Webster Financial Corporation

Basel III Pillar 3 Regulatory Capital
Disclosure Report

December 31, 2022

WEBSTER FINANCIAL CORPORATION
Index

WEBSTER FINANCIAL CORPORATION
KEY TO ACRONYMS AND TERMS

ACL	Allowance for credit losses
AFS	Available-for-sale
Agency CMBS	Agency commercial mortgage-backed securities
Agency CMO	Agency collateralized mortgage obligations
Agency MBS	Agency mortgage-backed securities
ALCO	Asset/Liability Committee
ALLL	Allowance for loan and lease losses
(AOCL) AOCI	Accumulated other comprehensive (loss) income, net of tax
ARRC	Alternative Reference Rates Committee
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Basel III	Capital rules under a global regulatory framework developed by the Basel Committee on Banking Supervision
Bend	Bend Financial, Inc.
BHC Act	Bank Holding Company Act of 1956, as amended
Capital Rules	Final rules establishing a new comprehensive capital framework for U.S. banking organizations
CARES Act	The Coronavirus Aid, Relief, and Economic Security Act
CECL	Current expected credit losses
CET1	Common Equity Tier 1 Capital, defined by Basel III capital rules
CFPB	Consumer Financial Protection Bureau
CLO	Collateralized loan obligations
CMBS	Non-agency commercial mortgage-backed securities
CME	Chicago Mercantile Exchange
COVID-19	Coronavirus
CRA	Community Reinvestment Act of 1977
DEIB	Diversity, equity, inclusion and belonging
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DTA/DTL	Deferred tax asset / deferred tax liability
EAD	Exposure at default
EGRRCPA	Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018
ERM	Enterprise Risk Management
ERMC	Enterprise Risk Management Committee
ESG	Environmental, Social and Governance
FASB	Financial Accounting Standards Board
FDIA	Federal Deposit Insurance Act
FDIC	Federal Deposit Insurance Corporation
FDIF	Federal Deposit Insurance Fund
FHLB	Federal Home Loan Bank
FICO	Fair Isaac Corporation
FRA	Federal Reserve Act
FRB	Federal Reserve Bank
FTP	Funds Transfer Pricing, a matched maturity funding concept
GAAP	U.S. Generally Accepted Accounting Principles
Holding Company	Webster Financial Corporation
HSA	Health savings account
HSA Bank	HSA Bank, a division of Webster Bank, National Association
HTM	Held-to-maturity
interLINK	StoneCastle Insured Sweep, LLC, a subsidiary of Stone Castle Partners, LLC
IRA	Inflation Reduction Act of 2022
LGD	Loss given default
LIBOR	London Interbank Offered Rate
LIHTC	Low income housing tax-credit
Moody's	Moody's Investor Services

NAV	Net asset value
NYSE	New York Stock Exchange
OCC	Office of the Comptroller of the Currency
OCI (OCL)	Other comprehensive income (loss)
OFAC	Office of Foreign Assets Control of the U.S. Department of the Treasury
OPEB	Other post-employment medical and life insurance benefits
OREO	Other real estate owned
PCD	Purchased credit-deteriorated
PD	Probability of default
PPNR	Pre-tax, pre-provision net revenue
PPP	Small Business Administration Paycheck Protection Program
QM	Qualified mortgage
ROU	Right-of-use
S&P	Standard and Poor's Rating Services
SALT	State and local tax
Sarbanes-Oxley	Sarbanes-Oxley Act of 2002
SEC	United States Securities and Exchange Commission
SERP	Supplemental executive defined benefit retirement plan
SOFR	Secured overnight financing rate
Sterling	Sterling Bancorp, collectively with its consolidated subsidiaries
Tailoring Rules	Enhanced prudential standards under the Dodd-Frank Act
TDR	Troubled debt restructuring, defined in ASC 310-40 "Receivables - Troubled Debt Restructurings by Creditors"
USA PATRIOT Act	Uniting and Strengthening America by Providing Appropriate Tools Requirement to Intercept and Obstruct Terrorism Act of 2001
USD	U.S. Dollar
UTB	Unrecognized tax benefit
VIE/VOE	Variable interest entity / voting interest entity, defined in ASC 810-10 “Consolidation Overall”
Webster Bank or the Bank	Webster Bank, National Association, a wholly-owned subsidiary of Webster Financial Corporation
Webster or the Company	Webster Financial Corporation, collectively with its consolidated subsidiaries

Forward Looking Statements

This disclosure contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as "believes," "anticipates," "expects," "intends," "targeted," "continue," "remain," "will," "should," "may," "plans," "estimates," and similar references to future periods. However, these words are not the exclusive means of identifying such statements.

Examples of forward-looking statements include, but are not limited to:

- projections of revenues, expenses, income or loss, earnings or loss per share, and other financial items;
- statements of plans, objectives, and expectations of the Company or its management or Board of Directors;
- statements of future economic performance; and
- statements of assumptions underlying such statements.

Forward-looking statements are based on the Company's current expectations and assumptions regarding its business, the economy, and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks, and changes in circumstances that are difficult to predict. The Company's actual results may differ materially from those contemplated by the forward-looking statements, which are neither statements of historical fact nor guarantees or assurances of future performance.

Factors that could cause our actual results to differ from those discussed in any forward-looking statements include, but are not limited to:

- our ability to successfully integrate the operations of Webster and Sterling and realize the anticipated benefits of the merger, including our ability to successfully complete our core conversion in the anticipated timeframe;
- our ability to successfully execute our business plan and strategic initiatives, and manage any risks or uncertainties;
- local, regional, national, and international economic conditions, and the impact they may have on us or our customers;
- volatility and disruption in national and international financial markets, including as a result of geopolitical conflict, such as the war between Russia and Ukraine;
- the continued effects from the COVID-19 pandemic, or the potential adverse effects from future pandemics, and any governmental or societal responses thereto;
- changes in laws and regulations, including those concerning banking, taxes, dividends, securities, insurance, and healthcare, with which we and our subsidiaries must comply;
- adverse conditions in the securities markets that lead to impairment in the value of our investment securities portfolio;
- inflation, monetary fluctuations, and changes in interest rates, including the impact of such changes on economic conditions, customer behavior, funding costs, and our loans and leases and securities portfolios;
- the replacement of and transition from LIBOR to SOFR as the primary interest rate benchmark;
- the timely development and acceptance of new products and services and the perceived value of those products and services by customers;
- changes in deposit flows, consumer spending, borrowings, and savings habits;
- our ability to implement new technologies and maintain secure and reliable technology systems;
- the effects of any cyber threats, attacks or events, or fraudulent activity;
- performance by our counterparties and vendors;
- our ability to increase market share and control expenses;
- changes in the competitive environment among banks, financial holding companies, and other traditional and non-traditional financial services providers;
- our ability to maintain adequate sources of funding and liquidity;
- changes in the level of non-performing assets and charge-offs;
- changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements;
- the effect of changes in accounting policies and practices applicable to us, including impacts of recently adopted accounting guidance;
- legal and regulatory developments, including the resolution of legal proceedings or regulatory or other governmental inquiries, and the results of regulatory examinations or reviews; and
- our ability to appropriately address any environmental, social, governmental and sustainability concerns that may arise from our business activities; and
- the other factors that are described in the Company's Annual Report on Form 10-K under the headings "Risk Factors" and "Management Discussion and Analysis of Financial Condition and Results of Operations."

