for 20 trading days during any 30 consecutive trading day period, including the last trading day of such period, ending on the trading day preceding the date Webster gives notice of conversion, Webster may at its option cause some or all of the Series A Preferred Stock to be automatically converted into Webster common stock at the then prevailing conversion rate. If Webster exercises its right to cause the automatic conversion of Series A Preferred Stock on June 30, 2013, it will still pay any accrued dividends payable on June 15, 2013 to the applicable holders of record.

The shares of Series A Preferred Stock are not subject to the operation of a sinking fund and have no participation rights. The holders of this series have no general voting rights. If any quarterly dividend payable on this series is in arrears for six or more dividend periods (whether consecutive or not), the holders of this series, voting together as a single class with holders of any and all other series of voting preferred stock then outstanding ranking equally as for payment of dividends and upon which equivalent voting rights have been conferred and are exercisable, will be entitled to vote for the election of two additional members of Webster s board of directors subject to certain limitations. These voting rights and the terms of any preferred stock directors terminate when Webster has paid in full dividends on this series for at least four consecutive dividend periods following the dividend arrearage.

Series B Fixed Rate Cumulative Perpetual Preferred Stock

On November 21, 2008, as part of the Capital Purchase Program established by the U.S. Department of the Treasury (Treasury) under the Emergency Economic Stabilization Act of 2008 (the EESA), Webster entered into a Letter Agreement (which included the Securities Purchase Agreement, the Purchase Agreement) with Treasury pursuant to which the Company issued and sold to Treasury 400,000 shares of the Company s Fixed Rate Cumulative Perpetual Preferred Stock, Series B, par value $0.01 per share, having a liquidation preference of $1,000 per share (the Series B Preferred Stock)

Cumulative dividends on the Series B Preferred Stock accrue on the liquidation preference at an annual rate of 5% for the first five years, and at an annual rate of 9% thereafter, but will be paid only when declared by the Company s Board of Directors. The Series B Preferred Stock has no maturity date and ranks senior to the Common Stock (and *pari passu* with the Company s Series A Preferred Stock) with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding up of the Company. The dividend payment dates are the fifteenth day of each February, May, August and November. At December 31, 2008 Webster had accrued $2.2 million for Series B dividends scheduled to be paid on February 15, 2009.

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The Series B Preferred Stock generally is non-voting, other than class voting on certain matters that could adversely affect the Series B Preferred Stock. If dividends on the Series B Preferred Stock have not been paid for an aggregate of six quarterly dividend periods or more, whether consecutive or not, the Company s authorized number of directors will be automatically increased by two and the holders of the Series B Preferred Stock, voting together with the holders of any then outstanding voting parity stock, will have the right to elect those directors at the Company s next annual meeting of stockholders or at a special meeting of stockholders called for that purpose. These two directors will be elected annually and will serve until all accrued and unpaid dividends on the Series B Preferred Stock have been paid.

The Company may redeem the Series B Preferred Stock after February 15, 2012. Prior to this date, the Company may redeem the Series B Preferred Stock if (i) the Company has raised aggregate gross proceeds in one or more Qualified Equity Offerings (as defined in the Purchase Agreement) in excess of $100 million and (ii) the aggregate redemption price does not exceed the aggregate net cash proceeds from such Qualified Equity Offerings. Any redemption is subject to the consent of the Board of Governors of the Federal Reserve System.

Prior to November 21, 2011, unless the Company has redeemed the Series B Preferred Stock or Treasury has transferred the Series B Preferred Stock to a third party, the consent of Treasury will be required for Webster to (1) increase its common stock dividend or (2) redeem, purchase or acquire any shares of its common stock or other equity or capital securities, other than in connection with benefit plans consistent with past practice and certain other circumstances specified in the Purchase Agreement.

Warrant for Common Stock

In connection with the issuance of the Series B Preferred Stock, Webster issued a warrant to purchase an aggregate 3,282,276 shares of Webster s common stock. The initial exercise price of the warrant is $18.28 per share. Webster allocated the proceeds of $400.0 million from the issuance of the Series B Preferred stock and warrant between the two based on their relative fair values. The value allocated to the warrant was $8.7 million, recorded as a component of Webster s paid in capital. The warrant will not impact earnings per share during periods in which Webster has net losses attributable to common shareholders since the effect would be anti-dilutive or during periods in which the exercise price of the warrant exceeds the average price of shares of Webster s commons stock.

The warrant is immediately exercisable. In the event the Company completes one or more Qualified Equity Offerings on or prior to December 31, 2009 that result in the Company receiving aggregate gross proceeds of not less than $400 million, the number of the shares of common stock underlying the portion of the warrant then held by Treasury will be reduced by one-half of the shares of common stock originally covered by the warrant. Pursuant to the Purchase Agreement, Treasury has agreed not to exercise voting power with respect to any shares of common stock issued upon exercise of the warrant. The warrant will expire on November 21, 2018.

The Series B Preferred Stock and the warrant were issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. The Company has agreed to register the resale or secondary offering of the Series B Preferred Stock, the warrant and the shares of common stock issuable upon exercise of the warrant (the Warrant Shares) as soon as practicable after the date of the issuance of the Series B Preferred Stock and the warrant. Neither the Series B Preferred Stock nor the warrant is subject to any contractual restrictions on transfer, except that Treasury may only transfer or exercise an aggregate of one-half of the Warrant Shares prior to the earlier of (i) the date on which the Company has received aggregate gross proceeds of not less than $400 million from one or more Qualified Equity Offerings and (ii) December 31, 2009.

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NOTE 15: Regulatory Matters

Capital guidelines issued by the Federal Reserve Board (FRB) and the OCC require Webster Financial Corporation and Webster Bank to maintain certain regulatory capital minimum ratios, as set forth below.

	Actual		Capital Requirements		Well Capitalized	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
At December 31, 2008						
Webster Financial Corporation						
Total risk-based capital	$ 1,982,426	15.0%	$ 1,054,173	8.0%	$ 1,317,716	10.0%
Tier 1 capital	1,656,710	12.6	527,086	4.0	790,629	6.0
Tier 1 leverage capital ratio	1,656,710	9.7	681,592	4.0	851,990	5.0
Webster Bank, N.A.						
Total risk-based capital	$ 1,572,893	12.1%	$ 1,044,134	8.0%	$ 1,305,167	10.0%
Tier 1 capital	1,248,727	9.6	522,067	4.0	783,100	6.0
Tier 1 leverage capital ratio	1,248,727	7.4	678,732	4.0	848,415	5.0
At December 31, 2007						
Webster Financial Corporation						
Total risk-based capital	$ 1,665,578	11.4%	$ 1,169,375	8.0%	$ 1,461,719	10.0%
Tier 1 capital	1,282,680	8.8	584,687	4.0	877,031	6.0
Tier 1 leverage capital ratio	1,282,680	8.0	645,295	4.0	806,619	5.0
Webster Bank, N.A.						
Total risk-based capital	$ 1,596,068	11.1%	$ 1,154,343	8.0%	$ 1,442,929	10.0%
Tier 1 capital	1,215,246	8.4	577,172	4.0	865,757	6.0
Tier 1 leverage capital ratio	1,215,246	7.6	637,486	4.0	796,858	5.0

At December 31, 2008 and 2007, Webster Financial Corporation and Webster Bank exceeded their regulatory capital requirements and were deemed to be well capitalized under the regulations of the FRB and the OCC, respectively, and in compliance with the applicable capital requirements.

A primary source of liquidity for Webster Financial Corporation is dividend payments from Webster Bank. Webster Bank s ability to make dividend payments to Webster is governed by OCC regulations. Without specific OCC approval, and subject to Webster Bank meeting applicable regulatory capital requirements before and after payment of dividends, the total of all dividends declared by Webster Bank is limited to net profits for the current year to date as of the declaration date plus net retained profits from the preceding two years less dividends declared in such years. At December 31, 2008, Webster Bank had no dividend paying capacity to pay dividends to Webster. In addition, the OCC has the discretion to prohibit any otherwise permitted capital distribution on general safety and soundness grounds.

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NOTE 16: Earnings Per Common Share

The following is the computation of basic and diluted earnings per share (EPS):

(In thousands)	Years ended December 31, 2008	2007	2006
(Loss) income from continuing operations	$ (318,757)	$ 110,696	$ 133,680
Preferred stock dividends	12,087		
Net (loss) income from continuing operations applicable to common shareholders	(330,844)	110,696	133,680
(Loss) income from discontinued operations	(3,073)	(13,923)	110
Net (loss) income applicable to common shareholders	$ (333,917)	$ 96,773	$ 133,790
Weighted average common shares outstanding basic	52,020	54,469	53,435
Dilutive effect of stock-based compensation		527	630
Dilutive effect of preferred stock			
Dilutive effect of warrant			
Weighted average common and common equivalent shares diluted	52,020	54,996	54,065
Basic EPS:			
(Loss) income from continuing operations	$ (6.13)	$ 2.03	$ 2.50
Preferred stock dividends	(0.23)		
(Loss) income from continuing operations applicable to common shares	(6.36)	2.03	2.50
(Loss) income from discontinued operations	(0.06)	(0.25)	
Net (loss) income	$ (6.42)	$ 1.78	$ 2.50
Diluted EPS:			
(Loss) income from continuing operations	$ (6.36)	$ 2.01	$ 2.47
(Loss) income from discontinued operations	(0.06)	(0.25)	
Net (loss) income	$ (6.42)	$ 1.76	$ 2.47

At December 31, 2008, 2007 and 2006, options to purchase 2,154,617, 1,198,480, and 666,995 shares of common stock at exercise prices ranging from $23.44 to $49.62; $43.26 to $51.31; and $47.60 to $51.31; respectively, were not considered in the computation of potential common shares for purposes of diluted EPS, since the exercise prices of the options were greater than the average market price of Webster s common stock for the respective periods.

When computing diluted earnings per share, all potential common stock, including stock options, restricted stock, convertible preferred stock and the warrant for common stock are anti-dilutive to the losses per common share calculation. Therefore, for the year ended December 31, 2008 the effect of these items has not been considered for diluted EPS purposes.

