

M&T BANK CORP
Form 10-Q
November 03, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-9861

M&T BANK CORPORATION

(Exact name of registrant as specified in its charter)

New York	16-0968385
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)

One M & T Plaza

Buffalo, New York	14203
(Address of principal executive offices)	(Zip Code)

(716) 635-4000

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of shares of the registrant's Common Stock, \$0.50 par value, outstanding as of the close of business on October 31, 2017: 150,515,367 shares.

M&T BANK CORPORATION

FORM 10-Q

For the Quarterly Period Ended September 30, 2017

Table of Contents of Information Required in Report Page

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED BALANCE SHEET - September 30, 2017 and December 31, 2016 3

CONSOLIDATED STATEMENT OF INCOME - Three and nine months ended September 30, 2017 and 2016 4

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME - Three and nine months ended September 30, 2017 and 2016 5

CONSOLIDATED STATEMENT OF CASH FLOWS - Nine months ended September 30, 2017 and 2016 6

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY - Nine months ended September 30, 2017 and 2016 7

NOTES TO FINANCIAL STATEMENTS 8

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. 53

Item 3. Quantitative and Qualitative Disclosures About Market Risk. 90

Item 4. Controls and Procedures. 90

Part II. OTHER INFORMATION

Item 1. Legal Proceedings. 90

Item 1A. Risk Factors. 92

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds. 92

Item 3. Defaults Upon Senior Securities. 92

Item 4. Mine Safety Disclosures. 92

Item 5. Other Information. 92

Item 6. Exhibits. 93

SIGNATURES 93

- 2 -

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (Unaudited)

Dollars in thousands, except per share		September 30, 2017	December 31, 2016
Assets			
	Cash and due from banks	\$ 1,368,252	1,320,549
	Interest-bearing deposits at banks	6,306,484	5,000,638
	Trading account	170,516	323,867
	Investment securities (includes pledged securities that can be sold or replighted of		
	\$488,200 at September 30, 2017; \$1,203,473 at December 31, 2016)		
	Available for sale (cost: \$11,369,815 at September 30, 2017;		
	\$13,338,301 at December 31, 2016)	11,416,824	13,332,072
	Held to maturity (fair value: \$3,247,954 at September 30, 2017;		
	\$2,451,222 at December 31, 2016)	3,242,124	2,457,278
	Other (fair value: \$414,978 at September 30, 2017;		
	\$461,118 at December 31, 2016)	414,978	461,118
	Total investment securities	15,073,926	16,250,468
	Loans and leases	88,171,225	91,101,677
	Unearned discount	(246,091)	(248,261)
	Loans and leases, net of unearned discount	87,925,134	90,853,416
	Allowance for credit losses	(1,013,326)	(988,997)
	Loans and leases, net	86,911,808	89,864,419
	Premises and equipment	656,713	675,263
	Goodwill	4,593,112	4,593,112
	Core deposit and other intangible assets	78,614	97,655
	Accrued interest and other assets	5,242,379	5,323,235
	Total assets	\$ 120,401,804	123,449,206
Liabilities			
	Noninterest-bearing deposits	\$ 33,111,246	32,813,896
	Savings and interest-checking deposits	52,936,615	52,346,207
	Time deposits	7,233,518	10,131,846
	Deposits at Cayman Islands office	232,014	201,927
	Total deposits	93,513,393	95,493,876
	Federal funds purchased and agreements to repurchase securities	200,768	163,442
	Accrued interest and other liabilities	1,791,946	1,811,431

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	Long-term borrowings	8,577,645	9,493,835
	Total liabilities	104,083,752	106,962,584
Shareholders' equity	Preferred stock, \$1.00 par, 1,000,000 shares authorized;		
	Issued and outstanding: Liquidation preference of \$1,000 per share: shares 731,500 at September 30, 2017 and December 31, 2016; Liquidation preference of \$10,000 per share: 50,000 shares at September 30, 2017 and December 31, 2016	1,231,500	1,231,500
	Common stock, \$.50 par, 250,000,000 shares authorized, 159,819,892 shares issued at September 30, 2017;		
	159,945,678 shares issued at December 31, 2016	79,910	79,973
	Common stock issuable, 27,019 shares at September 30, 2017;		
	32,403 shares at December 31, 2016	1,827	2,145
	Additional paid-in capital	6,598,048	6,676,948
	Retained earnings	9,909,415	9,222,488
	Accumulated other comprehensive income (loss), net	(247,915)	(294,636)
	Treasury stock — common, at cost — 8,555,636 shares at September 30, 2017;		
	3,764,742 shares at December 31, 2016	(1,254,733)	(431,796)
	Total shareholders' equity	16,318,052	16,486,622
	Total liabilities and shareholders' equity	\$ 120,401,804	123,449,206

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

In thousands, except per share		Three Months Ended		Nine Months Ended	
		September 30	September 30	September 30	September 30
		2017	2016	2017	2016
Interest income	Loans and leases, including fees	\$953,662	871,345	\$2,776,340	2,602,208
	Investment securities				
	Fully taxable	87,937	84,893	276,057	274,092
	Exempt from federal taxes	345	623	1,154	2,081
	Deposits at banks	14,970	12,354	39,345	33,684
	Other	296	300	760	905
	Total interest income	1,057,210	969,515	3,093,656	2,912,970
Interest expense	Savings and interest-checking deposits	37,714	24,067	93,891	60,906
	Time deposits	13,992	27,886	49,293	79,075
	Deposits at Cayman Islands office	310	204	856	578
	Short-term borrowings	554	169	1,148	3,474
	Long-term borrowings	47,506	58,849	138,874	174,814
	Total interest expense	100,076	111,175	284,062	318,847
	Net interest income	957,134	858,340	2,809,594	2,594,123
	Provision for credit losses	30,000	47,000	137,000	128,000
	Net interest income after provision for credit losses	927,134	811,340	2,672,594	2,466,123
Other income	Mortgage banking revenues	96,737	103,747	267,592	275,193
	Service charges on deposit accounts	109,356	107,935	319,589	314,212
	Trust income	124,900	118,654	371,712	350,181
	Brokerage services income	14,676	15,914	48,677	48,190
	Trading account and foreign exchange gains	7,058	12,754	24,833	33,434
	Gain (loss) on bank investment securities	—	28,480	(17)	28,748
	Other revenues from operations	106,702	103,866	334,704	310,579
	Total other income	459,429	491,350	1,367,090	1,360,537
Other expense	Salaries and employee benefits	399,089	399,786	1,247,851	1,230,246
	Equipment and net occupancy	75,558	75,263	223,721	225,165
	Outside data processing and software	45,761	42,878	134,637	128,402
	FDIC assessments	23,969	28,459	78,149	76,054
	Advertising and marketing	17,403	21,996	49,837	66,063
	Printing, postage and supplies	8,732	8,972	27,397	30,865
	Amortization of core deposit and other intangible assets	7,808	9,787	24,341	33,524
	Other costs of operations	227,705	165,251	558,579	488,063
	Total other expense	806,025	752,392	2,344,512	2,278,382
	Income before taxes	580,538	550,298	1,695,172	1,548,278
	Income taxes	224,615	200,314	609,269	563,735
	Net income	\$355,923	349,984	\$1,085,903	984,543

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Net income available to common shareholders				
Basic	\$ 335,801	326,992	\$ 1,025,011	915,670
Diluted	335,804	326,998	1,025,023	915,686
Net income per common share				
Basic	\$ 2.22	2.10	\$ 6.71	5.82
Diluted	2.21	2.10	6.69	5.80
Cash dividends per common share				
	\$.75	.70	\$ 2.25	2.10
Average common shares outstanding				
Basic	151,347	155,493	152,866	157,336
Diluted	151,691	156,026	153,293	157,843

- 4 -

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

In thousands	Three Months		Nine Months Ended	
	Ended September 30 2017	2016	September 30 2017	2016
Net income	\$355,923	349,984	\$1,085,903	984,543
Other comprehensive income, net of tax and reclassification adjustments:				
Net unrealized gains (losses) on investment securities	18,258	(17,133)	33,834	127,331
Cash flow hedges adjustments	(1,120)	(23)	(2,098)	(70)
Foreign currency translation adjustment	863	(229)	2,489	(1,847)
Defined benefit plans liability adjustments	4,165	3,847	12,496	11,654
Total other comprehensive income (loss)	22,166	(13,538)	46,721	137,068
Total comprehensive income	\$378,089	336,446	\$1,132,624	1,121,611

