

M&T BANK CORP  
Form 10-Q  
May 08, 2015  
Table of Contents

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

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2015**

**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**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**16-0968385**  
**(I.R.S. Employer**  
**Identification No.)**

**One M & T Plaza**

**Buffalo, New York**  
**(Address of principal executive offices)**

**14203**  
**(Zip Code)**

**(716) 842-5445**

**(Registrant's telephone number, including area code)**

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 the definitions of large accelerated filer, accelerated filer and smaller reporting 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

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 April 30, 2015: 132,970,139 shares.

**Table of Contents**

**M&T BANK CORPORATION**

**FORM 10-Q**

**For the Quarterly Period Ended March 31, 2015**

| Table of Contents of Information Required in Report |  | Page |
|---|--|------|
| <b><u>Part I. FINANCIAL INFORMATION</u></b>         |  |      |
| Item 1.   | <b><u>Financial Statements.</u></b>  |      |
|   | <b><u>CONSOLIDATED BALANCE SHEET - March 31, 2015 and December 31, 2014</u></b>                                      | 3    |
|   | <b><u>CONSOLIDATED STATEMENT OF INCOME - Three months ended March 31, 2015 and 2014</u></b>                          | 4    |
|   | <b><u>CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME - Three months ended March 31, 2015 and 2014</u></b>            | 5    |
|   | <b><u>CONSOLIDATED STATEMENT OF CASH FLOWS - Three months ended March 31, 2015 and 2014</u></b>                      | 6    |
|   | <b><u>CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY - Three months ended March 31, 2015 and 2014</u></b> | 7    |
|   | <b><u>NOTES TO FINANCIAL STATEMENTS</u></b>  | 8    |
| Item 2.   | <b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u></b>                 | 50   |
| Item 3.   | <b><u>Quantitative and Qualitative Disclosures About Market Risk.</u></b>  | 91   |
| Item 4.   | <b><u>Controls and Procedures.</u></b>   | 91   |
| <b><u>Part II. OTHER INFORMATION</u></b>            |  |      |
| Item 1.   | <b><u>Legal Proceedings.</u></b>   | 91   |
| Item 1A.  | <b><u>Risk Factors.</u></b>  | 92   |
| Item 2.   | <b><u>Unregistered Sales of Equity Securities and Use of Proceeds.</u></b>   | 93   |
| Item 3.   | <b><u>Defaults Upon Senior Securities.</u></b>   | 93   |
| Item 4.   | <b><u>Mine Safety Disclosures.</u></b>   | 93   |
| Item 5.   | <b><u>Other Information.</u></b>   | 93   |
| Item 6.   | <b><u>Exhibits.</u></b>  | 94   |
|   | <b><u>SIGNATURES</u></b>   | 95   |
|   | <b><u>EXHIBIT INDEX</u></b>  | 95   |

**Table of Contents**

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET (Unaudited)

| <i>Dollars in thousands, except per share</i> |  | March 31,<br>2015 | December 31,<br>2014 |
|---|--|-------------------|----------------------|
| Assets  | Cash and due from banks  | \$ 1,269,816      | 1,289,965            |
|   | Interest-bearing deposits at banks   | 6,291,491         | 6,470,867            |
|   | Federal funds sold   | 97,037            | 83,392               |
|   | Trading account  | 363,085           | 308,175              |
|   | Investment securities (includes pledged securities that can be sold or repledged of \$1,611,069 at March 31, 2015; \$1,631,267 at December 31, 2014) |                   |                      |
|   | Available for sale (cost: \$10,425,720 at March 31, 2015; \$8,919,324 at December 31, 2014)  | 10,703,500        | 9,156,932            |
|   | Held to maturity (fair value: \$3,411,834 at March 31, 2015; \$3,538,282 at December 31, 2014)   | 3,360,812         | 3,507,868            |
|   | Other (fair value: \$328,958 at March 31, 2015; \$328,742 at December 31, 2014)  | 328,958           | 328,742              |
|   | Total investment securities  | 14,393,270        | 12,993,542           |
|   | Loans and leases   | 67,328,490        | 66,899,369           |
|   | Unearned discount  | (229,448)         | (230,413)            |
|   | Loans and leases, net of unearned discount   | 67,099,042        | 66,668,956           |
|   | Allowance for credit losses  | (921,373)         | (919,562)            |
|   | Loans and leases, net  | 66,177,669        | 65,749,394           |
|   | Premises and equipment   | 602,096           | 612,984              |
|   | Goodwill   | 3,524,625         | 3,524,625            |
|   | Core deposit and other intangible assets   | 28,234            | 35,027               |
|   | Accrued interest and other assets  | 5,630,460         | 5,617,564            |

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|                     |   |               |            |
|---------------------|---|---------------|------------|
|                     | Total assets  | \$ 98,377,783 | 96,685,535 |
| Liabilities         | Noninterest-bearing deposits  | \$ 27,181,120 | 26,947,880 |
|                     | NOW accounts  | 2,149,537     | 2,307,815  |
|                     | Savings deposits  | 41,138,792    | 41,085,803 |
|                     | Time deposits   | 2,946,126     | 3,063,973  |
|                     | Deposits at Cayman Islands office   | 178,545       | 176,582    |
|                     | Total deposits  | 73,594,120    | 73,582,053 |
|                     | Federal funds purchased and agreements to repurchase securities   | 193,495       | 192,676    |
|                     | Accrued interest and other liabilities  | 1,552,724     | 1,567,951  |
|                     | Long-term borrowings  | 10,509,143    | 9,006,959  |
|                     | Total liabilities   | 85,849,482    | 84,349,639 |
| Shareholders equity | Preferred stock, \$1.00 par, 1,000,000 shares authorized; Issued and outstanding: Liquidation preference of \$1,000 per share: 731,500 shares at March 31, 2015 and at December 31, 2014; Liquidation preference of \$10,000 per share: 50,000 shares at March 31, 2015 and December 31, 2014 | 1,231,500     | 1,231,500  |
|                     | Common stock, \$.50 par, 250,000,000 shares authorized, 132,909,718 shares issued at March 31, 2015; 132,312,931 shares issued at December 31, 2014   | 66,455        | 66,157     |
|                     | Common stock issuable, 36,360 shares at March 31, 2015; 41,330 shares at December 31, 2014  | 2,310         | 2,608      |
|                     | Additional paid-in capital  | 3,445,707     | 3,409,506  |
|                     | Retained earnings   | 7,934,820     | 7,807,119  |
|                     | Accumulated other comprehensive income (loss), net  | (152,491)     | (180,994)  |
|                     | Total shareholders equity   | 12,528,301    | 12,335,896 |
|                     | Total liabilities and shareholders equity   | \$ 98,377,783 | 96,685,535 |

Table of Contents

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF INCOME (Unaudited)

| <i>In thousands, except per share</i> |   | Three months ended March 31 |         |
|---------------------------------------|---|-----------------------------|---------|
|                                       |   | 2015                        | 2014    |
| Interest income                       | Loans and leases, including fees                      | \$ 647,179                  | 645,222 |
|                                       | Deposits at banks                                     | 3,118                       | 1,884   |
|                                       | Federal funds sold                                    | 24                          | 16      |
|                                       | Trading account                                       | 491                         | 427     |
|                                       | Investment securities                                 |                             |         |
|                                       | Fully taxable   | 85,957                      | 73,899  |
|                                       | Exempt from federal taxes                             | 1,318                       | 1,504   |
|                                       | Total interest income                                 | 738,087                     | 722,952 |
| Interest expense                      | NOW accounts  | 311                         | 297     |
|                                       | Savings deposits                                      | 10,219                      | 11,601  |
|                                       | Time deposits   | 3,740                       | 3,940   |
|                                       | Deposits at Cayman Islands office                     | 147                         | 208     |
|                                       | Short-term borrowings                                 | 34                          | 32      |
|                                       | Long-term borrowings                                  | 64,048                      | 50,441  |
|                                       | Total interest expense                                | 78,499                      | 66,519  |
|                                       | <i>Net interest income</i>                            | 659,588                     | 656,433 |
|                                       | Provision for credit losses                           | 38,000                      | 32,000  |
|                                       | Net interest income after provision for credit losses | 621,588                     | 624,433 |
| Other income                          | Mortgage banking revenues                             | 101,601                     | 80,049  |
|                                       | Service charges on deposit accounts                   | 102,344                     | 104,198 |
|                                       | Trust income  | 123,734                     | 121,252 |
|                                       | Brokerage services income                             | 15,461                      | 16,500  |
|                                       | Trading account and foreign exchange gains            | 6,231                       | 6,447   |
|                                       | Loss on bank investment securities                    | (98)                        |         |
|                                       | Equity in earnings of Bayview Lending Group LLC       | (4,191)                     | (4,454) |
|                                       | Other revenues from operations                        | 95,121                      | 96,115  |
|                                       | Total other income                                    | 440,203                     | 420,107 |
| Other expense                         | Salaries and employee benefits                        | 389,893                     | 371,326 |

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|  |            |         |
|--|------------|---------|
| Equipment and net occupancy                              | 66,470     | 71,167  |
| Printing, postage and supplies                           | 9,590      | 10,956  |
| Amortization of core deposit and other intangible assets | 6,793      | 10,062  |
| FDIC assessments   | 10,660     | 15,488  |
| Other costs of operations                                | 202,969    | 211,235 |
| Total other expense                                      | 686,375    | 690,234 |
| Income before taxes                                      | 375,416    | 354,306 |
| Income taxes   | 133,803    | 125,289 |
| <i>Net income</i>  | \$ 241,613 | 229,017 |
| Net income available to common shareholders              |            |         |
| Basic  | \$ 218,830 | 211,720 |
| Diluted  | 218,837    | 211,731 |
| Net income per common share                              |            |         |
| Basic  | \$ 1.66    | 1.63    |
| Diluted  | 1.65       | 1.61    |
| Cash dividends per common share                          | \$ .70     | .70     |
| Average common shares outstanding                        |            |         |
| Basic  | 132,049    | 130,212 |
| Diluted  | 132,769    | 131,126 |

- 4 -

Table of Contents

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

| <i>In thousands</i>  | Three months ended March 31 |            |
|--|-----------------------------|------------|
|  | 2015                        | 2014       |
| Net income   | \$ 241,613                  | \$ 229,017 |
| Other comprehensive income, net of tax and reclassification adjustments: |                             |            |
| Net unrealized gains on investment securities                            | 25,339                      | 38,214     |
| Cash flow hedges adjustments   | 871                         |            |
| Foreign currency translation adjustment                                  | (2,384)                     | (136)      |
| Defined benefit plans liability adjustment                               | 4,677                       | 820        |
| <i>Total other comprehensive income</i>                                  | 28,503                      | 38,898     |
| <i>Total comprehensive income</i>  | \$ 270,116                  | \$ 267,915 |



Table of Contents

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

| <i>In thousands</i>                  |  | Three months ended |             |
|--------------------------------------|--|--------------------|-------------|
|                                      |  | March 31           |             |
|                                      |  | 2015               | 2014        |
| Cash flows from operating activities | Net income   | \$ 241,613         | 229,017     |
|                                      | Adjustments to reconcile net income to net cash provided by operating activities |                    |             |
|                                      | Provision for credit losses  | 38,000             | 32,000      |
|                                      | Depreciation and amortization of premises and equipment                          | 24,178             | 24,708      |
|                                      | Amortization of capitalized servicing rights                                     | 12,199             | 17,792      |
|                                      | Amortization of core deposit and other intangible assets                         | 6,793              | 10,062      |
|                                      | Provision for deferred income taxes  | 37,052             | 42,256      |
|                                      | Asset write-downs  | 2,379              | 1,117       |
|                                      | Net gain on sales of assets  | (1,066)            | (852)       |
|                                      | Net change in accrued interest receivable, payable                               | (2,200)            | (3,185)     |
|                                      | Net change in other accrued income and expense                                   | (80,084)           | 57,884      |
|                                      | Net change in loans originated for sale  | 197,708            | 122,406     |
|                                      | Net change in trading account assets and liabilities                             | (18,206)           | 27,893      |
|                                      | Net cash provided by operating activities  | 458,366            | 561,098     |
| Cash flows from investing activities | Proceeds from sales of investment securities                                     |                    |             |
|                                      | Available for sale   | 693                |             |
|                                      | Other  | 132                | 146         |
|                                      | Proceeds from maturities of investment securities                                |                    |             |
|                                      | Available for sale   | 369,649            | 166,324     |
|                                      | Held to maturity   | 148,708            | 92,305      |
|                                      | Purchases of investment securities   |                    |             |
|                                      | Available for sale   | (1,871,491)        | (1,709,847) |
|                                      | Held to maturity   | (7,442)            | (3,238)     |
|                                      | Other  | (348)              | (258)       |
|                                      | Net increase in loans and leases   | (666,220)          | (220,551)   |
|                                      | Net (increase) decrease in interest bearing deposits at banks                    | 179,376            | (1,648,047) |
|                                      | Capital expenditures, net  | (9,598)            | (16,725)    |
|                                      | Net (increase) decrease in loan servicing advances                               | 76,145             | (122,910)   |
|                                      | Other, net   | (21,940)           | 21,763      |

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Net cash used by investing activities (1,802,336) (3,441,038)

|  |              |           |
|--|--------------|-----------|
| Cash flows from financing activities                 |              |           |
| Net increase (decrease) in deposits                  | (4,543)      | 1,581,705 |
| Net increase (decrease) in short-term borrowings     | 819          | (30,246)  |
| Proceeds from long-term borrowings                   | 1,500,000    | 1,498,688 |
| Payments on long-term borrowings                     | (1,797)      | (352,245) |
| Proceeds from issuance of preferred stock            |              | 346,500   |
| Dividends paid - common                              | (93,631)     | (92,406)  |
| Dividends paid - preferred                           | (17,368)     | (6,080)   |
| Other, net   | (46,014)     | 24,208    |
| Net cash provided by financing activities            | 1,337,466    | 2,970,124 |
| Net increase (decrease) in cash and cash equivalents | (6,504)      | 90,184    |
| Cash and cash equivalents at beginning of period     | 1,373,357    | 1,672,934 |
| Cash and cash equivalents at end of period           | \$ 1,366,853 | 1,763,118 |

|  |            |         |
|--|------------|---------|
| Supplemental disclosure of cash flow information |            |         |
| Interest received during the period              | \$ 726,475 | 695,653 |
| Interest paid during the period                  | 75,776     | 61,841  |
| Income taxes paid during the period              | 88,578     | 4,789   |

|   |           |        |
|---|-----------|--------|
| Supplemental schedule of noncash investing and financing activities |           |        |
| Securitization of residential mortgage loans allocated to           |           |        |
| Available-for-sale investment securities                            | \$ 12,920 | 29,785 |
| Capitalized servicing rights  | 143       | 372    |
| Real estate acquired in settlement of loans                         | 10,846    | 8,886  |

Table of Contents

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

| <i>In thousands, except per share</i>                                     | Preferred stock | Common stock | Common stock issuable | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income (loss), net | Total      |
|---|-----------------|--------------|-----------------------|----------------------------|-------------------|--|------------|
| <b>2014</b>   |                 |              |                       |                            |                   |  |            |
| Balance - January 1, 2014   | \$ 881,500      | 65,258       | 2,915                 | 3,232,014                  | 7,188,004         | (64,159)   | 11,305,532 |
| Total comprehensive income  |                 |              |                       |                            | 229,017           | 38,898   | 267,915    |
| Preferred stock cash dividends  |                 |              |                       |                            | (14,674)          |  | (14,674)   |
| Issuance of Series E preferred stock                                      | 350,000         |              |                       | (3,500)                    |                   |  | 346,500    |
| Stock-based compensation plans:   |                 |              |                       |                            |                   |  |            |
| Compensation expense, net   |                 | 123          |                       | 13,999                     |                   |  | 14,122     |
| Exercises of stock options, net   |                 | 266          |                       | 49,228                     |                   |  | 49,494     |
| Stock purchase plan   |                 | 43           |                       | 9,545                      |                   |  | 9,588      |
| Directors stock plan  |                 | 2            |                       | 439                        |                   |  | 441        |
| Deferred compensation plans, net, including dividend equivalents          |                 | 2            | (299)                 | 265                        | (29)              |  | (61)       |
| Other   |                 |              |                       | 412                        |                   |  | 412        |
| Common stock cash dividends - \$.70 per share                             |                 |              |                       |                            | (92,406)          |  | (92,406)   |
| Balance - March 31, 2014  | \$ 1,231,500    | 65,694       | 2,616                 | 3,302,402                  | 7,309,912         | (25,261)   | 11,886,863 |
| <b>2015</b>   |                 |              |                       |                            |                   |  |            |
| Balance - January 1, 2015   | \$ 1,231,500    | 66,157       | 2,608                 | 3,409,506                  | 7,807,119         | (180,994)  | 12,335,896 |
| Total comprehensive income  |                 |              |                       |                            | 241,613           | 28,503   | 270,116    |
| Preferred stock cash dividends  |                 |              |                       |                            | (20,318)          |  | (20,318)   |
| Exercise of 2,315 Series A stock warrants into 904 shares of common stock |                 | 1            |                       | (1)                        |                   |  |            |
| Stock-based compensation plans:   |                 |              |                       |                            |                   |  |            |
| Compensation expense, net   |                 | 147          |                       | 5,425                      |                   |  | 5,572      |
| Exercises of stock options, net   |                 | 101          |                       | 19,378                     |                   |  | 19,479     |
| Stock purchase plan   |                 | 45           |                       | 10,301                     |                   |  | 10,346     |

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|  |              |        |       |           |           |           |            |
|--|--------------|--------|-------|-----------|-----------|-----------|------------|
| Directors stock plan   |              | 2      |       | 423       |           |           | 425        |
| Deferred compensation plans,<br>net, including dividend<br>equivalents |              | 2      | (298) | 270       | (25)      |           | (51)       |
| Other  |              |        |       | 405       |           |           | 405        |
| Common stock cash dividends<br>- \$.70 per share                       |              |        |       |           | (93,569)  |           | (93,569)   |
| Balance - March 31, 2015   | \$ 1,231,500 | 66,455 | 2,310 | 3,445,707 | 7,934,820 | (152,491) | 12,528,301 |

- 7 -

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**Table of Contents****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 the 2014 Annual Report. Additionally, effective January 1, 2015 the Company made an accounting policy election in accordance with amended accounting guidance issued by the Financial Accounting Standards Board in January 2014 to account for investments in qualified affordable housing projects using the proportional amortization method. Under the proportional amortization method, the Company amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. The adoption of the amended guidance did not have a significant effect on the Company's financial position or results of operation, but did result in the restatement of the consolidated statement of income for the three-month period ended March 31, 2014 to remove \$12 million of losses associated with qualified affordable housing projects from other costs of operations and include the amortization of the initial cost of the investment in income tax expense. The cumulative effect adjustment associated with adopting the amended guidance was not material as of the beginning of any period presented in these consolidated financial statements. See note 11 for information regarding the Company's investments in qualified affordable housing projects.