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NOTE 17: Other Comprehensive Income (Loss)

The following table summarizes the components of other comprehensive income (loss):

Year Ended December 31, 2008 *(In thousands)*	**Pre Tax Amount**	**Tax (Expense) Benefit**	**After Tax Amount**
Net unrealized loss on securities available for sale	$ (90,650)	$ 31,464	$ (59,186)
Amortization of deferred hedging gain	(670)	234	(436)
Unrealized gain on cash flow hedge	(11,448)	4,007	(7,441)
Amortization of unrealized loss on securities transferred to held to maturity	536	(187)	349
Net actuarial loss and prior service costs for pension and other postretirement benefits	(35,850)	12,550	(23,300)
Total other comprehensive loss	$ (138,082)	$ 48,068	$ (90,014)

Year Ended December 31, 2007 *(In thousands)*	**Pre Tax Amount**	**Tax (Expense) Benefit**	**After Tax Amount**
Deferred gain on derivatives sold	$ 4,069	$ (1,424)	$ 2,645
Net unrealized loss on securities available for sale	(31,007)	11,452	(19,555)
Loss on write-down of securities available for sale included in net income			
Amortization of deferred hedging gain	(474)	166	(308)
Amortization of unrealized loss on securities transferred to held to maturity	714	(250)	464
Net actuarial gain and prior service costs for pension and other postretirement benefits	6,436	(2,254)	4,182
Total other comprehensive loss	$ (20,262)	$ 7,690	$ (12,572)

Year Ended December 31, 2006 *(In thousands)*	**Pre Tax Amount**	**Tax (Expense) Benefit**	**After Tax Amount**
Net unrealized gain on securities available for sale	$ 4,042	$ (1,415)	$ 2,627
Decrease in net unrealized loss on securities available for sale due to write-down to fair value	47,899	(16,765)	31,134
Amortization of deferred hedging gain	(258)	90	(168)
Amortization of unrealized loss on securities transferred to held to maturity	1,025	(359)	666
Total other comprehensive income	$ 52,708	$ (18,449)	$ 34,259

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NOTE 18: Derivative Financial Instruments

At December 31, 2008, Webster had outstanding interest rate swaps with a total notional amount of $450.0 million that are designated as hedges of Webster s borrowings, specifically its FHLB advances, repurchase agreements and other long-term debt (subordinated notes and senior notes). The swaps are either fair value or cash flow hedges under SFAS 133 and effectively convert the debt to either fixed rate to floating rate. Of the total interest-rate swaps, $300.0 million mature in 2013 and $150.0 million in 2014 with an equal amount of the hedged debt maturing on the same dates. At December 31, 2007, there were outstanding interest rate swaps with a notional amount of $552.5 million. There was no hedge ineffectiveness recognized in the Consolidated Statements of Income for 2008, 2007 and 2006.

Webster transacts certain derivative products with its customer base, primarily interest rate swaps. These customer derivatives are offset with matching derivatives with other counterparties in order to minimize risk. Exposure with respect to these derivatives is largely limited to nonperformance by either the customer or the other counterparty. The notional amount of customer derivatives and the related counterparty derivatives each totaled $446.8 million at December 31, 2008 and 2007, respectively. The customer derivatives and the related counterparty derivatives are marked to market and any difference is reflected in non-interest income.

Summarized below are the fair values and notional amounts of derivatives at December 31:

	2008			2007		
	Notional	Estimated Fair Value		Notional	Estimated Fair Value	
(In thousands)	Amount	Gain	(Loss)	Amount	Gain	(Loss)
Mortgage banking positions						
Forward commitments	$ 3,000	$	$ (48)	$ (125,000)	$	$ (956)
Rate locks	1,556	30		139,447	283	
Asset and liability management positions						
Interest rate swaps:						
Receive fixed/pay floating	350,000	38,177		552,526		(661)
Receive floating/pay fixed	100,000		(7,441)			
Customer related positions						
Interest rate swaps:						
Receive fixed/pay floating	(446,870)	48,434		(304,136)	7,677	(617)
Receive floating/pay fixed	446,823		(45,804)	304,105	21	(5,073)
Total interest rate swaps position		86,611	(53,245)		7,698	(6,351)
Counterparty offset			9			56
Total interest rate swaps position, net		$ 86,611	$ (53,236)		$ 7,698	$ (6,295)

Interest rate caps:						
Written options	$ (8,498)	$	$ (9)	$ (26,267)	$	$ (56)
Purchased options	8,498	9		26,267	56	
Total interest rate cap position		9	(9)		56	(56)
Counterparty offset		(9)			(56)	
Total interest rate cap position, net			(9)			(56)
Total derivative positions		$ 86,641	$ (53,293)		$ 7,981	$ (7,307)

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Certain other derivative instruments, primarily forward commitments for sales of mortgage-backed securities, are utilized by Webster Bank in its efforts to manage risk of loss associated with its mortgage loan commitments and mortgage loans held for sale. Prior to closing and funding a single-family residential mortgage loan, an interest-rate locked commitment is generally extended to the borrower. During the period from commitment date to closing date, Webster Bank is subject to the risk that market rates of interest may change. If market rates rise, investors generally will pay less to purchase such loans resulting in a reduction in the gain on sale of the loans or, possibly, a loss. In an effort to mitigate such risk, forward delivery sales commitments, under which Webster agrees to deliver whole mortgage loans to various investors or issue mortgage-backed securities, are established. At December 31, 2007, outstanding interest-rate locked commitments totaled approximately $145.8 million and the residential mortgage held for sale portfolio totaled $221.6 million. Forward sales, which include mandatory forward commitments of approximately $289.7 million and best efforts forward commitments of approximately $20.2 million at December 31, 2007, establish the price to be received upon the sale of the related mortgage loan, thereby mitigating certain interest rate risk. Webster Bank will still have certain execution risk, that is, risk related to its ability to close and deliver to its investors the mortgage loans it has committed to sell. These derivatives were recorded at fair value on the Company s Consolidated Statement of Condition, with changes in fair value recorded as non-interest income in the Company s Consolidated Statement of Income.

NOTE 19: Summary of Estimated Fair Values of Financial Instruments

Effective January 1, 2008, Webster adopted the provisions of SFAS No. 157, *Fair Value Measurements* , for financial assets and financial liabilities. In accordance with FASB Staff Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157,* Webster will delay application of SFAS No. 157 for non-financial assets and non-financial liabilities, until January 1, 2009. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

SFAS No. 157 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, SFAS No. 157 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted

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prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity s own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of Webster s financial assets and financial liabilities carried at fair value effective January 1, 2008.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect credit quality as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. Webster s valuation methodologies may produce a fair value calculation that may not be indicative of future fair values. Certain financial instruments may not be actively traded in observable markets and therefore the guidance requires the use of alternative techniques based on unobservable inputs to determine fair value and classifies such items as Level 3. While management believes Webster s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

In October, 2008, the FASB issued FSP No. 157-3 *Determining the Fair Value of a Financial Asset When the Market for that Asset Is Not Active.* The FSP clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key consideration in determining the fair value of a financial asset when the market for that financial asset is not active.

Securities Available for Sale. Equity securities and government treasury bills are reported at fair value utilizing Level 1 inputs based upon quoted market prices. Other securities and certain preferred equity securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, Webster obtains fair value measurements from various sources and utilizes matrix pricing to calculate fair value. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions, among other things. Any investment security not valued based upon the methods previously discussed are considered Level 3. The Level 3 fair values are determined using unobservable inputs and included

pooled trust preferred securities transferred to Level 3 in the third quarter of 2008. The market for pooled trust preferred securities has very low demand due to imbalances in liquidity that exist in the market place (inactive market). The uncertainty in evaluating the credit risk in these securities, required the Company to consider and weigh various inputs. The Company considered fair values from brokers

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derived from observable and unobservable inputs. To the extent observable inputs were used, they were adjusted significantly to account for an inactive market. The Company also considered fair value derived from the Company s own assumptions as to expected cash flows and approximate risk-adjusted discount rates and default rates. Webster recorded an other-than-temporary impairment charge of $217.4 million for the year ended December 31, 2008 reducing the amortized cost of the related available for sale securities. The other-than-temporary charges did not result in a change to the fair value reported in the accompanying Consolidated Balance Sheets.

Trading Securities. Securities classified as trading are reported at fair value utilizing Level 2 inputs in the same manner as described above for securities available for sale.

Derivatives. Derivatives are reported at fair value utilizing Level 2 inputs obtained from third parties to value interest rate swaps and caps. Fair values are compared to independent broker values for reasonableness.

Loans Held for Sale. Loans held for sale are required to be measured at the lower of cost or fair value. Under SFAS No. 157, market value is to represent fair value. At December 31, 2008, Webster had $24.5 million of loans held for sale. Management obtains quotes or bids on all or part of these loans directly from the purchasing financial institutions. At December 31, 2008, $5.4 million of loans held for sale were recorded at cost and $19.1 million of loans held for sale were recorded at fair value. Webster recorded a mark to market recovery of $9,649, to mortgage banking activities in the accompanying Consolidated Statements of Operations for the year ended December 31, 2008.

Impaired Loans. Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. When the fair value of the collateral is based on an observable market price or certain appraised values, Webster records the impaired loan using Level 2 inputs. For all other impairments, Webster records the impairment using Level 3 inputs. Loans totaling $32.6 million were deemed impaired at December 31, 2008 and an allowance for loan loss allocation of $2.8 million was made upon identification of impaired loans for the year ended December 31, 2008.

Servicing Assets. Servicing assets are carried at cost and are subject to impairment testing. Fair value is estimated utilizing market based assumptions for loan prepayment speeds, servicing costs, discount rates and other economic factors. Where the carrying value exceeds fair value a valuation allowance is established through a charge to non-interest income and subsequently adjusted for changes in fair value. For those servicing assets that experienced a change in fair value, Webster reduced its valuation allowance and recorded a valuation allowance recovery of $0.4 million, as a component of mortgage banking activities in the accompanying Consolidated Statements of Operations for the year ended December 31, 2008.