Any forward-looking statement in this disclosure speaks only as of the date on which it is made. Factors or events that could cause the Company's actual results to differ may emerge from time to time, and it is not possible for the Company to predict all of them. The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

Overview

Organization

Webster Financial Corporation (the Holding Company) is a bank holding company and financial holding company headquartered in Stamford, Connecticut. The terms "Webster," the "Company," "we," "us" and "our" as used herein mean collectively Webster Financial Corporation, a Delaware corporation, together with its subsidiaries when or where appropriate. As a registered bank holding company, Webster Financial Corporation is subject to regulation under the BHC Act and to inspection, examination, and supervision by its primary federal regulator, the Board of Governors of the Federal Reserve System. As a publicly-traded company, Webster is also subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended and the Securities Exchange Act of 1934 as amended, both of which are administered by the SEC. As a publicly-traded company with securities listed on the NYSE, Webster is subject to the rules of the NYSE.

Webster conducts its banking operations through its principal consolidated subsidiary, Webster Bank, National Association (the Bank), a national banking association under the National Bank Act, and is subject to the supervision of and regular examination by the OCC, its primary federal regulator, as well as by the FDIC, its deposit insurer. As a national banking association, the Bank derives its lending, investment, and other bank activity powers from the National Bank Act, as amended, and the regulations of the OCC promulgated thereunder. In addition, the CFPB supervises the Bank to ensure compliance with federal consumer financial protection laws.

Webster's non-bank subsidiaries are also subject to regulation by the Board of Governors of the Federal Reserve System and other applicable federal and state agencies.

Webster Bank, along with its HSA Bank Division, is a leading commercial bank in the Northeast that delivers a wide range of digital and traditional financial solutions to businesses, individuals, families, and partners across its three differentiated lines of business: Commercial Banking, HSA Bank, and Consumer Banking. While its core footprint spans from New York to Rhode Island and Massachusetts, certain businesses operate in extended geographies. HSA Bank is one of the largest providers of employee benefits solutions in the United States. Webster had total consolidated assets of approximately $71.3 billion, total consolidated deposits of approximately $54.1 billion and total consolidated stockholders' equity of approximately $8.1 billion at December 31, 2022.

Regulatory Capital Standards and Disclosures

The Board of Governors of the Federal Reserve System, the OCC and the FDIC have adopted the regulatory capital standards in accordance with Basel III, as developed by the Basel Committee on Banking Supervision. The Basel III regulatory capital rules strengthened international capital adequacy standards by increasing institutions' minimum capital requirements and holdings of high-quality liquid assets, and decreasing bank leverage.

Failure to meet minimum capital requirements can trigger certain mandatory and, possibly, additional discretionary actions by regulators that, if undertaken, could limit our business activities and have a material adverse effect on our consolidated financial statements. Under capital adequacy guidelines, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

A key strategic and risk management tool for Webster is its capital plan which includes certain stress tests and incorporates the economic models and information developed through its stress testing program into its risk management and capital planning activities.

The Board of Governors of the Federal Reserve System established enhanced prudential standards for larger bank holding companies based on size and certain risk-based indicators. On October 10, 2019, the Federal Reserve Board, along with other federal bank regulatory agencies, tailored these prudential standards allowing bank holding companies with total consolidated assets of $250 billion or less to be exempt from certain enhanced capital and liquidity prudential standards, including company-run stress testing, capital planning, liquidity coverage ratio, and resolution planning requirements, among others. At December 31, 2022 Webster's total consolidated assets are beneath the $250 billion threshold, and therefore the Company is not subject to most of the enhanced prudential standards.

In addition, publicly-traded bank holding companies with $50 billion or more in total consolidated assets are required to maintain a risk committee that is responsible for the oversight of enterprise risk management practices and that meets other statutory requirements. The Company maintains a standing Risk Committee of the Board of Directors that oversees its risk management program.

Capital Adequacy

Webster and Webster Bank are subject to various regulatory capital requirements administered by federal and state banking agencies under Basel III. This regulatory framework establishes two comprehensive methodologies for calculating regulatory capital and risk-weighted assets (RWA): a general standardized approach and a more risk-sensitive advanced approach. Webster currently follows the general standardized approach.

Under the standardized approach, RWA is generally based on supervisory risk-weightings which vary by counterparty type and asset class. Under the standardized approach, capital is required for credit risk RWA to cover the risk of unexpected losses due to failure of a customer or counterparty to meet its financial obligations in accordance with contractual terms. The advanced approach applies to entities with total consolidated assets greater than $250 million or balance sheet foreign exposures greater than $10 billion. If trading assets and liabilities exceed certain thresholds, an entity is also subject to the market risk provision of Basel III (Market Risk Rule) and capital is also required for market risk RWA to cover the risk of losses due to adverse market movements or from positions specific factors.

Under the Basel III standardized approach, risk weights can range from 0% for U.S. government securities to 1,250% for certain tranches of complex securitization or equity exposures. Risk-weighted assets serve as the base against which regulatory capital is measured, and are used to calculate Webster's and the Banks' minimum capital ratios of CET1 capital to total risk-weighted assets (CET1 risk-based capital), Tier 1 capital to total risk-weighted assets (Tier 1 risk-based capital), Total capital to total risk-weighted assets (Total risk-based capital), and Tier 1 capital to average tangible assets (Tier 1 leverage capital), as defined in the regulations, which the Company is required to maintain. CET1 capital consists of common stockholders' equity less deductions for goodwill and other intangible assets, and certain deferred tax adjustments. At the time of initial adoption of the Basel III Capital Rules, the Company had elected to opt-out of the requirement to include certain components of AOCI in CET1 capital. Tier 1 capital consists of CET1 capital plus preferred stock. Total capital consists of Tier 1 capital and Tier 2 capital, as defined in the regulations. Tier 2 capital includes qualifying subordinated debt and the permissible portion of the ACL.

In addition, Basel III mandates that most deductions from or adjustments to regulatory capital be made to CET1 capital, not to the other components. For instance, the deduction of mortgage servicing assets, certain DTAs, and capital investments in unconsolidated financial institutions is required to the extent that any one such category exceeds 10% of CET1 capital or exceeds 15% of CET1 capital in the aggregate.

Basel III also include a capital conservation buffer comprised entirely of CET1 capital, which is considered in addition to the 4.5% CET1 capital ratio, and is equal to 2.5% of risk-weighted assets for both Webster and the Bank. This buffer is designed to absorb losses during periods of economic stress, and is generally required in order to avoid limitations on capital distributions and certain discretionary bonus payments to executive officers.

On August 26, 2020, in response to the COVID-19 pandemic, the federal banking agencies issued a final rule that provided banking organizations that had implemented CECL during 2020, the option to delay an estimate of CECL's effect on regulatory capital for two years ending on January 1, 2022, followed by a three-year transition period ending on December 31, 2024. The Company elected to utilize the 2020 capital transition relief and delayed the regulatory capital impact of adopting CECL. Both Webster Financial Corporation's and the Bank's ratios remain in excess of being well-capitalized, even without the benefit of the delayed CECL adoption impact. For 2022, 2023, and 2024, Webster is allowed 75%, 50%, and 25% of the capital benefit as of December 31, 2021, respectively, with full absorption occurring in 2025. Additional information regarding the delayed CECL adoption impact on regulatory capital can be found in Part II under the section captioned "Liquidity and Capital Resources" contained in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and within Note 13: Regulatory Matters in the Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data.