In the opinion of management, all adjustments necessary for a fair presentation have been made and, except as described above, were all of a normal recurring nature.

**2. Acquisitions**

On August 27, 2012, M&T announced that it had entered into a definitive agreement with Hudson City Bancorp, Inc. ( Hudson City ), headquartered in Paramus, New Jersey, under which Hudson City would be acquired by M&T. Pursuant to the terms of the agreement, Hudson City shareholders will receive consideration for each common share of Hudson City in an amount valued at .08403 of an M&T share in the form of either M&T common stock or cash, based on the election of each Hudson City shareholder, subject to proration as specified in the merger agreement (which provides for an aggregate split of total consideration of 60% common stock of M&T and 40% cash). As of March 31, 2015 total consideration to be paid was valued at approximately \$5.5 billion.

At March 31, 2015, Hudson City had \$36.1 billion of assets, including \$20.9 billion of loans and \$8.3 billion of investment securities, and \$31.3 billion of liabilities, including \$18.9 billion of deposits. The merger has received the approval of the common shareholders of M&T and Hudson City. However, the merger is subject to a number of other conditions, including regulatory approvals.

On June 17, 2013, M&T and Manufacturers and Traders Trust Company ( M&T Bank ), M&T's principal banking subsidiary, entered into a written agreement with the Federal Reserve Bank of New York ( Federal Reserve Bank ). Under the terms of the agreement, M&T and M&T Bank are required to submit to the Federal Reserve Bank a revised compliance risk management program designed to ensure compliance with the Bank Secrecy Act and anti-money-laundering laws and regulations and to take certain other steps to enhance their compliance practices. The Company commenced a major initiative, including the hiring of outside consulting firms, intended to fully address the Federal Reserve Bank's concerns. On April 3, 2015, M&T was advised that the Federal Reserve Board intends to act on the M&T and Hudson City merger application no later than September 30, 2015. As a result, M&T and Hudson

City extended the date after which either party may elect to terminate the merger agreement if the merger has not yet been completed from

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**2. Acquisitions, continued**

April 30, 2015 to October 31, 2015. Nevertheless, there can be no assurances that the merger will be completed by that date.

**3. Investment securities**

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

|  | Amortized<br>cost | Gross<br>unrealized<br>gains<br>(in thousands) | Gross<br>unrealized<br>losses | Estimated<br>fair value |
|--|-------------------|--|-------------------------------|-------------------------|
| March 31, 2015                                   |                   |  |                               |                         |
| Investment securities available for sale:        |                   |  |                               |                         |
| U.S. Treasury and federal agencies               | \$ 161,672        | 1,563  | 1                             | \$ 163,234              |
| Obligations of states and political subdivisions | 7,704             | 199  | 53                            | 7,850                   |
| Mortgage-backed securities:                      |                   |  |                               |                         |
| Government issued or guaranteed                  | 10,008,191        | 265,739  | 8,709                         | 10,265,221              |
| Privately issued                                 | 96                | 2  | 3                             | 95                      |
| Collateralized debt obligations                  | 29,704            | 19,360   | 1,786                         | 47,278                  |
| Other debt securities                            | 138,366           | 1,909  | 19,002                        | 121,273                 |
| Equity securities                                | 79,987            | 18,999   | 437                           | 98,549                  |
|  | 10,425,720        | 307,771  | 29,991                        | 10,703,500              |
| Investment securities held to maturity:          |                   |  |                               |                         |
| Obligations of states and political subdivisions | 148,698           | 2,178  | 350                           | 150,526                 |
| Mortgage-backed securities:                      |                   |  |                               |                         |
| Government issued or guaranteed                  | 3,007,420         | 88,417   | 4,024                         | 3,091,813               |
| Privately issued                                 | 197,509           | 1,421  | 36,620                        | 162,310                 |
| Other debt securities                            | 7,185             |  |                               | 7,185                   |
|  | 3,360,812         | 92,016   | 40,994                        | 3,411,834               |
| Other securities                                 | 328,958           |  |                               | 328,958                 |
| Total  | \$ 14,115,490     | 399,787  | 70,985                        | \$ 14,444,292           |

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December 31, 2014

Investment securities available for sale:

|  |            |         |        |            |
|--|------------|---------|--------|------------|
| U.S. Treasury and federal agencies               | \$ 161,408 | 544     | 5      | \$ 161,947 |
| Obligations of states and political subdivisions | 8,027      | 224     | 53     | 8,198      |
| Mortgage-backed securities:                      |            |         |        |            |
| Government issued or guaranteed                  | 8,507,571  | 223,889 | 337    | 8,731,123  |
| Privately issued                                 | 104        | 2       | 3      | 103        |
| Collateralized debt obligations                  | 30,073     | 21,276  | 1,033  | 50,316     |
| Other debt securities                            | 138,240    | 1,896   | 18,648 | 121,488    |
| Equity securities                                | 73,901     | 11,020  | 1,164  | 83,757     |
|  | 8,919,324  | 258,851 | 21,243 | 9,156,932  |

Investment securities held to maturity:

|  |               |         |        |               |
|--|---------------|---------|--------|---------------|
| Obligations of states and political subdivisions | 148,961       | 2,551   | 189    | 151,323       |
| Mortgage-backed securities:                      |               |         |        |               |
| Government issued or guaranteed                  | 3,149,320     | 78,485  | 7,000  | 3,220,805     |
| Privately issued                                 | 201,733       | 1,143   | 44,576 | 158,300       |
| Other debt securities                            | 7,854         |         |        | 7,854         |
|  | 3,507,868     | 82,179  | 51,765 | 3,538,282     |
| Other securities                                 | 328,742       |         |        | 328,742       |
| Total  | \$ 12,755,934 | 341,030 | 73,008 | \$ 13,023,956 |



**Table of Contents**

## 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 quarters ended March 31, 2015 and 2014.

At March 31, 2015, the amortized cost and estimated fair value of debt securities by contractual maturity were as follows:

|   | Amortized<br>cost | Estimated<br>fair value |
|---|-------------------|-------------------------|
|   | (in thousands)    |                         |
| <b>Debt securities available for sale:</b>    |                   |                         |
| Due in one year or less                       | \$ 9,059          | 9,117                   |
| Due after one year through five years         | 163,114           | 165,027                 |
| Due after five years through ten years        | 3,272             | 3,314                   |
| Due after ten years                           | 162,001           | 162,177                 |
|   | 337,446           | 339,635                 |
| Mortgage-backed securities available for sale | 10,008,287        | 10,265,316              |
|   | \$ 10,345,733     | 10,604,951              |
| <b>Debt securities held to maturity:</b>      |                   |                         |
| Due in one year or less                       | \$ 27,663         | 27,865                  |
| Due after one year through five years         | 87,320            | 88,357                  |
| Due after five years through ten years        | 33,715            | 34,304                  |
| Due after ten years                           | 7,185             | 7,185                   |
|   | 155,883           | 157,711                 |
| Mortgage-backed securities held to maturity   | 3,204,929         | 3,254,123               |
|   | \$ 3,360,812      | 3,411,834               |

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**3. Investment securities, continued**

A summary of investment securities that as of March 31, 2015 and December 31, 2014 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<br>Fair<br>value | Unrealized<br>losses<br>(in thousands) | 12 months or more<br>Fair<br>value | Unrealized<br>losses |
|--|--------------------------------------|--|------------------------------------|----------------------|
| <b>March 31, 2015</b>                            |                                      |  |                                    |                      |
| Investment securities available for sale:        |                                      |  |                                    |                      |
| U.S. Treasury and federal agencies               | \$ 4,681                             | (1)                                    |                                    |                      |
| Obligations of states and political subdivisions | 986                                  | (4)                                    | 1,524                              | (49)                 |
| Mortgage-backed securities:                      |                                      |  |                                    |                      |
| Government issued or guaranteed                  | 1,603,068                            | (8,597)                                | 4,138                              | (112)                |
| Privately issued                                 |                                      |  | 59                                 | (3)                  |
| Collateralized debt obligations                  | 6,091                                | (1,255)                                | 5,220                              | (531)                |
| Other debt securities                            | 12,689                               | (443)                                  | 92,304                             | (18,559)             |
| Equity securities                                | 374                                  | (437)                                  |                                    |                      |
|  | 1,627,889                            | (10,737)                               | 103,245                            | (19,254)             |
| Investment securities held to maturity:          |                                      |  |                                    |                      |
| Obligations of states and political subdivisions | 35,272                               | (317)                                  | 1,802                              | (33)                 |
| Mortgage-backed securities:                      |                                      |  |                                    |                      |
| Government issued or guaranteed                  | 16,660                               | (85)                                   | 266,979                            | (3,939)              |
| Privately issued                                 |                                      |  | 131,779                            | (36,620)             |
|  | 51,932                               | (402)                                  | 400,560                            | (40,592)             |
| <b>Total</b>                                     | <b>\$ 1,679,821</b>                  | <b>(11,139)</b>                        | <b>503,805</b>                     | <b>(59,846)</b>      |
| <b>December 31, 2014</b>                         |                                      |  |                                    |                      |
| Investment securities available for sale:        |                                      |  |                                    |                      |
| U.S. Treasury and federal agencies               | \$ 6,505                             | (5)                                    |                                    |                      |
| Obligations of states and political subdivisions | 1,785                                | (52)                                   | 121                                | (1)                  |
| Mortgage-backed securities:                      |                                      |  |                                    |                      |
| Government issued or guaranteed                  | 39,001                               | (186)                                  | 5,555                              | (151)                |
| Privately issued                                 |                                      |  | 65                                 | (3)                  |

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|  |            |         |         |          |
|--|------------|---------|---------|----------|
| Collateralized debt obligations                  | 2,108      | (696)   | 5,512   | (337)    |
| Other debt securities                            | 14,017     | (556)   | 92,661  | (18,092) |
| Equity securities                                | 2,138      | (1,164) |         |          |
|  | 65,554     | (2,659) | 103,914 | (18,584) |
| Investment securities held to maturity:          |            |         |         |          |
| Obligations of states and political subdivisions | 29,886     | (184)   | 268     | (5)      |
| Mortgage-backed securities:                      |            |         |         |          |
| Government issued or guaranteed                  | 137,413    | (361)   | 446,780 | (6,639)  |
| Privately issued                                 |            |         | 127,512 | (44,576) |
|  | 167,299    | (545)   | 574,560 | (51,220) |
| Total  | \$ 232,853 | (3,204) | 678,474 | (69,804) |

- 11 -

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**3. Investment securities, continued**

The Company owned 294 individual investment securities with aggregate gross unrealized losses of \$71 million at March 31, 2015. Based on a review of each of the securities in the investment securities portfolio at March 31, 2015, the Company concluded that it expected to recover the amortized cost basis of its investment. As of March 31, 2015, 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 March 31, 2015, the Company has not identified events or changes in circumstances which may have a significant adverse effect on the fair value of the \$329 million of cost method investment securities.

**4. Loans and leases and the allowance for credit losses**

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

|                                      | March 31,<br>2015 | December 31,<br>2014 |
|--------------------------------------|-------------------|----------------------|
|                                      | (in thousands)    |                      |
| Outstanding principal balance        | \$ 2,837,256      | 3,070,268            |
| Carrying amount:                     |                   |                      |
| Commercial, financial, leasing, etc. | 207,884           | 247,820              |
| Commercial real estate               | 869,700           | 961,828              |
| Residential real estate              | 434,454           | 453,360              |
| Consumer                             | 888,985           | 933,537              |
|                                      | \$ 2,401,023      | 2,596,545            |

Purchased impaired loans included in the table above totaled \$184 million at March 31, 2015 and \$198 million at December 31, 2014, representing less than 1% of the Company's assets as of each date. A summary of changes in the accretable yield for acquired loans for the three-month periods ended March 31, 2015 and 2014 follows:

|   | Three months ended March 31, 2015 |                   |          |
|---|-----------------------------------|-------------------|----------|
|   | Purchased<br>impaired             | Other<br>acquired | Total    |
|   | (in thousands)                    |                   |          |
| Balance at beginning of period                    | \$ 76,518                         | 397,379           | 473,897  |
| Interest income                                   | (5,206)                           | (41,277)          | (46,483) |
| Reclassifications from nonaccretable balance, net | 110                               | 183               | 293      |

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|                          |           |         |         |
|--------------------------|-----------|---------|---------|
| Other (a)                |           | 1,610   | 1,610   |
| Balance at end of period | \$ 71,422 | 357,895 | 429,317 |

- 12 -

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

|   | Three months ended March 31,<br>2014 |                   |          |
|---|--------------------------------------|-------------------|----------|
|   | Purchased<br>impaired                | Other<br>acquired | Total    |
|   | (in thousands)                       |                   |          |
| Balance at beginning of period                    | \$ 37,230                            | 538,633           | 575,863  |
| Interest income                                   | (6,328)                              | (52,633)          | (58,961) |
| Reclassifications from nonaccretable balance, net | 37                                   |                   | 37       |
| Other (a)   |                                      | (838)             | (838)    |
| Balance at end of period                          | \$ 30,939                            | 485,162           | 516,101  |

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

A summary of current, past due and nonaccrual loans as of March 31, 2015 and December 31, 2014 were as follows:

|   | Current        | 30-89<br>Days<br>past due | 90 Days or<br>more past<br>due and accruing<br>Non-<br>acquired | Acquired<br>(a) | Purchased<br>impaired<br>(b) | Nonaccrual | Total      |
|---|----------------|---------------------------|---|-----------------|------------------------------|------------|------------|
|   | (in thousands) |                           |   |                 |                              |            |            |
| <b>March 31, 2015</b>                   |                |                           |   |                 |                              |            |            |
| Commercial, financial,<br>leasing, etc. | \$ 19,519,566  | 43,213                    | 4,265   | 3,323           | 9,724                        | 195,403    | 19,775,494 |
| <b>Real estate:</b>                     |                |                           |   |                 |                              |            |            |
| Commercial                              | 22,225,088     | 116,465                   | 27,261  | 17,187          | 45,752                       | 142,007    | 22,573,760 |
| Residential builder and<br>developer    | 1,460,981      | 6,119                     |   | 6,953           | 91,839                       | 65,310     | 1,631,202  |
| Other commercial<br>construction        | 3,575,578      | 18,244                    | 3,864   | 1,721           | 17,061                       | 24,280     | 3,640,748  |
| Residential                             | 7,580,514      | 189,901                   | 197,299   | 20,058          | 17,283                       | 171,496    | 8,176,551  |
| Residential Alt-A                       | 241,467        | 11,831                    |   |                 |                              | 74,270     | 327,568    |
| <b>Consumer:</b>                        |                |                           |   |                 |                              |            |            |
| Home equity lines and<br>loans          | 5,783,865      | 35,478                    |   | 13,298          | 2,359                        | 87,985     | 5,922,985  |
| Automobile                              | 2,024,526      | 25,322                    |   |                 |                              | 14,100     | 2,063,948  |

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|       |               |         |         |        |         |         |            |
|-------|---------------|---------|---------|--------|---------|---------|------------|
| Other | 2,921,142     | 28,407  | 3,932   | 17,570 |         | 15,735  | 2,986,786  |
| Total | \$ 65,332,727 | 474,980 | 236,621 | 80,110 | 184,018 | 790,586 | 67,099,042 |

- 13 -

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

|   | Current              | 30-89<br>Days<br>past due | 90 Days or<br>more past<br>due and accruing<br>Non-<br>acquired<br>(in thousands) | Acquired<br>(a) | Purchased<br>impaired<br>(b) | Nonaccrual     | Total             |
|---|----------------------|---------------------------|---|-----------------|------------------------------|----------------|-------------------|
| December 31, 2014                       |                      |                           |   |                 |                              |                |                   |
| Commercial, financial,<br>leasing, etc. | \$ 19,228,265        | 37,246                    | 1,805   | 6,231           | 10,300                       | 177,445        | 19,461,292        |
| Real estate:                            |                      |                           |   |                 |                              |                |                   |
| Commercial                              | 22,208,491           | 118,704                   | 22,170  | 14,662          | 51,312                       | 141,600        | 22,556,939        |
| Residential builder and<br>developer    | 1,273,607            | 11,827                    | 492   | 9,350           | 98,347                       | 71,517         | 1,465,140         |
| Other commercial<br>construction        | 3,484,932            | 17,678                    |   |                 | 17,181                       | 25,699         | 3,545,490         |
| Residential                             | 7,640,368            | 226,932                   | 216,489   | 35,726          | 18,223                       | 180,275        | 8,318,013         |
| Residential Alt-A                       | 249,810              | 11,774                    |   |                 |                              | 77,704         | 339,288           |
| Consumer:                               |                      |                           |   |                 |                              |                |                   |
| Home equity lines and<br>loans          | 5,859,378            | 42,945                    |   | 27,896          | 2,374                        | 89,291         | 6,021,884         |
| Automobile                              | 1,931,138            | 30,500                    |   | 133             |                              | 17,578         | 1,979,349         |
| Other                                   | 2,909,791            | 33,295                    | 4,064   | 16,369          |                              | 18,042         | 2,981,561         |
| <b>Total</b>                            | <b>\$ 64,785,780</b> | <b>530,901</b>            | <b>245,020</b>  | <b>110,367</b>  | <b>197,737</b>               | <b>799,151</b> | <b>66,668,956</b> |

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

(b) Accruing loans that were impaired at acquisition date and were recorded at fair value.