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

In thousands		Nine Months Ended	
		September 30 2017	2016
Cash flows from operating			
activities	Net income	\$ 1,085,903	984,543
	Adjustments to reconcile net income to net cash provided by operating activities		
	Provision for credit losses	137,000	128,000
	Depreciation and amortization of premises and equipment	84,631	79,911
	Amortization of capitalized servicing rights	41,475	37,979
	Amortization of core deposit and other intangible assets	24,341	33,524
	Provision for deferred income taxes	9,926	109,274
	Asset write-downs	10,878	14,276
	Net gain on sales of assets	(27,967)	(46,732)
	Net change in accrued interest receivable, payable	(23,059)	(13,833)
	Net change in other accrued income and expense	110,138	113,809
	Net change in loans originated for sale	523,895	(285,824)
	Net change in trading account assets and liabilities	88,705	(82,837)
	Net cash provided by operating activities	2,065,866	1,072,090
Cash flows from investing			
activities	Proceeds from sales of investment securities		
	Available for sale	512,143	61,947
	Other	178,244	94,516
	Proceeds from maturities of investment securities		
	Available for sale	1,650,258	1,690,665
	Held to maturity	390,278	459,399
	Purchases of investment securities		
	Available for sale	(248,705)	(1,150,523)
	Held to maturity	(1,175,608)	(15,806)
	Other	(132,104)	(1,514)
	Net decrease (increase) in loans and leases	2,259,049	(2,021,004)
	Net increase in interest-bearing deposits at banks	(1,305,846)	(3,183,286)
	Capital expenditures, net	(62,515)	(65,277)
	Net decrease in loan servicing advances	47,786	121,226
	Other, net	66,357	11,459
	Net cash provided (used) by investing activities	2,179,337	(3,998,198)
Cash flows from financing			
activities	Net increase (decrease) in deposits	(1,976,237)	6,195,511
	Net increase (decrease) in short-term borrowings	37,326	(1,886,701)
	Proceeds from long-term borrowings	2,145,950	—
	Payments on long-term borrowings	(3,029,320)	(427,035)

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	Purchases of treasury stock	(981,691)	(604,000)
	Dividends paid — common	(345,166)	(333,042)
	Dividends paid — preferred	(53,842)	(58,003)
	Other, net	5,480	3,540
	Net cash provided (used) by financing activities	(4,197,500)	2,890,270
	Net increase (decrease) in cash and cash equivalents	47,703	(35,838)
	Cash and cash equivalents at beginning of period	1,320,549	1,368,040
	Cash and cash equivalents at end of period	\$ 1,368,252	1,332,202

Supplemental disclosure of cash

flow information	Interest received during the period	\$3,088,042	2,923,278
	Interest paid during the period	310,640	387,695
	Income taxes paid during the period	462,163	138,375

Supplemental schedule of

noncash investing and financing

activities	Real estate acquired in settlement of loans	\$88,551	100,106
	Securitization of residential mortgage loans allocated to Available-for-sale investment securities	22,527	18,685
	Capitalized servicing rights	262	193

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)

	Preferred	Common	Common Stock	Additional Paid-in	Retained	Accumulated Other Comprehensive Income	Treasury	Total
Dollars in thousands, except per share	Stock	Stock	Issuable	Capital	Earnings	(Loss), Net	Stock	
2016								
Balance — January 1, 2016	\$1,231,500	79,782	2,364	6,680,768	8,430,502	(251,627)	—	16,173,289
Total comprehensive income	—	—	—	—	984,543	137,068	—	1,121,611
Preferred stock cash dividends	—	—	—	—	(60,953)	—	—	(60,953)
Exercise of 5,320 Series A stock warrants into 1,983 shares of common stock	—	—	—	(223)	—	—	223	—
Purchases of treasury stock	—	—	—	—	—	—	(604,000)	(604,000)
Stock-based compensation plans:								
Compensation expense, net	—	171	—	7,315	—	—	10,890	18,376
Exercises of stock options, net	—	18	—	(183)	—	—	11,576	11,411
Stock purchase plan	—	—	—	275	—	—	10,319	10,594
Directors' stock plan	—	2	—	526	—	—	1,047	1,575
Deferred compensation plans, net,								
including dividend equivalents	—	2	(140)	232	(70)	—	4	28
Other	—	—	—	1,102	—	—	—	1,102
Common stock cash dividends —	—	—	—	—	(332,057)	—	—	(332,057)

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\$2.10 per share								
Balance — September 30, 2016	\$1,231,500	79,975	2,224	6,689,812	9,021,965	(114,559)	(569,941)	16,340,976
Balance — January 1, 2017	\$1,231,500	79,973	2,145	6,676,948	9,222,488	(294,636)	(431,796)	16,486,622
Total comprehensive income	—	—	—	—	1,085,903	46,721	—	1,132,624
Preferred stock cash dividends	—	—	—	—	(54,604)	—	—	(54,604)
Exercise of 304,436 Series A stock warrants into 165,498 shares of common stock	—	—	—	(22,992)	—	—	22,992	—
Purchases of treasury stock	—	—	—	—	—	—	(981,691)	(981,691)
Stock-based compensation plans: Compensation expense, net	—	(63)	—	(51,606)	—	—	57,685	6,016
Exercises of stock options, net	—	—	—	(6,722)	—	—	68,014	61,292
Stock purchase plan	—	—	—	2,563	—	—	8,268	10,831
Directors' stock plan	—	—	—	225	—	—	1,201	1,426
Deferred compensation plans, net, including dividend equivalents	—	—	(318)	(368)	(65)	—	594	(157)
Common stock cash dividends — \$2.25 per share	—	—	—	—	(344,307)	—	—	(344,307)
Balance — September 30, 2017	\$1,231,500	79,910	1,827	6,598,048	9,909,415	(247,915)	(1,254,733)	16,318,052

NOTES TO FINANCIAL STATEMENTS

1. Significant accounting policies

The consolidated financial statements of M&T Bank Corporation (“M&T”) and subsidiaries (“the Company”) were compiled in accordance with generally accepted accounting principles (“GAAP”) using the accounting policies set forth in note 1 of Notes to Financial Statements included in Form 10-K for the year ended December 31, 2016 (“2016 Annual Report”), except that effective January 2017 the Company adopted amended accounting guidance that is discussed in note 16 herein. The most significant of those changes related to the accounting for excess tax benefits or deficiencies associated with share-based compensation whereby beginning in 2017 those amounts are recognized in income tax expense. Previously, tax effects resulting from changes in M&T’s share price subsequent to the grant date were recorded through shareholders’ equity. The adoption of this new accounting guidance resulted in a reduction of income tax expense for the three months ended March 31, 2017 of \$18 million, or \$.12 of diluted earnings per common share. The impact on income tax expense and diluted earnings per common share in the second and third quarters of 2017 was not significant. In the opinion of management, all adjustments necessary for a fair statement have been made and were all of a normal recurring nature.

2. Acquisitions

In connection with the acquisition of Hudson City Bancorp, Inc. (“Hudson City”) on November 1, 2015 the Company incurred merger-related expenses related to systems conversions and other costs of integrating and conforming acquired operations with and into the Company. Those expenses consisted largely of professional services and other temporary help fees associated with systems conversions and/or integration of operations; costs related to termination of existing contractual arrangements for various services; initial marketing and promotion expenses designed to introduce the Company to its new customers; severance (for former Hudson City employees); travel costs; and other costs of completing the transaction and commencing operations in new markets and offices.

A summary of merger-related expenses included in the consolidated statement of income follows:

	Nine Months Ended September 30, 2016 (In thousands)
Salaries and employee benefits	\$ 5,334
Equipment and net occupancy	1,278
Outside data processing and software	1,067
Advertising and marketing	10,522
Printing, postage and supplies	1,482
Other costs of operations	16,072

Total	\$ 35,755
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There were no merger-related expenses during the three-month or nine-month periods ended September 30, 2017 or during the three-month period ended September 30, 2016.