Disclosures

The qualitative and quantitative disclosures in this report regarding Webster’s capital structure, capital adequacy, risk exposures, RWA and market risk (if applicable) are based on management’s current understanding of Basel III as described in Title 12 Code of Federal Regulation (CFR) Subsections 61-63 and other factors, which may be subject to change as additional clarification and implementation guidance is received from regulators and the interpretation of the rule evolves over time. The disclosures were reviewed and approved in accordance with Webster’s regulatory disclosure policy, which has been approved by Webster’s Board of Directors.

These Regulatory Capital Disclosures should be read in conjunction with the 2022 Form 10-K, as well as the Consolidated Financial Statements for Holding Companies - FR Y-9C dated December 31, 2022. The Regulatory Capital Disclosures Matrix presented in Appendix 1 specifies where all disclosures required by the Basel III Rules are located.

Scope of Application

Basis of consolidation

Webster's basis of consolidation for both financial and regulatory reporting purposes conforms to U.S. GAAP. Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by bank regulatory authorities. Certain of Webster's equity investments accounted for under either the proportional method, equity method or cost method are neither consolidated nor deducted from regulatory capital under Basel III, but instead are assigned an appropriate risk weight. There are no entities within Webster that are deconsolidated or whose capital is deducted for Basel III. There are no insurance subsidiaries included in the total capital of the consolidated group. For further information regarding Webster's basis of presentation and principles of consolidation, see Note 1, "Summary of Significant Accounting Policies" to the consolidated financial statements included in Webster's 2022 Form 10-K.

Capital in regulated subsidiaries

At December 31, 2022, none of the Company's subsidiaries that have a capital requirement had capital less than the minimum total capital requirement.

There are no entities at December 31, 2022 entities within Webster that are deconsolidated or whose capital is deducted for Basel III.

Webster has no insurance subsidiaries and therefore there is no aggregate surplus capital of insurance subsidiaries included in the total capital in the consolidated group.

Restrictions on funds and capital transfers

Transactions with affiliates

Various federal laws limit borrowings by Webster and its nonbank subsidiaries from its affiliate insured banking subsidiaries, and also limit various other transactions between Webster and its nonbank subsidiaries, on the one hand and Webster's affiliate insured banking subsidiaries, on the other. For further information, refer to "Transactions with Affiliates and Insiders" in Part I, Item 1 of Webster's 2022 Form 10-K.

Dividends

Dividends paid by the Bank are subject to various federal and state regulatory limitations. Express approval by the OCC is required if the effect of dividends declared would cause the regulatory capital of the Bank to fall below specified minimum levels or if the amount would exceed the net income for that year combined with the undistributed net income for the preceding two years. Webster Bank paid $475.0 million and $200.0 million in dividends to Webster Financial Corporation for the years ended December 31, 2022, and December 31, 2021, respectively, for which no express approval from the OCC was required. For further information, see "Dividends" in Part I, Item 1 and Note 14, "Regulatory Capital and Restrictions" in Webster's 2022 Form 10-K.

Common stock repurchase program

The Company maintains a common stock repurchase program, which was approved by the Board of Directors on October 24, 2017, that authorizes management to purchase shares of Webster common stock in open market or privately negotiated transactions, through block trades, and pursuant to any adopted predetermined trading plan subject to the availability and trading price of stock, general market conditions, alternative uses for capital, regulatory considerations, and the Company's financial performance. On April 27, 2022, the Board of Directors increased the Company's authority to repurchase shares of Webster common stock under the repurchase program by $600.0 million in shares. This existing repurchase program will remain in effect until fully utilized or until modified, superseded, or terminated.

Cash restrictions

The Bank is required under Federal Reserve regulations to maintain cash reserve balances in the form of vault cash or deposits held at a FRB to ensure that it is able to meet customer demands. The reserve requirement ratio is subject to adjustments as economic conditions warrant. Effective March 26, 2020, the Federal Reserve reset the requirement to zero in order to address liquidity concerns resulting from the COVID-19 pandemic. Pursuant to this action, the Bank was not required to hold cash reserve balances at December 31, 2022.

Capital Structure

Regulatory capital instruments

Webster has issued a variety of capital instruments to meet its regulatory capital requirements and business interests. These capital instruments include common stock that qualifies as CET1, noncumulative perpetual preferred stock that qualifies as additional Tier 1 capital and subordinated debt that qualifies as Tier 2 capital. For further information on the Company's capital instruments and regulatory requirements, see Note 11 "Borrowings", Note 14 "Regulatory Capital and Restrictions", Note 12 "Stockholders' Equity" and Note 13 "Accumulated Other Comprehensive (Loss) Income, Net of Tax" to the consolidated financial statements in Part II, Item 8 of the 2022 Form 10-K.

As previously stated, Webster elected an option to delay the estimated impact of the adoption of CECL on its regulatory capital over a two-year deferral period, which ended on January 1, 2022, and a subsequent three-year transition period ending on December 31, 2024, in accordance with regulatory capital rules. At December 31, 2022, the net impact of the add-back on CET1 was approximately $45.1 million, or approximately 8 basis points. The add-back amount will decrease by approximately $15 million or 3 basis points in both 2023 and 2024.

Regulatory capital components

Table 2: Reconciliation of stockholders' equity to total capital

The following table represents the amounts of CET1, Tier 1 capital and Total capital along with the related components and regulatory adjustments and deductions.

December 31, 2022 (dollars in thousands)	Webster Financial Corporation	Webster Bank
Common Equity Tier 1 Capital:		
Preferred Stock	283,979	—
Common Stock	1,828	1
Capital Surplus	6,173,240	7,493,534
Accumulated other comprehensive loss	(684,961)	(684,629)
Retained earnings	2,713,862	1,764,563
Less cost of common stock in treasury	(431,762)	—
Total Shareholders' equity before adjustments and deductions	**8,056,186**	**8,573,469**
Less: Preferred Stock	(283,979)	—
PLUS: CECL Transition	45,148	45,148
Total Common stockholders' equity	**7,817,355**	**8,618,617**
LESS adjustments and deductions:		
Goodwill and Intangibles net of associated deferred tax liabilities	2,654,750	2,616,851
Deferred tax assets	25,197	24,890
AOCI-related adjustments	(684,960)	(684,628)
Total CET1 Capital	**5,822,368**	**6,661,504**
Add: Preferred Stock	283,979	—
Total Tier 1 capital	**6,106,347**	**6,661,504**
Qualifying subordinated debt	592,250	—
Allowance for credit losses includable in Tier 2 capital	504,431	504,431
Tier 2 Capital	**1,096,681**	**504,431**
Total Capital	**7,203,028**	**7,165,935**

Further details about Webster's regulatory capital can be found in Schedule HC-R to the December 31, 2022 Consolidated Financial Statements for Holding Companies - Form FR Y-9C.

Capital Adequacy

Capital Management

Webster believes that the prudent management of capital is paramount in ensuring the Company's continued ability to provide uninterrupted high quality service to the businesses and communities it serves. Webster believes that no single tool or model can sufficiently assess capital adequacy. As previously stated, Webster is not currently subject to most of the enhanced prudential standards under the Dodd-Frank Act, as implemented by tailoring rules of the Federal Banking Agencies (Tailoring Rules), however, Webster's current capital plan process does include certain internal stress testing.

Risk-weighted assets

Table 3-1: Risk-Weighted Assets by Exposure Type

The following table presents components of the Company's and the Bank's risk-weighted assets calculated in accordance with the Basel III standardized approach as of December 31, 2022.