One-to-four family residential mortgage loans held for sale were \$423 million and \$435 million at March 31, 2015 and December 31, 2014, respectively. Commercial mortgage loans held for sale were \$117 million at March 31, 2015 and \$308 million at December 31, 2014.

Changes in the allowance for credit losses for the three months ended March 31, 2015 were as follows:

| Commercial,<br>Financial,<br>Leasing, | Real Estate<br>Commercial Residential | Consumer | Unallocated | Total |
|---------------------------------------|---------------------------------------|----------|-------------|-------|
|---------------------------------------|---------------------------------------|----------|-------------|-------|



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etc.

(in thousands)

|                             |            |         |         |          |        |          |
|-----------------------------|------------|---------|---------|----------|--------|----------|
| Beginning balance           | \$ 288,038 | 307,927 | 61,910  | 186,033  | 75,654 | 919,562  |
| Provision for credit losses | 1,442      | 15,542  | 960     | 19,574   | 482    | 38,000   |
| Net charge-offs             |            |         |         |          |        |          |
| Charge-offs                 | (12,350)   | (6,679) | (3,118) | (25,329) |        | (47,476) |
| Recoveries                  | 3,939      | 585     | 989     | 5,774    |        | 11,287   |
| Net charge-offs             | (8,411)    | (6,094) | (2,129) | (19,555) |        | (36,189) |
| Ending balance              | \$ 281,069 | 317,375 | 60,741  | 186,052  | 76,136 | 921,373  |

- 14 -

**Table of Contents**

## 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 March 31, 2014 were as follows:

|                             | Commercial,<br>Financial,<br>Leasing,<br>etc. | Real Estate |          |          | Unallocated | Total    |
|-----------------------------|---|-------------|----------|----------|-------------|----------|
|                             | Commercial                                    | Residential | Consumer |          |             |          |
|                             | (in thousands)                                |             |          |          |             |          |
| Beginning balance           | \$ 273,383                                    | 324,978     | 78,656   | 164,644  | 75,015      | 916,676  |
| Provision for credit losses | 12,598  | 116         | 4,228    | 14,141   | 917         | 32,000   |
| Net charge-offs             |   |             |          |          |             |          |
| Charge-offs                 | (14,809)                                      | (3,486)     | (7,453)  | (21,691) |             | (47,439) |
| Recoveries                  | 5,663   | 3,197       | 1,631    | 5,040    |             | 15,531   |
| Net charge-offs             | (9,146)                                       | (289)       | (5,822)  | (16,651) |             | (31,908) |
| Ending balance              | \$ 276,835                                    | 324,805     | 77,062   | 162,134  | 75,932      | 916,768  |

Despite the above allocation, 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 loan 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 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

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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.

The following tables provide information with respect to loans and leases that were considered impaired as of March 31, 2015 and December 31, 2014 and for the three month periods ended March 31, 2015 and 2014.

|  | March 31, 2015      |                          |                   | December 31, 2014   |                          |                   |
|--|---------------------|--------------------------|-------------------|---------------------|--------------------------|-------------------|
|  | Recorded Investment | Unpaid Principal Balance | Related Allowance | Recorded Investment | Unpaid Principal Balance | Related Allowance |
|  | (in thousands)      |                          |                   |                     |                          |                   |
| <b>With an allowance recorded:</b>         |                     |                          |                   |                     |                          |                   |
| Commercial, financial, leasing, etc.       | \$ 108,870          | 130,029                  | 19,335            | 132,340             | 165,146                  | 31,779            |
| <b>Real estate:</b>                        |                     |                          |                   |                     |                          |                   |
| Commercial                                 | 99,729              | 122,098                  | 15,836            | 83,955              | 96,209                   | 14,121            |
| Residential builder and developer          | 6,512               | 8,731                    | 591               | 17,632              | 22,044                   | 805               |
| Other commercial construction              | 5,116               | 6,084                    | 831               | 5,480               | 6,484                    | 900               |
| Residential                                | 86,691              | 104,630                  | 4,405             | 88,970              | 107,343                  | 4,296             |
| Residential Alt-A                          | 97,984              | 110,835                  | 11,000            | 101,137             | 114,565                  | 11,000            |
| <b>Consumer:</b>                           |                     |                          |                   |                     |                          |                   |
| Home equity lines and loans                | 19,701              | 20,794                   | 6,304             | 19,771              | 20,806                   | 6,213             |
| Automobile                                 | 27,122              | 27,122                   | 6,983             | 30,317              | 30,317                   | 8,070             |
| Other                                      | 18,814              | 18,814                   | 5,297             | 18,973              | 18,973                   | 5,459             |
|  | 470,539             | 549,137                  | 70,582            | 498,575             | 581,887                  | 82,643            |
| <b>With no related allowance recorded:</b> |                     |                          |                   |                     |                          |                   |
| Commercial, financial, leasing, etc.       | 116,325             | 135,534                  |                   | 73,978              | 81,493                   |                   |
| <b>Real estate:</b>                        |                     |                          |                   |                     |                          |                   |
| Commercial                                 | 51,734              | 59,235                   |                   | 66,777              | 78,943                   |                   |
| Residential builder and developer          | 62,611              | 101,964                  |                   | 58,820              | 96,722                   |                   |
| Other commercial construction              | 19,657              | 40,072                   |                   | 20,738              | 41,035                   |                   |
| Residential                                | 17,203              | 27,886                   |                   | 16,815              | 26,750                   |                   |
| Residential Alt-A                          | 24,785              | 43,635                   |                   | 26,752              | 46,964                   |                   |
|  | 292,315             | 408,326                  |                   | 263,880             | 371,907                  |                   |

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|                                      |            |         |        |         |         |        |
|--------------------------------------|------------|---------|--------|---------|---------|--------|
| Total:                               |            |         |        |         |         |        |
| Commercial, financial, leasing, etc. | 225,195    | 265,563 | 19,335 | 206,318 | 246,639 | 31,779 |
| Real estate:                         |            |         |        |         |         |        |
| Commercial                           | 151,463    | 181,333 | 15,836 | 150,732 | 175,152 | 14,121 |
| Residential builder and developer    | 69,123     | 110,695 | 591    | 76,452  | 118,766 | 805    |
| Other commercial construction        | 24,773     | 46,156  | 831    | 26,218  | 47,519  | 900    |
| Residential                          | 103,894    | 132,516 | 4,405  | 105,785 | 134,093 | 4,296  |
| Residential Alt-A                    | 122,769    | 154,470 | 11,000 | 127,889 | 161,529 | 11,000 |
| Consumer:                            |            |         |        |         |         |        |
| Home equity lines and loans          | 19,701     | 20,794  | 6,304  | 19,771  | 20,806  | 6,213  |
| Automobile                           | 27,122     | 27,122  | 6,983  | 30,317  | 30,317  | 8,070  |
| Other                                | 18,814     | 18,814  | 5,297  | 18,973  | 18,973  | 5,459  |
| Total                                | \$ 762,854 | 957,463 | 70,582 | 762,455 | 953,794 | 82,643 |

- 16 -

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

|                                      | Three months ended<br>March 31, 2015 |                               |                                 | Three months ended<br>March 31, 2014 |                               |               |
|--------------------------------------|--------------------------------------|-------------------------------|---------------------------------|--------------------------------------|-------------------------------|---------------|
|                                      | Average<br>recorded<br>investment    | Interest income<br>recognized |                                 | Average<br>recorded<br>investment    | Interest income<br>recognized |               |
|                                      |                                      | Total                         | Cash<br>basis<br>(in thousands) |                                      | Total                         | Cash<br>basis |
| Commercial, financial, leasing, etc. | \$ 214,618                           | 604                           | 604                             | 134,306                              | 548                           | 548           |
| Real estate:                         |                                      |                               |                                 |                                      |                               |               |
| Commercial                           | 153,070                              | 1,102                         | 1,102                           | 185,425                              | 926                           | 926           |
| Residential builder and developer    | 73,151                               | 63                            | 63                              | 101,253                              | 74                            | 74            |
| Other commercial construction        | 25,540                               | 55                            | 55                              | 87,292                               | 1,087                         | 1,087         |
| Residential                          | 104,490                              | 1,446                         | 910                             | 174,168                              | 1,400                         | 902           |
| Residential Alt-A                    | 125,654                              | 1,610                         | 647                             | 139,651                              | 1,626                         | 559           |
| Consumer:                            |                                      |                               |                                 |                                      |                               |               |
| Home equity lines and loans          | 19,683                               | 201                           | 48                              | 15,676                               | 121                           | 29            |
| Automobile                           | 29,013                               | 450                           | 54                              | 39,383                               | 625                           | 87            |
| Other                                | 18,861                               | 174                           | 33                              | 17,700                               | 174                           | 52            |
| Total                                | \$ 764,080                           | 5,705                         | 3,516                           | 894,854                              | 6,581                         | 4,264         |

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 loan review 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.

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

|                       | Commercial,<br>Financial,<br>Leasing, etc. | Commercial<br>(in thousands) | Real Estate<br>Residential<br>Builder<br>and<br>Developer | Other<br>Commercial<br>Construction |
|-----------------------|--|------------------------------|---|-------------------------------------|
| March 31, 2015        |  |                              |   |                                     |
| Pass                  | \$ 18,880,311                              | 21,755,661                   | 1,522,471   | 3,466,705                           |
| Criticized accrual    | 699,780                                    | 676,092                      | 43,421  | 149,763                             |
| Criticized nonaccrual | 195,403                                    | 142,007                      | 65,310  | 24,280                              |
| <b>Total</b>          | <b>\$ 19,775,494</b>                       | <b>22,573,760</b>            | <b>1,631,202</b>  | <b>3,640,748</b>                    |
| December 31, 2014     |  |                              |   |                                     |
| Pass                  | \$ 18,695,440                              | 21,837,022                   | 1,347,778   | 3,347,522                           |
| Criticized accrual    | 588,407                                    | 578,317                      | 45,845  | 172,269                             |
| Criticized nonaccrual | 177,445                                    | 141,600                      | 71,517  | 25,699                              |
| <b>Total</b>          | <b>\$ 19,461,292</b>                       | <b>22,556,939</b>            | <b>1,465,140</b>  | <b>3,545,490</b>                    |

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. 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 collectibility 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 aggregated \$62 million and \$20 million, respectively, at March 31, 2015 and \$63 million and \$18 million, respectively, at December 31, 2014. 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 totaled \$24 million and \$29 million, respectively, at March 31, 2015 and \$27 million and \$28 million, respectively, at December 31, 2014.

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



**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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.

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

|                                       | Commercial,<br>Financial,<br>Leasing,<br>etc. | Real Estate    |             | Consumer | Total             |
|---------------------------------------|---|----------------|-------------|----------|-------------------|
|                                       |   | Commercial     | Residential |          |                   |
|                                       |   | (in thousands) |             |          |                   |
| <b>March 31, 2015</b>                 |   |                |             |          |                   |
| Individually evaluated for impairment | \$ 19,335                                     | 16,921         | 14,811      | 18,584   | \$ 69,651         |
| Collectively evaluated for impairment | 258,028                                       | 299,262        | 43,547      | 166,296  | 767,133           |
| Purchased impaired                    | 3,706   | 1,192          | 2,383       | 1,172    | 8,453             |
| Allocated                             | \$ 281,069                                    | 317,375        | 60,741      | 186,052  | 845,237           |
| Unallocated                           |   |                |             |          | 76,136            |
| <b>Total</b>                          |   |                |             |          | <b>\$ 921,373</b> |
| <b>December 31, 2014</b>              |   |                |             |          |                   |
| Individually evaluated for impairment | \$ 31,779                                     | 15,490         | 14,703      | 19,742   | \$ 81,714         |
| Collectively evaluated for impairment | 251,607                                       | 291,244        | 45,061      | 165,140  | 753,052           |
| Purchased impaired                    | 4,652   | 1,193          | 2,146       | 1,151    | 9,142             |
| Allocated                             | \$ 288,038                                    | 307,927        | 61,910      | 186,033  | 843,908           |
| Unallocated                           |   |                |             |          | 75,654            |
| <b>Total</b>                          |   |                |             |          | <b>\$ 919,562</b> |

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

|                                       | Commercial,<br>Financial,<br>Leasing, etc. | Real Estate<br>Commercial    Residential<br>(in thousands) |                  | Consumer          | Total                |
|---------------------------------------|--|--|------------------|-------------------|----------------------|
| March 31, 2015                        |  |  |                  |                   |                      |
| Individually evaluated for impairment | \$ 225,195                                 | 244,340  | 225,364          | 65,637            | \$ 760,536           |
| Collectively evaluated for impairment | 19,540,575                                 | 27,446,718   | 8,261,472        | 10,905,723        | 66,154,488           |
| Purchased impaired                    | 9,724                                      | 154,652  | 17,283           | 2,359             | 184,018              |
| <b>Total</b>                          | <b>\$ 19,775,494</b>                       | <b>27,845,710</b>  | <b>8,504,119</b> | <b>10,973,719</b> | <b>\$ 67,099,042</b> |
| December 31, 2014                     |  |  |                  |                   |                      |
| Individually evaluated for impairment | \$ 206,318                                 | 252,347  | 232,398          | 69,061            | \$ 760,124           |
| Collectively evaluated for impairment | 19,244,674                                 | 27,148,382   | 8,406,680        | 10,911,359        | 65,711,095           |
| Purchased impaired                    | 10,300                                     | 166,840  | 18,223           | 2,374             | 197,737              |
| <b>Total</b>                          | <b>\$ 19,461,292</b>                       | <b>27,567,569</b>  | <b>8,657,301</b> | <b>10,982,794</b> | <b>\$ 66,668,956</b> |

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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.

The tables below summarize the Company's loan modification activities that were considered troubled debt restructurings for the three months ended March 31, 2015 and 2014:

|                                      | Number | Recorded investment |                   | Financial effects of modification |              |
|--------------------------------------|--------|---------------------|-------------------|-----------------------------------|--------------|
|                                      |        | Pre-modification    | Post-modification | Recorded investment (a)           | Interest (b) |
| Three months ended March 31, 2015    |        |                     |                   |                                   |              |
|                                      |        |                     |                   |                                   |              |
| Commercial, financial, leasing, etc. |        |                     |                   |                                   |              |
| Principal deferral                   | 21     | \$ 1,572            | \$ 1,557          | \$ (15)                           | \$           |
| Interest rate reduction              | 1      | 99                  | 99                |                                   | (19)         |
| Combination of concession types      | 3      | 9,155               | 6,989             | (2,166)                           |              |
| Real estate:                         |        |                     |                   |                                   |              |
| Commercial                           |        |                     |                   |                                   |              |
| Principal deferral                   | 7      | 3,792               | 3,776             | (16)                              |              |
| Combination of concession types      | 4      | 1,646               | 1,637             | (9)                               | (52)         |
| Residential builder and developer    |        |                     |                   |                                   |              |
| Principal deferral                   | 1      | 1,398               | 1,398             |                                   |              |
| Residential                          |        |                     |                   |                                   |              |
| Principal deferral                   | 7      | 721                 | 742               | 21                                |              |
| Combination of concession types      | 3      | 294                 | 349               | 55                                | (34)         |
| Residential Alt-A                    |        |                     |                   |                                   |              |
| Combination of concession types      | 1      | 210                 | 210               |                                   | (4)          |
| Consumer:                            |        |                     |                   |                                   |              |
| Home equity lines and loans          |        |                     |                   |                                   |              |
| Principal deferral                   | 1      | 21                  | 21                |                                   |              |
| Combination of concession types      | 5      | 196                 | 196               |                                   | (13)         |
| Automobile                           |        |                     |                   |                                   |              |
| Principal deferral                   | 35     | 303                 | 303               |                                   |              |
| Interest rate reduction              | 3      | 42                  | 42                |                                   | (3)          |
| Other                                | 10     | 20                  | 20                |                                   |              |

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|                                 |     |           |           |                     |
|---------------------------------|-----|-----------|-----------|---------------------|
| Combination of concession types | 8   | 84        | 84        | (7)                 |
| Other                           |     |           |           |                     |
| Principal deferral              | 22  | 296       | 296       |                     |
| Other                           | 5   | 59        | 59        |                     |
| Combination of concession types | 13  | 224       | 224       | (25)                |
| Total                           | 150 | \$ 20,132 | \$ 18,002 | \$ (2,130) \$ (157) |

(a) *Financial effects impacting the recorded investment included principal payments or advances, charge-offs and capitalized escrow arrearages.*

(b) *Represents the present value of interest rate concessions discounted at the effective rate of the original loan.*

