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

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Fiscal Year Ended December 31, 2001.

OR

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

Commission File Number: 0-15213

WEBSTER FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**06-1187536**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Webster Plaza, Waterbury, Connecticut	**06702**
(Address of principal executive offices)	(Zip Code)

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

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

Common Stock, $.01 par value
(Securities registered pursuant to Section 12(g) of the Act, Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[X] Yes [ ] No

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

Based upon the closing price of the registrant's common stock as of February 28, 2002, the aggregate market value of the voting common stock held by non-affiliates of the registrant is $1,648,130,877. Solely for purposes of this calculation, the shares held by directors and executive officers of the registrant have been excluded because such persons may be deemed to be affiliates. This reference to affiliate status is not necessarily a conclusive determination for other purposes.

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

Common Stock (par value $ .01)	48,882,265 Shares
Class	Issued and Outstanding at February 28, 2002

DOCUMENTS INCORPORATED BY REFERENCE

Part III: Portions of the Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 25, 2002.

WEBSTER FINANCIAL CORPORATION
2001 FORM 10-K ANNUAL REPORT
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PART I

PART I

ITEM 1. BUSINESS

GENERAL

Webster Financial Corporation ("Webster" or the "Company"), through its subsidiaries, Webster Bank (the "Bank"), Damman Associates, Inc., which has been renamed Webster Insurance, Inc. ("Webster Insurance"), and Webster D&P Holdings, Inc. ("Duff & Phelps"), delivers financial services to individuals, families and businesses primarily in Connecticut and equipment financing and financial advisory services to public and private companies throughout the United States. Webster provides business and consumer banking, mortgage lending, trust and investment services and insurance services through 105 banking and other offices, over 210 ATM's and its Internet website (www.websterbank.com). Webster Bank was founded in 1935 and converted from a federal mutual to a federal stock institution in 1986.

Webster, on a consolidated basis, at December 31, 2001 and 2000 had total assets of $11.9 billion and $11.2 billion, total securities of $4.0 billion and $3.4 billion and net loans receivable of $6.9 billion and $6.8 billion, respectively. At December 31, 2001 and 2000, total deposits were $7.1 billion and $7.0 billion, respectively. At December 31, 2001 and 2000, shareholders' equity was $1.0 billion and $890.4 million, respectively.

At December 31, 2001, the assets of Webster's, Parent Company only, on an unconsolidated basis, consisted primarily of its investments in the Bank, Webster Insurance and Duff & Phelps of $1.2 billion, investment securities of $83.2 million, cash and interest-bearing deposits of $17.1 million, other direct investments of $16.7 million and loans receivable of $3.2 million. Primary sources of income to Webster, on an unconsolidated basis, are dividend payments received from the Bank, interest from and gains on sale of investment securities and income from interest-bearing deposits. Primary expenses are interest expense on borrowings and capital securities and allocated operating expenses. See Notes 18 and 21 of Notes to Consolidated Financial Statements included elsewhere in this report for additional information.

Deposits in the Bank are federally insured by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is a Bank Insurance Fund ("BIF") member institution and at December 31, 2001; approximately 80% of the Bank's deposits were subject to BIF assessment rates and 20% were subject to Savings Association Insurance Fund ("SAIF") assessment rates. See the "Regulation" section under this Item for additional information.

Webster, as a bank holding company, and the Bank are subject to comprehensive regulation, examination and supervision by the Office of Thrift Supervision (the "OTS"), as its primary federal regulator. The Bank is also subject to regulation, examination and supervision by the FDIC as to certain matters. Webster's executive offices are located at Webster Plaza, Waterbury, Connecticut 06702. The telephone number is (203) 753-2921.

The Company's principal business lines, including their operating results, are fully discussed in Note 17 of Notes to Consolidated Financial Statements included elsewhere in this report.

BUSINESS COMBINATIONS

Purchase Transactions

The following acquisitions, completed during 2001 and 2000, were accounted for as purchase transactions, and as such, results of operations are included in the Consolidated Financial Statements subsequent to the date of acquisition.

Wolff Zackin & Associates and Benefit Plans Design & Administration
In April 2001, through Webster Insurance, Webster completed its acquisition of Wolff Zackin & Associates Inc. ("Wolff Zackin") and its sister company, Benefits Plans Design & Administration Inc. ("Benefit Plans"). Wolff Zackin is a multiple lines insurance business specializing in personal and corporate life insurance, personal and commercial property and casualty insurance and deferred compensation plans. Benefit Plans provides businesses with pension, profit sharing, individual retirement account ("IRA") and 401(k) investment plans. Benefit Plans also provides group life, disability

income, and medical and dental care plans for businesses. The addition of Wolff Zackin provides Webster's customers expanded insurance products and services and the ability to negotiate the best coverage in the marketplace.

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

Musante Reihl Associates
In January 2001, through Webster Insurance, Webster acquired Musante Reihl Associates ("Musante"), a privately owned Cheshire, Connecticut-based insurance agency. Musante specializes in group benefits, long-term care and life insurance products. This acquisition further increased Webster's ability to offer quality insurance products in the Connecticut marketplace.

Duff & Phelps Acquisition, LLC
In November 2000, Webster, through its newly formed company, Duff & Phelps, acquired a 65% interest in Duff & Phelps, LLC, a privately owned company with offices in Chicago, New York, Los Angeles, and Seattle. Duff & Phelps provides expertise in middle-market mergers and acquisitions, private placements, fairness opinions, valuations, ESOP and ERISA advisory services, and special financial advisory services. Through Duff & Phelps, Webster has added another fee-based revenue source, which further accelerates progress toward the strategic objective of broadening commercial bank product offerings and increasing revenue from fee-based services.

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

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

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

Louis Levine Agency, Inc. and Follis, Wylie, Inc.
During 2000, Webster expanded its insurance operation, by purchasing the Louis Levine Agency, Inc. ("Levine") and Follis Wylie & Lane, Inc. ("Follis"). Webster entered the insurance agency business in 1998. In April 2000, Webster, through its wholly-owned insurance subsidiary Webster Insurance, acquired Follis, a privately owned Hamden, Connecticut-based insurance agency. Follis offers a full range of insurance services, including property and casualty, life and health. In February 2000, through Webster Insurance, Webster acquired Levine, a privately owned Waterford and Norwich, Connecticut-based insurance agency. Founded in 1928, Levine includes three entities: Louis Levine Agency, Inc., Levine Financial Services, Inc. and Retirement Planning Associates, Inc.

LENDING ACTIVITIES

General

Webster, through its consolidated Bank subsidiary, originates various types of residential, commercial and consumer loans. Total gross loans receivable were $7.0 billion and $6.9 billion at December 31, 2001 and 2000, respectively. The Bank offers commercial and residential permanent and construction mortgage loans, commercial and industrial loans, lease financing and various types of consumer loans including home equity lines of credit, home equity loans and other types of small business and consumer loans. At December 31, 2001 and 2000, residential loans represented 51% and 61% of Webster's loan portfolio net of fees and costs, respectively.

Residential Mortgage Loans and Mortgage Banking Activity

Webster is dedicated to providing a full array of residential mortgage loan products that meet the financial needs of its customers. While its primary lending markets are Connecticut and the Northeastern United States, Webster's lending markets now include all states except Alaska and Hawaii. Webster offers its customers a full range of products including conventional conforming and jumbo fixed rate loans, conforming and jumbo adjustable rate loans, Federal Housing Authority ("FHA"), Veterans Administration ("VA") and state agency mortgage loans through Connecticut Housing Finance Authority ("CHFA"). Various programs are offered to support Webster's Community Reinvestment Act goals at the state level. Types of properties consist of one-to-four family residences, owner and non-owner occupied, second homes, construction permanent and improved single family building lots. Additionally, Webster provides certain customers with an option to modify their existing loan in order to enhance portfolio retention strategies. Webster's distribution channels for these loans include its network of branches referrals, loan officers, call center, as well as third party licensed mortgage brokers in targeted areas of the United States. In 2001, Webster originated $1.3 billion in total residential mortgages compared to $589 million in 2000.

The Bank originates both fixed rate and adjustable rate residential mortgage loans. At December 31, 2001, approximately $1.7 billion or 49% of Webster's total residential mortgage loans were adjustable rate loans. Webster offers adjustable rate mortgage loans at initial interest rates discounted from the fully-indexed rate. Adjustable rate loans originated during 2001 and 2000, when fully-indexed, will be 2.75% above the constant maturity one-year U.S. Treasury yield index. At December 31, 2001, approximately $1.8 billion or 51% of Webster's total residential mortgage loans had a fixed rate. Webster sells residential mortgage loans in the secondary market in a manner consistent with its asset/liability management objectives. At December 31, 2001, Webster had $143.9 million of residential mortgage loans held for sale.

The volume of residential mortgage loans varies with interest rate fluctuations and customer preferences. Residential mortgage volume increased in 2001 compared to 2000 due to the declining interest rate environment creating an increase in refinance activity. Webster's current strategy is to sell most newly originated conforming (loans with balances less than or equal to established Fannie Mae and Freddie Mac limits) fixed and adjustable rate residential mortgage loans and to retain most jumbo loans for its own portfolio. At December 31, 2001, approximately 93% of the residential mortgage portfolio was secured by properties located in Connecticut. During 2001, the demand for fixed rate mortgages exceeded the demand for adjustable rate mortgage ("ARM") loans, including loans with a fixed rate for three or five years. Predominately all of these loans were or will be sold in the secondary market.

At December 31, 2001, Webster had $6.6 million of mortgage servicing rights, included in other assets, which had a market value of approximately $11.4 million. These servicing rights, comprised of individual pools of loans, are carried at the lower of cost or market determined on an individual pool basis. The pools are tested for impairment quarterly with any adjustment included in noninterest income. Webster services approximately $1.2 billion of residential mortgage loans for others.

Wholesale Lending

Webster continued its focus on its wholesale lending throughout 2001, generating $518 million in residential one-to-four family loan originations. The majority of these loans were originated throughout the Northeast with approved licensed mortgage brokers. The loans were underwritten, closed and funded by the Bank, and the majority were subsequently sold into the secondary market as mortgage-backed securities guaranteed by Fannie Mae or Freddie Mac. Due to the competitive product and pricing needs of the wholesale lending program, Webster Bank also became an approved Ginnie Mae issuer of mortgage-backed securities whereby the collateral is HUD-approved FHA/VA loans.

As part of its expansion program, Webster has recruited a proven management team, with significant prior experience in national wholesale lending and operations. The Bank opened three regional wholesale offices in Atlanta, Phoenix and Chicago in January 2002. These additional offices are intended to enable the Bank to continue the efficient expansion of its wholesale product platform, and in addition to first mortgages, these new offices will also offer consumer lending products and, potentially, insurance products outside of its current market. Also, the wholesale lending unit has the ability to originate adjustable rate residential loans to augment portfolio balances and provide geographic diversification. In January 2002, wholesale lending began offering home equity loans through its broker network and regional offices.

The increased residential loan activity from the wholesale initiative enabled Webster to negotiate more favorable pricing terms from its investors, which enhanced Webster's retail pricing in its core market. With this expansion, management anticipates wholesale lending and mortgage banking volume to increase during 2002, provided the interest rate environment remains favorable. This activity allows Webster to generate fee income without balance sheet expansion.

Commercial Loans

Middle Market

The Middle Market division provides financial services to a diversified group of companies with revenues in the $10 million to $250 million range, primarily privately held and located within the State of Connecticut. Due to the recessionary environment in 2001, loans outstanding at December 31, 2001 declined to $492 million from $563 million at the prior year end. Despite this decline, we experienced another year of growth in our customer base as total borrowing relationships rose to 320 from 300 the prior year. Typical loan facilities include lines of credit for working capital, term loans to finance purchases of equipment and commercial real estate loans for owner occupied buildings. Unit and relationship managers within the Middle Market Division are among the most experienced in the region, averaging over 20 years in the Connecticut market.

In an effort to offer the broadest range of resources to our customer base, value is added by facilitating access to other specialists within the Bank. These include Webster Financial Advisors, Center Capital, Webster Insurance and a team of cash management professionals offering customized solutions and competitive products. Investment banking services are provided in close collaboration with Duff & Phelps, a subsidiary of Webster.

Specialized Lending

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

At December 31, 2001 and 2000, the specialized lending unit administered $410.3 million and $439.9 million of funded loans against commitments of $620.1 million and $637.9 million, respectively. The funded loans represented approximately 5.9% and 6.4% of gross loans at December 31, 2001 and 2000, respectively.

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

(In thousands)

	Principal Balances Outstanding at December 31,	
Industry	**2001**	**2000**
Manufacturing	$ 105,171	128,704
Cable	58,364	56,163
Wireless Communications	58,246	71,706
Advertising and Publishing	46,171	33,067
Other Telecom (a)	35,858	23,831
Radio and TV broadcasting	21,161	33,146
Competitive local exchange carriers	16,275	10,475
All other	22,669	37,372
Direct loans	363,915	394,464
Collateralized debt obligations	46,380	45,480
Total	$ 410,295	439,944

(a) Includes towers and integrated communication providers.

Syndicated credits by nature of their leveraged or highly leveraged structures tend to be more susceptible to default in periods of economic downturn. In underwriting these credits, the Bank carefully evaluates the various risks inherent in this form of lending. Webster Bank has a highly qualified team of lenders averaging twenty years of syndicated lending experience in the banking and insurance investment industries administering these credits. This level of experience allows the Bank to identify and control risks associated with lending in this market. The unit's well-defined underwriting standards have resulted in the credit quality of the portfolio significantly outperforming the loans monitored by the Shared National Credit Program. At December 31, 2001, approximately 92% of the portfolio carried a credit rating or shadow rating of B or better from one of the leading rating agencies. The remaining 8% is comprised of six loans totaling $31.5 million of which: two loans totaling $7.5 million that are pass rated under the loan classification system and accruing; two loans totaling $15.1 million that are substandard and accruing and two loans totaling $8.9 million are classified substandard or doubtful and are nonaccruing. At December 31, 2001, these two loans in nonperforming status totaled $8.9 million, compared with one loan totaling $5.2 million a year earlier.

In addition to the loans administered by the specialized lending unit, the Bank had $148.2 million of loans that are also monitored by the SNCP against commitments of $214.0 million at December 31, 2001. These loans are located primarily in the Northeast region and are funded through the Bank's Middle Market and CRE divisions. These SNCP loans are distinguished from the specialized lending unit SNCP loans by being relatively smaller transactions exhibiting lower leverage profiles where the Bank in most cases, has a direct relationship with the borrower.

Small Business Banking

Small Business Banking ("SBB") is dedicated to providing a full array of loan and deposit products that meet the core financial needs of Connecticut-based small businesses and their owners. Webster's SBB target market is businesses with annual revenues of up to $10 million and borrowing needs of up to $2 million. This market represents a significant percentage of commercial businesses in Connecticut and Webster currently has a 12-15% market share. SBB uses the Bank's branch network as well as geographically focused business development officers to fully service its existing customer base and call on potential new customers. In addition to personal customer contact, SBB continues to use a variety of direct mail and telemarketing programs to increase market penetration. SBB also plays a major role in supporting the Bank's Community Reinvestment Act goals by providing credit facilities to numerous local not-for-profit organizations. By utilizing the Fair Isaac credit-scoring model to assist in loan approvals up to $250,000 and offering a $50,000 same-day line of credit approval program, SBB has been able to remain competitive with other local financial institutions. SBB also serves as an excellent referral source for other Bank products including cash management, insurance, international products and investments.

As Webster is a Small Business Administration ("SBA") preferred lender, Webster is authorized to offer all SBA loan guaranty products and is also active in several loan programs provided through the Connecticut Development Authority. The SBB administered a portfolio of approximately $333 million at December 31, 2001, a 4% decrease from the prior year end. Included in SBB's portfolio are $144.6 million of commercial loans and $188.4 million of commercial real estate loans. Webster is the leading bank in Connecticut for providing loans of $1 million and under to small businesses in the state.

An objective of the SBB's strategic plan is to also focus on deposit growth as part of the overall customer relationship. For the year ending December 31, 2001, total small business deposit balances increased 10% to $729 million from $662 million at December 31 of the prior year.

Lease Financing

Center Capital, a lease financing subsidiary of the Bank that was acquired in March 2001, transacts business with end-users of equipment, either by soliciting this business on a direct basis or through referrals from various equipment manufacturers, dealers and distributors with whom they have relationships. Center Capital has grown its portfolio since March 2001 from $243.7 million to $320.7 million at December 31, 2001, an increase of 32%.

Center Capital markets its products nationally through a network of dedicated leasing sales executives who are grouped by customer type (e.g.; Environmental Equipment Financing Division) or collateral-specific business initiatives (e.g.; Machine Tool Equipment Financing Division). During 2001, financing initiatives encompassed three distinct industry/equipment niches, each operating as a division within Center Capital; Machine Tool Equipment Financing; Construction and Transportation Equipment Financing and Environmental Equipment Financing. A fourth division, Professional Practices Lending, was added during the first quarter of 2002.

Within each Division, Center Capital seeks to finance equipment which retains good value throughout the term of the underlying lease or loan. In many instances, financing terms cover only half of the financed equipment's useful life. As such, and in the exceptional instances where Center Capital is forced to repossess its collateral, the equipment is likely to have value equal to or in excess of the specific transaction's remaining balance. At December 31, 2001, it had nonperforming loans to numerous borrowers totaling $7.3 million.

International Loans

The primary purpose of the International Banking line of business is to assist our domestic clients involved in international trade by providing a full range of international banking services, including commercial letters of credit, stand-by letters of credit, international payments in both domestic and foreign currency, foreign exchange, international collections and international check clearing. Some of these services carry credit risk and any exposure under the above services must be approved in compliance with domestic underwriting standards. Additionally the Bank, through its international department, participates in programs offered by the U.S. Export-Import Bank, a government agency that provides loan guarantees to banks, which finance eligible U.S. export sales or exporters.

Commercial Real Estate Loans

The Bank's Commercial Real Estate ("CRE") group provides variable rate and fixed rate financing alternatives for borrowers whose purpose is that of acquiring, developing, constructing, improving or refinancing commercial real estate where the property is the primary collateral securing the loan or the primary repayment source is from income produced by the property and its tenants. The loans meet the Bank's underwriting requirements and are diversified by property type and geographic location. The CRE group consists of a small team of professionals with a high level of expertise and experience. The majority have more that 15 years of national lending experience with major banks or insurance companies. They have significant experience with both permanent and construction lending.

In recent years, the Bank has cultivated construction financing relationships with quality regional and national developers, both directly and through loan participations with selected banks outside its primary market, as it looks to diversify its portfolio by geographic location. The Bank controls risk by utilizing personnel familiar with the demographics of the area during its credit review process. As a result, the Bank is able to obtain its desired geographical diversification, while maintaining a knowledge of the specific areas when making its credit decisions. At December 31, 2001, outstanding commercial real estate loans, totaled $975.0 million compared to $857.0 million as of December 31, 2000.

The CRE group also makes construction loans, including loans to residential developers. These loans provide financing for the purpose of acquiring, developing and constructing properties. Included in the total CRE loans were commercial construction loans of $82.8 million and $72.2 million at December 31, 2001 and 2000, respectively.

Typically, the Bank lends against Class A or B, investment quality real estate; including office, retail, industrial and apartments. Webster provides construction, construction mini-perm and permanent loans from $2 million to $15 million. Loan to value and loan to cost are generally 75% and 80%, respectively.

A breakdown of the CRE loan portfolio by property type is as follows:

	At December 31, 2001	
Property Type	Amount	Percent
Office	$ 197,920	20.3%
Industrial	194,020	19.9
Retail	92,624	9.5
Multi-family	80,923	8.3
Mixed-use	68,248	7.0
Healthcare	61,423	6.3
Residential Development	50,699	5.2
Other	229,119	23.5
Total	$ 974,976	100.0%

Consumer Loans

Webster Bank is dedicated to providing a convenient and competitive selection of consumer loan products to its customers. The Bank concentrates on providing its customers a range of products including home equity loans and equity lines of credit as well as second mortgages and direct installment lending programs. The Bank does not have credit card loans in its consumer loan portfolio. The distribution channels consist of its network of branches, loan officers, call center, as well as third party licensed mortgage brokers operating in contiguous states. In January 2002, Webster's wholesale lending program began offering home equity loans, through its broker network in regional offices located in Phoenix, Atlanta and Chicago. Additionally, Webster periodically offers consumer products through direct mail programs. The Bank also provides the convenience of the Internet for equity loan applications that are available in most states. Credit exposure to any single borrower is limited by utilizing the Fair Isaac scoring model, an industry-accepted credit scoring system, to assess risk.

Consumer loan volume increased significantly in 2001 and, at December 31, loans totaled $1.1 billion and represented 15.9 % of the loan portfolio, compared to $699 million or 10.3%, a year earlier. This growth is attributable to the popularity of the Bank's home equity programs and the expansion of lending into contiguous states through a network of brokers.

The Bank's consumer loan products consist of:

- Home Equity Lines of Credit
- Home Equity Loans
- Second Mortgage Loans
- Installment Loans
- Automobiles Loans
- Loans Secured by Deposit Accounts

The following table sets forth the contractual maturity and interest-rate sensitivity of residential and commercial construction mortgage loans and commercial loans at December 31, 2001.

	Contractual Maturity			
(In thousands)	One Year or Less	More than One to Five Years	More Than Five Years	Total
Contractual Maturity				
Construction loans:				
Residential mortgage	$ 217,783	—	—	217,783
Commercial mortgage	23,176	44,295	16,051	83,522
Commercial loans	198,367	677,124	491,265	1,366,756
Total	$ 439,326	721,419	507,316	1,668,061
Interest-Rate Sensitivity				
Fixed rate	$ 235,657	271,092	168,878	675,627
Variable rate	203,669	450,327	338,438	992,434
Total	$ 439,326	721,419	507,316	1,668,061

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

	At December 31,									
	2001		**2000**		**1999**		**1998**		**1997**	
(Dollars in thousands)	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Residential mortgage loans:										
1-4 family units	$ 3,058,662	44.52%	$ 3,760,792	55.15%	$ 3,537,038	58.73%	$ 3,669,804	66.64%	$ 3,896,709	70.53%
Loans held for sale	143,918	2.10	17,730	0.26	7,022	0.12	9,409	0.17	3,515	0.07
Construction	223,583	3.26	302,776	4.44	302,310	5.02	200,417	3.64	117,619	2.13
Multi-family units	104,038	1.51	65,482	0.96	52,573	0.87	689	0.01	16,736	0.30
Total	3,530,201	51.39	4,146,780	60.81	3,898,943	64.74	3,880,319	70.46	4,034,579	73.03
Commercial loans:										
Commercial non-mortgage	1,046,874	15.24	1,207,398	17.70	915,035	15.19	548,734	9.96	369,658	6.69
Lease financing	320,704	4.67	—	—	—	—	—	—	—	—
Total	1,367,578	19.91	1,207,398	17.70	915,035	15.19	548,734	9.96	369,658	6.69
Commercial real estate:										
Commercial real estate	892,145	12.99	784,817	11.51	695,520	11.55	548,487	9.96	530,080	9.59
Commercial construction	82,831	1.20	72,216	1.06	45,648	0.76	67,717	1.23	58,888	1.07
Total	974,976	14.19	857,033	12.57	741,168	12.31	616,204	11.19	588,968	10.66
Consumer loans:										
Home equity credit loans	1,038,350	15.11	609,293	8.94	492,684	8.18	458,981	8.33	494,537	8.95
Other consumer	56,113	.82	89,514	1.31	47,064	0.79	68,081	1.24	108,775	1.97
Total	1,094,463	15.93	698,807	10.25	539,748	8.97	527,062	9.57	603,312	10.92
Loans receivable (a)	6,967,218	101.42	6,910,018	101.33	6,094,894	101.21	5,572,319	101.18	5,596,517	101.30
Less: allowance for loan losses	(97,307)	(1.42)	(90,809)	(1.33)	(72,658)	(1.21)	(65,201)	(1.18)	(71,599)	(1.30)
Loans receivable, net	$ 6,869,911	100.00%	$ 6,819,209	100.00%	$ 6,022,236	100.00%	$ 5,507,118	100.00%	$ 5,524,918	100.00%

(a) Net of deferred costs and discounts.