- 8 -

NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. Investment securities

The amortized cost and estimated fair value of investment securities were as follows:

	Amortized Cost (In thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2017				
Investment securities available for sale:				
U.S. Treasury and federal agencies	\$2,017,901	25	10,809	\$2,007,117
Obligations of states and political subdivisions	2,621	59	2	2,678
Mortgage-backed securities:				
Government issued or guaranteed	9,155,485	92,915	63,917	9,184,483
Privately issued	30	—	—	30
Other debt securities	136,769	2,739	10,978	128,530
Equity securities	57,009	37,427	450	93,986
	11,369,815	133,165	86,156	11,416,824
Investment securities held to maturity:				
Obligations of states and political subdivisions	32,445	190	81	32,554
Mortgage-backed securities:				
Government issued or guaranteed	3,063,164	41,849	7,147	3,097,866
Privately issued	141,430	1,753	30,734	112,449
Other debt securities	5,085	—	—	5,085
	3,242,124	43,792	37,962	3,247,954
Other securities	414,978	—	—	414,978
Total	\$15,026,917	176,957	124,118	\$15,079,756

December 31, 2016

Investment securities available for sale:

U.S. Treasury and federal agencies	\$1,912,110	386	9,952	\$1,902,544
Obligations of states and political subdivisions	3,570	77	6	3,641
Mortgage-backed securities:				
Government issued or guaranteed	10,980,507	88,343	113,989	10,954,861
Privately issued	45	—	1	44
Other debt securities	134,105	1,407	16,996	118,516
Equity securities	307,964	45,073	571	352,466
	13,338,301	135,286	141,515	13,332,072
Investment securities held to maturity:				
Obligations of states and political subdivisions	60,858	267	224	60,901

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Mortgage-backed securities:				
Government issued or guaranteed	2,233,173	37,498	7,374	2,263,297
Privately issued	157,704	897	37,120	121,481
Other debt securities	5,543	—	—	5,543
	2,457,278	38,662	44,718	2,451,222
Other securities	461,118	—	—	461,118
Total	\$16,256,697	173,948	186,233	\$16,244,412

- 9 -

NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. Investment securities, continued

There were no significant gross realized gains or losses from sales of investment securities for the three-month and nine-month periods ended September 30, 2017. During the three months ended September 30, 2016, the Company sold substantially all of its collateralized debt obligations held in the available-for-sale investment securities portfolio for a gain of \$28 million. There were no other significant gross realized gains or losses from the sale of investment securities for the three-month and nine-month periods ended September 30, 2016.

At September 30, 2017, the amortized cost and estimated fair value of debt securities by contractual maturity were as follows:

	Amortized Cost (In thousands)	Estimated Fair Value
Debt securities available for sale:		
Due in one year or less	\$ 393,453	392,506
Due after one year through five years	1,632,143	1,622,447
Due after five years through ten years	72,508	72,854
Due after ten years	59,187	50,518
	2,157,291	2,138,325
Mortgage-backed securities available for sale	9,155,515	9,184,513
	\$ 11,312,806	11,322,838
Debt securities held to maturity:		
Due in one year or less	\$ 18,640	18,738
Due after one year through five years	13,612	13,619
Due after five years through ten years	193	197
Due after ten years	5,085	5,085
	37,530	37,639
Mortgage-backed securities held to maturity	3,204,594	3,210,315
	\$ 3,242,124	3,247,954

NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. Investment securities, continued

A summary of investment securities that as of September 30, 2017 and December 31, 2016 had been in a continuous unrealized loss position for less than twelve months and those that had been in a continuous unrealized loss position for twelve months or longer follows:

	Less Than 12 Months		12 Months or More	
	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses
	(In thousands)			
September 30, 2017				
Investment securities available for sale:				
U.S. Treasury and federal agencies	\$1,576,717	(8,002)	373,852	(2,807)
Obligations of states and political subdivisions	—	—	474	(2)
Mortgage-backed securities:				
Government issued or guaranteed	2,854,982	(32,123)	1,298,054	(31,794)
Other debt securities	1,500	(3)	60,518	(10,975)
Equity securities	18,185	(303)	153	(147)
	4,451,384	(40,431)	1,733,051	(45,725)
Investment securities held to maturity:				
Obligations of states and political subdivisions	4,932	(31)	7,093	(50)
Mortgage-backed securities:				
Government issued or guaranteed	638,863	(2,832)	157,923	(4,315)
Privately issued	—	—	53,631	(30,734)
	643,795	(2,863)	218,647	(35,099)
Total	\$5,095,179	(43,294)	1,951,698	(80,824)
December 31, 2016				
Investment securities available for sale:				
U.S. Treasury and federal agencies	\$1,710,241	(9,950)	2,295	(2)
Obligations of states and political subdivisions	—	—	593	(6)
Mortgage-backed securities:				
Government issued or guaranteed	6,730,829	(113,374)	81,003	(615)
Privately issued	—	—	27	(1)
Other debt securities	100	(1)	85,400	(16,995)
Equity securities	17,776	(422)	151	(149)
	8,458,946	(123,747)	169,469	(17,768)
Investment securities held to maturity:				
Obligations of states and political subdivisions	17,988	(126)	11,891	(98)
Mortgage-backed securities:				
Government issued or guaranteed	618,832	(6,842)	17,481	(532)
Privately issued	17,911	(1,222)	57,016	(35,898)

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	654,731	(8,190)	86,388	(36,528)
Total	\$9,113,677	(131,937)	255,857	(54,296)

The Company owned 939 individual investment securities with aggregate gross unrealized losses of \$124 million at September 30, 2017. Based on a review of each of the securities in the investment securities portfolio at September 30, 2017, the Company concluded that it expected to recover the amortized cost basis of its investment. As of September 30, 2017, the Company does not intend to sell nor is it anticipated that it would be required to sell any of its impaired investment securities at a loss. At September 30, 2017, the Company has not identified

- 11 -

NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. Investment securities, continued

events or changes in circumstances which may have a significant adverse effect on the carrying value of the \$415 million of cost method investment securities.

4. Loans and leases and the allowance for credit losses

A summary of current, past due and nonaccrual loans as of September 30, 2017 and December 31, 2016 follows:

	Current (In thousands)	30-89 Days Past Due	Accruing Loans Acquired at Discount		Impaired (c)	Nonaccrual	Total
			Due 90 Days or More (a)	Past Due 90 days or More (b)			
September 30, 2017							
Commercial, financial, leasing, etc.	\$21,486,942	48,159	3,710	369	75	203,996	\$21,743,251
Real estate:							
Commercial	24,724,768	273,539	1,710	7,523	20,509	200,193	25,228,242
Residential builder and developer	1,604,095	26,182	—	4,413	10,717	2,416	1,647,823
Other commercial construction	5,952,636	51,132	1,220	—	13,972	19,263	6,038,223
Residential	15,868,656	458,066	249,983	10,025	307,529	236,363	17,130,622
Residential — limited documentation	2,829,667	88,814	—	—	114,141	101,918	3,134,540
Consumer:							
Home equity lines and loans	5,275,572	34,878	772	9,856	—	75,584	5,396,662
Automobile	3,327,148	67,280	—	1	—	21,267	3,415,696
Other	4,120,712	33,070	3,893	24,038	—	8,362	4,190,075

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Total	\$85,190,196	1,081,120	261,288	56,225	466,943	869,362	\$87,925,134
December 31, 2016							
Commercial, financial, leasing, etc.	\$22,287,857	53,503	6,195	417	641	261,434	\$22,610,047
Real estate:							
Commercial	25,076,684	183,531	7,054	12,870	31,404	176,201	25,487,744
Residential builder and developer	1,884,989	4,667	5	1,952	14,006	16,707	1,922,326
Other commercial construction	5,985,118	77,701	922	198	14,274	18,111	6,096,324
Residential	17,631,377	485,468	281,298	11,537	378,549	229,242	19,017,471
Residential — limited documentation	3,239,344	88,366	—	—	139,158	106,573	3,573,441
Consumer:							
Home equity lines and loans	5,502,091	44,565	—	12,678	—	81,815	5,641,149
Automobile	2,869,232	56,158	—	1	—	18,674	2,944,065
Other	3,491,629	31,286	5,185	21,491	—	11,258	3,560,849
Total	\$87,968,321	1,025,245	300,659	61,144	578,032	920,015	\$90,853,416

(a) Excludes loans acquired at a discount.

(b) Loans acquired at a discount that were recorded at fair value at acquisition date. This category does not include purchased impaired loans that are presented separately.

(c) Accruing loans acquired at a discount that were impaired at acquisition date and recorded at fair value.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

4. Loans and leases and the allowance for credit losses, continued

One-to-four family residential mortgage loans held for sale were \$347 million and \$414 million at September 30, 2017 and December 31, 2016, respectively. Commercial real estate loans held for sale were \$224 million at September 30, 2017 and \$643 million at December 31, 2016.