- 20 -

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

| Three months ended March 31, 2014           | Number     | Recorded investment    |                   | Financial effects of modification |                 |  |
|---|------------|------------------------|-------------------|-----------------------------------|-----------------|--|
|   |            | Pre-modification       | Post-modification | Recorded investment (a)           | Interest (b)    |  |
|   |            | (dollars in thousands) |                   |                                   |                 |  |
| <b>Commercial, financial, leasing, etc.</b> |            |                        |                   |                                   |                 |  |
| Principal deferral                          | 30         | \$ 14,954              | \$ 14,848         | \$(106)                           | \$              |  |
| Combination of concession types             | 2          | 41                     | 39                | (2)                               | (4)             |  |
| <b>Real estate:</b>                         |            |                        |                   |                                   |                 |  |
| <b>Commercial</b>                           |            |                        |                   |                                   |                 |  |
| Principal deferral                          | 13         | 7,044                  | 7,002             | (42)                              |                 |  |
| Combination of concession types             | 1          | 346                    | 401               | 55                                | (104)           |  |
| <b>Other commercial construction</b>        |            |                        |                   |                                   |                 |  |
| Principal deferral                          | 1          | 151                    | 151               |                                   |                 |  |
| <b>Residential</b>                          |            |                        |                   |                                   |                 |  |
| Principal deferral                          | 13         | 1,602                  | 1,663             | 61                                |                 |  |
| Interest rate reduction                     | 1          | 98                     | 104               | 6                                 | (32)            |  |
| <b>Other</b>                                |            |                        |                   |                                   |                 |  |
| Combination of concession types             | 14         | 2,188                  | 2,160             | (28)                              | (282)           |  |
| <b>Residential Alt-A</b>                    |            |                        |                   |                                   |                 |  |
| Principal deferral                          | 2          | 166                    | 202               | 36                                |                 |  |
| Combination of concession types             | 10         | 1,746                  | 1,736             | (10)                              | (61)            |  |
| <b>Consumer:</b>                            |            |                        |                   |                                   |                 |  |
| <b>Home equity lines and loans</b>          |            |                        |                   |                                   |                 |  |
| Principal deferral                          | 3          | 280                    | 280               |                                   |                 |  |
| Combination of concession types             | 15         | 1,856                  | 1,856             |                                   | (172)           |  |
| <b>Automobile</b>                           |            |                        |                   |                                   |                 |  |
| Principal deferral                          | 80         | 993                    | 993               |                                   |                 |  |
| Other                                       | 11         | 61                     | 61                |                                   |                 |  |
| Combination of concession types             | 23         | 250                    | 250               |                                   | (26)            |  |
| <b>Other</b>                                |            |                        |                   |                                   |                 |  |
| Principal deferral                          | 8          | 55                     | 55                |                                   |                 |  |
| Other                                       | 1          | 45                     | 45                |                                   |                 |  |
| Combination of concession types             | 14         | 466                    | 466               |                                   | (188)           |  |
| <b>Total</b>                                | <b>243</b> | <b>\$ 32,530</b>       | <b>\$ 32,500</b>  | <b>\$ (30)</b>                    | <b>\$ (869)</b> |  |

(a) *Financial effects impacting the recorded investment included principal payments or advances, charge-offs and capitalized escrow arrearages.*

(b) *Represents the present value of interest rate concessions discounted at the effective rate of the original loan.*

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 March 31, 2015 and 2014 and for which there was a subsequent payment default during the three-month periods ended March 31, 2015 and 2014, respectively, were not material.

Effective January 1, 2015, the Company adopted amended accounting and disclosure guidance for reclassification of residential real estate collateralized consumer mortgage loans upon foreclosure. The amended guidance clarifies that an in-substance repossession or foreclosure occurs and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real

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**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The adoption resulted in an insignificant increase in other real estate owned. The amount of foreclosed residential real estate property held by the Company was \$42 million and \$44 million at March 31, 2015 and December 31, 2014, respectively. At March 31, 2015, there were \$158 million in loans secured by residential real estate that were in the process of foreclosure.

**5. Borrowings**

During February 2015, M&T Bank issued \$1.5 billion of fixed rate senior notes pursuant to a Bank Note Program, of which \$750 million have a 2.10% interest rate and mature in 2020 and \$750 million have a 2.90% interest rate and mature in 2025.

M&T had \$836 million of fixed and floating rate junior subordinated deferrable interest debentures ( Junior Subordinated Debentures ) outstanding at March 31, 2015 that are held by various trusts and 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.

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.

On April 15, 2015, M&T redeemed all of the issued and outstanding Capital Securities issued by M&T Capital Trust I, M&T Capital Trust II and M&T Capital Trust III, and the related Junior Subordinated Debentures held by those respective trusts. In the aggregate, \$323 million of Junior Subordinated Debentures were redeemed. In February 2014,

M&T redeemed all of the issued and outstanding 8.5% \$350 million Capital Securities issued by M&T Capital Trust IV and the related Junior Subordinated Debentures held by M&T Capital Trust IV.



**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**5. Borrowings, continued**

Also included in long-term borrowings are agreements to repurchase securities of \$1.4 billion at each of March 31, 2015 and December 31, 2014. The agreements reflect various repurchase dates in 2016 and 2017 and 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 \$1.5 billion at each of March 31, 2015 and December 31, 2014.

**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 March 31, 2015 and December 31, 2014 is presented below:

|   | Shares<br>issued<br>and<br>outstanding | Carrying value<br>(dollars in thousands) |
|---|--|--|
| <b>Series A (a)</b>   |  |  |
| Fixed Rate Cumulative Perpetual Preferred Stock,<br>Series A, \$1,000 liquidation preference per share                    | 230,000                                | \$ 230,000                               |
| <b>Series C (a)</b>   |  |  |
| Fixed Rate Cumulative Perpetual Preferred Stock,<br>Series C, \$1,000 liquidation preference per share                    | 151,500                                | \$ 151,500                               |
| <b>Series D (b)</b>   |  |  |
| Fixed Rate Non-cumulative Perpetual Preferred Stock,<br>Series D, \$10,000 liquidation preference per share               | 50,000                                 | \$ 500,000                               |
| <b>Series E (c)</b>   |  |  |
| Fixed-to-Floating Rate Non-cumulative Perpetual<br>Preferred Stock, Series E, \$1,000 liquidation<br>preference per share | 350,000                                | \$ 350,000                               |

(a) Dividends, if declared, are paid at 6.375%. Warrants to purchase M&T common stock at \$73.86 per share issued in connection with the Series A preferred stock expire in 2018 and totaled 719,175 at March 31, 2015 and

721,490 at December 31, 2014.

- (b) *Dividends, if declared, are paid semi-annually at a rate of 6.875% per year. The shares are redeemable in whole or in part on or after June 15, 2016. Notwithstanding M&T's option to redeem the shares, if an event occurs such that the shares no longer qualify as Tier 1 regulatory capital, M&T may redeem all of the shares within 90 days following that occurrence.*

- 23 -

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**6. Shareholders' equity, continued**

(c) *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 London Interbank Offered Rate ( 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 regulatory 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 95,383 shares of M&T common stock at \$518.96 per share was outstanding at March 31, 2015 and December 31, 2014. The obligation under that warrant was assumed by M&T in an acquisition.

**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 benefit cost for defined benefit plans consisted of the following:

|   | Pension<br>benefits         |          | Other<br>postretirement<br>benefits |       |
|---|-----------------------------|----------|-------------------------------------|-------|
|   | Three months ended March 31 |          |                                     |       |
|   | 2015                        | 2014     | 2015                                | 2014  |
|   | (in thousands)              |          |                                     |       |
| Service cost                                  | \$ 6,000                    | 5,100    | 200                                 | 150   |
| Interest cost on projected benefit obligation | 17,775                      | 17,250   | 650                                 | 675   |
| Expected return on plan assets                | (23,575)                    | (22,925) |                                     |       |
| Amortization of prior service credit          | (1,525)                     | (1,650)  | (350)                               | (350) |
| Amortization of net actuarial loss            | 11,175                      | 3,350    | 25                                  |       |
| Net periodic benefit cost                     | \$ 9,850                    | 1,125    | 525                                 | 475   |

Expense incurred in connection with the Company's defined contribution pension and retirement savings plans totaled \$16,750,000 and \$15,732,000 for the three months ended March 31, 2015 and 2014, respectively.

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**8. Earnings per common share**

The computations of basic earnings per common share follow:

|  | Three months ended<br>March 31      |          |
|--|-------------------------------------|----------|
|  | 2015                                | 2014     |
|  | (in thousands,<br>except per share) |          |
| <b>Income available to common shareholders:</b>  |                                     |          |
| Net income   | \$ 241,613                          | 229,017  |
| Less: Preferred stock dividends (a)  | (20,318)                            | (14,674) |
| Net income available to common equity  | 221,295                             | 214,343  |
| Less: Income attributable to unvested stock-based compensation awards                                    | (2,465)                             | (2,623)  |
| Net income available to common shareholders  | \$ 218,830                          | 211,720  |
| <b>Weighted-average shares outstanding:</b>  |                                     |          |
| Common shares outstanding (including common stock issuable) and unvested stock-based compensation awards | 133,542                             | 131,800  |
| Less: Unvested stock-based compensation awards   | (1,493)                             | (1,588)  |
| Weighted-average shares outstanding  | 132,049                             | 130,212  |
| Basic earnings per common share  | \$ 1.66                             | 1.63     |

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

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**8. Earnings per common share, continued**

The computations of diluted earnings per common share follow:

|   | Three months ended<br>March 31      |         |
|---|-------------------------------------|---------|
|   | 2015                                | 2014    |
|   | (in thousands,<br>except per share) |         |
| Net income available to common equity   | \$ 221,295                          | 214,343 |
| Less: Income attributable to unvested stock-based compensation awards               | (2,458)                             | (2,612) |
| Net income available to common shareholders   | \$ 218,837                          | 211,731 |
| Adjusted weighted-average shares outstanding:                                       |                                     |         |
| Common and unvested stock-based compensation awards                                 | 133,542                             | 131,800 |
| Less: Unvested stock-based compensation awards                                      | (1,493)                             | (1,588) |
| Plus: Incremental shares from assumed conversion of stock-based compensation awards | 720                                 | 914     |
| Adjusted weighted-average shares outstanding  | 132,769                             | 131,126 |
| Diluted earnings per common share   | \$ 1.65                             | 1.61    |

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 approximately 2.7 million and 3.0 million common shares during the three-month periods ended March 31, 2015 and 2014, respectively, were not included in the computations of diluted earnings per common share because the effect on those periods would have been antidilutive.

**Table of Contents**

## 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 |           | Defined benefit plans | Other   | Total amount before tax | Income tax | Net          |
|---|-----------------|-----------------------|-----------|-----------------------|---------|-------------------------|------------|--------------|
|   |                 | With OTTI (a)         | All other |                       |         |                         |            |              |
|   |                 | (in thousands)        |           |                       |         |                         |            |              |
| Balance   | January 1, 2015 | \$ 7,438              | 201,828   | (503,027)             | (4,082) | \$ (297,843)            | 116,849    | \$ (180,994) |
| Other comprehensive income before reclassifications:  |                 |                       |           |                       |         |                         |            |              |
| Unrealized holding gains, net   |                 | 8,011                 | 32,063    |                       |         | 40,074                  | (15,247)   | 24,827       |
| Foreign currency translation adjustment   |                 |                       |           |                       | (3,732) | (3,732)                 | 1,348      | (2,384)      |
| Gains on cash flow hedges   |                 |                       |           |                       | 1,453   | 1,453                   | (568)      | 885          |
| Total other comprehensive income before reclassifications   |                 | 8,011                 | 32,063    |                       | (2,279) | 37,795                  | (14,467)   | 23,328       |
| Amounts reclassified from accumulated other comprehensive income that (increase) decrease net income: |                 |                       |           |                       |         |                         |            |              |
| Accretion of unrealized holding losses on held-to-maturity ( HTM ) securities                         |                 |                       | 739       |                       |         | 739 (b)                 | (289)      | 450          |
| Losses realized in net income   |                 |                       | 98        |                       |         | 98 (c)                  | (36)       | 62           |
| Accretion of gain on terminated cash flow hedges  |                 |                       |           |                       | (24)    | (24) (d)                | 10         | (14)         |
| Amortization of prior service credit  |                 |                       |           | (1,875)               |         | (1,875) (e)             | 934        | (941)        |
| Amortization of actuarial losses  |                 |                       |           | 11,200                |         | 11,200 (e)              | (5,582)    | 5,618        |
| Total reclassifications   |                 |                       | 837       | 9,325                 | (24)    | 10,138                  | (4,963)    | 5,175        |

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|                                     |                |           |         |           |         |              |          |              |
|-------------------------------------|----------------|-----------|---------|-----------|---------|--------------|----------|--------------|
| Total gain (loss) during the period |                | 8,011     | 32,900  | 9,325     | (2,303) | 47,933       | (19,430) | 28,503       |
| Balance                             | March 31, 2015 | \$ 15,449 | 234,728 | (493,702) | (6,385) | \$ (249,910) | 97,419   | \$ (152,491) |

- 27 -

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**9. Comprehensive income, continued**

|   |   | Investment Securities |           | Defined benefit plans | Other          | Total amount before tax | Income tax | Net         |
|---|---|-----------------------|-----------|-----------------------|----------------|-------------------------|------------|-------------|
|   |   | With OTTI (a)         | All other |                       |                |                         |            |             |
|   |   |                       |           |                       | (in thousands) |                         |            |             |
| Balance   | January 1, 2014   | \$ 37,255             | 18,450    | (161,617)             | 115            | \$ (105,797)            | 41,638     | \$ (64,159) |
| Other comprehensive income before reclassifications:  |   |                       |           |                       |                |                         |            |             |
|   | Unrealized holding gains, net                             | 19,968                | 42,119    |                       |                | 62,087                  | (24,374)   | 37,713      |
|   | Foreign currency translation adjustment                   |                       |           |                       | (234)          | (234)                   | 98         | (136)       |
|   | Total other comprehensive income before reclassifications | 19,968                | 42,119    |                       | (234)          | 61,853                  | (24,276)   | 37,577      |
| Amounts reclassified from accumulated other comprehensive income that (increase) decrease net income: |   |                       |           |                       |                |                         |            |             |
|   | Accretion of unrealized holding losses on HTM securities  | 2                     | 823       |                       |                | 825 (b)                 | (324)      | 501         |
|   | Amortization of prior service credit                      |                       |           | (2,000)               |                | (2,000) (e)             | 785        | (1,215)     |
|   | Amortization of actuarial losses                          |                       |           | 3,350                 |                | 3,350 (e)               | (1,315)    | 2,035       |
|   | Total reclassifications                                   | 2                     | 823       | 1,350                 |                | 2,175                   | (854)      | 1,321       |
|   | Total gain (loss) during the period                       | 19,970                | 42,942    | 1,350                 | (234)          | 64,028                  | (25,130)   | 38,898      |
| Balance   | March 31, 2014  | \$ 57,225             | 61,392    | (160,267)             | (119)          | \$ (41,769)             | 16,508     | \$ (25,261) |

(a) Other-than-temporary impairment

(b) Included in interest income

(c) Included in loss on bank investment securities

(d) Included in interest expense



(e) *Included in salaries and employee benefits*

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

|         |                               | Investment securities<br>With OTTI | All other | Defined<br>benefit<br>plans<br>(in thousands) | Other   | Total        |
|---------|-------------------------------|------------------------------------|-----------|---|---------|--------------|
| Balance | December 31, 2014             | \$ 4,518                           | 122,683   | (305,589)                                     | (2,606) | \$ (180,994) |
|         | Net gain (loss) during period | 4,898                              | 20,441    | 4,677   | (1,513) | 28,503       |
| Balance | March 31, 2015                | \$ 9,416                           | 143,124   | (300,912)                                     | (4,119) | \$ (152,491) |

- 28 -

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**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 and collateral provisions protecting the at-risk party. Based on adherence to the Company's credit standards and the presence of the netting and collateral provisions, the Company believes that the credit risk inherent in these contracts was not significant as of March 31, 2015.

The net effect of interest rate swap agreements was to increase net interest income by \$11 million for each of the three-month periods ended March 31, 2015 and 2014.

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<br>amount<br>(in thousands) | Average<br>maturity<br>(in years) | Weighted-<br>average rate |          |
|-------------------------------------|--------------------------------------|-----------------------------------|---------------------------|----------|
|                                     |                                      |                                   | Fixed                     | Variable |
| <b>March 31, 2015</b>               |                                      |                                   |                           |          |
| Fair value hedges:                  |                                      |                                   |                           |          |
| Fixed rate long-term borrowings (a) | \$ 1,400,000                         | 2.4                               | 4.42%                     | 1.22%    |
| <b>December 31, 2014</b>            |                                      |                                   |                           |          |
| Fair value hedges:                  |                                      |                                   |                           |          |
| Fixed rate long-term borrowings (a) | \$ 1,400,000                         | 2.7                               | 4.42%                     | 1.19%    |

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

The use of cash flow hedges to manage the variability of cash flows associated with the then-forecasted issuance of long-term debt did not have a significant impact on the Company's consolidated financial position or results of operations.

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 \$17.1 billion and \$17.6 billion at March 31, 2015 and December 31, 2014, respectively. The notional amounts of foreign currency and other option and futures contracts entered into for trading account purposes aggregated \$1.4 billion and \$1.3 billion at March 31, 2015 and December 31, 2014, respectively.