INSURANCE SERVICES

Webster Bank, through its wholly-owned subsidiary, Webster Insurance, offers a full range of insurance plans to both individuals and businesses. Webster Insurance is a regional insurance brokerage agency with three operating divisions: individual and family insurance, financial services, and business and professional insurance. Insurance products and services include: commercial and personal property and casualty insurance; life, health, disability and long-term care insurance for individuals and businesses; annuities and investment products; risk management services and pension and 401(k) plan administration. Webster Insurance is the largest independent insurance agency based in Connecticut generating $21.8 million of insurance commissions in 2001. Webster Insurance is headquartered in Wallingford and has offices in several Connecticut communities, including Wesport, Waterford and Vernon. Revenues for the year 2001 were $22.0 million, an increase of $7.4 million, or 51.5%, over the prior year. The increase was largely due to purchase transactions in 2000 and 2001.

TRUST AND INVESTMENT SERVICES

The Bank offers trust and investment services through its wholly-owned subsidiaries Webster Trust Company, N.A. ("Webster Trust") and Webster Investment Services, Inc. ("WIS"). For the year ended 2001, revenue from both subsidiaries was $18.3 million, compared to $18.2 million in 2000.

Webster Trust provides asset management and a comprehensive range of trust, custody, estate and administrative services to high-net-worth individuals, small to medium size companies and not-for-profit organizations (endowments and foundations). At December 31, 2001 and 2000, there were approximately $1.1 billion and $1.0 billion of trust assets held and $796.3 million and $706.0 million of assets under management, respectively. These assets are not included in the Consolidated Financial Statements, since the Bank does not own them.

During 2000, Webster Financial Advisors ("WFA") was established to provide consumers with a team of professionals who offer a full range of financial services for high-net-worth individuals and institutions. WFA offers clients a comprehensive package of products to meet all their financial needs. Services include investment management, trust and estate planning, retirement wealth management, tax planning and sophisticated credit and banking solutions. WFA also offers institutional services to Connecticut businesses and not-for-profit organizations.

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

Revenues for Webster Trust and WFA for the year 2001 were $6.0 million, an increase of $1.3 million, or 30.1%, over the prior year.

Through WIS, the Bank offers securities services including brokerage and investment advice and is a registered investment advisor ("RIA"). WIS has over 100 registered representatives offering customers an expansive array of investment products including stocks and bonds, mutual funds, managed accounts and annuities. In 2001, $310 million of such products were sold.

Prior to June 24, 1999, WIS offered brokerage services through an independent third party. On June 24, 1999, WIS registered with the Securities and Exchange Commission as a broker-dealer and became a member of the National Association of Securities Dealers, Inc. WIS's customer transactions are cleared through a third party broker-dealer on a fully disclosed basis. Accordingly, WIS does not carry customer accounts and is exempt from SEC Rule 15c3-3 pursuant to provision k(2)(ii) of such rule.

In June 2000, Webster Financial Corporation acquired MECH Financial, Inc. ("MECH") and it's wholly-owned subsidiary, Mechanics Savings Bank ("Mechanics") in a transaction that was accounted for as a purchase business combination. Mechanics Investment Services, Inc. ("MIS"), a subsidiary of Mechanics that was registered as a broker-dealer and a RIA, was merged into WIS on June 23, 2000, the effective date of the acquisition of MECH. Investment services revenue for the year 2001 were $12.3 million compared to $13.5 million the prior year. The decrease reflects the general decline in retail investor activity marketwide.

FINANCIAL ADVISORY SERVICES

In November 2000, Webster, through it's newly formed subsidiary Webster D&P Holdings, Inc., acquired a 65% interest in Duff & Phelps, LLC, a privately owned company which now has offices in Chicago, New York, Los Angeles, and Seattle. Duff & Phelps provides expertise in middle-market mergers and acquisitions, private placements, fairness opinions, valuations, ESOP and ERISA advisory services and special financial advisory services to public and private companies located primarily throughout the United States. The acquisition further accelerates Webster's progress toward the strategic objective of broadening its product offerings and increasing revenue from fee-based services. Total revenues for the year 2001 were $15.6 million. Total revenues for 2000 were $1.3 million, reflecting the November 2000 purchase.

INVESTMENT ACTIVITIES

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

Webster, directly or through the Bank, maintains an investment portfolio that is primarily structured to provide a source of liquidity for operating demands, generate interest income and to provide a means to balance interest-rate sensitivity. The investment portfolio is classified into three major categories consisting of: available for sale, held to maturity and trading securities. On January 1, 2001, as permitted by the provisions of SFAS No. 133, Webster reclassified all held to maturity securities to available for sale securities. At December 31, 2001, the combined investment portfolios of Webster and the Bank totaled $4.0 billion, with $3.9 billion and $83.2 million held by the Bank and Parent Company, respectively. At December 31, 2001 and 2000, the Bank's portfolio consisted primarily of mortgage-backed securities. At December 31, 2000, the combined investment portfolios of the Bank and Parent Company totaled $3.4 billion, with $3.3 billion and $95.0 million held by the Bank and Parent Company, respectively. At December 31, 2001 and 2000, the Parent Company's portfolio was classified as available for sale and consisted primarily of equity, mutual funds and corporate trust preferred securities. See Note 3 of Notes to Consolidated Financial Statements contained elsewhere within this report for security maturity data, as well as other additional information.

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

The securities portfolios of Webster and the Bank are managed by the Bank's Treasury Group in accordance with regulatory guidelines and established internal corporate investment policies. These policies and guidelines include limitations on aspects such as investment grade/ratings, concentrations and investment type to help manage risk associated with investing in securities.

SOURCES OF FUNDS

Deposits, loan and mortgage-backed security repayments, securities sales proceeds and maturities, borrowings and earnings are the primary sources of the Bank's funds available for use in its lending and investment activities and in meeting its operational needs. While scheduled loan repayments and securities payments are a relatively stable source of funds, deposit flows and loan and investment security prepayments are influenced by prevailing interest rates and local economic conditions. The Bank's borrowings primarily include Federal Home Loan Bank ("FHLB") advances and repurchase agreement borrowings. See Notes 8 and 9 of Notes to Consolidated Financial Statements contained elsewhere within this report.

The 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 funds. A Retail Pricing Committee meets regularly to determine pricing and marketing initiative. Webster 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.

The main sources of liquidity at the Parent Company level are dividends from the Bank, interest and dividends on securities and net proceeds from borrowings and capital offerings. The main outflows of funds are dividend payments to common shareholders and interest expense on capital securities, senior notes and other borrowings.

Deposit Activities

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

The Bank receives retail and commercial deposits through its main office and 104 other full-service banking offices in Connecticut. The Bank relies primarily on competitive pricing policies and effective advertising to attract and retain deposits while emphasizing the objectives of quality customer service and customer convenience. The WebsterOne account is a banking relationship that affords customers the opportunity to minimize fees, receive free checks, earn premium rates on savings and simplify their bookkeeping with one combined account statement that links account balances. The Bank's Check Card can be used at over eighteen million Visa merchants worldwide to pay for purchases with money in a linked checking account. The Check Card also serves as an ATM Card for receiving cash, for processing deposits and transfers and obtaining account balances 24 hours a day.

Customer services also include over 210 ATM facilities that use state-of-the-art technology with membership in NYCE and PLUS networks and provide 24-hour access to linked accounts. The Internet banking service allows, among other things, customers the ability to 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 to service representatives at certain established hours. Customers can transfer account balances, process stop payments and address changes, place check reorders, open deposit accounts, inquire about account transactions and request general information about the Bank's products and services. The Bank's services provide for automatic loan payment features from its accounts as well as for direct deposit of Social Security, payroll, and other retirement benefits. See Note 7 of Notes to Consolidated Financial Statements contained elsewhere within this report for additional deposit information.

Borrowings

The Federal Home Loan Bank ("FHLB") system functions in a reserve credit capacity for regulated, federally insured depository institutions and certain other home financing institutions. Members of the FHLB system are required to own capital stock in the FHLB. Members are authorized to apply for advances on the security of their FHLB stock and certain home mortgages and other assets (principally securities, which are obligations of, or guaranteed by, the United States Government) provided certain creditworthiness standards have been met. Under its current credit policies, the FHLB limits advances based on a member's assets, total borrowings and net worth. The Bank uses long-term and short-term FHLB advances as a source of funding to meet liquidity and planning needs when the cost of these funds are favorable as compared to alternate funding sources. At December 31, 2001 and 2000, FHLB advances totaled \$2.5 billion and \$2.4 billion and represented 72% and 79%, respectively, of total outstanding borrowed funds.

Additional funding sources are available to the Bank through securities sold under agreement to repurchase, purchased federal funds and lines of credit with correspondent banks. Total other borrowings were $1.0 billion and $650.2 million at December 31, 2001 and 2000 and represented 28% and 21%, respectively, of borrowed funds. Outstanding borrowings through securities sold under agreement to repurchase totaled $571.7 million and $489.4 million at December 31, 2001 and 2000, respectively. See Notes 8 and 9 of Notes to Consolidated Financial Statements contained elsewhere within this report for borrowing information.

In November 2000, Webster completed a registered offering of $126.0 million of 8.72% Senior Notes due 2007 (the "Senior Notes"). The net proceeds from the note placement were used for general corporate purposes. The Senior Notes are not redeemable prior to the maturity date of November 30, 2007. On June 30, 2000, $40.0 million of Senior Notes that were originated in 1993 matured.

BANK SUBSIDIARIES

The Bank's investment in its service corporation subsidiary, WIS, totaled $2.1 million and $4.4 million at December 31, 2001 and 2000, respectively. The activities of this broker-dealer subsidiary consist of offering broker dealer and registered investment advisory services to its customers. WIS also offers a broad range of products including stocks and bonds, mutual funds, annuities, investment management services, college savings plans and an extensive range of retirement and 401(k) products.

The Bank's investment in its trust subsidiary corporation, Webster Trust, totaled $7.2 million and $8.2 million at December 31, 2001 and 2000, respectively. Webster Trust had approximately $1.1 billion and $1.0 billion of trust assets held and $796.3 million and $706.0 million in assets under management at December 31, 2001 and 2000, respectively.

The Bank's investment in its operating subsidiary corporation, FCB Properties, Inc., totaled $477,000 and $157,000 at December 31, 2001 and 2000, respectively. The primary function of this operating subsidiary is the disposal of foreclosed properties.

The Bank's investment in its real estate investment trust ("REIT") operating subsidiary corporation, Webster Preferred Capital Corporation, totaled $918.8 million and $917.8 million at December 31, 2001 and 2000, respectively. The primary function of the REIT is to provide a cost-effective means of raising funds, including capital, on a consolidated basis for the Bank. The REIT's strategy is to acquire, hold and manage real estate mortgage assets.

The Bank's investment in its Internet lending subsidiary, Access National Mortgage, Inc., totaled $4.1 million and $4.5 million at December 31, 2001 and 2000, respectively. The function of this subsidiary is the origination of residential mortgage loans through an efficient national network via the Internet.

The Bank's investment in its passive investment subsidiary, Webster Mortgage Investment Corporation, totaled $2.5 billion for both December 31, 2001 and 2000. The primary function of this subsidiary is to provide servicing on passive investments, which include loans secured by real estate. This passive investment company derives additional state income tax benefits.

The Bank's investment in its leasing subsidiary, Center Capital Corporation, totaled $19.3 million at December 31, 2001. The primary function of this subsidiary is to provide lease financing for commercial and industrial equipment through installment sales and leasing programs to customers in all states except Alaska and Hawaii. Center Capital was acquired in March 2001.

MyWebster, Inc., a subsidiary of the Bank, is a service corporation that is presently inactive.

EMPLOYEES

At December 31, 2001, Webster had 2,271 employees (including 306 part-time employees), none of whom were represented by a collective bargaining group. Webster maintains a comprehensive employee benefit program providing, among other benefits, group medical and dental insurance, life insurance, disability insurance, a pension plan, an employee 401(k) investment plan, an employee stock purchase plan and an employee stock ownership plan. Management considers Webster's relations with its employees to be good.

MARKET AREA AND COMPETITION

The Bank is headquartered in Waterbury, Connecticut (New Haven County) and conducts business from its home office in downtown Waterbury and 104 branch offices that are located in the state of Connecticut. The branches are in Waterbury, Ansonia, Bethany, Branford, Cheshire, Derby, East Haven, Guilford, Hamden, Madison, Meriden, Middlebury, Milford, Naugatuck, New Haven, North Haven, Orange, Oxford, Prospect, Seymour, Southbury, Wallingford and West Haven (New Haven County); New Milford, Thomaston, Torrington, Watertown and Winsted (Litchfield County); Brookfield, Fairfield, Ridgefield, Shelton, Stratford, Trumbull, Westport and Wilton (Fairfield County); Avon, Berlin, Bloomfield, Bristol, Canton, East Hartford, East Windsor, Enfield, Farmington, Forestville, Glastonbury, Hartford, Kensington, Manchester, New Britain, Newington, Plainville, Poquonock, Rocky Hill, Simsbury, Southington, South Windsor, Suffield, Terryville, West Hartford, Wethersfield and Windsor (Hartford County); Cromwell, Essex, Middletown and Old Saybrook (Middlesex County); Old Lyme (New London County); Somers and Vernon (Tolland County). Waterbury is approximately 30 miles southwest of Hartford and is located at the intersection of Route 84 and Route 8 midway between Torrington and the New Haven and Bridgeport metropolitan areas. Most of the Bank's depositors live, and most of the properties securing its mortgage loans are located, in the same area or the adjoining counties. The Bank's market area has a diversified economy with the workforce employed primarily in manufacturing, financial services, healthcare, industrial and technology companies.

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

Webster Trust has offices located in Hartford, New Haven, Waterbury, and Westport, Connecticut. Webster Investment Service's administrative, operations and compliance departments are headquartered in Bristol, Connecticut with sales offices located throughout Webster's branch network. Webster Insurance is headquartered in Wallingford, Connecticut with offices in Vernon, Westport and Waterford, Connecticut. Duff & Phelps is headquartered in Chicago with offices in Los Angeles, New York and Seattle. Center Capital Corporation is headquartered in Farmington, Connecticut with offices in Blue Bell, Pennsylvania, Schaumburg, Illinois, Westboro, Massachusetts, and Brookfield, Connecticut.

REGULATION

Webster, as a savings and loan holding company, and Webster Bank, as a federally chartered savings bank, are subject to extensive regulation, supervision, and examination by the OTS as their primary federal regulator. Webster Bank also is subject to regulation, supervision, and examination by the FDIC and as to certain matters by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). Webster Trust, as a national bank engaged in trust activities, is subject to extensive regulation, supervision, and examination by the Office of the Comptroller of the Currency ("OCC"). Webster Trust also is subject to regulation, supervision, and examination by the FDIC and as to certain matters by the Federal Reserve Board. WIS is registered as a broker-dealer and investment advisor and is subject to extensive regulation, supervision, and examination by the Securities and Exchange Commission. WIS also is a member of the National Association of Securities Dealers, Inc., and is subject to its regulation. WIS and Webster Bank also are authorized to engage as brokers, dealers and underwriters of municipal securities, and as such are subject to regulation by the Municipal

Securities Rulemaking Board. Webster Insurance is a licensed insurance agency with offices in the state of Connecticut and is subject to registration and supervision by the Connecticut Insurance Department.

Webster Bank and Webster Trust are subject to substantial regulatory restrictions on their ability to pay dividends. Under OTS capital distribution regulations applicable to Webster Bank, the Bank may pay dividends to Webster Parent Company without prior regulatory approval so long as it meets its applicable regulatory capital requirements before and after payment of the dividends and its total dividends do not exceed its net income to date over the calendar year plus retained net income over the preceding two years. The OTS has discretion to prohibit any otherwise permissible capital distributions by Webster Bank on general safety and soundness grounds, and must be given 30 days advance notice of all capital distributions, during which time it may object to any proposed distribution. At December 31, 2001, the Bank had the ability to pay dividends to the Parent Company of $159.6 million without the prior approval of the OTS.

Effective July 1, 2001, as a consequence of the passage of the Gramm-Leach-Bliley Act in 1999, all financial institutions, including Webster, Webster Bank, Webster Trust, and their subsidiaries, were required to develop privacy policies, restrict the sharing of nonpublic customer data with nonaffiliated parties at the customer's request and establish procedures and practices to protect customer data from unauthorized access. Webster has developed such policies and believes it is in compliance with all such privacy provision of the Gramm-Leach-Bliley Act.

Under the International Money Laundering Abatement and Anti-Terrorism Financing Act of 2001, adopted as Title III of the USA PATRIOT Act and signed into law on October 26, 2001, all financial institutions, including Webster, Webster Bank, and Webster Trust, are subject to additional requirements to collect customer information, monitor customer transactions and report information to U.S. law enforcement agencies concerning customers and their transactions. In many cases, the specific requirements of the law will not be established until the Secretary of the Treasury adopts implementing regulations as directed or authorized by Congress. In general, accounts maintained by or on behalf of "non-United States persons," broadly defined, are subject to particular scrutiny. Correspondent accounts for or on behalf of foreign banks with profiles that raise money laundering concerns are subject to even greater scrutiny, and correspondent accounts for or on behalf of "shell banks," defined as a foreign bank with no physical presence in any country, are barred altogether. Financial institutions must take "reasonable steps," subject to definition by the Secretary of the Treasury, to ensure that any correspondent accounts with permissible foreign banks are not used for the benefit of shell banks. The Secretary of the Treasury also is authorized to require financial institutions to take "special measures," including new customer identification requirements, recordkeeping and reporting and transaction restrictions, if the financial institutions are involved with jurisdictions, financial institutions, or transactions of "primary money laundering concern" as determined by the Secretary. Additional information-sharing among financial institutions, regulators, and law enforcement authorities is encouraged by creating an exemption from the privacy provisions of the Gramm-Leach-Bliley Act for financial institutions that comply with this provision and authorizing the Secretary of the Treasury to adopt rules to further encourage cooperation and information-sharing. Upon request by an appropriate federal banking agency, a financial institution must provide or make available information about an account within 120 hours. All financial institutions also are required to establish internal anti-money laundering programs. The effectiveness of a financial institution in combating money laundering activities is a factor to be considered in any application submitted by the financial institution after December 31, 2001, under the Federal Deposit Insurance Act, which applies to Webster Bank and Webster Trust, or the Bank Holding Company Act, which applies to Webster.

TAXATION

Federal Income Taxes

Except for the Bank’s REIT subsidiary and Duff & Phelps, LLC (which file “stand-alone” tax returns), Webster files a calendar year consolidated federal income tax return on behalf of itself and its subsidiaries. Webster reports its income and deductions using the accrual method of accounting.

Certain legislation enacted during August 1996: 1) eliminated the “thrift bad debt” method of calculating bad debt deductions after 1995; 2) required the recapture (into taxable income) of certain post-1987 bad debt reserves; and 3) provided for more limited circumstances in which certain pre-1988 bad debt reserves would be recaptured. Webster had previously recorded a deferred tax liability for the post-1987 reserves, and its total tax expense for financial reporting purposes was not affected by the legislation. Webster’s pre-1988 reserves at both December 31, 2001 and 2000 were approximately $50.0 million, and it does not expect such reserves to be recaptured into taxable income.

Webster would be subject to an alternative minimum tax ("AMT") if such tax were larger than the otherwise payable, regular federal income tax. Historically, Webster has not been subject to the AMT.

Webster's federal income tax returns have been examined by the Internal Revenue Service ("IRS"), and/or the statute of limitations periods have expired, for all tax years through 1998. During February 2002, the IRS completed its examination of Webster's 1997 and 1998 tax returns, resulting in no significant adjustments. Additionally, during October 2001, the IRS completed its examination of the Bank's REIT subsidiary's 1997 and 1998 tax returns, resulting in no adjustments.

State Income Taxes

During May 1998, the State of Connecticut enacted tax legislation (effective in 1999) allowing for the formation of a Passive Investment Company ("PIC") by a financial service company ("FSC"). The legislation exempts a PIC from Connecticut taxation and also exempts dividends paid from a PIC to a related, qualified FSC from Connecticut tax. Webster Bank, a qualified FSC under the legislation, organized a PIC that began operation during the first quarter of 1999. The PIC reduced Webster's Connecticut tax expense beginning with tax year 1999.

For 2001, the Bank's REIT and PIC subsidiaries were not subject to Connecticut corporation business tax. In 2002 and future years, due to the maturity of the REIT's Series A preferred stock, the Bank's dividend income from its REIT subsidiary is expected to be subject to Connecticut tax. However, due to the continued operation of the PIC, and the availability of carryover net operating loss deductions, Webster expects to pay only nominal Connecticut corporation business taxes for the foreseeable future. See Note 12 of Notes to Consolidated Financial Statements contained elsewhere in this report for additional information.

Historically, as a result of Webster's limited banking activities in other states, Webster has been subject to nominal taxation in such other states. In 2001, because of the Bank's acquisition of Center Capital Corporation, and the continued expansion of its Wholesale Lending activities into additional states, Webster and/or its subsidiaries are expected to file tax returns in all states except Alaska and Hawaii. Duff & Phelps is subject to taxation in certain other states due to its investment in Duff & Phelps, LLC. Overall, however, Webster's state tax expense is expected to be minimal for the foreseeable future.

ITEM 2. PROPERTIES

At December 31, 2001, Webster had 105 offices, which includes 34 banking offices, including its main office, in New Haven County, 46 banking offices in Hartford County, 9 banking offices in Fairfield County, 9 banking offices in Litchfield County, 4 banking offices in Middlesex County, 2 banking offices in Tolland County, and 1 banking office in New London County. Of these, 53 offices are owned and 52 offices are leased. Lease expiration dates range from 1 to 86 years with renewal options of 3 to 35 years. Additionally, the Bank maintains four trust offices: one in Fairfield County, one in Hartford County and two in New Haven County.

The total net book value of properties and furniture and fixtures owned and used for banking and trust offices at December 31, 2001 was $82.8 million. The following table provides detail for the total net book value amount.

(In thousands)	At December 31, 2001
Land & improvements, net	$ 11,818
Buildings & improvements, net	36,280
Leasehold improvements, net	5,058
Furniture & equipment, net	29,652
Total	$ 82,808

ITEM 3. LEGAL PROCEEDINGS

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

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

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

PART II

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

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

The following table shows dividends declared and the market price per share by quarter for 2001 and 2000. On March 11, 2002, the closing market price of Webster common stock was $36.16. Webster increased its quarterly dividend in the second quarter of 2001 to $.17 per share.

Common Stock (per share)

2001	Cash Dividends Declared	Market Price Low	Market Price High	End of Period
Fourth	$ .17	29.23	34.08	31.53
Third	.17	28.16	37.06	32.96
Second	.17	27.75	33.74	32.78
First	.16	26.44	30.31	29.31

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

Webster had approximately 12,202 shareholders of common stock at February 28, 2002. The number of shareholders of record was determined by Webster's stock transfer agent, American Stock Transfer and Trust Company.

Payment of dividends from the Bank to Webster is subject to certain regulatory and other restrictions. Payment of dividends by Webster on its stock is subject to various restrictions, none of which is expected to limit any dividend policy that the Board of Directors may in the future decide to adopt. Under Delaware law, Webster may pay dividends out of its surplus or, in the event there is no surplus, out of net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. If the capital of the corporation has diminished by depreciation in the value of its property or by losses, or otherwise, to an amount less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets, no dividends may be paid out of net profits until the deficiency in the amount of capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets has been repaired.

OTHER EVENTS

The annual meeting of shareholders of Webster will be held on April 25, 2002.