The outstanding principal balance and the carrying amount of loans acquired at a discount that were recorded at fair value at the acquisition date and included in the consolidated balance sheet were as follows:

	September 30, 2017	December 31, 2016
	(In thousands)	
Outstanding principal balance	\$ 1,584,126	2,311,699
Carrying amount:		
Commercial, financial, leasing, etc.	42,878	59,928
Commercial real estate	308,426	456,820
Residential real estate	665,278	799,802
Consumer	127,919	487,721
	\$ 1,144,501	1,804,271

Purchased impaired loans included in the table above totaled \$467 million at September 30, 2017 and \$578 million at December 31, 2016, representing less than 1% of the Company's assets as of each date. A summary of changes in the accretable yield for loans acquired at a discount for the three months and nine months ended September 30, 2017 and 2016 follows:

	Three Months Ended September 30			
	2017		2016	
	Purchased Impaired	Other Acquired	Purchased Impaired	Other Acquired
	(In thousands)			
Balance at beginning of period	\$ 133,532	163,099	\$ 162,023	245,195
Interest income	(10,815)	(20,064)	(12,784)	(26,540)
Reclassifications from nonaccretable balance	30,799	6,041	2,256	12,050
Other (a)	—	1,545	—	(818)
Balance at end of period	\$ 153,516	150,621	\$ 151,495	229,887

	Nine Months Ended September 30			
	2017		2016	
	Purchased	Other	Purchased	Other

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	Impaired (In thousands)	Acquired	Impaired	Acquired
Balance at beginning of period	\$ 154,233	201,153	\$ 184,618	296,434
Interest income	(32,546)	(66,505)	(40,906)	(97,300)
Reclassifications from nonaccretable balance	31,829	11,076	7,783	20,647
Other (a)	—	4,897	—	10,106
Balance at end of period	\$ 153,516	150,621	\$ 151,495	229,887

(a) Other changes in expected cash flows including changes in interest rates and prepayment assumptions.

- 13 -

NOTES TO FINANCIAL STATEMENTS, CONTINUED

4. Loans and leases and the allowance for credit losses, continued

Changes in the allowance for credit losses for the three months ended September 30, 2017 were as follows:

	Commercial,	Financial, Real Estate				
	Leasing,	Commercial	Residential	Consumer	Unallocated	Total
	etc.	Commercial	Residential	Consumer	Unallocated	Total
	(In thousands)					
Beginning balance	\$339,314	366,229	66,006	158,559	78,117	\$1,008,225
Provision for credit losses	2,451	(7,699)	1,267	33,886	95	30,000
Net charge-offs						
Charge-offs	(9,714)	(258)	(4,206)	(32,874)	—	(47,052)
Recoveries	4,423	5,895	2,028	9,807	—	22,153
Net (charge-offs) recoveries	(5,291)	5,637	(2,178)	(23,067)	—	(24,899)
Ending balance	\$336,474	364,167	65,095	169,378	78,212	\$1,013,326

Changes in the allowance for credit losses for the three months ended September 30, 2016 were as follows:

	Commercial,	Financial, Real Estate				
	Leasing,	Commercial	Residential	Consumer	Unallocated	Total
	etc.	Commercial	Residential	Consumer	Unallocated	Total
	(In thousands)					
Beginning balance	\$316,079	349,674	69,660	157,361	77,722	\$970,496
Provision for credit losses	26,222	9,963	(6,232)	16,539	508	47,000
Net charge-offs						
Charge-offs	(21,075)	(1,564)	(6,754)	(29,882)	—	(59,275)
Recoveries	6,958	1,704	1,919	7,319	—	17,900
Net (charge-offs) recoveries	(14,117)	140	(4,835)	(22,563)	—	(41,375)
Ending balance	\$328,184	359,777	58,593	151,337	78,230	\$976,121

Changes in the allowance for credit losses for the nine months ended September 30, 2017 were as follows:

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Commercial,
 Financial, Real Estate
 Leasing,
 etc. Commercial Residential Consumer Unallocated Total
 (In thousands)

Beginning balance	\$330,833	362,719	61,127	156,288	78,030	\$988,997
Provision for credit losses	44,642	1,201	14,067	76,908	182	137,000
Net charge-offs						
Charge-offs	(51,318)	(7,556)	(16,364)	(96,060)	—	(171,298)
Recoveries	12,317	7,803	6,265	32,242	—	58,627
Net (charge-offs) recoveries	(39,001)	247	(10,099)	(63,818)	—	(112,671)
Ending balance	\$336,474	364,167	65,095	169,378	78,212	\$1,013,326

- 14 -

NOTES TO FINANCIAL STATEMENTS, CONTINUED

4. Loans and leases and the allowance for credit losses, continued

Changes in the allowance for credit losses for the nine months ended September 30, 2016 were as follows:

	Commercial, Financial, Leasing, etc.	Commercial Real Estate	Residential	Consumer	Unallocated	Total
	(In thousands)					
Beginning balance	\$300,404	326,831	72,238	178,320	78,199	\$955,992
Provision for credit losses	39,667	29,799	(610)	59,113	31	128,000
Net charge-offs						
Charge-offs	(34,711)	(3,569)	(18,816)	(107,761)	—	(164,857)
Recoveries	22,824	6,716	5,781	21,665	—	56,986
Net (charge-offs) recoveries	(11,887)	3,147	(13,035)	(86,096)	—	(107,871)
Ending balance	\$328,184	359,777	58,593	151,337	78,230	\$976,121

Despite the allocation in the preceding tables, the allowance for credit losses is general in nature and is available to absorb losses from any loan or lease type.

In establishing the allowance for credit losses, the Company estimates losses attributable to specific troubled credits identified through both normal and detailed or intensified credit review processes and also estimates losses inherent in other loans and leases on a collective basis. For purposes of determining the level of the allowance for credit losses, the Company evaluates its loan and lease portfolio by loan type. The amounts of loss components in the Company's loan and lease portfolios are determined through a loan-by-loan analysis of larger balance commercial loans and commercial real estate loans that are in nonaccrual status and by applying loss factors to groups of loan balances based on loan type and management's classification of such loans under the Company's loan grading system. Measurement of the specific loss components is typically based on expected future cash flows, collateral values and other factors that may impact the borrower's ability to pay. In determining the allowance for credit losses, the Company utilizes a loan grading system which is applied to commercial and commercial real estate credits on an individual loan basis. Loan officers are responsible for continually assigning grades to these loans based on standards outlined in the Company's Credit Policy. Internal loan grades are also monitored by the Company's credit review department to ensure consistency and strict adherence to the prescribed standards. Loan grades are assigned loss component factors that reflect the Company's loss estimate for each group of loans and leases. Factors considered in assigning loan grades and loss component factors include borrower-specific information related to expected future cash flows and operating results, collateral values, geographic location, financial condition and performance, payment status, and other information; levels of and trends in portfolio charge-offs and recoveries; levels of and trends in portfolio delinquencies and impaired loans; changes in the risk profile of specific portfolios; trends in volume and terms of loans; effects of changes in credit concentrations; and observed trends and practices in the banking industry. As updated appraisals are obtained on individual loans or other events in the market place indicate that collateral values have significantly changed, individual loan grades are adjusted as appropriate. Changes in other factors cited may also lead to loan grade changes at any time. Except for consumer loans and residential real estate loans that are considered smaller balance homogenous loans and acquired loans that are evaluated on an aggregated basis, the Company

considers a loan to be impaired for purposes of applying GAAP when, based on current information and events, it is probable that the Company will be unable to collect all amounts according to the contractual terms of the loan agreement or the loan is delinquent 90 days. Regardless of loan type, the Company considers a loan to be impaired if it qualifies as a troubled debt restructuring. Modified loans, including smaller balance homogenous loans, that are considered to be troubled debt restructurings are evaluated for impairment giving consideration to the impact of the modified loan terms on the present value of the loan's expected cash flows.

- 15 -

NOTES TO FINANCIAL STATEMENTS, CONTINUED

4. Loans and leases and the allowance for credit losses, continued

The following tables provide information with respect to loans and leases that were considered impaired as of September 30, 2017 and December 31, 2016 and for the three-month and nine-month periods ended September 30, 2017 and 2016.

	September 30, 2017			December 31, 2016		
	Unpaid			Unpaid		
	Recorded	Principal	Related	Recorded	Principal	Related
	Investment Balance		Allowance	Investment Balance		Allowance
	(In thousands)					
With an allowance recorded:						
Commercial, financial, leasing, etc.	\$ 148,747	179,120	49,447	168,072	184,432	48,480
Real estate:						
Commercial	73,144	81,244	10,200	71,862	86,666	11,620
Residential builder and developer	6,537	6,842	288	7,396	8,361	506
Other commercial construction	1,626	1,785	292	2,475	2,731	448
Residential	97,483	118,030	3,475	86,680	105,944	3,457
Residential — limited documentation	79,030	94,194	4,600	82,547	97,718	6,000
Consumer:						
Home equity lines and loans	48,231	52,975	8,711	44,693	48,965	8,027
Automobile	14,225	16,743	3,011	16,982	18,272	3,740
Other	3,176	5,633	650	3,791	5,296	776
	472,199	556,566	80,674	484,498	558,385	83,054
With no related allowance recorded:						
Commercial, financial, leasing, etc.	80,952	97,073	—	100,805	124,786	—
Real estate:						
Commercial	148,733	158,815	—	113,276	121,846	—
Residential builder and developer	1,174	1,174	—	14,368	21,124	—
Other commercial construction	17,850	37,237	—	15,933	35,281	—
Residential	17,312	23,291	—	16,823	24,161	—
Residential — limited documentation	11,091	18,480	—	15,429	24,590	—
	277,112	336,070	—	276,634	351,788	—
Total:						
Commercial, financial, leasing, etc.	229,699	276,193	49,447	268,877	309,218	48,480
Real estate:						
Commercial	221,877	240,059	10,200	185,138	208,512	11,620
Residential builder and developer	7,711	8,016	288	21,764	29,485	506
Other commercial construction	19,476	39,022	292	18,408	38,012	448
Residential	114,795	141,321	3,475	103,503	130,105	3,457
Residential — limited documentation	90,121	112,674	4,600	97,976	122,308	6,000
Consumer:						
Home equity lines and loans	48,231	52,975	8,711	44,693	48,965	8,027