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The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

(In thousands)	Balance as of December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets held at fair value:				
Trading securities	$ 77	$	$ 77	$
Available for sale securities:				
Government treasury notes	2,000	2,000		
Corporate bonds and notes	93,518		30,821	62,697
Equity securities	30,775	24,875	5,900	
Mortgage backed securities	1,062,412		1,062,412	
Total securities	1,188,782	26,875	1,099,210	62,697
Derivatives instruments	86,611		86,611	
Total financial assets held at fair value	$ 1,275,393	$ 26,875	$ 1,182,821	$ 62,697
Financial liabilities held at fair value:				
Derivative instruments	$ 53,246	$	$ 53,246	$

The following table shows a reconciliation of the beginning and ending balances for Level 3 assets for the year ended December 31, 2008:

Level 3 securities available for sale, beginning of year	$
Transfers into Level 3	236,504
Impairment charges included in earnings	(132,452)
Unrealized losses included in other comprehensive income	(41,355)
Level 3 securities available for sale, end of year	$ 62,697

Certain assets and liabilities are measured at fair value on a non-recurring basis in accordance with generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period as well as assets that are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

The following table summarizes financial assets and financial liabilities measured at fair value on a non-recurring basis as of December 31, 2008, segregated by the level of the valuation inputs within the

fair value hierarchy utilized to measure fair value:

(In thousands)	**Balance as of December 30, 2008**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Impaired loans	$ 29,711	$	$	$ 29,711
Loans held for sale	19,052		19,052	
Servicing assets	215			215

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Non-financial assets and non-financial liabilities measured at fair value on a non-recurring basis include reporting units measured at fair value in the first step of goodwill impairment tests. Non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, and other intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment. As stated above, SFAS No. 157 will be applicable to these fair value measurements beginning January 1, 2009.

Effective January 1, 2008, Webster adopted the provisions of SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115.* SFAS No. 159 permits Webster to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value measurement option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) may be applied instrument by instrument, with certain exceptions, thus Webster may record identical financial assets and liabilities at fair value or by another measurement basis permitted under generally accepted accounting principles, (ii) is irrevocable (unless a new election date occurs) and (iii) is applied only to entire instruments and not to portions of instruments. Adoption of SFAS No. 159 on January 1, 2008 did not have a significant impact on Webster s Consolidated Interim Financial Statements as Webster did not elect to report any additional financial assets or financial liabilities at fair value.

A summary of estimated fair values of significant financial instruments consisted of the following at December 31. Beginning with the year ended December 31, 2008, the fair value estimates are determined in accordance with SFAS 157.

	2008		2007	
(In thousands)	**Carrying Amount**	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Assets:				
Cash and due from depository institutions	$ 259,208	$ 259,208	$ 306,654	$ 306,654
Short-term investments	22,154	22,154	5,112	5,112
Investment securities	3,846,167	3,883,401	2,859,893	2,847,232
Loans held for sale	24,524	24,665	221,568	221,568
Loans, net	11,952,262	11,623,835	12,287,857	12,434,983
Mortgage servicing rights	4,358	8,304	6,075	11,079
Derivative instruments	86,612	86,612	7,698	7,698
Liabilities:				
Deposits other than time deposits	$ 7,013,075	$ 6,601,991	$ 7,345,243	$ 6,775,891
Time deposits	4,871,815	4,941,462	5,008,915	5,018,565
Securities sold under agreements to repurchase and other short-term debt	1,570,971	1,561,748	1,238,012	1,245,996
FHLB advances and other long-term debt	2,023,793	1,752,679	1,702,871	1,687,687
Preferred stock of subsidiary corporation	9,577	4,697	9,577	8,483
Derivative instruments	53,246	53,246	6,351	6,351

With the exclusion of the fair value for loans, net as of December 31, 2008, an Asset/Liability simulation model is used to estimate the fair value of certain assets and liabilities. Fair value is

estimated by discounting the average expected cash flows over multiple interest rate paths. An arbitrage-free trinomial lattice term structure model generates the interest rate paths. The month-end LIBOR/Swap yield curve and swap option volatilities are used as the input for deriving forward rates for future months. Cash flows for all instruments are created for each rate path using product specific behavioral models and account specific system data. Discount rates are matched with the time period of the expected cash flow. The Asset/Liability simulation software is enhanced with a mortgage prepayment model and a Collateralized Mortgage Obligation database. Instruments with explicit options (i.e., caps, floors, puts and calls) and implicit options (i.e., prepayment and early withdrawal ability)

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require such a rate and cash flow modeling approach to more accurately estimate fair value. A spread is added to the discount rates to reflect credit and option risks embedded in each instrument. Spreads and prices are calibrated to observable market instruments when available or to estimates based on industry standards. Webster utilized an independent third party valuation firm to determine the fair value for loans, net as of December 31, 2008 in light of current market conditions and illiquidity of the secondary market for loan sales. The fair value of loans is estimated based on discounted expected cash flows. These cash flows include assumptions for prepayment estimates over the loan s remaining life, considerations for the current interest rate environment compared to the weighted average rate of each portfolio, a credit risk component based on the historical and expected performance of each portfolio and a liquidity adjustment related to the current market environment.

The carrying amounts for short-term investments and 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 derivative instruments was based on the amount Webster could receive or pay to terminate the agreements. FHLB and FRB stock, which is included in securities in the preceding table, has no active market and is required to be held by member banks. The estimated fair value of FHLB and FRB stock equals the carrying amount. In estimating the fair value of loans and time deposits, approximately 200 distinct types of products are separately valued and consolidated for purposes of the table above. Whenever possible, observable market prices for similar loans or deposits are used as benchmarks to calibrate Webster s portfolios.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings or any part of a particular financial instrument. Because no active market exists for a significant portion of Webster s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These factors are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value 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 deposit services and trust and investment management operations that contribute non-interest income annually. These operations are not considered financial instruments and their value has not been incorporated into the fair value estimates. 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 20: Pension and Other Benefits

Webster provides an employee investment savings plan governed by section 401(k) of the Internal Revenue Code (the Code). Effective January 1, 2008, Webster matches 100% of the first 2% and 50% of the next 4% of the employee s pretax contribution based on annual compensation. In addition, Webster makes non-elective contributions to all plan participants equal to 2% of compensation. Employee s 35 or over on January 1, 2008 who were participants in the Webster Bank Pension Plan prior to the Plan freeze also receive special transition credit s ranging from 1% to 6% of compensation. Non-interest expense included $14.8 million in 2008, $7.5 million in 2007 and $6.9 million in 2006 for employer matching contributions to the plan. Effective as of March 1, 2009, Webster has made certain changes to the 401 (k) Plan. According to these changes: (a) employees who have reached age 21 will be able to make pre-tax contributions as soon as administratively possible following their date of hire

(rather than waiting for 90 days); (b) employees will receive company contributions

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after reaching age 21 and completing one year of service (rather than after reaching age 21 and completing 90 days of employment); (c) the matching contribution formula will be increased to 100% of each participant s pre-tax contributions to the extent the pre-tax contributions do not exceed 5% of compensation; and (d) the 2% non-elective company contribution will be eliminated.

A qualified Employee Stock Purchase Plan (ESPP), governed by section 423 of the Code, provides eligible employees the opportunity to invest up to 10% of their after-tax base compensation up to a maximum threshold of $25,000 to purchase Webster common stock at a discounted price. Effective as of January 1, 2009, the ESPP was changed to provide that shares will be purchased at 100% of their market price (rather than at a discounted 85% of their market price). Prior to January 1, 2009, participants in the ESPP were able to purchase Webster common stock at 85% of the market price on the last trading day of each offering period. During 2008, 2007 and 2006, shares purchased totaled 75,261, 56,167 and 50,114, respectively. At December 31, 2008, there were 342,692 shares available for future purchase under the ESPP. For the years ended December 31, 2008, 2007 and 2006, charges to non-interest expense related to the ESPP totaled 352,000, $383,000 and $413,000, respectively.

Webster employees may vote their shares of Webster common stock that is held in the Company s sponsored stock-based plans except for unearned shares of restricted stock awards.

A defined benefit noncontributory pension plan was maintained through December 31, 2008 for employees who met certain minimum service and age requirements. Pension plan benefits are based upon earnings of covered employees during the period of credited service. A supplemental retirement plan was also maintained through December 31, 2008 for the benefit of certain employees who are at the executive vice president level or above. The supplemental retirement plan provides eligible participants with additional pension benefits and 401(k) contributions. Webster also provides postretirement healthcare benefits to certain retired employees (referred to as other benefits below).

The Webster Bank Pension Plan was frozen as of December 31, 2007. The supplemental pension plan was also frozen as of December 31, 2007 and employees that were hired after January 1, 2007 will not receive qualified or supplemental retirement income under the plans. All other employees will accrue no additional qualified or supplemental retirement income under the plan on or after January 1, 2008 and the amount of their qualified and supplemental retirement income will not exceed the amount of their qualified and supplemental retirement income determined as of the close of business December 31, 2007.

The Bank is also the sponsor of a multi-employer plan administered by Pentegra (the Fund). The Fund does not segregate the assets or liabilities of its participating employers in the on-going administration of this plan. According to the Fund s administrators, as of July 1, 2008, the date of the latest actuarial valuation, the FIRSTFED pension plan was under funded by $3.8 million. Webster made $1.3 million and $2.5 million in contributions in 2008 and 2007, respectively, and is scheduled to make $0.3 million in contributions prior to June 30, 2009.

On July 31, 2007, the New Milford Savings Bank Defined Benefit Pension Plan was merged into the Webster Bank Pension Plan.

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A December 31 measurement date is used for the pension, supplemental pension and postretirement benefit plans. The following table sets forth changes in benefit obligation, changes in plan assets and the funded status of the pension plans and other postretirement benefit plans at December 31:

	Pension Benefits		Other Benefits	
(In thousands)	**2008**	**2007**	**2008**	**2007**
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 114,685	$ 112,368	$ 4,590	$ 4,548
Service cost	150	7,259		
Interest cost	7,147	6,738	258	258
Actuarial (gain) loss	5,996	(7,859)	(123)	99
Benefits paid and administrative expenses	(3,709)	(3,821)	(375)	(315)
Benefit obligation at end of year	124,269	114,685	4,350	4,590
Change in plan assets:				
Plan assets at fair value at beginning of year	116,673	112,993		
Actual return on plan assets	(20,550)	7,435		
Employer contributions	75	66	375	315
Benefits paid and administrative expenses	(3,709)	(3,821)	(375)	(315)
Plan assets at fair value at end of year	92,489	116,673		
Funded status at end of year	$ (31,780)	$ 1,988	$ (4,350)	$ (4,590)

The pension plan held no shares of Webster common stock at December 31, 2008 and 2007.