- 29 -

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**10. Derivative financial instruments, continued**

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

|  | Asset derivatives<br>Fair value |                      | Liability derivatives<br>Fair value |                      |
|--|---------------------------------|----------------------|-------------------------------------|----------------------|
|  | March<br>31,<br>2015            | December 31,<br>2014 | March<br>31,<br>2015                | December 31,<br>2014 |
|  | (in thousands)                  |                      |                                     |                      |
| <b>Derivatives designated and qualifying as hedging instruments</b>      |                                 |                      |                                     |                      |
| Fair value hedges:   |                                 |                      |                                     |                      |
| Interest rate swap agreements (a)  | \$ 72,855                       | 73,251               | \$                                  |                      |
| Commitments to sell real estate loans (a)                                | 662                             | 728                  | 3,529                               | 4,217                |
|  | 73,517                          | 73,979               | 3,529                               | 4,217                |
| <b>Derivatives not designated and qualifying as hedging instruments</b>  |                                 |                      |                                     |                      |
| Mortgage-related commitments to originate real estate loans for sale (a) |                                 |                      |                                     |                      |
|  | 26,295                          | 17,396               | 65                                  | 49                   |
| Commitments to sell real estate loans (a)                                | 1,571                           | 754                  | 8,552                               | 4,330                |
| Trading:   |                                 |                      |                                     |                      |
| Interest rate contracts (b)  | 246,819                         | 215,614              | 204,484                             | 173,513              |
| Foreign exchange and other option and futures contracts (b)              | 37,957                          | 31,112               | 35,684                              | 29,950               |
|  | 312,642                         | 264,876              | 248,785                             | 207,842              |
| <b>Total derivatives</b>   | <b>\$ 386,159</b>               | <b>338,855</b>       | <b>\$ 252,314</b>                   | <b>212,059</b>       |

(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.

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**10. Derivative financial instruments, continued**

|   | Amount of unrealized gain (loss) recognized |             |                                      |             |
|---|---|-------------|--------------------------------------|-------------|
|   | Three months ended<br>March 31, 2015        |             | Three months ended<br>March 31, 2014 |             |
|   | Derivative                                  | Hedged item | Derivative                           | Hedged item |
|   | (in thousands)                              |             |                                      |             |
| <b>Derivatives in fair value hedging relationships</b>      |   |             |                                      |             |
| Interest rate swap agreements:                              |   |             |                                      |             |
| Fixed rate long-term borrowings (a)                         | \$ (396)                                    | 161         | \$ (8,160)                           | 7,920       |
| <b>Derivatives not designated as hedging instruments</b>    |   |             |                                      |             |
| Trading:  |   |             |                                      |             |
| Interest rate contracts (b)                                 | \$ 660                                      |             | \$ (302)                             |             |
| Foreign exchange and other option and futures contracts (b) | (167)                                       |             | (5,030)                              |             |
| Total   | \$ 493                                      |             | \$ (5,332)                           |             |

(a) Reported as other revenues from operations.

(b) Reported as trading account and foreign exchange gains.

In addition, the Company also has commitments to sell and commitments to originate residential and commercial real estate loans that are considered derivatives. The Company designates certain of the commitments to sell real estate loans as fair value hedges of real estate loans held for sale. The Company also utilizes commitments to sell real estate loans to offset the exposure to changes in the fair value of certain commitments to originate real estate loans for sale. As a result of these activities, net unrealized pre-tax gains related to hedged loans held for sale, commitments to originate loans for sale and commitments to sell loans were approximately at \$31 million and \$28 million March 31, 2015 and December 31, 2014, respectively. Changes in unrealized gains and losses are included in mortgage banking revenues and, in general, are realized in subsequent periods as the related loans are sold and commitments satisfied.

The Company does not offset derivative asset and liability positions in its consolidated financial statements. The Company's exposure to credit risk by entering into derivative contracts is mitigated through master netting agreements and collateral posting requirements. Master netting agreements covering interest rate and foreign exchange contracts with the same party include a right to set-off that becomes enforceable in the event of default, early termination or under other specific conditions.

The aggregate fair value of derivative financial instruments in a liability position, which are subject to enforceable master netting arrangements, was \$174 million and \$161 million at March 31, 2015 and December 31, 2014,

respectively. After consideration of such netting arrangements, the net liability positions with counterparties aggregated \$114 million and \$103 million at March 31, 2015 and December 31, 2014, respectively. The Company was required to post collateral relating to those positions of \$102 million and \$90 million, at March 31, 2015 and December 31, 2014, respectively. Certain of the Company's derivative financial instruments contain provisions that require the Company to maintain specific credit ratings from credit rating agencies to avoid higher collateral

- 31 -

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**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**10. Derivative financial instruments, continued**

posting requirements. If the Company's debt rating were to fall below specified ratings, the counterparties of the derivative financial instruments could demand immediate incremental collateralization on those instruments in a net liability position. The aggregate fair value of all derivative financial instruments with such credit risk-related contingent features in a net liability position on March 31, 2015 was \$22 million, for which the Company had posted collateral of \$15 million in the normal course of business. If the credit risk-related contingent features had been triggered on March 31, 2015, the maximum amount of additional collateral the Company would have been required to post with counterparties was \$7 million.

The aggregate fair value of derivative financial instruments in an asset position, which are subject to enforceable master netting arrangements, was \$106 million and \$104 million at March 31, 2015 and December 31, 2014, respectively. After consideration of such netting arrangements, the net asset positions with counterparties aggregated \$46 million at each of March 31, 2015 and December 31, 2014. Counterparties posted collateral relating to those positions of \$47 million and \$46 million at March 31, 2015 and December 31, 2014, respectively. Trading account interest rate swap agreements entered into with customers are subject to the Company's credit risk standards and often contain collateral provisions.

In addition to the derivative contracts noted above, the Company clears certain derivative transactions through a clearinghouse rather than directly with counterparties. Those transactions cleared through a clearinghouse require initial margin collateral and additional collateral for contracts in a net liability position. The net fair values of derivative instruments cleared through clearinghouses at March 31, 2015 was a net liability position of \$65 million and at December 31, 2014 was a net liability position of \$35 million. Collateral posted with clearinghouses was \$97 million and \$61 million at March 31, 2015 and December 31, 2014, respectively.

**11. Variable interest entities and asset securitizations**

During the first quarter of 2015, the Company securitized approximately \$13 million of one-to-four family residential real estate loans that had been originated for sale in guaranteed mortgage securitizations with the Government National Mortgage Association (Ginnie Mae) and retained the resulting securities in its investment securities portfolio. In similar transactions for the three months ended March 31, 2014, the Company securitized \$29 million of one-to-four family residential real estate loans. Gains associated with those transactions were not significant.

In accordance with GAAP, the Company determined that it was the primary beneficiary of a residential mortgage loan securitization trust considering its role as servicer and its retained subordinated interests in the trust. As a result, the Company has included the one-to-four family residential mortgage loans that were included in the trust in its consolidated financial statements. At March 31, 2015 and December 31, 2014, the carrying values of the loans in the securitization trust were \$93 million and \$98 million, respectively. The outstanding principal amount of mortgage-backed securities issued by the qualified special purpose trust that was held by parties unrelated to M&T at March 31, 2015 and December 31, 2014 was \$14 million and \$15 million, respectively. Because the transaction was non-recourse, the Company's maximum exposure to loss as a result of its association with the trust at March 31, 2015 is limited to realizing the carrying value of the loans less the amount of the mortgage-backed securities held by third

parties.

- 32 -



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**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**11. Variable interest entities and asset securitizations, continued**

As described in note 5, M&T has issued junior subordinated debentures payable to various trusts that have issued Capital Securities. M&T owns the common securities of those trust entities. The Company is not considered to be the primary beneficiary of those entities and, accordingly, the trusts are not included in the Company's consolidated financial statements. At March 31, 2015 and December 31, 2014, the Company included the junior subordinated debentures as long-term borrowings in its consolidated balance sheet. The Company has recognized \$34 million in other assets for its investment in the common securities of the trusts that will be concomitantly repaid to M&T by the respective trust from the proceeds of M&T's repayment of the junior subordinated debentures associated with Capital Securities described in note 5.

The Company has invested as a limited partner in various partnerships that collectively had total assets of approximately \$1.2 billion at March 31, 2015 and December 31, 2014. Those partnerships generally construct or acquire properties for which the investing partners are eligible to receive certain federal income tax credits in accordance with government guidelines. Such investments may also provide tax deductible losses to the partners. The partnership investments also assist the Company in achieving its community reinvestment initiatives. As a limited partner, there is no recourse to the Company by creditors of the partnerships. However, the tax credits that result from the Company's investments in such partnerships are generally subject to recapture should a partnership fail to comply with the respective government regulations. The Company's maximum exposure to loss on its investments in such partnerships was \$303 million, including \$88 million of unfunded commitments, at March 31, 2015 and \$243 million, including \$56 million of unfunded commitments, at December 31, 2014. Contingent commitments to provide additional capital contributions to these partnerships were not material at March 31, 2015. The Company has not provided financial or other support to the partnerships that was not contractually required. Management currently estimates that no material losses are probable as a result of the Company's involvement with such entities. The Company, in its position as a limited partner, does not direct the activities that most significantly impact the economic performance of the partnerships and, therefore, in accordance with the accounting provisions for variable interest entities, the partnership entities are not included in the Company's consolidated financial statements. As described in note 1, effective January 1, 2015 the Company retrospectively adopted for all periods presented amended accounting guidance on the accounting for investments in qualified affordable housing projects whereby the Company's investment cost is amortized to income taxes in the consolidated statement of income as tax credits and other tax benefits resulting from deductible losses associated with the projects are received. The Company amortized \$10 million and \$12 million of its investments in qualified affordable housing projects to income tax expense during the three-month periods ended March 31, 2015 and 2014, respectively, and recognized \$14 million and \$17 million of tax credits and other tax benefits during those respective periods.

**12. Fair value measurements**

GAAP permits an entity to choose to measure eligible financial instruments and other items at fair value. The Company has not made any fair value elections at March 31, 2015.

Pursuant to GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level hierarchy exists

in GAAP for fair value measurements based upon the inputs to the valuation of an asset or liability.

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**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

Level 1 Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 Valuation is determined from quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active or by model-based techniques in which all significant inputs are observable in the market.

Level 3 Valuation is derived from model-based and other techniques in which at least one significant input is unobservable and which may be based on the Company's own estimates about the assumptions that market participants would use to value the asset or liability.

When available, the Company attempts to use quoted market prices in active markets to determine fair value and classifies such items as Level 1 or Level 2. If quoted market prices in active markets are not available, fair value is often determined using model-based techniques incorporating various assumptions including interest rates, prepayment speeds and credit losses. Assets and liabilities valued using model-based techniques are classified as either Level 2 or Level 3, depending on the lowest level classification of an input that is considered significant to the overall valuation. The following is a description of the valuation methodologies used for the Company's assets and liabilities that are measured on a recurring basis at estimated fair value.

***Trading account assets and liabilities***

Trading account assets and liabilities consist primarily of interest rate swap agreements and foreign exchange contracts with customers who require such services with offsetting positions with third parties to minimize the Company's risk with respect to such transactions. The Company generally determines the fair value of its derivative trading account assets and liabilities using externally developed pricing models based on market observable inputs and, therefore, classifies such valuations as Level 2. Mutual funds held in connection with deferred compensation arrangements have been classified as Level 1 valuations. Valuations of investments in municipal and other bonds can generally be obtained through reference to quoted prices in less active markets for the same or similar securities or through model-based techniques in which all significant inputs are observable and, therefore, such valuations have been classified as Level 2.

***Investment securities available for sale***

The majority of the Company's available-for-sale investment securities have been valued by reference to prices for similar securities or through model-based techniques in which all significant inputs are observable and, therefore, such valuations have been classified as Level 2. Certain investments in mutual funds and equity securities are actively traded and, therefore, have been classified as Level 1 valuations.

Included in collateralized debt obligations are securities backed by trust preferred securities issued by financial institutions and other entities. The Company could not obtain pricing indications for many of these securities from its two primary independent pricing sources. The Company, therefore, performed internal modeling to estimate the cash

flows and fair value of its portfolio of securities backed by trust preferred securities at March 31, 2015 and December 31, 2014. The modeling techniques included estimating cash flows using bond-specific assumptions about future collateral defaults and related loss severities. The resulting cash flows were then discounted by reference to market yields observed in the single-name trust preferred securities market. In determining a market yield applicable to the estimated cash flows, a margin over LIBOR ranging from 5% to 10%, with a weighted-average of 8%, was used. Significant unobservable inputs used in the determination of estimated fair value of collateralized debt obligations are included in the accompanying table of

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**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

significant unobservable inputs to Level 3 measurements. At March 31, 2015, the total amortized cost and fair value of securities backed by trust preferred securities issued by financial institutions and other entities were \$30 million and \$47 million, respectively, and at December 31, 2014 were \$30 million and \$50 million, respectively. Securities backed by trust preferred securities issued by financial institutions and other entities constituted substantially all of the available-for-sale investment securities classified as Level 3 valuations.

The Company ensures an appropriate control framework is in place over the valuation processes and techniques used for Level 3 fair value measurements. Internal pricing models used for significant valuation measurements have generally been subjected to validation procedures including review of mathematical constructs, valuation methodology and significant assumptions used.

***Real estate loans held for sale***

The Company utilizes commitments to sell real estate loans to hedge the exposure to changes in fair value of real estate loans held for sale. The carrying value of hedged real estate loans held for sale includes changes in estimated fair value during the hedge period. Typically, the Company attempts to hedge real estate loans held for sale from the date of close through the sale date. The fair value of hedged real estate loans held for sale is generally calculated by reference to quoted prices in secondary markets for commitments to sell real estate loans with similar characteristics and, accordingly, such loans have been classified as a Level 2 valuation.

***Commitments to originate real estate loans for sale and commitments to sell real estate loans***

The Company enters into various commitments to originate real estate loans for sale and commitments to sell real estate loans. Such commitments are considered to be derivative financial instruments and, therefore, are carried at estimated fair value on the consolidated balance sheet. The estimated fair values of such commitments were generally calculated by reference to quoted prices in secondary markets for commitments to sell real estate loans to certain government-sponsored entities and other parties. The fair valuations of commitments to sell real estate loans generally result in a Level 2 classification. The estimated fair value of commitments to originate real estate loans for sale are adjusted to reflect the Company's anticipated commitment expirations. The estimated commitment expirations are considered significant unobservable inputs contributing to the Level 3 classification of commitments to originate real estate loans for sale. Significant unobservable inputs used in the determination of estimated fair value of commitments to originate real estate loans for sale are included in the accompanying table of significant unobservable inputs to Level 3 measurements.

***Interest rate swap agreements used for interest rate risk management***

The Company utilizes interest rate swap agreements as part of the management of interest rate risk to modify the repricing characteristics of certain portions of its portfolios of earning assets and interest-bearing liabilities. The Company generally determines the fair value of its interest rate swap agreements using externally developed pricing models based on market observable inputs and, therefore, classifies such valuations as Level 2. The Company has considered counterparty credit risk in the valuation of its interest rate swap agreement assets and has considered its

own credit risk in the valuation of its interest rate swap agreement liabilities.

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

The following tables present assets and liabilities at March 31, 2015 and December 31, 2014 measured at estimated fair value on a recurring basis:

|  | Fair value<br>measurements at<br>March 31,<br>2015 | Level 1 (a)    | Level 2 (a) | Level 3 |
|--|--|----------------|-------------|---------|
|  |  | (in thousands) |             |         |
| Trading account assets                           | \$ 363,085   | 48,978         | 314,107     |         |
| Investment securities available for sale:        |  |                |             |         |
| U.S. Treasury and federal agencies               | 163,234  |                | 163,234     |         |
| Obligations of states and political subdivisions | 7,850  |                | 7,850       |         |
| Mortgage-backed securities:                      |  |                |             |         |
| Government issued or guaranteed                  | 10,265,221   |                | 10,265,221  |         |
| Privately issued                                 | 95   |                |             | 95      |
| Collateralized debt obligations                  | 47,278   |                |             | 47,278  |
| Other debt securities                            | 121,273  |                | 121,273     |         |
| Equity securities                                | 98,549   | 71,804         | 26,745      |         |
|  | 10,703,500   | 71,804         | 10,584,323  | 47,373  |
| Real estate loans held for sale                  | 540,546  |                | 540,546     |         |
| Other assets (b)                                 | 101,383  |                | 75,088      | 26,295  |
| Total assets                                     | \$ 11,708,514                                      | 120,782        | 11,514,064  | 73,668  |
| Trading account liabilities                      | \$ 240,168   |                | 240,168     |         |
| Other liabilities (b)                            | 12,146   |                | 12,081      | 65      |
| Total liabilities                                | \$ 252,314   |                | 252,249     | 65      |

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

|  | Fair value<br>measurements at<br>December 31,<br>2014 | Level 1 (a)    | Level 2 (a) | Level 3 |
|--|---|----------------|-------------|---------|
|  |   | (in thousands) |             |         |
| Trading account assets                           | \$ 308,175  | 51,416         | 256,759     |         |
| Investment securities available for sale:        |   |                |             |         |
| U.S. Treasury and federal agencies               | 161,947   |                | 161,947     |         |
| Obligations of states and political subdivisions | 8,198   |                | 8,198       |         |
| Mortgage-backed securities:                      |   |                |             |         |
| Government issued or guaranteed                  | 8,731,123   |                | 8,731,123   |         |
| Privately issued                                 | 103   |                |             | 103     |
| Collateralized debt obligations                  | 50,316  |                |             | 50,316  |
| Other debt securities                            | 121,488   |                | 121,488     |         |
| Equity securities                                | 83,757  | 64,841         | 18,916      |         |
|  | 9,156,932   | 64,841         | 9,041,672   | 50,419  |
| Real estate loans held for sale                  | 742,249   |                | 742,249     |         |
| Other assets (b)                                 | 92,129  |                | 74,733      | 17,396  |
| Total assets                                     | \$ 10,299,485   | 116,257        | 10,115,413  | 67,815  |
| Trading account liabilities                      | \$ 203,464  |                | 203,464     |         |
| Other liabilities (b)                            | 8,596   |                | 8,547       | 49      |
| Total liabilities                                | \$ 212,060  |                | 212,011     | 49      |

- (a) There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy during the three months ended March 31, 2015 and the year ended December 31, 2014.
- (b) Comprised predominantly of interest rate swap agreements used for interest rate risk management (Level 2), commitments to sell real estate loans (Level 2) and commitments to originate real estate loans to be held for sale (Level 3).