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Automobile	14,225	16,743	3,011	16,982	18,272	3,740
Other	3,176	5,633	650	3,791	5,296	776
Total	\$749,311	892,636	80,674	761,132	910,173	83,054

- 16 -

NOTES TO FINANCIAL STATEMENTS, CONTINUED

4. Loans and leases and the allowance for credit losses, continued

	Three Months Ended September 30, 2017			Three Months Ended September 30, 2016		
	Interest Income			Interest Income		
	Recognized			Recognized		
	Average			Average		
	Recorded	Cash		Recorded	Cash	
	Investment Total	Basis	Investment Total	Basis		
	(In thousands)					
Commercial, financial, leasing, etc.	\$224,526	391	391	262,796	744	744
Real estate:						
Commercial	233,572	1,425	1,425	175,256	1,806	1,806
Residential builder and developer	8,550	895	895	26,996	405	405
Other commercial construction	16,578	25	25	21,500	190	190
Residential	113,892	1,903	905	96,961	1,572	570
Residential — limited documentation	91,974	1,624	569	101,877	1,501	378
Consumer:						
Home equity lines and loans	47,831	419	99	41,740	368	112
Automobile	14,588	251	22	18,571	303	19
Other	3,269	80	2	4,077	72	11
Total	\$754,780	7,013	4,333	749,774	6,961	4,235

	Nine Months Ended September 30, 2017			Nine Months Ended September 30, 2016		
	Interest Income			Interest Income		
	Recognized			Recognized		
	Average			Average		
	Recorded	Cash		Recorded	Cash	
	Investment Total	Basis	Investment Total	Basis		
	(In thousands)					
Commercial, financial, leasing, etc.	\$242,410	1,674	1,674	283,783	7,055	7,055
Real estate:						

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Commercial	205,814	3,213	3,213	177,579	3,891	3,891
Residential builder and developer	14,551	1,791	1,791	30,832	488	488
Other commercial construction	15,474	958	958	19,774	563	563
Residential	108,741	5,004	2,285	97,229	4,778	2,591
Residential — limited documentation	94,680	4,573	1,292	104,382	4,580	1,648
Consumer:						
Home equity lines and loans	46,829	1,240	290	33,998	937	295
Automobile	15,483	788	62	20,358	964	83
Other	3,430	227	8	10,987	371	74
Total	\$747,412	19,468	11,573	778,922	23,627	16,688

- 17 -

NOTES TO FINANCIAL STATEMENTS, CONTINUED

4. Loans and leases and the allowance for credit losses, continued

In accordance with the previously described policies, the Company utilizes a loan grading system that is applied to all commercial loans and commercial real estate loans. Loan grades are utilized to differentiate risk within the portfolio and consider the expectations of default for each loan. Commercial loans and commercial real estate loans with a lower expectation of default are assigned one of ten possible “pass” loan grades and are generally ascribed lower loss factors when determining the allowance for credit losses. Loans with an elevated level of credit risk are classified as “criticized” and are ascribed a higher loss factor when determining the allowance for credit losses. Criticized loans may be classified as “nonaccrual” if the Company no longer expects to collect all amounts according to the contractual terms of the loan agreement or the loan is delinquent 90 days or more. All larger- balance criticized commercial loans and commercial real estate loans are individually reviewed by centralized credit personnel each quarter to determine the appropriateness of the assigned loan grade, including whether the loan should be reported as accruing or nonaccruing. Smaller-balance criticized loans are analyzed by business line risk management areas to ensure proper loan grade classification. Furthermore, criticized nonaccrual commercial loans and commercial real estate loans are considered impaired and, as a result, specific loss allowances on such loans are established within the allowance for credit losses to the extent appropriate in each individual instance.

The following table summarizes the loan grades applied to the various classes of the Company’s commercial loans and commercial real estate loans.

	Commercial, Financial, Leasing, etc. (In thousands)	Real Estate Commercial	Residential Builder and Developer	Other Commercial Construction
September 30, 2017				
Pass	\$20,561,077	24,309,923	1,580,763	5,830,122
Criticized accrual	978,178	718,126	64,644	188,838
Criticized nonaccrual	203,996	200,193	2,416	19,263
Total	\$21,743,251	25,228,242	1,647,823	6,038,223
December 31, 2016				
Pass	\$21,398,581	24,570,269	1,789,071	5,912,351
Criticized accrual	950,032	741,274	116,548	165,862
Criticized nonaccrual	261,434	176,201	16,707	18,111
Total	\$22,610,047	25,487,744	1,922,326	6,096,324

NOTES TO FINANCIAL STATEMENTS, CONTINUED

4. Loans and leases and the allowance for credit losses, continued

In determining the allowance for credit losses, residential real estate loans and consumer loans are generally evaluated collectively after considering such factors as payment performance and recent loss experience and trends, which are mainly driven by current collateral values in the market place as well as the amount of loan defaults. Loss rates on such loans are determined by reference to recent charge-off history and are evaluated (and adjusted if deemed appropriate) through consideration of other factors including near-term forecasted loss estimates developed by the Company's credit department. In arriving at such forecasts, the Company considers the current estimated fair value of its collateral based on geographical adjustments for home price depreciation/appreciation and overall borrower repayment performance. With regard to collateral values, the realizability of such values by the Company contemplates repayment of any first lien position prior to recovering amounts on a second lien position. However, residential real estate loans and outstanding balances of home equity loans and lines of credit that are more than 150 days past due are generally evaluated for collectability on a loan-by-loan basis giving consideration to estimated collateral values. The carrying value of residential real estate loans and home equity loans and lines of credit for which a partial charge-off has been recognized totaled \$39 million and \$27 million, respectively, at September 30, 2017 and \$44 million and \$32 million, respectively, at December 31, 2016. Residential real estate loans and home equity loans and lines of credit that were more than 150 days past due but did not require a partial charge-off because the net realizable value of the collateral exceeded the outstanding customer balance were \$19 million and \$33 million, respectively, at September 30, 2017 and \$16 million and \$39 million, respectively, at December 31, 2016.

The Company also measures additional losses for purchased impaired loans when it is probable that the Company will be unable to collect all cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimates after acquisition. The determination of the allocated portion of the allowance for credit losses is very subjective. Given that inherent subjectivity and potential imprecision involved in determining the allocated portion of the allowance for credit losses, the Company also provides an inherent unallocated portion of the allowance. The unallocated portion of the allowance is intended to recognize probable losses that are not otherwise identifiable and includes management's subjective determination of amounts necessary to provide for the possible use of imprecise estimates in determining the allocated portion of the allowance. Therefore, the level of the unallocated portion of the allowance is primarily reflective of the inherent imprecision in the various calculations used in determining the allocated portion of the allowance for credit losses. Other factors that could also lead to changes in the unallocated portion include the effects of expansion into new markets for which the Company does not have the same degree of familiarity and experience regarding portfolio performance in changing market conditions, the introduction of new loan and lease product types, and other risks associated with the Company's loan portfolio that may not be specifically identifiable.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

4. Loans and leases and the allowance for credit losses, continued

The allocation of the allowance for credit losses summarized on the basis of the Company's impairment methodology was as follows:

	Commercial,	Financial, Real Estate Leasing, etc.	Commercial	Residential	Consumer	Total
	(In thousands)					
September 30, 2017						
Individually evaluated for impairment	\$49,447	10,780	8,075	12,372		\$80,674
Collectively evaluated for impairment	287,027	353,387	47,674	157,006		845,094
Purchased impaired	—	—	9,346	—		9,346
Allocated	\$336,474	364,167	65,095	169,378		935,114
Unallocated						78,212
Total						\$1,013,326
December 31, 2016						
Individually evaluated for impairment	\$48,480	12,500	9,457	12,543		\$82,980
Collectively evaluated for impairment	282,353	348,301	47,993	143,745		822,392
Purchased impaired	—	1,918	3,677	—		5,595
Allocated	\$330,833	362,719	61,127	156,288		910,967
Unallocated						78,030
Total						\$988,997

The recorded investment in loans and leases summarized on the basis of the Company's impairment methodology was as follows:

	Commercial,	Financial, Real Estate Leasing, etc.	Commercial	Residential	Consumer	Total
	(In thousands)					
September 30, 2017						
Individually evaluated for impairment	\$229,699	249,064	204,916	65,632		\$749,311
Collectively evaluated for impairment	21,513,477	32,620,026	19,638,576	12,936,801		86,708,880
Purchased impaired	75	45,198	421,670	—		466,943
Total	\$21,743,251	32,914,288	20,265,162	13,002,433		\$87,925,134
December 31, 2016						
Individually evaluated for impairment	\$268,877	224,630	201,479	65,466		\$760,452
Collectively evaluated for impairment	22,340,529	33,222,080	21,871,726	12,080,597		89,514,932

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Purchased impaired	641	59,684	517,707	—	578,032
Total	\$22,610,047	33,506,394	22,590,912	12,146,063	\$90,853,416

During the normal course of business, the Company modifies loans to maximize recovery efforts. If the borrower is experiencing financial difficulty and a concession is granted, the Company considers such modifications as troubled debt restructurings and classifies those loans as either nonaccrual loans or renegotiated loans. The types of concessions that the Company grants typically include principal deferrals and interest rate concessions, but may also include other types of concessions.

