1999 ANNUAL REPORT

Focused On The Future

Building Strong Customer Relationships That Increase Shareholder Value

WEBSTER FINANCIAL CORPORATION

Corporate Profile:

Webster Financial Corporation is the holding company for Webster Bank. With $11 billion in assets on a pro forma basis, Connecticut-based Webster Bank provides commercial banking, small business and consumer banking, mortgage, insurance, private banking, and trust and investment services through more than 135 banking offices, 220 ATMs and the Internet at www.websterbank.com. Webster's online mortgage subsidiary at www.nowlending.com on the Worldwide Web originates low-cost mortgages across the United States.

The Webster Way

We take personal responsibility for meeting our customers' financial needs.

We respect the dignity of every individual.

We earn people's confidence through ethical behavior.

We give of ourselves in the communities we serve.

We strive for excellence in everything we do.

With uncompromising commitment to these core principles, we will add value for our customers, shareholders, employees and the communities we serve.

Webster Business Lines

Consumer & Small Business encompasses the retail branch system, Customer Contact Center and ATMs. Offered are consumer loans and lines of credit, checking, savings, and money market accounts, CDs and the Webster Visa® Check Card. Webster's small business bankers provide a full array of services for their customers and can deliver local credit decisions.

Business Banking is well established in serving traditional middle-market customers and is strengthening its reputation as a preferred provider of financial services to the health care and high-tech industries. Among services offered are cash management, asset-based lending, commercial real estate, syndicated lending and international banking.

Mortgage Banking makes home ownership easier for Connecticut residents through one of the industry's most technologically advanced point-of-sale laptop computer based approval systems. Webster originates low-cost mortgages nationwide over the Internet through its www.nowlending.com subsidiary.

Trust & Investment Management offers a comprehensive range of services for businesses and non-profit organizations including defined benefit, pension and profit sharing plans. Services provided to individuals and families include private banking and trust services, asset management, personal trusts, estate planning and settlement and record keeping and reporting. Webster Investment Services, Inc., a wholly owned, broker-dealer subsidiary of Webster Bank, offers mutual funds and fixed and variable annuities.

Insurance provides business customers with a variety of financial services as well as property casualty, workers compensation and general liability protections. A full range of auto and homeowners, life, medical and disability coverage are provided to both individuals and businesses.

Mission:

To help individuals, families and businesses achieve their financial goals.

Financial Highlights

(Dollars in thousands, except share data)	At or for the year ended December 31, 1999	1998	1997
Statement of Condition Data			
Total assets	$ 9,931,744	$ 9,836,029	$ 9,902,775
Loans receivable, net	6,022,236	5,507,118	5,524,918
Securities	3,066,901	3,662,829	3,770,670
Intangible assets	138,829	83,227	83,731
Deposits	6,191,091	6,312,974	6,411,505
Shareholders' equity	635,667	626,454	585,603
Operating Data			
Net interest income	$ 303,513	$ 282,611	$ 285,758
Provision for loan losses	9,000	8,103	26,449
Noninterest income	92,630	82,638	47,723
Noninterest expenses:			
Acquisition-related expenses	9,500	20,993	31,989
Other noninterest expenses	234,961	208,440	197,544
Total noninterest expenses	244,461	229,433	229,533
Income before income taxes	142,682	127,713	77,499
Income taxes	47,332	49,694	29,887
Net income	$ 95,350	$ 78,019	$ 47,612
Significant Statistical Data			
Interest-rate spread	3.18%	2.83%	3.18%
Net interest margin	3.32%	2.97%	3.35%
Return on average shareholders' equity	15.33%	12.82%	8.61%
Net income per common share:			
Basic	$ 2.14	$ 1.72	$ 1.06
Diluted	2.10	1.69	1.04
Dividends declared per common share	0.47	0.44	0.40
Fee income as a percentage of total revenue	21.67%	17.48%	12.96%
Noninterest expenses to average assets	2.51%	2.28%	2.57%
Noninterest expenses to average assets-adjusted(a)	2.07%	1.78%	2.04%
Diluted weighted average shares	45,393	46,118	45,966
Book value per common share	$ 14.09	$ 14.02	$ 13.15
Tangible book value per common share	11.02	12.16	11.27
Shareholders' equity to total assets	6.40%	6.37%	5.91%

(a) Noninterest expenses excluding foreclosed property, intangible amortization, acquisition-related, non-recurring tax, capital securities and preferred dividend expenses divided by average assets.

On December 1, 1999, under the pooling of interests method of accounting, Webster acquired New England Community Bancorp, Inc. All financial data is presented as if the combination occurred at the beginning of the earliest period presented.

All per share data and the number of outstanding shares of common stock have been adjusted retroactively to give effect to stock dividends and a stock split effected in the form of a stock dividend.

James C. Smith, Chairman and Chief Executive Officer

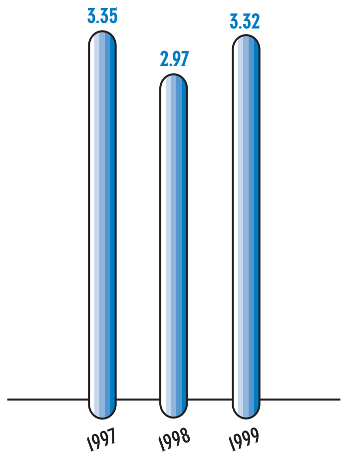
Dear Shareholders

I am pleased to report that 1999 was a year of solid accomplishment for Webster Financial Corporation as we continued to build upon our strong foundation. We have made considerable progress in pursuit of Webster's strategic goals, which are well-known to our shareholders.

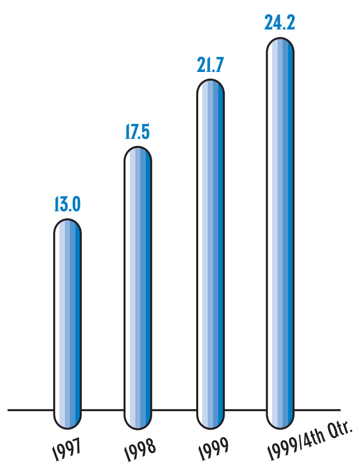
Our plan calls for Webster's transformation to a diversified financial services provider. We are committed to achieving a more commercial bank-like structure, increasing income from fee-based services, maintaining high asset quality, managing expenses and using a disciplined approach toward acquisitions as a way of achieving these objectives.

More and more, Webster is seen as Connecticut's business bank. We have strengthened our business banking team, improved our service offerings and built on our previous success through our emphasis on relationship banking. Business banking will be the driving force behind Webster's ambitious plans for internal growth in the years ahead.

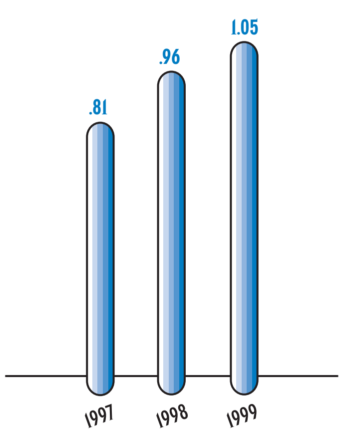
In another important development, we recently announced the formation of a Private Banking service for high net-worth customers who will benefit from investment advisory and other personalized services. All of our new business initiatives are undertaken with a focus on building strong customer relationships that increase shareholder value.



Net Interest Margin (%)



Fee Income as Percentage of Revenue



Operating Return on Average Assets (%)

In a crucial measure of progress, income from fee-based services for the year increased 40 percent, reaching 22 percent of total revenue. We expect that ratio to reach 25 percent by next year. Other key measures of our progress are evident in the makeup of our loans and deposits. At the end of 1999, commercial and consumer loans had risen to 36 percent of our total loan portfolio, up from 23 percent two years ago, and we project they will reach 45 percent by the end of next year. On the deposit side, relatively low-cost core deposits are now fully half of total deposits, up from 41 percent just two years ago. We expect that ratio to reach 55 percent by the end of next year.

Webster's strong results have made it possible to increase our regular quarterly cash dividend while continuing to build shareholders' equity and support future growth. Since my last annual letter, we have twice increased the regular quarterly cash dividend, so that it now stands at $0.14 per common share. Since first paying a dividend in 1987, we have awarded 50 consecutive quarterly cash dividends and increased the dividend nine times.

Return on average shareholders' equity, before acquisition-related items, reached 16.4 percent in 1999, while cash return on equity exceeded 18 percent. While investor sentiment toward the financial services sector overall has been bearish and Webster's total shareholder return was negative for 1999, Webster has consistently outperformed a national peer group consisting of all banks and thrifts with market capitalization of $750 million to $2 billion, as measured for periods of one, three, five, seven and ten years. Webster last year was named to the Standard & Poor's MidCap 400 Index of mid-size market capitalization stocks, which provides recognition of our strong and continuing growth and should increase the company's visibility among investors.

Webster's solid capital levels, in combination with our positive financial performance and relatively low-risk loan portfolio, have been noted by the rating agencies as well. Ratings for both the corporation's and its subsidiaries' long-term debt, as well as long and short term credit, have been raised to investment grade by Standard & Poor's, Fitch IBCA and Duff & Phelps.

We are especially pleased to report that Webster's commitment to make meaningful investments in the communities we serve has also been noted, earning us a fourth consecutive "outstanding" rating under the Community Reinvestment Act.

Webster's growth has been propelled by a successful acquisition record and 1999 was no exception. Webster completed or announced four acquisitions, as well as the purchase of 10 branch offices from out-of-state banks. We successfully completed the acquisitions of three commercial banks — New England Community Bancorp, Village Bancorp and Maritime Bank & Trust. We also announced definitive agreements to acquire MECH

Financial, parent company of Mechanics Savings Bank, which will significantly strengthen our Hartford area franchise, as well as several branch offices of Chase Manhattan Bank and FleetBoston. Because we will account for the MECH transaction using the purchase accounting method, Webster's Board has authorized the repurchase of up to five million shares of our common stock specifically for reissuance in this transaction. Webster's Board believes that at recent valuations, Webster stock represents an attractive long-term value.

When pending merger and branch purchase activity is complete, Webster Bank will have approximately $11 billion in assets and operate through a network of some 135 banking offices and about 220 ATMs.

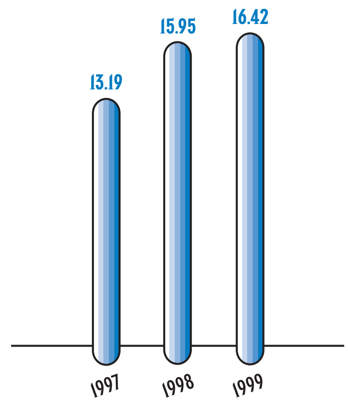
While acquisitions have helped to drive Webster's growth and profitability, our future rests on investments Webster has made in further developing our business lines and in new technology that enables us to generate core earnings. Technology has been a great enabler at Webster, giving us the ability to combine rapidly and efficiently with other financial institutions. Today, technology is leveling the entire financial services playing field, giving us the ability to compete effectively with far larger organizations.

Webster has made a strategic commitment to building our own technological infrastructure for the world of e-commerce. We have established a high-level Internet Steering Committee to coordinate the work of our new e-commerce business group and dedicated Internet technology team. We will own and control the mission-critical processes for providing Internet-delivered services for our customers.

We have launched Web-based banking at www.websterbank.com. We know that the continuing advance of technology will give us even better products, services and access for our customers. Webster's Internet mortgage lender, www.nowlending.com, was relaunched, offering improved functionality and quicker loan approvals.

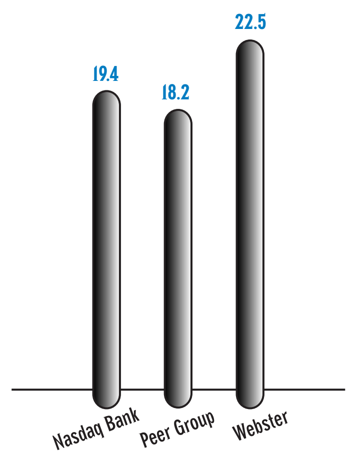
Consistent with Webster's strategy of closely managing customer relationships, we formed our own investment services operation — Webster Investment Services, Inc., a wholly owned, broker-dealer subsidiary. Webster Investment Services offers mutual funds and fixed and variable annuities, in addition to individual securities transactions.

The rapid change in the New England banking environment offers unprecedented competitive opportunities. Webster Bank employees are committed to making us the region's leading financial services provider while maintaining our dedication to the traditional values and sound financial principles that are the foundation of our success. We have built a corporation that is highly competitive, positioned for future growth and committed to our customers and shareholders. With your continuing support, we see the challenges of the future as great opportunities for Webster.

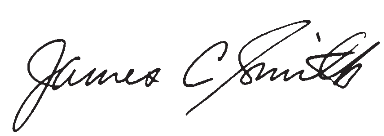


Operating Return on Average Shareholders' Equity (%)*

*Excludes acquisition related Expenses



Five-Year Total Annualized Return (%)



James C. Smith

Chairman and Chief Executive Officer

Our Customers. Our Focus. Our Future.

At Webster Bank, customer service is everything. Enduring relationships with our customers depend on it, and in turn create sustainable shareholder value. Attention to the individual customer is a critical point of differentiation between Webster and its bigger competitors. Respect for the individual is a key Webster value dating back to our beginning in 1935.

We have come a long way since Harold Webster Smith founded our company as a savings and loan association in the depths of the Great Depression. Today, Webster Bank is a modern, mid-size financial services provider dedicated to helping individuals, families, and businesses meet their financial goals. As financial services companies continue to consolidate, and the biggest players become even bigger, mid-size players with know-how, respect for technology, and a competitive mindset will grow and prosper. We demonstrate these qualities every day.

Technology for Better Customer Service

We are committed to understanding the needs of our customers. Our advanced database management capabilities have provided the knowledge for a series of major improvements in the way we interact with our customers.

For example, Project Momentum analyzed the way customers use our products and services. Using Project Momentum data, our consumer

Webster's new Customer Contact Center in Wallingford handles more than 400,000 telephone and automated voice responses per month – and the volume continues to grow. Built from the ground up for Webster, this center's advanced technology is the foundation for better customer service. At left, Kevin Overgaard, one of Webster's well trained Customer Service representatives, assists a customer with an account inquiry.

Customer Contact Center

bankers redesigned products, devised retention programs for key customers, and put in place incentive programs for our branch staff. Continuing progress in using our storehouse of customer data will have a significant positive effect on profitability.

Our Smart Banker project, an extension of Project Momentum, puts on the computer screen of every Webster customer service representative the information they need to better serve their customers. Smart Banker identifies ways to create more value in each relationship, perhaps with a Webster Visa Check Card or by consolidating balances to help the customer get higher rates or lower fees. Smart Banker shows specifically how a particular product can affect the customer's relative value to Webster. And the customer gains in the process.

A new school building is perhaps the best indicator of a community's progress and investment in its future. Webster managed the bond sale for the construction of New Milford's new high school. Pictured in the building under construction are Ray Jankowski, New Milford Director of Finance; Chris Martin, Senior Vice President, Government Finance; and Arthur Peitler, New Milford Mayor.

New Milford High School

Driving each new program to increase the value of customer accounts are targeted marketing efforts that increase sales effectiveness and improve customer retention. We are creating and retaining high value customers and we are providing the right products and services to maximize the value of every relationship through increasingly sophisticated one-to-one marketing supported by the database. As one example, through focused sales efforts, nearly 60 percent of our retail customers have the versatile and convenient Webster Visa Check Card, which at no cost to the customer generates fees for Webster every time a customer uses it to make a purchase. In fact, Webster is one of the top 50 Visa Check Card issuers in the United States.

Advanced technology is the foundation for better customer service in our new Customer Contact Center, which opened its doors for operations in early fall. The center in Wallingford, Connecticut, handles all customer communications, messages, and inquiries, whether by phone, e-mail, video link, or mail. Its state-of-the-art telecommunications systems process more than 400,000 telephone and automated voice responses per month.

Built from the ground up for Webster, we have engineered this strikingly modern facility for future growth and with the flexibility to quickly add or update equipment, as the need arises.

Employee Commitment Improves Service, Cuts Costs

The commitment of our employees to improving the way we deliver products and services to our customers is even more important than our technology.

Using the planning skills fostered through our Best Practices initiative, employee teams have reduced the amount of paperwork required to approve loans. Our instant decision process for consumer and small business loans provides significantly faster approvals while reducing loan origination costs by 20 percent. A new program called Quick Close, now used for about 25 percent of our home equity loan applications, eliminates the usual title search and documentation, without increased risk. Within six months, we expect to be able to close a home equity loan during the initial application meeting.

Improvements in our mortgage lending processes in recent years also have reduced costs and increased our efficiency in processing, underwriting, closing and servicing mortgage loans. We have cut the direct origination expense by more than $500 per loan and reduced residential per-loan servicing costs by 34 percent. We now close mortgage loans at one of the lowest costs in the industry. It is no wonder then that Webster has been in the elite group of mortgage servicing institutions holding a Tier One loan servicing rating from Freddie Mac, based on performance in several areas, including collections, loss mitigation, foreclosures, and investor reporting and remitting.

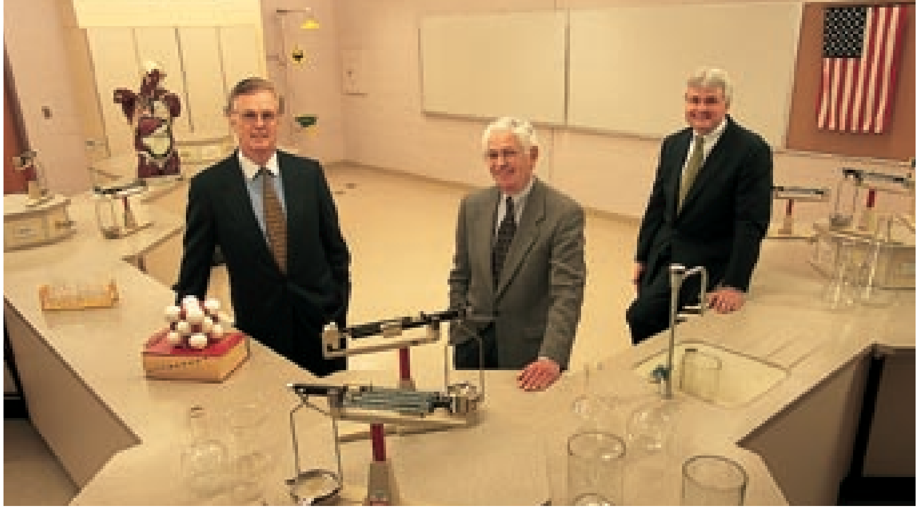
Webster employees also found that by moving our office supply processes to the Internet, eliminating paper forms and speeding delivery, we expect to save $300,000 a year. In another example, we have adopted a new processing system for checks and ATM deposits that will save an estimated $1 million over the next five years.

Cross-selling for Stronger Customer Relationships

Because Webster has brought together a variety of formerly separate financial disciplines under one corporate roof, we have the opportunity to create a strong partnership between our business lines to ensure that we are offering our customers all the products and services that they need. We are meeting that opportunity through a program that we call the Power of Partnership, which encourages employees to make customer referrals to other lines of business and earn additional compensation upon successful sales. This program will play a major role as Webster increases the revenue we generate from non-interest sources.

The Power of Partnership has registered some notable successes. In one instance, Webster commercial bankers referred to their Webster Insurance colleagues a Connecticut-based customer that sells science lab fixtures to schools. The insurance team submitted a competitively priced bid in a timely fashion and won an account worth nearly $100,000 in annual premium.

The sale of insurance products to existing banking customers holds great promise for helping to meet our customers' financial service and insurance needs. In 1999 we established a new model for running our insurance subsidiary, one that separated the brokerage business and the Bank's insurance sales.