At December 31, 2022 (dollars in millions)	Webster Financial Corporation	Webster Bank
Cash and balances due from depository institutions, fed funds sold and S.P.U.A.R.	$ 8	$ 8
Claims on U.S. Government sponsored entities	1,143	1,143
Exposures to state and local governments in the U.S.	747	747
Corporate exposures	796	796
Sovereign debt exposures	13	13
Other investment exposures	11	10
Residential mortgage exposures [1]	5,907	5,907
High Volatility commercial real estate loans	75	75
Past Due Loans	184	184
Other Loan exposure, including held-for-sale	37,195	37,195
Other assets	3,060	2,959
Separate account bank-owned life insurance	512	512
Securitization exposures	257	257
Total on-balance sheet exposures	49,908	49,806
Letters of credit	269	269
Unused and cancellable commitments	4,085	4,090
Derivatives	101	101
Other off-balance sheet items	—	—
Total off-balance sheet items	4,455	4,460
Total Risk-Weighted Assets	$ 54,363	$ 54,266

[1] Loans collateralized by one-to-four family residential properties, including consumer home equity loans.

Further details about the Company's risk-weighted assets can be found in Schedule HC-R to the December 31, 2022 Consolidated Financial Statements for Holding Companies - Form FR Y-9C.

Risk-based capital ratios

Webster and Webster Bank are required to maintain minimum ratios of CET1, Tier 1 and Total capital to RWA, as well as minimum leverage ratios (defined as Tier 1 capital divided by adjusted average assets) to be considered "adequately capitalized." Failure to meet minimum capital requirements could trigger certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial condition and results of operations.

Table 3-2: Minimum Required Capital Ratios

The following table summarizes the Basel III minimum and well-capitalized regulatory capital ratio requirements at December 31, 2022.

Ratio[1]	Minimum[2]	Well-Capitalized[3]
CET1 capital	4.5 %	6.5 %
Tier 1 risk-based capital	6.0 %	8.0 %
Total risk-based capital	8.0 %	10.0 %
Tier 1 leverage	4.0 %	5.0 %

[1] Tier 1 leverage ratio represents Tier 1 capital as a percentage of total average assets, after certain adjustments. All other ratios presented above represent the applicable capital measure as a percentage of RWA.

[2] At December 31, 2022, Webster also must maintain a capital conservation buffer of CET1 capital in excess of minimum risk-based capital ratios by at least 2.5 percentage points to avoid limits on capital distributions and certain discretionary bonus payments to executive officers and similar employees.

[3] Applies to the Bank only. For Webster to be a well-capitalized savings and loan holding company, the Bank must be well- capitalized and Webster must not be subject to any written agreement, order, capital directive, or prompt corrective action directive issued by the Federal Reserve Board to meet and maintain a specific capital level for any capital measure.

Table 3-3: Summary of Capital Positions and Ratios

The following table presents the regulatory capital ratios for Webster and Webster bank at December 31, 2022.

Regulatory Capital Ratios	Basel III	
As of December 31, 2022	Webster	Bank
CET1 capital	$ 5,822	$ 6,662
Tier 1 risk-based capital	6,106	6,662
Total risk-based capital	7,203	7,166
Eligible retained income [1]	$ 161.1	$ 178.3
Risk-weighted assets	$ 54,363	$ 54,266
Adjusted average assets [2]	68,255	68,187
CET1 capital to risk-weighted assets	10.7 %	12.3 %
Tier 1 risk-based capital to risk-weighted assets	11.2	12.3
Total risk-based capital to risk-weighted assets	13.2	13.2
Capital conservation buffer [3]	5.2	5.2
Tier 1 leverage to adjusted average assets	8.9	9.8

[1] Represents the amount to which restrictions on capital distributions and discretionary bonuses would apply if the capital conservation buffer falls below the required minimum. The bank has ratios above the minimum requirements and therefore eligible retained income is the average of its previous four quarters of net income.

[2] Adjusted average assets include total quarterly average assets (reflecting available-for-sale securities at amortized cost), less amounts deducted from CET1 capital and additional Tier 1 capital, plus assets derecognized as an adjustment to AOCI as part of the incremental effect of applying certain provisions in accounting for defined benefit postretirement plans.

[3] The Company and the Bank are required to maintain a capital conservation buffer of 2.5% in order to avoid restrictions on capital distributions and discretionary bonuses. The capital conservation buffer is the lowest of (i) CET1 ratio less minimum CET1 requirement, (ii) Tier 1 ratio less minimum Tier 1 requirement and (iii) Total capital ratio less minimum Total capital requirement.

As of December 31, 2022, Webster and Webster Bank exceeded the ratios required for an institution to be considered “well capitalized.” There have been no events since December 31, 2022 that management believes have changed the capital adequacy classification of the Company or the Bank.

Capital Conservation Buffer

Table 4-1: Capital Conservation Buffer

The following table presents the calculation of the capital conservation buffer presented in Table 4-1:

As of December 31, 2022	Webster	Bank
CET1 capital	10.7 %	12.2 %
Less: minimum	4.5	4.5
	6.2	7.7
Tier 1	11.2 %	12.3 %
Less: minimum	6.0	6.0
	5.2	6.3
Total	13.2 %	13.2 %
Less: minimum	8.0	8.0
	5.2	5.2
Reportable capital conservation buffer (lowest of subtotals above)	5.2	5.2

Credit Risk: General Disclosures

Webster defines risk as the potential that events, expected or unexpected, may have an adverse effect on its earnings, capital, or enterprise value. Webster maintains a structured Enterprise Risk Management (ERM) framework that provides an integrated, forward-looking approach to identifying, prioritizing, and managing key risk categories across the organization, including strategic, financial (treasury and accounting), information, credit, operational, compliance, legal, and reputational risk.

Executive management sets the tone and culture towards ERM through strategy setting, formulating objectives, approving resource allocations, and establishing and maintaining effective systems of internal controls. A strong risk culture is the foundation of effective ERM because it influences the decisions of management and employees when weighing risks and benefits. Management also encourages and supports risk self-identification and timely escalation throughout the organization.

Webster's approach to risk management uses a three lines of defense model:

> **First Line: Line of Business Units** - Line of business units have responsibility for identifying, assessing, escalating, controlling, and mitigating risks inherent to their core business activities arising from their chosen strategy and ongoing operations.
>
> **Second Line: Risk Management Functions** - Risk management functions operate independent of the line of business and facilitate development and implementation of risk management practices, provide risk guidance and assist the lines of business in identification and mitigation of risk, monitor adequacy of risk responses and timeliness of remediation, and perform control testing.
>
> **Third Line: Independent Control Functions** - Reporting directly to the Board of Directors, the independent control functions (i.e., Internal Audit, Credit Risk Review) perform assessments and evaluations of risk management practices and internal controls, identify issues, make recommendations, and inform the Board of Directors and executive management on matters that require remediation.

Risk identification is a continuous process and occurs at the transaction, portfolio, and enterprise levels. Approaches used to identify risk include workshops, interviews, process analysis, key risk indicators, risk assessment and data analysis. Identified risks are assessed based on qualitative and quantitative factors to understand the likelihood that such events will occur and the degree to which they will impact Webster's ability to achieve its strategic and business objectives if they occur. Risk assessments, which are performed by the first or second line of defense functions, evaluate inherent risk (likelihood and impact) and existing controls (control environment) to arrive at residual risk.

Webster's risk appetite statement provides guidance to management regarding the nature and level of residual risk that Webster is willing to take in pursuit of its objectives. The appetite balances a qualitative risk appetite statement, which is approved annually by the Board of Directors, with quantitative metrics in the form of corporate-level and business-level scorecards comprising key risk indicators with established risk tolerance levels. Tolerance levels are periodically reviewed by the respective oversight committees to ensure the alignment of risk appetite with Webster's risk profile.