- 20 -

NOTES TO FINANCIAL STATEMENTS, CONTINUED

4. Loans and leases and the allowance for credit losses, continued

The tables that follow summarize the Company's loan modification activities that were considered troubled debt restructurings for the three-month and nine-month periods ended September 30, 2017 and 2016:

	Pre- modification recorded investment Number	Post-modification (a)			Combination of Concession Types	Total
		Principal Deferral	Other			
Three Months Ended September 30, 2017	(Dollars in thousands)					
Commercial, financial, leasing, etc.	49	\$ 15,812	\$5,888	\$97	\$ 9,251	\$15,236
Real estate:						
Commercial	17	5,861	1,420	868	3,450	5,738
Residential	34	5,123	3,033	—	2,716	5,749
Residential — limited documentation	4	515	383	—	167	550
Consumer:						
Home equity lines and loans	25	2,154	461	—	1,776	2,237
Automobile	17	342	326	—	16	342
Other	1	5	5	—	—	5
Total	147	\$ 29,812	\$11,516	\$965	\$ 17,376	\$29,857
Three Months Ended September 30, 2016						
Commercial, financial, leasing, etc.	43	\$ 69,486	\$40,183	\$—	\$ 19,802	\$59,985
Real estate:						
Commercial	18	14,925	11,644	—	2,614	14,258
Residential	30	5,638	4,714	—	1,214	5,928
Residential — limited documentation	6	827	470	—	493	963
Consumer:						
Home equity lines and loans	26	2,552	251	—	2,301	2,552
Automobile	10	186	186	—	—	186
Other	1	26	26	—	—	26
Total	134	\$ 93,640	\$57,474	\$—	\$ 26,424	\$83,898

NOTES TO FINANCIAL STATEMENTS, CONTINUED

4. Loans and leases and the allowance for credit losses, continued

	Number	Pre-modification recorded investment	Post-modification (a)			Total
			Principal Deferral	Other	Combination of Concession Types	
Nine Months Ended September 30, 2017 (Dollars in thousands)						
Commercial, financial, leasing, etc.	162	\$ 93,346	\$ 18,449	\$ 6,459	\$ 47,211	\$ 72,119
Real estate:						
Commercial	67	38,608	16,193	868	21,332	38,393
Residential builder and developer	3	12,291	—	—	10,879	10,879
Other commercial construction	2	168	168	—	—	168
Residential	105	22,459	11,608	—	12,557	24,165
Residential — limited documentation	17	3,724	618	—	3,352	3,970
Consumer:						
Home equity lines and loans	85	7,885	1,040	491	6,442	7,973
Automobile	59	1,160	1,089	—	71	1,160
Other	6	85	85	—	—	85
Total	506	\$ 179,726	\$ 49,250	\$ 7,818	\$ 101,844	\$ 158,912
Nine Months Ended September 30, 2016						
Commercial, financial, leasing, etc.	112	\$ 148,204	\$ 98,561	\$ —	\$ 39,971	\$ 138,532
Real estate:						
Commercial	55	36,984	17,802	4,576	13,546	35,924
Residential builder and developer	3	23,905	22,958	—	—	22,958
Other commercial construction	2	374	250	—	124	374
Residential	73	11,946	7,945	—	4,705	12,650
Residential — limited documentation	14	2,415	803	—	1,872	2,675
Consumer:						
Home equity lines and loans	84	9,189	655	—	8,534	9,189
Automobile	148	1,005	865	55	85	1,005
Other	78	1,192	951	45	196	1,192
Total	569	\$ 235,214	\$ 150,790	\$ 4,676	\$ 69,033	\$ 224,499

(a) Financial effects impacting the recorded investment included principal payments or advances, charge-offs and capitalized escrow arrearages. The present value of interest rate concessions, discounted at the effective rate of the original loan, was not material.

Troubled debt restructurings are considered to be impaired loans and for purposes of establishing the allowance for credit losses are evaluated for impairment giving consideration to the impact of the modified loan terms on the present value of the loan's expected cash flows. Impairment of troubled debt restructurings that have subsequently defaulted

may also be measured based on the loan's observable market price or the fair value of collateral if the loan is collateral-dependent. Charge-offs may also be recognized on troubled debt restructurings that have subsequently defaulted. Loans that were modified as troubled debt restructurings during the twelve months ended September 30, 2017 and 2016 and for which there was a subsequent payment default during the nine-month periods ended September 30, 2017 and 2016, respectively, were not material.

- 22 -

NOTES TO FINANCIAL STATEMENTS, CONTINUED

4. Loans and leases and the allowance for credit losses, continued

The amount of foreclosed residential real estate property held by the Company totaled \$106 million and \$129 million at September 30, 2017 and December 31, 2016, respectively. There were \$545 million and \$506 million at September 30, 2017 and December 31, 2016, respectively, in loans secured by residential real estate that were in the process of foreclosure. Of all loans in the process of foreclosure at September 30, 2017, approximately 48% were classified as purchased impaired and 20% were government guaranteed.

5. Borrowings

During May 2017, M&T Bank, the principal bank subsidiary of M&T, issued \$900 million of senior notes that mature in May 2022 pursuant to a Bank Note Program, of which \$650 million have a 2.50% fixed interest rate and \$250 million have a variable rate paid quarterly at rates that are indexed to the three-month London Interbank Offered Rate ("LIBOR"). During June 2017, M&T Bank redeemed \$750 million of 1.40% fixed rate senior notes. The notes had a maturity date of July 25, 2017 and were redeemable on or after the 30th day prior to the maturity date. During August 2017, M&T Bank issued \$750 million of three-year 2.05% fixed rate senior notes due August 2020 and \$500 million of ten-year 3.40% fixed rate subordinated notes due August 2027.

M&T had \$519 million of fixed and variable rate junior subordinated deferrable interest debentures ("Junior Subordinated Debentures") outstanding at September 30, 2017 that are held by various trusts that were issued in connection with the issuance by those trusts of preferred capital securities ("Capital Securities") and common securities ("Common Securities"). The proceeds from the issuances of the Capital Securities and the Common Securities were used by the trusts to purchase the Junior Subordinated Debentures. The Common Securities of each of those trusts are wholly owned by M&T and are the only class of each trust's securities possessing general voting powers. The Capital Securities represent preferred undivided interests in the assets of the corresponding trust. Under the Federal Reserve Board's risk-based capital guidelines, the securities are includable in M&T's Tier 2 regulatory capital.

Holders of the Capital Securities receive preferential cumulative cash distributions unless M&T exercises its right to extend the payment of interest on the Junior Subordinated Debentures as allowed by the terms of each such debenture, in which case payment of distributions on the respective Capital Securities will be deferred for comparable periods. During an extended interest period, M&T may not pay dividends or distributions on, or repurchase, redeem or acquire any shares of its capital stock. In general, the agreements governing the Capital Securities, in the aggregate, provide a full, irrevocable and unconditional guarantee by M&T of the payment of distributions on, the redemption of, and any liquidation distribution with respect to the Capital Securities. The obligations under such guarantee and the Capital Securities are subordinate and junior in right of payment to all senior indebtedness of M&T.

The Capital Securities will remain outstanding until the Junior Subordinated Debentures are repaid at maturity, are redeemed prior to maturity or are distributed in liquidation to the trusts. The Capital Securities are mandatorily redeemable in whole, but not in part, upon repayment at the stated maturity dates (ranging from 2027 to 2033) of the Junior Subordinated Debentures or the earlier redemption of the Junior Subordinated Debentures in whole upon the occurrence of one or more events set forth in the indentures relating to the Capital Securities, and in whole or in part at any time after an optional redemption prior to contractual maturity contemporaneously with the optional redemption

of the related Junior Subordinated Debentures in whole or in part, subject to possible regulatory approval.