The components of accumulated other comprehensive loss related to pensions and other postretirement benefits, on a pre-tax basis, at December 31, 2008 and 2007 are summarized below. Webster expects that $3.2 million in net actuarial loss of $3,189,000 and $73,000 in prior service cost will be recognized as components of net periodic benefit cost in 2009.

	2008		2007	
(In thousands)	**Pension Benefits**	**Other Benefits**	**Pension Benefits**	**Other Benefits**
Net actuarial loss	$ 43,703	$ 116	$ 7,659	$ 239
Prior service cost		524		596
Total pre-tax amounts recognized in accumulated other comprehensive loss	$ 43,703	$ 640	$ 7,659	$ 835

The funded status of the pension and other postretirement benefit plans has been recognized as follows in the Consolidated Balance Sheet at December 31, 2008 and 2007. An asset is recognized for an

overfunded plan and a liability is recognized for an underfunded plan.

	2008		2007	
(In thousands)	**Pension Benefits**	**Other Benefits**	**Pension Benefits**	**Other Benefits**
Prepaid expenses and other assets	$	$	$ 9,396	$
Accrued expenses and other liabilities	(31,780)	(4,350)	(7,408)	(4,590)
Funded status	$ (31,780)	$ (4,350)	$ 1,988	$ (4,590)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accumulated benefit obligation for all pension plans was $124.3 million and $114.7 million at December 31, 2008 and 2007, respectively. The accumulated benefit obligation exceeds the fair value of plan assets in each of Webster s pension plans.

Expected future benefit payments for the pension plans and other postretirement benefit plans are presented below:

(In thousands)	Pension Benefits	Other Benefits
2009	$ 6,566	$ 440
2010	4,056	444
2011	4,467	444
2012	5,651	440
2013	5,720	430
2014-2017	35,766	1,951

Net periodic benefit cost recognized in net income and changes in funded status recognized in other comprehensive income (loss) for the years ended December 31 included the following components:

	Pension Benefits			Other Benefits		
(In thousands)	2008	2007	2006	2008	2007	2006
Net Periodic Benefit Cost Recognized in Net Income:						
Service cost (benefits earned during the period)	$ 150	$ 7,259	$ 8,411	$	$	$
Interest cost on benefit obligations	7,147	6,738	6,117	258	258	256
Expected return on plan assets	(9,499)	(9,265)	(7,455)			
Amortization of prior service cost		170	150	73	73	73
Recognized net loss		263	1,749			8
Curtailment gain			(354)			
Net periodic benefit cost (income) recognized in net income	(2,202)	5,165	8,618	331	331	337
Changes in Funded Status Recognized in Other Comprehensive Income:						
Net loss (gain)	36,045	(6,029)		(122)	99	
Amortization of prior service cost		(170)		(73)	(73)	
Amortization of net (loss) gain		(263)				
Total (gain) loss recognized in other comprehensive income (loss)	36,045	(6,462)		(195)	26	
Total recognized in total comprehensive income (loss)	$ 33,843	$ (1,297)	$ 8,618	$ 136	$ 357	$ 337

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The allocation of the fair value of the pension plan s assets at the December 31 measurement date is shown in the following table:

	2008	2007
Assets Category:		
Cash/cash equivalents	1%	2%
Fixed income investments	47	35
Equity investments	52	63
Total	100%	100%

The Retirement Plan Committee (the Committee) is a fiduciary under ERISA, and is charged with the responsibility for directing and monitoring the investment management of the pension plan. To assist the Committee in this function, it engages the services of investment managers and advisors who possess the necessary expertise to manage the pension plan assets within the established investment policy guidelines and objectives. The statement of investment policy guidelines and objectives is not intended to remain static and is reviewed no less often than annually by the Committee.

The primary objective of the pension plan investment strategy is to provide long-term total return through capital appreciation and dividend and interest income. The plan invests in equity and fixed-income securities. The performance benchmarks for the plan include a composite of the Standard and Poor s 500 stock index and the Lehman Brothers Corporate/Government Bond Index. The volatility, as measured by standard deviation, of the pension plan s assets should not exceed that of the Composite Index. The investment policy guidelines allow the plan assets to be invested in certain types of cash equivalents, fixed income securities, equity securities and mutual funds. Investments in mutual funds are limited to funds that invest in the types of securities that are specifically allowed by investment policy guidelines.

The investment policy guidelines in effect as of December 31, 2008 set the following asset allocation targets:

Target Asset Allocations:	
Cash/cash equivalents	0% - 2%
Fixed income investments	40% - 60%
Equity investments	39% - 61%

The basis for Webster s 2008 assumption for the expected long-term rate of return on assets is as follows:

Asset Category	Percent of Portfolio	Expected Return
Fixed income investments	50%	6%
U.S. equity investments	45	10
International equity investments	5	10

On this basis, a reasonable target for the long-term return on assets assumption would be 8% to 9%. Webster selected 8.25% for 2008. The above assumes a long-term inflation rate of 3%.

Weighted-average assumptions used to determine benefit obligations at December 31 are as follows:

	Pension Benefits		**Other Benefits**	
	2008	**2007**	**2008**	**2007**
Discount rate	6.00%	6.40%	6.30%	6.00%
Rate of compensation increase	n/a	n/a	n/a	n/a

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Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31 are as follows:

	Pension Benefits			Other Benefits		
	2008	2007	2006	2008	2007	2006
Discount rate	6.40%	5.90%	5.75%	6.00%	5.66%	5.75%
Expected long-term return on assets	8.25	8.25	8.25	n/a	n/a	n/a
Rate of compensation increase	n/a	4.00	4.00	n/a	n/a	n/a

The assumed healthcare cost-trend rate is 8.0% for 2008, declining 1.0% each year until 2011 when the rate will be 5.0%. An increase of 1.0% in the assumed healthcare cost trend rate for 2008 would have increased the net periodic postretirement benefit cost by $15,000 and increased the accumulated benefit obligation by $263,000.

NOTE 21: Stock-Based Compensation Plans

Webster has a share-based compensation plan (the Plan) that covers employees and directors, and a Director Retainer Fees Plan for non-employee directors (collectively, the Plans). The compensation cost that has been included in compensation and benefits expense for the Plans totaled $9.5 million, $8.7 million and $8.2 million for the years ended December 31, 2008, 2007 and 2006, respectively. These respective totals consist of (1) stock option expense of $2.7 million, $3.5 million and $4.4 million and (2) restricted stock expense of $6.8 million, $5.2 million and $3.8 million. The total income tax benefit recognized in the Consolidated Statements of Income for share-based compensation arrangements was $3.2 million, $2.9 million and $2.7 million for the years ended December 31, 2008, 2007 and 2006, respectively.

The Plans, which are shareholder-approved, permit the grant of incentive and non-qualified stock options, restricted stock and stock appreciation rights (SARS) to employees and directors for up to 8.3 million shares of common stock. As of December 31, 2008, the Plan had 1,553,938 common shares available for future grants. Webster believes that such awards better align the interests of its employees with those of its shareholders. Option awards are granted with an exercise price equal to the market price of Webster s stock at the date of grant and vest over periods ranging from three to four years. These options grant the holder the right to acquire a share of Webster common stock for each option held and have a contractual life of ten years. At December 31, 2008, total options outstanding included 3,013,733 non-qualified and 415,151 incentive stock options. No SARS have been granted through December 31, 2008.

During the years ended December 31, 2008, 2007 and 2006, respectively, there were 121,005, 52,228 and 39,246 restricted stock awards granted to senior management, which vest based on service over a period ranging from one to five years. The Plan limits at 100,000 shares the number of restricted stock shares that may be granted to an eligible individual in a calendar year. The Plan also permits performance-based restricted stock awards. These performance-based awards vest after three years in a range from zero to 200% of the target number of shares under the grant, dependent upon Webster s ranking for total shareholder return versus a blended peer group of companies in the S&P Midcap 400 Financial Services Subset index and the KBW 50 index. In 2008, performance based awards were granted that are tracked against the KRX index. This blend of companies was chosen because it represents the mix of size and type of financial institutions that best compare with Webster. During the year ended December 31, 2008, there were 113,412 shares of performance-based restricted stock

awards granted.

On December 16, 2008, the Board of Directors approved long-term cash incentive awards to certain vice president and senior vice president of the corporation. The value of these long-term individual cash awards will be converted to phantom shares by dividing the grant value by $13.62 (the average price of Webster stock for the 10-day period prior to the grant date). The number of phantom shares for each individual is rounded to the closest share. These phantom shares will have a 3-year cliff vesting with no dividends paid on them. At the end

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of the vesting period, the value of each award is determined by the number of phantom shares multiplied by the share price on the vesting date. An individual payment will not be less than the initial cash value of the award or more than double the initial cash value of the award. Awards will be paid in cash minus withholding for taxes.

The Director Retainer Fees Plan provides non-employee directors with restricted shares for a portion of their annual retainer for services rendered as directors. During the years ended December 31, 2008, 2007 and 2006, respectively, there were 4,333, 4,176 and 4,806 shares granted to directors with a vesting schedule of one year. The grant-date fair value of restricted share awards to directors and management under the Plans is amortized to non-interest expense over the service vesting period and such expense is reflected in compensation and benefits expense.

As discussed in Note 1, compensation cost relating to share-based payment transactions are recognized in the financial statements, based upon the grant-date fair value of the instruments issued. The fair value of each option award is estimated on the date of grant using the Black-Scholes Option-Pricing Model. The weighted-average assumptions used for options granted during the years ended December 31, 2008, 2007 and 2006 are listed in the following table. Webster uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the date of grant.