Webster has established operating and oversight structures including policies, processes, people, and control/oversight systems that support risk-related decision making designed to ensure appropriate authority, accountability, independence, and clarity of roles and responsibilities. The Board of Directors oversees Webster's ERM approach to risk management and delegates its authority to Webster's Risk Committee to provide oversight and effective challenge. Along with assisting the Board of Directors in fulfilling its oversight responsibilities regarding Webster's ERM program, the Risk Committee, which is comprised of at least three independent Directors, is responsible for reviewing information regarding Webster's policies, procedures, and practices relating to risk. The Chief Risk Officer has the primary responsibility for the design and implementation of Webster's risk management framework.

The Enterprise Risk Management Committee (ERMC), which is chaired by the Chief Risk Officer, is the management committee responsible for overseeing Webster's risk management process, including monitoring the severity, direction, and trend of risks relative to business strategies and market conditions, assessing management's ability to manage and mitigate risks, and ensuring implementation of Webster's risk appetite and strategy. It also directly oversees strategic risk and reputational risk, and reviews identified emerging risks to Webster. The ERMC has six subcommittees: (i) the Operational Risk Management Committee, (ii) the Credit Risk Management Committee, (iii) the Asset Liability Committee, (iv) the Information Risk Committee, (v) the Regulatory Oversight Committee, and (vii) the Litigation Risk Management Committee. The ERMC subcommittees aggregate and report risk information using established taxonomies and rating methodologies, which categorize risk data based on shared characteristics in order to assess risks on a common scale, and regularly report and submit their findings to the ERMC and the Risk Committee of the Board of Directors.

Credit Risk

Credit risk is defined as the risk of customer or counterparty default due to their lack of willingness or ability to meet financial obligations. Sources of credit risk could include concentrations, deal structure, asset quality, and collateral values. Webster mitigates credit risk within its loan, investment, and derivative portfolios through established credit policies, underwriting guidelines, portfolio management, and troubled asset monitoring tools to limit its exposure to default. Credit approval and reporting requirements are also implemented to ensure proper risk identification, decision rationale, risk ratings, and disclosure of policy exceptions. The credit risk management program is led by the Chief Credit Officer along with a team of credit executives who are independent of the loan production and treasury functions.

The Credit Risk Management Committee, a subcommittee of the ERMC, is responsible for oversight and management of credit risk across the organization at Webster. It qualitatively and quantitatively assesses credit risk and provides a point of view regarding the overall risk profile and asset mix of the portfolio to support strategic decision making. It also shares credit risk information as it relates to business line strategy, policy, practices, and controls. The Chief Credit Officer serves as the chair of the Credit Risk Management Committee, and its members include both risk and line of business representatives.

For further information related to credit risk management and practice, accounting policies and current exposures as reported under U.S. GAAP refer to the 2022 Form 10-K. See Appendix A for specific references.

Loans and Related Commitments

The Company categorizes its loan portfolio into two segments, which is the level at which it develops and documents a systematic methodology to determine the allowance for credit losses. The Company's two loan portfolio segments are commercial lending and consumer lending. Webster further disaggregates its loans into various classes based on their underlying risk characteristics. The six classes within the commercial lending segment are commercial non-mortgage, asset-based lending, commercial real estate, multi-family, warehouse lending and equipment finance. The three classes within the consumer lending segment are residential, home equity, and other consumer loans. The following tables present certain of the Company's on - and off-balance sheet positions for which the Company is subject to credit risk exposure and are presented on a U.S. GAAP basis. These amounts do not include the effects of certain credit risk mitigation techniques (for example, netting not permitted under U.S. GAAP), equity investments or liability positions that also would be subject to credit risk capital calculations, and amounts related to items that are deducted from regulatory capital. For the tables below, the residential and home equity classes have been combined into "consumer real estate". For further information on the Company's loan portfolios, see the "Loans and Leases" sections of Management's Discussion and Analysis in Part II, Item 7 of the 2022 Form 10-K and in Part I, Item 2 of the December 31, 2022 Form 10-K.

Table 5-1: Credit Risk Exposure of Loans and Leases by Geography

As of December 31, 2022 (Dollars in thousands)	Loans	Unused Commitments	Total Exposure[1]	Percent of Total
New York	$ 17,718,981	$ 3,828,475	$ 17,718,981	36 %
Connecticut	5,945,760	2,590,740	5,945,760	12 %
Massachusetts	5,114,933	1,305,404	5,114,933	10 %
New Jersey	3,323,253	667,027	3,323,253	7 %
Pennsylvania	1,677,683	316,498	1,677,683	3 %
Rhode Island	1,038,748	292,096	1,038,748	2 %
Other	14,945,068	3,709,055	14,945,068	30 %
Total	$ 49,764,426	$ 12,709,295	$ 49,764,426	100 %

1. Excludes loan receivable held-for-sale
2. The Company's loan portfolio has a national distribution profile, further breakdown of the other category results in a widespread distribution across a large number of additional states.

Table 5-2: Total Credit Risk of Loans and Leases Exposure by Type and Contractual Maturity

	Loans		Unused Commitments		
As of December 31, 2022 (Dollars in thousands)	Less than 1 Year	Greater than 1 Year	Less than 1 Year	Greater than 1 Year	Total
Commercial non-mortgage	$ 2,957,879	$ 13,434,917	$ 1,466,028	$ 1,703,627	$ 19,562,451
Asset-based	539,099	1,282,544	111,656	95,893	2,029,192
Commercial real estate	2,338,264	10,658,898	150,829	763,252	13,911,243
Multi-family	735,946	5,886,036	37,925	97,102	6,757,009
Equipment financing	165,195	1,463,198	123	—	1,628,516
Warehouse lending	641,976	—	1,253,549	—	1,895,525
Residential	1,864	7,961,556	—	49,022	8,012,442
Home equity	8,883	1,624,223	1,045	2,031,487	3,665,638
Other consumer	13,804	50,144	13,207	85,584	162,739
Total	$ 7,402,910	$ 42,361,516	$ 3,034,362	$ 4,825,967	$ 57,624,755

Table 5-3: Total Credit Risk Exposure of Portfolios by Industry

	Loans		Unused Commitments		
As of December 31, 2022 (Dollars in thousands)	Less than 1 year	Greater than 1 year	Less than 1 year	Greater than 1 year	Total
Commercial	$ 7,378,359	$ 32,725,593	$ 3,020,110	$ 2,659,874	$ 45,783,936
Consumer					
Real estate secured	10,747	9,585,779	1,045	2,080,509	11,678,080
Not secured by real estate	13,804	50,144	13,207	85,584	162,739
Total	$ 7,402,910	$ 42,361,516	$ 3,034,362	$ 4,825,967	$ 57,624,755

Table 5-4: Past due and Nonperforming by Geography

As of December 31, 2022 (Dollars in thousands)

	30 - 89 Days Past Due and Accruing	90 or More Days Past Due and Accruing	Total Accruing	Less than 90 Days in Non-Accrual	90 or More Days Past Due in Non-accrual	Total Accruing
New York	$ 37,174	$ 198	$ 37,372	$ 34,715	$ 57,515	$ 92,230
Connecticut	11,116	385	11,501	16,245	14,964	31,209
Massachusetts	2,177	82	2,259	3,217	5,098	8,315
New Jersey	1,951	—	1,951	1,287	1,954	3,241
Pennsylvania	3,319	—	3,319	1	275	276
Rhode Island	1,308	55	1,363	1,799	393	2,192
Other	15,623	6	15,629	48,876	11,102	59,978
Total	$ 72,668	$ 726	$ 73,394	$ 106,140	$ 91,301	$ 197,441