ITEM 6. SELECTED FINANCIAL DATA

(Dollars in thousands, except per share data)	December 31, 2001	2000	1999	1998	1997
STATEMENT OF CONDITION					
Total assets	$ 11,857,382	11,249,508	9,931,744	9,836,029	9,902,775
Loans receivable, net	6,869,911	6,819,209	6,022,236	5,507,118	5,524,918
Securities	3,999,133	3,405,080	3,066,901	3,662,829	3,770,670
Intangible assets	320,051	326,142	138,829	83,227	83,731
Deposits	7,066,471	6,981,128	6,232,696	6,347,644	6,444,546
FHLB advances and other borrowings	3,533,364	3,030,225	2,788,445	2,575,608	2,588,178
Shareholders' equity	1,006,467	890,374	635,667	626,454	585,603
OPERATING INCOME					
Net interest income	$ 367,479	326,516	303,513	282,611	285,758
Provision for loan losses	14,400	11,800	9,000	8,103	26,449
Noninterest income	162,098	128,821	92,630	82,638	47,723
Noninterest expenses:					
Acquisition-related expenses	—	—	9,500	20,993	31,989
Branch reconfiguration	3,703	—	—	—	—
Other noninterest expenses	305,229	267,130	234,961	208,440	197,544
Total noninterest expenses	308,932	267,130	244,461	229,433	229,533
Income before income taxes, extraordinary item and cumulative effect of change in accounting method	206,245	176,407	142,682	127,713	77,499
Income taxes	69,430	58,116	47,332	49,694	29,887
Income before extraordinary item and cumulative effect of change in accounting method	136,815	118,291	95,350	78,019	47,612
Extraordinary item – early extinguishment of debt (net of taxes)	(1,209)	—	—	—	—
Cumulative effect of change in method of accounting (net of taxes)	(2,418)	—	—	—	—
Net income	$ 133,188	118,291	95,350	78,019	47,612
SIGNIFICANT STATISTICAL INFORMATION					
Interest-rate spread	3.38%	3.17	3.19	2.83	3.18
Net interest margin	3.48	3.29	3.32	2.97	3.35
Return on average shareholders' equity	13.88	16.72	15.33	12.82	8.61
Return on average assets	1.15	1.11	0.98	0.77	0.53
Allowance for loan losses/gross loans (a)	1.40	1.31	1.19	1.17	1.28
Net income per common share:					
Basic	$ 2.71	2.58	2.14	1.72	1.06
Diluted	2.68	2.55	2.10	1.69	1.04
Dividends declared per common share	0.67	0.62	0.47	0.44	0.40
Dividend payout ratio	25.00%	24.31	22.38	26.04	38.46
Fee income as a percentage of total revenue	28.76	25.95	22.55	18.84	13.40
Noninterest expenses to average assets	2.73	2.51	2.51	2.28	2.57
Noninterest expenses to average assets, adjusted (b)	2.25	2.11	2.07	1.78	2.04
Diluted weighted-average shares	49,743	46,428	45,393	46,118	45,966
Book value per common share	$ 20.48	18.19	14.09	14.02	13.15
Tangible book value per common share	13.97	11.53	11.02	12.16	11.27
Average shareholders' equity to average assets	8.32%	6.65	6.38	6.04	6.18

(a) Excludes loans in process.
(b) Excludes nonrecurring items, intangible amortization, capital securities, preferred dividend and foreclosed property expenses.

SELECTED QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

Selected quarterly data for 2001 and 2000 follows:

(In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2001:				
Interest income	$ 196,612	194,457	188,628	177,538
Interest expense	108,901	104,013	95,012	81,830
Net interest income	87,711	90,444	93,616	95,708
Provision for loan losses	3,200	3,200	4,000	4,000
Gains on sale of investment securities, net	4,249	1,794	2,566	2,012
Other noninterest income	35,237	40,309	37,925	38,006
Noninterest expenses	78,220	76,304	77,266	77,142
Income before income taxes, extraordinary item and cumulative effect of change in accounting method	45,777	53,043	52,841	54,584
Income taxes	15,167	18,539	17,810	17,914
Extraordinary item – early extinguishment of debt (net of taxes)	(1,209)	—	—	—
Cumulative effect of change in method of accounting (net of taxes)	(2,418)	—	—	—
Net income	$ 26,983	34,504	35,031	36,670
Net income per common share:				
Basic	$ .55	.70	.71	.75
Diluted	$ .54	.69	.70	.74
2000:				
Interest income	$ 169,643	174,946	197,600	196,722
Interest expense	93,371	95,915	111,790	111,319
Net interest income	76,272	79,031	85,810	85,403
Provision for loan losses	2,200	3,200	3,200	3,200
Gain on sale of investment securities, net	3,050	2,908	1,871	616
Gain on sale of deposits	—	—	—	4,859
Other noninterest income	24,535	27,755	31,298	31,929
Noninterest expenses	61,549	64,604	68,601	72,376
Income before income taxes	40,108	41,890	47,178	47,231
Income taxes	13,297	13,783	15,595	15,441
Net income	$ 26,811	28,107	31,583	31,790
Net income per common share:				
Basic	$ 0.61	0.66	0.65	0.65
Diluted	$ 0.61	0.66	0.64	0.64

The first quarter ended March 31, 2001 included in noninterest expense a nonrecurring charge of $3.7 million for branch reconfiguration expenses.

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

RESULTS OF OPERATIONS

For the year 2001, net income was $133.2 million, or $2.68 per diluted common share, an increase of $14.9 million or 12.6% compared to net income of $118.3 million for the previous year. The improvement was the result of increased net interest income and noninterest income that more than offset an increase in noninterest expenses. Net interest income rose to $367.5 million for 2001, an increase of $41.0 million or 12.5%. The net interest margin rose to 3.48% during 2001 from 3.29% during the prior year. Noninterest income reached $162.1 million, an increase $33.3 million or 25.8% when compared to $128.8 million the previous period. Noninterest expenses compared to the previous year increased $41.8 million or 15.6%. The increases in noninterest income and noninterest expenses reflect the purchase acquisitions of Mechanics in June 2000, Duff and Phelps in November 2000, Center Capital in March 2001 and three insurance agencies between the period of January 2001 and April 2001.

Included in the net income for the current year are a $2.4 million (net of taxes) expense related to the cumulative effect of a change in the method of accounting (SFAS No. 133 implementation) and an extraordinary expense of $1.2 million (net of taxes) that represents costs incurred for early extinguishment of debt related to the prepayment of borrowings from the Federal Home Loan Bank.

COMPARISON OF 2001 AND 2000 YEARS

Net Interest Income

Net interest income totaled $367.5 million for the year ended December 31, 2001, an increase of $41.0 million or 12.5%. The factors causing this change were an increase in the net interest margin (on a fully taxable-equivalent basis) to 3.48% for 2001 from 3.29% during the prior year and an increase in average outstanding earning assets during the year. See the rate/volume table that is contained elsewhere in this report.

The decline in interest rates during 2001, combined with a steepening of the yield curve, resulted in a favorable environment for Webster. As rates dropped and mortgage and other callable assets prepaid at increasing levels, yields dropped as the assets were replaced with ones earning lower yields. However, maturing and repricing liabilities were replaced at even lower costs due to the steepness of the yield curve. As can be seen from the rate/volume table that follows, 59% of the increase in net interest income is due to changes in interest rates, with liability costs dropping much faster than asset yields.

The growth of $796.8 million in average outstanding earning assets during 2001 outpaced the growth in average outstanding rate-bearing liabilities of $671.1 million. Due to earning assets growing faster than rate-bearing liabilities, changes in volume represented 41% of the increase in net interest income.

Interest Income

Total interest income increased $18.3 million, or 2.5%, to $757.2 million for the year 2001 as compared to $738.9 million during the previous year. As discussed above, the increase was due entirely to increased volume of earning assets during 2001 as compared to the previous year. Although loans and other callable assets prepaid at increased volumes during 2001 due to the declining interest rate environment, Webster was able to increase assets through the acquisition of Mechanics in 2000 and Center Capital in 2001 as well as through the increase in consumer loans. The increased consumer loans were primarily home equity lines of credit, the majority of which were originated within the Bank's primary market area.

The yield earned on earning assets declined during 2001 to 7.15% from 7.44% during the year earlier. The decline was entirely within the loan category as the yield on loans declined 46 basis points, while the yield on securities and interest-bearing deposits increased by 5 basis points. In addition to the larger volume of mortgage and other fixed rate loan prepayments during the current year, as discussed above, declines in interest rates impacted the returns on adjustable rate loans, which accounted for approximately 52% of gross loans at December 31, 2001.

Interest Expense

Interest expense declined $22.6 million, or 5.5%, to $389.8 million for fiscal year 2001 as compared to $412.4 million the previous year. The decline in expense was entirely due to the decrease in cost of funds. Due to the short maturity structure of the wholesale borrowing portfolio, Webster was able to take advantage of falling rates throughout 2001. Two-thirds of the benefit of declining costs was realized in the wholesale borrowing area. The deposit area accounted for one-third of the rate decline benefit. Savings, checking and certificate of deposit offering rates were decreased as general market interest rates declined throughout the year.

The average balance of interest-bearing liabilities increased $671.1 million for 2001 compared to 2000. The Mechanics acquisition accounted for a portion of the volume increase as the balances were outstanding for all of 2001, as opposed to only half a year in 2000. Approximately half of the increase occurred in repurchase agreements and other borrowings due to their relative lower cost. The remainder of the increase occurred in money market and checking accounts.

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

	Years ended December 31, **2001 v. 2000**			Years ended December 31, **2000 v. 1999**		
	Increase (Decrease) due to			Increase (Decrease) due to		
(In thousands)	Rate	Volume	Total	Rate	Volume	Total
Interest on interest-earning assets:						
Loans, net	$(31,130)	32,731	1,601	25,335	57,648	82,983
Securities and interest bearing deposit	1,203	16,259	17,462	17,858	(7,607)	10,251
Total	(29,927)	48,990	19,063	43,193	50,041	93,234
Interest on interest-bearing liabilities:						
Deposits	(17,580)	9,621	(7,959)	6,891	13,598	20,489
FHLB advances and other borrowings	(36,656)	21,976	(14,680)	25,962	23,665	49,627
Total	(54,236)	31,597	(22,639)	32,853	37,263	70,116
Net change in fully taxable-equivalent net interest income	$ 24,309	17,393	41,702	10,340	12,778	23,118

The following table shows the major categories of average assets and average liabilities together with their respective fully taxable-equivalent interest income or expense and the average yield or cost, for the three years ended December 31, 2001.

	Years ended December 31,								
	2001			**2000**			**1999**		
(Dollars in thousands)	Average Balance	Interest	Average Yields	Average Balance	Interest	Average Yields	Average Balance	Interest	Average Yields
Loans, net (a)	$ 6,969,481	519,930(b)	7.46%	$ 6,541,659	518,329(b)	7.92%	$ 5,802,453	435,346(b)	7.50%
Securities and interest-bearing deposits	3,667,917	238,423	6.56(c)	3,298,959	220,961	6.51(c)	3,317,708	210,710	6.30(c)
Total interest-earning assets	10,637,398	758,353	7.15(c)	9,840,618	739,290	7.44(c)	9,120,161	646,056	7.07(c)
Other assets	896,052			799,597			624,963		
Total assets	$ 11,533,450			$ 10,640,215			$ 9,745,124		
Savings and escrow	$ 1,505,110	26,699	1.77%	$ 1,509,414	31,036	2.06%	$ 1,477,856	34,058	2.30%
Money market savings, NOW and DDA	2,217,320	29,861	1.35	1,821,948	19,894	1.09	1,519,929	15,185	1.00
Time deposits	3,207,112	159,775	4.98	3,308,228	173,364	5.24	3,228,480	154,562	4.79
FHLB advances	2,011,440	112,784	5.61	2,047,743	128,447	6.27	1,585,458	84,498	5.33
Repurchase agreements and other borrowings	1,258,247	49,475	3.93	935,629	56,744	6.06	978,581	50,316	5.14
Senior notes	126,000	11,162	8.86	31,142	2,910	9.34	40,000	3,660	9.15
Total interest-bearing liabilities	10,325,229	389,756	3.77	9,654,104	412,395	4.27	8,830,304	342,279	3.88
Other liabilities	87,530			78,870			93,252		
Capital securities and minority interest	161,221			199,577			199,577		
Shareholders' equity	959,470			707,664			621,991		
Total liabilities and shareholders' equity	$ 11,533,450			$ 10,640,215			$ 9,745,124		
Less: fully taxable-equivalent adjustment		(1,118)			(379)			(264)	
Net interest income		367,479			326,516			303,513	
Interest rate spread			3.38%(c)			3.17%(c)			3.19%(c)
Net interest margin			3.48%(c)			3.29%(c)			3.32%(c)

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

(b) Includes amortization of net deferred loan costs (net of fees) and premiums (net of discounts) of: $1.7 million, $1.5 million, and $496,000 million in 2001, 2000 and 1999, respectively.

(c) Unrealized gains (losses) are excluded from the average yield calculations. Unrealized gains (losses) averaged $33.9 million, ($96.5 million) and ($24.5 million) for 2001, 2000 and 1999, respectively.

Provision for Loan Losses
The provision for loan losses increased to $14.4 million for the year ended December 31, 2001 from $11.8 million the year earlier, an increase of $2.6 million or 22.0%. Management performs a quarterly review of the loan portfolio to determine the adequacy of the allowance for loan losses. See the "Allowance for Loan Losses Methodology" section later in this Management's Discussion and Analysis for further details.

Based upon these reviews, it was determined that the provision for loan losses should be increased over the second half of 2001. Several factors that influenced this increase included the following:

- The Bank's strategic plan is to change the mix of the loan portfolio and increase the proportion of commercial and consumer loans and decrease residential mortgage loans. Commercial and consumer lending carry inherently more risk than residential lending.
- Net charge-offs increased to $9.7 million during 2001 from $4.6 million the previous year, an increase of $5.1 million or 110.7%. The 2001 net charge-offs were concentrated in the commercial lending area, which accounted for $7.7 million, or 79.1%, of the total.
- Nonaccrual loans increased to $57.4 million, or 0.82% of gross loans, at December 31, 2001, from $41.0 million, or 0.58%, a year earlier.
- The general economic slowdown has raised concerns about employment stability and economic health in Connecticut and the country.

At December 31, 2001, the allowance for loan losses totaled $97.3 million or 1.40% of gross loans. A year earlier, the allowance totaled $90.8 million or 1.31% of gross loans.

Noninterest Income
The following table presents the principal categories of noninterest income for the years ended December 31, 2001 and 2000.

			Increase (decrease)	
(Dollars in thousands)	**2001**	**2000**	Amount	%
Fees and service charges	$ 72,323	60,059	12,264	20.4%
Insurance commissions	21,751	14,360	7,391	51.5
Trust and investment services	18,346	18,184	162	0.9
Financial advisory services	15,525	1,290	14,235	1103.5
Gains on sale of loans and loan servicing, net	2,771	3,956	(1,185)	(30.0)
Increase in CSV of life insurance	9,164	8,555	609	7.1
Gain on sale of securities, net	10,621	8,445	2,176	25.8
Gain on sale of deposits	—	4,859	(4,859)	(100.0)
Other income	11,597	9,113	2,484	27.3
Total noninterest income	$ 162,098	128,821	33,277	25.8%

The most significant factor in the increase in noninterest income was the acquisitions completed during 2000 and 2001. The June 2000 Mechanics acquisition, as well as the purchase of branches from FleetBoston and Chase Manhattan during the year, added to deposit fees. The Center Capital acquisition added to loan fee income. The continued expansion of Webster Insurance, with the purchase of Levine in 2000 and Wolff Zackin, Benefit Plans and Musante in 2001, added to insurance commission income. Duff & Phelps was acquired in November 2000 and added income from financial advisory services. Webster's plan has been to expand its sources of noninterest income through the acquisition of fee-based businesses and become less reliant on net interest income.

Nonrecurring items recognized during 2001 were $3.1 million of proceeds of Bank Owned Life Insurance ("BOLI") policies. During 2000, $1.1 million in BOLI proceeds were received, as well as a $4.9 million net gain realized on the sale of two New Hampshire branches in December 2000.

Noninterest Expenses
The following table presents the principal categories of noninterest expenses for the years ended December 31, 2001 and 2000.

			Increase (decrease)	
(Dollars in thousands)	**2001**	**2000**	Amount	%
Compensation and benefits	$ 142,899	122,257	20,642	16.9%
Occupancy	25,643	24,774	869	3.5
Furniture and equipment	27,878	26,302	1,576	6.0
Intangible amortization	31,227	22,400	8,827	39.4
Marketing	8,728	9,118	(390)	(4.3)
Professional services	8,516	7,399	1,117	15.1
Capital securities	14,462	14,323	139	1.0
Dividends on preferred stock of subsidiary corporation	985	4,151	(3,166)	(76.3)
Branch reconfiguration	3,703	—	3,703	—
Other expenses	44,891	36,406	8,485	23.3
Total noninterest expenses	$ 308,932	267,130	41,802	15.6%

Noninterest expenses increased $41.8 million or 15.6%. Again, acquisitions in 2000 and 2001 played the most significant role in the increase. Adjusting both years for the effect of purchase acquisitions, noninterest expenses would have increased less than 2%. Included in noninterest expense for 2001 was a $3.7 million nonrecurring expense for branch reconfiguration, which represented the cost of the closing of 10 branches during the first quarter of 2001.

Income Taxes
Total income tax expense for 2001 increased to $67.6 million from $58.1 million in 2000. The increase in income tax expense is due primarily to the increase in income before taxes for the reasons discussed above. The tax expense for 2001 included tax benefits totaling $1.8 million for the tax effect of the extraordinary item and the cumulative effect of change in the method of accounting. The effective tax rates for the years ended December 31, 2001 and 2000 were approximately 34% and 33%, respectively.

COMPARISON OF 2000 AND 1999 YEARS

General
For the year 2000, Webster reported net income of $118.3 million, or $2.55 per diluted common share which was an increase of $22.9 million or 24%, over net income of $95.4 million for 1999. The improvement for 2000 was the result of increased net interest income combined with higher noninterest income that more than offset the increase in noninterest expenses. The increase in net interest income primarily reflects an increase of $720.5 million in average interest-earning assets and higher realized yields for 2000. Interest-rate spread was 3.16% and interest margin was 3.29% for 2000. Noninterest income reached $128.8 million, an increase of $36.2 million or 39% when compared to $92.6 million for 1999. The rise in noninterest income was primarily due to higher income from fees, service charges, commissions and financial advisory services that were $27.0 million over 1999. Noninterest expenses compared to 1999, excluding $9.5 million of acquisition-related costs, increased $32.2 million. The increase in noninterest expenses for 2000 is primarily the result of purchase acquisitions that were completed during the year and had the effect of increasing compensation and benefits, occupancy, furniture and equipment and intangible amortization expenses.

Net Interest Income
Net interest income increased $23.0 million in 2000 to $326.5 million from $303.5 million in 1999. The increase is due primarily to a higher level of average interest-earning assets and increased yields on earnings assets that more than offset the effect of higher volume of interest-bearing liabilities and higher rates paid for such liabilities. See "Interest Income" and "Interest Expense" discussions that follow. Interest-rate spread for 2000 was 3.17% as compared to 3.19% for 1999. The decrease in interest-rate spread was primarily due to higher interest costs incurred on time deposits and borrowed funds.

Interest Income
Total interest income for 2000 amounted to $738.9 million, an increase of $93.1 million or 14.4% when compared to $645.8 million in 1999. The higher interest income for 2000 was due primarily to an increase in the average volume of loans and higher yields realized on loans and securities. The average balance on loans increased $739.2 million in 2000 and the rate earned on loans increased 42 basis points when compared to 1999. The increase in the average balance for loans comes primarily from higher balances for commercial loans of $458.2 million and residential mortgages of $188.3 million. The average balance on investment securities decreased $18.7 million in 2000, however the rate earned on the securities increased 21 basis points when compared to 1999.

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

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

Noninterest Income
Noninterest income for 2000 totaled $128.8 million and increased $36.2 million, or 39.1%, compared to $92.6 million for 1999. Fees and service charge income rose to $60.1 million, an increase of 21.3%, and insurance commissions doubled to $14.4 million for the current year as compared to 1999. The increase in fees and service charge income was primarily due to a growing deposit and loan customer base and the acquisitions of Mechanics in 2000 and NECB in the latter part of 1999. Noninterest income from trust and investment services increased $7.9 million, or 77.5%, during 2000 as compared to 1999. The increase for trust and investment income during 2000 reflects the expansion of customer services within the trust and investment areas. The acquisition of Duff & Phelps in November 2000 accounted for $1.2 million of financial advisory fee income for 2000. Net gains on the sale of securities increased $4.2 million to $8.4 million while net gains on the sale of loans and loan servicing remained consistent when 2000 and 1999 are compared. Noninterest income for 2000 included a net gain on the sale of deposits of $4.9 million that resulted from the sale of two New Hampshire branches in December 2000. The 2000 period also included life insurance benefit proceeds of $1.1 million under the BOLI program.

Noninterest Expenses
Noninterest expenses for 2000 were $267.1 million compared to $244.5 million in 1999. The 1999 results include acquisition-related expenses totaling $9.5 million related to the NECB acquisition that occurred in December 1999. Excluding acquisition-related expenses, noninterest expenses for 2000 increased $32.2 million or 13.7% compared to 1999. The increase for 2000 is due primarily to purchase acquisitions that were completed during 2000 that increased compensation and benefits, occupancy and furniture and equipment expense and intangible amortization expense. Included in noninterest expenses for 2000 was $1.7 million of nonrecurring expenses for branch closures. Intangible amortization expense increased $8.6 million to $22.4 million in 2000 due to purchase acquisition activity.

Income Taxes
Income tax expense for 2000 increased to $58.1 million from $47.3 million in 1999. The increase in income tax expense is due primarily to a $33.7 million increase in income before taxes for the reasons discussed above. The effective tax rates for the years ended December 31, 2000 and 1999 were approximately 33%.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity management allows Webster to meet cash needs at a reasonable cost under various operating environments. Liquidity is actively managed and reviewed in order to maintain stable, cost effective funding to support the balance 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. Webster's goal is to maintain a strong, increasing base of core deposits to support its growing balance sheet.

The Bank's main sources of liquidity are payments of principal and interest from its loan and securities portfolio and the ability to use its loan and securities portfolios as collateral for secured borrowings. The Bank is a member of the Federal Home Loan Bank ("FHLB") system. At December 31, 2001, outstanding FHLB advances totaled $2.5 billion and the Bank had additional borrowing capacity from the FHLB of $112.8 million. Investment securities were not pledged as collateral for FHLB advances at December 31, 2001. Had securities been used for collateral, additional capacity would be approximately $2.4 billion. The Bank also has the ability to borrow funds through repurchase agreements, using the securities portfolio as collateral. At December 31, 2001, outstanding repurchase agreements totaled $571.7 million. FHLB advances, repurchase agreements and other borrowings increased $503.1 million from the prior year end, primarily to fund security purchases.

Factors that affect the Bank's liquidity position include loan origination volumes, loan prepayment rates, maturity structure of existing loans, core deposit growth levels, CD 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 Bank's liquidity position is influenced by general interest rate levels, economic conditions and competition. For example, as interest rates rise, payments of principal from the loan and mortgage-backed securities portfolio slow, as borrowers are less willing to prepay. Additionally, the market value of the securities portfolio generally declines as rates rise, thereby reducing 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 Bank's 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, the Bank has 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 the Bank, investment income and net proceeds from borrowings and capital offerings. The main uses of liquidity are purchases of available for sale securities, the payment of dividends to common stockholders, repurchases of Webster's common stock, and the payment of interest to holders of Senior Notes and capital securities. In November 2000, Webster issued $126.0 million of Senior Notes with a fixed rate of 8.72%. See Note 9 of Notes to Consolidated Financial Statements contained elsewhere within this report for further information on the Senior Notes. There are certain restrictions on the payment of dividends by the Bank to Webster. See Note 13 of Notes to the Consolidated Financial Statements contained elsewhere within this report for further information on dividend restrictions. Webster also maintains $100.0 million in revolving lines of credit with correspondent banks as a source of additional liquidity.

During 2001, Webster repurchased a total of 374,756 shares of its common stock. The majority of the repurchased shares was the result of an announcement during the 2001 third quarter of a Stock Repurchase Program to acquire 2.5 million shares of its common stock. See Note 13 of Notes to Consolidated Financial Statements contained elsewhere within this report for further information concerning stock repurchases.

The Bank is required by regulations adopted by the Office of Thrift Supervision ("OTS") to maintain minimum levels of liquidity sufficient to ensure safe and sound operations. Adequate liquidity, as assessed by the OTS, may vary from institution to institution depending on such factors as the institution's overall asset/liability structure, market conditions, competition and the nature of the institution's deposit and loan customers. Management believes it exceeds all regulatory and operational liquidity requirements at December 31, 2001.

Applicable OTS regulations require the Bank, as a federal savings bank, to satisfy certain minimum capital requirements, including a leverage capital requirement and risk-based capital requirements. As an OTS regulated savings institution, the Bank is also subject to a minimum tangible capital requirement. At December 31, 2001, the Bank was in full compliance with all applicable capital requirements and met the FDIC requirements for a "well capitalized" institution. See Note 13 of Notes to Consolidated Financial Statements contained elsewhere within this report for further information concerning capital.

The following tables summarize Webster's contractual obligations and commercial commitments as of December 31, 2001 (dollars in thousands).