	Weighted Average Assumptions		
	2008	**2007**	**2006**
Expected term (years)	6.3	6.3	6.2
Expected dividend yield	3.00%	2.91%	2.33%
Expected volatility	33.25	21.32	23.75
Expected forfeiture rate	5.00	5.00	5.00
Risk-free interest rate	1.92	3.74	4.55
Fair value of options granted	$ 3.71	$ 6.81	$ 11.95

A summary of options under the Plans as of December 31, 2008, and activity during the year then ended, is presented below:

	Shares	2008 Weighted-Average Exercise Price
Options outstanding at beginning of year	3,276,860	$ 36.37
Options granted	867,580	15.12
Options exercised	27,334	23.07
Options expired	688,225	36.43
Options outstanding at end of year	3,428,881	$ 31.12

Options exercisable at end of year	2,217,292	$	36.30
Options expected to vest as of the end of the year	506,252	$	32.82

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The following table summarizes information about options outstanding and options exercisable at December 31, 2008:

	Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price
$10.01 - 15.00	675,776	9.78	$ 12.85	4,804	1.17	$ 12.42
15.01 - 20.00	8,793	2.12	17.06	8,793	2.12	17.06
20.01 - 25.00	663,975	2.85	22.92	555,523	1.60	23.09
25.01 - 30.00	287,990	4.78	28.28	199,834	2.79	29.63
30.01 - 35.00	645,805	6.35	32.91	428,876	5.09	33.36
35.01 - 40.00	99,350	3.71	37.74	99,350	3.71	37.74
40.01 - 45.00	124,120	6.32	43.82	100,997	6.07	43.85
45.01 - 51.31	923,072	6.22	47.76	819,115	6.04	47.67
	3,428,881	6.17	$ 31.12	2,217,292	4.38	$ 36.30

The aggregate intrinsic values, which fluctuate based on changes in the fair market value of Webster s stock, were $630,529 for all outstanding stock options and $6,525 for exercisable stock options at December 31, 2008. For options expected to vest as of December 31, 2008 there was no aggregate intrinsic value based on a closing stock price of $13.78 on December 31, 2008. The aggregate intrinsic value represents the total pretax intrinsic value (i.e., the difference between Webster s closing stock price on the last trading day of 2008 and the weighted-average exercise price, multiplied by the number of shares) that would have been received by the option holders had all option holders exercised their options on December 31, 2008.

The total intrinsic value of options exercised during the years ended December 31, 2008, 2007 and 2006 was $161,502, $4.2 million and $5.8 million, respectively.

The following table summarizes Webster s restricted stock activity for the year ended December 31, 2008:

	Number of Shares	Weighted-Average Grant Date Fair Value
Restricted stock at beginning of year	494,153	$ 41.72
Granted	440,436	18.42
Vested	111,159	45.33
Forfeited	24,676	40.95

Restricted stock at end of year	798,754	$	28.27

The fair value of restricted shares that vested during the years ended December 31, 2008, 2007 and 2006 was $2.1 million, $2.0 million and $2.2 million, respectively.

As of December 31, 2008, there was $15.1 million of total unrecognized compensation cost related to nonvested share-based compensation granted under the Plans. That cost is expected to be recognized over a weighted-average period of 2.3 years.

Shares for the exercise of stock options are expected to come from the Company s treasury shares or authorized and unissued shares.

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NOTE 22: Business Segments

Webster has three primary business segments for purposes of reporting segment results. These segments are Commercial Banking, Retail Banking and Consumer Finance. Commercial Banking includes middle market, asset-based lending and commercial real estate. Retail Banking includes retail banking, business and professional banking and investment services. Included in Consumer Finance is residential mortgage, consumer lending and mortgage banking activities. The balance of Webster s activity is reflected in Other which includes the Company s equipment financing, investment planning, insurance premium financing, and HSA Bank. The Company s Treasury unit is included in reconciling amounts which also includes the results of discontinued operations, all corporate functions and the amounts required to reconcile profitability metrics to GAAP reported amounts. The methodologies and organizational hierarchies that define the business segments are periodically reviewed and revised. During 2007, Webster modified certain of its segment disclosures to reflect organizational and structural changes that were implemented in the fourth quarter of 2007. These financial disclosure modifications are reflected in this Annual Report and the financial information for the prior periods has been revised to reflect the changes as if they had been in effect throughout all periods reported. The Company will make further modifications in 2009 to reflect recent changes in organizational hierarchies. Equipment financing, wealth management, investment planning and insurance premium finance will be consolidated under Commercial Banking.

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

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

In 2007 and 2006 the combined amount of net interest income of the three reportable segments plus the Other segment, as determined using the FTP methodology described above, exceeded the amount presented in the consolidated financial statements primarily due to loan balances in the segments being higher than deposit balances (Loan to Deposit Ratio above 100%). The FTP allocation process effectively creates a balanced statement of condition for the segments, with the offsetting entries reflected in other reconciling items .

The Company allocates the provision for credit losses (PCL) based upon expected loss (EL). EL differs from the PCL in that EL is a management tool based on the expected loss over the expected life cycle of a financial instrument, whereas the PCL is determined in accordance with accounting principles generally accepted in the U.S. (the PCL is the amount necessary to maintain the allowance for loan losses at a level reflecting the probable credit losses inherent in the loan portfolio at a point in time). EL is estimated using assumptions for exposure, probability of default (PD) and loss given default (LGD) for various credit products, risk ratings, collateral and industries. Exposure is the sum of the outstanding balance plus assumptions regarding additional potential draw-downs based on outstanding

commitments. EL is calculated on an instrument level basis using assumptions which are reviewed on an annual basis. The EL for an individual loan is calculated by multiplying the principal

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

loan exposure by the PD and LGD percentages. The difference between the sum of the provisions for each line of business determined using the expected loss methodology and the consolidated provision is included in other reconciling items .

Webster allocates a majority of non-interest expenses to each business segment using a full-absorption costing process. Direct and indirect costs are analyzed and pooled by process and assigned to the appropriate business segment and corporate overhead costs are allocated to the business segments. Income tax expense is allocated to each business segment based on the effective income tax rate for the period shown.

The Chief Operating Decision Maker (CODM) uses full profitability measurement reports which are prepared for each operating segment, and these reports reflect EL and FTP. The difference between these report based measures (EL, funds transfer pricing) are reconciled to GAAP values in the Other column. These segment results are used as a basis for determining operating segment incentives, capital allocations, and product changes. The reports are reviewed on a monthly and quarterly basis and compare actual to planned results on a direct contribution basis, which is pretax. The operating segments that are generating revenue and revenue opportunities that exceed costs required to generate business and leverage fixed costs are allocated additional resources. The CODM typically has reduced resources to segments that are underperforming.

The following table presents the operating results and total assets for Webster s reportable segments.

Year ended December 31, 2008

(In thousands)	Commercial Banking	Retail Banking	Consumer Finance	Other	Total Reportable Segments	Reconciling Amounts	Consolidated Total
Net interest income	$ 111,504	$ 213,810	$ 118,474	$ 39,698	$ 483,486	$ 22,305	$ 505,791
Provision for credit losses	20,721	5,629	15,712	5,098	47,160	139,140	186,300
Net interest income after provision	90,783	208,181	102,762	34,600	436,326	(116,835)	319,491
Non-interest income	20,477	125,423	12,676	24,940	183,516	(211,568)	(28,052)
Non-interest expense	60,542	281,942	68,169	51,084	461,737	15,920	477,657
Write-down of goodwill	6,681		149,391	42,307	198,379		198,379
Income (loss) from continuing operations before income taxes	44,037	51,662	(102,122)	(33,851)	(40,274)	(344,323)	(384,597)
Income tax expense (benefit)	17,934	18,268	16,714	2,990	55,906	(121,746)	(65,840)
Income from continuing operations	26,103	33,394	(118,836)	(36,841)	(96,180)	(222,577)	(318,757)

Loss from discontinued operations						(3,073)	(3,073)
Net income (loss)	$ 26,103	$ 33,394	$ (118,836)	$ (36,841)	$ (96,180)	$ (225,650)	$ (321,830)
Total assets at period end	$ 3,655,570	$ 1,626,094	$ 6,393,517	$ 1,356,418	$ 13,031,599	$ 4,551,938	$ 17,583,537

Year ended December 31, 2007

(In thousands)	Commercial Banking	Retail Banking	Consumer Finance	Other	Total Reportable Segments	Reconciling Amounts	Consolidated Total
Net interest income	$ 109,381	$ 258,581	$ 122,751	$ 38,759	$ 529,472	$ (21,280)	$ 508,192
Provision for credit losses	18,484	5,598	15,498	4,895	44,475	23,275	67,750
Net interest income after provision	90,897	252,983	107,253	33,864	484,997	(44,555)	440,442
Non-interest income	20,766	122,805	19,734	23,338	186,643	15,667	202,310
Non-interest expense	54,346	271,101	75,480	44,914	445,841	38,128	483,969
Income (loss) from continuing operations before income taxes	57,317	104,687	51,507	12,288	225,799	(67,016)	158,783
Income tax expense (benefit)	17,358	31,705	15,599	3,721	68,383	(20,296)	48,087
Income from continuing operations	39,959	72,982	35,908	8,567	157,416	(46,720)	110,696
Loss from discontinued operations						(13,923)	(13,923)
Net income (loss)	$ 39,959	$ 72,982	$ 35,908	$ 8,567	$ 157,416	$ (60,643)	$ 96,773
Total assets at period end	$ 3,473,398	$ 1,607,931	$ 7,510,938	$ 1,367,372	$ 13,959,639	$ 3,242,321	$ 17,201,960

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Year ended December 31, 2006

(In thousands)	Commercial Banking	Retail Banking	Consumer Finance	Other	Total Reportable Segments	Reconciling Amounts	Consolidated Total
Net interest income	$ 106,016	$ 248,242	$ 135,903	$ 42,441	$ 532,602	$ (24,052)	$ 508,550
Provision for credit losses	17,633	4,682	14,419	4,346	41,080	(30,081)	10,999
Net interest income after provision	88,383	243,560	121,484	38,095	491,522	6,029	497,551
Non-interest income	21,468	102,403	17,620	23,610	165,101	(33,496)	131,605
Non-interest expense	50,172	237,533	60,994	40,745	389,444	46,892	436,336
Income (loss) from continuing operations before income taxes	59,679	108,430	78,110	20,960	267,179	(74,359)	192,820
Income tax expense (benefit)	18,304	33,257	23,957	6,429	81,947	(22,807)	59,140
Income from continuing operations	41,375	75,173	54,153	14,531	185,232	(51,552)	133,680
Income from discontinued operations						110	110
Net income (loss)	$ 41,375	$ 75,173	$ 54,153	$ 14,531	$ 185,232	$ (51,442)	$ 133,790
Total assets at period end	$ 3,292,571	$ 1,603,881	$ 8,738,214	$ 1,264,448	$ 14,899,114	$ 2,197,545	$ 17,096,659

NOTE 23: Preferred Stock of Subsidiary Corporation

The preferred stock is redeemable after January 15, 2003 at the option of the subsidiary, Webster Preferred Capital Corporation. As of December 31, 2008, there have been no redemptions. Dividend expense on the preferred stock was $863,000 for 2007, 2006 and 2005 and is reflected as non-interest expense in the Consolidated Statement of Income. The preferred shares are not exchangeable into common stock or any other securities, and do not constitute regulatory capital of either Webster Bank or Webster Financial Corporation. The Series B preferred shares are listed on NASDAQ under the symbol WBSTP .