Table 5-5: Past due and Nonperforming by Industry

As of December 31, 2022 (Dollars in thousands)

	30 - 89 Days Past Due and Accruing	90 or More Days Past Due and Accruing	Total Accruing	Less than 90 Days in Non-Accrual	90 or More Days Past Due in Non-accrual	Total Accruing
Commercial	$ 52,113	$ 713	$ 52,826	$ 84,199	$ 59,746	$ 143,945
Consumer			—			—
Real estate secured	19,442	—	19,442	21,941	31,407	53,348
Not secured by real estate	1,113	13	1,126	—	148	148
Total	$ 72,668	$ 726	$ 73,394	$ 106,140	$ 91,301	$ 197,441

Allowance for Credit Losses

The allowance for credit losses represents management's estimate of the allowance for loan losses and the reserve for unfunded credit commitments to cover expected credit losses over the contractual life of loans. Management's measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. For periods beyond which Webster makes or obtains such reasonable and supportable forecasts, Webster reverts to historical credit loss information. Changes in the factors used by management to determine the appropriateness of the allowance or the availability of new information could cause the allowance to be increased or decreased in future periods. In addition, bank regulatory agencies, as part of their examination process, may require changes in the level of the allowance based on their judgments and estimates. Actual losses could vary from management's estimates.

Webster determines its allowance in accordance with applicable accounting literature as well as regulatory guidance related to receivables and contingencies. Additional discussion of the methodology used to calculate the allowance is included in "Allowance for Credit Losses on Loans and Leases" in the "Loans and Leases" sections in Part II, Item 7 of the 2022 Form 10-K..

Charge-offs

The total gross and net charge-offs for the year ended December 31, 2022 were $87.5 million and $67.2 million, respectively. Refer to Note 4 "Loans and Leases" to the consolidated financial statements in Part I, Item I and Table 8 "Allowance for Credit Losses" in Part II, Item 8 of the December 31, 2022 Form 10-K for a roll forward of the allowance for credit losses and more information on total gross and net charge-offs

Corporate and Other Debt Securities

Through its Corporate Treasury function, the Company maintains and invests in debt securities that are primarily used to provide a source of liquidity for operating needs, to generate interest income, and as a means to manage the Company's interest rate risk. The Company's investment securities are classified into two major categories: AFS and HTM.

The ALCO manages the Company's securities in accordance with regulatory guidelines and corporate policies, which include limitations on aspects such as concentrations in and types of investments, as well as minimum risk ratings per type of security. In addition, the OCC may further establish individual limits on certain types of investments if the concentration in such investment presents a safety and soundness concern.

Table 5-6: Corporate and Other Debt Securities by Counterparty and Type

As of December 31, 2022 (Dollars in thousands)	Amount	Percent of Total
Available for sale		
U.S. Public Sector [1]	$ 6,233,091	79.0 %
Corporate - securitized [2]	898,747	11.4 %
Corporate	748,661	9.5 %
Foreign debt security	12,198	0.2 %
Total AFS	$ 7,892,697	100.0 %
Held to maturity		
U.S. Public Sector [1]	$ 6,415,266	97.7 %
Corporate - securitized [2]	149,613	2.3 %
Total HTM	$ 6,564,879	100.0 %
Total investment securities	$ 14,457,576	

[1]Includes balances with the U.S. government and its agencies, government-sponsored entities and states and municipalities.

[2] Risk weighted using SSFA RWA method under the standardized approach. Refer to Note 3 "Investment Securities" to the consolidated financial statements in Part II, Item 8 of the December 31, 2022 10-K for further break out of the investment portfolio.

Table 5-7: Corporate and Other Debt Securities Maturity by Counterparty

As of December 31, 2022 (Dollars in thousands)

	Less than 1 year	1-5 Years	Greater than 5 Years	Total
Available for sale				
U.S. Public Sector	$ 181,093	$ 837,042	$ 5,214,956	$ 6,233,091
Corporate - Securitized	—	69,282	829,465	898,747
Corporate	14,937	216,472	517,252	748,661
Other	2,734	4,973	4,491	12,198
Total AFS	$ 198,764	$ 1,058,487	$ 5,736,699	$ 7,892,697
Held to maturity				
U.S. Public Sector	$ 223	$ 10,600	$ 6,404,443	$ 6,415,266
Corporate - Securitized	—	—	149,613	149,613
Total HTM	$ 223	$ 10,600	$ 6,554,056	$ 6,564,879
Total	$ 198,987	$ 1,069,087	$ 12,290,755	$ 14,457,576

Counterparty Credit Risk-Related Exposures

Counterparty credit risk is the risk that a counterparty to a financial contract or transaction could be unable or unwilling to fulfill its contractual obligation which could potentially lead to financial losses for the Company. This risk is inherent to activities in OTC derivatives, margin loans, and repo-style transactions. To aid in mitigating this risk, Webster utilizes various netting agreements including, but not limited to ISDA/CSAs and MRAs. These agreements provide the framework governing activities across a full range of OTC products and repo-style transactions, contractually binding both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or other predetermined events occur.

Standard ISDA/CSAs and MRAs are required for all OTC derivative and repo-style transactions with financial institution counterparties. In addition to netting, these agreements provide for the exchange of collateral to further mitigate exposure. Webster has infrastructure in place to calculate net positions and manage collateral exchanges with financial counterparties on a daily basis. Eligible collateral types are documented in each master agreement or supporting annex within, and are managed under established credit policies. This collateral is and has primarily been cash, though certain fixed income securities may be exchanged as well on occasion. In the event of a material adverse change in the Bank's own credit rating, financial counterparties may require additional collateral (independent amount) to maintain the trading relationship resulting in additional exposure. At December 31, 2022, the additional collateral required to be posted. At present, Webster does not engage in margin loans with any of its financial institution counterparties. At December 31, 2022, Webster had no repo-style transactions outstanding with financial institution counterparties. for a three-notch downgrade of Webster Financial Corporation or Webster Bank would be approximately $133 million. At present, Webster does not engage in margin loans with any of its financial institution counterparties. At December 31, 2022, Webster had no repo-style transactions outstanding with financial institution counterparties.

To reduce derivative counterparty credit exposure to individual counterparties, Webster centrally clears eligible transactions. OTC transactions are not centrally cleared and are therefore the only derivatives included in the table below. All exposures, including exposures related to centrally cleared transactions, are managed through internally established limits set by the Company's Counterparty Risk Management group. All OTC derivative financial institution counterparties must be reviewed and approved by Counterparty Risk Management. The approval of all counterparties and the subsequent setting of limits is based on in-depth analysis of each counterparty's creditworthiness and assessment of the credit exposure associated with a counterparty. Internal risk rating tools along with additional quantitative and qualitative assessments of the creditworthiness of a counterparty are utilized to assign a risk rating. Utilizing the internal risk rating along with an assessment of the risks associated with the specific type of exposure are then evaluated to set limits in accordance with Webster's risk tolerance.