	Payments Due by Period				
Contractual Obligations:	Total	Less than one year	1-3 years	3-5 years	After 5 years
FHLB advances	$ 2,531,976	883,000	943,760	155,360	549,856
Other borrowed funds	1,002,185	670,755	96,570	108,860	126,000
Operating leases	70,164	12,200	20,471	12,218	25,275
Total contractual cash obligations	$ 3,604,325	1,565,955	1,060,801	276,438	701,131

	Amount of Commitment Expirations Per Period				
Commercial Commitments:	Total amounts committed	Less than one year	1-3 years	3-5 years	After 5 years
Lines of credit	$ 600,264	204,752	199,786	131,096	64,630
Standby letters of credit	61,294	51,463	8,443	138	1,250
Other commercial commitment	138,693	138,693	—	—	—
Total commercial commitments	$ 800,251	394,908	208,229	131,234	65,880

ASSET/LIABILITY MANAGEMENT AND MARKET RISK

Market risk consists of interest rate risk, foreign currency risk, commodity price risk and equity price risk. Webster's primary market risk is interest rate risk.

Interest rate risk can be defined as (1) the sensitivity of the economic value of Webster's assets less the economic value of its liabilities and off-balance sheet contracts ("equity at risk") and (2) the sensitivity of Webster's earnings to changes in interest rates ("earnings at risk"). Both types of risk measure a change in value for given changes in interest rates. Equity at risk analyzes sensitivity in the present value of cash flows over the expected life of the Bank's 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 Bank's current balance sheet. Key assumptions relate to the behavior of interest rates and spreads, asset prepayment speeds and decay rates on deposits. Earnings at risk analyzes sensitivity in net income after tax over a twelve-month horizon. It uses the same assumptions as equity at risk on the existing balance sheet, but also includes balance sheet growth assumptions over the next twelve months. It is a measure of short-term interest rate risk to reported earnings of the Bank. Webster believes that an effective asset/liability management process must balance the risks and rewards from both long and short-term interest rate risk 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 economic value and net income over time in changing interest rate environments subject to Board of Director approved limits. The Board approves limits for both equity and earnings at risk for parallel shocks in interest rates of plus and minus 100 and 200 basis points. Webster also regularly analyzes rate shocks of 300 basis points as well as ad hoc scenarios for specific economic scenarios. Equity and earnings at risk are quantified using simulation software from one of the leading firms in the field of Asset/Liability modeling. From such simulations, interest rate risk is quantified and appropriate strategies are formulated and implemented.

The 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 and derives forward rates for future months. Using interest rate swap option volatilities as inputs, the model creates multiple rate paths for this scenario with the forward rates as the mean. In the 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 interest rate path using product specific prepayment models and account specific system data for properties such as maturity date, amortization type, coupon rate and repricing date. The Asset/Liability simulation software is enhanced with a mortgage prepayment model and a Collateralized Mortgage Obligation database provided by two other leading financial software companies. 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 cashflow modeling approach to more accurately quantify value and risk. On the asset side, Webster's risk is impacted the most by a large amount of residential 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 the option to add or withdraw funds from their accounts at any time. The Bank also has the option to change the interest rate paid on these deposits at any time.

Webster has three main tools for managing interest rate risk: (1) the size and duration of the investment portfolio, (2) the size and duration of the wholesale funding portfolio and (3) the pricing and structure of its 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 Bank's 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.

To a limited degree, various interest rate contracts including futures and options, interest rate swaps and interest rate caps and floors may be utilized to manage interest rate risk by reducing net exposures. These interest rate financial instruments involve, to varying degrees, credit risk and interest rate risk. Credit risk is the possibility that a loss may occur if a counterparty to a transaction fails to perform according to the terms of the contract. The notional amount of interest rate financial instruments is the amount upon which interest and other payments under the contract are based. The notional amount is not exchanged and therefore, the notional amounts should not be taken as a measure of credit risk. See Notes 3 and 10 of Notes to Consolidated Financial Statements contained elsewhere within this report for additional information.

Futures and options positions and interest rate contracts may also be utilized to minimize the price volatility of certain assets held as trading securities. Changes in the market value of these positions are recognized in the Consolidated Statements of Income in the period for which the change occurred.

The following table summarizes the estimated increase (decrease) in Webster's economic value of Webster's assets, liabilities and off-balance sheet contracts, its equity at risk, at December 31, 2001 and 2000, and the projected change to economic values, if interest rates instantaneously increase or decrease by 100 basis points.

			Estimated Market Value Change	
(Dollars in thousands)	Book Value	Market Value	-100 BP	+100 BP
2001				
Assets	$ 11,857,382	11,614,903	233,981	(286,658)
Liabilities	10,850,915	10,786,867	241,037	(184,241)
Net dollar impact			(7,056)	(102,417)
Net change as percent of Tier I Capital			(0.9)%	(12.3)
2000				
Assets	$ 11,249,508	10,988,859	195,364	(236,007)
Liabilities	10,359,134	10,189,291	175,746	(165,869)
Off-Balance sheet contracts	3,192	3,192	(1,334)	2,806
Net dollar impact			18,284	(67,332)
Net change as percent of Tier I Capital			2.7%	(9.8)

The book value of assets exceeded the market value at December 31, 2001 and 2000 because the equity at risk model assigns no value to goodwill and other intangible assets, which totaled $320.1 million and $326.1 million, respectively. The above table includes interest-earning assets that are not directly impacted by changes in interest rates. The assets include equity securities of $169.9 million at December 31, 2001 and $175.7 million at December 31, 2000. The equity securities include $126.6 million of FHLB stock, $5.4 million of preferred stock and $37.9 million in common stock at December 31, 2001. 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 the valuation of the servicing rights.

The following table summarizes the estimated increase (decrease) in Webster's net income for the twelve month period beginning at December 31, 2001 and 2000, if interest rates instantaneously increase or decrease by 100 basis points.

	Estimated Net Income Impact	
(Dollars in thousands)	-100 BP	+100 BP
2001		
Net dollar change	$ 595	(2,300)
Net change as percent of base	0.4%	(1.5)
2000		
Net dollar change	$ 1,540	(8,413)
Net change as percent of base	1.2%	(6.3)

These estimates assume that management does not take any action to mitigate any negative effects from changing interest rates. The economic values and net income estimates are subject to factors that could cause actual results to differ. Management believes that Webster's interest rate risk position at December 31, 2001 represents a reasonable level of risk.

FINANCIAL CONDITION

At December 31, 2001, total assets were $11.9 billion, an increase of $607.9 million, or 5.4%, as compared to total assets of $11.2 billion at December 31, 2000. The increase in total assets for the current year period was primarily due to an increase in investment securities of $594.1 million as compared to December 31, 2000. Total liabilities increased $531.8 million for the current year period primarily due to increases in deposits and borrowings of $85.3 million and $503.1 million, respectively. Total equity at December 31, 2001 was $1.0 billion, a $116.1 million increase from $890.4 million at December 31, 2000.

Securities increased by $594.1 million, or 17.4%, to $4.0 billion at December 31, 2001. As mortgage loans prepaid at accelerated speeds due to the low interest rate environment during 2001, Webster invested more of its available funds in its securities portfolio. These additional investments were primarily mortgage-related securities, as their balance rose to $3.6 billion at December 31, 2001 from $2.8 billion, an increase of 26.4%.

Loans receivable, net increased $50.7 million, or 0.7%, to $6.9 billion at December 31, 2001. While the net balance increased slightly, Webster made progress in achieving its strategic plan for the loan portfolio. The plan called for an increase in the percentage of outstanding commercial and consumer loans, while lessening the reliance on residential mortgage lending. Residential mortgage decreased to 51.4% of net loans at December 31, 2001 from 60.8% a year earlier. Commercial and consumer loans increased to 34.1% and 15.9%, respectively, from 30.3% and 10.3%, respectively, a year earlier.

Deposits increased $85.3 million, or 1.2%, to $7.1 billion at December 31, 2001. Deposits also reflected the success of Webster's strategic plan. The increase occurred entirely in the lower cost, non-maturity deposits, as demand deposits, NOW accounts, regular savings and money market deposits increased by $579.5 million, or 16.3% while higher cost certificates of deposit decreased by $494.2 million, or 14.4%. Certificates of deposit decreased as a percentage of total deposits to 41.4% at December 31, 2001 from 49.0% a year earlier. As a result of the combined effects of the decrease in interest rates during 2001 and the migration of deposits to lower cost, non-maturity deposits, the weighted average interest rate dropped to 2.40% at December 31, 2001 from 3.34% a year earlier.

Total borrowings increased $503.1 million, or 16.6%, to $3.5 billion at December 31, 2001. Due to the current low interest rate environment, a portion of the borrowings portfolio was extended to lock in the then current lower rates. During 2001, $1.4 billion of FHLB advances outstanding at December 31, 2000 matured. New borrowings consisted of approximately $800 million refinanced into advances due within one year, while $550 million were refinanced into advances which mature within 3 years, $50 million within 5 years and $100 million within 2 years. The lengthening effect of these transactions should reduce, to some extent, the volatility of borrowing costs over the short term.

Total shareholders' equity increased to over $1 billion for the first time during 2001, ending the year at $1.0 billion, an increase of $116.1 million or 13.0%. The major components contributing to this increase were undistributed net income of $100.2 million and the unrealized net increase in the value of available for sale securities, net of taxes, of $16.7 million.

Asset Quality

The slowdown in economic growth that began in 2001 had an impact on the Company's business during the year. The increases in nonperforming assets, past due loans, classified loans and charge-offs levels are reflective of the general slowdown in business activity. Management, as a result of its quarterly review of the loan portfolios, increased the loan loss provision in the second half of the year in recognition of these risk factors. The level of the overall loan loss allowance has been increased to 1.40% of gross loans at year end. Management believes the level of the allowance at December 31, 2001 is adequate for the level of risks in the portfolio.

Nonperforming assets, classified assets, loan delinquency and credit losses are considered by Webster 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 loan losses. See "Allowance for Loan Losses" contained elsewhere within this section for further information on the allowance.

Nonperforming Assets

Webster devotes significant attention to maintaining asset quality through conservative underwriting standards, active servicing of loans and aggressively managing nonperforming assets. Nonperforming assets, which include nonaccrual loans, loans past due 90 days or more and accruing and foreclosed properties were $62.5 million and $44.3 million at December 31, 2001 and 2000, respectively. The aggregate amount of nonperforming assets increased as a percentage of total assets to .53% at December 31, 2001 from .39% at December 31, 2000.

Nonaccrual loans were $57.4 million at December 31, 2001, compared to $41.0 million at December 31, 2000. The ratio of nonaccrual loans to gross loans was .82% and .58% at December 31, 2001 and 2000, respectively. The allowance for loan losses at December 31, 2001 was $97.3 million and represented 170% of nonaccrual loans and 1.40% of total loans. The allowance for loan losses at December 31, 2000 was $90.8 million and represented 221% of nonaccrual loans and 1.31% of total loans. Interest on nonaccrual loans that would have been recorded as additional income for the years ended December 31, 2001, 2000 and 1999 had the loans been current in accordance with their original terms approximated $3.9 million, $3.6 million, and $3.0 million, respectively. See Note 1 of Notes to Consolidated Financial Statements contained elsewhere within this report for information concerning Webster's nonaccrual loan policy.

The increase in nonaccrual loans of $16.4 million, or 39.9%, was due entirely to an increase in commercial nonaccrual loans, while declines occurred in each of the other loan categories. The increase in commercial nonaccruals resulted from the addition of $7.3 million of nonaccruing leases from Center Capital, which was purchased in March 2001, one commercial middle market credit of $8.0 million and one specialized lending unit loan of $5.4 million. The increase in nonaccruals at Center Capital is comprised of 230 loans, distributing the potential for loss over many customers. In addition to the equipment collateral, the Company generally obtains personal guarantees, where possible, and its net charge-offs ratio for the past three years has averaged 0.20%.

The following table details Webster's nonperforming assets for the last five years.

	At December 31,				
(In thousands)	**2001**	**2000**	**1999**	**1998**	**1997**
Loans accounted for on a nonaccrual basis:					
Residential	$ 7,677	8,842	11,490	12,418	34,731
Commercial	47,916	29,868	25,722	16,449	13,626
Consumer	1,823	2,324	1,182	1,852	3,624
Total nonaccrual loans	57,416	41,034	38,394	30,719	51,981
Loans past due 90 days or more and accruing:					
Commercial	—	—	698	1,209	1,060
Foreclosed Properties:					
Residential and consumer	2,504	2,284	2,698	1,715	8,804
Commercial	2,534	1,011	2,210	3,447	6,335
Total foreclosed property	5,038	3,295	4,908	5,162	15,139
Total nonperforming assets	$ 62,454	44,329	44,000	37,090	68,180

It is Webster's policy that all loans 90 or more days past due are placed in nonaccruing status. Occasionally, there are circumstances that cause loans to be placed in the 90 days and accruing category, for example, a matured loan that will be renewed, or the timing of proper file documentation to effect the nonaccrual change.

Troubled Debt Restructures

The following accruing loans are considered troubled debt restructurings consistent with SFAS 15. A modification of terms constitutes a troubled debt restructuring if the Bank, for reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider.

	At December 31,				
(In thousands)	**2001**	**2000**	**1999**	**1998**	**1997**
Residential	$ 1,262	1,588	1,273	4,649	4,500
Commercial real estate	3,767	3,842	4,033	—	—
Commercial	—	—	33	4,258	4,678
Consumer	204	32	564	2,089	2,100
Total	$ 5,233	5,462	5,903	10,996	11,278

Other Past Due Loans

The following table sets forth information as to the Bank's loans past due 30–89 days.

	December 31,									
	2001		**2000**		**1999**		**1998**		**1997**	
(Dollars in thousands)	Principal Balances	Percent of loans outstanding	Principal Balances	Percent of loans outstanding	Principal Balances	Percent of loans outstanding	Principal Balances	Percent of loans outstanding	Principal Balances	Percent of loans outstanding
Residential	$ 18,359	0.26%	20,974	0.30	20,499	0.34	26,727	0.48	31,479	0.56
Commercial real estate	22,973	0.33	16,101	0.23	11,865	0.19	12,369	0.22	8,686	0.16
Commercial	16,286	0.23	10,883	0.16	7,104	0.12	5,613	0.10	4,061	0.07
Consumer	5,260	0.08	6,135	0.09	4,746	0.08	6,873	0.13	6,466	0.12
Total	$ 62,878	0.90%	54,093	0.78	44,214	0.73	51,582	0.93	50,692	0.91

Classified Loans

Under the Bank's problem loan classification system, problem loans are classified as substandard, doubtful or loss (collectively classified loans), depending on the presence of certain characteristics. A loan is considered substandard if, in the opinion of management, there are potential deficiencies which could result in the loan becoming inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. Substandard loans include those characterized by the distinct possibility that the institution could sustain some loss if the deficiencies are not corrected. Loans classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses that are present make collection or liquidation in full on the basis of currently existing facts, conditions and values, highly questionable and improbable. Loans classified as loss are those considered uncollectible and of such little value that to continue to report them as loans without the establishment of a specific loss reserve is not warranted. The Bank's loan classification system is consistent with the classification system prescribed by the OTS.

When loans are classified as either substandard or doubtful, a portion of the allowance for loan losses in an amount deemed prudent by management is allocated as either a specific reserve or a general reserve against such loans. Specific reserves represent an allocation of the allowance against specific credits where a deficiency in collateral value or cash flow exists. See Note 4 of Notes to Consolidated Financial Statements included elsewhere in this report for additional information, including the recognition of cash basis interest income. All other substandard or doubtful loans receive an allocation of a general reserve. General reserves represent a portion of the allowance for loan losses which has been allocated to recognize the inherent risk associated with these loans. When loans are classified as loss, a specific allowance for the loss is established equal to 100% of the amount of the loan and a charge-off is subsequently taken for such amount. An institution's determination as to the classification of its loans and the amount of its allocated reserves is subject to review by the OTS, which can require the establishment of additional reserves if in disagreement with the institution.

The following table summarizes Webster's classified loans (substandard, doubtful and loss), including nonperforming loans at December 31, 2001 and 2000.

			Commercial			
	Total	Residential	Business Banking*	Specialized	CRE	Consumer
December 31, 2001						
Substandard:						
Accruing	$ 88,397	1,872	41,751	44,482	—	292
Nonaccruing	47,846	7,677	32,693	5,548	275	1,653
Total substandard	136,243	9,549	74,444	50,030	275	1,945
Doubtful:						
Accruing	66	54	—	—	—	12
Nonaccruing	4,464	—	895	3,399	—	170
Total doubtful	4,530	54	895	3,399	—	182
Loss	—	—	—	—	—	—
Total	$ 140,773	9,603	75,339	53,429	275	2,127
Classified as a percent of loans	2.0%	0.3	7.9	13.0	—	0.2

			Commercial			
	Total	Residential	Business Banking	Specialized	CRE	Consumer
December 31, 2000						
Substandard:						
Accruing	$ 29,448	1,912	27,015	—	516	5
Nonaccruing	34,911	8,842	24,038	—	—	2,031
Total substandard	64,359	10,754	51,053	—	516	2,036
Doubtful:						
Accruing	60	55	—	—	—	5
Nonaccruing	6,071	—	663	5,167	—	241
Total doubtful	6,131	55	663	5,167	—	246
Loss	—	—	—	—	—	—
Total	$ 70,490	10,809	51,716	5,167	516	2,282
Classified as a percent of loans	1.0%	0.3	6.7	1.2	0.1	0.3

* Includes Middle Market, Small Business Banking and Lease Financing.

The increase of $70.3 million in classified loans can generally be attributed to the impact of the slowdown in the economy during the year. This increase occurred primarily in two portfolios; a $48.3 million increase in classified Specialized loans, $44.5 accruing interest, and of the $23.6 million increase in classified Business Banking loans, $14.7 are accruing interest. Improvements were achieved in the Residential, Consumer and CRE portfolios. Classified loans as a percent of total loans increased to 2.0% from 1.0% the prior year. Classified as a percentage of loans in the Specialized portfolio increased to 13.0% at December 31, 2001 from 1.2% at December 31, 2000 due to the national economic slowdown. Business Banking loans increased to 7.9% from 6.7% the prior year.

Because Webster believes that early identification and management of problem loans serves to minimize future losses, it employs a rigorous portfolio review and management process, which identifies deteriorating credit risk and proactively manages problem loans. For example, of the $44.5 million in the Specialized portfolio classified as substandard and accruing, $31.1 million were not classified as such by SNCP. At December 31, 2001, $52.3 million of nonperforming loans (excluding accruing troubled debt restructurings) were included in the classified loan total. The remaining classified loans of $88.5 million continued to perform in accordance with their contractual terms and to accrue interest. Under the definition of substandard above, these loans are considered by management to be potential problem loans.

Allowance for Loan Losses

Methodology

The allowance for loan losses is maintained at a level estimated by management to provide adequately for probable losses inherent in the loan portfolio. 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 loan losses. In assessing the specific risks inherent in the portfolio, management takes into consideration the risk of loss on nonaccrual loans, classified loans and watch list loans including an analysis of the collateral for such loans. The allowance for loan losses at December 31, 2001 and 2000 totaled $97.3 million and $90.8 million, respectively. Management believes that the allowance for loan losses at December 31, 2001 is adequate to cover expected losses inherent in the loan portfolio.

Management considers the adequacy of the allowance for loan losses a critical accounting policy, consistent with the SEC's financial release concerning critical accounting policies. As such, the adequacy of allowance for loan losses is subject to judgement in its determination. Actual loan losses could differ materially from management's calculation if actual loss factors and conditions differ significantly from the assumptions utilized by management. These factors and conditions include the general economic conditions within Connecticut 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 loan losses is adequate as of December 31, 2001, actual results may prove different and these differences could be significant.

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 a periodic basis to detect specific probable losses. Webster collects industry delinquency, nonaccrual and loss data for the same portfolio segments for comparison purposes.

Webster analyzes the data and estimates probable losses in the portfolio 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 and certain unused commitments, 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 factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. Webster considers the following 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, cure 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 future probable losses.

Allowance for Loan Losses

At December 31, 2001, Webster's allowance for loan losses was $97.3 million, or 1.4% of the total loan portfolio, and 169% of total nonaccrual loans. This compares with an allowance for loan losses of $90.8 million or 1.3% of the total loan portfolio, and 221% of total nonaccrual loans at December 31, 2000.

Net charge-offs for 2001 totaled $9.7 million as compared to $4.6 million for 2000 reflecting an increase in net charge-offs of $5.1 million, for the current period. The increase was primarily the result of commercial and industrial net charge-offs being $5.5 million higher for 2001. The increase is primarily due to $3.3 million of specialized lending charge-offs and $2.0 million of commercial loan charge-offs. Three loan relationships accounted for $3.7 million of the overall increase.

Management performs its review of the loan portfolio, loan loss allowance and considers various factors when determining the adequacy of the allowance. This review included the specialized lending portfolio and the additional risks inherent in this portfolio. Based upon this review, management believes that the allowance for loan losses at December 31, 2001 is adequate to cover probable losses in the loan portfolio.

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

	For the years ended December 31,				
(Dollars in thousands)	**2001**	**2000**	**1999**	**1998**	**1997**
Balance at beginning of period	$ 90,809	72,658	65,201	71,599	63,047
Allowances from purchase transactions	1,851	10,980	3,647	—	2,108
Reclassification of allowance for segregated asset losses	—	—	—	2,623	—
Provisions charged to operations	14,400	11,800	9,000	8,103	26,449
Subtotal	107,060	95,438	77,848	82,325	91,604
Charge-offs:					
Residential	(1,096)	(1,583)	(3,246)	(13,662)	(16,281)
Commercial	(8,978)	(3,781)	(2,376)	(2,644)	(5,446)
Commercial real estate (a)	—	—	—	(1,400)	(593)
Consumer	(1,501)	(1,452)	(1,784)	(3,556)	(4,305)
	(11,575)	(6,816)	(7,406)	(21,262)	(26,625)
Recoveries:					
Residential	333	372	838	1,081	4,368
Commercial	1,267	1,571	1,079	2,755	1,697
Commercial real estate (a)	—	—	—	—	—
Consumer	222	244	299	302	555
Net charge-offs	(9,753)	(4,629)	(5,190)	(17,124)	(20,005)
Balance at end of period	$ 97,307	90,809	72,658	65,201	71,599

The ratio of net charge-offs to average loans outstanding for the last five years follows:

	For the years ended December 31,				
	2001	**2000**	**1999**	**1998**	**1997**
Residential	0.02%	0.03	0.06	0.31	0.30
Commercial	0.58	0.21	0.21	0.43	1.21
Consumer	0.16	0.19	0.28	0.57	0.64
Total	0.14%	0.07	0.09	0.32	0.37

(a) All small business loans, both commercial and commercial real estate, are considered commercial for purposes of charge-offs and recoveries.

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

	At December 31,									
	2001		2000		1999		1998		1997	
(Dollars in thousands)	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans
Allowance for loan losses at end of period applicable to:										
Residential mortgage	$ 17,614	50.67%	18,321	60.01	25,196	63.97	23,237	69.64	30,635	72.09
Commercial real estate	22,894	13.99	20,865	12.40	20,630	12.16	22,309	11.06	17,702	10.52
Commercial loans	47,390	19.63	43,798	17.48	20,566	15.01	13,430	9.85	12,096	6.61
Consumer loans	9,409	15.71	7,825	10.11	6,266	8.86	6,225	9.45	11,166	10.78
Total	$ 97,307	100.00%	90,809	100.00	72,658	100.00	65,201	100.00	71,599	100.00

IMPACT OF INFLATION AND CHANGING PRICES

The financial statements and related data presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America, 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.

RECENT FINANCIAL ACCOUNTING STANDARDS

On October 3, 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS" or "Statement") No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*." This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement supersedes SFAS No. 121 "*Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*." This Statement also supersedes the accounting and reporting provisions of APB Opinion No. 30 "*Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions.*" The Statement changes financial reporting by requiring that one accounting model be used for long-lived assets to be disposed of by broadening the presentation of discontinued operations to include more disposal transactions. This Statement is effective for financial statements issued for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. The provisions of this Statement are to be applied prospectively. Webster does not expect any material impact on its financial statements when this Statement is adopted.

On August 16, 2001, the FASB issued SFAS No. 143, "*Accounting for Asset Retirement Obligations*". Statement 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Statement 143 applies to all entities. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. Under this Statement, the liability is discounted and the accretion expense is recognized using the credit-adjusted risk-free interest rate in effect when the liability was initially recognized. The FASB issued this Statement to provide consistency for the accounting and reporting of liabilities associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. Earlier application is permitted. Webster does not expect any material impact on its financial statements when this Statement is adopted.