Modern School Supplies

A strong partnership between Webster's business lines provides customers with access to the products and services they need. Modern School Supplies of Bloomfield is a case in point. Shown in a Northwest Catholic High School science laboratory in West Hartford refurbished with fixtures supplied by Modern are: Bob Dutton, Vice President, Asset Based Lending; Dan Shoham, President, Modern School Supplies; and John McManus, Vice President, Webster Insurance.

For the year ahead, our insurance professionals have designed several bank-related programs, including joint sales initiatives with Webster Trust, relationship sales with Business Banking, and direct marketing with Consumer and Small Business. One such campaign with Consumer Banking concentrates on a new life insurance policy, providing up to $100,000 in term life protection, which can be sold in just a few minutes by asking the customer just four simple questions.

Webster continues to look for strategic insurance agency acquisitions that can bring us additional expertise in certain products and services, specialties, or a wider geographic reach. Toward that end, Webster recently acquired The Levine Companies, a Waterford and Norwich, Connecticut based agency which last year wrote $41 million in premiums.

Trumpf Inc.

Trumpf Inc., a unit of a German-based manufacturing company, turned to Webster for financing the expansion of its Farmington plant, where sophisticated laser-cutting machinery is assembled. Shown at the control panel of a Trumpf machine are: Conrad Thamm, Vice President, Business Banking, and Peter Liebinger, Chairman and Chief Executive Officer, Trumpf Inc.

Rapid Growth in Business Banking

Webster's business banking capabilities continued to expand in 1999. We strengthened our business banking staff during the year, adding several outstanding senior people who have the experience, contacts and skills we need to serve our growing customer base. We have increased awareness of our business banking capability and we are, as a rule, in the "considered set" when companies seek financing and services.

Today, with our present management and structure, we believe we can double the volume of our business banking. Our relationship managers are among the best in the industry. Their highest priority is to provide quality products along with a total commitment to outstanding customer service. One truly satisfied customer is Trumpf Inc., which assembles laser-cutting machinery at its newly expanded Farmington, Connecticut facility. In financing plant expansion for German-based Trumpf, Webster demonstrated the application of our commercial banking expertise.

As part of Webster's transition to a more commercial bank structure, we are focused on growing the non-residential portion of our loan portfolio. Our commercial loan portfolio, which includes commercial real estate loans, exceeded $1 billion for the first time in 1999 and now stands at 27 percent of total loans, exceeding our earlier announced goal of 22.5 percent. That is meaningful growth.

Specialized loans are, increasingly, a major contributor to our earnings. These loans increase the yield on our assets and enhance credit quality by providing a high quality, well-diversified portfolio by industry and by geographic region.

We are continuing to develop our health care and high technology segment lending expertise. The high technology market, including biotechnology, software development, and telecommunications, presents an exciting opportunity for new business. We have increased the staff and resources dedicated to developing new customer relationships in these areas.

Helping Government Serve its Citizens

Webster Bank's Government Finance professionals are hard at work helping local government, school systems and state agencies meet the needs of the citizens of Connecticut. We see substantial growth potential in this market, as we actively seek new opportunities and as we expand our existing relationships with 55 Connecticut municipalities and public agencies, representing more than $130 million in public deposits.

Our Government Finance team provides services that include cash management, deposits, investments, and financial advice. These services generate both deposits and fee income. For citizens of the rapidly growing town of New Milford in Connecticut's scenic Litchfield County, Webster's assistance is literally taking shape as a new high school building rises from a former farm field. Webster managed the bond sale for one of the most important investments a community can make – the education of its children.

Small Business is Never Small to Us

At Webster, decisions affecting our small business customers' financial needs are made quickly and locally. We believe that we can serve each small business and the small business owner with the personal accounts, retirement plans, insurance, or other products that they need. It's a truism, but word-of-mouth is often the best advertising. Take the case of Westport architect Peter Cadoux. He was so pleased with the service he received that he told his lawyer Larry Weissman. And now, we have his business, too.

To better serve the small business customer, professional or entrepreneur, we redefined our small business approach so that our small business bankers can now provide higher levels of credit faster to worthy customers. We know that the small business market plays a pivotal role in creating new jobs, new wealth and new profits. In fact, projections show that 60 percent of profits in the retail environment will come from the small business segment. To serve this growth market to the fullest, we are committing the resources, the new management talent and the organization needed to grow Webster's small business banking area. At Webster, small business is big business.

Building Trust, Winning Investments

Webster's expanding trust and investment services help guarantee our ability to provide the full range of products necessary to cement the strong customer relationships that help build shareholder value. With a new management and sales team in place, our Webster Trust subsidiary increased

Webster makes decisions locally for its small business customers. Westport architect Peter Cadoux is a satisfied Webster Small Business Banking customer whose personal recommendation resulted in his lawyer choosing Webster for his professional banking relationship. Photographed at a new home of the architect's design in Westport are Peter Cadoux and Joe DeMayo, Vice President, Small Business Banking.

Peter Cadoux Architects

revenues by 20 percent in 1999. A stronger emphasis on referral business will help Webster Trust achieve its near-term goal of $1 billion in assets under management.

One of the best examples of Webster's interdisciplinary approach to customer relationships involves ACMAT Corp., the well-known, New Britain-based interior construction firm, and its two specialty line insurance subsidiaries, United Coastal Insurance Company, and ACSTAR Insurance Company. The Webster team includes business bankers who oversee a $22-million credit relationship, Webster Trust officers who oversee investments in excess of $50 million, and Webster's Money Desk that manages a short-term portfolio of nearly $7 million for the closely-held NASDAQ company.

ACMAT Corporation is highly regarded for its world-class interior construction work. A Webster team is assigned to serve the closely-held company and its specialty line insurance subsidiaries. Pictured at ACMAT headquarters in New Britain are (starting counterclockwise from top right) Tony Campanelli, Director, Business Development, Business Banking; Henry Nozko Sr., ACMAT founder and Chairman; Henry Nozko Jr., ACMAT, Executive Vice President and Chief Operating Officer; Rick Judd, Vice President, Webster Trust; and Peter Samson, Vice President, Business Banking.

ACMAT Corporation

Webster Trust is embarked on a vigorous marketing effort in two areas offering substantial growth, the not-for-profit sector including endowments and foundations, and the personal accounts business.

In a very important development, Webster recently established a Private Banking unit, under the leadership of experienced private bankers. Webster's Private Bank will offer professionals, business executives, and entrepreneurs integrated financial services, including trust and investment management, consumer and business loans, deposits, mortgages, and insurance products, with the level of individual attention that the private banking customer expects.

Webster Investment Services Launched

Webster Investment Services Inc., our new broker-dealer subsidiary, started operations in the third quarter of 1999, selling primarily mutual

funds and annuities. By the end of 1999, investment sales were running 28 percent higher than in the prior year.

By bringing this business in-house, we have solidified customer relationships and created a stronger base for the sale of investments through our branches. We are transforming this historically transactional business to a relationship business. Nearly 100 of our branch representatives were trained and registered to sell a limited number of mutual funds during 1999. We plan to have one trained employee in each branch office, complementing our 25 full-time investment sales executives who sell fixed and variable annuities and mutual funds, plus common stocks when requested by customers.

To strengthen and broaden customer relationships, Webster Investment Services plans to introduce new products and services, including asset management products and various financial planning tools. We also will initiate a pilot insurance program for term, variable life, and long-term care products.

Webster on the Web

Webster introduced Web-based banking in 1999 and we already have close to 10,000 customers banking with us in this environment at www.websterbank.com. This is just the beginning. More and more, the Internet will be the means for customers to access financial services. To meet this challenge, we have hired a senior vice president of internet development and established an e-commerce team. We are moving aggressively to expand our Internet presence, and are doing so in "Internet time."

Our Internet-based mortgage originator, www.nowlending.com, last year launched an upgraded on-line platform, which offers some of the lowest mortgage rates and fees on the Worldwide Web. The website features a simplified approval process that gives customers nationwide loan approvals within 24 hours – often much quicker – and a rate lock in as little as two hours, including full disclosure of all fees.

We believe that within five years, mortgages originated on-line could easily account for 20 percent of the nearly $1.5 trillion national mortgage market. We have exciting plans for upgrading www.nowlending.com in 2000 and it should benefit from a targeted national marketing campaign that is already under way. With www.websterbank.com and www.nowlending.com, Webster has two platforms for serving customers in the exciting and expanding world of e-commerce.

Connecticut's Webster Bank

There can be no better symbol of Webster's Connecticut roots and our home court advantage than Basketball Coach Jim Calhoun. One of Connecticut's most recognizable citizens, Coach Calhoun became an advertising spokesman for Webster in 1999. As part of a multi-year contract, he is appearing on behalf of Webster in television and print advertising and at events for Webster customers and employees. The television commercials feature Coach Calhoun talking about his personal philosophy on life and winning basketball, which also parallel the core values of Webster employees. "Commitment, desire and respect. Doing things the right way. No short cuts," Calhoun says in one of the spots. These ads

Connecticut Basketball Coach Jim Calhoun

Webster's Internet-based mortgage origination subsidiary provides low cost mortgage loans nationwide. Peter Olson of Newburyport, Mass., describes his experience finding the best possible mortgage refinancing rate and lowest fees through www.nowlending.com as "a piece of cake." Pictured in front of their warm home on a cold winter's day are Peter, his wife Nonie and daughter Olivia.

Olson Family

reveal some of Jim Calhoun's most deeply held values about winning in life and in basketball. They are the same values that Webster Bank has embraced as a way of doing business since its founding.

The merger of large regional competitors, which is resulting in branch office divestitures continuing through the summer of this year, has created unprecedented opportunities for Webster since many retail and business customers may be looking for new banking relationships. As a Connecticut-based bank, we hold a competitive edge versus larger, out-of-state banks. Many people want a bank that expresses clear, customer-focused values, that provides a full range of products and services, and that will make decisions locally.

At Webster Bank, where customer service is everything, the challenges of today, and those we will face in the years ahead, are our great opportunities.

Board of Directors

James C. Smith,
Chairman and Chief Executive Officer

Richard H. Alden, Esq.,
Principal, Anderson, Alden, Hayes, Ziogas & Storm, L.L.C.

Achille A. Apicella, C.P.A.,
President, Apicella, Testa & Company, P.C.

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

O. Joseph Bizzozero, Jr., M.D.,
President, Bizzozero Assoc. P.C.

George T. Carpenter,
President and Treasurer, S. Carpenter Construction Co., and Carpenter Realty Co.

John J. Crawford,
President and Chief Executive Officer, South Central Connecticut Regional Water Authority and President and Chief Executive Officer, Aristotle Corporation

Harry P. DiAdamo,
Former President and Chief Executive Officer, DS Bancor and Derby Savings Bank

Robert A. Finkenzeller,
President, Eyelet Crafters, Inc.

P. Anthony Giorgio, Ph.D.,
President and Chief Executive Officer, Connecticut Capitol Region Growth Council, Inc.

C. Michael Jacobi,
Chairman, Timex Watches Limited and Chairman and Chief Executive Officer, Beepwear Paging Products, L.L.C.

J. Allen Kosowsky, C.P.A.,*
J. Allen Kosowsky, C.P.A., P.C.

John F. McCarthy,
President, J&M Sales Co., Inc.

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

Joseph A. Welna, M.D.,*
New Britain Obstetrical and Gynecological Group

* Webster Bank only

Executive Management Group

Harriet Munrett Wolfe, Esq.,
Senior Vice President,
General Counsel and Secretary

Ross M. Strickland,
Executive Vice President,
Mortgage Banking

Renee P. Seefried,
Executive Vice President,
Human Resources*

Jeffrey N. Brown,
Executive Vice President,
Marketing and Communications*

Peter K. Mulligan,
Executive Vice President,
Consumer and Small Business Banking

Pictured left to right

Pictured clockwise from front

John J. Queirolo,
President and Chief Executive Officer,
Webster Insurance

Thomas N. Howe,
Executive Vice President, Trust and
Investment Management Services*;
President and Chief Executive Officer,
Webster Trust Company, N.A.; President
Webster Investment Services, Inc.

Mark J. Tarmy,
Executive Vice President,
Information Technology*

William T. Bromage,
Senior Executive Vice President, Business
Banking and Corporate Development

John V. Brennan,
Executive Vice President,
Chief Financial Officer and Treasurer
(not pictured)

Glossary of Terms

Allowance for Loan Losses

A reserve for estimated loan losses at a particular balance sheet date.

Basic Earnings Per Common Share

Net income applicable to common stock (after deducting dividends on preferred stock) divided by the weighted average number of common shares outstanding during the period.

Book Value Per Common Share

Total common shareholders' equity divided by the number of shares of common stock outstanding.

Capital Components and Ratios for Webster Bank

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

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

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

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

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

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

Comprehensive Income

The change in equity of a business enterprise during a period from transactions and other events except from changes resulting from investments by or distributions to owners.

Core Deposit Intangible

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

Derivatives

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

Diluted Earnings Per Common Share

Net income divided by the weighted average number of common shares outstanding during the period, plus common-equivalent shares (such as stock options) and common shares issuable upon assumed conversion of any outstanding convertible preferred stock.

EVA

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

Foreclosed Properties

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

Interest-Earning Assets

The sum of loans, securities and short-term investments.

Interest-Bearing Liabilities

The sum of interest-bearing deposits, Federal Home Loan Bank advances, securities sold under agreements to repurchase and other borrowings.

Interest-Rate Spread

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

Net Interest Income

The difference between interest and dividends on earning assets and interest paid on interest-bearing liabilities, adjusted for the effect of off-balance-sheet derivative financial instruments utilized to hedge interest rate risk.

Net Interest Margin

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

Nonaccrual Assets

The sum of nonaccrual loans plus foreclosed properties.

Nonaccrual Loans

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

Reserve Coverage

Allowance for loan losses divided by nonaccrual loans.

Return on Average Equity

Net income as a percentage of average shareholders' equity.

Introduction

Webster Financial Corporation ("Webster" or the "Company"), through its subsidiaries, Webster Bank (the "Bank") and Damman Associates, Inc. ("Damman"), delivers financial services to individuals, families and businesses primarily in Connecticut. Webster emphasizes five business lines – consumer banking, business banking, mortgage lending, trust and investment services, and insurance services, each supported by centralized administration and operations. Webster has grown significantly in recent years, primarily through a series of acquisitions which have expanded and strengthened its franchise.

Assets at December 31, 1999 were $9.9 billion compared to $9.8 billion a year earlier. Net loans receivable amounted to $6.0 billion at December 31, 1999 and $5.5 billion at December 31, 1998. Deposits were $6.2 billion at December 31, 1999 and $6.3 billion at December 31, 1998.

Business Combinations

Pooling of Interests Transactions

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

The NECB Acquisition

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

The Bank of South Windsor Acquisition

On August 14, 1998, Webster acquired Bank of South Windsor ("BSW") as a result of its acquisition of NECB. In connection with the acquisition, Webster effectively issued 1,346,200 shares of its common stock for all the outstanding shares of BSW common stock after adjusting for the conversion factor related to the NECB acquisition.

The Olde Port Acquisition

On July 10, 1998, Webster acquired Olde Port Bank and Trust Company ("Olde Port") as a result of its acquisition of NECB. In connection with the acquisition, Webster effectively issued 621,160 shares of its common stock for all the outstanding shares of Olde Port common stock after adjusting for the conversion factor related to the NECB acquisition.

The Eagle Acquisition

On April 15, 1998, Webster acquired Eagle Financial Corp. ("Eagle") and its subsidiary, Eagle Bank, a $2.1 billion savings bank, headquartered in Bristol, Connecticut. In connection with the merger with Eagle, Webster issued 10,615,156 shares of its common stock for all of the outstanding shares of Eagle common stock. Under the terms of the agreement, each outstanding share of Eagle common stock was converted into 1.68 shares of Webster common stock. Prior to the acquisition, Eagle's fiscal year ended on September 30. In recording the pooling of interests combination, Eagle's financial statements as of and for the twelve months ended September 30, 1997 were combined with Webster's financial statements as of and for the twelve months ended December 31, 1997. An adjustment has been made in the 1998 Consolidated Statements of Shareholders' Equity to include Eagle's unaudited net income for the period October 1, 1997 to December 31, 1997 as a direct credit to retained earnings. Eagle's operating results for this period included net interest income of $15.7 million and net income of $4.9 million and are not included in the Consolidated Statement of Income of the combined entity for the year ended December 31, 1998.

The First Bank of West Hartford Acquisition

On August 7, 1997, Webster acquired First Bank of West Hartford ("FBWH") as a result of its acquisition of NECB. In connection with the purchase, Webster effectively issued 1,054,700 shares of its common stock for all the outstanding shares of FBWH common stock after adjusting for the conversion factor related to the NECB acquisition.

The People's Acquisition

On July 31, 1997, Webster acquired People's Savings Financial Corp. ("People's") and its subsidiary, People's Savings Bank & Trust, a $482 million in assets savings bank headquartered in New Britain, Connecticut. In connection with the merger with People's, Webster issued 3,151,992 shares of its common stock for all the outstanding shares of People's common stock. Under the terms of the agreement, each outstanding share of People's common stock was converted into .85 shares of Webster common stock.

The MidConn Acquisition

On May 31, 1997, Webster acquired MidConn Bank ("MidConn") as a result of its acquisition of Eagle. In connection with the merger, Webster effectively issued 2,869,440 shares of its common stock for all the outstanding shares of MidConn common stock after adjusting for the conversion factor related to the Eagle Acquisition.

The Derby Acquisition
On January 31, 1997, Webster acquired DS Bancor, Inc. ("Derby") and its subsidiary, Derby Savings Bank, a $1.2 billion in assets savings bank headquartered in Derby, Connecticut. In connection with the merger with Derby, Webster issued 7,002,740 shares of its common stock for all the outstanding shares of Derby common stock. Under the terms of the agreement each outstanding share of Derby common stock was converted into 1.14158 shares of Webster common stock.

Purchase Transactions

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

The Village Acquisition
On May 19, 1999, Webster acquired Village Bancorp, Inc. ("Village"), the holding company for The Village Bank & Trust Company in a tax-free, stock-for-stock exchange. Village had approximately $215 million in total assets and $200 million in deposits at six branches.

The Maritime Acquisition
On April 21, 1999, Webster acquired Maritime Bank & Trust Company ("Maritime") in a tax-free, stock-for-stock exchange. Maritime had approximately $95 million in total assets and $85 million in deposits at three branches.

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

The Damman Acquisition
On June 1, 1998, Webster completed its acquisition of Damman. Damman is a full service Westport-based insurance agency, providing property-casualty, life and group coverage to commercial and individual customers. Damman has offices in Westport and Wallingford and approximately 50 employees. During 1998, Webster began offering a full array of insurance services to its consumer and commercial customer base.

The Community Savings Bank Acquisition
On December 31, 1997, Webster acquired Community Savings Bank ("Community Bank") as a result of its acquisition of NECB. In connection with the purchase, Webster effectively paid $5.62 in cash for each Community Bank common share outstanding.

The Sachem Acquisition
On August 1, 1997, Webster acquired Sachem Trust National Association ("Sachem Trust"), a trust company headquartered in Guilford, Connecticut, in a tax-free stock-for-stock exchange. Sachem Trust had approximately $300 million of trust assets under management at the time of acquisition.

Purchase Transactions Pending Consummation at December 31, 1999

The Mechanics Acquisition
In December 1999, Webster announced a definitive agreement to acquire MECH Financial, Inc. ("Mechanics"), the holding company for Mechanics Savings Bank, in a tax free, stock-for-stock exchange. Mechanics Savings Bank is 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 will receive 1.52 shares of Webster common stock for each share of Mechanics. Webster expects to close the transaction and complete the conversion during the second quarter of 2000.