**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

The changes in Level 3 assets and liabilities measured at estimated fair value on a recurring basis during the three months ended March 31, 2015 were as follows:

|   | Investment securities available for sale    |                                 |                                    |
|---|---|---------------------------------|------------------------------------|
|   | Privately issued mortgage-backed securities | collateralized debt obligations | Other assets and other liabilities |
|   | (in thousands)                              |                                 |                                    |
| Balance January 1, 2015   | \$ 103                                      | \$ 50,316                       | \$ 17,347                          |
| Total gains (losses) realized/unrealized:   |   |                                 |                                    |
| Included in earnings  |   |                                 | 29,770 (a)                         |
| Included in other comprehensive income  |   | (2,004) (d)                     |                                    |
| Settlements   | (8)   | (1,034)                         |                                    |
| Transfers in and/or out of Level 3 (b)  |   |                                 | (20,887) (c)                       |
| Balance March 31, 2015  | \$ 95                                       | \$ 47,278                       | \$ 26,230                          |
| Changes in unrealized gains included in earnings related to assets still held at March 31, 2015 | \$  | \$                              | \$ 22,636 (a)                      |

Table of Contents

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

The changes in Level 3 assets and liabilities measured at estimated fair value on a recurring basis during the three months ended March 31, 2014 were as follows:

|   |  | Investment securities available for sale    |                                 |                                    |
|---|--|---|---------------------------------|------------------------------------|
|   |  | Privately issued mortgage-backed securities | Collateralized debt obligations | Other assets and other liabilities |
|   |  | (in thousands)                              |                                 |                                    |
| Balance   | January 1, 2014                        | \$ 1,850                                    | \$ 63,083                       | \$ 3,941                           |
| Total gains (losses) realized/unrealized:   |  |   |                                 |                                    |
|   | Included in earnings                   |   |                                 | 22,383 (a)                         |
|   | Included in other comprehensive income | 67 (d)                                      | 4,646 (d)                       |                                    |
|   | Settlements                            | (1,221)                                     | (5,961)                         |                                    |
|   | Transfers in and/or out of Level 3 (b) |   |                                 | (13,735) (c)                       |
| Balance   | March 31, 2014                         | \$ 696                                      | \$ 61,768                       | \$ 12,589                          |
| Changes in unrealized gains included in earnings related to assets still held at March 31, 2014 |  |   |                                 |                                    |
|   |  | \$  | \$                              | \$ 15,050 (a)                      |

- (a) Reported as mortgage banking revenues in the consolidated statement of income and includes the fair value of commitment issuances and expirations.
- (b) The Company's policy for transfers between fair value levels is to recognize the transfer as of the actual date of the event or change in circumstances that caused the transfer.
- (c) Transfers out of Level 3 consist of interest rate locks transferred to closed loans.
- (d) Reported as net unrealized gains on investment securities in the consolidated statement of comprehensive income.

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**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

The Company is required, on a nonrecurring basis, to adjust the carrying value of certain assets or provide valuation allowances related to certain assets using fair value measurements. The more significant of those assets follow.

***Loans***

Loans are generally not recorded at fair value on a recurring basis. Periodically, the Company records nonrecurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Nonrecurring adjustments also include certain impairment amounts for collateral-dependent loans when establishing the allowance for credit losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan and, as a result, the carrying value of the loan less the calculated valuation amount does not necessarily represent the fair value of the loan. Real estate collateral is typically valued using appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace and the related nonrecurring fair value measurement adjustments have generally been classified as Level 2, unless significant adjustments have been made to the valuation that are not readily observable by market participants. Non-real estate collateral supporting commercial loans generally consists of business assets such as receivables, inventory and equipment. Fair value estimations are typically determined by discounting recorded values of those assets to reflect estimated net realizable value considering specific borrower facts and circumstances and the experience of credit personnel in their dealings with similar borrower collateral liquidations. Such discounts were generally in the range of 10% to 80% at March 31, 2015. As these discounts are not readily observable and are considered significant, the valuations have been classified as Level 3. Loans subject to nonrecurring fair value measurement were \$101 million at March 31, 2015 (\$67 million and \$34 million of which were classified as Level 2 and Level 3, respectively), \$173 million at December 31, 2014 (\$94 million and \$79 million of which were classified as Level 2 and Level 3, respectively) and \$161 million at March 31, 2014 (\$100 million and \$61 million of which were classified as Level 2 and Level 3, respectively). Changes in fair value recognized for partial charge-offs of loans and loan impairment reserves on loans held by the Company on March 31, 2015 and 2014 were decreases of \$8 million and \$15 million for the three-month periods ended March 31, 2015 and 2014, respectively.

***Assets taken in foreclosure of defaulted loans***

Assets taken in foreclosure of defaulted loans are primarily comprised of commercial and residential real property and are generally measured at the lower of cost or fair value less costs to sell. The fair value of the real property is generally determined using appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace, and the related nonrecurring fair value measurement adjustments have generally been classified as Level 2. Assets taken in foreclosure of defaulted loans subject to nonrecurring fair value measurement were \$11 million at each of March 31, 2015 and March 31, 2014. Changes in fair value recognized for those foreclosed assets held by the Company were not material during the three-month periods ended March 31, 2015 and 2014.

Table of Contents

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued***Significant unobservable inputs to Level 3 measurements*

The following tables present quantitative information about the significant unobservable inputs used in the fair value measurements for Level 3 assets and liabilities at March 31, 2015 and December 31, 2014:

|   | Fair value at<br>March 31, 2015<br>(in<br>thousands) | Valuation<br>technique         | Unobservable<br>input/assumptions       | Range<br><br>(weighted-<br>average) |
|---|--|--------------------------------|---|-------------------------------------|
| <u>Recurring fair value measurements</u>    |  |                                |   |                                     |
| Privately issued mortgage backed securities | \$ 95  | Two independent pricing quotes |   |                                     |
| Collateralized debt obligations             | 47,278   | Discounted cash flow           | Probability of default<br>Loss severity | 12%-57% (45%)<br>100%               |
| Net other assets (liabilities) (a)          | 26,230   | Discounted cash flow           | Commitment expirations                  | 0%-96% (19%)                        |

|   | Fair value at<br>December 31,<br>2014<br>(in<br>thousands) | Valuation<br>technique         | Unobservable<br>input/assumptions | Range<br><br>(weighted-<br>average) |
|---|--|--------------------------------|-----------------------------------|-------------------------------------|
| <u>Recurring fair value measurements</u>    |  |                                |                                   |                                     |
| Privately issued mortgage backed securities | \$ 103   | Two independent pricing quotes |                                   |                                     |

|                                    |        |                      |                        |               |
|------------------------------------|--------|----------------------|------------------------|---------------|
| Collateralized debt obligations    | 50,316 | Discounted cash flow | Probability of default | 12%-57% (36%) |
|                                    |        |                      | Loss severity          | 100%          |
| Net other assets (liabilities) (a) | 17,347 | Discounted cash flow | Commitment expirations | 0%-96% (17%)  |

(a) Other Level 3 assets (liabilities) consist of commitments to originate real estate loans.

***Sensitivity of fair value measurements to changes in unobservable inputs***

An increase (decrease) in the probability of default and loss severity for collateralized debt securities would generally result in a lower (higher) fair value measurement.

An increase (decrease) in the estimate of expirations for commitments to originate real estate loans would generally result in a lower (higher) fair value measurement. Estimated commitment expirations are derived considering loan type, changes in interest rates and remaining length of time until closing.

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued***Disclosures of fair value of financial instruments*

The carrying amounts and estimated fair value for financial instrument assets (liabilities) are presented in the following table:

|  | Carrying<br>amount | Estimated<br>fair value | March 31, 2015            |                 |            |
|--|--------------------|-------------------------|---------------------------|-----------------|------------|
|  |                    |                         | Level 1<br>(in thousands) | Level 2         | Level 3    |
| <b>Financial assets:</b>                               |                    |                         |                           |                 |            |
| Cash and cash equivalents                              | \$ 1,366,853       | \$ 1,366,853            | \$ 1,311,917              | \$ 54,936       | \$         |
| Interest-bearing deposits at banks                     | 6,291,491          | 6,291,491               |                           | 6,291,491       |            |
| Trading account assets                                 | 363,085            | 363,085                 | 48,978                    | 314,107         |            |
| Investment securities                                  | 14,393,270         | 14,444,292              | 71,804                    | 14,162,805      | 209,683    |
| <b>Loans and leases:</b>                               |                    |                         |                           |                 |            |
| Commercial loans and leases                            | 19,775,494         | 19,484,920              |                           |                 | 19,484,920 |
| Commercial real estate loans                           | 27,845,710         | 27,746,166              |                           | 117,366         | 27,628,800 |
| Residential real estate loans                          | 8,504,119          | 8,609,248               |                           | 5,119,739       | 3,489,509  |
| Consumer loans   | 10,973,719         | 10,880,895              |                           |                 | 10,880,895 |
| Allowance for credit losses                            | (921,373)          |                         |                           |                 |            |
| Loans and leases, net                                  | 66,177,669         | 66,721,229              |                           | 5,237,105       | 61,484,124 |
| Accrued interest receivable                            | 244,079            | 244,079                 |                           | 244,079         |            |
| <b>Financial liabilities:</b>                          |                    |                         |                           |                 |            |
| Noninterest-bearing deposits                           | \$ (27,181,120)    | \$ (27,181,120)         | \$                        | \$ (27,181,120) | \$         |
| Savings deposits and NOW<br>accounts                   | (43,288,329)       | (43,288,329)            |                           | (43,288,329)    |            |
| Time deposits  | (2,946,126)        | (2,967,329)             |                           | (2,967,329)     |            |
| Deposits at Cayman Islands office                      | (178,545)          | (178,545)               |                           | (178,545)       |            |
| Short-term borrowings                                  | (193,495)          | (193,495)               |                           | (193,495)       |            |
| Long-term borrowings                                   | (10,509,143)       | (10,641,367)            |                           | (10,641,367)    |            |
| Accrued interest payable                               | (77,903)           | (77,903)                |                           | (77,903)        |            |
| Trading account liabilities                            | (240,168)          | (240,168)               |                           | (240,168)       |            |
| <b>Other financial instruments:</b>                    |                    |                         |                           |                 |            |
| Commitments to originate real<br>estate loans for sale | \$ 26,230          | \$ 26,230               | \$                        | \$              | \$ 26,230  |
| Commitments to sell real estate<br>loans               | (9,848)            | (9,848)                 |                           | (9,848)         |            |

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|   |           |           |           |
|---|-----------|-----------|-----------|
| Other credit-related commitments  | (112,511) | (112,511) | (112,511) |
| Interest rate swap agreements used<br>for interest rate risk management | 72,855    | 72,855    | 72,855    |

- 42 -

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

|   | Carrying<br>amount | Estimated<br>fair value | December 31, 2014         |                 |            |
|---|--------------------|-------------------------|---------------------------|-----------------|------------|
|   |                    |                         | Level 1<br>(in thousands) | Level 2         | Level 3    |
| <b>Financial assets:</b>  |                    |                         |                           |                 |            |
| Cash and cash equivalents   | \$ 1,373,357       | \$ 1,373,357            | \$ 1,296,923              | \$ 76,434       | \$         |
| Interest-bearing deposits at banks                                      | 6,470,867          | 6,470,867               |                           | 6,470,867       |            |
| Trading account assets  | 308,175            | 308,175                 | 51,416                    | 256,759         |            |
| Investment securities   | 12,993,542         | 13,023,956              | 64,841                    | 12,750,396      | 208,719    |
| <b>Loans and leases:</b>  |                    |                         |                           |                 |            |
| Commercial loans and leases   | 19,461,292         | 19,188,574              |                           |                 | 19,188,574 |
| Commercial real estate loans  | 27,567,569         | 27,487,818              |                           | 307,667         | 27,180,151 |
| Residential real estate loans   | 8,657,301          | 8,729,056               |                           | 5,189,086       | 3,539,970  |
| Consumer loans  | 10,982,794         | 10,909,623              |                           |                 | 10,909,623 |
| Allowance for credit losses   | (919,562)          |                         |                           |                 |            |
| Loans and leases, net   | 65,749,394         | 66,315,071              |                           | 5,496,753       | 60,818,318 |
| Accrued interest receivable   | 227,348            | 227,348                 |                           | 227,348         |            |
| <b>Financial liabilities:</b>   |                    |                         |                           |                 |            |
| Noninterest-bearing deposits  | \$ (26,947,880)    | \$ (26,947,880)         | \$                        | \$ (26,947,880) | \$         |
| Savings deposits and NOW<br>accounts                                    | (43,393,618)       | (43,393,618)            |                           | (43,393,618)    |            |
| Time deposits   | (3,063,973)        | (3,086,126)             |                           | (3,086,126)     |            |
| Deposits at Cayman Islands office                                       | (176,582)          | (176,582)               |                           | (176,582)       |            |
| Short-term borrowings   | (192,676)          | (192,676)               |                           | (192,676)       |            |
| Long-term borrowings  | (9,006,959)        | (9,139,789)             |                           | (9,139,789)     |            |
| Accrued interest payable  | (63,372)           | (63,372)                |                           | (63,372)        |            |
| Trading account liabilities   | (203,464)          | (203,464)               |                           | (203,464)       |            |
| <b>Other financial instruments:</b>                                     |                    |                         |                           |                 |            |
| Commitments to originate real<br>estate loans for sale                  | \$ 17,347          | \$ 17,347               | \$                        | \$              | \$ 17,347  |
| Commitments to sell real estate<br>loans                                | (7,065)            | (7,065)                 |                           | (7,065)         |            |
| Other credit-related commitments  | (119,079)          | (119,079)               |                           |                 | (119,079)  |
| Interest rate swap agreements used<br>for interest rate risk management | 73,251             | 73,251                  |                           | 73,251          |            |

With the exception of marketable securities, certain off-balance sheet financial instruments and one-to-four family residential real estate loans originated for sale, the Company's financial instruments are not readily marketable and market prices do not exist. The Company, in attempting to comply with the provisions of GAAP that require disclosures of fair value of financial instruments, has not attempted to market its financial instruments to potential



buyers, if any exist. Since negotiated prices in illiquid markets depend greatly upon the then present motivations of the buyer and seller, it is reasonable to assume that actual sales prices could vary widely from any estimate of fair value made without the benefit of negotiations. Additionally, changes in market interest rates can dramatically impact the value of financial instruments in a short period of time. The following assumptions and calculations were used in determining the estimated fair value of financial instruments not measured at fair value in the consolidated financial statements.

***Cash and cash equivalents, interest-bearing deposits at banks, deposits at Cayman Islands office, short-term borrowings, accrued interest receivable and accrued interest payable***

Due to the nature of cash and cash equivalents and the near maturity of interest-bearing deposits at banks, deposits at Cayman Islands office, short-term borrowings, accrued interest receivable and accrued interest payable, the Company estimated that the carrying amount of such instruments approximated estimated fair value.

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**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued*****Investment securities***

Estimated fair values of investments in readily marketable securities were generally based on quoted market prices. Investment securities that were not readily marketable were assigned amounts based on estimates provided by outside parties or modeling techniques that relied upon discounted calculations of projected cash flows or, in the case of other investment securities, which include capital stock of the Federal Reserve Bank of New York and the Federal Home Loan Bank of New York, at an amount equal to the carrying amount.

***Loans and leases***

In general, discount rates used to calculate values for loan products were based on the Company's pricing at the respective period end. A higher discount rate was assumed with respect to estimated cash flows associated with nonaccrual loans. Projected loan cash flows were adjusted for estimated credit losses. However, such estimates made by the Company may not be indicative of assumptions and adjustments that a purchaser of the Company's loans and leases would seek.

***Deposits***

Pursuant to GAAP, the estimated fair value ascribed to noninterest-bearing deposits, savings deposits and NOW accounts must be established at carrying value because of the customers' ability to withdraw funds immediately. Time deposit accounts are required to be revalued based upon prevailing market interest rates for similar maturity instruments. As a result, amounts assigned to time deposits were based on discounted cash flow calculations using prevailing market interest rates based on the Company's pricing at the respective date for deposits with comparable remaining terms to maturity.

The Company believes that deposit accounts have a value greater than that prescribed by GAAP. The Company feels, however, that the value associated with these deposits is greatly influenced by characteristics of the buyer, such as the ability to reduce the costs of servicing the deposits and deposit attrition which often occurs following an acquisition.

***Long-term borrowings***

The amounts assigned to long-term borrowings were based on quoted market prices, when available, or were based on discounted cash flow calculations using prevailing market interest rates for borrowings of similar terms and credit risk.

***Other commitments and contingencies***

As described in note 13, in the normal course of business, various commitments and contingent liabilities are outstanding, such as loan commitments, credit guarantees and letters of credit. The Company's pricing of such financial instruments is based largely on credit quality and relationship, probability of funding and other requirements. Loan commitments often have fixed expiration dates and contain termination and other clauses which provide for

relief from funding in the event of significant deterioration in the credit quality of the customer. The rates and terms of the Company's loan commitments, credit guarantees and letters of credit are competitive with other financial institutions operating in markets served by the Company. The Company believes that the carrying amounts, which are included in other liabilities, are reasonable estimates of the fair value of these financial instruments.

The Company does not believe that the estimated information presented herein is representative of the earnings power or value of the Company. The preceding analysis, which is inherently limited in depicting fair value, also does not consider any value associated with existing customer relationships nor the ability of the Company to create value through loan origination, deposit gathering or fee generating activities.