In July 2001, the FASB issued SFAS No. 141, "*Business Combinations,*" and SFAS No. 142, "*Goodwill and Other Intangible Assets.*" Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. Statement 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. Statement 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, "*Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.*"

Currently, the FASB has stated that the unidentifiable intangible asset acquired in the acquisition of a bank or thrift (including acquisitions of branches), where the fair value of the liabilities assumed exceeds the fair value of the assets acquired, should continue to be accounted for under SFAS No. 72, "Accounting for Certain Acquisitions of Banking or Thrift Institutions." Under Statement 72, all of the intangible assets associated with branch acquisitions recorded on the Company's consolidated balance sheet as of December 31, 2001 would continue to be amortized, as in prior periods. The FASB has announced that additional research will be performed to decide whether unidentifiable intangible assets recorded under Statement 72 should be accounted for similarly to goodwill under Statement 142. However, issuance of a final opinion with respect to this matter is not expected until the fourth quarter of 2002.

Webster adopted the provisions of Statement 141 effective July 1, 2001 and such adoption did not have an impact on the consolidated financial statements. Webster is required to adopt the provisions of Statement 142 effective January 1, 2002. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 continues to be amortized prior to the adoption of Statement 142.

Statement 141 requires, upon adoption of Statement 142, a company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in Statement 141 for recognition apart from goodwill. Upon adoption of Statement 142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of Statement 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with Statement 142's transitional goodwill impairment evaluation, the Statement will require the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this, the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Company will then have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, an indication exists that the reporting unit goodwill may be impaired and the Company must perform the second step of the transitional impairment test. In the second step, the Company must compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill, both of which would be measured as of the date of adoption. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation, in accordance with Statement 141. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of income. Finally, any unamortized negative goodwill existing at the date Statement 142 is adopted must be taken into income as the cumulative effect of a change in accounting principle.

As of the date of adoption, Webster expects to have unamortized goodwill in the amount of $222.7 million, unamortized identifiable intangible assets in the amount of $76.2 million, unamortized unidentifiable intangible assets subject to the provisions of Statement 72 of $20.3 million, all of which will be subject to the transition provisions of Statements 141 and 142. For the year ended December 31, 2001, amortization expense related to goodwill was $14.0 million, to identifiable intangibles was $16.1 million and to Statement 72 unidentifiable intangible assets was $1.1 million. While our transitional impairment analysis is not complete, management does not expect any significant transitional impairment losses. Absent any impairment losses, it is estimated at this time that diluted earnings per share for the 2002 fiscal year will be favorably impacted by approximately $.28 per share due to the cessation of amortization of goodwill. Impairment losses, if any, whether transitional or subsequent to adoption of Statement 142, may offset some or all of this favorable impact. Identifiable intangibles, such as core deposit intangibles, have continued to be amortized and recognized as an expense.

TAXATION

Deferred Tax Asset, net

At December 31, 2001, Webster's net deferred tax asset approximated $33.2 million, including a valuation allowance of approximately $11.0 million for state tax benefits that, in management's current estimate, will not be realized. Management believes that Webster will generate sufficient taxable income in future years to fully realize the net deferred tax asset, however, there can be no absolute assurance that Webster will generate any specific level of future taxable income. The Company has sufficient taxable income currently and in carryback periods to expect full realization of its net deferred tax asset.

Management considers the valuation allowance for deferred tax assets to be a critical accounting policy, consistent with the SEC's financial release on critical accounting policies. As such, the determination of the valuation allowance for deferred tax assets is subject to judgement. The actual realization of the assets could differ materially from that recognized in the consolidated financial statements if actual factors and conditions differ from those used by management. These factors and conditions include federal and state tax laws and regulations and future levels of Webster taxable income.

Federal Income Tax Legislation

Certain legislation enacted during August 1996: 1) eliminated the "thrift bad debt" method of calculating bad debt deductions after 1995; 2) required the recapture (into taxable income) of certain post-1987 bad debt reserves; and 3) provided for more limited circumstances in which certain pre-1988 bad debt reserves would be recaptured. Webster had previously recorded a deferred tax liability for the post-1987 reserves, and its total tax expense for financial reporting purposes was not affected by the legislation. Webster's pre-1988 reserves at both December 31, 2001 and 2000 were approximately $50.0 million, and it does not expect such reserves to be recaptured into taxable income.

State Income Tax Legislation

During May 1998, the State of Connecticut enacted tax legislation (effective in 1999) allowing for the formation of a Passive Investment Company ("PIC") by a financial service company ("FSC"). The legislation exempts a PIC from Connecticut taxation and also exempts dividends paid from a PIC to a related, qualified FSC from Connecticut tax. Webster Bank, a qualified FSC under the legislation, organized a PIC that began operation during the first quarter of 1999. The PIC reduced Webster's Connecticut tax expense beginning with tax year 1999 and a deferred tax charge was taken in 1998 as a result of its formation.

FORWARD LOOKING STATEMENTS

This Annual Report contains forward-looking statements within the meaning of the Securities and Exchange Act of 1934, as amended. Actual results could differ materially from 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," on pages 29 through 31 under the caption "Asset/Liability Management and Market Risk".

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Pages F-1 through F-43 contained within this report.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

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

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

(a)(3) The exhibits listed on the Exhibit Index page of this Annual Report are either filed as part of this Report or are incorporated herein by reference; references to First Federal Bank now mean Webster Bank:

EXHIBIT INDEX

Exhibit No.	Exhibit Description
Exhibit No. 3.	Certificate of Incorporation and Bylaws.
3.1	Second Restated Certificate of Incorporation (filed as Exhibit 3.1 to the Corporation's Annual Report on Form 10-K filed within the SEC on March 29, 2000 and incorporated herein by reference).
3.2	Certificate of Amendment (filed as Exhibit 3.2 to the Corporation's Annual Report on Form 10-K filed with the SEC on March 29, 2000 and incorporated herein by reference).
3.3	Bylaws, as amended (filed as Exhibit 3 to the Corporation's Registration Statement on Form S-8 filed with the SEC on July 25, 2000 and incorporated herein by reference).
Exhibit No. 4	Instruments Defining the Rights of Security Holders.
4.1	Specimen common stock certificate (filed as Exhibit 4.1 to the Corporation's Registration Statement on Form S-3 (File No. 333-81563) filed with the SEC on June 25, 1999 and incorporated herein by reference).
4.2	Rights Agreement, dated as of February 5, 1996, between the Corporation and Chemical Mellon Shareholder Services, L.L.C. (filed as Exhibit 1 to the Corporation's Current Report on Form 8-K filed with the SEC on February 12, 1996 and incorporated herein by reference).
4.3	Amendment No. 1 to Rights Agreement, entered into as of November 4, 1996, by and between the Corporation and ChaseMellon Shareholder Services, L.L.C. (filed as an exhibit to the Corporation's Current Report on Form 8-K filed with the SEC on November 25, 1996 and incorporated herein by reference).
4.4	Amendment No. 2 to Rights Agreement, entered into as of October 30, 1998, between the Corporation and American Stock Transfer & Trust Company (filed as Exhibit 1 to the Corporation's Current Report on Form 8-K filed with the SEC on October 30, 1998 and incorporated herein by reference).

Exhibit No. 10. Material Contracts.

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

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

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

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

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

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

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

10.8 Amended and Restated 1992 Stock Option Plan (filed as Exhibit 99.2 to the Corporation's Registration Statement on Form S-8, filed with the SEC on August 8, 2001 and incorporated herein by reference).

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

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

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

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

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

10.14 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).

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

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

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

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

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

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

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

10.22 Employment Agreement, dated as of January 1, 1998, among William T. Bromage, the Corporation and Webster Bank (filed as Schedule 10.27 to Exhibit 10.27 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and incorporated herein by reference).

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

10.24 Employment Agreement, dated as of January 1, 1998, among Ross M. Strickland, the Corporation and Webster Bank (filed as Schedule 10.27 to Exhibit 10.27 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and incorporated herein by reference).

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

10.26 Amendment to Employment Agreement, entered into as of March 17, 1998, by and among Webster Bank, the Corporation and William T. Bromage (filed as Schedule 10.28 to Exhibit 10.28 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and incorporated herein by reference).

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

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

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

10.30 Change of Control Employment Agreement, dated as of December 15, 1997, by and between the Corporation and William T. Bromage (filed as Schedule 10.29 to Exhibit 10.29 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and incorporated herein by reference).

10.31 Change of Control Employment Agreement, dated as of December 15, 1997, by and between the Corporation and Peter K. Mulligan (filed as Schedule 10.29 to Exhibit 10.29 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and incorporated herein by reference).

10.32 Change of Control Employment Agreement, dated as of December 15, 1997, by and between the Corporation and Ross M. Strickland (filed as Schedule 10.29 to Exhibit 10.29 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and incorporated herein by reference).

10.33 Employment Agreement, dated as of March 30, 2001, among William J. Healy, the Corporation and Webster Bank (filed as Exhibit 10.1 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 30, 2001 and incorporated herein by reference).

10.34 Change of Control Employment Agreement, dated as of March 30, 2001, by and between Webster Financial Corporation and William J. Healy (filed as Exhibit 10.2 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 30, 2001 and incorporated herein by reference).

10.35 Purchase and Assumption Agreement, dated as of October 2, 1992, among the Federal Deposit Insurance Corporation (the "FDIC"), in its corporate capacity as receiver of First Constitution Bank, the FDIC and First Federal Bank (filed as Exhibit 2 to the Corporation's Current Report on Form 8-K filed with the SEC on October 19, 1992 and incorporated herein by reference).

10.36 Amendment No. 1 to Purchase and Assumption Agreement, made as of August 8, 1994, by and between the FDIC, the FDIC as receiver of First Constitution Bank, and First Federal Bank (filed as Exhibit 10.36 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1994 and incorporated herein by reference).

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

10.38 Junior Subordinated Indenture, dated as of January 29, 1997 between the Corporation and The Bank of New York, as trustee, relating to the Corporation's Junior Subordinated Deferrable Interest Debentures (filed as Exhibit 10.41 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 and incorporated herein by reference).

Exhibit No. 21 Subsidiaries.

Exhibit No. 23 Consent of KPMG LLP

(b) Reports on Form 8-K
No reports were filed for the fourth quarter period ending December 31, 2001.

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

(d) Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, as of March 8, 2002.

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 as of March 8, 2002.

Name:	Title:
/s/ James C. Smith James C. Smith	Chairman and Chief Executive Officer (Principal Executive Officer)
/s/ William J. Healy William J. Healy	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Achille A. Apicella Achille A. Apicella	Director
/s/ Joel S. Becker Joel S. Becker	Director
/s/ O. Joseph Bizzozero, Jr. O. Joseph Bizzozero, Jr.	Director
/s/ William T. Bromage William T. Bromage	President and Director

/s/ George T. Carpenter George T. Carpenter	Director
/s/ John J. Crawford John J. Crawford	Director
/s/ Robert A. Finkenzeller Robert A. Finkenzeller	Director
/s/ Edgar C. Gerwig Edgar C. Gerwig	Director
/s/ C. Michael Jacobi C. Michael Jacobi	Director
/s/ John F. McCarthy John F. McCarthy	Director
/s/ Michael G. Morris Michael G. Morris	Director
/s/ Sister Marguerite F. Waite Sister Marguerite F. Waite	Director

SUBSIDIARIES

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

WEBSTER SUBSIDIARIES

Name of Subsidiary	Jurisdiction of Organization	Names under which the Subsidiary Does Business
Webster Bank	United States	same
Webster Capital Trust I	Delaware	same
Webster Capital Trust II	Delaware	same
Webster Capital Trust III	Delaware	same
Webster D&P Holdings, Inc.	Delaware	Duff & Phelps
Damman Associates, Inc.	Connecticut	Damman Insurance Associates; Webster Insurance

Consent of Independent Auditors

The Board of Directors
Webster Financial Corporation

We consent to the incorporation by reference in the registration statements (Nos. 33-13244, 33-38286, 333-37530, 333-88021, 333-33228, 333-71141, 333-71983 and 333-48548) on Forms S-8 and the registration statements (Nos. 33-63967, 33-65428, 333-37714, 333-81563, 333-71707, 333-67074 and 333-60656) on Form S-3 of Webster Financial Corporation of our report dated January 22, 2002, relating to the Consolidated Statements of Condition of Webster Financial Corporation and subsidiaries as of December 31, 2001 and 2000, and the related Consolidated Statements of Income, Comprehensive Income, Shareholders' Equity and Cash Flows for each of the years in the three-year period ended December 31, 2001, which report appears in the December 31, 2001 annual report on Form 10-K of Webster Financial Corporation.

/s/ KPMG LLP

Hartford, Connecticut
March 20, 2002

WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS

Management's Report

To Our Shareholders:

The management of Webster is responsible for the integrity and objectivity of the financial and operating information contained in this annual report, including the Consolidated Financial Statements covered by the Independent Auditors' Report. These statements were prepared in conformity with accounting principles generally accepted in the United States of America and include amounts that are based on the best estimates and judgment of management.

Webster has internal controls which provide management with reasonable assurance that transactions are recorded and executed in accordance with its authorizations, that assets are properly safeguarded and accounted for, and that financial records are maintained so as to permit preparation of financial statements in accordance with generally accepted accounting principles. The internal control components include formal procedures, an organizational structure that segregates duties, and a comprehensive program of periodic audits by the internal auditors. Webster has also instituted policies which require employees to maintain the highest level of ethical standards.

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

/s/ James C. Smith

James C. Smith
Chairman and Chief Executive Officer

/s/ William J. Healy

William J. Healy
Executive Vice President and
Chief Financial Officer

Independent Auditors' Report

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

We have audited the accompanying consolidated statements of condition of Webster Financial Corporation and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Webster Financial Corporation and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

January 22, 2002
Hartford, Connecticut

WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share and per share data)	At December 31, **2001**	**2000**
Assets:		
Cash and due from depository institutions	$ 218,908	265,035
Interest-bearing deposits	35,937	1,751
Securities: (Notes 3 and 9)		
Trading, at fair value	—	6
Available for sale, at fair value	3,999,133	3,143,327
Held to maturity, (fair value: $248,215 in 2000)	—	261,747
Loans receivable, net (Notes 4 and 5)	6,869,911	6,819,209
Accrued interest receivable	54,288	69,733
Premises and equipment, net (Note 6)	82,808	94,263
Intangible assets	320,051	326,142
Cash surrender value of life insurance	163,023	174,295
Deferred tax asset, net	33,158	33,917
Prepaid expenses and other assets	80,165	60,083
Total assets	$ 11,857,382	11,249,508
Liabilities and Shareholders' Equity:		
Deposits (Note 7)	$ 7,066,471	6,981,128
Federal Home Loan Bank advances (Note 8)	2,531,179	2,380,074
Securities sold under agreement to repurchase and other borrowings (Note 9)	1,002,185	650,151
Accrued expenses and other liabilities	91,503	148,204
Total liabilities	10,691,338	10,159,557
Corporation-obligated mandatorily redeemable capital securities of subsidiary trusts (Note 18)	150,000	150,000
Preferred stock of subsidiary corporation (Note 19)	9,577	49,577
Commitments and contingencies (Notes 4, 5 and 20)	—	—
Shareholders' Equity: (Note 13)		
Common stock, $.01 par value:		
Authorized - 200,000,000 shares at December 31, 2001 and 2000;		
Issued – 49,502,742 shares at December 31, 2001 and 49,502,843 shares at December 31, 2000	495	495
Paid-in capital	415,194	416,334
Retained earnings	590,254	490,078
Less Treasury stock at cost, 353,325 shares at December 31, 2001 and 563,417 shares at December 31, 2000	(10,141)	(13,361)
Unearned compensation	(3,998)	(1,640)
Less employee stock ownership plan shares purchased with debt	(286)	(642)
Accumulated other comprehensive income (loss)	14,949	(890)
Total shareholders' equity	1,006,467	890,374
Total liabilities and shareholders' equity	$ 11,857,382	11,249,508

See accompanying Notes to Consolidated Financial Statements.

WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	Years ended December 31, 2001	2000	1999
Interest Income:			
Loans	$ 519,920	518,315	435,326
Securities and interest-bearing deposits	237,315	220,596	210,466
Total interest income	757,235	738,911	645,792
Interest Expense:			
Deposits (Note 7)	216,335	224,294	203,805
Borrowings	173,421	188,101	138,474
Total interest expense	389,756	412,395	342,279
Net interest income	367,479	326,516	303,513
Provision for loan losses (Note 5)	14,400	11,800	9,000
Net interest income after provision for loan losses	353,079	314,716	294,513
Noninterest Income:			
Fees and service charges	72,323	60,059	49,523
Insurance commissions	21,751	14,360	7,167
Trust and investment services	18,346	18,184	10,246
Financial advisory services	15,525	1,290	—
Gain on sale of loans and loan servicing, net	2,771	3,956	4,434
Increase in cash surrender value of life insurance	9,164	8,555	7,892
Gain on sale of securities, net (Note 3)	10,621	8,445	4,248
Gain on sale of deposits	—	4,859	—
Other income	11,597	9,113	9,120
Total noninterest income	162,098	128,821	92,630
Noninterest Expenses:			
Compensation and benefits	142,899	122,257	106,493
Occupancy	25,643	24,774	20,892
Furniture and equipment	27,878	26,302	22,302
Intangible amortization	31,227	22,400	13,780
Marketing	8,728	9,118	9,584
Professional services	8,516	7,399	9,144
Acquisition-related (Note 16)	—	—	9,500
Capital securities (Note 18)	14,462	14,323	14,645
Dividends on preferred stock of subsidiary corporation (Note 19)	985	4,151	4,151
Branch reconfiguration	3,703	—	—
Other expenses	44,891	36,406	33,970
Total noninterest expenses	308,932	267,130	244,461
Income before income taxes, extraordinary item and cumulative effect of change in accounting method	206,245	176,407	142,682
Income taxes (Note 12)	69,430	58,116	47,332
Income before extraordinary item and cumulative effect of change in accounting method	136,815	118,291	95,350
Extraordinary item – early extinguishment of debt (net of tax benefit of $596) (Note 8)	(1,209)	—	—
Cumulative effect of change in method of accounting (net of tax benefit of $1,196) (Note 10)	(2,418)	—	—
Net Income	$ 133,188	118,291	95,350
Net Income Per Common Share (Note 14):			
Basic	$ 2.71	2.58	2.14
Diluted	2.68	2.55	2.10

See accompanying Notes to Consolidated Financial Statements.

WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands, except per share data)	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Unearned Compen-sation	Employee Stock Ownership Plan Shares Purchased With Debt	Accumulated Other Compre-hensive Income (Loss)	Total
Balance, December 31, 1998	$ 457	308,790	325,805	(27,914)	—	(1,339)	20,655	626,454
Net income for 1999	—	—	95,350	—	—	—	—	95,350
Dividends paid:								
$.47 per common share	—	—	(17,532)	—	—	—	—	(17,532)
Cash dividends declared by pooled companies prior to mergers	—	—	(3,197)	—	—	—	—	(3,197)
Allocation of ESOP shares	—	348	—	—	—	212	—	560
Exercise of stock options	—	(3,130)	—	12,472	—	—	—	9,342
Common stock repurchased	—	—	—	(72,161)	—	—	—	(72,161)
Common stock issued in consideration for purchase acquisitions	(5)	(4,672)	—	84,456	—	—	—	79,779
Net unrealized loss on securities available for sale, net of taxes	—	—	—	—	—	—	(82,788)	(82,788)
Other, net	—	—	(13)	(127)	—	—	—	(140)
Balance, December 31, 1999	$ 452	301,336	400,413	(3,274)	—	(1,127)	(62,133)	635,667
Net income for 2000	—	—	118,291	—	—	—	—	118,291
Dividends paid:								
$.62 per common share	—	—	(28,645)	—	—	—	—	(28,645)
Allocation of ESOP shares	—	814	—	—	—	485	—	1,299
Exercise of stock options	9	13,299	—	—	—	—	—	13,308
Common stock repurchased	—	—	—	(110,797)	—	—	—	(110,797)
Consideration granted for purchase acquisitions	34	104,274	—	99,758	—	—	—	204,066
Restricted stock grants, net of amortization	—	(23)	(35)	952	(1,640)	—	—	(746)
Net unrealized gain on securities available for sale, net of taxes	—	—	—	—	—	—	61,243	61,243
Common stock retired for purchase acquisitions	—	(3,603)	—	—	—	—	—	(3,603)
Other, net	—	237	54	—	—	—	—	291
Balance, December 31, 2000	$ 495	416,334	490,078	(13,361)	(1,640)	(642)	(890)	890,374

See accompanying Notes to Consolidated Financial Statements.

WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (CONTINUED)

(In thousands, except per share data)	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Unearned Compen-sation	Employee Stock Ownership Plan Shares Purchased With Debt	Accumulated Other Compre-hensive Income (Loss)	Total
Net income for 2001	—	—	133,188	—	—	—	—	133,188
Dividends paid:								
$.67 per common share	—	—	(33,003)	—	—	—	—	(33,003)
Allocation of ESOP shares	—	440	—	—	—	356	—	796
Exercise of stock options	—	(2,961)	—	10,583	—	—	—	7,622
Common stock repurchased	—	—	—	(11,223)	—	—	—	(11,223)
Consideration granted for purchase acquisitions	—	221	—	1,181	—	—	—	1,402
Restricted stock grants, net of amortization	—	1,160	—	2,679	(2,358)	—	—	1,481
Net unrealized gain on securities available for sale, net of taxes	—	—	—	—	—	—	16,720	16,720
Additional minimum pension liability, net of tax	—	—	—	—	—	—	(881)	(881)
Other, net	—	—	(9)	—	—	—	—	(9)
Balance, December 31, 2001	$ 495	415,194	590,254	(10,141)	(3,998)	(286)	14,949	1,006,467

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years ended December 31,		
(In thousands)	**2001**	**2000**	**1999**
Net Income	$ 133,188	118,291	95,350
Other comprehensive income (loss), net of tax			
Unrealized net holding gain (loss) on securities available for sale arising during year (net of income tax effect of $14,804, $44,297 and $(54,370), for 2001, 2000 and 1999, respectively)	23,570	67,973	(79,865)
Reclassification adjustment for net gains included in net income (net of income tax effect of $3,529, $3,315 and $1,992 for 2001, 2000 and 1999, respectively)	(6,850)	(6,730)	(2,923)
Additional minimum pension liability (net of income tax effect of $474)	(881)	—	—
Other comprehensive income (loss)	15,839	61,243	(82,788)
Comprehensive income	$ 149,027	179,534	12,562

See accompanying Notes to Consolidated Financial Statements.

WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,		
(In thousands)	**2001**	**2000**	**1999**
Operating Activities:			
Net income	$ 133,188	118,291	95,350
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	14,400	11,800	9,000
Provision for foreclosed property losses	—	—	100
Depreciation and amortization	21,567	26,800	19,728
(Accretion) amortization of securities discounts/premiums, net	(1,774)	471	1,563
Amortization (accretion) of loan discounts/premiums, net	4	(928)	3,190
Amortization of intangible assets	31,227	22,400	13,780
Implementation of change in accounting method	3,614	—	—
Gains on sale of deposits	—	(4,859)	—
Gains on sale of foreclosed properties, net	(1,094)	(906)	(906)
Gains on sale of securities	(10,379)	(10,045)	(4,722)
Gains on sale of loans and servicing, net	(2,771)	(3,956)	(4,434)
(Gains) losses on trading securities, net	(242)	1,600	474
Decrease in trading securities	248	49,346	39,786
Loans originated for sale	(1,009,808)	(187,921)	(221,171)
Proceeds from sale of loans, originated for sale	883,620	179,591	228,280
Decrease (increase) in interest receivable	15,445	(5,072)	3,734
(Increase) decrease in prepaid expenses and other assets	(25,193)	(15,391)	4,343
(Decrease) increase in interest payable	(18,944)	9,294	(12,513)
(Decrease) increase in accrued expenses and other liabilities, net	(31,421)	31,194	(334)
Increase in cash surrender value of life insurance	(9,164)	(8,555)	(7,892)
Proceeds from surrender of life insurance contracts	19,008	—	—
Net cash provided by operating activities	11,531	213,154	167,356
Investing Activities:			
Purchases of securities, available for sale	(2,388,654)	(1,294,590)	(1,150,893)
Purchases of securities, held to maturity	—	—	(1,283)
Principal collected on securities	765,936	293,263	648,648
Maturities of securities	58,193	13,872	446,910
Proceeds from sales of securities, available for sale	1,007,000	955,214	513,714
Proceeds from sales of securities, held to maturity	—	—	15,458
(Increase) decrease interest-bearing deposits, net	(34,148)	48,087	(18,654)
Decrease (increase) in loans, net	301,396	(135,167)	(325,366)
Proceeds from sale of foreclosed properties	5,562	10,376	10,081
Purchases of premises and equipment, net	(6,747)	(6,893)	(16,339)
Net cash (paid) received for purchase acquisitions	(17,263)	221,625	16,706
Net cash (used) provided by investing activities	(308,725)	105,787	138,982
Financing Activities:			
Net increase (decrease) in deposits	95,134	(79,095)	(405,124)
Increase (decrease) in FHLB advances	151,105	338,729	(87,398)
Increase (decrease) in securities sold under agreement to repurchase and other borrowings	91,223	(384,386)	295,479
Repayment of Senior Notes	—	(40,000)	—
Redemption of Series A preferred stock	(40,000)	—	—
Cash dividends to common shareholders	(33,003)	(28,645)	(20,729)
Net (decrease) increase in advance payments for taxes and insurance	(9,791)	(8,803)	6,894
Exercise of stock options	7,622	13,308	9,342
Common stock repurchased	(11,223)	(110,797)	(72,161)
Net cash provided (used) by financing activities	251,067	(299,689)	(273,697)
(Decrease) increase in cash and cash equivalents	(46,127)	19,252	32,641
Cash and cash equivalents at beginning of year	265,035	245,783	213,142
Cash and cash equivalents at end of year	$ 218,908	265,035	245,783

See accompanying Notes to Consolidated Financial Statements.

WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	Years ended December 31,		
(In thousands)	**2001**	**2000**	**1999**
Supplemental Disclosures:			
Income taxes paid	$ 70,070	49,230	50,862
Interest paid	408,699	405,502	353,414
Supplemental Schedule of Noncash Investing and Financing Activities:			
Transfer of loans to foreclosed properties	6,212	7,577	9,022
Reclassification of held to maturity securities to available for sale (fair value of $248,215 at January 1, 2001)	261,747	—	—

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

	Years ended December 31,		
(In thousands)	**2001**	**2000**	**1999**
Fair value of noncash assets acquired in purchase acquisitions	$ 247,040	1,011,434	283,609
Fair value of liabilities assumed in purchase acquisitions	251,842	1,232,409	289,918
Common stock issued in purchase acquisitions	1,402	200,463	79,779
Fair value of net assets sold in sale transaction	—	45,591	—
Fair value of liabilities sold in sale transaction	—	35,795	—

See accompanying Notes to Consolidated Financial Statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Financial Statement Presentation

1) Principals of Consolidation

The Consolidated Financial Statements include the accounts of Webster and its subsidiaries. The Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and all significant intercompany 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 of Webster could differ from those estimates. Material estimates that are susceptible to near-term changes include the determination of the allowance for loan losses and the valuation allowance for the deferred tax asset.

b) Cash and Cash Equivalents

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

c) Securities

Securities are classified as either, available for sale, held to maturity or trading. Management determines the appropriate classification of securities at the time of purchase. Securities are classified as held to maturity when the Company has the intent and ability to hold the securities to maturity. Held to maturity securities are stated at amortized cost. Securities bought and held for the purpose of selling in the near term are classified as trading and are carried at fair value, with net unrealized gains and losses recognized currently in noninterest income. Securities not classified as held to maturity or trading are classified as available for sale and are stated at fair value. Unrealized gains and losses, net of tax, on available for sale securities are included in accumulated other comprehensive income (loss), net of income taxes – a separate component of shareholders' equity. The reported value of held to maturity or available for sale securities is adjusted for amortization of premiums or accretion of discounts using a method which approximates the level yield method. Such amortization and accretion is included in interest income from securities. Non-marketable securities, such as FHLB stock, are carried at cost. Unrealized losses on securities are charged to noninterest 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.

d) Loans

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

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

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

Loan origination fees, net of certain direct origination costs and premiums and discounts on loans purchased, are recognized in interest income over the lives of the loans using a method approximating the interest method. Loans held for sale are carried at lower of cost or fair value in the aggregate as determined by outstanding commitments from investors or current market prices for loans with no sale commitments. Net unrealized losses on loans held for sale, if any, are recognized in a valuation allowance by charges to noninterest income.

e) Allowance for Loan Losses

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

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

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

f) Derivative Instruments and Hedging Activities

The Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS Nos. 137 and 138, effective January 1, 2001. This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The Statement requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments 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. Special hedge accounting treatment is permitted only if specific criteria are met, including a requirement that the hedging relationship be highly effective both at inception and on an ongoing basis. Accounting for hedges varies based on the type of hedge – fair value or cash flow. Results of effective hedges are recognized in current earnings for fair value hedges and in other comprehensive income/loss for cash flow hedges. Ineffective portions of hedges are recognized immediately in earnings and are not deferred. There may be increased volatility in net income and other comprehensive income (loss) on an ongoing basis as a result of accounting for derivative instruments in accordance with SFAS No. 133. See Note 10 of Notes to Consolidated Financial Statements contained elsewhere in this report for further discussion of the Company's derivatives activities.

g) Interest-bearing Deposits

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

h) Premises and Equipment 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. Estimated lives are 15 to 40 years for buildings and improvements and 3 to 20 years for furniture, fixtures and equipment. Amortization of leasehold improvements is calculated on a straight-line basis over the shorter of the useful life of the improvement or the terms of the related leases.

Maintenance and repairs are charged to noninterest 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.

Long-lived assets are evaluated periodically for impairment. An assessment of recoverability is performed prior to any writedown of an asset. If circumstances suggest their value may be impaired, an expense would be charged in the current period.

i) Intangible Assets

Intangible assets consist of core deposit intangibles and goodwill. Intangible assets equal the excess of the purchase price over the fair value of the tangible net assets acquired in acquisitions accounted for using the purchase method of accounting. The core deposit intangibles are being amortized on a straight-line basis over a period of seven to ten years from the acquisition dates. On a periodic basis, management assesses the carrying value of the core deposit intangibles. Goodwill is being amortized on a straight-line basis over periods ranging from twelve to twenty years from the acquisition dates. The Company also reviews goodwill on a periodic basis for events or changes in circumstances that may indicate that the carrying amount of goodwill may not be recoverable, and impairment is recognized as a charge to income if a permanent loss in value is indicated. See "Recent Accounting Standards" within the Management's Discussion and Analysis section contained elsewhere within this report for a discussion on the impact of the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets", on January 1, 2002.

j) Cash Surrender Value of Life Insurance

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

k) Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance has been provided for a portion of the deferred tax asset that may not be realized. The valuation allowance is adjusted, by a charge or credit to income tax expense, as facts and circumstances warrant.

l) Employee Retirement Benefit Plans

The Bank has a noncontributory pension plan covering substantially all employees. Costs related to this plan, based upon actuarial computations of current and future benefits for employees, are charged to noninterest expense and are funded in accordance with the requirements of the Employee Retirement Income Security Act ("ERISA"). The Bank also accrues costs related to post-retirement benefits.

m) Stock-based Compensation

SFAS No. 123, "Accounting for Stock-based Compensation", encourages all companies to adopt a fair value based method of accounting for stock-based employee compensation plans. Under the provisions of this statement, Webster has elected to continue to measure compensation for its stock option plans using the accounting method prescribed by

Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees." Entities electing to continue to follow APB No. 25 must make pro forma disclosures for net income and earnings per share as if the fair value based method of accounting had been applied. See Note 15 of Notes to Consolidated Financial Statements contained elsewhere within this report. Financial Interpretation ("FIN") No. 44 was issued and was effective July 1, 2000 and clarifies issues related to the application of APB No. 25. Webster's application of APB No. 25 conforms with FIN No. 44.

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

n) Loan Sales and Servicing Sales

Gains or losses on sales of loans are recognized at the time of sale. SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", requires that a mortgage banking entity recognize as a separate asset the value of the right to service mortgage loans for others, regardless of how those servicing rights are acquired. Fair values are estimated considering loan prepayment predictions, historical prepayment rates, interest rates, and other economic factors. For purposes of impairment evaluation and measurement, the Company stratifies mortgage servicing rights based on predominate risk characteristics of the underlying loans including loan type, interest rate (fixed or adjustable) and amortization type. To the extent that the carrying value of mortgage servicing rights exceeds fair value by individual stratum, a valuation allowance is established by a charge to noninterest income. The allowance is adjusted for subsequent changes in fair value. The cost basis of mortgage servicing rights is amortized into noninterest income over the estimated period of servicing revenue.

o) Comprehensive Income

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

p) Net Income Per Common Share

Basic net income per common share ("EPS") is calculated by dividing net income available to common shareholders 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) were exercised or converted into common stock that would then share in the earnings of the Company. Diluted EPS is calculated by dividing net income available to common shareholders by the weighted-average number of common shares outstanding, adjusted for the additional common shares that would have been outstanding if all potentially dilutive common shares were issued during the reporting period. Unallocated employee stock ownership plan ("ESOP") shares are not included in the weighted-average number of common shares outstanding for either basic or diluted earnings per share.

q) Reclassification

Certain financial statement balances as previously reported have been reclassified to conform to the 2001 Consolidated Financial Statements presentation.

NOTE 2: BUSINESS COMBINATIONS

PURCHASE TRANSACTIONS

The following acquisitions completed during 2001 and 2000, were accounted for as purchase transactions, and as such, results of operations are included in the Consolidated Financial Statements subsequent to acquisition.

Wolff Zackin & Associates and Benefit Plans Design & Administration
In April 2001, through Webster Insurance, the Company completed its acquisition of Wolff Zackin & Associates Inc. ("Wolff Zackin") and its sister company, Benefits Plans Design & Administration Inc. ("Benefit Plans"). Wolff Zackin is a multiple lines insurance business specializing in personal and corporate life insurance, personal and commercial property and casualty insurance and deferred compensation plans. Benefit Plans provides businesses with pension, profit sharing, individual retirement account (IRA) and 401K investment plans. Benefit Plans also provides group life, disability income, and medical and dental care plans for businesses. The addition of Wolff Zackin provides Webster's customers expanded insurance products and services and the ability to negotiate the best coverage in the marketplace.

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

Musante Reihl Associates
In January 2001, through Webster Insurance, the Company acquired Musante Reihl Associates ("Musante"), a privately owned Cheshire, Connecticut-based insurance agency. Musante specializes in group benefits, long-term care and life insurance products. This acquisition further increases Webster's ability to offer quality insurance products in the Connecticut marketplace.

Duff & Phelps, LLC
In November 2000, the Company, through its newly formed company Duff & Phelps, acquired a 65% interest in Duff & Phelps, LLC, a privately owned company which has offices in Chicago, New York, Los Angeles, and Seattle. Duff & Phelps provides expertise in middle-market mergers and acquisitions, private placements, fairness opinions, valuations, ESOP and ERISA advisory services, and special financial advisory services. Duff & Phelps has added fee-based revenue that further accelerates progress toward the strategic objective of broadening commercial bank product offerings and increasing revenue from fee-based services.

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

MECH Financial, Inc.

In June 2000, MECH Financial, Inc. ("Mechanics"), the holding company for Mechanics Savings Bank, was acquired in a non-taxable, stock-for-stock exchange. Mechanics Savings Bank was a state-chartered, Hartford-based savings bank with $1.1 billion in assets and 16 branch offices in the capital region. Based on the terms of the agreement, Mechanics shareholders received 1.52 shares of Webster common stock for each share of Mechanics common stock. The acquisition strengthened Webster's market share in Hartford County, where Webster already ranked second in deposit market share. 7.8 million shares were issued in connection with the purchase of Mechanics. Goodwill of $120.1 million was recorded.

Chase Manhattan Branch Acquisition

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

Louis Levine Agency, Inc. and Follis, Wylie, Inc.

The Company actively engaged during 2000 in building a dynamic statewide insurance operation, purchasing the Louis Levine Agency, Inc. ("Levine") and Follis Wylie & Lane, Inc. ("Follis"). Webster entered the insurance agency business in 1998. In April 2000, Webster, through its wholly-owned insurance subsidiary Webster Insurance, acquired Follis, a privately owned Hamden, Connecticut-based insurance agency. Follis offers a full range of insurance services, including property and casualty, life and health. In February 2000, through Webster Insurance, Webster acquired Levine, a privately owned Waterford and Norwich, Connecticut-based insurance agency. Founded in 1928, the company includes three entities: Louis Levine Agency, Inc., Levine Financial Services, Inc. and Retirement Planning Associates, Inc.

NOTE 3: SECURITIES

A summary of securities follows:

	At December 31,											
	2001				2000				1999			
	Amortized	Unrealized		Estimated	Amortized	Unrealized		Estimated	Amortized	Unrealized		Estimated
(In thousands)	Cost	Gains	Losses	Fair Value	Cost	Gains	Losses	Fair Value	Cost	Gains	Losses	Fair Value
Trading Securities:												
Securities (a)	$ —	—	—	—	6(b)	—	—	6	50,854(b)	—	—	50,854
Available for Sale Portfolio:												
U.S. Treasury Notes	2,014	—	—	2,014	11,042	3	—	11,045	17,070	18	(233)	16,855
U.S. Government Agency	—	—	—	—	46,246	3	(353)	45,896	92,733	—	(4,338)	88,395
Municipal bonds and notes	78,349	1,266	(536)	79,079	34,401	530	(47)	34,884	27,591	3	(1,463)	26,131
Corporate bonds and notes	207,024	786	(18,428)	189,382	73,265	—	(15,379)	57,886	75,068	—	(9,895)	65,173
Equity securities (c)	166,054	7,689	(3,857)	169,886	177,061	4,501	(5,877)	175,685	201,352	7,684	(11,060)	197,976
Mortgage-backed securities (a)	3,519,067	50,008	(10,303)	3,558,772	2,796,365	29,852	(11,571)	2,814,646	2,379,491	6,330	(88,848)	2,296,973
Purchased interest-rate contracts (Note 10)	—	—	—	—	6,317	—	(3,032)	3,285	10,874	—	(1,792)	9,082
	3,972,508	59,749	(33,124)	3,999,133	3,144,697	34,889	(36,259)	3,143,327	2,804,179	14,035	(117,629)	2,700,585
Held to Maturity Portfolio (d):												
U.S. Treasury Notes	—	—	—	—	3,786	5	(2)	3,789	10,396	—	(112)	10,284
U.S. Government Agency		—	—	—	—	—	—	—	1,520	—	(6)	1,514
Municipal bonds and notes	—	—	—	—	23,267	173	(31)	23,409	24,861	39	(783)	24,117
Corporate bonds and notes		—	—	—	135,404	—	(12,879)	122,525	135,476	405	(12,322)	123,559
Mortgage-backed securities (a)	—	—	—	—	99,290	558	(1,356)	98,492	143,209	544	(2,945)	140,808
	—	—	—	—	261,747(d)	736	(14,268)	248,215	315,462	988	(16,168)	300,282
Total	$ 3,972,508	59,749	(33,124)	3,999,133	3,406,450	35,625	(50,527)	3,391,548	3,170,495	15,023	(133,797)	3,051,721

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

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

(c) As of December 31, 2001, the fair value of equity securities consisted of Federal Home Loan Bank ("FHLB") stock of $126.6 million, preferred stock of $5.4 million and common stock of $37.9 million. The fair value of equity securities at December 31, 2000 consisted of FHLB stock of $125.3 million, preferred stock of $8.2 million and common stock of $42.2 million. As of December 31, 1999, the fair value of equity securities consisted of FHLB stock of $103.9 million, mutual funds of $13.6 million, preferred stock of $24.3 million and common stock of $56.2 million.

(d) On January 1, 2001, as permitted by the provisions of SFAS No. 133, Webster reclassified all held to maturity securities to available for sale securities.

A summary of realized gains and losses follows:

	Years ended December 31,								
	2001			**2000**			**1999**		
(In thousands)	Gains	Losses	Net	Gains	Losses	Net	Gains	Losses	Net
Trading Securities:									
Mortgage-backed securities	$ —	—	—	3,069	(2,273)	796	2,006	(5,328)	(3,322)
U.S. Treasury Notes	342	—	342	—	—	—	—	—	—
Futures and options contracts	90	(190)	(100)	10,505	(12,901)	(2,396)	13,107	(10,259)	2,848
Total	432	(190)	242	13,574	(15,174)	(1,600)	15,113	(15,587)	(474)
Held to Maturity:									
Corporate debt	—	—	—	—	—	—	—	(193)	(193)
Total	—	—	—	—	—	—	—	(193)	(193)
Available for Sale:									
Mortgage-backed securities	10,541	(1,145)	9,396	2,857	(292)	2,565	2,704	(428)	2,276
U.S. Treasury Notes	74	—	74	13	(154)	(141)	15	(5)	10
U.S. Government Agencies	100	(271)	(171)	5	(849)	(844)	38	(556)	(518)
Corporate debt	—	(1,300)	(1,300)	—	(71)	(71)	210	(118)	92
Mutual funds	—	—	—	—	(640)	(640)	263	(90)	173
Equity securities	2,578	(198)	2,380	9,644	(418)	9,226	3,456	(429)	3,027
Other	—	—	—	—	(50)	(50)	27	(172)	(145)
Total	13,293	(2,914)	10,379	12,519	(2,474)	10,045	6,713	(1,798)	4,915
Total	$ 13,725	(3,104)	10,621	26,093	(17,648)	8,445	21,826	(17,578)	4,248

The Company enters into short and long futures and options positions to minimize the price volatility of certain assets held as trading securities and to profit from trading opportunities. At December 31, 2001, Webster had no such positions. At December 31, 2000, Webster had 200 short and 200 long contracts of 10 year Treasury note futures ($20.0 million notional amount for each). Changes in the market value of futures and options positions are recognized as a gain or loss in the period for which the change occurred. All gains and losses resulting from futures and options positions are reflected in gains (losses) on sale of securities, in noninterest income.

During the first quarter of 1999, Webster sold $15.5 million of securities classified as held to maturity, which resulted in a loss of $193,000. The securities were sold due to a regulator's request that the Company divest of the holdings as the securities did not meet regulatory guidelines published subsequent to the acquisition of the securities. There were no sales of securities from the held to maturity portfolio for the year ended December 31, 2000. On January 1, 2001, Webster reclassified held to maturity securities, with a market value of $248.2 million and an amortized cost of $261.7 million, to available for sale securities, as permitted by SFAS No. 133.

The following table summarizes the amortized cost and weighted-average yield (based on amortized cost) of debt securities at December 31, 2001, 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.

(Dollars in thousands)

	One year or less		After one year through five years		After five years through ten years		After 10 years		Total	
	$	Yield	$	Yield	$	Yield	$	Yield	$	Yield
Available for sale:										
U.S. Treasury notes	$ 2,014	1.86%	$ —	—%	$ —	—%	$ —	—%	$ 2,014	1.86%
Municipal bonds and notes	1,390	4.43	18,351	5.93	9,851	4.51	48,757	5.15	78,349	5.24
Corporate bonds and notes	50	7.97	12,822	4.79	10,497	8.57	183,655	6.41	207,024	6.42
Mortgage-backed securities	—	—	21,852	7.48	133,607	6.20	3,363,608	6.14	3,519,067	6.15
Total	$ 3,454	2.98%	$ 53,025	6.29%	$ 153,955	6.25%	$ 3,596,020	6.14%	$ 3,806,454	6.14%

At December 31, 2001, the Bank held securities with the following single issuers whose aggregate value exceeded ten percent of total stockholders' equity, or $101.0 million.

	At December 31, 2001	
(In thousands)	Aggregate Amortized Cost	Aggregate Market Value
Issuers:		
Fannie Mae	$ 1,582,468	1,606,710
Freddie Mac	1,044,877	1,058,475
Bank of America Mortgage Securities	225,136	224,167
Federal Home Loan Bank	126,599	126,599

NOTE 4: LOANS RECEIVABLE, NET

A summary of loans receivable, net follows:

(Dollars in thousands)	At December 31, 2001 Amount	2001 %	2000 Amount	2000 %
Residential mortgage loans:				
1-4 family units	$ 3,058,662	44.52%	$ 3,760,792	55.15%
Loans held for sale	143,918	2.10	17,730	0.26
Construction	223,583	3.26	302,776	4.44
Multi-family units	104,038	1.51	65,482	0.96
Total residential mortgage loans	3,530,201	51.39	4,146,780	60.81
Commercial loans:				
Commercial non-mortgage	1,046,874	15.24	1,203,988	17.66
Lease financing	320,704	4.67	—	—
Loans held for sale	—	—	3,410	0.04
Total commercial loans	1,367,578	19.91	1,207,398	17.70
Commercial real estate:				
Commercial real estate	892,145	12.99	784,817	11.51
Commercial construction	82,831	1.20	72,216	1.06
Total commercial real estate	974,976	14.19	857,033	12.57
Consumer loans:				
Home equity credit loans	1,038,350	15.11	609,293	8.94
Other consumer	56,113	0.82	89,514	1.31
Total consumer loans	1,094,463	15.93	698,807	10.25
Loans receivable	6,967,218	101.42	6,910,018	101.33
Less: allowance for loan losses	(97,307)	(1.42)	(90,809)	(1.33)
Loans receivable, net	$ 6,869,911	100.00%	$ 6,819,209	100.00%

At December 31, 2001, net loans receivable included $17.2 million of net discounts and $19.0 million of net deferred costs. At December 31, 2000, net loans receivable included $23.2 of net discounts and $15.4 million of net deferred costs. The unadvanced portions of closed loans totaled $78.2 million and $136.1 million at December 31, 2001 and 2000, respectively.

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

At December 31, 2001, Webster had $26.6 million of impaired loans as defined by SFAS No. 114, of which $20.3 million were measured based upon the expected fair value of the underlying collateral and $6.3 million were measured based upon the expected future cash flows of the impaired loans. The $20.3 million of impaired loans had an allowance for loan losses of $4.5 million and the $6.3 million of impaired loans had an allowance for loan losses of $291,000. At December 31, 2000, Webster had $21.3 million of impaired loans, of which $14.2 million were measured based upon the fair value of the underlying collateral and $7.1 million were measured based upon the expected future cash flows of the impaired loans. The $14.2 million of impaired loans had an allowance for loan losses of $1.2 million and the $7.1 million of impaired loans had an allowance for loan losses of $146,000. In 2001, 2000 and 1999, the average balance of impaired loans was $18.7 million, $16.3 million and $13.1 million, respectively.

Webster's policy with regard to the recognition of interest income on commercial impaired loans includes an individual assessment of each loan. Interest that is more than 90 days past due is not accrued. When payments on commercial impaired loans are received, interest income is recorded on a cash basis or is applied to principal based on an individual assessment of each loan. Cash basis interest income recognized on commercial impaired loans for the years 2001, 2000 and 1999 amounted to $774,000, $414,000 and $782,000, respectively.

At December 31, 2001 and 2000, the Bank had total troubled debt restructurings of approximately $5.2 million and $5.5 million, respectively. Interest income booked for 2001 under the restructured terms totaled $533,000 as compared to $874,000 that would have been booked had the restructured loans been under their original terms during 2001. Interest income booked for 2000 under the restructured terms totaled $469,000 as compared to $813,000 that would have been booked had the restructured loans been under their original terms during 2000.

Webster's nonaccrual loans totaled $57.4 million and $41.0 million, respectively at December 31, 2001 and 2000.

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

The estimated fair value of commitments to extend credit is considered insignificant at December 31, 2001 and 2000. Future loan commitments represent residential and commercial mortgage loan commitments, commercial loan and lease financing commitments, letters of credit and commercial and home equity unused credit lines. Rates for these loans are generally established shortly before closing. The rates on home equity lines of credit generally vary with the prime rate.

As of December 31, 2001 and 2000, residential mortgage commitments totaled $158.2 million and $75.3 million, respectively. Residential commitments outstanding at December 31, 2001 consisted of adjustable rate and fixed rate mortgages of $46.5 million and $111.7 million, respectively, at rates ranging from 5.4% to 7.5%. Residential commitments outstanding at December 31, 2000 consisted of adjustable rate and fixed rate mortgages of $15.6 million and $59.7 million, respectively, at rates ranging from 6.5% to 10.7%. Commitments to originate loans generally expire within 60 days. In addition, at December 31, 2001 and 2000, there were unused portions of home equity credit lines extended of $754.7 million and $471.8 million, respectively. Unused commercial lines of credit, letters of credit, standby letters of credit, lease financing commitments and outstanding commercial new loan commitments totaled $800.3 million and $823.5 million at December 31, 2001 and 2000, respectively.