The Chase Branch Acquisition
In November 1999, Webster announced a definitive agreement to acquire six Connecticut branches from The Chase Manhattan Bank. The branches are located in Cheshire, Middlebury, North Haven, Waterbury (2) and Watertown and have approximately $165 million in deposit balances. The transaction includes the purchase of consumer deposits, small business deposits and loans, and brokerage and custody accounts associated with these branches. Webster expects to close the transaction and complete the acquisition during the second quarter of 2000.

The FleetBoston Branch Acquisition
In November 1999, Webster announced a definitive agreement with FleetBoston Corporation to purchase four Connecticut branches that are being divested as the result of the Fleet-BankBoston merger. The branches, with $163 million in deposit balances, are located in Brookfield, Guilford, Meriden, and Thomaston. The transaction includes the purchase of deposits and loans for individual and small business customers associated with these branches. Webster expects to close the transaction and complete the acquisition during the third quarter of 2000.

Purchase Transactions Subsequent to December 31, 1999

The Levine Acquisition
In February 2000, through Damman, Webster acquired the Levine companies ("Levine"), a privately owned Waterford and Norwich, Connecticut based insurance agency. Founded in 1928, the group combines three entities; Louis Levine Agency, Inc., Levine Financial Services, Inc. and Retirement Planning Associates, Inc. Levine has 50 employees and wrote $41 million in premiums during 1999.

Asset Quality

Nonaccrual Assets

Webster devotes significant attention to maintaining high asset quality through conservative underwriting standards, active servicing of loans and aggressively managing nonaccrual assets. The aggregate amount of nonaccrual assets increased to $43.3 million at December 31, 1999 from $35.9 million at December 31, 1998 and increased as a percentage of total assets to .44% at December 31, 1999 from .36% at December 31, 1998. Nonaccrual loans increased $7.7 million in 1999 and foreclosed properties decreased $254,000. The allowance for loan losses at December 31, 1999 was $72.7 million and represented 191% of nonaccrual loans and 1.2% of total loans. Total allowances for nonaccrual assets of $72.9 million represented 167% of nonaccrual assets. The following table details nonaccrual assets for the last five years.

					December 31,
(In thousands)	1999	1998	1997	1996	1995
Nonaccrual Assets:					
Loans accounted for on a nonaccrual basis:					
Residential	$ 11,490	$ 12,418	$ 34,731	$ 37,073	$ 41,508
Commercial	25,722	16,449	13,626	18,416	26,288
Consumer	1,182	1,852	3,624	6,143	6,904
Foreclosed Properties:					
Residential and Consumer	2,698	1,715	8,804	11,099	12,757
Commercial	2,210	3,447	6,335	11,157	17,548
Total	$ 43,302	$ 35,881	$ 67,120	$ 83,888	$ 105,005

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)	1999	1998	1997	1996	1995
Balance at beginning of period	$ 65,201	$ 71,599	$ 63,047	$ 69,091	$ 73,615
Charge-offs:					
Residential real estate	(3,246)	(13,662)	(16,281)	(21,218)	(14,184)
Consumer	(1,784)	(3,556)	(4,305)	(4,350)	(1,438)
Commercial	(2,376)	(4,044)	(6,039)	(8,895)	(6,657)
	(7,406)	(21,262)	(26,625)	(34,463)	(22,279)
Recoveries:					
Residential real estate	838	1,081	4,368	1,103	1,020
Consumer	299	302	555	416	1,068
Commercial	1,079	2,755	1,697	2,278	1,717
Net charge-offs	(5,190)	(17,124)	(20,005)	(30,666)	(18,474)
Allowances from purchase transactions	3,647	—	2,108	8,881	1,961
Reclassification of allowance for segregated asset losses	—	2,623	—	—	—
Provisions charged to operations	9,000	8,103	26,449	15,741	11,989
Balance at end of period	$ 72,658	$ 65,201	$ 71,599	$ 63,047	$ 69,091
Ratio of net charge-offs to average loans outstanding	0.1%	0.3%	0.4%	0.6%	0.4%

Net charge-offs decreased $11.9 million to $5.2 million in 1999 due primarily to decreases in residential nonaccrual loans. Included in the 1998 charge-offs were write-downs of $8.6 million related to the bulk sales of $26.3 million of primarily nonaccrual and delinquent loans. Included in the 1997 charge-offs were write-downs of $5.8 million related to a bulk sale of $17.7 million of nonaccrual residential loans and foreclosed properties. The 1998 provisions charged to operations include $1.5 million specifically related to the acquisition of Eagle. See Note 12 to the Consolidated Financial Statements for a summary of activity in the allowance for losses on foreclosed properties. Management believes that the allowance for loan losses at December 31, 1999 is adequate to cover expected losses in the portfolio.

Liquidity and Capital Resources

The Bank is required to maintain minimum levels of liquid assets as defined by regulations adopted by the Office of Thrift Supervision ("OTS"). This requirement, which may be varied by the OTS, is based upon a percentage of net withdrawable deposits and short-term borrowings. The required liquidity ratio is currently 4.00% and the Bank's liquidity ratio at December 31, 1999 exceeded the requirement. Webster Bank is also required by regulation to maintain sufficient liquidity to ensure safe and sound operations. Adequate liquidity as assessed by the OTS may vary from institution to institution depending on such factors as the institution's overall asset/liability structure, market conditions, competition and the nature of the institution's deposit and loan customers. The OTS considers both an institution's liquidity ratio as well as safety and soundness issues in assessing whether an institution has sufficient liquidity.

Liquidity 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 maintaining the ability to attract new deposits. Webster's goal is to maintain a strong base of core deposits to support its growing balance sheet.

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

Webster is a member of the Federal Home Loan Bank ("FHLB") system and has additional borrowing capacity from the FHLB of $1.4 billion at December 31, 1999. At that date, the Bank had FHLB advances outstanding of $1.7 billion compared to $1.8 billion at December 31, 1998. See Note 8 to the Consolidated Financial Statements.

Webster's main sources of liquidity at the holding company level are dividends from the Bank, investment income and net proceeds from capital offerings and borrowings. The main uses of liquidity are purchases of available for sale securities, the payment of dividends to preferred and common stockholders, repurchases of Webster's common stock, and the payment of interest to holders of Webster's senior notes and capital securities. $40 million of senior notes will mature on June 30, 2000. Management is assessing alternatives to replace funding provided by this debt. There are certain restrictions on the payment of dividends by the Bank to Webster. See Note 14 to the Consolidated Financial Statements. Webster also maintains $90 million in revolving lines of credit with correspondent banks.

During 1999, Webster repurchased a total of 2,622,608 shares of its common stock under three announced repurchase programs. See Note 14 to the Consolidated Financial Statements for further information concerning the stock repurchases.

Applicable OTS regulations require the Bank, as a federal savings bank, to satisfy certain minimum capital requirements, including a leverage capital requirement and risk-based capital requirements. As an OTS regulated savings institution, the Bank is also subject to a minimum tangible capital requirement. At December 31, 1999, the Bank was in full compliance with all applicable capital requirements. See Note 14 to the Consolidated Financial Statements.

Asset/Liability Management and Market Risk

Interest-rate risk is the sensitivity of the market value of Webster's interest-sensitive assets and liabilities and the sensitivity of Webster's earnings to changes in interest rates over short-term and long-term time horizons. The primary goal of interest-rate risk management is to control risk within limits approved by the Board of Directors. Webster's Asset & Liability Management Committee manages interest-rate risk to maximize net interest income and net market value over time in changing interest-rate environments. Management measures interest-rate risk using simulation analyses with particular emphasis on measuring changes in net market value and net interest income in different rate environments. Market value is measured as the net present value of future cash flows. Simulation analysis incorporates assumptions about balance sheet changes such as asset and liability growth, loan and deposit pricing and changes due to the mix of assets and liabilities. Key assumptions relate to the behavior of interest rates and spreads, fluctuations in product balances, prepayment speeds and decay rates on deposits. From such simulations, interest-rate risk is quantified and appropriate strategies are formulated and implemented.

Webster also uses as part of its asset/liability management strategy various interest-rate contracts including futures and options, interest-rate swaps and interest-rate caps and floors. Webster utilizes these financial instruments to manage interest-rate risk by reducing net exposures. These interest-rate financial instruments involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur if a counterparty to a transaction fails to perform according to the terms of the contract. Market risk is the effect of a change in interest rates on the value of the instruments. The notional amount of interest-rate financial instruments is the amount upon which interest and other payments under the contract are based. The notional amount is not exchanged and therefore, the notional amounts should not be taken as a measure of credit risk. See Notes 3 and 10 to the Consolidated Financial Statements.

Webster holds futures and options positions and interest-rate contracts to minimize the price volatility of certain assets held as Trading Securities. Changes in the market value of these positions are recognized in the Consolidated Statements of Income in the period for which the change occurred.

The following table summarizes the estimated market value of Webster's interest-sensitive assets and interest-sensitive liabilities at December 31, 1999 and 1998, and the projected change to market values if interest rates instantaneously increase or decrease by 100 basis points.

(Dollars in thousands)	Book Value	Market Value	Estimated Market Value Impact -100 BP	+100 BP
1999				
Interest Sensitive Assets:				
Trading	$ 50,854	$ 50,854	$ 181	$ (479)
Non-trading	8,780,473	8,695,323	223,137	(256,650)
Interest Sensitive Liabilities	9,219,951	8,838,371	(139,222)	129,373
Net Impact			84,096	(127,756)
Net Impact as % of interest sensitive assets			1.0%	-1.5%
1998				
Interest Sensitive Assets:				
Trading	$ 91,114	$ 91,114	$ (84)	$ (1,236)
Non-trading	8,872,123	9,012,443	148,515	(192,378)
Interest Sensitive Liabilities	8,890,959	9,043,869	(143,097)	137,806
Net Impact			5,334	(55,808)
Net Impact as % of interest sensitive assets			0.1%	-0.6%

The tables above exclude interest-earning assets that are not directly impacted by changes in interest rates. These assets include equity securities of $201.4 million at December 31, 1999 and $244.7 million at December 31, 1998 (see Note 3 to the Consolidated Financial Statements) and nonaccrual loans of $38.4 million at December 31, 1999 and $30.7 million at December 31, 1998 (see "Asset Quality" within the MD&A). Values for mortgage servicing rights have been included in the tables above as movements in interest rates affect the valuation of the servicing rights. Equity securities and nonaccrual assets not included in the above tables are, however, subject to fluctuations in market value based on other risks. The equity securities include $103.9 million of FHLB stock which is insensitive to market fluctuations (see Note 3 to the Consolidated Financial Statements). The remaining $97.5 million of equity securities had a net unrealized loss of $3.4 million at December 31, 1999.

Interest-sensitive assets, net of interest-sensitive liabilities, when impacted by a minus 100 basis point rate change, result in a favorable $84.1 million change in net market values for 1999 compared to a favorable $5.3 million net market value change in 1998. These changes represent 1.0% of interest-sensitive assets in 1999 and 0.1% in 1998. A plus 100 basis point rate change results in an unfavorable $127.8 million or 1.5% change in 1999 compared to an unfavorable $55.8 million or 0.6% change in 1998.

Based on Webster's asset/liability mix at December 31, 1999, management estimates that an instantaneous 100 basis point increase in interest rates would decrease net interest income over the next twelve months by 3.4% compared to a 2.6% decrease at December 31, 1998. An instantaneous 100 basis point decline in interest rates would increase net interest income by 5.0% compared to a decrease in net interest income of 1.9% at December 31, 1998. These estimates assume that management takes no action to mitigate any negative effects from changing interest rates.

The market values and net interest income estimates are subject to factors that could cause actual results to differ. Management believes that Webster's interest-rate risk position at December 31, 1999, represents a reasonable level of risk.

COMPARISON OF 1999 AND 1998 YEARS

General

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

Net Interest Income

Net interest income before provision for loan losses increased $20.9 million in 1999 to $303.5 million from $282.6 million in 1998. The increase is primarily attributable to a reduction of the yield on interest-bearing liabilities. The cost of interest-bearing liabilities was lower in 1999 due primarily to lower rates on deposits. Interest-rate spread for the 1999 year increased to 3.18% compared to 2.83% in 1998. The average balance for interest-bearing deposits was $5.6 billion with a yield of 3.63% for the 1999 year compared to $5.8 billion with a yield of 4.13% for 1998. The average balance for investment securities was $3.3 billion with a yield of 6.30% for the 1999 year compared to $4.1 billion with a yield of 6.15% for 1998.

Interest Income

Total interest income for 1999 amounted to $645.8 million, a decrease of $36.4 million, or 5.3% compared to $682.2 million in 1998. The lower interest income was due primarily to a decrease in the average volume of securities partially offset by an increase in net loans.

Interest Expense

Interest expense for 1999 totaled $342.3 million, a decrease of $57.3 million compared to $399.6 million in 1998. The lower interest expense was due primarily to a decrease in the yield on interest-bearing deposits in 1999 compared to 1998.

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

For the Years ended December 31,

(Dollars in thousands)	1999 Average Balance	1999 Interest	1999 Average Yield	1998 Average Balance	1998 Interest	1998 Average Yield	1997 Average Balance	1997 Interest	1997 Average Yield
Loans, net (a)	$ 5,802,453	$ 435,326(b)	7.50%	$ 5,416,531	$ 430,636(b)	7.95%	$ 5,421,314	$ 429,154(b)	7.92%
Securities and interest bearing deposits	3,342,188	210,466	6.30(c)	4,098,608	251,601	6.15(c)	3,100,412	203,912	6.60(c)
Total interest-earning assets	9,144,641	645,792	7.06%	9,515,139	682,237	7.16%	8,521,726	633,066	7.43%
Other assets	600,483			564,689			420,328		
Total assets	$ 9,745,124			$ 10,079,828			$ 8,942,054		
Savings and escrow	$ 1,477,856	$ 34,058	2.30%	$ 1,399,519	$ 34,503	2.47%	$ 1,374,974	$ 32,825	2.39%
Money market savings, NOW and DDA	1,519,929	15,185	1.00	1,346,043	13,798	1.03	1,311,117	15,945	1.22
Time deposits	3,228,480	154,562	4.79	3,651,017	192,880	5.28	3,653,467	192,637	5.27
FHLB advances	1,585,458	84,498	5.33	1,675,789	96,140	5.74	1,184,948	68,690	5.80
Repurchase agreements and other borrowings	978,581	50,316	5.14	1,049,520	58,645	5.59	607,638	33,551	5.52
Senior notes	40,000	3,660	9.15	40,000	3,660	9.15	40,000	3,660	9.15
Total interest-bearing liabilities	$ 8,830,304	$ 342,279	3.88%	$ 9,161,888	$ 399,626	4.33%	$ 8,172,144	$ 347,308	4.25%
Other liabilities	93,252			109,993			94,524		
Capital securities and minority interest	199,577			199,577			122,630		
Shareholders' equity	621,991			608,370			552,756		
Net interest income and interest-rate spread		$ 303,513	3.18%		$ 282,611	2.83%		$ 285,758	3.18%
Total liabilities and shareholders' equity	$ 9,745,124			$ 10,079,828			$ 8,942,054		
Net interest margin			3.32%			2.97%			3.35%

(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 and premiums (net of discounts) of: $469,000, $1.9 million and $4.2 million in 1999, 1998 and 1997, respectively.

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

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

	Years ended December 31, 1999 v. 1998			Years ended December 31, 1998 v. 1997		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
(In thousands)	Rate	Volume	Total	Rate	Volume	Total
Interest on Interest-earning Assets:						
Loans	$ (17,729)	$ 22,419	$ 4,690	$ 1,860	$ (378)	$ 1,482
Securities	6,694	(47,829)	(41,135)	(12,446)	60,135	47,689
Total	$ (11,035)	$ (25,410)	$ (36,445)	$ (10,586)	$ 59,757	$ 49,171
Interest on Interest-bearing Liabilities:						
Deposits	(31,096)	(6,280)	(37,376)	(2,624)	2,398	(226)
FHLB advances and other borrowings	(11,028)	(8,943)	(19,971)	(891)	53,435	52,544
Total	$ (42,124)	$ (15,223)	$ (57,347)	$ (3,515)	$ 55,833	$ 52,318
Net change in net interest income	$ 31,089	$ (10,187)	$ 20,902	$ (7,071)	$ 3,924	$ (3,147)

Provision for Loan Losses

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

Noninterest Income

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

Noninterest Expenses

Noninterest expenses for 1999 were $244.5 million compared to $229.4 million in 1998. Included in the 1999 total are acquisition-related expenses totaling $9.5 million for the NECB acquisition. The 1998 results include acquisition-related expenses totaling $21.0 million which include: $17.4 million for the Eagle acquisition, $3.4 million for the Bank of South Windsor acquisition and $200,000 for the Olde Port acquisition. Excluding acquisition-related expenses, noninterest expenses for 1999 increased $26.5 million compared to 1998. In 1998, salaries and benefits expenses included a $1.5 million reduction in expenses related to the consolidation of the former Eagle pension and post-retirement benefits plans into Webster's plans.

Income Taxes

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

Comparison of 1998 and 1997 Years

General

In 1998, Webster reported net income of $78.0 million, or $1.69 per share on a diluted basis. Included in the 1998 results were acquisition-related expenses of $21.0 million and provision for loan losses of $1.5 million, the latter specifically related to the Eagle acquisition. Also included in the 1998 results was a non-recurring net tax expense of $3.2 million. Excluding the net effects of tax-effected acquisition-related expenses and non-recurring tax expense, net income for the 1998 year would have been $97.0 million or $2.10 per diluted share. Net income for 1997 amounted to $47.6 million, or $1.04 per share on a diluted basis. Included in the 1997 results were acquisition-related expenses of $32.0 million and provisions for loans losses of $9.9 million related to acquisitions. Excluding the effect of tax-effected acquisition-related expenses and provisions for loan losses, net income for the 1997 year would have been $72.9 million or $1.59 per diluted share.

Net Interest Income

Net interest income before provision for loan losses decreased $3.2 million in 1998 to $282.6 million from $285.8 million in 1997. The decrease was primarily attributed to a lower return on investment securities. The cost of interest-bearing liabilities was higher in 1998 due primarily to a higher volume of borrowings. Interest-rate spread for the 1998 year decreased to 2.83% compared to 3.18% in 1997 due primarily to a higher level of average interest-earning assets that yielded a return that was approximately twenty-seven basis points lower than realized in 1997. The average balance for investment securities was $4.1 billion with a yield of 6.15% for the 1998 year compared to $3.1 billion with a yield of 6.60% for 1997.

Interest Income

Total interest income for 1998 amounted to $682.2 million, an increase of $49.1 million, or 7.8% compared to $633.1 million in 1997. The higher interest income was due primarily to an increase in the average volume of securities partially offset by decreases in net loans and interest-bearing deposits.

Interest Expense

Interest expense for 1998 totaled $399.6 million, an increase of $52.3 million compared to $347.3 million in 1997. The higher interest expense was due primarily to an increase in the average volume of borrowings in 1998 compared to 1997.

Provision for Loan Losses

The provision for loan losses for 1998 was $8.1 million compared to $26.4 million in 1997. The decrease for 1998 is attributable to approximately $8.4 million less in provisions related to acquisitions and an overall reduction in nonaccrual loans. The provision for 1997 included $9.9 million related to acquisitions. The allowance for losses on loans totaled $65.2 million and represented 212% of nonaccrual loans at December 31, 1998 versus $71.6 million and 138% at December 31, 1997.