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

Many of the estimates presented herein are based upon the use of highly subjective information and assumptions and, accordingly, the results may not be precise. Management believes that fair value estimates may not be comparable between financial institutions due to the wide range of permitted valuation techniques and numerous estimates which must be made. Furthermore, because the disclosed fair value amounts were estimated as of the balance sheet date, the amounts actually realized or paid upon maturity or settlement of the various financial instruments could be significantly different.

**13. Commitments and contingencies**

In the normal course of business, various commitments and contingent liabilities are outstanding. The following table presents the Company's significant commitments. Certain of these commitments are not included in the Company's consolidated balance sheet.

|  | March 31,<br>2015 | December 31,<br>2014 |
|--|-------------------|----------------------|
|  | (in thousands)    |                      |
| Commitments to extend credit                       |                   |                      |
| Home equity lines of credit                        | \$ 6,219,783      | 6,194,516            |
| Commercial real estate loans to be sold            | 346,664           | 212,257              |
| Other commercial real estate and construction      | 5,161,878         | 4,834,699            |
| Residential real estate loans to be sold           | 661,132           | 432,352              |
| Other residential real estate                      | 581,384           | 524,399              |
| Commercial and other                               | 11,493,613        | 11,080,856           |
| Standby letters of credit                          | 3,648,095         | 3,706,888            |
| Commercial letters of credit                       | 42,291            | 46,965               |
| Financial guarantees and indemnification contracts | 2,535,609         | 2,490,050            |
| Commitments to sell real estate loans              | 1,322,998         | 1,237,294            |

Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Standby and commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party, whereas commercial letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and a third party. The credit risk associated with commitments to extend credit and standby and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.



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**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**13. Commitments and contingencies, continued**

Financial guarantees and indemnification contracts are oftentimes similar to standby letters of credit and include mandatory purchase agreements issued to ensure that customer obligations are fulfilled, recourse obligations associated with sold loans, and other guarantees of customer performance or compliance with designated rules and regulations. Included in financial guarantees and indemnification contracts are loan principal amounts sold with recourse in conjunction with the Company's involvement in the Fannie Mae Delegated Underwriting and Servicing program. The Company's maximum credit risk for recourse associated with loans sold under this program totaled approximately \$2.4 billion at each of March 31, 2015 and December 31, 2014.

Since many loan commitments, standby letters of credit, and guarantees and indemnification contracts expire without being funded in whole or in part, the contract amounts are not necessarily indicative of future cash flows.

The Company utilizes commitments to sell real estate loans to hedge exposure to changes in the fair value of real estate loans held for sale. Such commitments are considered derivatives and along with commitments to originate real estate loans to be held for sale are generally recorded in the consolidated balance sheet at estimated fair market value.

The Company also has commitments under long-term operating leases.

The Company is contractually obligated to repurchase previously sold residential real estate loans that do not ultimately meet investor sale criteria related to underwriting procedures or loan documentation. When required to do so, the Company may reimburse loan purchasers for losses incurred or may repurchase certain loans. The Company reduces residential mortgage banking revenues by an estimate for losses related to its obligations to loan purchasers. The amount of those charges is based on the volume of loans sold, the level of reimbursement requests received from loan purchasers and estimates of losses that may be associated with previously sold loans. At March 31, 2015, management believes that any further liability arising out of the Company's obligation to loan purchasers is not material to the Company's consolidated financial position.

M&T and its subsidiaries are subject in the normal course of business to various pending and threatened legal proceedings in which claims for monetary damages are asserted. On an on-going basis management, after consultation with legal counsel, assesses the Company's liabilities and contingencies in connection with such legal proceedings. For those matters where it is probable that the Company will incur losses and the amounts of the losses can be reasonably estimated, the Company records an expense and corresponding liability in its consolidated financial statements. To the extent the pending or threatened litigation could result in exposure in excess of that liability, the amount of such excess is not currently estimable. Although not considered probable, the range of reasonably possible further losses in the aggregate, beyond the existing recorded liability, was between \$0 and \$40 million. Although the Company does not believe that the outcome of pending litigations will be material to the Company's consolidated financial position, it cannot rule out the possibility that such outcomes will be material to the consolidated results of operations for a particular reporting period in the future.

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**14. Segment information**

Reportable segments have been determined based upon the Company's internal profitability reporting system, which is organized by strategic business unit. Certain strategic business units have been combined for segment information reporting purposes where the nature of the products and services, the type of customer and the distribution of those products and services are similar. The reportable segments are Business Banking, Commercial Banking, Commercial Real Estate, Discretionary Portfolio, Residential Mortgage Banking and Retail Banking.

The financial information of the Company's segments was compiled utilizing the accounting policies described in note 22 to the Company's consolidated financial statements as of and for the year ended December 31, 2014. The management accounting policies and processes utilized in compiling segment financial information are highly subjective and, unlike financial accounting, are not based on authoritative guidance similar to GAAP. As a result, the financial information of the reported segments is not necessarily comparable with similar information reported by other financial institutions. Furthermore, changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial data. Effective January 1, 2015, the Company made certain changes to its methodology for measuring segment profit and loss. Those changes in the measurement of segment profitability were largely the result of updated funds transfer pricing and various cost allocation reviews. The most significant changes to the funds transfer pricing resulted from ascribing a longer duration to non-maturity deposits, which significantly benefitted the Retail Banking segment. The cost allocation review having the largest impact related to a branch cost study. That study consisted of transaction reviews and time studies which resulted in a higher cost allocation from the Retail Banking segment to the Business Banking segment. As a result of the changes, prior period financial information has been restated to provide segment information on a comparable basis, as noted below:

|                              | Three months ended March 31, 2014 |  |                                  |
|------------------------------|-----------------------------------|--|----------------------------------|
|                              | Net income (loss) as              |  |                                  |
|                              | previously<br>reported            | Impact of<br>changes<br>(in thousands) | Net income (loss)<br>as restated |
| Business Banking             | \$ 28,598                         | (3,625)                                | 24,973                           |
| Commercial Banking           | 99,765                            | (924)                                  | 98,841                           |
| Commercial Real Estate       | 74,561                            | (2,009)                                | 72,552                           |
| Discretionary Portfolio      | 11,279                            | 81                                     | 11,360                           |
| Residential Mortgage Banking | 19,411                            | (831)                                  | 18,580                           |
| Retail Banking               | 29,711                            | 39,323                                 | 69,034                           |
| All Other                    | (34,308)                          | (32,015)                               | (66,323)                         |
| Total                        | \$ 229,017                        |  | 229,017                          |

As also described in note 22 to the Company's 2014 consolidated financial statements, neither goodwill nor core deposit and other intangible assets (and the amortization charges associated with such assets) resulting from acquisitions of financial institutions have been allocated to the Company's reportable segments, but are included in the All Other category. The Company does, however, assign such intangible assets to business units for purposes of testing for impairment.



**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**14. Segment information, continued**

Information about the Company's segments is presented in the following table:

|                              | Three months ended March 31 |                                       |   |                       |                                       |                         |
|------------------------------|-----------------------------|---------------------------------------|---|-----------------------|---------------------------------------|-------------------------|
|                              | Total<br>revenues (a)       | 2015<br>Inter-<br>segment<br>revenues | Net<br>income<br>(loss)<br>(in thousands) | Total<br>revenues (a) | 2014<br>Inter-<br>segment<br>revenues | Net<br>income<br>(loss) |
| Business Banking             | \$ 108,560                  | 1,045                                 | 24,811                                    | \$ 111,770            | 1,057                                 | 24,973                  |
| Commercial Banking           | 246,581                     | 1,085                                 | 96,423                                    | 249,349               | 1,197                                 | 98,841                  |
| Commercial Real Estate       | 163,320                     | 82                                    | 80,086                                    | 157,323               | 348                                   | 72,552                  |
| Discretionary Portfolio      | 15,474                      | (5,443)                               | 5,954                                     | 24,657                | (5,039)                               | 11,360                  |
| Residential Mortgage Banking | 111,458                     | 11,387                                | 31,965                                    | 93,765                | 9,748                                 | 18,580                  |
| Retail Banking               | 300,391                     | 3,137                                 | 68,888                                    | 306,780               | 3,505                                 | 69,034                  |
| All Other                    | 154,007                     | (11,293)                              | (66,514)                                  | 132,896               | (10,816)                              | (66,323)                |
| Total                        | \$ 1,099,791                |                                       | 241,613                                   | \$ 1,076,540          |                                       | 229,017                 |

|                              | Average total assets           |        |                           |
|------------------------------|--------------------------------|--------|---------------------------|
|                              | Three months ended<br>March 31 |        | Year ended<br>December 31 |
|                              | 2015                           | 2014   | 2014                      |
| Business Banking             | \$ 5,300                       | 5,242  | 5,281                     |
| Commercial Banking           | 23,683                         | 22,523 | 22,892                    |
| Commercial Real Estate       | 18,019                         | 16,937 | 17,113                    |
| Discretionary Portfolio      | 22,714                         | 18,581 | 20,798                    |
| Residential Mortgage Banking | 3,512                          | 3,157  | 3,333                     |
| Retail Banking               | 10,788                         | 10,155 | 10,449                    |
| All Other                    | 11,876                         | 10,070 | 12,277                    |

|       |           |        |        |
|-------|-----------|--------|--------|
| Total | \$ 95,892 | 86,665 | 92,143 |
|-------|-----------|--------|--------|

- (a) *Total revenues are comprised of net interest income and other income. Net interest income is the difference between taxable-equivalent interest earned on assets and interest paid on liabilities owed by a segment and a funding charge (credit) based on the Company's internal funds transfer pricing and allocation methodology. Segments are charged a cost to fund any assets (e.g. loans) and are paid a funding credit for any funds provided*

- 48 -

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**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**14. Segment information, continued**

*(e.g. deposits). The taxable-equivalent adjustment aggregated \$5,838,000 and \$5,945,000 for the three-month periods ended March 31, 2015 and 2014, respectively, and is eliminated in All Other total revenues. Intersegment revenues are included in total revenues of the reportable segments. The elimination of intersegment revenues is included in the determination of All Other total revenues.*

**15. Relationship with Bayview Lending Group LLC and Bayview Financial Holdings, L.P.**

M&T holds a 20% minority interest in Bayview Lending Group LLC ( BLG ), a privately-held commercial mortgage company. M&T recognizes income or loss from BLG using the equity method of accounting. The carrying value of that investment was \$43 million at March 31, 2015.

Bayview Financial Holdings, L.P. (together with its affiliates, Bayview Financial ), a privately-held specialty mortgage finance company, is BLG's majority investor. In addition to their common investment in BLG, the Company and Bayview Financial conduct other business activities with each other. The Company has obtained loan servicing rights for mortgage loans from BLG and Bayview Financial having outstanding principal balances of \$4.6 billion and \$4.8 billion at March 31, 2015 and December 31, 2014, respectively. Revenues from those servicing rights were \$6 million and \$7 million during the three-month periods ended March 31, 2015 and 2014, respectively. The Company sub-services residential mortgage loans for Bayview Financial having outstanding principal balances totaling \$39.5 billion and \$41.3 billion at March 31, 2015 and December 31, 2014, respectively. Revenues earned for sub-servicing loans for Bayview Financial were \$35 million and \$26 million for the three-month periods ended March 31, 2015 and 2014, respectively. In addition, the Company held \$198 million and \$202 million of mortgage-backed securities in its held-to-maturity portfolio at March 31, 2015 and December 31, 2014, respectively, that were securitized by Bayview Financial.

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**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.****Overview**

M&T Bank Corporation ( M&T ) recorded net income in the first quarter of 2015 of \$242 million or \$1.65 of diluted earnings per common share, compared with \$229 million or \$1.61 of diluted earnings per common share in the initial 2014 quarter. During the fourth quarter of 2014, net income totaled \$278 million or \$1.92 of diluted earnings per common share. Basic earnings per common share were \$1.66 in the recent quarter, compared with \$1.63 and \$1.93 in the first and fourth quarters of 2014, respectively. The annualized rate of return on average total assets for M&T and its consolidated subsidiaries ( the Company ) in the initial 2015 quarter was 1.02%, compared with 1.07% in the year-earlier quarter and 1.12% in the fourth quarter of 2014. The annualized rate of return on average common shareholders' equity was 7.99% in the first three months of 2015, compared with 8.22% and 9.10% in the first and fourth quarters of 2014, respectively.

On March 12, 2015, M&T announced that the Federal Reserve did not object to M&T's proposed 2015 Capital Plan. Accordingly, M&T may maintain a quarterly common stock dividend of \$.70 per share; pay dividends and interest on other equity and debt instruments included in regulatory capital, including preferred stock, trust preferred securities and subordinated debt that were outstanding at December 31, 2014, consistent with the contractual terms of those instruments; repurchase up to \$200 million of common shares during the first half of 2016; and redeem or repurchase up to \$310 million of trust preferred securities. Common and preferred dividends are subject to approval by M&T's Board of Directors in the ordinary course of business. On April 15, 2015, M&T redeemed \$310 million of trust preferred securities in accordance with the 2015 Capital Plan.

On August 27, 2012, M&T announced that it had entered into a definitive agreement with Hudson City Bancorp, Inc. ( Hudson City ), headquartered in Paramus, New Jersey, under which Hudson City would be acquired by M&T. Pursuant to the terms of the agreement, Hudson City common shareholders will receive consideration for each common share of Hudson City in an amount valued at .08403 of an M&T share in the form of either M&T common stock or cash, based on the election of each Hudson City shareholder, subject to proration as specified in the merger agreement (which provides for an aggregate split of total consideration of 60% common stock of M&T and 40% cash). The estimated purchase price considering the closing price of M&T's common stock of \$127.00 on March 31, 2015 was \$5.5 billion.

At March 31, 2015, Hudson City reported \$36.1 billion of assets, including \$20.9 billion of loans (predominantly residential real estate loans) and \$8.3 billion of investment securities, and \$31.3 billion of liabilities, including \$18.9 billion of deposits. The merger has received the approval of the common shareholders of M&T and Hudson City. However, the merger is subject to a number of conditions, including regulatory approvals.

On June 17, 2013, M&T and M&T Bank entered into a written agreement with the Federal Reserve Bank of New York. Under the terms of the agreement, M&T and M&T Bank are required to submit to the Federal Reserve Bank of New York a revised compliance risk management program designed to ensure compliance with the Bank Secrecy Act and anti-money-laundering laws and regulations ( BSA/AML ) and to take certain other steps to enhance their compliance practices. The Company commenced a major initiative, including the hiring of outside consulting firms, intended to fully address those regulator concerns. M&T and M&T Bank continue to make progress towards completing this initiative. On April 3, 2015, M&T was advised by the Federal Reserve that the Federal Reserve Board intends to act on the M&T and Hudson City merger application no later than September 30, 2015. As a result, M&T and Hudson City extended the date after



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**Table of Contents**

which either party may elect to terminate the merger agreement if the merger has not yet been completed from April 30, 2015 to October 31, 2015. Nevertheless, M&T's pending acquisition of Hudson City still remains subject to regulatory approval, including approval by the Federal Reserve, and certain other closing conditions and, as a result, there can be no assurances that the merger will be completed by that date.

Effective January 1, 2015, the Company elected to account for its investments in qualified affordable housing projects using the proportional amortization method as allowed by the Financial Accounting Standards Board ( FASB ). Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. The adoption is required to be applied retrospectively. As a result, financial statements for periods prior to 2015 have been restated. The adoption did not have a significant effect on the Company's financial position or results of operations, but the restatement of the consolidated statement of income for the three-month period ended March 31, 2014 resulted in the removal of \$12 million of losses associated with qualified affordable housing projects from other costs of operations and added the amortization of the initial cost of the investment of a similar amount to income tax expense. The similar restatement for the second, third and fourth quarters of 2014 each reflected approximately \$14 million of amortization.

**Recent Legislative Developments**

As discussed in M&T's Form 10-K for the year ended December 31, 2014, the Dodd-Frank Wall Street Reform and Consumer Protection Act ( Dodd-Frank Act ) that was signed into law on July 21, 2010 has and will continue to significantly change the bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies, and the system of regulatory oversight of the Company. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. Not all of the rules required or expected to be implemented under the Dodd-Frank Act have been proposed or adopted, and certain of the rules that have been proposed or adopted under the Dodd-Frank Act are subject to phase-in or transitional periods. The implications of the Dodd-Frank Act for the Company's businesses continue to depend to a large extent on the implementation of the legislation by the Federal Reserve and other agencies.

A discussion of the provisions of the Dodd-Frank Act is included in Part I, Item 1 of M&T's Form 10-K for the year ended December 31, 2014.

In July 2013, the Federal Reserve, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation approved final rules (the New Capital Rules ) establishing a new comprehensive capital framework for U.S. banking organizations. These rules went into effect as to M&T on January 1, 2015. The New Capital Rules generally implement the Basel Committee on Banking Supervision's (the Basel Committee ) December 2010 final capital framework for strengthening international capital standards (referred to as Basel III ) and are intended to ensure that banking organizations have adequate capital levels given the risk levels of assets and off-balance sheet obligations. The New Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including M&T and M&T Bank, as compared to the U.S. general risk-based capital rules that were applicable to M&T and M&T Bank through December 31, 2014.

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**Table of Contents**

The New Capital Rules also preclude certain hybrid securities, such as trust preferred securities, from inclusion in bank holding companies' Tier 1 capital, subject to phase-out in the case of bank holding companies, such as M&T, that had \$15 billion or more in total consolidated assets as of December 31, 2009. As a result, beginning in 2015 25% of M&T's trust preferred securities are includable in Tier 1 capital, and in 2016 and thereafter, none of M&T's trust preferred securities will be includable in Tier 1 capital. Trust preferred securities no longer included in M&T's Tier 1 capital may nonetheless be included as a component of Tier 2 capital on a permanent basis without phase-out and irrespective of whether such securities otherwise meet the revised definition of Tier 2 capital set forth in the New Capital Rules. In the first quarter of 2014, M&T redeemed \$350 million of 8.50% junior subordinated debentures associated with the trust preferred capital securities of M&T Capital Trust IV and issued a like amount of 6.45% preferred stock that qualifies as Tier 1 regulatory capital. On April 15, 2015, in accordance with its 2015 Capital Plan M&T redeemed the junior subordinated debentures associated with \$310 million of trust preferred securities of M&T Capital Trust I, II and III. A detailed discussion of the New Capital Rules is included in Part I, Item 1 of the Company's Form 10-K for the year ended December 31, 2014 under the heading "Capital Requirements." A further discussion of the Company's regulatory capital ratios is presented herein under the heading "Capital."