Webster also enters into transactions possessing counterparty credit risk with corporate, institutional and real estate customers. These transactions are primarily designed to facilitate the customers' hedging exposures to interest rate, commodity price or foreign exchange rate movements. These transactions are usually not cleared through a clearinghouse; rather, Webster retains the credit exposure of the clients for the life of the trade. The credit risk in these transactions is usually underwritten in conjunction with a loan transaction for the customer, and, when the loan is collateralized, the derivative shares in the collateral which can be real estate, working capital assets, securities, contracts or other assets. The credit approval process for these transactions includes independent credit officers familiar with the underlying credit risk, working in conjunction with a Capital Markets credit officer experienced in derivatives and the underlying documentation. Webster enters into credit derivatives, including RPAs and index-based credit default swaps, in relation to hedging activities and for customer and other risk management purposes. Webster enters into RPAs to share interest rate derivative contracts with other counterparties or to take on credit exposure with other counterparties for revenue generation purposes. Index-based credit default swaps are utilized to hedge spread risk related to Webster's commercial mortgage banking activities.

OTC Derivatives

The following table is presented on a U.S. GAAP basis and summarizes the netting and collateral positions of the Company's OTC derivatives transactions by exposure type. As defined, the gross current credit exposure is the greater of the positive fair value of the derivative or zero (asset derivatives). The collateral is comprised of $185.6 million of cash.

Table 6-1: OTC Derivatives Exposure by Counterparty

As of December 31, 2022 (Dollars in thousands)

	Exposure	Percent of Total
Customer Derivatives		
Corporate	$ 5,573	3 %
Consumer	—	— %
Banks	—	— %
Public	—	— %
Total Customer	$ 5,573	3 %
Dealer hedges (non-customer)	$ 201,881	97 %
Net current credit exposure	207,454	100 %
Collateral held	(185,640)	
Unsecured net credit exposure	$ 21,814	

Table 6-2: OTC Derivatives Exposure by Geography

As of December 31, 2022 (Dollars in thousands)

	Exposure	Percent of Total
New York	$ 1,755	1 %
Connecticut	1,194	1 %
Massachusetts	45	— %
New Jersey	49	— %
Rhode Island	22	— %
All other	2,508	1 %
Total Customer	$ 5,573	3 %
Dealer hedges (non-customer)	201,881	97 %
Net current credit exposure	$ 207,454	100 %
Collateral held	(185,640)	
Unsecured net credit exposure	21,814	

Table 6-3: OTC Derivatives Exposure by Maturity

As of December 31, 2022 (Dollars in thousands)

	Less than 1 year	1 - 5 Years	Greater than 5 years	Grand Total
OTC Derivatives	$ 6,954	$ 91,468	$ 124,397	$ 222,819
Counterparty netting				(16,129)
Net current credit exposure				206,690
Collateral held				(185,640)
Unsecured net current credit exposure				$ 21,050

Credit Derivatives

For a further discussion of the Company's credit derivatives, see Note 17 "Derivative Financial Instruments", to the consolidated financial statements in Part II, Item 8 of the Company's 2022 Form 10-K and Schedule HC-L, Derivatives and Off-Balance-Sheet Items, in the Company's Consolidated Financial Statements for Holding Companies - FR Y-9C dated December 31, 2022.

Credit Risk Mitigation

Credit risk mitigation techniques are primarily utilized in the loan portfolio and derivative transactions. Webster's objective for credit risk mitigation with respect to the loan portfolio is to maintain a credit portfolio that provides for stable credit costs with acceptable volatility through an economic cycle. Webster has a diversified loan portfolio with respect to product type, collateral and geography which helps to mitigate credit risk. Webster looks to enter into master netting agreements and collateral agreements with counterparties to meet its credit risk mitigation objectives for credit risk mitigation of derivative.

The amount and type of collateral supporting a loan impacts the level of credit risk related to that loan. During the underwriting process, the collateral is assessed as part of the overall credit evaluation of the loan. In support of loan collateral values, Webster obtains updated valuations for large commercial and investor real estate non-performing loans on at least an annual basis. For loans that are individually identified for impairment, those valuations are currently discounted as appropriate from the most recent appraisal to consider continued declines in values. The discounted valuations are utilized in the measurement of the level of impairment in the allowance calculation. For loans that are not individually identified for impairment and secured by collateral, Webster considers the impact of declines in valuations in the loss given default estimates within the allowance calculation.

As a matter of business practice, Webster may require some form of credit support as a mitigating factor, such as a guarantee. Guarantees are legally binding and entered into simultaneously with the primary loan agreements. Evaluation of guarantors' ability and willingness to pay is considered as part of the risk rating process, which provides the basis for the allowance for the commercial and investor real estate portfolios.

The "Critical Accounting Estimates and Related Policies - Allowance for Credit Losses", "Risk Management" and "Credit Risk" sections of the Management's Discussion and Analysis disclosures in Part II, Item 7 of the 2022 Form 10-K contain more information on credit risk management and mitigation.

In connection with derivative activities, credit risk is mitigated by entering into legally enforceable master netting agreements. When there is more than one transaction with a counterparty and there is a legally enforceable master netting agreement in place, the exposure represents the net of the gain and loss positions with and collateral received from and/or posted to that counterparty. The majority of interest rate derivatives traded by Webster are subject to mandatory clearing. The counterparty risk for cleared trades effectively moves from the executing broker to the clearinghouse allowing Webster to benefit from the risk mitigation controls in place at the respective clearinghouse.

See the "Market Risk-Interest Rate Risk " section of the Management's Discussion and Analysis disclosures in Part II, Item 7 of the 2022 Form 10-K.

The Basel III Rules allow eligible financial collateral, eligible guarantees, and eligible credit derivatives to be recognized in the calculation of risk-weighted assets. The Company's use of credit risk mitigants related to Webster's major types of credit exposure in the calculation of risk-weighted assets is presented in the following tables. When financial collateral is obtained that qualifies as eligible collateral under the Basel III Rules, the eligible collateral can be substituted for the collateralized portion of the credit exposure in the risk-weighted asset calculation. The impact of any applicable collateral haircuts on the exposure amount secured by eligible collateral is immaterial. As illustrated below, the eligible financial collateral consists of cash and agency securities; the associated risk-weighted asset amounts are immaterial. Similarly, when an eligible guarantee is received, the risk weight applicable to the eligible guarantor would apply to the exposure covered by the guarantee.

Table 7: Eligible Guarantees

As of December 31, 2022 (Dollars in thousands)	Eligible Collateral [1]		Guarantees [2]	
	Covered Exposure	Associated RWA Amount	Covered Exposure	Associated RWA Amount
Loans	$ 19,076	$ —	$ 206,545	$ 38,792
Unfunded commitments	—	—	36,213	7,243

[1] Loans in this category are 100% collateralized by cash

[2] Loans are guaranteed by the U.S. government, its agencies, or its government sponsored agencies under guarantee or insurance provisions. The balance includes approximately $165 million of Federal government guaranteed Paycheck Protection Program loans.

In addition to the guaranteed loans above, at December 31, 2022 Webster had approximately $165 million in Paycheck Protection Program loans. These loans are guaranteed by the Federal government and the guarantee is not separable from the loan, therefore they are risk-weighted at zero percent.

Securitizations

Under the Basel III Capital Rule, a securitization is defined as:

- All or a portion of the credit risk of one or more underlying exposures is transferred to one or more third parties other than through the use of credit derivatives or guarantees;
- The credit risk associated with the underlying exposures has been separated into at least two tranches reflecting different levels of seniority;
- Performance of the securitization exposures depends upon the performance of the underlying exposures;
- All or substantially all of the underlying exposures are financial exposures (such as loans, commitments, credit derivatives, guarantees, receivables, asset-backed securities, mortgage-backed securities, other debt securities, or equity securities);
- The underlying exposures are not owned by an operating company or a small business investment company; and
- The underlying exposures are not owned by a firm, an investment in which qualifies as a community development investment.