Noninterest Income

Noninterest income for 1998 totaled $82.6 million, compared to $47.7 million in 1997. Fees and service charges were $47.3 million in 1998, an increase of $11.6 million or 32.5% from 1997 due primarily to an increase in the customer base and fees generated as a result of the Damman and Sachem Trust acquisitions. Gains on the sale of loans and mortgage loan servicing rights increased to $5.8 million in 1998 compared to $1.7 million in 1997, due primarily to the sale of the credit card portfolio. Gains on the sale of securities amounted to $17.0 million in 1998 compared to $3.5 million in 1997. Other noninterest income increased to $7.0 million from $6.9 million from 1998 to 1997.

Noninterest Expenses

Noninterest expenses for 1998 were $229.4 million compared to $229.5 million in 1997. Included in the 1998 total are acquisition-related expenses totaling $21.0 million. The 1997 results include acquisition-related expenses totaling $32.0 million. Excluding acquisition-related expenses, noninterest expenses for 1998 increased $10.9 million compared to 1997. Increased salaries and benefits, furniture and equipment, intangible amortization, professional services expenses, capital securities and other operating expenses were partially offset by lower expenses for occupancy, federal deposit insurance, foreclosed property and marketing expenses. Salaries and benefits expenses include a $1.5 million reduction to expenses related to the consolidation of the former Eagle pension and post-retirement benefits plans into Webster's plans.

Income Taxes

Income tax expense for 1998 increased to $49.7 million from $29.9 million in 1997. The increase in income tax expense is due primarily to a $50.2 million increase in net income before taxes and a $3.2 million non-recurring net tax expense related primarily to the planned formation of a Connecticut Passive Investment Company (see "Tax Legislation").

Impact of Inflation and Changing Prices

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

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

Recent Financial Accounting Standards

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. Under this statement, an entity that elects to apply hedge accounting is required to establish at the inception of the hedge the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. Those methods must be consistent with the entity's approach to managing risk. SFAS No. 133, as amended by SFAS No. 137, is now effective for all fiscal quarters of fiscal years beginning after June 15, 2000. Upon adoption, hedging relationships must be designated anew and documented pursuant to the provisions of this statement. Early adoption is permitted, however, retroactive application is prohibited. Management is in the process of evaluating the impact of this statement on its financial position and results of operations.

Tax Legislation

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

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

Year 2000 Disclosure Statement

There has been no disruption to the Company's operations as a result of the Year 2000 issue, which referred to the potential impact of the failure of computer programs and equipment to give proper recognition of dates beyond December 31, 1999 and other issues related to the Year 2000 century date change. No disruption is expected and the Company will continue to monitor its position. Total expenses incurred by the Company in conducting its Year 2000 program were about $1.0 million.

Forward Looking Statements

This annual report contains forward-looking statements within the meaning of the Securities and Exchange Act of 1934, as amended. Actual results could differ materially from those management expectations, projections and estimates. Factors that could cause future results to vary from current management expectations include, but are not limited to, general economic conditions, legislative and regulatory changes, monetary and fiscal policies of the federal government, changes in tax policies, rates and regulations of federal, state and local tax authorities, changes in interest rates, deposit flows, the cost of funds, demand for loan products, demand for financial services, competition, changes in the quality or composition of Webster's loan and investment portfolios, changes in accounting principles, policies or guidelines, and other economic, competitive, governmental and technological factors affecting Webster's operations, markets, products services and prices. Such developments could have an adverse impact on Webster's financial position and results of operations.

Consolidated Statements of Condition

(In thousands, except share and per share data)	December 31, 1999	1998
Assets:		
Cash and due from depository institutions	$ 245,783	$ 213,142
Interest-bearing deposits	37,838	17,819
Securities: (Note 3)		
Trading, at fair value	50,854	91,114
Available for sale, at fair value	2,700,585	3,164,886
Held to maturity, (fair value: $300,282 in 1999; $410,196 in 1998)	315,462	406,829
Loans receivable, net (Note 4)	6,022,236	5,507,118
Accrued interest receivable	58,918	60,647
Premises and equipment, net (Note 5)	103,403	93,256
Foreclosed properties, net (Note 12)	4,909	5,162
Intangible assets (Note 2)	138,829	83,227
Cash surrender value of life insurance	148,252	141,059
Prepaid expenses and other assets (Note 6)	104,675	51,770
Total assets	$ 9,931,744	$ 9,836,029
Liabilities and Shareholders' Equity:		
Deposits (Note 7)	$ 6,191,091	$ 6,312,974
Federal Home Loan Bank advances (Note 8)	1,714,441	1,801,839
Securities sold under agreement to repurchase and other borrowings (Note 9)	1,074,004	773,769
Advance payments by borrowers for taxes and insurance	41,605	34,670
Accrued expenses and other liabilities	75,359	86,746
Total liabilities	$ 9,096,500	$ 9,009,998
Corporation-obligated mandatorily redeemable capital securities of subsidiary trusts (Note 19)	$ 150,000	$ 150,000
Preferred stock of subsidiary corporation (Note 20)	49,577	49,577
Shareholders' Equity: (Note 14)		
Common stock, $.01 par value:		
Authorized - 200,000,000 shares at December 31, 1999 and 50,000,000 shares at December 31, 1998; Issued – 45,243,770 shares at December 31, 1999 and 45,717,089 shares at December 31,1998	452	457
Paid-in capital	301,336	308,790
Retained earnings	400,413	325,805
Less Treasury stock at cost, 140,000 shares at December 31, 1999 and 1,026,770 shares at December 31, 1998	(3,274)	(27,914)
Less employee stock ownership plan shares purchased with debt	(1,127)	(1,339)
Accumulated other comprehensive (loss) income	(62,133)	20,655
Total shareholders' equity	$ 635,667	$ 626,454
Commitments and contingencies (Notes 4, 5 and 21)		
Total liabilities and shareholders' equity	$ 9,931,744	$ 9,836,029

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

(In thousands, except per share data)	Years Ended December 31, 1999	1998	1997
Interest Income:			
Loans	$ 435,326	$ 430,636	$ 429,154
Securities and interest-bearing deposits	210,466	251,601	203,912
Total interest income	645,792	682,237	633,066
Interest Expense:			
Deposits (Note 7)	203,805	241,181	241,407
Borrowings	138,474	158,445	105,901
Total interest expense	342,279	399,626	347,308
Net interest income	303,513	282,611	285,758
Provision for loan losses (Note 4)	9,000	8,103	26,449
Net interest income after provision for loan losses	294,513	274,508	259,309
Noninterest Income:			
Fees and service charges	66,936	47,250	35,651
Gain on sale of loans and loan servicing, net	4,434	5,754	1,676
Gain on sale of securities, net (Note 3)	4,248	17,015	3,517
Increase in cash surrender value of life insurance	7,892	5,607	—
Other noninterest income	9,120	7,012	6,879
Total noninterest income	92,630	82,638	47,723
Noninterest Expenses:			
Salaries and employee benefits	106,493	92,506	87,694
Occupancy expense of premises	20,892	19,068	19,278
Furniture and equipment expenses	22,302	19,335	15,892
Intangible amortization	13,780	10,033	9,563
Marketing expenses	9,584	7,392	8,258
Professional services expenses	11,223	10,257	8,483
Acquisition-related expenses (Note 17)	9,500	20,993	31,989
Capital securities expense (Note 19)	14,645	14,708	11,368
Dividends on preferred stock of subsidiary corporation (Note 20)	4,151	4,151	85
Other operating expenses	31,891	30,990	36,923
Total noninterest expenses	244,461	229,433	229,533
Income before income taxes	142,682	127,713	77,499
Income taxes (Note 13)	47,332	49,694	29,887
Net Income	$ 95,350	$ 78,019	$ 47,612
Net Income Per Common Share (Note 15):			
Basic	$ 2.14	$ 1.72	$ 1.06
Diluted	2.10	1.69	1.04

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(In thousands, except per share data)	Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Employee Stock Ownership Plan Shares Purchased With Debt	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 1996	$ 1	$ 450	$ 312,666	$ 243,035	$ (18,801)	$ (2,574)	$ 310	$ 535,087
Net income for 1997	—	—	—	47,612	—	—	—	47,612
Dividends paid:								
$.40 per common share	—	—	—	(10,508)	—	—	—	(10,508)
Cash dividends declared by pooled companies prior to mergers	—	—	—	(7,133)	—	—	—	(7,133)
Allocation of ESOP shares	—	—	166	—	—	603	—	769
Exercise of stock options	—	10	416	—	5,058	—	—	5,484
Conversion of preferred Series B to common stock	(1)	—	(18,499)	—	18,500	—	—	—
Common stock repurchased	—	—	—	—	(6,020)	—	—	(6,020)
Common stock issued in consideration for purchase acquisitions	—	2	3,971	(1)	—	—	—	3,972
Pooling adjustments, net	—	(53)	(8,785)	2,909	—	—	—	(5,929)
Stock dividend granted by pooled company and cash paid on fractional shares	—	47	11,831	(11,906)	—	—	—	(28)
Net unrealized gain on securities available for sale, net of taxes	—	—	—	—	—	—	21,603	21,603
Other, net	—	(6)	703	(61)	147	—	(89)	694
Balance, December 31, 1997	$ —	$ 450	$ 302,469	$ 263,947	$ (1,116)	$ (1,971)	$ 21,824	$ 585,603
Net income for 1998	—	—	—	78,019	—	—	—	78,019
Dividends paid:								
$.44 per common share	—	—	—	(17,687)	—	—	—	(17,687)
Cash dividends declared by pooled companies prior to mergers	—	—	—	(3,371)	—	—	—	(3,371)
Allocation of ESOP shares	—	—	411	—	—	632	—	1,043
Exercise of stock options	—	(1)	7,349	—	3,778	—	—	11,126
Common stock repurchased	—	—	—	—	(39,873)	—	—	(39,873)
Common stock issued in consideration for purchase acquisitions	—	—	185	—	9,083	—	—	9,268
Pooling adjustments, net	—	(2)	(1,906)	—	—	—	133	(1,775)
Net unrealized loss on securities available for sale, net of taxes	—	—	—	—	—	—	(1,302)	(1,302)
Adjustment for the effect of the change of Eagle's fiscal year end (Note 2)	—	—	—	4,898	—	—	—	4,898
Other, net	—	10	282	(1)	214	—	—	505
Balance, December 31, 1998	$ —	$ 457	$ 308,790	$ 325,805	$ (27,914)	$ (1,339)	$ 20,655	$ 626,454

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity (Continued)

(In thousands, except per share data)	Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Employee Stock Ownership Plan Shares Purchased With Debt	Accumulated Other Comprehensive Income (Loss)	Total
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

Consolidated Statements of Comprehensive Income

(In thousands)	Years Ended December 31, 1999	1998	1997
Net Income	$ 95,350	$ 78,019	$ 47,612
Other comprehensive (loss) income, net of tax			
Unrealized net holding gain (loss) on securities available for sale arising during year (net of income tax effect of $(54,370), $6,410, and $16,052 for 1999, 1998 and 1997, respectively)	(79,865)	9,407	23,558
Reclassification adjustment for net gains included in net income (net of income tax effect of $1,992, $7,206, and $1,333 for 1999, 1998 and 1997, respectively)	(2,923)	(10,576)	(1,955)
Other comprehensive (loss) income	(82,788)	(1,169)	21,603
Comprehensive income	$ 12,562	$ 76,850	$ 69,215

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands)	Years Ended December 31, 1999	1998	1997
Operating Activities:			
Net income	$ 95,350	$ 78,019	$ 47,612
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	9,000	8,103	26,449
Provision for foreclosed property losses	100	330	1,637
Provision for depreciation on premises and equipment	13,190	14,131	12,507
Amortization (accretion) of securities and loan premiums, net	4,753	7,371	(1,626)
Amortization of intangible assets	13,780	10,033	9,563
Amortization of hedging costs, net	4,696	4,669	2,985
Amortization of mortgage servicing rights	1,639	1,303	930
Gains on sale of deposits	—	—	(546)
Gains on sale of foreclosed properties, net	(906)	(822)	(1,274)
Gains on sale of loans and securities, net	(9,156)	(23,536)	(4,964)
Losses (gains) on sale of trading securities, net	474	767	(229)
Decrease (increase) in trading securities	39,786	(7,132)	(40,952)
Loans originated for sale	(221,171)	(106,156)	(60,578)
Proceeds from sales of loans, originated for sale	228,280	111,109	70,410
Other loan sales	—	46,400	—
Decrease (increase) in interest receivable	3,734	(2,509)	(6,318)
Decrease (increase) in prepaid expenses and other assets	3,847	15,430	(5,397)
(Decrease) increase in interest payable	(12,513)	2,890	18,389
(Decrease) increase in accrued expenses and other liabilities, net	(334)	(8,006)	8,670
Increase in cash surrender value of life insurance	(7,193)	(5,621)	—
Adjustment to conform Eagle's fiscal year end	—	4,898	—
Net cash provided by operating activities	167,356	151,671	77,268
Investing Activities:			
Purchases of securities, available for sale	(1,150,893)	(2,501,136)	(2,231,443)
Purchases of securities, held to maturity	(1,283)	(152,662)	(25,239)
Principal collected on investment securities	648,648	988,390	368,000
Maturities of securities	446,910	253,893	238,246
Proceeds from sales of securities, available for sale	513,714	1,527,959	204,228
Proceeds from sales of securities, held to maturity	15,458	—	—
Net (increase) decrease in interest-bearing deposits	(18,654)	76,856	(40,648)
Purchase of loans	—	(66,173)	(191,078)
Net (increase) decrease in loans	(325,366)	21,395	(84,450)
Proceeds from sale of foreclosed properties	10,081	16,383	41,538
Purchases of life insurance, net	—	(122,700)	(12,750)
Purchase of premises and equipment, net	(16,339)	(22,050)	(12,107)
Net cash received (paid) through purchase acquisitions	16,706	(67)	7,924
Net cash provided (used) by investing activities	138,982	20,088	(1,737,779)
Financing Activities:			
Net decrease in deposits	(405,124)	(98,531)	(85,852)
Sale of deposits	—	—	(9,179)
Repayment of FHLB advances	(2,976,192)	(4,425,651)	(5,172,660)
Proceeds from FHLB advances	2,888,794	4,688,547	5,927,764
Repayment of securities sold under agreement to repurchase and other borrowings	(48,069,816)	(19,133,606)	(4,451,441)
Proceeds from securities sold under agreement to repurchase and other borrowings	48,365,295	18,858,140	5,316,703
Net proceeds from issuance of capital securities	—	5,000	141,327
Net proceeds from preferred stock of subsidiary corporation	—	—	49,577
Cash dividends to common and preferred shareholders	(20,729)	(21,058)	(17,641)
Net increase (decrease) in advance payments for taxes and insurance	6,894	1,629	(7,747)
Exercise of stock options	9,342	11,126	5,484
Common stock repurchased	(72,161)	(39,873)	(6,020)
Net cash (used) provided by financing activities	(273,697)	(154,277)	1,690,315

See accompanying notes to consolidated financial statements.

	Years Ended December 31,		
(In thousands)	1999	1998	1997
Increase in cash and cash equivalents	32,641	17,482	29,804
Cash and cash equivalents at beginning of year	213,142	195,660	165,856
Cash and cash equivalents at end of year	$ 245,783	$ 213,142	$ 195,660

	Years Ended December 31,		
(In thousands)	1999	1998	1997
Supplemental Disclosures:			
Income taxes paid	$ 50,862	$ 39,324	$ 30,962
Interest paid	353,414	395,806	334,679
Supplemental Schedule of Noncash Investing and Financing Activities:			
Transfer of loans to foreclosed properties	9,022	5,498	32,076
Transfer of securities from held to maturity to available for sale	—	2,492	109,329

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

	Twelve Months Ended December 31,		
(In thousands)	1999	1998	1997
Fair value of noncash assets acquired in purchase acquisitions	$ 283,609	$ 1,160	$ 61,761
Fair value of liabilities assumed in purchase acquisitions	289,918	1,991	65,713
Common stock issued in purchase acquisitions	79,779	9,268	3,972

See accompanying notes to consolidated financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Business

Webster Financial Corporation ("Webster" or the "Company"), through its subsidiaries, Webster Bank and Damman Associates Inc. ("Damman"), delivers financial services to individuals, families and businesses primarily in Connecticut. Webster emphasizes five business lines - consumer banking, business banking, mortgage lending, trust and investment services, and insurance services, and each is supported by centralized administration and operations. Webster Bank was founded in 1935 and converted from a federal mutual to a federal stock institution in 1986.

b) Basis of Financial Statement Presentation

The Consolidated Financial Statements include the accounts of Webster and its subsidiaries. The Consolidated Financial Statements and notes hereto have been restated to include the accounts of New England Community Bancorp., Inc. ("NECB") acquired on December 1, 1999, Bank of South Windsor acquired on August 14, 1998 (through Webster's acquisition of NECB), Olde Port Bank and Trust acquired on July 10, 1998 (through Webster's acquisition of NECB), Eagle Financial Corp. ("Eagle") acquired on April 15, 1998, First Bank of West Hartford acquired on August 7, 1997 (through Webster's acquisition of NECB), People's Savings Financial Corp. ("People's") acquired on July 31, 1997, MidConn Bank acquired on May 31, 1997 (through Webster's acquisition of Eagle) and DS Bancor, Inc. ("Derby") acquired on January 31, 1997 as though these pooling-of-interests mergers had occurred at the beginning of the earliest period presented (see Note 2). The number of common shares have been restated for stock dividends and stock splits (see Note 14). The Consolidated Financial Statements have been prepared in conformity with generally accepted accounting principles and all significant intercompany transactions have been eliminated in consolidation.

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, as of the date of the consolidated financial statements and the reported amounts of revenues and expenses for the periods presented. The actual results of Webster could differ from those estimates. Material estimates that are susceptible to near-term changes include the determination of the allowance for loan losses and the valuation allowance for the deferred tax asset.

c) Foreclosed Properties

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

d) Loans Receivable, Net

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

Loans receivable are stated at the principal amounts outstanding, net of deferred loan fees and/or costs and an allowance for loan losses. Interest on loans is credited to income as earned based on the rate applied to principal amounts outstanding. Interest which is more than 90 days past due is not accrued. Such interest when ultimately collected, if any, is credited to income in the period received. Loans are removed from nonaccrual status when they become current as to principal and interest or demonstrate a period of performance under contractual terms and, in the opinion of management, are fully collectible as to principal and interest.

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

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 review of the loan portfolio, loss experience, specific problem loans, economic conditions and other pertinent factors which, in management's judgment, deserve current recognition in estimating loan losses. The allowance is increased by provisions for loan losses charged to operations.

A loan is considered impaired when it is probable that the borrower will be unable to repay the loan according to the original contractual terms of the loan agreement, or the loan is restructured in a troubled debt restructuring. These standards are applicable principally to commercial real estate loans, however, certain provisions related to restructured loans are applicable to all loan types.

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's impaired loans are generally collateral dependent. The Company considers estimated costs to sell on a discounted basis, when determining the fair value of collateral in the measurement of impairment if these costs are expected to reduce the cash flows available to repay or otherwise satisfy the loans.