NOTE 24: Legal Proceedings

Webster is involved in routine legal proceedings occurring in the ordinary course of business, which in the aggregate, management believes are immaterial to Webster s consolidated financial condition and results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25: Parent Company Condensed Financial Information

The Parent Company Condensed Statements of Condition at December 31, 2008 and 2007, and the Condensed Statements of Income and Cash Flows for each of the years in the three-year period ended December 31, 2008, are presented below:

Condensed Statements of Condition

(In thousands)	At December 31, 2008	2007
Assets:		
Cash and due from depository institutions	$ 13,199	$ 8,590
Short-term investments	536,962	96,985
Securities available for sale, at fair value	34,787	88,830
Loan	18,000	
Investment in subsidiaries	1,697,774	2,001,529
Due from subsidiaries	84	298
Direct investments	12,392	15,262
Other assets	52,475	27,606
Total assets	$ 2,365,673	$ 2,239,100
Liabilities and shareholders equity:		
Senior notes	$ 168,072	$ 150,069
Junior subordinated debt	300,000	300,345
Other borrowings	13,180	
Accrued interest payable	4,569	4,832
Other liabilities	5,733	47,222
Total liabilities	491,554	502,468
Shareholders equity	1,874,119	1,736,632
Total liabilities and shareholders equity	$ 2,365,673	$ 2,239,100

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(In thousands)	Years ended December 31, 2008	2007	2006
Operating Income:			
Dividends from subsidiary	$ 10,000	$ 150,000	$ 164,000
Interest on securities and short-term investments	6,679	11,917	14,230
Interest on loans	1,406	29	107
Loss on write-down of securities to fair value	(41,045)		
Loss on sale of FNMA/FHLMC preferred stock	(2,060)		
(Loss) gain on sale of securities, net	(2,241)	3,990	2,901
Loss on write-down of direct investments to fair value	(2,158)	(3,565)	
Other non-interest income	1,472	1,940	1,285
Total operating (loss) income	(27,947)	164,311	182,523
Operating Expense:			
Interest expense on borrowings	29,007	32,074	35,789
Compensation and benefits	9,479	8,949	8,456
Debt redemption premium		8,940	
Other noninterest expense	6,174	5,120	5,270
Total operating expense	44,660	55,083	49,515
(Loss) income before income tax benefit and equity in undistributed earnings of subsidiaries	(72,607)	109,228	133,008
Income tax benefit	23,261	16,983	13,162
(Loss) income before equity in undistributed earnings of subsidiaries	(49,346)	126,211	146,170
Equity in undistributed earnings of subsidiaries	(272,676)	(29,438)	(12,380)
(Loss) income from continuing operations	(322,022)	96,773	133,790
Income from discontinued operations, net of tax	192		
Net (loss) income	$ (321,830)	$ 96,773	$ 133,790

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Condensed Statements of Cash Flows

(In thousands)	Years ended December 31, 2008	2007	2006
Operating activities:			
Net (loss) income	$ (321,830)	$ 96,773	$ 133,790
Loss on write-down of investments to fair value	42,911		
Decrease (increase) in other assets	(14,846)	8,001	(6,562)
Loss (gain) on sale of investment securities	4,301	(3,990)	(2,901)
Loss on extinguishment of debt		8,940	
Gain on Webster Trust I and II securities		(2,130)	
Equity in over distributed earnings of subsidiaries	272,676	29,438	12,380
(Decrease) increase in other liabilities	(39,201)	44,558	1,121
Stock-based compensation	7,777	8,722	8,176
Excess tax benefits from stock-based compensation	(1)	(498)	(1,213)
Other	(92)	(612)	449
Net cash (used) provided by operating activities	(48,305)	189,202	145,240
Investing activities:			
Purchases of securities available for sale	(2,700)	(29,991)	(32,617)
Sales proceeds, paydowns and maturities of securities available for sale	13,845	69,108	35,107
Increase in short-term investments	(439,977)	(6,299)	(11,092)
Capital contribution to subsidiary	(100,000)		
Decrease in loans to subsidiaries		1,750	
Net cash received for purchase and sale transactions	23,920		1,079
Net cash (used) provided by investing activities	(504,912)	34,568	(7,523)
Financing activities:			
Issuance of long-term debt	13,180	199,344	
Repayment of long-term debt		(188,653)	(25,200)
Exercise of stock options	532	9,630	9,736
Issuance of preferred stock	617,595		
Cash dividends to common shareholders	(63,063)	(64,560)	(57,037)
Cash dividends to preferred shareholders	(9,775)		
Common stock repurchased	(644)	(178,480)	(63,165)
Excess tax benefit from stock-based compensation	1	498	1,213
Contribution to stock purchased by the Employee Stock Purchase Plan			492
Tax effect of restricted stock			249
Net cash provided by (used for) financing activities	557,826	(222,221)	(133,712)
Increase in cash and cash equivalents	4,609	1,549	4,005
Cash and cash equivalents at beginning of year	8,590	7,041	3,036
Cash and cash equivalents at end of year	$ 13,199	$ 8,590	$ 7,041

Supplemental Schedule of Noncash Investing and Financing Activities:			
Transfer of loans and leases, net to foreclosed properties	$ 43,735	$ 13,460	$ 2,956
Sale Transactions:			
Fair value of noncash assets sold	$ 40,833	$	$
Fair value of liabilities extinguished	7,117		

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 26: Recent Accounting Standards

In December 2007, the FASB issued revised SFAS No. 141, *Business Combinations, (*SFAS No. 141(R)). SFAS No. 141(R) retains the fundamental requirements of SFAS No. 141 that the acquisition method of accounting (formerly the purchase method) be used for all business combinations; that an acquirer be identified for each business combination; and that intangible assets be identified and recognized separately from goodwill. SFAS No. 141(R) requires the acquiring entity in a business combination to recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. Additionally, SFAS No. 141(R) changes the requirements for recognizing assets acquired and liabilities assumed arising from contingencies and recognizing and measuring contingent consideration. SFAS No. 141(R) also enhances the disclosure requirements for business combinations. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 and may not be applied before that date.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statement* an amendment *of ARB No.* 51. SFAS No. 160 amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements* to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Among other things, SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. SFAS No. 160 also amends SFAS No. 128, *Earnings per Share,* so that earnings per share calculations in consolidated financial statements will continue to be based on amounts attributable to the parent. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 and is applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for the presentation and disclosure requirements which are to be applied retrospectively for all periods presented. SFAS No. 160 is not expected to have a material impact on Webster s financial condition or results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS No. 161). SFAS No. 161 requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related items are accounted for under SFAS No. 133 and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. The new standard is effective for Webster on January 1, 2009. Webster is currently evaluating the impact of adopting SFAS No. 161 on the Consolidated Interim Financial Statements.

Selected Quarterly Consolidated Financial Information (Unaudited)

The selected quarterly financial data presented below should be read in conjunction with the Consolidated Financial Statements and related notes.

(In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2008:				
Interest income	$ 232,004	$ 213,993	$ 214,627	$ 208,649
Interest expense	107,148	88,307	85,446	82,581
Net interest income	124,856	125,686	129,181	126,068
Provision for credit losses	15,800	25,000	45,500	100,000
Other non-interest income	47,352	49,049	51,366	47,927
Loss on write-down of investments to fair value	(1,253)	(54,924)	(33,507)	(129,593)
Loss on sale of FNMA/FHLMC preferred stock			(2,060)	
VISA share redemption	1,625			
Net gain (loss) on sale of securities, net	123	126	(50)	(4,233)
Goodwill impairment		8,500	1,013	188,866
Non-interest expenses	116,111	129,223	116,531	115,792
Income (loss) from continuing operations before income taxes	40,792	(42,786)	(18,114)	(364,489)
Income tax expense (benefit)	14,303	(14,285)	(1,878)	(63,980)
Income (loss) from continuing operations	26,489	(28,501)	(16,236)	(300,509)
(Loss) income from discontinued operations, net of tax	(2,124)	(439)	(518)	8
Net income (loss)	$ 24,365	$ (28,940)	$ (16,754)	$ (300,501)
Preferred stock dividends			4,994	7,093
Net income (loss) available to common shareholders	$ 24,365	$ (28,940)	$ (21,748)	$ (307,594)
Net income per common share:				
Basic:				
Income (loss) from continuing operations	$ 0.51	$ (0.55)	$ (0.41)	$ (5.91)
Net income (loss)	0.47	(0.56)	(0.42)	(5.91)
Diluted:				
Income (loss) from continuing operations	0.51	(0.55)	(0.41)	(5.91)
Net income (loss)	0.47	(0.56)	(0.42)	(5.91)
2007:				
Interest income	$ 248,693	$ 250,319	$ 251,626	$ 244,957
Interest expense	120,612	119,966	124,567	122,258
Net interest income	128,081	130,353	127,059	122,699
Provision for credit losses	3,000	4,250	15,250	45,250
Other non-interest income	46,813	52,869	50,925	51,419
Loss on write-down of investments to fair value				(3,565)
Gain on Webster Capital Trust I and II securities		2,130		
Net gain (loss) on securities transactions	541	503	482	195
Non-interest expenses	121,161	128,932	113,553	120,324
Income from continuing operations before income taxes	51,274	52,673	49,663	5,174
Income tax expense	16,194	16,801	15,088	5

Income from continuing operations	35,080	35,872	34,575	5,169
(Loss) income from discontinued operations, net of tax	(44)	(405)	393	(13,867)
Net income (loss)	$ 35,036	$ 35,467	$ 34,968	$ (8,698)
Net income per common share:				
Basic:				
Income from continuing operations	$ 0.63	$ 0.64	$ 0.64	$ 0.10
Net income (loss)	0.62	0.64	0.65	(0.17)
Diluted:				
Income from continuing operations	0.62	0.64	0.64	0.10
Net income (loss)	0.62	0.63	0.64	(0.16)

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Webster s management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of Webster s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) (the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, management, including the Chief Executive Officer and Chief Financial Officer, concluded that Webster s disclosure controls and procedures are effective in timely alerting them to any material information relating to Webster and its subsidiaries required to be included in its Exchange Act filings.