The Company uses forward commitments to sell residential mortgage loans, which are entered into for the purpose of reducing the market risk associated with originating loans held for sale. The types of risk that may arise are from the possible inability of Webster or the other party to fulfill the contracts. At December 31, 2001 and 2000, there were forward commitments to sell loans totaling $195.4 million and $27.8 million, respectively, at rates between 5.6% and 7.0%, and 6.0% and 8.4%, respectively. At December 31, 2001 and 2000, there were $143.9 million and $17.7 million, respectively, of residential mortgage loans held for sale.

At December 31, 2001 and 2000, Webster serviced, for the benefit of others, mortgage loans aggregating approximately $1.2 billion and $1.1 billion, respectively.

During 2001 and 2000, Webster capitalized mortgage servicing assets of $3.3 million and $652,000, respectively, related to originating and selling mortgage loans with servicing retained. During 2001, there were no sales of mortgage servicing rights ("MSR"). MSR amortization totaled $1.6 million for each of the years ended December 31, 2001 and 2000. During 2001, the valuation allowance for MSR was increased $251,000.

NOTE 5: ALLOWANCE FOR LOAN LOSSES

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

The following is a summary of the changes in the allowances for loan losses for three years follows:

	At December 31,		
(In thousands)	**2001**	**2000**	**1999**
Balance at beginning of year	$ 90,809	72,658	65,201
Allowances from purchase transactions	1,851	10,980	3,647
Provisions charged to operations	14,400	11,800	9,000
Subtotal	107,060	95,438	77,848
Charge-offs	(11,575)	(6,816)	(7,406)
Recoveries	1,822	2,187	2,216
Net charge-offs	(9,753)	(4,629)	(5,190)
Balance at end of year	$ 97,307	90,809	72,658

NOTE 6: PREMISES AND EQUIPMENT, NET

A summary of premises and equipment, net follows:

	At December 31,	
(In thousands)	**2001**	**2000**
Land	$ 12,684	13,474
Buildings and improvements	68,903	72,976
Leasehold improvements	10,328	14,428
Furniture, fixtures and equipment	101,995	103,242
Total premises and equipment	193,910	204,120
Accumulated depreciation and amortization	(111,102)	(109,857)
Premises and equipment, net	$ 82,808	94,263

At December 31, 2001, Webster was obligated under various non-cancelable operating leases for properties used as branch office facilities. The leases contain renewal options and escalation clauses which provide for increased rental expense based primarily upon increases in real estate taxes over a base year. Rental expense under leases was $11.0 million, $8.9 million and $7.1 million in 2001, 2000, and 1999, respectively. Webster is also entitled to rental income under various non-cancelable operating leases for properties owned. Rental income under these leases was $1.2 million, $1.3 million and $2.4 million in 2001, 2000 and 1999, respectively.

The following is a schedule of future minimum rental payments and receipts required under these leases as of December 31, 2001:

(In thousands)	Lease Payments	Rental Receipts
Years ending December 31:		
2002	$ 12,200	1,107
2003	11,193	916
2004	9,278	582
2005	6,933	432
2006	5,285	288
Later years	25,275	841
Total	$ 70,164	4,166

NOTE 7: DEPOSITS

The following table sets forth the deposit accounts of the Bank showing average interest rates, dollar amounts and as percentages of total deposits at the dates indicated.

	December 31,								
	2001			**2000**			**1999**		
(Dollars in thousands)	Average rate	Amount	% of total deposits	Average rate	Amount	% of total deposits	Average rate	Amount	% of total deposits
Balance by account type:									
Demand deposits	–%	$ 905,206	12.8%	–%	$ 851,071	12.2%	–%	$ 675,449	10.8%
NOW accounts	0.61	803,416	11.4	0.77	752,600	10.8	1.20	700,243	11.2
Regular savings and money market deposit accounts	1.80	2,430,691	34.4	2.48	1,956,149	28.0	2.54	1,761,167	28.3
Time deposits	4.12	2,927,158	41.4	5.24	3,421,308	49.0	4.84	3,095,837	49.7
Total	2.40%	$ 7,066,471	100.0%	3.34%	$ 6,981,128	100.0%	3.26%	$6,232,696	100.0%

Interest expense on deposits is summarized as follows:

	Years ended December 31,		
(In thousands)	**2001**	**2000**	**1999**
NOW accounts	$ 5,099	6,195	14,587
Regular savings and money market deposit accounts	51,460	44,746	34,655
Time deposits	159,776	173,353	154,563
Total	$ 216,335	224,294	203,805

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

(In thousands)	Totals
Maturing:	
January 1, 2002 to December 31, 2002	$ 2,431,111
January 1, 2003 to December 31, 2003	276,529
January 1, 2004 to December 31, 2004	62,547
January 1, 2005 to December 31, 2005	34,268
January 1, 2006 to December 31, 2006	121,229
January 1, 2007 and beyond	1,474
Total	$ 2,927,158

Time deposits of $100,000 or more amounted to $502.4 million and $509.1 million and represented approximately 7.1% and 8.5% of total deposits at December 31, 2001 and 2000, respectively.

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

(In thousands)	Totals
Maturing:	
January 1, 2002 to March 31, 2002	$ 171,272
April 1, 2002 to June 30, 2002	138,653
July 1, 2002 to December 31, 2002	110,466
January 1, 2003 and beyond	81,973
Total	$ 502,364

NOTE 8: FEDERAL HOME LOAN BANK ADVANCES

Advances payable to the Federal Home Loan Bank ("FHLB") are summarized as follows:

	At December 31,			
	2001		2000	
(In thousands)	Total Outstanding	Callable	Total Outstanding	Callable
Fixed Rate:				
5.39% to 8.20% due in 2001	$ —	—	1,377,405	—
1.25% to 6.87% due in 2002	883,000	—	52,250	—
4.24% to 6.67% due in 2003	313,440	—	214,350	—
1.99% to 6.78% due in 2004	550,320	100,000	438	—
5.91% to 6.25% due in 2005	102,802	100,000	103,571	100,000
4.68% to 6.31% due in 2006	52,558	—	3,054	—
5.92% to 6.98% due in 2007	502,362	500,000	502,443	500,000
4.49% to 5.93% due in 2008	29,773	27,000	30,128	27,000
5.50% due in 2009	5,000	5,000	5,000	5,000
8.44% due in 2010	521	—	564	—
6.60% due in 2011	2,200	—	2,364	—
5.49% due in 2013	10,000	10,000	10,000	10,000
	2,451,976	742,000	2,301,567	642,000
Variable Rate:				
5.76% and 6.81% due in 2004	80,000	—	80,000	—
	2,531,976	742,000	2,381,567	642,000
Unamortized discount on FHLB advances	(797)	—	(1,493)	—
Total advances, net	$ 2,531,179	742,000	2,380,074	642,000

The Bank had additional borrowing capacity of approximately $112.8 million from the FHLB at December 31, 2001 and $2.0 billion at December 31, 2000. Advances are secured by a blanket security agreement. This agreement requires the Bank to maintain as collateral certain qualifying assets, principally mortgage loans and securities. At December 31, 2001, investment securities were not utilized as collateral causing the reduced additional borrowing capacity as compared to December 31, 2000. Had securities been used for collateral, additional borrowing capacity at December 31, 2001 would be approximately $2.4 billion. At December 31, 2001 and 2000, the Bank was in compliance with the FHLB collateral requirements.

The unamortized discount on FHLB advances at December 31, 2001, is a result of the Mechanics purchase acquisition in June 2000. The remaining balance of $797,000 is scheduled to be amortized over a remaining life of one year.

In January 2001, management made a decision to prepay $155.3 million in advances that were outstanding at December 31, 2000. Of the $155.3 million prepaid, $105.0 million was scheduled to mature in 2001 and $50.3 million was scheduled to mature in 2002. The Company recorded a $1.8 million charge ($1.2 million, net of taxes) to earnings for the early extinguishment of debt.

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

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

(In thousands)	At December 31, 2001	2000
Securities sold under agreement to repurchase	$ 571,675	489,434
Federal funds purchased	180,000	—
Senior notes	126,000	126,000
Treasury tax and loan	124,510	32,918
Other	—	1,799
Total	$ 1,002,185	650,151

During 2001 and 2000, securities sold under agreements to repurchase ("repurchase agreements") were the primary source of borrowed funds with the exception of FHLB advances. See Note 8 of Notes to Consolidated Financial Statements contained elsewhere in this report for further information on FHLB advances. Repurchase agreements had an average balance that was 30% or more of the Bank's total equity at the end of 2001 and 2000. 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. Webster also enters into repurchase agreement transactions directly with commercial and municipal customers through its Treasury Sales desk. At December 31, 2001 and 2000, there were no securities sold under agreements to repurchase that were structured to be callable by a counterparty.

The weighted-average rates on total other borrowings were 2.69% and 6.42% at December 31, 2001 and 2000, respectively.

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

At December 31, 2001

(Dollars in thousands) Original maturity	Balance	Amortized Cost of Collateral	Market Value of Collateral	Weighted-Average Rate	Weighted-Average Maturity
Up to 30 days	$ 348,082	340,229	348,225	1.50%	2.1 days
31 to 90 days	2,116	2,071	2,161	1.59	1.5 months
Over 90 days	221,477	209,221	213,706	2.69	7.0 months
Totals	$ 571,675	551,521	564,092	1.96%	2.7 months

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

	December 31,		
(Dollars in thousands)	**2001**	**2000**	**1999**
Average amount outstanding during the period	$ 987,334	822,855	786,536
Amount outstanding at end of period	571,675	489,434	861,160
Highest month end balance	1,517,949	1,094,493	938,285
Weighted-average interest rate at end of period	1.96%	5.83	5.49
Weighted-average interest rate during the period	4.02%	5.96	5.14

During 2001 and 2000, Webster, at times borrowed under lines of credit with correspondent banks, and purchased federal funds, which are unsecured overnight loans with banks. The Employee Stock Ownership Plan ("ESOP") loan borrowing was from a correspondent bank and had variable interest rate of 9.50% at December 31, 2000. In January 2001, the remaining principal balance on the ESOP borrowing was repaid.

In November 2000, a private placement of $126.0 million of 8.72% unsecured Senior Notes due in 2007 (the "Senior Notes") was completed. The net proceeds from the note placement were used for general corporate purposes. A note payable of $1.0 million at a fixed rate of 7.00% to Phoenix Duff & Phelps was acquired as a result of the purchase acquisition of Duff & Phelps. The Duff & Phelps note matured and was repaid on June 30, 2001.

NOTE 10 – DERIVATIVE FINANCIAL INSTRUMENTS

As discussed in Note 1 of Notes to Consolidated Financial Statements, the Company adopted the provisions of SFAS No. 133, as amended by SFAS Nos. 137 and 138, effective January 1, 2001. On January 1, 2001, the Company had interest caps with a notional value of $260 million and interest rate floors with a notional value of $500 million that were used to manage interest rate risk. These derivatives did not qualify for hedging under SFAS No. 133. As a result, the derivatives were recorded on the balance sheet at January 1, 2001, and a charge to earnings of $3.6 million ($2.4 million, net of taxes) was recorded in the Company's Consolidated Statements of Income. This charge is reflected in the Consolidated Statements of Income for the year ended December 31, 2001 as a cumulative effect of change in method of accounting. The interest rate caps and floors were sold during the second quarter of 2001.

Additionally, on January 1, 2001, Webster had an interest rate swap with a notional amount of $25.0 million. This swap was used to hedge the fair value of a certificate of deposit and qualified for hedge accounting under SFAS No. 133. The net loss recognized in earnings during 2001 representing the amount of hedge ineffectiveness was not significant. During the second quarter of 2001, the interest rate swap and the certificate of deposit were redeemed.

At December 31, 2001, the Bank had no derivatives that qualified for hedge accounting under SFAS No. 133. The Bank transacts certain derivatives products with its customer base. These customer derivatives are offset with matching derivatives with other counterparties in order to minimize the Bank's risk. The Bank's exposure with respect to these derivatives is limited to nonperformance by either of the parties in the transaction – the Bank's customer or the other counterparty.

The Bank also has rate lock commitments extended to borrowers that relate to the origination of readily marketable mortgage loans held for sale ("rate locks") that are considered to be derivatives, and do not qualify for hedge accounting, under SFAS No. 133. To mitigate the interest rate risk inherent in rate locks, as well as closed mortgage loans held for sale ("loans held for sale"), Webster Bank enters into mandatory forward commitments to sell mortgage-backed securities and best efforts forward commitments to sell individual mortgage loans ("forward commitments"). Rate locks and forward commitments are considered to be derivatives under SFAS No. 133. Beginning January 1, 2001, the Company has recorded the estimated fair value of the rate locks and forward commitments on its balance sheet in either other assets or other liabilities, with the offset to net gain on sales of mortgage loans.

The fair value of a rate lock is estimated based on the expected profit or loss to be realized on the underlying loan, including the estimated value of the servicing rights associated with the loan, as well as the probability that the rate lock will be exercised by the borrower ("fallout factor"). For rate locks associated with optional ("best efforts") forward commitments, fair value is estimated based on the pricing specified in the related forward commitment. The fair value of mandatory forward commitments is based on current pricing obtained from independent third parties.

At December 31, 2001, the Company had rate locks of approximately $79.7 million, mandatory forward commitments of approximately $194.0 million, and best efforts forward commitments of approximately $1.4 million. The impact of the estimated fair value of the rate locks and forward commitments, offset by the lower of cost or market adjustment on the residential mortgage loans held for sale portfolio, was not significant to the consolidated financial statements.

NOTE 11: SUMMARY OF ESTIMATED FAIR VALUES

A summary of estimated fair values consisted of the following:

	At December 31,			
	2001		2000	
(In thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and due from depository institutions	$ 218,908	218,908	265,035	265,035
Interest-bearing deposits	35,937	35,937	1,751	1,751
Securities	3,999,133	3,999,133	3,401,795	3,388,264
Residential loans	3,530,202	3,579,977	4,146,780	4,210,817
Consumer loans	56,112	56,871	89,514	90,490
Home equity loans	1,038,350	1,027,980	609,293	615,163
Commercial loans	2,021,850	2,051,885	2,064,431	2,069,604
Lease financing	320,704	320,825	—	—
Allowance for loan losses	(97,307)	(97,307)	(90,809)	(90,809)
Interest-rate contracts	—	—	3,285	3,285
Servicing rights	6,609	13,861	4,947	7,915
Intangibles	320,051	—	326,142	—
Other assets	406,833	406,833	427,344	427,344
Total Assets	$ 11,857,382	11,614,903	11,249,508	10,988,859
Liabilities:				
Deposits other than time deposits	$ 4,139,313	3,964,327	3,559,820	3,358,187
Time deposits	2,927,158	2,959,281	3,421,308	3,419,898
FHLB advances and other borrowings	3,533,364	3,592,874	3,030,225	3,054,731
Other liabilities	91,503	91,503	148,204	148,204
Capital securities and preferred stock of subsidiary corp.	159,577	178,882	199,577	208,271
Shareholders' equity	1,006,467	828,036	890,374	799,568
Total	$ 11,857,382	11,614,903	11,249,508	10,988,859

The Bank uses its Asset/Liability simulation model to estimate the fair value of most 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 provided by two leading financial software companies. 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. 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.

The carrying amounts for interest-bearing deposits other than time deposits approximate fair value since they mature in 90 days or less and do not present unanticipated credit concerns. The fair value of securities (see Note 3 of Notes to Consolidated Financial Statements) is estimated based on prices or quotations received from third parties or pricing services. The fair value of interest-rate contracts was based on the amount Webster could receive or pay to terminate the agreements. FHLB stock, which is included in securities, has no active market and is required to be held by member banks. The estimated fair value of FHLB stock equals the carrying amount. In estimating the fair value of loans and deposits, about 200 distinct types of accounts are separately valued and consolidated into the broad categories in the table above. The discount rate used for the senior notes was calculated using a spread over swap rates consistent with the spread used to price the senior notes at their inception. The discount rates used for the capital securities and preferred stock of subsidiary corporation liabilities were calculated using a spread over swaps that coincide with the remaining maturities.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings or any part of a particular financial instrument. Because no active market exists for a significant portion of the Company’s financial instruments, fair value estimates are based on judgements regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These factors are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. 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, the Company has a substantial trust and investment management operation that contributes net fee income annually. The trust and investment operation is not considered a financial instrument, and its value has not been incorporated into the fair value estimates. Fair value and carrying amount are assumed to be the same for some significant assets including premises and equipment and bank owned life insurance. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimate of fair value.

NOTE 12: INCOME TAXES

Income taxes in the Consolidated Statements of Income are comprised of the following:

	Years ended December 31,		
(In thousands)	**2001**	**2000**	**1999**
Current:			
Federal	$ 72,308	54,720	49,740
State	42	100	494
	72,350	54,820	50,234
Deferred:			
Federal	(4,712)	3,296	(2,902)
State	—	—	—
	(4,712)	3,296	(2,902)
Total:			
Federal	67,596	58,016	46,838
State	42	100	494
	$ 67,638	58,116	47,332

For 2001, in addition to the $69.4 million of income tax expense shown on the Consolidated Statements of Income, the above income tax expense includes tax benefits related to the extraordinary item and the cumulative effect of change in method of accounting of $596,000 and $1.2 million, respectively.

Income tax expense of $67.6 million, $58.1 million, and $47.3 million for the years ended December 31, 2001, 2000 and 1999, respectively, reconciles to computed "expected" tax expense (by applying the 35% federal statutory income tax rate to income before taxes) as follows:

	Years ended December 31,		
(In thousands)	**2001**	**2000**	**1999**
Computed "expected" tax expense	$ 70,289	61,742	49,939
Increase (decrease) in income taxes resulting from:			
Dividends-received deduction	(365)	(566)	(1,091)
Tax-exempt interest, net of disallowed deductions	(1,153)	(822)	(853)
Goodwill amortization	4,058	2,536	1,158
Acquisition-related expenses	—	—	781
Increase in cash surrender value of life insurance	(3,207)	(3,372)	(2,762)
Life insurance proceeds	(1,081)	—	—
Surrender of life insurance contracts	1,507	—	—
Other, net	(2,410)	(1,402)	160
Income taxes	$ 67,638	58,116	47,332

At December 31, 2001, the Company had a net deferred tax asset of $33.2 million. Based on historical and current taxable earnings, management believes that Webster will fully realize the net deferred tax asset. There can be no absolute certainty, however, that Webster will generate any specific level of taxable earnings in the future.

Webster's federal net operating loss carryforwards ("NOLs") total $10.8 million, and are scheduled to expire in various tax years through 2020. State of Connecticut NOLs total $131.8 million ($33.5 million expiring in 2004, $75.1 million expiring in 2020 and $23.2 million in 2021). A 100% valuation allowance has been applied to the Connecticut NOLs because Webster, at the current time, does not expect any Connecticut tax liability for the foreseeable future.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2001 and 2000 are summarized below (a 100% valuation allowance has been applied to the gross Connecticut portions because Webster does not expect to have any Connecticut tax liability for the foreseeable future):

	At December 31,	
(In thousands)	**2001**	**2000**
Deferred tax assets:		
Loan loss and other allowances, net	$ 39,839	35,821
Loan discount	10,214	12,720
Accrued compensation and benefits	6,163	6,458
Other accrued expenses	3,073	1,779
Unrealized loss on securities	—	546
Intangibles	8,023	7,329
Net operating loss carryforwards	9,767	5,632
Lease financing costs	1,709	—
Other	916	1,461
Total gross deferred tax assets	79,704	71,746
Less: state tax valuation allowance, net of federal benefit	(10,959)	(9,332)
Deferred tax assets, net of valuation allowance	68,745	62,414
Deferred tax liabilities:		
Loan premium	3,915	4,685
Intangibles	15,744	18,563
Compensation and benefits	2,026	1,196
Accrued dividends	570	1,064
Unrealized gain on securities	10,498	—
Mortgage servicing rights	1,815	863
Depreciation and amortization	402	557
Other	617	1,569
Total gross deferred tax liabilities	35,587	28,497
Net deferred tax asset	$ 33,158	33,917

NOTE 13: SHAREHOLDERS' EQUITY

Applicable regulations of the Office of Thrift Supervision ("OTS") require federal savings banks such as the Bank, to satisfy certain minimum capital requirements, including a leverage capital requirement (expressed as a ratio of core or Tier 1 capital to adjusted total assets) and risk-based capital requirements (expressed as a ratio of core or Tier 1 capital and total capital to total risk-weighted assets). As an OTS regulated institution, the Bank is also subject to a minimum tangible capital requirement (expressed as a ratio of tangible capital to adjusted total assets). At December 31, 2001 and 2000, the Bank exceeded all OTS regulatory capital requirements and met the Federal Deposit Insurance Corporation ("FDIC") requirements for a "well capitalized" institution. In order to be considered "well capitalized" a depository institution must have a ratio of Tier 1 capital to adjusted total assets of 5%, a ratio of Tier 1 capital to risk-weighted assets of 6% and a ratio of total capital to risk-weighted assets of 10%. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's Consolidated Financial Statements. The Bank's capital amounts and classifications are also subject to qualitative judgments by the OTS about components, risk weightings and other factors.

At December 31, 2001 and 2000, the Bank was in full compliance with all applicable capital requirements, as detailed in the following table:

	Actual		OTS Minimum Capital Requirements		FDIC Minimum Well Capitalized	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 2001						
Bank's equity (to total assets)	$ 1,115,518	9.54%				
Non-includable subsidiaries	(2,062)					
Goodwill and other intangibles	(266,352)					
Unrealized gain on certain AFS securities	(19,230)					
Tangible capital (to adjusted total assets)	827,874	7.28	$ 227,563	2.00%	No Requirement	
Qualifying intangibles	2,016					
Tier 1 capital (to adjusted total assets)	829,890	7.29	455,206	4.00	$ 569,007	5.00%
Tier 1 Risk-based capital (to risk-weighted assets)	829,890	11.83	280,542	4.00	420,813	6.00
Allowable general allowance for loan losses	87,729					
Total Risk-based capital (to risk-weighted assets)	$ 917,619	13.08%	$ 561,084	8.00%	$ 701,355	10.00%
At December 31, 2000						
Tangible capital (to adjusted total assets)	$ 686,166	6.37%	$ 215,539	2.00%	No Requirement	
Tier 1 capital (to adjusted total assets)	689,234	6.39	431,200	4.00	$ 539,000	5.00%
Tier 1 capital (to risk-weighted assets)	689,234	10.20	270,336	4.00	405,504	6.00
Total capital (to risk-weighted assets)	773,773	11.45	540,672	8.00	675,839	10.00

Regulatory rules currently impose limitations on all capital distributions by savings institutions, including dividends, stock repurchases and cash-out mergers. Under current OTS capital distribution regulations, as long as the Bank meets the OTS capital requirements before and after the payment of dividends and meets the standards for expedited treatment of applications (including having certain regulatory composite, compliance and Community Reinvestment Act ratings), the Bank may pay dividends to the Parent Company without prior OTS approval in an amount equal to the net income less dividends paid to date for the calendar year, plus retained net income over the preceding two years. In addition, the OTS has the discretion to prohibit any otherwise permitted capital distribution on general safety and soundness grounds, and must be given 30 days advance notice of all capital distributions during which time it may object to any proposed distribution. The Bank has paid dividends to the Parent Company amounting to $35.0 million, and $133.6 million for 2001 and 2000, respectively.

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

Retained earnings at December 31, 2001 and 2000 included $50.0 million of earnings of the Bank appropriated to bad debt reserves (pre-1988), respectively, which were deducted for federal income tax purposes. Tax law changes were enacted in August 1996 to eliminate the “thrift bad debt” method of calculating bad debt deductions for tax years after 1995 and to impose a requirement to recapture into taxable income (over a six-year period) all bad debt reserves accumulated after 1987. Since the Company previously recorded a deferred tax liability with respect to these post-1987 reserves, its total income tax expense for financial reporting purposes is not affected by the recapture requirement. The tax law changes also provide that taxes associated with the recapture of pre-1988 bad debt reserves would become payable under more limited circumstances than under prior law. Under the tax laws, as amended, events that would result in recapture of the pre-1988 bad debt reserves include distributions to the parent company from the Bank in excess of specified amounts or the redemption of outstanding Bank stock. The Company does not expect such reserves to be recaptured into taxable income.