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

e) Securities

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

f) Interest-rate Instruments

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

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

g) Interest-bearing Deposits

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

h) Premises and Equipment

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

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

i) Intangible Assets

Intangible assets consist of core deposit intangibles and goodwill. Intangible assets equal the excess of the purchase price over the fair value of the tangible net assets acquired in acquisitions accounted for using the purchase method of accounting. The core deposit intangibles are being amortized on a straight-line basis over a period of seven to ten years from the acquisition dates. On a periodic basis, management assesses the recoverability of the core deposit intangibles. Goodwill is being amortized on a straight-line basis over periods up to twenty years from the acquisition dates. The Company also reviews goodwill on a periodic basis for events or changes in circumstances that may indicate that the carrying amount of goodwill may not be recoverable, and impairment is recognized as a charge to income if a permanent loss in value is indicated.

j) Income Taxes

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

k) Employee Benefit Plans

The Bank has a noncontributory pension plan covering substantially all employees. Pension costs are accrued in accordance with generally accepted accounting principles and are funded in accordance with the requirements of the Employee Retirement Income Security Act ("ERISA"). The Bank also accrues costs related to post-retirement benefits. The provisions of SFAS No. 132, "Employers' Disclosure about Pensions and Other Post-retirement Benefits," were adopted on December 31, 1998. SFAS No. 132 revised disclosures about pension and other post-retirement benefit plans; it did not change the measurement or recognition of these plans. Prior period disclosures have been revised to conform with SFAS No. 132.

l) Net Income Per Common Share

Basic net income per share is calculated by dividing net income available to common shareholders by the weighted-average number of shares of common stock outstanding. Diluted net income per share is calculated by dividing adjusted net income by the weighted-average diluted common shares, including the effect of potential common stock, and for the hypothetical conversion into common stock of the Series B cumulative preferred stock. Potential common stock consists of common stock options and warrants. Unallocated employee stock ownership plan ("ESOP") shares are not included in the weighted average number of common shares outstanding for either basic or diluted earnings per share.

m) Stock Based Compensation

SFAS No. 123, "Accounting for Stock-Based Compensation," encourages all companies to adopt a new fair value based method of accounting for stock-based employee compensation plans. Under the provisions of this statement, Webster has elected to continue to measure compensation for its stock option plans using the accounting method prescribed by Accounting Principles Board Opinion No. 25 ("APB No. 25") "Accounting for Stock Issued to Employees." Entities electing to continue to follow APB No. 25 must make pro forma disclosures for net income and earnings per share as if the fair value based method of accounting had been applied. See Note 16.

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

n) Statements of Cash Flows

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

o) Loan Sales and Servicing Sales

Gains or losses on sales of loans are recognized at the time of sale. SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," requires that a mortgage banking entity recognize as a separate asset the value of the right to service mortgage loans for others, regardless of how those servicing rights are acquired. Fair values are estimated considering loan prepayment predictions, historical prepayment rates, interest-rates, and other economic factors. For purposes of impairment evaluation and measurement, Webster stratifies mortgage servicing rights based on predominate risk characteristics of the underlying loans including loan type, interest-rate (fixed or adjustable) and amortization type. To the extent that the carrying value of mortgage servicing rights exceeds fair value by individual stratum, a valuation allowance is established by a charge to earnings. The allowance is adjusted for subsequent changes in fair value. The cost basis of mortgage servicing rights is amortized into noninterest income over the estimated period of servicing revenue.

p) Cash Surrender Value of Life Insurance

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

q) Comprehensive Income

The provisions of SFAS No. 130, "Reporting Comprehensive Income," were adopted as of January 1, 1998. SFAS No. 130 establishes standards for the reporting and display of comprehensive income and its components. 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). The purpose of reporting comprehensive income is to report a measure of all changes in equity of an enterprise that result from recognized transactions and other economic events of the period other than transactions with owners in their capacity as owners.

The adoption of SFAS No. 130 resulted in a change in financial statement disclosures only and had no effect on Webster's financial position or results.

r) Reclassifications

Certain financial statement balances as previously reported have been reclassified to conform to the 1999 Consolidated Financial Statements presentation.

NOTE 2: BUSINESS COMBINATIONS

Pooling of Interests Transactions

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

The NECB Acquisition

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

The Bank of South Windsor Acquisition

On August 14, 1998, Webster acquired Bank of South Windsor ("BSW") as a result of its acquisition of NECB. In connection with the acquisition, Webster effectively issued 1,346,200 shares of its common stock for all the outstanding shares of BSW common stock after adjusting for the conversion factor related to the NECB acquisition.

The Olde Port Acquisition

On July 10, 1998, Webster acquired Olde Port Bank and Trust Company ("OPBT") as a result of its acquisition of NECB. In connection with the acquisition, Webster effectively issued 621,160 shares of its common stock for all the outstanding shares of OPBT common stock after adjusting for the conversion factor related to the NECB acquisition.

The Eagle Acquisition

On April 15, 1998, Webster acquired Eagle Financial Corp., ("Eagle") and its subsidiary, Eagle Bank, a $2.1 billion savings bank, headquartered in Bristol, Connecticut. In connection with the merger with Eagle, Webster issued 10,615,156 shares of its common shares for all of the outstanding shares of Eagle common stock. Under the terms of the agreement, each outstanding share of Eagle common stock was converted into 1.68 shares of Webster common stock. Prior to the acquisition, Eagle's fiscal year ended on September 30. In recording the pooling of interests combination, Eagle's financial statements as of and for the twelve months ended September 30, 1997 were combined with Webster's financial statements as of and for the twelve months ended December 31, 1997. An adjustment has been made in the 1998 Consolidated Statement of Shareholders' Equity to include Eagle's unaudited net income for the period October 1, 1997 to December 31, 1997 as a direct credit to retained earnings. Eagle's operating results for this period included net interest income of $15.7 million and net income of $4.9 million and are not included in the Consolidated Statements of Income of the combined entity for the year ended December 31, 1998.

The First Bank of West Hartford Acquisition

On August 7, 1997, Webster acquired First Bank of West Hartford ("FBWH") as a result of its acquisition of NECB. In connection with the purchase, Webster effectively issued 1,054,700 shares of its common stock for all the outstanding shares of FBWH common stock after adjusting for the conversion factor related to the NECB acquisition.

The People's Acquisition

On July 31, 1997, Webster acquired People's Savings Financial Corp. ("People's") and its subsidiary, People's Savings Bank & Trust, a $482 million in assets savings bank headquartered in New Britain, Connecticut. In connection with the merger with People's, Webster issued 3,151,992 shares of its common stock for all the outstanding shares of People's common stock. Under the terms of the agreement, each outstanding share of People's common stock was converted into .85 shares of Webster common stock.

The MidConn Acquisition

On May 31, 1997, Webster acquired MidConn as a result of its acquisition of Eagle. In connection with the merger, Webster effectively issued 2,869,440 shares of its common stock for all the outstanding shares of MidConn common stock after adjusting for the conversion factor related to the Eagle Acquisition and subsequent common stock split.

The Derby Acquisition

On January 31, 1997, Webster acquired DS Bancor, Inc. ("Derby") and its subsidiary, Derby Savings Bank, a $1.2 billion in assets savings bank headquartered in Derby, Connecticut. In connection with the merger with Derby, Webster issued 7,002,740 shares of its common stock for all the outstanding shares of Derby common stock. Under the terms of the agreement each outstanding share of Derby common stock was converted into 1.14158 shares of Webster common stock.

Purchase Transactions

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

The Village Acquisition

On May 19, 1999, Webster acquired Village Bancorp, Inc. ("Village"), the holding company for The Village Bank & Trust Company in a tax-free, stock-for-stock exchange. Village had approximately $215 million in total assets and $200 million in deposits at six branches. In connection with the acquisition, Webster issued 1,666,116 shares of its common stock for all the outstanding shares of Village.

The Maritime Acquisition

On April 21, 1999, Webster acquired Maritime Bank & Trust Company ("Maritime") in a tax-free, stock-for-stock exchange. Maritime had approximately $95 million in total assets and $85 million in deposits at three branches. In connection with the acquisition, Webster issued 778,855 shares of its common stock for all the outstanding shares of Maritime.

The Access Acquisition

In January 1999, Webster completed its acquisition of Access National Mortgage, Inc. ("Access"). Access was founded in 1996 as a privately held Internet-based mortgage lender located in Wilmington, Massachusetts. In October 1999, Access National Mortgage, LLC was renamed Nowlending, LLC. Nowlending, LLC originates mortgages in 47 states. In connection with the acquisition, Webster issued 125,998 shares of its common stock for a majority ownership in Access.

The Damman Acquisition

On June 1, 1998, Webster completed its acquisition of Damman Insurance Associates, Inc. ("Damman"). Damman is a full service Westport-based insurance agency, providing property-casualty, life and group coverage to commercial and individual customers. Damman has offices in Westport and Wallingford and approximately 50 employees. During 1998, Webster began offering a full array of insurance services to its consumer and commercial customer base. In connection with the acquisition, Webster issued 274,609 shares of its common stock for 100% ownership interest of Damman.

The Community Savings Bank Acquisition

On December 31, 1997, Webster acquired Community Savings Bank ("Community Bank") as a result of its acquisition of NECB. In connection with the purchase, Webster effectively paid $5.62 in cash for each Community Bank common share outstanding. The acquisition was accounted for as a purchase, and therefore, results are reported only for the periods subsequent to the acquisition.

The Sachem Acquisition

On August 1, 1997, Webster acquired Sachem Trust National Association ("Sachem Trust"), a trust company headquartered in Guilford, Connecticut which had approximately $300 million of trust assets under management, in a tax-free stock-for-stock exchange.

Purchase Transactions Pending Consummation at December 31, 1999 (Unaudited)

The Mechanics Acquisition

In December 1999, Webster announced a definitive agreement to acquire MECH Financial, Inc. ("Mechanics"), the holding company for Mechanics Savings Bank, in a tax-free, stock-for-stock exchange. Mechanics Savings Bank is 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 will receive 1.52 shares of Webster common stock for each share of Mechanics. Webster expects to close the transaction and complete the conversion during the second quarter of 2000.

The Chase Branch Acquisition

In November 1999, Webster announced a definitive agreement to acquire six Connecticut branches from The Chase Manhattan Bank. The branches are located in Cheshire, Middlebury, North Haven, Waterbury (2) and Watertown and have approximately $165 million in deposit balances. The transaction includes the purchase of consumer deposits, small business deposits and loans, and brokerage and custody accounts associated with these branches. Webster expects to close the transaction and complete the acquisition during the second quarter of 2000.

The FleetBoston Branch Acquisition

In November 1999, Webster announced a definitive agreement with FleetBoston Corporation to purchase four Connecticut branches that are being divested as the result of the Fleet-BankBoston merger. The branches, with $163 million in deposit balances, are located in Brookfield, Guilford, Meriden, and Thomaston. The transaction includes the purchase of deposits and loans for individual and small business customers associated with these branches. Webster expects to close the transaction and complete the acquisition during the third quarter of 2000.

Purchase Transactions Subsequent to December 31, 1999 (Unaudited)

The Levine Acquisition

In February 2000, through Damman, Webster acquired the Levine companies ("Levine"), a privately owned Waterford and Norwich, Connecticut based insurance agency. Founded in 1928, the group combines three entities; Louis Levine Agency, Inc., Levine Financial Services, Inc. and Retirement Planning Associates, Inc. Levine has 50 employees and wrote $41 million in premiums during 1999.

NOTE 3: SECURITIES

A summary of securities follows:

December 31,

(In thousands)	1999 Amortized Cost	1999 Unrealized Gains	1999 Unrealized Losses	1999 Estimated Fair Value	1998 Amortized Cost	1998 Unrealized Gains	1998 Unrealized Losses	1998 Estimated Fair Value
Trading Securities:								
Mortgage-backed securities (a)	$ 50,854(b)	$ —	$ —	$ 50,854	$ 91,114(b)	$ —	$ —	$ 91,114
Available for Sale Portfolio:								
U.S. Treasury Notes	$ 17,070	$ 18	$ (233)	$ 16,855	$ 25,617	$ 400	$ —	$ 26,017
U.S. Government Agency	92,733	—	(4,338)	88,395	106,427	1,018	(109)	107,336
Municipal bonds and notes	27,591	3	(1,463)	26,131	27,874	776	(29)	28,621
Corporate bonds and notes	75,068	—	(9,895)	65,173	92,062	601	(2,178)	90,485
Equity securities (c)	201,352	7,684	(11,060)	197,976	244,670	8,107	(4,763)	248,014
Mortgage-backed securities (a)	2,379,491	6,330	(88,848)	2,296,973	2,616,695	40,469	(5,299)	2,651,865
Purchased interest-rate contracts (Note 10)	10,874	—	(1,792)	9,082	15,985	—	(3,437)	12,548
	$ 2,804,179	$ 14,035	$ (117,629)	$ 2,700,585	$ 3,129,330	$ 51,371	$ (15,815)	$ 3,164,886
Held to Maturity Portfolio:								
U.S. Treasury Notes	$ 10,396	$ —	$ (112)	$ 10,284	$ 2,955	$ 18	$ —	$ 2,973
U.S. Government Agency	1,520	—	(6)	1,514	7,399	24	—	7,423
Municipal bonds and notes	24,861	39	(783)	24,117	15,339	477	—	15,816
Corporate bonds and notes	135,476	405	(12,322)	123,559	151,801	2,631	(1,171)	153,261
Mortgage-backed securities (a)	143,209	544	(2,945)	140,808	229,335	2,432	(1,044)	230,723
	315,462	988	(16,168)	300,282	406,829	5,582	(2,215)	410,196
Total	$ 3,170,495	$ 15,023	$ (133,797)	$ 3,051,721	$ 3,627,273	$ 56,953	$ (18,030)	$ 3,666,196

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

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

(c) The fair value of equity securities at December 31, 1999 consisted of FHLB stock of $103.9 million, mutual funds of $13.6 million, preferred stock of $24.3 million and common stock of $56.2 million. As of December 31, 1998, the fair value of equity securities consisted of FHLB stock of $102.5 million, mutual funds of $35.1 million, preferred stock of $45.7 million and common stock of $64.7 million.

A summary of realized gains and losses follows:

Years ended December 31,

(In thousands)	1999 Gains	1999 Losses	1999 Net	1998 Gains	1998 Losses	1998 Net	1997 Gains	1997 Losses	1997 Net
Trading Securities:									
Mortgage-backed securities	$ 2,006	$ (5,328)	$ (3,322)	$ 4,789	$ (3,548)	$ 1,241	$ 4,052	$ (2,647)	$ 1,405
Futures and options contracts	13,107	(10,259)	2,848	8,015	(10,023)	(2,008)	7,318	(8,494)	(1,176)
	15,113	(15,587)	(474)	12,804	(13,571)	(767)	11,370	(11,141)	229
Held to Maturity:									
Corporate debt	—	(193)	(193)	—	—	—	—	—	—
Available for Sale:									
Mortgage-backed securities	2,704	(428)	2,276	7,149	(230)	6,919	600	(119)	481
U.S. Treasury Notes	15	(5)	10	5	—	5	15	(46)	(31)
U.S. Government Agencies	38	(556)	(518)	49	(6)	43	111	(222)	(111)
Corporate debt	210	(118)	92	—	(6)	(6)	81	(12)	69
Mutual funds	263	(90)	173	1,156	—	1,156	1,210	(58)	1,152
Other equity securities	3,456	(429)	3,027	9,627	(899)	8,728	1,415	(21)	1,394
Other	27	(172)	(145)	982	(45)	937	920	(586)	334
	6,713	(1,798)	4,915	18,968	(1,186)	17,782	4,352	(1,064)	3,288
Total	$ 21,826	$ (17,578)	$ 4,248	$ 31,772	$ (14,757)	$ 17,015	$ 15,722	$ (12,205)	$ 3,517

During the first quarter of 1999, Webster sold $15.5 million of securities classified as held to maturity, which resulted in a loss of $193,000. The securities were sold due to a regulator's request that Webster divest of the holdings as the securities did not meet regulatory guidelines published subsequent to the acquisition of the securities. There were no sales of securities from the held to maturity portfolio for the years ended December 31, 1998 and 1997.

On June 30, 1997 Eagle transferred securities with a book value of $109.3 million from held to maturity to available for sale. The transfer resulted in an unrealized gain of approximately $299,000 which is net of income taxes of approximately $200,000, being recorded as an increase to shareholders' equity. The securities were transferred due to a change in intent with respect to holding the securities to maturity precipitated by changes in the balance sheet following the merger with MidConn.

Webster enters into short futures and long options positions to minimize the price volatility of certain assets held as Trading Securities. At December 31, 1999, Webster had 321 short positions in Eurodollar futures contracts ($321.0 million notional amount) and 310 short positions in 5 year Treasury note futures ($31.0 million notional amount). Changes in the market value of short futures positions are recognized as a gain or loss in the period for which the change occurred. All gains and losses resulting from short futures positions are reflected in gains (losses) on sale of securities, net in the Consolidated Statements of Income.

The following is a summary of the amortized cost, estimated fair value and weighted average yield (based on amortized cost) of debt securities at December 31, 1999, by contractual maturity. Mortgage backed securities are included by final contractual maturity. Actual maturities will differ from contractual maturities because certain issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

As of December 31, 1999

	Trading Securities			Available for Sale			Held to Maturity		
(In thousands)	Amortized Cost	Estimated Fair Value	Weighted Average Yield	Amortized Cost	Estimated Fair Value	Weighted Average Yield	Amortized Cost	Estimated Fair Value	Weighted Average Yield
Within 1 year	$ —	$ —	—%	$ 217,320	$ 213,902	5.21%	$ 14,181	$ 14,114	5.87%
After 1 but within 5 years	—	—	—	76,675	72,090	5.63	29,273	28,754	6.00
After 5 but within 10 years	4,740	4,740	6.55	459,165	430,160	6.52	32,759	31,712	6.41
After 10 years	46,114	46,114	5.90	2,051,019	1,984,433	6.76	239,249	225,702	7.29
	$ 50,854	$ 50,854	5.96%	$ 2,804,179	$ 2,700,585	6.57%	$ 315,462	$ 300,282	7.01%

NOTE 4: LOANS RECEIVABLE, NET

A summary of loans receivable, net follows:

	December 31,			
	1999		1998	
(Dollars in thousands)	Amount	%	Amount	%
Mortgage loans secured by real estate:				
Conventional, VA and FHA	$ 3,558,636	59.1%	$ 3,602,834	65.5%
Conventional, VA and FHA loans held for sale	7,022	0.1	9,409	0.2
Residential participation	15,895	0.3	55,820	1.0
Residential construction	427,186	7.1	294,542	5.3
Commercial construction	45,648	0.8	67,717	1.2
Other commercial	695,442	11.5	547,497	9.9
	4,749,829	78.9	4,577,819	83.1
Consumer loans:				
Home equity loans	489,257	8.1	458,454	8.3
Other consumer loans	46,737	0.8	65,130	1.2
	535,994	8.9	523,584	9.5
Commercial loans (a)	918,583	15.3	550,373	10.0
Gross loans receivable	6,204,406	103.1	5,651,776	102.6
Less:				
Loans in process	129,665	2.2	96,646	1.8
Allowance for loan losses	72,658	1.2	65,201	1.2
Premiums on loans purchased, deferred loan fees and unearned discounts, net	(20,153)	(0.3)	(17,189)	(0.4)
Loans receivable, net	$ 6,022,236	100.0%	$ 5,507,118	100.0%

(a) Commercial loans include syndicated loans and collateralized loan obligations totaling $297 million and $105 million at December 31, 1999 and 1998, respectively.

At December 31, 1999, Webster had $8.1 million of impaired loans, of which $4.8 million were measured based upon the fair value of the underlying collateral and $3.3 million were measured based upon the expected future cash flows of the impaired loans. The $4.8 million of impaired loans have an allowance for loan losses of $1.5 million and $3.3 million of impaired loans had no related specific allowance for loan losses. At December 31, 1998, Webster had $19.4 million of impaired loans, of which $9.0 million were measured based upon the expected fair value of the underlying collateral and $10.4 million were measured based upon the expected future cash flows of the impaired loans. The $9.0 million of impaired loans have an allowance for loan losses of $2.2 million and $10.4 million of impaired loans had no related specific allowance for loan losses. In 1999, 1998 and 1997, the average balance of impaired loans was $13.1 million, $18.3 million and $37.4 million, respectively.