Internal Control Over Financial Reporting

Webster s management has issued a report on its assessment of the effectiveness of Webster s internal control over financial reporting as of December 31, 2008.

Webster s independent registered public accounting firm has issued a report on the effectiveness of Webster s internal control over financial reporting as of December 31, 2008. The report expresses an unqualified opinion on the effectiveness of the Company s internal control over financial reporting as of December 31, 2008.

There were no changes made in Webster s internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting. The reports of Webster s management and of Webster s independent registered public accounting firm follow.

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MANAGEMENT S REPORT ON INTERNAL CONTROL

We, as management of Webster Financial Corporation and its Subsidiaries (Webster or the Company), are responsible for establishing and maintaining effective internal control over financial reporting. Pursuant to the rules and regulations of the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of, the Company s principal executive and principal financial officers, or persons performing similar functions, and effected by the Company s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles, and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

Management has evaluated the effectiveness of Webster s internal control over financial reporting as of December 31, 2008 based on the control criteria established in a report entitled *Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on such evaluation, we have concluded that Webster s internal control over financial reporting is effective as of December 31, 2008.

The independent registered public accounting firm of KPMG LLP, as auditors of Webster s Consolidated Financial Statements, has issued an audit report on the effectiveness of Webster s internal control over financial reporting as of December 31, 2008.

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

/s/ Gerald P. Plush
Gerald P. Plush
Senior Executive Vice President,

Chief Financial Officer and Chief Risk Officer

February 27, 2009

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of

Webster Financial Corporation:

We have audited Webster Financial Corporation and it s subsidiaries (the Company) internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of condition of Webster Financial Corporation and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2008, and our report dated February 27, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
Hartford, Connecticut

February 27, 2009

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ITEM 9B. OTHER INFORMATION

The annual meeting of shareholders will be held on Thursday, April 23, 2009 at the Courtyard by Marriott, 63 Grand Street, Waterbury, Connecticut 06702.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth certain information for the executive officers of Webster, each of whom is elected to serve for a one-year period.

Name	Age at December 31, 2008	Positions Held with Webster and Webster Bank
James C. Smith	59	Chairman, Chief Executive Officer and Director
Gerald P. Plush	50	Senior Executive Vice President - Chief Financial Officer and Chief Risk Officer
Jeffrey N. Brown	51	Executive Vice President - Chief Administrative Officer
Joseph J. Savage	56	Executive Vice President - Commercial Banking
Nitin J. Mhatre	38	Executive Vice President - Consumer Lending
Harriet Munrett Wolfe	55	Executive Vice President - General Counsel and Corporate Secretary
Michelle M. Crecca	39	Executive Vice President - Chief Marketing Officer
Douglas O. Hart	57	Executive Vice President - Chief Accounting Officer

Information concerning the principal occupation of these executive officers of Webster and Webster Bank during at least the last five years is set forth below.

James C. Smith is Chairman, Chief Executive Officer and a director of Webster and Webster Bank, having been elected Chief Executive Officer in 1987 and Chairman in 1995. Mr. Smith joined Webster Bank in 1975, and was elected President, Chief Operating Officer and a director of Webster Bank in 1982 and of Webster in 1986. Mr. Smith served as President of Webster and Webster Bank until 2000. Mr. Smith is a director of the Federal Reserve Bank of Boston and was a member of the Federal Advisory Council which advises the deliberations of the Federal Reserve Board of Governors until December 2007. He is a member of the executive committee of the Connecticut Bankers Association, co-chairman of the American Bankers Council and a former director of the Federal Home Loan Bank of Boston. He is a director of St. Mary s Hospital and the Palace Theater, both of Waterbury, Connecticut, and was a director of MacDermid, Incorporated (NYSE: MRD) until it was sold in June 2007. Mr. Smith serves as Chairman of the Executive Management Committee.

Gerald P. Plush is Senior Executive Vice President and Chief Financial Officer /Chief Risk Officer of Webster and Webster Bank. Mr. Plush joined Webster in July 2006 and was promoted to Senior Executive Vice President in July 2007. He was elected Chief Risk Officer in July 2008. Mr. Plush serves as Chairman of Webster s Enterprise Risk Management Committee. Prior to joining Webster, Mr. Plush was employed at MBNA America in Wilmington, Delaware. In his most recent position with MBNA, he was Senior Executive Vice President and Managing Director of Corporate Development and Acquisitions. Prior to this position, Mr. Plush was Senior Executive Vice President and Chief Financial Officer of MBNA s North American Operations, and prior to that he was Senior Executive Vice President and Chief Financial Officer of U.S. Credit Card.

Jeffrey N. Brown is Executive Vice President and Chief Administrative Officer of Webster and Webster Bank. Mr. Brown was elected to this position in July 2007. Mr. Brown joined Webster in 1996 as Executive Vice President of Marketing and Communications for Webster Bank and assumed responsibility for strategic planning in 1997. He was elected Executive Vice President of Marketing and Communications for the holding company in March 2004.

Joseph J. Savage is Executive Vice President of Webster and Executive Vice President, Commercial Banking for Webster Bank. He joined Webster in April 2002. Prior to joining Webster, Mr. Savage was Executive Vice President of the Communications and Energy Banking Group for CoBank in Denver, Colorado from 1996 to April 2002. Mr. Savage is a director of the Connecticut Business & Industry Association.

Nitin J. Mhatre is Executive Vice President, Consumer Finance of Webster and Webster Bank. Mr. Mhatre joined Webster in October 2008. Prior to joining Webster, Mr. Mhatre worked for Citi Home Equity in St. Louis, Missouri and Stamford, Connecticut in various capacities. In his most recent position with Citi Home Equity, he was the Managing Director for the home equity retail business for CitiMortgage. Prior to that he was Vice President and Director, Cards Cross-Sell, and from January 2004 to January 2005, he was Vice President and Director, Portfolio Management.

Harriet Munrett Wolfe is Executive Vice President, General Counsel and Corporate Secretary of Webster and Webster Bank. Ms. Wolfe joined Webster and Webster Bank in March 1997 as Senior Vice President and Counsel, was appointed Secretary in June 1997 and General Counsel in September 1999. In January 2003, she was appointed Executive Vice President. Prior to joining Webster and Webster Bank, she was in private practice. From November 1990 to January 1996, she was Vice President and Senior Counsel of Shawmut Bank Connecticut, N.A., Hartford, Connecticut.

Michelle M. Crecca is Executive Vice President, Chief Marketing Officer of Webster and Webster Bank. Ms. Crecca joined Webster and Webster Bank as Executive Vice President, Consumer Lending in September of 2006 and was appointed Executive Vice President, Chief Marketing Officer in June of 2008. Prior to joining Webster and Webster Bank she was Managing Director, Retail Business for Citi Home Equity.

Douglas O. Hart is Executive Vice President, Chief Accounting Officer of Webster and Webster Bank. Mr. Hart joined Webster and Webster Bank as Chief Accounting Officer in June of 2007 and was appointed Executive Vice President in September of 2008. Prior to joining Webster and Webster Bank he was Senior Executive Vice President Treasury Operations and Deposits for MBNA Corporation in Wilmington, Delaware.

Webster has adopted a code of business conduct and ethics that applies to all directors, officers and employees, including the principal executive officers, principal financial officer and principal accounting officer. It has also adopted Corporate Governance Guidelines (Guidelines) and charters for the Audit, Compensation, Nominating and Corporate Governance, Executive and Risk Committees of the Board of Directors. The Guidelines and the charters of the Audit, Compensation, and Nominating and Corporate Governance Committees can be found on Webster s website (www.wbst.com).

You can also obtain a printed copy of any of these documents without charge by contacting Webster at the following address:

Webster Financial Corporation

145 Bank Street

Waterbury, Connecticut 06702

Attn: Investor Relations

Telephone: (203) 578-2202

Additional information required under this item may be found under the sections captioned Information as to Nominees and Other Directors and Section 16(a) Beneficial Ownership Reporting Compliance in Webster s Proxy Statement (the Proxy Statement), which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended December 31, 2008, and 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 and may be found in the Proxy Statement under the sections captioned Executive Compensation and Other Information and Compensation of Directors , and the information included therein is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Certain information regarding securities authorized for issuance under the Company s equity compensation plans is included under the section captioned Stock-Based Compensation Plans in Part II, Item 5, elsewhere in this Annual Report on Form 10-K. Additional information required by this Item is omitted from this report and may be found under the sections captioned Stock Owned by Management and Principal Holders of Voting of Securities of Webster in the Proxy Statement and the information included therein is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and related transactions, and director independence is omitted from this report and may be found under the sections captioned Certain Relationships , Compensation Committee Interlocks and Insider Participation and Corporate Governance in the Proxy Statement and the information included therein is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding principal accounting fees and services is omitted from this report and may be found under the section captioned Auditor Fee Information in the Proxy Statement and the information included therein is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) The Consolidated Financial Statements of Registrant and its subsidiaries are included within Item 8 of Part II of this report.

(a)(2) Financial Statement schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission have been omitted because they are not applicable or the required information is included in the Consolidated Financial Statements or Notes thereto included within Item 8.

(a)(3) A list of the exhibits to this Form 10-K is set forth on the Exhibit Index immediately preceding such exhibits and is incorporated herein by reference.

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

(d) Not applicable.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 27, 2009.

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, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 27, 2009.