Webster has not engaged in the securitization of its own assets ("originated securitizations") in several years. The remaining estimated fair value of originated securitization exposures is immaterial and is included in securities available for sale. Webster does however invest in products that meet the definition of a securitization. These securitization exposures consist of loans to SPEs secured by financial exposures and purchased tranches of non-agency securitizations (primarily commercial mortgage-backed securities) included in the securities available for sale portfolio. Currently, Webster does not own any resecuritization exposures or synthetic securitization exposures.

Securitization exposures can give rise to multiple types of risk including, but not limited to, credit risk, seller risk and market risk. Credit risk arises from the performance of the underlying asset pool (i.e. payment rates, dilution, write-offs/losses). Seller risk represents the portion of the unsecured credit exposure in a transaction with the seller. This exposure principally arises from recourse for losses, lack of cash control, or potential declines in the amount of securitized assets between settlement periods.

Webster’s due diligence process is designed to provide an understanding of the features that may materially affect the performance of a securitization exposure. These procedures include analyzing and monitoring the quality of the positions, including information regarding performance of the underlying credit exposures and relevant market data and the structural and other enhancement features that may affect the credit quality of a securitization. Webster evaluates, reviews and updates the ongoing performance of each securitization exposure at least quarterly.

The Company uses the Simple Supervisory Formula Approach (SSFA) under the Basel III Standardized Approach to assign risk weights to securitization exposures. This approach is based on a formula that starts with a baseline derived from the capital requirements that apply to all exposures underlying the securitization and then assigns risk weights based on the subordination level and the level of delinquencies of an exposure. The agencies designed the SSFA to apply relatively higher capital requirements to the more risky junior tranches of a securitization that are the first to absorb losses, and relatively lower requirements to the most senior exposures.

The tables below illustrate Webster’s securitization exposures, related capital requirements and risk-weighted asset impact. The available for sale securitization exposure amounts for purposes of risk-weighting are the carrying values of the securities less any unrealized gains on the exposure plus any unrealized losses on the exposure recognized in OCI.

Table 8: Securitization Exposure by Type and Risk Weighting

As of December 31, 2022 (Dollars in thousands)	Exposure Amount	RWA	RWA %	RWA Method
Exposure type:				
Commercial mortgage backed Securities HTM	$ 149,613	$ 29,923	20 %	SSFA
Commercial mortgage backed Securities AFS	898,747	186,339	21 %	SSFA
Off balance sheet	3,215	40,188	1250 %	1250 %
Other	2,900	580	20 %	SSFA
	$ 1,054,475	$ 257,030		

The capital impact of risk-weighted assets is calculated by multiplying each risk-weighted asset amount in the table above by the minimum total risk-based capital ratio of 8%.

Equity Exposures Not Subject to Market Risk Rule

The Company has total equity exposures of approximately $1.9 billion, with $0.9 billion in individual equities and $1.0 billion in equity funds at December 31, 2022. The majority of the individual investments are related to the Company's Community Reinvestment Act (CRA) activities, including tax-advantaged investments. The Company uses the simple risk-weight approach for its individual equity securities. The equity funds consist of BOLI, private equity, money market and other equity funds. The Company uses the full look-through approach for BOLI assets in separate accounts and other equity funds. Investment guidelines specify objectives and constraints for separate account BOLI investment funds, including permitted and non-permitted investments, concentration and diversification requirements, credit quality requirements and duration parameters. There were no unrealized gains not recognized through earnings included in Tier 2 capital for the year ended December 31, 2022.

Non-marketable equity securities are generally recorded either at historical cost or using the equity method. For further information refer to Note 1 "Summary of Significant Accounting Policies" in the Company's Form 10-K for the year ended December 31, 2022.

Equity securities carried at cost and the related unrealized gains and losses were immaterial at December 31, 2022.

The following table summarizes the capital impact of equities which is calculated by multiplying each risk-weighted asset amount in the table below by the minimum total risk-based capital ratio of 8%.

Table 9: Equities Risk Weights and Capital Impact

As of December 31, 2022 (Dollars in thousands)	Exposure	RWA	Capital Impact of RWA[1]
0% risk weight	$ 224,492	$ —	$ —
20% risk weight	221,408	44,282	3,543
100% risk weight	879,201	879,201	70,336
400% risk weight	250	1,000	80
Full look through approach	536,687	512,439	40,995
Total	$ 1,862,038	$ 1,436,922	$ 114,954
Public	$ 536,687		
Nonpublic	1,325,351		
Total	$ 1,862,038		

Interest Rate Risk for Non-Trading Activities

For further information on interest rate risk, interest rate sensitivity analyses, and the reported level of interest rate risk carried by Webster's balance sheet, see "Market Risk-Interest Rate Risk" and "Market Risk-Prepayment Risk" in Part II, Item 7 of the 2022 Form 10-K.

Appendix 1 - Basel III Regulatory Capital Disclosure Matrix

Disclosure Requirement	Description	Disclosures Report	2022 Form 10-K
Scope of application	Name of the top corporate entity	6	1
	Descriptions of differences in basis for consolidating entities	8	70
	Restrictions on transfers of funds or total capital within the group	8	8, 113
	Aggregate amount of surplus capital of insurance subsidiaries	N/A	—
	Aggregate amount of total capital that is less than minimum capital	8	—
Capital Structure	Terms and conditions of capital instruments	9	107-109, 112
	Capital components	9	112
Capital adequacy	Capital adequacy assessment process	10	5, 6, 52, 112
	Risk-weighted assets by exposure type	10	—
	Market risk weighted assets	N/A	—
	Risk weighted assets	10	5, 52, 112
Capital ratios and capital conservation buffer	Capital ratios	10	112
	Calculation of capital conservation buffer	11	6
	Calculation of eligible retained income	11	—
Credit risk: general disclosures	Policies and practices	12	12, 13, 47
	Credit risk exposures:		
	Loans and related commitments	13	18, 46, 90
	Past due and nonperforming loans by industry	15	—
	Allowance disaggregated on the basis of impairment methodology	—	91
	Charge-offs during the period	15	91
	Reconciliation of changes in allowance	15	91
	Corporate and Other Debt Securities	16	86

Table Number	Disclosure Requirement	Description	Disclosures Report	2022 Form 10-K
6	Counterparty credit risk-related exposures	Policies and practices	17	13
		Counterparty risk exposure	17	18, 117
		Credit derivatives purchased and sold	18	79, 115
7	Credit risk mitigation	Policies and processes	19	56, 59
		Exposures covered by eligible financial collateral	19	—
		Exposures covered by guarantees/credit derivatives and related risk weighted assets	19	—
8	Securitization	Policies and practices	20	—
		Loans to SPEs and affiliated entities	20	—
		Accounting policies for securitization activities	20	—
		Exposures securitized by the bank and resecuritizations	20	—
		Securitization exposures	21	—
9	Equities not subject to the market risk rule	Policies and Practices	21	55, 70
		Amortized cost and fair value by type/nature and public versus nonpublic	21	—
		Realized and unrealized gains (losses)	21	—
		Capital requirements	21	—
10	Interest rate risk for non-trading activities	Nature, assumptions and frequency of measurement	21	56 - 58
		Earnings sensitivity to rate movements	21	56 - 58
NA	Disclosure is not applicable to Webster			