Webster's policy with regard to the recognition of interest income on impaired loans includes an individual assessment of each loan. Interest which is more than 90 days past due is not accrued. When payments on impaired loans are received, interest income is recorded on a cash basis or is applied to principal based on an individual assessment of each loan. Cash basis interest income recognized on impaired loans for the years 1999, 1998 and 1997 amounted to $782,000, $603,000 and $733,000, respectively.

Webster's nonaccrual loans are $38.4 million and $30.7 million, respectively at December 31, 1999 and 1998.

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

	December 31,		
(In thousands)	1999	1998	1997
Balance at beginning of period	$ 65,201	$ 71,599	$ 63,047
Provisions charged to operations	9,000	8,103	26,449
Allowances from purchase transactions	3,647	—	2,108
Reclassification of allowance for segregated asset losses	—	2,623	—
Charge-offs	(7,406)	(21,262)	(26,625)
Recoveries	2,216	4,138	6,620
Balance at end of period	$ 72,658	$ 65,201	$ 71,599

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

The estimated fair value of commitments to extend credit is considered insignificant at December 31, 1999 and 1998. Future loan commitments represent residential mortgage loan commitments, letters of credit, standby letters of credit, as well as unused credit card lines and home equity and commercial 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, 1999 and 1998, residential mortgage commitments totaled $71.4 million and $120.3 million, respectively. Residential commitments outstanding at December 31, 1999 consisted of adjustable-rate and fixed-rate mortgages of $48.7 million and $22.7 million, respectively, at rates ranging from 5.25% to 11.5%. Commitments to originate loans generally expire within 60 days. In addition, at December 31, 1999 and 1998, there were unused portions of home equity credit lines extended of $367.3 million and $355.0 million, respectively. Unused commercial lines of credit, letters of credit, standby letters of credit and outstanding commercial new loan commitments totaled $610.6 million and $342.4 million at December 31, 1999 and 1998, respectively. Unused credit card lines were $3.7 million at December 31, 1998.

Webster uses forward commitments to sell residential mortgage loans, which are entered into for the purpose of reducing the market risk associated with originating loans held for sale. The types of risk that may arise are from the possible inability of Webster or the other party to fulfill the contracts. At December 31, 1999 and 1998, Webster had forward commitments to sell loans totaling $7.0 million and $9.4 million, respectively, at rates between 6.5% and 8.75%, and 5.9% and 7.5%, respectively. The estimated fair value of commitments to sell loans is considered insignificant at December 31, 1999 and 1998.

At December 31, 1999, 1998 and 1997, Webster serviced, for the benefit of others, mortgage loans aggregating approximately $1.3 billion, $1.4 billion and $1.4 billion, respectively.

During 1999 and 1998, Webster capitalized mortgage servicing assets of $801,000 and $1.4 million, respectively, related to originating loans and selling them with servicing retained. Amortization of mortgage servicing rights was $1.6 million, $1.3 million and $930,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

NOTE 5: PREMISES AND EQUIPMENT, NET

A summary of premises and equipment, net follows:

	December 31,	
(In thousands)	1999	1998
Land	$ 15,841	$ 12,860
Buildings and improvements	78,392	68,876
Leasehold improvements	10,182	8,480
Furniture, fixtures and equipment	87,240	80,895
Total premises and equipment	191,655	171,111
Accumulated depreciation and amortization	(88,252)	(77,855)
Premises and equipment, net	$ 103,403	$ 93,256

At December 31, 1999, 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 $7.1 million, $6.3 million and $6.0 million in 1999, 1998 and 1997, respectively. Webster is also entitled to rental income under various non-cancelable operating leases for properties owned. Rental income under these leases was $2.4 million, $3.1 million and $2.3 million in 1999, 1998 and 1997, respectively.

The following is a schedule of future minimum rental payments and receipts required under these leases as of December 31, 1999:

Years ending December 31, (In thousands)	Payments	Receipts
2000	$ 6,735	$ 1,449
2001	6,010	1,229
2002	5,217	1,003
2003	4,487	824
2004	3,996	770
Later years	34,635	1,960
Total	$ 61,080	$ 7,235

NOTE 6: PREPAID EXPENSES AND OTHER ASSETS

A summary of prepaid expenses and other assets follows:

	December 31,	
(In thousands)	1999	1998
Due from FDIC	$ 679	$ 769
Income taxes receivable	2,077	3,260
Deferred tax asset, net (Note 13)	68,744	15,707
Mortgage servicing rights, net	6,429	5,868
Other assets	26,746	26,166
Prepaid expenses and other assets	$ 104,675	$ 51,770

The $679,000 due from the Federal Deposit Insurance Corporation (FDIC) at December 31, 1999 is net of a $499,000 payable amount that represents the FDIC's 80% reimbursement for fourth quarter 1999 recoveries less certain permitted expenses on segregated assets which will be paid in the first quarter of 2000. The $1.2 million receivable balance represents the additional 15% reimbursement on net charge-offs and certain related expenses, which Webster expects to receive during the first quarter of 2000.

NOTE 7: DEPOSITS

Deposits categories are summarized as follows:

	December 31,					
	1999			1998		
(Dollars in thousands)	Weighted Average Rate	Balance	% of Total	Weighted Average Rate	Balance	% of Total
Demand deposits	—%	$ 675,449	10.9%	—%	$ 626,996	9.9%
NOW accounts	1.20	718,016	11.6	1.24	694,074	11.0
Regular savings and money market deposit accounts	2.56	1,701,789	27.5	2.52	1,582,424	25.1
Time deposits	4.84	3,095,837	50.0	5.07	3,409,480	54.0
Total deposits	3.26%	$ 6,191,091	100.0%	3.53%	$ 6,312,974	100.0%

Interest expense on deposits is summarized as follows:

	December 31,		
(In thousands)	1999	1998	1997
NOW accounts	$ 14,587	$ 12,724	$ 10,446
Regular savings and money market deposit accounts	34,655	35,935	38,324
Time deposits	154,563	192,522	192,637
Total	$ 203,805	$ 241,181	$ 241,407

Time deposits of $100,000 or more amounted to $493.6 million and represented 7.97% of total deposits at December 31, 1999.

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

(In thousands)	Totals
Maturing:	
January 1, 2000 to December 31, 2000	$ 2,139,820
January 1, 2001 to December 31, 2001	572,878
January 1, 2002 to December 31, 2002	290,791
January 1, 2003 to December 31, 2003	31,345
January 1, 2004 to December 31, 2004	31,377
January 1, 2005 and beyond	29,626
Total	$ 3,095,837

NOTE 8: FEDERAL HOME LOAN BANK ADVANCES

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

	December 31,	
(In thousands)	1999	1998
Fixed Rate:		
4.54% to 8.86% due in 1999	$ —	$ 1,322,435
4.75% to 6.68% due in 2000	833,860	232,554
5.39% to 8.20% due in 2001	230,413	31,143
6.30% to 6.87% due in 2002	2,250	7,040
5.69% to 6.14% due in 2003	31,462	32,477
5.25% to 6.78% due in 2004	200,540	657
5.25% to 6.01% due in 2005	14,296	10,632
4.85% to 6.31% due in 2006	307,520	3,748
6.98% due in 2007	2,520	3,156
5.93% due in 2008	3,461	25,239
5.50% due in 2009	5,000	83
8.44% due in 2010	602	14
6.60% due in 2011	2,517	2,661
	$ 1,634,441	$ 1,671,839
Variable Rate:		
5.07% to 5.09% due in 1999	—	50,000
5.76% due in 2004	80,000	80,000
Total Federal Home Loan Bank advances (a)	$ 1,714,441	$ 1,801,839

(a) Of the $1.7 billion FHLB advances at December 31, 1999, the FHLB holds the option to call $539 million in 2000 and $5 million in 2004. In early 2000, the FHLB called a total of $400 million.

At December 31, 1999, the Bank had additional borrowing capacity of $1.4 billion from the FHLB, including a line of credit of approximately $41.3 million. Advances are secured by the Bank's investment in FHLB stock and a blanket security agreement. This agreement requires the Bank to maintain as collateral certain qualifying assets, principally mortgage loans and securities. At December 31, 1999 and 1998, the Bank was in compliance with the FHLB collateral requirements.

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

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

	December 31,	
(In thousands)	1999	1998
Securities sold under agreement to repurchase	$ 943,801(a)	$ 700,034
Senior notes	40,000	40,000
Bank lines of credit	39,000	10,000
Treasury tax and loan	41,187	11,368
ESOP borrowings	766	1,367
Federal funds purchased	9,250	11,000
Total (b)	$ 1,074,004	$ 773,769

(a) Of the $943.8 million securities sold under agreements to repurchase, $75 million are structured so that the broker has the option to call the agreement in mid-2000.

(b) The weighted average rates on these borrowings were 5.69% and 5.60% at December 31, 1999 and 1998, respectively.

During 1999, securities sold under agreements to repurchase was the primary source of borrowed funds with the exception of FHLB advance borrowings (see Note 8). The average balance and weighted average rate for securities sold under agreement to repurchase for 1999 were $786.5 million and 5.1% as compared to $953.8 million and 5.1% for 1998. Securities underlying the repurchase transactions held as collateral are primarily U.S. Government agency securities consisting of Fannie Mae, GNMA and FHLMC securities. Securities sold under agreement to repurchase related to Webster's funding operations are delivered to broker-dealers. Webster also enters into repurchase agreement transactions directly with commercial and municipal customers through its treasury sales desk.

Information concerning short-term and long-term borrowings under securities sold under agreement to repurchase as of the end of the current period is as follows:

(Dollars in thousands)	Balance at December 31, 1999	Book Value of Collateral	Market Value of Collateral	Weighted Average Rate	Weighted Average Maturity
Maturity up to 30 days	$ 220,612	$ 222,935	$ 222,558	4.80%	3.9 days
31 to 90 days	162,831	172,587	169,276	5.69	2.7 months
Over 90 days	560,360	597,807	585,870	5.77	10.8 months
Totals	$ 943,803	$ 993,329	$ 977,704	5.53%	6.9 months

While the Bank used several types of short-term borrowings as part of funding its daily operations, only securities sold under agreement to repurchase transactions had an average balance that was 30% or more of the Bank's total equity at the end of the 1999 and 1998 periods. The following table sets forth certain information as to the Bank's short-term securities sold under agreement to repurchase borrowings at the dates and for the years indicated.

	December 31,		
(Dollars in thousands)	1999	1998	1997
Average amount outstanding during the period	$ 786,536	$ 953,789	$ 571,808
Amount outstanding at end of period	861,160	620,034	917,108
Highest month end balance	938,285	1,222,750	920,348
Weighted-average interest rate at end of period	5.49%	5.00%	5.69%
Weighted-average interest rate during the period	5.14%	5.06%	5.64%

During 1999, Webster at times also used variable-rate lines of credit through correspondent banks and purchased federal funds. The Employee Stock Ownership Plan ("ESOP") borrowings are from a correspondent bank at a floating rate based on the correspondent bank's base (prime) rate and the weighted average interest rates at December 31, 1999 and 1998 were 8.5% and 7.75%, respectively. The terms of the loan agreements call for the ESOP to make annual scheduled principal repayments through the year 2004. Interest is paid quarterly and the borrowings are guaranteed and secured by unallocated shares of Webster common stock under the ESOP Plan.

In 1993, Webster completed a registered offering of $40 million of 8 3/4% Senior Notes due 2000 (the "Senior Notes"). Webster used $18.3 million from the net proceeds of the offering to redeem the remaining shares of Series A Stock issued by Webster to the FDIC in connection with the First Constitution acquisition. The Senior Notes may not be redeemed by Webster prior to the maturity date of June 30, 2000, and are not exchangeable for any shares of Webster's common stock.

NOTE 10: INTEREST-RATE FINANCIAL INSTRUMENTS

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

Fair value, which approximates the cost to replace the contract at current market rates, is generally representative of market risk. Credit risk related to the interest-rate swaps, interest-rate caps and floors at December 31, 1999 is not considered to be significant due to counterparty ratings. In the event of a default by a counterparty, the cost to Webster, if any, would be the replacement cost of the contract at the current market rate.

Interest-rate financial instruments are summarized as follows:

						December 31,
		1999			1998	
(In thousands)	Notional Amount	Fair Value	Amortized Cost	Notional Amount	Fair Value	Amortized Cost
Swap agreements	$ 25,000	$ (1,226)	$ —	$ 25,000	$ (219)	$ —
Floor agreements	500,000	137	2,154	500,000	8,501	4,148
Cap agreements	410,000	8,945	8,720	451,000	4,047	11,837
Total	$ 935,000	$ 7,856	$ 10,874	$ 976,000	$ 12,329	$ 15,985

Interest-rate swap agreements involve the exchange of fixed and variable interest payments based upon notional amounts paid to a maturity date. At December 31, 1999, Webster had one interest-rate swap agreement, hedging $25 million of brokered certificates of deposit, in which Webster receives a fixed rate of 6.65% and pays a variable rate based on Libor. For the years ended December 31, 1999 and 1998, net income recorded on the deposit swap was $360,000 and $263,000, respectively.

Interest-rate cap agreements will result in cash payments to be received by Webster only if index rates rise above a predetermined strike. At December 31, 1999, Webster had five outstanding cap agreements with notional amounts of $410 million related to the available for sale securities portfolio with interest-rate caps ranging from 6.00% to 9.00%. At December 31, 1999, this portfolio had $8.7 million of unamortized interest-rate cap balances and during the 1999 period amortized $2.7 million as a reduction of interest income. Similarly, interest-rate floor agreements will result in cash payments to be received by Webster only if current interest rates fall below a predetermined strike. At December 31, 1999, Webster had two outstanding interest-rate floor agreements with notional amounts of $500 million and interest-rate floors of 5.25% and 5.75%. At December 31, 1999, Webster had $2.2 million of unamortized floor expense and during the 1999 period amortized $2.0 million as a reduction of available for sale interest income. The premium paid for caps and floors is amortized over the life of the contract.

NOTE 11: SUMMARY OF ESTIMATED FAIR VALUES

A summary of estimated fair values consisted of the following:

	December 31,			
	1999		1998	
(In thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and due from depository institutions	$ 245,783	$ 245,783	$ 213,142	$ 213,142
Interest-bearing deposits	37,838	37,838	17,819	17,819
Securities	3,057,819	3,042,639	3,650,281	3,653,648
Residential loans	3,898,943	3,869,912	3,880,319	4,013,742
Consumer loans	47,064	47,520	68,081	70,206
Home equity loans	492,684	492,106	458,981	478,339
Commercial loans	1,656,203	1,599,584	1,164,938	1,158,010
Allowance for loan losses	(72,658)	(72,658)	(65,201)	(65,201)
Interest-rate contracts	9,082	9,082	12,548	12,548
Liabilities:				
Deposits other than time deposits	$ 3,095,254	$ 3,095,254	$ 2,903,494	$ 2,903,494
Time deposits:				
Maturing in less than one year	2,143,180	2,149,981	2,849,755	2,850,601
Maturing in one year and beyond	952,657	965,132	559,725	570,504
Federal Home Loan Bank advances	1,714,441	1,706,299	1,801,839	1,809,011
Securities sold under agreement to repurchase and other borrowings	1,074,004	1,071,871	773,769	776,545
Capital securities and preferred stock of subsidiary corp.	199,577	194,344	199,577	215,326

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

The carrying amounts for interest-bearing deposits other than time deposits approximate fair value since they mature in 90 days or less and do not present unanticipated credit concerns. The fair value of securities (see Note 3) is estimated based on prices or quotations received from third parties or pricing services. The fair value of interest-rate contracts was based on the amount Webster could receive or pay to terminate the agreements. FHLB stock has no active market and is required to be held by member banks. The estimated fair value of FHLB stock equals the carrying amount.

In estimating the fair value of loans, portfolios with similar financial characteristics were classified by type. Loans were segmented into four generic types: residential, consumer, home equity and commercial. Residential loans were further segmented into 15 and 30 year fixed-rate contractual maturities, with the remaining classified as variable-rate loans. The fair value of each category is calculated by discounting scheduled cash flows through estimated maturity using market discount rates. Adjustments were made to reflect credit and rate risks inherent in the portfolio.

The estimated fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, regular savings, NOW accounts and money market accounts, is equal to the amount payable on demand. The estimated fair values of time deposits, FHLB advances, other borrowings, capital securities and preferred stock of subsidiary corporation were calculated using the discounted cash flow method. The discount rate for time deposits is based on rates currently offered by Webster and the discount rates for FHLB advances and securities sold under agreements to repurchase is based on Libor rates that coincide with the remaining maturities. The discount rate used for the senior notes was calculated using a spread over treasury notes consistent with the spread used to price the senior notes at their inception. The discount rates used for the capital securities and preferred stock of subsidiary corporation liabilities were calculated using a spread over Libor that coincides with the remaining maturities.

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

NOTE 12: ALLOWANCE FOR LOSSES ON FORECLOSED PROPERTIES

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

	Years ended December 31,		
(In thousands)	1999	1998	1997
Balance at beginning of period	$ 207	$ 1,222	$ 819
Provisions	100	330	1,637
Losses charged to allowance	(81)	(1,466)	(1,355)
Recoveries credited to allowance	23	121	121
Balance at end of period	$ 249	$ 207	$ 1,222

NOTE 13: INCOME TAXES

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

	Years ended December 31,		
(In thousands)	1999	1998	1997
Current:			
Federal	$ 49,740	$ 35,788	$ 32,248
State	494	1,821	6,195
	50,234	37,609	38,443
Deferred:			
Federal	(2,902)	1,104	(7,122)
State	—	10,981	(1,434)
	(2,902)	12,085	(8,556)
Total:			
Federal	46,838	36,892	25,126
State	494	12,802	4,761
	$ 47,332	$ 49,694	$ 29,887

Income tax expense of $47.3 million, $49.7 million and $29.9 million for the years ended December 31, 1999, 1998 and 1997, respectively, differed from the amounts computed by applying the Federal income tax rate of 35% in 1999, 1998 and 1997 to pre-tax income as a result of the following:

	Years ended December 31,		
(In thousands)	1999	1998	1997
Computed "expected" tax expense	$ 49,939	$ 44,699	$ 27,125
Increase (decrease) in income taxes resulting from:			
Dividends received deduction	(1,091)	(756)	(412)
State income taxes, net of federal income tax benefit including change in state valuation allowance and tax rate	321	8,241	2,834
Tax exempt interest	(853)	(178)	(99)
Goodwill	1,158	459	29
Acquisition-related expenses	781	1,520	1,431
Increase in cash surrender value of life insurance	(2,762)	(1,963)	—
Other, net	(161)	(2,328)	(1,021)
Income taxes	$ 47,332	$ 49,694	$ 29,887

At December 31, 1999, Webster had a net deferred tax asset of $68.7 million. In order to fully realize the net deferred tax asset, Webster must either generate future taxable income or incur tax losses to carry back. Based on Webster's historical and current taxable earnings, management believes that Webster will realize the net deferred tax asset. There can be no assurance, however, that Webster will generate taxable earnings or a specific level of continuing taxable earnings in the future.

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

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1999 and 1998 are presented below.