Signature:	Title:
/s/ James C. Smith	Chairman and Chief Executive Officer
James C. Smith	(Principal Executive Officer)
/s/ Gerald P. Plush	Senior Executive Vice President - Chief Financial
Gerald P. Plush	Officer and Chief Risk Officer
	(Principal Financial Officer)
/s/ Douglas O. Hart	Executive Vice President -
Douglas O. Hart	Chief Accounting Officer
	(Principal Accounting Officer)
/s/ Joel S. Becker	Director
Joel S. Becker	
/s/ John J. Crawford	Director
John J. Crawford	
/s/ Robert A. Finkenzeller	Director
Robert A. Finkenzeller	
/s/ Roger A. Gelfenbien	Director
Roger A. Gelfenbien	

/s/ C. Michael Jacobi	Director
C. Michael Jacobi	
/s/ Laurence C. Morse	Director
Laurence C. Morse	
/s/ Karen R. Osar	Director
Karen R. Osar	

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WEBSTER FINANCIAL CORPORATION

EXHIBIT INDEX

Exhibit No.	Exhibit Description
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 with 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	Certificate of Elimination Relating to the Corporation s Series C Participating Preferred Stock (filed as Exhibit 3.1 to the Corporation s Current Report on Form 8-K filed with the SEC on February 9, 2006 and incorporated herein by reference).
3.4	Certificate of Designations establishing the rights of the Corporation s 8.50% Series A Non-Cumulative Perpetual Convertible Preferred Stock (filed as Exhibit 3.1 to the Corporation s Current Report on Form 8-K filed with the SEC on June 11, 2008 and incorporated herein by reference).
3.5	Certificate of Designations establishing the rights of the Corporation s Fixed Rate Cumulative Perpetual Preferred Stock, Series B (filed as Exhibit 3.1 to the Corporation s Current Report on Form 8-K filed with the SEC on November 24, 2008 and incorporated herein by reference).
3.6	Bylaws, as amended effective December 18, 2007 (filed as Exhibit 3.1 to the Corporation s Current Report on Form 8-K filed with the SEC on December 19, 2007 and incorporated herein by reference).
4	Instruments Defining the Rights of Security Holders.
4.1	Specimen common stock certificate (filed as Exhibit 4.1 to the Corporation s Annual Report on Form 10-K for the year ended December 31, 2005 filed with the SEC on March 10, 2006 and incorporated herein by reference).
4.2	Specimen stock certificate for the Corporation s 8.50% Series A Non-Cumulative Perpetual Convertible Preferred Stock (filed as Exhibit 4.1 to the Corporation s Current Report on Form 8-K filed with the SEC on November 24, 2008 and incorporated herein by reference).
4.3	Form of specimen stock certificate for the Corporation s Fixed Rate Cumulative Perpetual Preferred Stock, Series B (filed as Exhibit 4.1 to the Corporation s Current Report on Form 8-K filed with the SEC on November 24, 2008 and incorporated herein by reference).
4.4	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).
4.5	Senior Indenture, dated as of April 12, 2004, between the Corporation and The Bank of New York, as trustee, (filed as Exhibit 4.1 to the Corporation s Current Report on Form 8-K filed with the SEC on April 12, 2004, and incorporated herein by reference).
4.6	Supplemental Indenture, dated as of April 12, 2004, between the Corporation and The Bank of New York, as trustee, relating to the Corporation s 5.125% Senior

Notes due April 15, 2014 (filed as Exhibit 4.2 to the Corporation s Current Report on Form 8-K filed with the SEC on April 12, 2004, and incorporated herein by reference).

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WEBSTER FINANCIAL CORPORATION

EXHIBIT INDEX

Exhibit No.	Exhibit Description
4.7	Junior Subordinated Indenture, dated as of June 20, 2007, between the Corporation and The Bank of New York, as Trustee (filed as Exhibit 4.1 to the Corporation s Current Report on Form 8-K filed with the SEC on June 20, 2007 and incorporated herein by reference).
4.8	First Supplemental Indenture, dated as of June 20, 2007, between the Corporation and The Bank of New York, as Trustee (filed as Exhibit 4.2 to the Corporation s Current Report on Form 8-K filed with the SEC on June 20, 2007 and incorporated herein by reference).
4.9	Amended and Restated Trust Agreement, dated as of June 20, 2007, by and among the Corporation, The Bank of New York, as Property Trustee, The Bank of New York (Delaware Trustee and the Administrative Trustees named therein (filed as Exhibit 4.3 to the Corporation s Current Report on Form 8-K filed with the SEC on June 20, 2007 and incorporated herein by reference).
4.10	Guarantee Agreement, dated as of June 20, 2007, between the Corporation and The Bank of New York, as Guarantee Trustee (filed as Exhibit 4.6 to the Corporation s Current Report on Form 8-K filed with the SEC on June 20, 2007 and incorporated herein by reference).
4.11	Replacement Capital Covenant, dated as of June 20, 2007 (filed as Exhibit 99.1 to the Corporation s Current Report on Form 8-K filed with the SEC on June 20, 2007 and incorporated herein by reference.
4.12	Warrant to purchase shares of Corporation common stock (filed as Exhibit 4.2 to the Corporation s Current Report on Form 8-K filed with the SEC on November 24, 2008 and incorporated herein by reference).
10	Material Contracts
10.1	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).
10.2	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).
10.3	Mechanics Savings Bank 1996 Director Stock Option Plan (filed as 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).
10.4	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).
10.5	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).
10.6	Amended and Restated 1992 Stock Option Plan (filed as Annex A to the Corporation s definitive proxy materials for the Corporation s 2007 Annual Meeting of Shareholders and incorporated herein by reference).

10.7	Amended and Restated Deferred Compensation Plan for Directors and Officers of Webster Bank effective January 1, 2005 (filed as Exhibit 10.2 to the Corporation s Current Report on Form 8-K filed with the SEC on December 31, 2007 and incorporated herein by reference).

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WEBSTER FINANCIAL CORPORATION

EXHIBIT INDEX

Exhibit No.	Exhibit Description
10.8	2001 Directors Retainer Fees Plan (filed as Exhibit A to the Corporation s Definitive Proxy Statement filed with the SEC on March 21, 2001 and incorporated herein by reference).
10.9	Supplemental Retirement Plan for Employees of Webster Bank, as amended and restated effective January 1, 2005 (filed as Exhibit 10.1 to the Corporation s Current Report on Form 8-K with the SEC on December 21, 2007 and incorporated herein by reference).
10.10	Qualified Performance-Based Compensation Plan (filed as Exhibit A to the Corporation s definitive proxy materials for the Corporation s 2008 Annual Meeting of Shareholders and incorporated herein by reference).
10.11	Employee Stock Purchase Plan (filed as Appendix A to Webster s Definitive Proxy Statement filed with the SEC on March 23, 2000 and incorporated herein by reference).
10.12	Change of Control Agreement, dated as of January 1, 2008, by and between Webster Financial Corporation and James C. Smith (filed as Exhibit 10.12 to the Corporation s Annual Report on Form 10-K for the year ended December 31, 2007 filed with the SEC on February 28, 2008 and incorporated herein by reference).
10.13	Change of Control Agreement, dated as of January 1, 2008, by and between Webster Financial Corporation and William T. Bromage (filed as Exhibit 10.13 to the Corporation s Annual Report on Form 10-K for the year ended December 31, 2007 filed with the SEC on February 28, 2008 and incorporated herein by reference).
10.14	Change of Control Agreement, dated as of January 1, 2008, by and between Webster Financial Corporation and Joseph J. Savage (filed as Exhibit 10.14 to the Corporation s Annual Report on Form 10-K for the year ended December 31, 2007 filed with the SEC on February 28, 2008 and incorporated herein by reference).
10.15	Change of Control Agreement, dated as of January 1, 2008, by and between Webster Financial Corporation and Gerald P. Plush (filed as Exhibit 10.15 to the Corporation s Annual Report on Form 10-K for the year ended December 31, 2007 filed with the SEC on February 28, 2008 and incorporated herein by reference).
10.16	Change of Control Agreement, dated as of January 1, 2008, by and between Webster Financial Corporation and Jeffrey N. Brown (filed as Exhibit 10.16 to the Corporation s Annual Report on Form 10-K for the year ended December 31, 2007 filed with the SEC on February 28, 2008 and incorporated herein by reference).
10.17	Change of Control Agreement, dated as of January 1, 2008, by and between Webster Financial Corporation and Harriet Munrett Wolfe (filed as Exhibit 10.17 to the Corporation s Annual Report on Form 10-K for the year ended December 31, 2007 filed with the SEC on February 28, 2008 and incorporated herein by reference).
10.18	Change of Control Agreement, dated as of January 1, 2008, by and between Webster Financial Corporation and Scott M. McBrair (filed as Exhibit 10.18 to the Corporation s Annual Report on Form 10-K for the year ended December 31, 2007 filed with the SEC on February 28, 2008 and incorporated herein by reference).
10.19	Form of Non-Competition Agreement, dated as of January 31, 2005, by and between Webster Financial Corporation and the following executives: James C. Smith, William T. Bromage, William J. Healy, Joseph J. Savage, and Jeffrey N. Brown

(filed as Exhibit 10.2 to the Corporation s Current Report on Form 8-K filed with the SEC on February 4, 2005 and incorporated herein by reference).

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WEBSTER FINANCIAL CORPORATION

EXHIBIT INDEX

Exhibit No.	Exhibit Description
10.20	Form of Non-Competition Agreement, dated as of April 21, 2005, by and between Webster Financial Corporation and Scott McBrair (filed as Exhibit 10.2 to the Corporation s Current Report on Form 8-K filed with the SEC on April 26, 2005 and incorporated herein by reference).
10.21	Non-Competition Agreement, dated as of July 5, 2006, by and between Webster Financial Corporation and Gerald P. Plush (filed as Exhibit 10.1 to the Corporation s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 with the SEC on August 4, 2006 and incorporated herein by reference).
10.22	Separation Agreement and General Release, dated as of April 24, 2008, by and among Webster Financial Corporation, Webster Bank, National Association and William T. Bromage (filed as Exhibit 10.1 to the Corporation s Current Report on Form 8-K filed with the SEC on April 25, 2008 and incorporated herein by reference).
10.23	Employment Separation Agreement, dated as of January 20, 2009, by and between Webster Financial Corporation, Webster Bank, National Association and Scott M. McBrair (filed as Exhibit 10.1 to the Corporation s Current Report on Form 8-K filed with the SEC on January 22, 2009 and incorporated herein by reference).
10.24	Letter Agreement, dated as of November 21, 2008, between Webster Financial Corporation and the United States Department of the Treasury, and the Securities Purchase Agreement Standard Terms attached thereto (filed as Exhibit 10.1 to the Corporation s Current Report on Form 8-K filed with SEC on November 24, 2008 and incorporated herein by reference).
10.25	Description of Arrangement for Directors Fees.
21	Subsidiaries.
23	Consent of KPMG LLP.
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by the Chief Executive Officer.
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by the Chief Financial Officer.
32.1	Written statement pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by the Chief Executive Officer.
32.2	Written statement pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by the Chief Financial Officer.

Note: Exhibit numbers 10.1 10.23 and 10.25 are management contracts or compensatory plans or arrangements in which directors or executive officers are eligible to participate.