- 23 -

NOTES TO FINANCIAL STATEMENTS, CONTINUED

5. Borrowings, continued

Also included in long-term borrowings are agreements to repurchase securities of \$425 million and \$1.1 billion at September 30, 2017 and December 31, 2016, respectively. The agreements reflect various repurchase dates through 2020, however, the contractual maturities of the underlying investment securities extend beyond such repurchase dates. The agreements are subject to legally enforceable master netting arrangements, however, the Company has not offset any amounts related to these agreements in its consolidated financial statements. The Company posted collateral consisting primarily of government guaranteed mortgage-backed securities of \$445 million and \$1.1 billion at September 30, 2017 and December 31, 2016, respectively.

6. Shareholders' equity

M&T is authorized to issue 1,000,000 shares of preferred stock with a \$1.00 par value per share. Preferred shares outstanding rank senior to common shares both as to dividends and liquidation preference, but have no general voting rights.

Issued and outstanding preferred stock of M&T as of September 30, 2017 and December 31, 2016 is presented below:

	Shares	
	Issued and Outstanding (Dollars in thousands)	Carrying Value
Series A (a)		
Fixed Rate Cumulative Perpetual Preferred Stock, \$1,000		
liquidation preference per share	230,000	\$ 230,000
Series C (a)		
Fixed Rate Cumulative Perpetual Preferred Stock, \$1,000		
liquidation preference per share	151,500	\$ 151,500
Series E (b)		
Fixed-to-Floating Rate Non-cumulative Perpetual Preferred Stock,		
\$1,000 liquidation preference per share	350,000	\$ 350,000
Series F (c)		
Fixed-to-Floating Rate Non-cumulative Perpetual Preferred Stock,		
	50,000	\$ 500,000

\$10,000 liquidation preference per share

- (a) Dividends, if declared, are paid at 6.375%. Warrants to purchase M&T common stock at \$73.79 per share issued in connection with the Series A preferred stock expire in 2018 and totaled 327,358 at September 30, 2017.
- (b) Dividends, if declared, are paid semi-annually at a rate of 6.45% through February 14, 2024 and thereafter will be paid quarterly at a rate of the three-month LIBOR plus 361 basis points (hundredths of one percent). The shares are redeemable in whole or in part on or after February 15, 2024. Notwithstanding M&T's option to redeem the shares, if an event occurs such that the shares no longer qualify as Tier 1 capital, M&T may redeem all of the shares within 90 days following that occurrence.
- (c) Dividends, if declared, are paid semi-annually at a rate of 5.125% through October 31, 2026 and thereafter will be paid quarterly at a rate of the three-month LIBOR plus 352 basis points. The shares are redeemable in whole or in part on or after November 1, 2026. Notwithstanding M&T's option to redeem the shares, if an event occurs such that the shares no longer qualify as Tier 1 capital, M&T may redeem all of the shares within 90 days following that occurrence.

In addition to the Series A warrants mentioned in (a) above, a warrant to purchase 95,472 shares of M&T common stock at \$518.47 per share was outstanding at September 30, 2017. The obligation under that warrant was assumed by M&T in an acquisition and expires in 2018.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

7. Pension plans and other postretirement benefits

The Company provides defined benefit pension and other postretirement benefits (including health care and life insurance benefits) to qualified retired employees. Net periodic defined benefit cost for defined benefit plans consisted of the following:

	Pension		Other Postretirement	
	Benefits Three Months Ended		Benefits September 30	
	2017	2016	2017	2016
	(In thousands)			
Service cost	\$5,048	6,259	293	399
Interest cost on projected benefit obligation	19,818	20,853	929	1,242
Expected return on plan assets	(27,131)	(27,118)	—	—
Amortization of prior service cost (credit)	139	(807)	(340)	(339)
Amortization of net actuarial loss (gain)	7,316	7,536	(247)	15
Net periodic benefit cost	\$5,190	6,723	635	1,317

	Pension		Other Postretirement	
	Benefits Nine Months Ended		Benefits September 30	
	2017	2016	2017	2016
	(In thousands)			
Service cost	\$15,145	18,778	878	1,197
Interest cost on projected benefit obligation	59,452	62,558	2,787	3,728
Expected return on plan assets	(81,393)	(81,355)	—	—
Amortization of prior service cost (credit)	418	(2,421)	(1,019)	(1,019)
Amortization of net actuarial loss (gain)	21,947	22,609	(741)	45
Net periodic benefit cost	\$15,569	20,169	1,905	3,951

Expense incurred in connection with the Company's defined contribution pension and retirement savings plans totaled \$16,085,000 and \$14,783,000 for the three months ended September 30, 2017 and 2016, respectively, and \$53,127,000 and \$47,747,000 for the nine months ended September 30, 2017 and 2016, respectively.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

8. Earnings per common share

The computations of basic earnings per common share follow:

	Three Months		Nine Months Ended	
	Ended September 30		September 30	
	2017	2016	2017	2016
	(In thousands, except per share)			
Income available to common shareholders:				
Net income	\$355,923	349,984	1,085,903	984,543
Less: Preferred stock dividends (a)	(18,130)	(20,318)	(54,604)	(60,953)
Net income available to common equity	337,793	329,666	1,031,299	923,590
Less: Income attributable to unvested stock-based				
compensation awards	(1,992)	(2,674)	(6,288)	(7,920)
Net income available to common shareholders	\$335,801	326,992	1,025,011	915,670
Weighted-average shares outstanding:				
Common shares outstanding (including common stock				
issuable) and unvested stock-based compensation awards	152,245	156,767	153,814	158,710
Less: Unvested stock-based compensation awards	(898)	(1,274)	(948)	(1,374)
Weighted-average shares outstanding	151,347	155,493	152,866	157,336
Basic earnings per common share	\$2.22	2.10	6.71	5.82

(a)Including impact of not as yet declared cumulative dividends.

The computations of diluted earnings per common share follow:

	Three Months		Nine Months Ended	
	Ended September 30		September 30	
	2017	2016	2017	2016
	(In thousands, except per share)			
Net income available to common equity	\$337,793	329,666	1,031,299	923,590
Less: Income attributable to unvested stock-based				
compensation awards	(1,989)	(2,668)	(6,276)	(7,904)
Net income available to common shareholders	\$335,804	326,998	1,025,023	915,686
Adjusted weighted-average shares outstanding:				
Common and unvested stock-based compensation awards	152,245	156,767	153,814	158,710
Less: Unvested stock-based compensation awards	(898)	(1,274)	(948)	(1,374)
Plus: Incremental shares from assumed conversion of	344	533	427	507

stock-based compensation awards and warrants to

purchase common stock

Adjusted weighted-average shares outstanding	151,691	156,026	153,293	157,843
Diluted earnings per common share	\$2.21	2.10	6.69	5.80

GAAP defines unvested share-based awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) as participating securities that shall be included in the computation of earnings per common share pursuant to the two-class method. The Company has issued stock-based compensation awards in the form of restricted stock and restricted stock units which, in accordance with GAAP, are considered participating securities.

Stock-based compensation awards and warrants to purchase common stock of M&T representing 408,657 and 2,015,870 common shares during the three-month periods ended September 30, 2017 and 2016, respectively, and 404,487 and 2,513,288 common shares during the nine-month periods ended September 30, 2017 and 2016, respectively, were not included in the computations of diluted earnings per common share because the effect on those periods would have been antidilutive.