	December 31,	
(In thousands)	1999	1998
Deferred tax assets:		
Loan loss allowances and other allowances, net	$ 28,808	$ 24,321
Accrued compensation and pensions	6,557	5,544
Deferred expenses	3,061	3,544
Unrealized loss on securities	41,463	—
Intangibles	6,946	5,812
Net operating loss carry forward	1,696	641
Other	2,007	1,686
Total gross deferred tax assets	90,538	41,548
Less state valuation allowance, net of federal benefit	(4,329)	(5,000)
Deferred tax asset after valuation allowance	86,209	36,548
Deferred tax liabilities:		
Loan discount	3,777	2,837
Intangibles	9,177	—
Unrealized gain on securities	—	14,809
Mortgage servicing rights	1,127	810
Other	3,384	2,294
Total gross deferred tax liabilities	17,465	20,750
Net deferred tax asset	$ 68,744	$ 15,798

NOTE 14: SHAREHOLDERS' EQUITY

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

Retained earnings at December 31, 1999 included $41.0 million of earnings of the Bank appropriated to bad debt reserves (pre-1988), which were deducted for federal income tax purposes. Tax law changes were enacted in August 1996 to eliminate the "thrift bad debt" method of calculating bad debt deductions for tax years after 1995 and to impose a requirement to recapture into taxable income (over a six-year period) all bad debt reserves accumulated after 1987. Since Webster previously recorded a deferred tax liability with respect to these post-1987 reserves, its total income tax expense for financial reporting purposes is not affected by the recapture requirement. The tax law changes also provide that taxes associated with the recapture of pre-1988 bad debt reserves would become payable under more limited circumstances than under prior law. Under the tax laws, as amended, events that would result in recapture of the pre-1988 bad debt reserves include stock and cash distributions to the holding company from the Bank in excess of specified amounts. Webster does not expect such reserves to be recaptured into taxable income.

Applicable OTS regulations require federal savings banks such as the Bank, to satisfy certain minimum capital requirements, including a leverage capital requirement (expressed as a ratio of core or Tier 1 capital to adjusted total assets) and risk-based capital requirements (expressed as a ratio of core or Tier 1 capital and total capital to total risk-weighted assets). As an OTS regulated institution, the Bank is also subject to a minimum tangible capital requirement (expressed as a ratio of tangible capital to adjusted total assets). At December 31, 1999 and 1998, the Bank exceeded all OTS regulatory capital requirements and met the FDIC requirements for a "well capitalized" institution. In order to be considered "well capitalized" a depository institution must have a ratio of Tier 1 capital to adjusted total assets of 5%, a ratio of Tier 1 capital to risk-weighted assets of 6% and a ratio of total capital to risk-weighted assets of 10%. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on Webster's Consolidated Financial Statements. Webster's capital amounts and classifications are also subject to qualitative judgments by the OTS about components, risk weightings, and other factors.

At December 31, 1999 and 1998, the Bank was in full compliance with all applicable capital requirements as detailed below:

	Actual		OTS Minimum Capital Requirements		Well Capitalized	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 1999						
Total capital (to risk-weighted assets)	$ 727,399	12.30%	$ 473,243	8.00%	$ 591,554	10.00%
Tier 1 capital (to risk-weighted assets)	656,561	11.10	236,621	4.00	354,932	6.00
Tier 1 capital (to adjusted total assets)	656,561	6.73	390,374	4.00	487,967	5.00
Tangible capital (to adjusted total assets)	652,439	6.69	195,104	2.00	No Requirement	
At December 31, 1998						
Total capital (to risk-weighted assets)	$ 627,791	12.53%	$ 400,978	8.00%	$ 501,223	10.00%
Tier 1 capital (to risk-weighted assets)	567,614	11.32	200,489	4.00	300,734	6.00
Tier 1 capital (to adjusted total assets)	567,614	5.93	382,868	4.00	478,585	5.00
Tangible capital (to adjusted total assets)	562,438	5.88	191,331	2.00	No Requirement	

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

Regulatory rules currently impose limitations on all capital distributions by savings institutions, including dividends, stock repurchase 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 Company without prior OTS approval equal to the net income to date over the calendar year, plus retained net income over the preceding two years. In addition, the OTS has the discretion to prohibit any otherwise permitted capital distribution on general safety and soundness grounds, and must be given 30 days advance notice of all capital distributions during which time it may object to any proposed distribution. The Bank has paid dividends and made distributions to Webster amounting to $60.8 million and $130.8 million for 1999 and 1998, respectively.

The Bank has an ESOP that invests in Webster common stock as discussed in Notes 9 and 16. Since Webster has secured and guaranteed the ESOP debt, the outstanding ESOP loan balance, which is considered unearned compensation expense, is recorded as a reduction of shareholders' equity. Both the loan obligation and the unearned compensation expense are reduced by the amount of any loan repayments made by the ESOP. Principal repayments totaled $601,300, $610,900 and $568,000 during the years ended December 31, 1999, 1998 and 1997, respectively.

During 1999, Webster repurchased 2,622,608 shares of its common stock under three repurchase programs that were announced in November 1998 and December 1999. The two plans announced in November 1998 were specifically related to the purchase acquisitions of Maritime and Village that closed in the second quarter of 1999. The plan announced in December 1999 is specifically related to the purchase acquisition of Mechanics that is scheduled to close during the second quarter of 2000.

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

NOTE 15: NET INCOME PER COMMON SHARE

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

	Year ended December 31,		
(In thousands)	1999	1998	1997
Basic Earnings Per Share:			
Net income	$ 95,350	$ 78,019	$ 47,612
Weighted-average common shares outstanding	44,553,859	45,275,165	44,835,738
Basic earnings per share	$ 2.14	$ 1.72	$ 1.06
Diluted Earnings Per Share:			
Net income	$ 95,350	$ 78,019	$ 47,612
Weighted-average common shares outstanding	44,553,859	45,275,165	44,835,738
Dilutive potential common stock:			
Effect of conversion of preferred stock series B	—	—	34,106
Options	839,629	842,376	902,404
Warrant	—	—	194,088
Total weighted-average diluted shares	45,393,488	46,117,541	45,966,336
Diluted earnings per share	$ 2.10	$ 1.69	$ 1.04

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

NOTE 16: EMPLOYEE BENEFIT AND STOCK OPTION PLANS

The Bank has an employee investment plan under section 401(k) of the Internal Revenue Code. Under the savings plan, the Bank will match $.50 for every $1.00 of the employee's contribution up to 6% of the employee's annual compensation. Operations were charged with $1.6 million for the year ended December 31, 1999 and $1.5 million for the years ended December 31, 1998 and 1997, respectively, for 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 employees of the Bank who meet certain minimum age and service requirements. The Bank may make contributions to the ESOP in such amounts as the Board of Directors may determine on an annual basis. To the extent that the Bank's contributions are used to repay the ESOP loan, Webster common stock is allocated to the accounts of participants in the ESOP. Stock and other amounts allocated to a participant's account become fully vested after the participant has completed five years of participation service under the ESOP. At December 31, 1999, there were 108,831 unallocated shares of Webster common stock in the ESOP with 46,931 shares scheduled for release in 2000. Subsequent to the release, approximately 61,900 unallocated shares will remain in the ESOP for future distributions. At December 31, 1999, the unallocated shares in the ESOP had an aggregate market value of approximately $2.6 million. Total principal reductions on the ESOP loan during 1999 and 1998 totaled $601,300 and $610,900, respectively. Operations were charged with $727,000 for the year ended December 31, 1999 and $1.2 million for the years ended December 31, 1998 and 1997 for costs related to the ESOP. The 1999 ESOP charge includes $560,000 of compensation expense, $20,000 of interest payments (net of $58,000 of dividends on unallocated ESOP shares) and $147,000 of administrative costs.

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, 1999 and 1998.

	December 31,	
(In thousands)	1999	1998
Change in benefit obligation:		
Accumulated benefit obligation-beginning of year	$ 26,751	$ 20,829
Service cost	3,053	2,257
Interest cost	1,741	1,536
Plan amendment	—	114
Actuarial (gain) loss	(3,328)	3,675
Acquisition-related	—	651
Benefits paid	(2,244)	(2,007)
Curtailment adjustments	—	(304)
Accumulated benefit obligation-end of year	$ 25,973	$ 26,751
Change in plan assets:		
Plan assets at fair value-beginning of year	$ 26,601	$ 24,351
Actual return on plan assets	1,608	2,982
Contributions	1,400	624
Acquisition-related	—	651
Benefits paid	(2,244)	(2,007)
Settlements	—	—
Plan assets at fair value-end of year	$ 27,365	$ 26,601
Funded status	1,392	$ (150)
Unrecognized prior service cost	(1,131)	(1,207)
Unrecognized net gain	(2,887)	(362)
Unrecognized net asset	(104)	(112)
Accrued pension liability	$ (2,730)	$ (1,831)

The pension plan held in its asset portfolio 62,000 shares of Webster common stock as of December 31, 1999 and 1998.

The discount rate, the rate of increase of future compensation levels and the expected long-term rate of return on assets used in determining the actuarial present value of the projected benefit obligation were 7.25%, 5.00% and 9.00%, respectively for 1999, and 6.25%, 4.50% and 9.00% for 1998.

Net pension expense for 1999, 1998 and 1997 included the following components.

	Years ended December 31,		
(In thousands)	1999	1998	1997
Service cost-benefits earned during the period	$ 3,053	$ 2,257	$ 2,027
Interest cost on projected benefit obligations	1,741	1,536	1,554
Expected return on plan assets	(2,412)	(2,242)	(2,476)
Amortization and deferral of unrecognized prior service cost, transition and gains (losses)	(83)	(630)	516
Total	$ 2,299	$ 921	$ 1,621

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, 1999 and 1998:

	December 31,	
(In thousands)	1999	1998
Change in benefit obligation:		
Accumulated benefit obligation-beginning of year	$ 3,743	$ 3,655
Service cost	—	11
Interest cost	202	277
Actuarial (gain) loss	(711)	443
Benefits paid	(200)	(231)
Curtailment adjustments	—	(412)
Accumulated benefit obligation-end of year	$ 3,034	$ 3,743
Fair value of plan assets	—	—
Funded status	$ (3,034)	$ (3,743)
Unrecognized prior service cost	—	—
Unrecognized net (gain) loss	(352)	359
Accumulated post-retirement liability	$ (3,386)	$ (3,384)

The discount rate used in determining the accumulated other post-retirement benefit obligation of 1999 and 1998 was 7.25% and 6.25%, respectively. The assumed healthcare cost-trend rate is 6.00% for 2000, decreasing 0.5% per year to 5.0% for 2002 and thereafter. An increase of 1% in the assumed healthcare cost-trend rate would increase net periodic post-retirement benefit cost by $14,537 and increase the accumulated benefit obligation by $226,657. A decrease of 1% in the assumed healthcare cost trend rate would decrease net periodic post-retirement cost by $12,717 and decrease the accumulated benefit obligation by $198,531.

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

	Years ended December 31,		
(In thousands)	1999	1998	1997
Service cost	$ —	$ 11	$ 58
Interest cost	202	277	249
Amortization and deferral of unrecognized prior service cost, transition and gains (losses)	—	112	(49)
Net periodic post-retirement benefit cost	$ 202	$ 400	$ 258

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

	Years ended December 31,		
(Dollars in thousands, except per share data)	1999	1998	1997
Net income:			
As reported	$ 95,350	$ 78,019	$ 47,612
Pro forma	93,981	74,005	45,885
Basic earnings per share:			
As reported	$ 2.14	$ 1.72	$ 1.06
Pro forma	2.11	1.63	1.02
Diluted earnings per share:			
As reported	$ 2.10	$ 1.69	$ 1.04
Pro forma	2.07	1.60	1.00

Webster had eight active fixed stock option plans at December 31, 1999. Six of the option plans were acquired through the NECB, Village, Maritime, Eagle, People's and Derby acquisitions. The acquired plans had options outstanding of 470,046, 12,817, 89,026, 256,416, 24,476 and 11,322, respectively, at December 31, 1999. Webster's 1992 option plan was amended in 1999, 1998, 1996, 1994 and 1992. Stock appreciation rights ("SARS") were granted in tandem with stock options issued under the Derby option plan. In accordance with generally accepted accounting principles, compensation expense for the SARS is recorded when the market value of Webster's common stock exceeds the SARS' strike price. During 1999, there were no SARS transacted and there were no remaining SARS outstanding at December 31, 1999. Compensation expense recorded for 1998 and 1997 was $89,695 and $229,000 respectively. During the years ended December 31, 1998 and 1997 the number of SARS exercised were 4,612, and 1,050 respectively. Under the terms of the option plans, the exercise price of each option granted equals the approximate market price of Webster's stock on the date of grant and each option has a maximum contractual life of ten years.

The 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 1999: expected option term 9.0 years, expected dividend yield 2.35%, expected volatility 33.94%, expected forfeiture rate 2.00%, and weighted risk-free interest-rate of 5.89%. The weighted-average assumptions used for grants issued during 1998 were: 8.7 years, 1.70%, 31.19%, 2.13% and 4.96%, respectively; and for 1997 were 8.6 years, 1.85%, 25.14%, 2.23% and 5.83%.

A summary of the status of Webster's fixed stock option plans at December 31, 1999, 1998, and 1997 and changes during the years then ended is presented below:

	1999		1998		1997	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding at beginning of year	3,036,414	$ 17.30	3,174,383	$ 13.23	2,875,896	$ 9.66
Granted	340,147	25.56	627,350	31.92	922,337	21.18
Options acquired through purchase acquisitions	136,166	7.98	—	—	—	—
Exercised	(577,355)	11.51	(714,330)	11.63	(591,492)	8.08
Forfeited/canceled	(10,467)	21.37	(50,989)	23.47	(32,358)	16.08
Options outstanding at end of year	2,924,905	$ 19.00	3,036,414	$ 17.30	3,174,383	$ 13.23
Options exercisable at year end	2,176,068		2,148,197		1,956,710	
Weighted-average per share fair value of options granted during the year		$ 9.87		$ 12.30		$ 7.36

The following table summarizes information about Webster's fixed stock option plans by price range for options outstanding and exercisable at December 31, 1999:

	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
$3.54 and under	23,760	0.9	$ 2.27	23,760	$ 2.27
$3.55 - $7.08	249,102	1.7	5.68	249,102	5.68
$7.09 - $10.61	620,712	4.7	9.41	620,712	9.41
$10.62 - $14.15	341,397	5.4	12.40	341,397	12.40
$14.16 - $17.69	290,390	7.3	16.24	267,653	16.23
$17.70 - $21.23	230,958	6.9	18.82	214,958	18.81
$21.24 - $24.76	274,444	9.4	24.48	14,294	23.61
$24.77 - $28.30	185,545	9.0	26.49	695	26.50
$28.31 - $31.84	239,597	8.2	31.29	35,497	30.22
$31.85 - $35.38	469,000	8.4	33.77	408,000	33.84
	2,924,905	6.5	$ 19.00	2,176,068	$ 16.16

Webster also has two restricted stock plans consisting of a First Amended and Restated Directors Retainer Fees Plan, which was established in 1996, and a Restricted Stock Plan, which was established in 1992. Under the Directors Retainer Fee Restricted Stock Plan, a total of 5,928 shares were issued to thirteen directors in 1999 with each receiving 456 shares. These restricted shares were reissued from treasury stock and the cost was measured as of the grant date using the fair market value of Webster's stock as of the grant date. There were 39,093 and 15,908 restricted shares granted during 1999 and 1997 under the 1992 Restricted Stock Plan. There were no restricted shares granted during 1998 from the 1992 Restricted Stock Plan. During 1999, 52,900 restricted shares were granted to management under the 1992 Stock Option Plan. The cost of all restricted shares is amortized to compensation expense over the service or vesting period and such expense is reflected in Webster's Consolidated Statements of Income.

NOTE 17: ACQUISITION-RELATED EXPENSES

A summary of acquisition-related expenses follows:

	Years ended December 31,		
(In thousands)	1999	1998	1997
Derby	$ —	$ —	$ 19,858
MidConn	—	—	2,734
People's	—	—	7,200
FBWH	—	—	2,197
Eagle	—	17,400	—
OPBT	—	207	—
BSW	—	3,386	—
NECB	9,500	—	—
Total	$ 9,500	$ 20,993	$ 31,989

Webster recorded $9.5 million in acquisition-related expenses in connection with the acquisition of NECB which was completed on December 1, 1999. In 1998, Webster recorded approximately $17.4 million in acquisition-related expenses for the acquisition of Eagle, which was completed on April 15, 1998. Webster also recorded in 1998 acquisition-related expenses of $3.4 million and $207,000 in connection with the purchases of BSW, which was completed on August 14, 1998, and OPBT which was completed on August 10, 1998. In connection with the acquisitions of Derby, MidConn, People's, and FBWH, which were completed on January 31, 1997, May 31, 1997, July 31, 1997 and August 7, 1997, respectively, Webster recorded approximately $32.0 million of acquisition-related expenses.

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

(In thousands)	Derby	People's	Eagle	OPBT	BSW	NECB
Balance of acquisition-related accrued liabilities at December 31, 1997	$ 5,400	$ 2,400	$ —	$ —	$ —	$ —
Additions/provisions	—	—	17,400	207	3,386	—
Payments and charges against the liabilities:						
Compensation (severance and related costs)	(400)	(300)	(7,800)	—	(1,650)	—
Data processing contract termination	(600)	—	(1,200)	—	(1,000)	—
Transaction costs (including investment bankers, attorneys and accountants)	—	—	(4,100)	(207)	(150)	—
Writedown of fixed assets and facilities costs	(150)	(200)	(500)	—	—	—
Acquisition-related miscellaneous expenses (a)	(450)	(300)	(2,400)	—	(586)	—
Balance of acquisition-related accrued liabilities at December 31, 1998	$ 3,800	$ 1,600	$ 1,400	$ —	$ —	$ —
Additions/provisions	—	—	—	—	—	9,500
Payments and charges against the liabilities:						
Compensation (severance and related costs)	—	—	—	—	—	(3,000)
Data processing contract termination	(700)	—	—	—	—	(400)
Transaction costs (including investment bankers, attorneys and accountants)	—	—	(50)	—	—	(1,300)
Writedown of fixed assets and facilities costs	(100)	(1,100)	(400)	—	—	(700)
Acquisition-related miscellaneous expenses (a)	—	(100)	(175)	—	—	(800)
Balance of acquisition-related accrued liabilities at December 31, 1999	$ 3,000	$ 400	$ 775	$ —	$ —	$ 3,300

(a) Includes customer retention, data conversion and supplies expenses.

The remaining total accrued liability of $7.5 million at December 31, 1999 represents, for the most part, an accrual for data processing contract termination costs payable over future periods and the estimated loss on sale of excess fixed assets due to consolidation of overlapping branch locations.

NOTE 18: BUSINESS SEGMENTS

Webster has four segments for business segment reporting purposes. These segments include consumer banking, business banking, mortgage lending and treasury. The organizational hierarchies that define the business segments are periodically reviewed and revised. Results may be restated in future periods to reflect changes in organizational structure. The following table presents the statement of operations for Webster's reportable segments.

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

	Year Ended December 31, 1999					
(In thousands)	Consumer Banking	Business Banking	Mortgage Lending	Treasury	All Other	Total Segments
Net interest income	$ 166,393	$ 47,413	$ 73,809	$ 13,715	$ 2,183	$ 303,513
Provision for loan losses	1,181	3,891	3,928	—	—	9,000
Net interest income after provision	165,212	43,522	69,881	13,715	2,183	294,513
Noninterest income	49,070	3,353	11,515	16,913	11,779	92,630
Noninterest expenses	137,476	34,190	17,609	13,364	13,526	216,165
Income before income taxes	76,806	12,685	63,787	17,264	436	170,978
Income taxes	25,480	4,208	21,160	5,727	148	56,723
Net income after taxes	$ 51,326	$ 8,477	$ 42,627	$ 11,537	$ 288	$ 114,255
Total assets	$ 1,150,354	$ 1,294,651	$ 3,973,558	$ 3,491,527	$ 21,654	$ 9,931,744

	Year Ended December 31, 1998					
(In thousands)	Consumer Banking	Business Banking	Mortgage Lending	Treasury	All Other	Total Segments
Net interest income	$ 131,508	$ 47,816	$ 82,090	$ 20,879	$ 318	$ 282,611
Provision for loan losses	1,227	2,063	4,813	—	—	8,103
Net interest income after provision	130,281	45,753	77,277	20,879	318	274,508
Noninterest income	34,327	3,820	10,266	19,609	7,402	75,424
Noninterest expenses	117,671	28,351	26,452	12,122	9,137	193,733
Income (loss) before income taxes	46,937	21,222	61,091	28,366	(1,417)	156,199
Income taxes	17,373	7,884	22,607	10,540	(525)	57,879
Net income (loss) after taxes	$ 29,564	$ 13,338	$ 38,484	$ 17,826	$ (892)	$ 98,320
Total assets	$ 770,704	$ 1,047,640	$ 3,771,493	$ 4,224,685	$ 21,507	$ 9,836,029

The consumer banking segment includes 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 lending. The business banking segment includes the Bank's investment in commercial and industrial loans and commercial real estate loans. The business banking segment also includes deposits and cash management activities for business banking. The mortgage lending segment includes the Bank's investment in residential real estate loan origination, servicing and secondary marketing activities. The treasury segment includes the Bank's investment in assets and liabilities managed by Treasury and includes interest-bearing deposits, securities, FHLB advances, repurchase agreements and other borrowings. All other includes the results of Webster's trust and investment and insurance subsidiaries, which offer products to both consumer and business customers.