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

The Bank has an ESOP that invests in the Company’s common stock as discussed in Notes 9 and 15 of Notes to Consolidated Financial Statements. The Company has secured and guaranteed the ESOP debt. The cost of unallocated shares held by the ESOP represents unearned compensation expense, and is recorded as a reduction of shareholders’ equity. Both the loan obligation and the unearned compensation expense are reduced for any loan repayments made by the ESOP. On January 3, 2001, the remaining ESOP loan balance of $356,575 was paid off. Principal repayments totaled $356,575 and $409,575 during the years ended December 31, 2001 and 2000, respectively.

During 2001, Webster repurchased a total of 374,756 shares of its common stock at an average cost of $29.95 per common share. The majority of the repurchased shares, totaling 294,596, was the result of an announcement by the Company during the third quarter of 2001, to begin to repurchase 2.5 million shares of its common stock.

During 2001, Webster’s shareholders approved an amendment to the 1992 Stock Option Plan to increase the number of shares of common stock available for issuance under the Plan by 1,500,000 shares, from 2,961,000 to 4,461,000 shares, provide discretionary grants of options to non-employee directors and to discontinue automatic grants of options to non-employee directors. In 2000, the 1992 Stock Option Plan was amended to permit grants of restricted stock. The amendment was approved at the Annual Shareholders meeting held April 27, 2000. For the 2001 and 2000 year periods, there were a total of 126,567 shares of restricted common stock granted to senior management. See Note 15 of Notes to Consolidated Financial Statements contained elsewhere in this report for further information on stock-based compensation.

NOTE 14: NET INCOME PER COMMON SHARE

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

		Year ended December 31,		
(In thousands, except share data)		**2001**	**2000**	**1999**
Basic Earnings Per Share:				
Net income	$	133,188	118,291	95,350
Weighted-average common shares outstanding		49,085,841	45,910,447	44,553,859
Basic earnings per share	$	2.71	2.58	2.14
Diluted Earnings Per Share:				
Net income	$	133,188	118,291	95,350
Weighted-average common shares outstanding		49,085,841	45,910,447	44,553,859
Add: dilutive potential common stock-options		657,073	517,060	839,629
Total weighted-average diluted shares		49,742,914	46,427,507	45,393,488
Diluted earnings per share	$	2.68	2.55	2.10

At December 31, 2001, 2000 and 1999, options to purchase 715,799, 1,156,469 and 711,097 shares of common stock at exercise prices from $31.10 to $36.69, $23.25 to $35.38, and $28.25 to $35.38, respectively, were not considered in the computation of diluted potential common stock since the exercise prices of the options were greater than the average market price of the Company's common stock for 2001, 2000 and 1999 periods, respectively.

NOTE 15: EMPLOYEE BENEFIT AND STOCK OPTION PLANS

The Bank sponsors an employee investment plan governed by section 401(k) of the Internal Revenue Code. Under the savings plan, the Bank will match $.50 for every $1.00 of the employee's contribution up to 6% of the employee's annual compensation. Operations were charged with $1.9 million in 2001 and 2000 and $1.6 million for 1999, for employer matching contributions to the investment plan.

The Bank's ESOP, which is noncontributory by employees, is designed to invest in Webster common stock on behalf of eligible employees of the Bank who meet certain minimum age and service requirements. The Bank may make contributions to the ESOP in such amounts as the Board of Directors may determine on an annual basis. To the extent that the Bank's contributions are used to repay the ESOP loan, Webster common stock is released and allocated to the accounts of participants in the ESOP. Stock and other amounts allocated to a participant's account become fully vested after the participant has completed five years of service under the ESOP guidelines. At December 31, 2001, there were 27,586 unallocated shares of Webster common stock in the ESOP with all remaining shares scheduled for release in early 2002.

At December 31, 2001, the unallocated shares in the ESOP had an aggregate market value of approximately $870,000. Operations were charged with $881,000, $1.4 million and $727,000 for the years ended December 31, 2001, 2000 and 1999, respectively, for costs related to the ESOP. The 2001 ESOP charge includes $796,000 of compensation expense and $85,000 of administrative costs. For 2001, all interest payments due on the ESOP loan principal balance were offset by dividend payments received on the unallocated shares.

The Bank established an Employee Stock Purchase Plan ("ESPP") in April 2000. The ESPP is governed by Section 423 of the Internal Revenue Code of 1986, as amended, and is administered by the Company's stock transfer agent. The ESPP provides eligible employees the opportunity to invest up to 10% of their base compensation to purchase Webster common stock at a discounted price. Since the inception of the ESPP, participants in the ESPP were able to purchase Webster common stock at 85% of the fair market value at the lower of the market price on either the first or last trading day of each offering period. During 2001 and 2000, shares purchased totaled 31,941 and 24,113, respectively. At December 31, 2001, there were 693,946 shares available for future purchase under the ESPP.

The Bank maintains a noncontributory pension plan for employees who meet certain minimum service and age requirements. Pension benefits are based upon earnings of covered employees during the period of credited service. The following tables set forth changes in benefit obligation, changes in plan assets and the funded status of the Bank's pension plan and amounts recognized in Webster's Consolidated Statements of Condition at December 31, 2001 and 2000.

	December 31,	
(In thousands)	**2001**	**2000**
Change in benefit obligation:		
Projected benefit obligation-beginning of year	$ 32,098	25,973
Service cost	4,154	3,488
Interest cost	2,379	2,006
Plan amendments	101	—
Actuarial liability loss	5,145	1,935
Benefits paid and administrative expenses	(1,440)	(1,304)
Projected benefit obligation-end of year	42,437	32,098
Change in plan assets:		
Plan assets at fair value-beginning of year	31,011	27,365
Actual return (loss) on plan assets	(353)	161
Employer contributions	5,847	4,789
Benefits paid and administrative expenses	(1,440)	(1,304)
Plan assets at fair value-end of year	35,065	31,011
Under funded status	7,372	1,087
Unrecognized prior service cost	880	1,055
Unrecognized net loss	(9,575)	(1,320)
Unrecognized transition asset	85	95
Additional minimum liability	2,234	—
Accrued pension benefit cost	$ 996	917

The pension plan held in its investment portfolio 62,000 shares of the Company's common stock as of December 31, 2001 and 2000. The Webster shares had an approximate market value of $2.0 million and $1.8 million at December 31, 2001 and 2000, respectively.

The discount rate, the rate of increase of future compensation levels and the expected long-term rate of return on assets used in determining the actuarial present value of the projected benefit obligation were 7.00%, 5.00% and 9.00%, respectively, for 2001. The corresponding rates for 2000 were 7.25%, 5.00% and 9.00%, respectively.

Net pension expense for 2001, 2000 and 1999 included the following components.

	Years ended December 31,		
(In thousands)	**2001**	**2000**	**1999**
Service cost-benefits earned during the period	$ 4,154	3,488	3,053
Interest cost on projected benefit obligations	2,379	2,006	1,741
Expected return on plan assets	(2,758)	(2,432)	(2,412)
Amortization of prior service cost and transition asset	(84)	(85)	(83)
Total	$ 3,691	2,977	2,299

The Bank also provides other post-retirement benefits to certain retired employees. The following tables set forth the changes in benefit obligation and the funded status of the plan at December 31, 2001 and 2000:

	At December 31,	
(In thousands)	**2001**	**2000**
Change in benefit obligation:		
Accumulated post-retirement benefit obligation-beginning of year	$ 3,487	3,034
Interest cost	234	210
Actuarial gain	(58)	(443)
Benefits paid	(271)	(274)
Plan amendments	—	960
Accumulated post-retirement benefit obligation-end of year	3,392	3,487
Fair value of plan assets	—	—
Funded status	3,392	3,487
Unrecognized prior service cost	(868)	(929)
Unrecognized net gain	779	757
Accrued post-retirement benefit cost	$ 3,303	3,315

The discount rate used in determining the accumulated post-retirement benefit obligation was 7.00% for 2001 and 7.25% for 2000. The assumed healthcare cost-trend rate is 5.5% for 2001 and 5.00% for 2002 and thereafter. An increase of 1.00% in the assumed healthcare cost trend rate for the 2001 period would have increased the net periodic post-retirement benefit cost by $16,000 and increase the accumulated benefit obligation by $248,000. A decrease of 1.00% in the assumed healthcare cost trend rate for the 2001 period would have decreased the net periodic post-retirement cost by $14,000 and decrease the accumulated benefit obligation by $218,000.

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

	Years ended December 31,		
(In thousands)	**2001**	**2000**	**1999**
Interest cost	$ 234	210	202
Amortization of prior service cost and net (gains) losses recognized	25	(7)	—
Net periodic post-retirement benefit cost	$ 259	203	202

The Company maintains fixed stock option plans (the "option plans") for the benefit of its directors and officers. Webster applies the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for the option plans. Accordingly, no compensation cost has been recognized for its option plans in the Consolidated Statements of Income. Had compensation cost for the option plans been determined consistent with SFAS No. 123 and recorded in the Consolidated Statements of Income, net income and earnings per share would have been reduced to the pro forma amounts indicated as follows:

	Years ended December 31,		
(Dollars in thousands, except per share data)	**2001**	**2000**	**1999**
Net income:			
As reported	$ 133,188	118,291	95,350
Pro forma	130,464	116,212	93,981
Basic earnings per share:			
As reported	$ 2.71	2.58	2.14
Pro forma	2.66	2.53	2.11
Diluted earnings per share:			
As reported	$ 2.68	2.55	2.10
Pro forma	2.62	2.50	2.07

The fair value of each option is estimated on the grant date using the Black-Scholes Option-Pricing Model with the following weighted-average assumptions used for grants issued during 2001 were: expected option term of 8.5 years, expected dividend yield of 2.15%, expected volatility of 34.76%, expected forfeiture rate of 2.99%, and weighted risk-free interest rate of 5.37%. The weighted-average assumptions used for grants issued during 2000 were: 9.0 years, 2.35%, 39.02%, 2.00% and 6.76%, respectively; and for 1999 were 9.0 years, 2.35%, 33.94%, 2.00% and 5.89%, respectively.

A summary of the status of the option plans at December 31, 2001, 2000 and 1999 and changes during the years then ended is presented below:

	2001		**2000**		**1999**	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding at beginning of year	3,096,287	$ 21.14	2,924,905	$ 19.00	3,036,414	$ 17.30
Options granted	556,410	28.75	686,193	22.81	340,147	25.56
Options issued in connection with purchase acquisitions	—	—	399,249	13.43	136,166	7.98
Options exercised	(445,082)	12.10	(866,483)	12.02	(577,355)	11.51
Options forfeited/canceled	(46,980)	25.13	(47,577)	20.37	(10,467)	21.37
Options outstanding at end of year	3,160,635	$ 23.69	3,096,287	$ 21.14	2,924,905	$ 19.00
Options exercisable at year end	1,754,410		1,971,224		2,176,068	
Weighted-average per share fair value of options granted during the year		$ 11.45		$ 9.85		$ 9.87

The following table summarizes information about the option plans by price range for options outstanding and exercisable at December 31, 2001:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 3.61 - 7.22	24,656	0.4	$ 6.06	24,656	$ 6.06
7.23 - 10.83	420,774	2.5	9.82	420,774	9.82
10.84 - 14.44	174,710	3.7	13.29	174,710	13.29
14.45 - 18.05	47,310	4.6	16.76	43,110	16.80
18.06 - 21.66	192,538	5.2	19.01	185,038	18.93
21.67 - 25.27	991,357	8.5	23.21	49,857	23.11
25.28 - 28.88	193,091	7.1	26.72	150,591	26.61
28.89 - 32.49	636,199	8.6	30.49	240,674	31.49
32.50 - 36.10	480,000	6.5	33.83	465,000	33.78
	3,160,635	6.8	$ 23.69	1,754,410	$ 22.39

Webster, at December 31, 2001 had a total of 3,160,635 options outstanding that included 200,488 outstanding options that were related to acquired companies. The outstanding options amount was comprised of 2,108,439 Non-Qualified and 1,052,196 of Incentive Stock Options. The options that grant the holder the right to acquire a share of the Company's common stock for each option held, in general, normally vest over a three year period and have a contractual ten year life. The 1992 Stock Option Plan ("the Plan") was amended in 2001 to increase the number of shares of common stock available for issuance under the Plan, to provide for discretionary grants of options to non-employee directors and to discontinue automatic grants of options to non-employee directors. The Plan was also amended in 2000 to permit grants of restricted stock. During 2001 and 2000, there were 86,750 and 39,817, respectively, of restricted common shares granted to senior management under the Plan. The Company also maintains Director Retainer Fees plans that provide non-employee directors with restricted shares in lieu of an annual cash retainer for their services as directors. During 2001, a total of 8,456 restricted shares were granted to fourteen directors with each receiving 604 restricted common shares. The cost of the restricted shares granted to both senior management and non-employee directors was measured as of the grant date using the fair market value of Webster's common stock as of the grant date. The cost of all restricted shares is amortized to compensation expense over the service or vesting period and such expense is reflected in Webster's Consolidated Statements of Income. Under the option plans, as of December 31, 2001, there were 1,089,201 shares available for future grants.

NOTE 16: ACQUISITION-RELATED EXPENSES

Webster established accrual reserves for pending costs related to acquisitions that were accounted for under the pooling of interests method. Webster recorded $9.5 million of expenses in connection with the acquisition of NECB, which was completed on December 1, 1999. Expenses were recorded for the Eagle, People’s and Derby acquisitions during 1997 and 1998 periods.

The following table presents a summary of the acquisition-related accrued liabilities related to these pooling transactions:

(In thousands)	Derby	People’s	Eagle	NECB	Total
Balance of acquisition-related accrued liabilities at December 31, 1999	$ 3,000	400	775	3,300	7,475
Payments and charges against the liabilities:					
Data processing contract termination	(689)	—	—	—	(689)
Transaction costs (includes investment bankers, attorneys & accountants)	—	—	—	(193)	(193)
Writedown of fixed assets and facilities costs	(1,764)	(205)	(462)	(238)	(2,669)
Acquisition-related miscellaneous expenses	—	—	(22)	(1,202)	(1,224)
Balance of acquisition-related accrued liabilities at December 31, 2000	$ 547	195	291	1,667	2,700
Payments and charges against the liabilities:					
Data processing contract termination	(292)	—	—	—	(292)
Writedown of fixed assets and facilities costs	(56)	(56)	(291)	(272)	(675)
Balance of acquisition-related accrued liabilities at December 31, 2001	$ 199	139	—	1,395	1,733

The remaining total accrued liability of $1.7 million at December 31, 2001 consists of reserves for remaining lease payments and other expenses related to closed facilities. Disposition efforts for facilities that have been closed are ongoing.

All acquisitions completed by Webster during 2001 and 2000 were accounted for as purchase transactions. At December 31, 2001, acquisition-related accrued liabilities for purchase transactions totaled $3.0 million, which were primarily for Mechanics related expenses associated with data processing contract termination and remaining lease payments and other expenses related to closed facilities.

NOTE 17: BUSINESS SEGMENTS

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

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

Year ended December 31, 2001

(In thousands)	Retail Banking	Business Banking	Treasury	Adjustments	Consolidated Total
Net interest income	$ 233,919	64,715	68,845	—	367,479
Provision for loan	3,922	10,478	—	—	14,400
Net interest income after provision	229,997	54,237	68,845	—	353,079
Noninterest income	102,534	29,442	30,122	—	162,098
Noninterest expense	222,305	50,063	22,102	14,462	308,932
Income before income taxes, extraordinary item and cumulative effect of change in method of accounting	110,226	33,616	76,865	(14,462)	206,245
Income taxes	36,994	11,040	26,264	(4,868)	69,430
Net income before extraordinary item and cumulative effect of change in method of accounting	73,232	22,576	50,601	(9,594)	136,815
Extraordinary item-early extinguishment of debt (net of taxes)	—	—	(1,209)	—	(1,209)
Cumulative effect of change in method of accounting (net of taxes)	—	—	(2,418)	—	(2,418)
Net income	$ 73,232	22,576	46,974	(9,594)	133,188
Total assets at period end	$ 5,674,932	2,016,932	4,165,518	—	11,857,382

Year ended December 31, 2000 (In thousands)	Retail Banking	Business Banking	Treasury	Adjustments	Consolidated Total
Net interest income	$ 257,400	51,702	17,414	—	326,516
Provision for loan losses	2,423	9,377	—	—	11,800
Net interest income after provision	254,977	42,325	17,414	—	314,716
Noninterest income	89,988	15,462	23,371	—	128,821
Noninterest expense	202,654	34,900	11,102	18,474	267,130
Income before income taxes	142,311	22,887	29,683	(18,474)	176,407
Income taxes	46,899	7,537	9,767	(6,087)	58,116
Net income after taxes	$ 95,412	15,350	19,916	(12,387)	118,291
Total assets at period end	$ 5,641,529	1,682,209	3,925,770	—	11,249,508

Year ended December 31, 1999 (In thousands)	Retail Banking	Business Banking	Treasury	Adjustments	Consolidated Total
Net interest income	$ 240,202	49,596	13,715	—	303,513
Provision for loan losses	5,109	3,891	—	—	9,000
Net interest income after provision	235,093	45,705	13,715	—	294,513
Noninterest income	60,585	15,132	16,913	—	92,630
Noninterest expense	169,785	33,016	13,364	28,296	244,461
Income before income taxes	125,893	27,821	17,264	(28,296)	142,682
Income taxes	41,760	9,236	5,727	(9,391)	47,332
Net income after taxes	$ 84,133	18,585	11,537	(18,905)	95,350
Total assets at period end	$ 5,123,912	1,316,305	3,491,527	—	9,931,744

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

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

Allocations to segments are subject to periodic adjustment as the internal management accounting system is revised and business or product lines within the segments change. Also, because the development and application of these methodologies is a dynamic process, the financial results presented may be periodically revised.

Management allocates indirect expenses to its segments. These expenses include administration, finance, operations and other support functions. Adjustments are made to equal consolidated totals for certain income and expenses that are not allocated to the segments when they do not directly relate to individual segments. For 2001, capital securities expense of $14.5 million was not allocated to a segment. For 2000, capital securities expense of $14.3 million and dividend expense on preferred stock of subsidiary of $4.2 million were not allocated. For 1999, capital securities expense of $14.6 million, dividend expense on preferred stock of subsidiary of $4.2 million and acquisition-related expense of $9.5 million were not allocated.

NOTE 18: CAPITAL SECURITIES OF SUBSIDIARY TRUSTS

During 1997, Webster formed a statutory business trust, Webster Capital Trust I ("Trust I"), of which Webster owns all of the common stock. Trust I exists for the sole purpose of issuing trust securities and investing the proceeds in an equivalent amount of subordinated debentures of the Corporation. On January 31, 1997, Trust I completed a $100.0 million underwritten public offering of 9.36% Corporation-Obligated Mandatorily Redeemable Capital Securities of Webster Capital Trust I ("capital securities"). The sole asset of Trust I is the $100.0 million of Webster's 9.36% junior subordinated deferrable interest debentures due in 2027 ("subordinated debt securities"), purchased by Trust I on January 30, 1997.

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

Total expenses for Trusts I and II were $14.5 million, $14.3 million and $14.6 million for 2001, 2000 and 1999 respectively, inclusive of issuance cost amortization. The expense associated with Trust I and Trust II is tax deductible.

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

The subordinated debt securities are unsecured obligations of Webster and are subordinate and junior in right of payment to all present and future senior indebtedness of Webster. Webster has entered into a guarantee, which together with Webster's obligations under the subordinated debt securities and the declaration of trust governing Trust I and Trust II, including its obligations to pay costs, expenses, debts and liabilities (other than trust securities), provides a full and unconditional guarantee of amounts on the capital securities. The capital securities qualify as Tier I capital under regulatory capital definitions.

NOTE 19: PREFERRED STOCK OF SUBSIDIARY CORPORATION

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

In December 1997, WPCC raised $50.0 million in a public offering in which $40.0 million was issued as Series A 7.375% cumulative redeemable preferred stock and $10.0 million was issued as Series B 8.625% cumulative redeemable preferred stock that is quoted under NASDAQ listing (WBSTP). The Bank owns all of WPCC's common stock. The Series A preferred stock was redeemed in January 2001. The Series B preferred stock is not redeemable prior to January 15, 2003, except upon the occurrence of a specified tax event. Dividend expense on the preferred stock, inclusive of issuance cost amortization, was $985,000 for 2001 and for 2000 and 1999 it was $4.2 million for each year. The preferred shares are not exchangeable into common stock or any other securities of the Bank or Webster, and will not constitute regulatory capital of either the Bank or Webster.

NOTE 20: LEGAL PROCEEDINGS

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

NOTE 21: PARENT COMPANY CONDENSED FINANCIAL INFORMATION

The Condensed Statements of Condition for 2001 and 2000 and the Statements of Income and Cash Flows for the three-year period ended December 31, 2001 (Parent Company only) are presented below.

Statements of Condition

	At December 31,	
(In thousands)	**2001**	**2000**
Assets:		
Cash and due from depository institutions	$ 1,147	55
Interest-bearing deposits	15,928	40,321
Securities available for sale	83,202	95,031
Loan receivable	3,163	—
Investment in subsidiaries	1,161,497	1,014,678
Due from subsidiaries	1,247	108
Other direct investments	16,732	14,333
Other assets	7,217	11,041
Total assets	$ 1,290,133	1,175,567
Liabilities and shareholders' equity:		
Senior notes	$ 126,000	126,000
Other liabilities	7,666	9,193
Total Liabilities	133,666	135,193
Corporation-obligated mandatorily redeemable capital securities of subsidiary trusts	150,000	150,000
Shareholders' equity	1,006,467	890,374
Total liabilities and shareholders' equity	$ 1,290,133	1,175,567

Statements of Income

(In thousands)	Years ended December 31, 2001	2000	1999
Operating Income:			
Dividends from subsidiary	$ 36,000	133,552	50,806
Interest on securities	7,222	7,535	8,088
Interest on loans	95	—	—
Gain on sale of securities	1,674	8,293	1,834
Other noninterest income	663	1	1
Total operating income	45,654	149,381	60,729
Operating Expense:			
Interest expense on borrowings	11,164	7,383	5,541
Capital securities expense	14,462	14,323	14,645
Compensation and benefit	3,966	3,094	2,028
Other noninterest expenses	2,747	1,607	5,276
Total operating expense	32,339	26,407	27,490
Income before income taxes and equity in undistributed earnings of subsidiaries	13,315	122,974	33,239
Income tax benefit	9,300	4,335	6,524
Income before equity in undistributed earnings of subsidiaries	22,615	127,309	39,763
Equity in undistributed earnings (losses) of subsidiaries	110,573	(9,018)	55,587
Net income	$ 133,188	118,291	95,350

Statements of Cash Flows

	Years ended December 31,		
(In thousands)	**2001**	**2000**	**1999**
Operating activities:			
Net income	$ 133,188	118,291	95,350
Decrease (increase) in interest receivable	510	(41)	(72)
Increase in other assets	(1,826)	(11,671)	(1,703)
Gain on sale of securities	(1,674)	(8,293)	(1,834)
Equity in undistributed (earnings) loss of subsidiaries	(110,573)	9,018	(55,587)
(Decrease) increase in other liabilities	(2,010)	4,220	(2,557)
Amortization of stock-based compensation	1,184	595	203
Amortization of securities, net	72	73	(5,137)
Other, net	—	—	1,080
Net cash provided by operating activities	18,871	112,192	29,743
Investing activities:			
Purchases of securities available for sale	(7,268)	(354,560)	(132,824)
Sales and maturities of securities available for sale	30,852	382,669	153,989
Decrease (increase) in interest-bearing deposits	24,431	(40,021)	435
Increase in loan receivable	(3,163)	—	—
Net cash paid for purchase acquisitions	(25,670)	(27,187)	—
Other, net	—	—	(183)
Distribution from bank subsidiary	—	(527)	10,000
Net cash provided (used) by investing activities	19,182	(39,626)	31,417
Financing activities:			
Repayment of borrowings	(357)	(856,649)	(151,607)
Proceeds from borrowings	—	903,240	180,006
Exercise of stock options	7,622	13,308	9,342
Cash dividends to shareholders	(33,003)	(28,645)	(20,729)
Common stock repurchases	(11,223)	(110,797)	(72,161)
Net cash used by financing activities	(36,961)	(79,543)	(55,149)
Increase (decrease) in cash and cash equivalents	1,092	(6,977)	6,011
Cash and cash equivalents at beginning of year	55	7,032	1,021
Cash and cash equivalents at end of year	$ 1,147	55	7,032