- 26 -

NOTES TO FINANCIAL STATEMENTS, CONTINUED

9. Comprehensive income

The following tables display the components of other comprehensive income (loss) and amounts reclassified from accumulated other comprehensive income (loss) to net income:

	Investment Securities With OTTI		Defined Benefit Plans		Total Amount Before Tax		Income Tax Net	
	(a)	All Other	Plans	Other	Before Tax	Tax	Net	
Balance — January 1, 2017	\$46,725	(73,785)	(449,917)	(8,268)	\$(485,245)	190,609	\$(294,636)	
Other comprehensive income before reclassifications:								
Unrealized holding gains (losses), net	(7,365)	60,586	—	—	53,221	(20,934)	32,287	
Foreign currency translation adjustment	—	—	—	3,829	3,829	(1,340)	2,489	
Unrealized losses on cash flow hedges	—	—	—	(1,076)	(1,076)	424	(652)	
Total other comprehensive income (loss) before reclassifications	(7,365)	60,586	—	2,753	55,974	(21,850)	34,124	
Amounts reclassified from accumulated other comprehensive income that (increase) decrease net income:								
Amortization of unrealized holding losses on held-to-maturity (“HTM”) securities	—	2,535	—	—	2,535	(b) (998)	1,537	
(Gains) losses realized in net income	(50)	67	—	—	17	(c) (7)	10	
Accretion of net gain on terminated cash flow hedges	—	—	—	(109)	(109)	(d) 43	(66)	
Net yield adjustment from cash flow hedges currently in	—	—	—	(2,275)	(2,275)	(b) 895	(1,380)	

effect								
Amortization of prior service credit	—	—	(601)	—	(601)	(e) 236	(365)	
Amortization of actuarial losses	—	—	21,206	—	21,206	(e) (8,345)	12,861	
Total reclassifications	(50)	2,602	20,605	(2,384)	20,773	(8,176)	12,597	
Total gain (loss) during the period	(7,415)	63,188	20,605	369	76,747	(30,026)	46,721	
Balance — September 30, 2017	\$39,310	(10,597)	(429,312)	(7,899)	\$(408,498)	160,583	\$(247,915)	
Balance — January 1, 2016	\$16,359	62,849	(489,660)	(4,093)	\$(414,545)	162,918	\$(251,627)	
Other comprehensive income before reclassifications:								
Unrealized holding gains, net	1,228	234,438	—	—	235,666	(92,714)	142,952	
Foreign currency translation adjustment	—	—	—	(2,836)	(2,836)	989	(1,847)	
Total other comprehensive income (loss) before reclassifications	1,228	234,438	—	(2,836)	232,830	(91,725)	141,105	
Amounts reclassified from accumulated other comprehensive income that (increase) decrease net income:								
Amortization of unrealized holding losses on								
HTM securities	—	2,998	—	—	2,998	(b) (1,180)	1,818	
Gains realized in net income	—	(28,748)	—	—	(28,748)	(c) 11,309	(17,439)	
Accretion of net gain on terminated cash flow hedges	—	—	—	(116)	(116)	(d) 46	(70)	
Amortization of prior service credit	—	—	(3,440)	—	(3,440)	(e) 1,354	(2,086)	
Amortization of actuarial losses	—	—	22,654	—	22,654	(e) (8,914)	13,740	
Total reclassifications	—	(25,750)	19,214	(116)	(6,652)	2,615	(4,037)	
Total gain (loss) during the period	1,228	208,688	19,214	(2,952)	226,178	(89,110)	137,068	
Balance — September 30, 2016	\$17,587	271,537	(470,446)	(7,045)	\$(188,367)	73,808	\$(114,559)	

(a) Other-than-temporary impairment

(b) Included in interest income

(c) Included in gain (loss) on bank investment securities

(d) Included in interest expense

(e) Included in salaries and employee benefits expense

NOTES TO FINANCIAL STATEMENTS, CONTINUED

9. Comprehensive income, continued

Accumulated other comprehensive income (loss), net consisted of the following:

	Investment Securities		Defined Benefit Plans		Other	Total
	With OTTI	All Other	Plans	Other		
Balance — December 31, 2016	\$28,338	(44,657)	(272,874)	(5,443)		\$(294,636)
Net gain (loss) during period	(4,496)	38,330	12,496	391		46,721
Balance — September 30, 2017	\$23,842	(6,327)	(260,378)	(5,052)		\$(247,915)

10. Derivative financial instruments

As part of managing interest rate risk, the Company enters into interest rate swap agreements to modify the repricing characteristics of certain portions of the Company's portfolios of earning assets and interest-bearing liabilities. The Company designates interest rate swap agreements utilized in the management of interest rate risk as either fair value hedges or cash flow hedges. Interest rate swap agreements are generally entered into with counterparties that meet established credit standards and most contain master netting, collateral and/or settlement provisions protecting the at-risk party. Based on adherence to the Company's credit standards and the presence of the netting, collateral or settlement provisions, the Company believes that the credit risk inherent in these contracts was not significant as of September 30, 2017.

The net effect of interest rate swap agreements was to increase net interest income by \$7 million and \$9 million for the three-month periods ended September 30, 2017 and 2016, respectively, and \$18 million and \$30 million for the nine-month periods ended September 30, 2017 and 2016, respectively.

Information about interest rate swap agreements entered into for interest rate risk management purposes summarized by type of financial instrument the swap agreements were intended to hedge follows:

Notional Amount (In thousands)	Average Maturity	Weighted-Average Rate		Estimated Fair Value Gain (a)
		Fixed	Variable	

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		(In years)			(In thousands)
September 30, 2017					
Fair value hedges:					
Fixed rate long-term borrowings (b)	\$ 4,950,000	2.9	2.63%	2.04	% \$ 697
Cash flow hedges:					
Variable rate commercial real estate loans (b)	2,000,000	1.6	1.46%	1.24	% —
Total	\$ 6,950,000	2.5			\$ 697
December 31, 2016					
Fair value hedges:					
Fixed rate long-term borrowings (b)	\$ 900,000	1.1	3.75%	2.08	% \$ 11,892

(a) Effective January 2017 certain clearinghouse exchanges revised their rules such that certain required payments by counterparties for variation margin on derivative instruments that had been treated as collateral are now treated as settlements of those positions. The impact of such rule changes at September 30, 2017 was a reduction of the estimated fair value losses on interest rate swaps designated as fair value hedges of \$12.2 million and on interest rate swaps designated as cash flow hedges of \$3.4 million.

(b) Under the terms of these agreements, the Company receives settlement amounts at a fixed rate and pays at a variable rate.

- 28 -

NOTES TO FINANCIAL STATEMENTS, CONTINUED

10. Derivative financial instruments, continued

The Company utilizes commitments to sell residential and commercial real estate loans to hedge the exposure to changes in the fair value of real estate loans held for sale. Such commitments have generally been designated as fair value hedges. The Company also utilizes commitments to sell real estate loans to offset the exposure to changes in fair value of certain commitments to originate real estate loans for sale.

Derivative financial instruments used for trading account purposes included interest rate contracts, foreign exchange and other option contracts, foreign exchange forward and spot contracts, and financial futures. Interest rate contracts entered into for trading account purposes had notional values of \$15.5 billion and \$21.6 billion at September 30, 2017 and December 31, 2016, respectively. The notional amounts of foreign currency and other option and futures contracts entered into for trading account purposes aggregated \$545 million and \$471 million at September 30, 2017 and December 31, 2016, respectively.

Information about the fair values of derivative instruments in the Company's consolidated balance sheet and consolidated statement of income follows:

	Asset Derivatives Fair Value		Liability Derivatives Fair Value	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
(In thousands)				
Derivatives designated and qualifying as hedging instruments				
Fair value hedges:				
Interest rate swap agreements (a)	\$2,048	\$ 11,892	\$1,351	\$ —
Commitments to sell real estate loans (a)	1,667	33,189	1,551	1,347
Cash flow hedges:				
Interest rate swap agreements (a)	—	—	—	—
	3,715	45,081	2,902	1,347
Derivatives not designated and qualifying as hedging instruments				
Mortgage-related commitments to originate real estate loans for sale (a)	13,962	8,060	240	735
Commitments to sell real estate loans (a)	3,153	5,210	936	399
Trading:				
Interest rate contracts (b)	104,178	228,810	103,825	167,737
Foreign exchange and other option and futures contracts (b)	6,823	7,908	5,905	6,639
	128,116	249,988	110,906	175,510
Total derivatives	\$131,831	\$ 295,069	\$113,808	\$ 176,857

(a) Asset derivatives are reported in other assets and liability derivatives are reported in other liabilities.

(b) Asset derivatives are reported in trading account assets and liability derivatives are reported in other liabilities. The impact of the variation margin rule change at September 30, 2017 was a reduction of the estimated

fair value of interest rate swaps in an asset position of \$89.3 million and of those in a liability position of \$29.2 million.

- 29 -

NOTES TO FINANCIAL STATEMENTS, CONTINUED

10. Derivative financial instruments, continued

	Amount of Gain (Loss) Recognized	
	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016
	Hedged Derivative Item (In thousands)	Hedged Derivative Item
Derivatives in fair value hedging relationships		
Interest rate swap agreements:		
Fixed rate long-term borrowings (a)	\$(13,509) 14,026	\$(12,588) 12,587
Derivatives not designated as hedging instruments		
Trading:		
Interest rate contracts (b)	\$(418)	\$4,822
Foreign exchange and other option and futures contracts (b)	1,362	1,746
Total	\$944	\$6,568

	Amount of Gain (Loss) Recognized	
	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
	Hedged Derivative Item (In thousands)	Hedged Derivative Item
Derivatives in fair value hedging relationships		
Interest rate swap agreements:		
Fixed rate long-term borrowings (a)		