During 1999 Webster changed its internal funds transfer pricing methodology, which charges or credits for use or source of funds. This change effected net interest income for all reported segments. As a result of the change in methodology there was an increase in interest income allocated to Consumer Banking and an increase in interest expense allocated to Business Banking, Mortgage Lending and Treasury.

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

Management allocates indirect expenses to its business segments. These expenses include administration, finance, operations and other support related functions. Net income (loss) after income taxes for the segments do not include certain income and expense categories (net of taxes), that aggregate to net expenses of $18.9 million for the year ended December 31, 1999 and $20.3 million for the year ended December 31, 1998, that do not directly relate to segments. The major categories not included in the segments for the year ended December 31, 1999, were (on a before tax basis) $14.6 million of capital securities expense, $4.2 million of dividend expense on the preferred stock of subsidiary corporation and $9.5 million of acquisition-related expenses. For the year ended December 31, 1998, the major categories not included in the segments were (on a before tax basis) $14.7 million of capital securities expense, $4.2 million of dividend expense on preferred stock and $21.0 million of acquisition-related expense.

NOTE 19: 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 million underwritten public offering of 9.36% Corporation-Obligated Manditorily Redeemable Capital Securities of Webster Capital Trust I ("capital securities"). The sole asset of Trust I is the $100 million of Webster's 9.36% junior subordinated deferrable interest debentures due in 2027 ("subordinated debt securities"), purchased by Trust I on January 30, 1997.

On April 1, 1997, Eagle Financial Capital Trust I, subsequently renamed Webster Capital Trust II ("Trust II"), completed a $50 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 $14.6 million, $14.7 million and $11.4 million for 1999, 1998 and 1997 respectively, inclusive of issuance cost amortization. The expense associated with Trust I and Trust II is tax deductible.

At December 31, 1997, Webster owned $5.0 million of Trust II securities which were eliminated as a result of the pooling of interests. Subsequent to December 31, 1997 and prior to Webster's acquisition of Eagle, these securities were sold to a third party and were outstanding at December 31, 1998.

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

NOTE 20: PREFERRED STOCK OF SUBSIDIARY CORPORATION

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

In December 1997, WPCC raised $50.0 million in a public offering in which $40 million was issued as Series A 7.375% cumulative redeemable preferred stock and $10.0 million was issued as Series B 8.625% cumulative redeemable preferred stock that is quoted under NASDAQ listing (WBSTP). All of WPCC's common stock is owned by the Bank. Dividend expense on the preferred stock for 1999 and 1998, inclusive of issuance cost amortization, was $4.2 million for each respective period and $85,000 for 1997. The preferred shares are not exchangeable into common stock or any other securities of the Bank or Webster, and will not constitute regulatory capital of either the Bank or Webster.

NOTE 21: LEGAL PROCEEDINGS

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

NOTE 22: PARENT COMPANY CONDENSED FINANCIAL INFORMATION

The Statements of Condition for 1999 and 1998 and the Statements of Income and Cash Flows for the three-year period ended December 31, 1999 (parent only) are presented below.

Statements of Condition

	December 31,	
(In thousands)	1999	1998
Assets:		
Cash and due from depository institutions	$ 7,032	$ 1,021
Interest-bearing deposits	300	735
Securities available for sale	118,584	146,534
Investment in subsidiaries	735,335	679,422
Due from subsidiaries	2	22
Accrued interest receivable	1,263	1,191
Other assets	7,429	5,929
Total assets	$ 869,945	$ 834,854
Liabilities and shareholders' equity:		
Senior notes due 2000	$ 40,000	$ 40,000
Lines of credit	39,000	10,000
ESOP borrowings	766	1,367
Due to subsidiaries	36	—
Other liabilities	4,476	7,033
Corporation-obligated mandatorily redeemable capital securities of subsidiary trusts	150,000	150,000
Shareholders' equity	635,667	626,454
Total liabilities and shareholders' equity	$ 869,945	$ 834,854

Statements of Income

	Years ended December 31,		
(In thousands)	1999	1998	1997
Dividends from subsidiary	$ 50,806	$ 80,776	$ 52,895
Interest on securities	8,088	5,750	2,384
Gain on sale of securities	1,834	8,039	937
Other noninterest income	1	24	11
Interest expense on borrowings	5,541	5,018	3,812
Capital securities expense	14,645	14,708	11,368
Other noninterest expenses	7,304	7,104	8,062
Income before income taxes and equity in undistributed earnings of subsidiaries	33,239	67,759	32,985
Income tax benefit	6,524	3,856	7,765
Income before equity in undistributed earnings of subsidiaries	39,763	71,615	40,750
Equity in undistributed earnings of subsidiaries	55,587	6,404	6,862
Net income	$ 95,350	$ 78,019	$ 47,612

Statements of Cash Flows

(In thousands)	1999	1998	1997
			Years ended December 31,
Operating Activities:			
Net income	$ 95,350	$ 78,019	$ 47,612
Increase in interest receivable	(72)	(940)	(186)
(Increase) decrease in other assets	(1,500)	11,428	(3,483)
Gains on sale of securities	(1,834)	(8,039)	(937)
Equity in undistributed earnings of subsidiaries	(55,587)	(6,404)	(6,862)
(Decrease) increase in other liabilities	(2,557)	(3,036)	587
Other, net	1,080	1,038	11,786
Net cash provided by operating activities	34,880	72,066	48,517
Investing activities:			
Purchases of securities available for sale	(132,824)	(265,132)	(114,819)
Decrease (increase) in interest-bearing deposits	435	2,158	(2,088)
Other, net	(183)	(1,265)	(5,409)
Sales and maturities of securities available for sale	148,852	176,688	61,986
Distribution from (investment in) bank subsidiary	10,000	50,000	(93,793)
Net cash provided (used) by investing activities	26,280	(37,551)	(154,123)
Financing activities:			
Repayment of borrowings	(151,607)	(85,611)	(28,400)
Proceeds from borrowings	180,006	95,000	10,000
Net proceeds from issuance of capital securities	—	4,846	141,327
Exercise of stock options	9,342	10,816	5,808
Cash dividends to shareholders	(20,729)	(20,848)	(17,477)
Common stock repurchases	(72,161)	(39,861)	(6,020)
Net cash (used) provided by financing activities	(55,149)	(35,658)	105,238
Increase (decrease) in cash and cash equivalents	6,011	(1,143)	(368)
Cash and cash equivalents at beginning of year	1,021	2,164	2,532
Cash and cash equivalents at end of year	$ 7,032	$ 1,021	$ 2,164

NOTE 23: SELECTED QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

Selected quarterly data for 1999 and 1998 follows:

(In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1999:				
Interest income	$ 160,026	$ 159,813	$ 162,179	$ 163,774
Interest expense	87,340	83,372	84,331	87,236
Net interest income	72,686	76,441	77,848	76,538
Provision for loan losses	2,165	2,268	2,245	2,322
Gain (loss) on sale of loans, loan servicing and securities, net	3,444	3,572	(499)	2,165
Other noninterest income	18,132	18,998	22,402	24,416
Noninterest expenses	55,646	58,272	59,136	71,407
Income before income taxes	36,451	38,471	38,370	29,390
Income taxes	12,478	13,121	11,973	9,760
Net income	$ 23,973	$ 25,350	$ 26,397	$ 19,630
Net income per common share:				
Basic	$ 0.55	$ 0.57	$ 0.58	$ 0.44
Diluted	0.54	0.56	0.57	0.43

(Dollars in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1998:				
Interest income	$ 174,300	$ 174,648	$ 167,185	$ 166,104
Interest expense	101,586	105,713	98,333	93,994
Net interest income	72,714	68,935	68,852	72,110
Provision for loan losses	2,339	2,266	1,887	1,611
Gain on sale of loans, loan servicing and securities, net	4,190	10,438	2,510	5,631
Other noninterest income	13,228	13,548	15,943	17,150
Noninterest expenses	52,321	70,218	56,355	50,539
Income before income taxes	35,472	20,437	29,063	42,741
Income taxes	13,255	8,908	8,900	18,631
Net income	$ 22,217	$ 11,529	$ 20,163	$ 24,110
Net income per common share:				
Basic	$ 0.49	$ 0.25	$ 0.44	$ 1.71
Diluted	0.47	0.25	0.44	0.53

Quarters affected by acquisition-related charges include the quarter ended December 31, 1999 with approximately $9.5 million of NECB expenses, the quarter ended September 30, 1998 with approximately $3.6 million of BSW and OPBT expenses and the quarter ended June 30, 1998 which includes $1.5 million of provision for loan losses and $17.4 million of Eagle acquisition-related expenses.

All periods presented have been retroactively restated to reflect the inclusion of the results of NECB and Eagle, which were acquired on December 1, 1999 and April 15, 1998, respectively, and were accounted for using the pooling of interests method.

Management's Report

To Our Shareholders:

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

Webster has 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.

James C. Smith
Chairman and Chief Executive Officer

Peter J. Swiatek
Controller

Independent Auditors' Report

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

We have audited the accompanying consolidated statements of condition of Webster Financial Corporation and subsidiaries as of December 31, 1999 and 1998, 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, 1999. 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Webster Financial Corporation and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

KPMG LLP

KPMG LLP
Hartford, Connecticut
January 28, 2000

Corporate Headquarters

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

Transfer Agent and Registrar

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

Dividend Reinvestment and Stock Purchase Plan

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

Stock Listing Information

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

Investor Relations Contact:

James M. Sitro, CPA, Senior Vice President,
Investor Relations (203) 578-2399
jsitro@websterbank.com

Form 10-K and Other Reports

Our annual report to the Securities and Exchange Commission (Form 10-K), additional copies of this report, and quarterly reports may be obtained free of charge by accessing our Web site (www.websterbank.com) or by contacting James M. Sitro, CPA, Senior Vice President, Investor Relations, Webster Plaza, Waterbury, CT 06702.

Common Stock Dividends and Market Prices

The following table shows dividends declared and the market price per share by quarter for 1999 and 1998.

	Common Stock (Per Share)	Market Price		
1999	Cash Dividends Declared	Low	High	End of Period
Fourth	$ .12	$ 21 7/8	$ 28 3/4	$ 23 9/16
Third	.12	24 3/4	28 15/16	25 1/2
Second	.12	26 3/16	32	27 1/8
First	.11	27 7/16	31 1/8	28 7/8

1998	Cash Dividends Declared	Low	High	End of Period
Fourth	$ .11	$ 18 7/8	$ 28 1/8	$ 27 7/16
Third	.11	20 5/8	34 5/8	24 3/8
Second	.11	31 7/16	36 1/4	33 1/4
First	.11	28 9/16	35	34 3/4

Market Makers:

Adams, Harkness & Hill, Inc.
Advest, Inc.
Bear, Stearns & Co., Inc.
First Albany Corporation
F.J. Morrissey & Co., Inc.
Fox-Pitt, Kelton, Inc.
Friedman, Billings, Ramsey & Co., Inc.
Herzog, Heine, Geduld, Inc.
Jeffries & Company, Inc.
J.P. Morgan Securities Inc.
Keefe, Bruyette & Woods, Inc.
Knight Securities, L.P.
Legg Mason Wood Walker Inc.
Lehman Brothers Inc.
Mayer & Schweitzer Inc.
Merrill Lynch, Pierce, Fenner & Smith, Inc.
Paine Webber Inc.
Ryan Beck & Co., Inc.
Sandler O'Neill & Partners
Sherwood Securities Corp.
Salomon Smith Barney Inc.
Spear, Leeds & Kellogg
Troster Singer Corp.
Tucker Anthony Incorporated
USCC Trading, Div. Fleet Secs
Warburg Dillon Read, L.L.C.

Research Coverage:

Advest, Inc.
Duff & Phelps Credit Rating Co.
First Albany Corporation
Fitch IBCA, Inc.
Fox-Pitt, Kelton
Friedman, Billings, Ramsey & Co., Inc.
Keefe, Bruyette & Woods, Inc.
Johnston Lemon and Co.
Lehman Brothers, Inc.
Merrill Lynch, Pierce, Fenner & Smith, Inc.
Ryan Beck and Co.
Sandler O'Neil & Partners
Standard and Poor's
Tucker Cleary Incorporated
Value Line

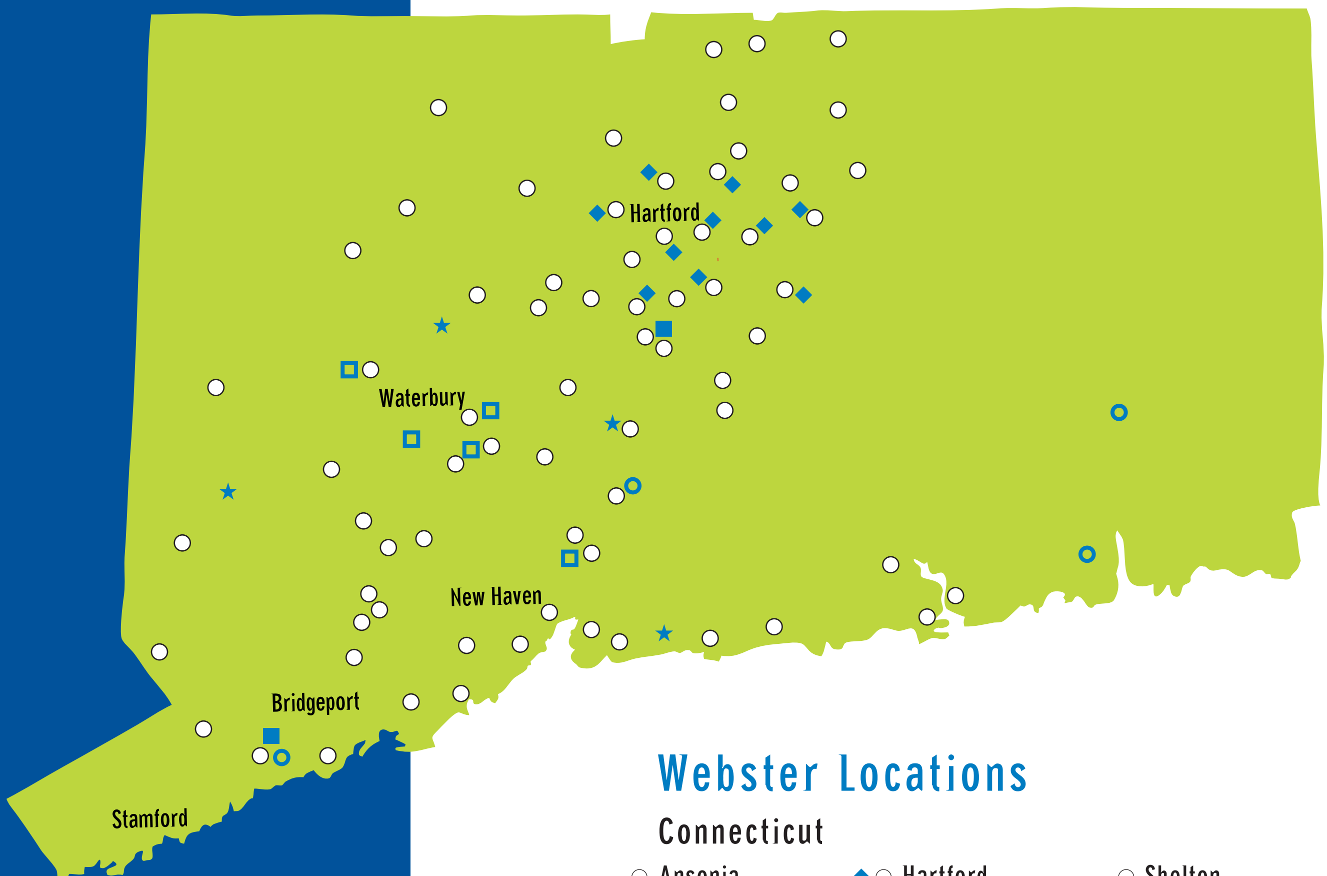
Annual Meeting

The annual meeting of shareholders of Webster Financial Corporation will be held on April 27, 2000 at 4:00 P.M. at the Courtyard by Marriott, 63 Grand Street, Waterbury, Connecticut. As of February 28, 2000 there were 43,010,202 shares of common stock outstanding and approximately 12,000 shareholders of record.

Webster Bank Information

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

Webster Bank
Customer Contact Center
P.O. Box 191
CH420
Waterbury, Connecticut 06720-0191
www.websterbank.com



○ Webster Bank
■ Webster Trust
◎ Webster Insurance
□ Chase (Pending)
◆ Mechanics (Pending)
★ BankBoston (Pending)

Webster Locations

Connecticut

- ○ Ansonia
- ◆ ○ Avon
- ○ Berlin
- ○ Bethany
- ◆ ○ Bloomfield
- ○ Branford
- ○ Bristol
- ★ Brookfield
- ○ Canton
- □ ○ Cheshire
- ○ Cromwell
- ○ Danbury
- ○ Derby
- ◆ ○ East Hartford
- ○ East Haven
- ○ East Windsor
- ○ Ellington
- ○ Enfield
- ○ Essex
- ○ Fairfield
- ○ Farmington
- ○ Forestville
- ◆ ○ Glastonbury
- ★ Guilford
- ○ Hamden
- ◆ ○ Hartford
- ■ ○ Kensington
- ○ Litchfield
- ○ Madison
- ◆ ○ Manchester
- ★ ○ Meriden
- □ Middlebury
- ○ Middletown
- ○ Milford
- ○ Naugatuck
- ◆ ○ New Britain
- ○ New Haven
- ○ New Milford
- ○ Newington
- □ ○ North Haven
- ◎ Norwich
- ○ Old Lyme
- ○ Old Saybrook
- ○ Orange
- ○ Oxford
- ○ Plainville
- ○ Prospect
- ○ Ridgefield
- ○ Rocky Hill
- ○ Seymour
- ○ Shelton
- ○ Simsbury
- ○ Somers
- ○ South Windsor
- ○ Southbury
- ○ Southington
- ○ Stratford
- ○ Suffield
- ○ Terryville
- ★ Thomaston
- ○ Torrington
- ○ Trumbull
- ○ Vernon
- ◎ ○ Wallingford
- □ ○ Waterbury
- ◎ Waterford
- □ ○ Watertown
- ◆ ○ West Hartford
- ○ West Haven
- ◎ ■ ○ Westport
- ◆ ○ Wethersfield
- ○ Wilton
- ◆ ○ Windsor
- ○ Windsor Locks
- ○ Winsted

New Hampshire

Olde Port Bank (A Division of Webster Bank)
Portsmouth

www.websterbank.com
www.nowlending.com

WEBSTER FINANCIAL CORPORATION