On December 10, 2013, the Federal Reserve, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Securities and Exchange Commission adopted the final version of the Volcker Rule, which was mandated under the Dodd-Frank Act. Pursuant to the Volcker Rule, banking entities are generally prohibited from engaging in proprietary trading. Under the rule, the Company was required to be in compliance with the prohibition on proprietary trading and the requirement to develop an extensive compliance program by July 2015; however, in December 2014, the Federal Reserve extended the compliance period to July 2016 for investments in and relationships with covered funds that were in place prior to December 31, 2013. The Federal Reserve has indicated that it intends to further extend the compliance period to July 2017.

The Company does not believe that it engages in any significant amount of proprietary trading as defined in the Volcker Rule and that any impact would be minimal. In addition, a review of the Company's investments was undertaken to determine if any meet the Volcker Rule's definition of "covered funds." Based on that review, the Company believes that any impact related to investments considered to be covered funds would not have a material effect on the Company's financial condition or its results of operations. Nevertheless, the Company may be required to divest certain investments subject to the Volcker Rule.

On September 3, 2014, the Federal Reserve and other banking regulators adopted final rules ( "Final LCR Rule" ) implementing a U.S. version of the Basel Committee's Liquidity Coverage Ratio requirement ( "LCR" ) including the modified version applicable to bank holding companies, such as M&T, with \$50 billion in total consolidated assets that are not "advanced approaches" institutions. The LCR is intended to ensure that banks hold a sufficient amount of so-called "high quality liquid assets" ( "HQLA" ) to cover the anticipated net cash outflows during a hypothetical acute 30-day stress scenario. The LCR is the ratio of an institution's amount of HQLA (the numerator) over projected net cash outflows over the 30-day horizon (the denominator), in each case, as calculated pursuant to the Final LCR Rule. Once fully phased-in, a subject institution must maintain an LCR equal to at least 100% in order to satisfy this regulatory requirement. Only specific classes of assets, including U.S. Treasury securities, other U.S. government obligations and agency mortgage-backed securities, qualify under the rule as HQLA, with classes of assets deemed relatively less liquid and/or subject to greater degree of credit risk subject to certain haircuts and caps for purposes of calculating the numerator under the Final LCR Rule.

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**Table of Contents**

The initial compliance date for the modified LCR is January 2016, with the requirement fully phased-in by January 2017. The Company intends to comply with the LCR when it becomes effective. A detailed discussion of the LCR and its requirements is included in Part I, Item 1 of M&T's Form 10-K for the year ended December 31, 2014 under the heading "Liquidity Ratios under Basel III."

**Supplemental Reporting of Non-GAAP Results of Operations**

M&T consistently provides supplemental reporting of its results on a net operating or tangible basis, from which M&T excludes the after-tax effect of amortization of core deposit and other intangible assets (and the related goodwill, core deposit intangible and other intangible asset balances, net of applicable deferred tax amounts) and gains and expenses associated with merging acquired operations into the Company, since such items are considered by management to be nonoperating in nature. As a result of business combinations and other acquisitions, the Company had intangible assets consisting of goodwill and core deposit and other intangible assets totaling \$3.6 billion at each of March 31, 2015, March 31, 2014 and December 31, 2014. Included in such intangible assets was goodwill of \$3.5 billion at each of those dates. Amortization of core deposit and other intangible assets, after tax effect, was \$4 million during each of the quarters ended March 31, 2015 and December 31, 2014 (\$.03 per diluted common share), compared with \$6 million (\$.05 per diluted common share) during the first quarter of 2014. There were no merger-related gains or expenses in the first quarters of 2015 and 2014 or in the final quarter of 2014. Although net operating income as defined by M&T is not a GAAP measure, M&T's management believes that this information helps investors understand the effect of acquisition activity in reported results.

Net operating income aggregated \$246 million in the initial quarter of 2015, compared with \$235 million in the first quarter of 2014. Diluted net operating earnings per common share for the recent quarter were \$1.68, compared with \$1.66 in the year-earlier quarter. Net operating income and diluted net operating earnings per common share were \$282 million and \$1.95, respectively, in the final 2014 quarter.

Net operating income in the first quarter of 2015 expressed as an annualized rate of return on average tangible assets was 1.08%, compared with 1.15% and 1.18% in the first and fourth quarters of 2014, respectively. Net operating income represented an annualized return on average tangible common equity of 11.90% in the recent quarter, compared with 12.76% in the year-earlier quarter and 13.55% in the fourth quarter of 2014.

Reconciliations of GAAP amounts with corresponding non-GAAP amounts are presented in table 2.

**Taxable-equivalent Net Interest Income**

Taxable-equivalent net interest income was \$665 million in the first quarter of 2015, up from \$662 million in the year-earlier period. The impact of higher average earning assets, which rose \$8.9 billion, or 12%, to \$85.2 billion from \$76.3 billion in the first quarter of 2014, was largely offset by a 35 basis point (hundredths of one percent) narrowing of the Company's net interest margin, or taxable-equivalent net interest income expressed as an annualized percentage of average earning assets. The higher level of average earning assets reflected a \$4.1 billion rise in average balances of investment securities, a \$2.8 billion increase in average loans and leases and a \$2.0 billion increase in lower-yielding average interest-bearing deposits at the Federal Reserve Bank of New York. The increase in investment securities resulted from purchases of Ginnie Mae and Fannie Mae mortgage-



**Table of Contents**

backed securities. Taxable-equivalent net interest income in the recent quarter was below the \$688 million recorded in the fourth quarter of 2014, reflecting two less days in the recent quarter, lower average balances of interest-bearing deposits at banks and the net impact of actions taken in response to liquidity requirements that take effect in 2016.

Average loans and leases rose \$2.8 billion or 4% to \$66.6 billion in the initial 2015 quarter from \$63.8 billion in the first quarter of 2014. Commercial loans and leases averaged \$19.5 billion in the recent quarter, up \$1.0 billion or 5% from \$18.5 billion in the year-earlier quarter. Average commercial real estate loans rose \$1.5 billion or 6% to \$27.6 billion in the first quarter of 2015 from \$26.1 billion in the corresponding quarter of 2014. Average residential real estate loans outstanding decreased \$272 million to \$8.6 billion in the first quarter of 2015 from \$8.8 billion in the similar 2014 quarter. Included in that portfolio were loans held for sale, which averaged \$387 million in the recent quarter, compared with \$329 million in the year-earlier quarter. Average consumer loans and leases totaled \$11.0 billion in the initial quarter of 2015, \$662 million or 6% higher than \$10.3 billion in the first quarter of 2014. The predominant factor for the higher consumer loans was a 41% increase in average automobile loans that is reflective of consumer demand, higher industry sales and generally favorable interest rates.

Average loan balances in the first quarter of 2015 increased \$820 million from the fourth quarter of 2014. Average outstanding commercial loan and lease balances rose \$340 million, or 2%, average balances of commercial real estate loans increased \$532 million, or 2%, average residential real estate loan balances were down \$82 million and average outstanding consumer loans increased \$29 million from the final 2014 quarter. The accompanying table summarizes quarterly changes in the major components of the loan and lease portfolio.

**AVERAGE LOANS AND LEASES**

(net of unearned discount)

Dollars in millions

|                             | 1st Qtr.<br>2015 | Percent increase<br>(decrease) from |                  |
|-----------------------------|------------------|-------------------------------------|------------------|
|                             |                  | 1st Qtr.<br>2014                    | 4th Qtr.<br>2014 |
| Commercial, financial, etc. | \$ 19,457        | 5%                                  | 2%               |
| Real estate commercial      | 27,596           | 6                                   | 2                |
| Real estate consumer        | 8,572            | (3)                                 | (1)              |
| Consumer                    |                  |                                     |                  |
| Automobile                  | 2,024            | 41                                  | 5                |
| Home equity lines           | 5,704            | (1)                                 | (1)              |
| Home equity loans           | 264              | (23)                                | (7)              |
| Other                       | 2,970            | 7                                   |                  |
| <b>Total consumer</b>       | <b>10,962</b>    | <b>6</b>                            |                  |
| <b>Total</b>                | <b>\$ 66,587</b> | <b>4%</b>                           | <b>1%</b>        |

The investment securities portfolio averaged \$13.4 billion in the recent quarter, up \$4.1 billion or 44% from \$9.3 billion in the initial quarter of 2014 and \$397 million above the \$13.0 billion averaged in the fourth quarter of 2014.

The increase from the year-earlier quarter reflects the net effect of purchases, partially offset by maturities and paydowns of mortgage-backed securities. The Company purchased approximately \$4.6 billion of Fannie Mae securities and \$602 million of Ginnie Mae securities that were added to the investment securities portfolio during 2014, and another \$1.4 billion of Fannie Mae securities and \$470 million of Ginnie Mae securities were purchased during the first quarter of 2015. Those purchases reflect increased holdings of investment securities to satisfy the requirements of the LCR that will become effective in January 2016.

The investment securities portfolio is largely comprised of residential mortgage-backed securities, debt securities issued by municipalities, trust preferred securities issued by certain financial institutions, and shorter-term

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**Table of Contents**

U.S. Treasury and federal agency notes. When purchasing investment securities, the Company also considers its overall interest-rate risk profile as well as the adequacy of expected returns relative to risks assumed, including prepayments. In managing its investment securities portfolio, the Company occasionally sells investment securities as a result of changes in interest rates and spreads, actual or anticipated prepayments, credit risk associated with a particular security, or as a result of restructuring its investment securities portfolio in connection with a business combination.

The Company regularly reviews its investment securities for declines in value below amortized cost that might be characterized as other than temporary. There were no other-than-temporary impairment charges recognized in either of the first quarters of 2015 and 2014 or in the final 2014 quarter. Additional information about the investment securities portfolio is included in notes 3 and 12 of Notes to Financial Statements.

Other earning assets include interest-bearing deposits at the Federal Reserve Bank of New York and other banks, trading account assets, federal funds sold and agreements to resell securities. Those other earning assets in the aggregate averaged \$5.2 billion in the recently completed quarter, compared with \$3.3 billion and \$9.2 billion in the first and fourth quarters of 2014, respectively. Interest-bearing deposits at banks averaged \$5.1 billion, \$3.1 billion and \$9.1 billion during the three-month periods ended March 31, 2015, March 31, 2014 and December 31, 2014, respectively. The rise in average interest-bearing deposits at banks in the fourth quarter of 2014 and in the initial 2015 quarter as compared with the first quarter of 2014 was due, in part, to higher Wilmington Trust-related customer deposits. The amounts of investment securities and other earning assets held by the Company are influenced by such factors as demand for loans, which generally yield more than investment securities and other earning assets, ongoing repayments, the levels of deposits, and management of liquidity and balance sheet size and resulting capital ratios.

As a result of the changes described herein, average earning assets totaled \$85.2 billion in the first quarter of 2015, compared with \$76.3 billion in the year-earlier quarter and \$88.0 billion in the fourth quarter of 2014.

The most significant source of funding for the Company is core deposits. The Company considers noninterest-bearing deposits, interest-bearing transaction accounts, savings deposits and time deposits of \$250,000 or less as core deposits. The Company's branch network is its principal source of core deposits, which generally carry lower interest rates than wholesale funds of comparable maturities. Average core deposits totaled \$70.1 billion in the first quarter of 2015, compared with \$65.6 billion in the year-earlier quarter and \$73.8 billion in the fourth quarter of 2014. The growth in core deposits since the first quarter of 2014 was due, in part, to higher deposits of trust customers and the lack of attractive alternative investments available to the Company's customers resulting from lower interest rates and from the economic environment in the U.S. The decline in average core deposits as compared with the fourth quarter of 2014 reflects lower deposits of trust customers. The low interest rate environment has resulted in a shift in customer savings trends, as average time deposits have continued to decline, while average noninterest-bearing deposits and savings deposits have generally increased. The following table provides an analysis of quarterly changes in the components of average core deposits.

**Table of Contents**

## AVERAGE CORE DEPOSITS

Dollars in millions

|                                 | 1st Qtr.<br>2015 | Percent increase<br>(decrease) from |                  |
|---------------------------------|------------------|-------------------------------------|------------------|
|                                 |                  | 1st Qtr.<br>2014                    | 4th Qtr.<br>2014 |
| NOW accounts                    | \$ 1,101         | 14%                                 | 4%               |
| Savings deposits                | 40,561           | 8                                   | (3)              |
| Time deposits \$250,000 or less | 2,670            | (13)                                | (4)              |
| Noninterest-bearing deposits    | 25,811           | 7                                   | (8)              |
| <b>Total</b>                    | <b>\$ 70,143</b> | <b>7%</b>                           | <b>(5)%</b>      |

The Company has additional funding sources, including branch-related time deposits over \$250,000, deposits associated with the Company's Cayman Islands office, and brokered deposits. Time deposits over \$250,000 averaged \$347 million in the recent quarter, compared with \$371 million and \$354 million in the first and fourth quarters of 2014, respectively. Cayman Islands office deposits averaged \$224 million, \$380 million and \$265 million for the three-month periods ended March 31, 2015, March 31, 2014 and December 31, 2014, respectively. The Company had brokered NOW and brokered money-market deposit accounts, which in the aggregate averaged approximately \$1.0 billion in each of the first quarters of 2015 and 2014 and \$1.1 billion in the fourth quarter of 2014. The levels of brokered NOW and brokered money-market deposit accounts reflect the demand for such deposits, largely resulting from the desire of brokerage firms to earn reasonable yields while ensuring that customer deposits are fully insured. The level of Cayman Islands office deposits are also reflective of customer demand. Additional amounts of Cayman Islands office deposits or brokered deposits may be added in the future depending on market conditions, including demand by customers and other investors for those deposits, and the cost of funds available from alternative sources at the time.

The Company also uses borrowings from banks, securities dealers, various Federal Home Loan Banks, the Federal Reserve Bank of New York and others as sources of funding. Average short-term borrowings totaled \$196 million in the first quarter of 2015, compared with \$264 million in the year-earlier quarter and \$195 million in the final quarter of 2014. Such borrowings were largely comprised of unsecured federal funds borrowings, which generally mature on the next business day.

Long-term borrowings averaged \$9.8 billion in the recent quarter, compared with \$5.9 billion in the year-earlier quarter and \$9.0 billion in the fourth quarter of 2014. During 2013, M&T Bank initiated a Bank Note Program whereby M&T Bank may offer unsecured senior and subordinated notes. Average balances of the unsecured senior notes issued under that program were \$4.9 billion, \$1.8 billion and \$4.0 billion during the three-month periods ended March 31, 2015, March 31, 2014 and December 31, 2014, respectively. During February 2015, M&T Bank issued \$1.5 billion of senior notes of which \$750 million mature in 2020 and \$750 million mature in 2025. The proceeds of the issuances of borrowings under the Bank Note Program have been predominantly utilized to purchase high-quality liquid assets that will meet the requirements of the LCR. Also included in average long-term borrowings were amounts borrowed from the Federal Home Loan Banks of New York, Atlanta and Pittsburgh of \$1.2 billion in each of the initial 2015 quarter and fourth quarter of 2014 and \$29 million in the first quarter of 2014. During the second quarter of 2014, M&T Bank borrowed approximately \$1.1 billion from the Federal Home Loan Bank ( FHLB ) of New

York. Those borrowings were split between three-year and five-year terms at fixed rates of interest. Subordinated capital notes included in long-term borrowings averaged \$1.5 billion during the two most recent quarters and \$1.6 billion in the initial 2014 quarter. On November 1, 2014, M&T Bank redeemed \$50 million of 9.50% subordinated notes that were due to mature in 2018. Junior subordinated debentures associated with trust preferred securities that were included in average long-term borrowings were \$835 million in each of the first quarter

- 56 -

**Table of Contents**

of 2015 and the final 2014 quarter and \$1.1 billion in the first quarter of 2014. M&T redeemed \$350 million of 8.50% junior subordinated debentures associated with trust preferred securities in the first quarter of 2014. In addition, in accordance with its 2015 Capital Plan M&T redeemed on April 15, 2015 the junior subordinated debentures associated with the \$310 million of trust preferred securities of M&T Capital Trusts I, II and III. Those borrowings had a weighted-average interest rate of 8.24%. Further information regarding junior subordinated debentures is provided in note 5 of Notes to Financial Statements. Also included in long-term borrowings were agreements to repurchase securities, which averaged \$1.4 billion during each of the first quarters of 2015 and 2014 and the fourth quarter of 2014. The agreements have various repurchase dates through 2017, however, the contractual maturities of the underlying securities extend beyond such repurchase dates. The Company has utilized interest rate swap agreements to modify the repricing characteristics of certain components of long-term debt. As of March 31, 2015, interest rate swap agreements were used to hedge approximately \$1.4 billion of fixed rate long-term borrowings. Further information on interest rate swap agreements is provided in note 10 of Notes to Financial Statements.

Changes in the composition of the Company's earning assets and interest-bearing liabilities, as discussed herein, as well as changes in interest rates and spreads, can impact net interest income. Net interest spread, or the difference between the taxable-equivalent yield on earning assets and the rate paid on interest-bearing liabilities, was 2.97% in the recent quarter and 3.32% in the first quarter of 2014. The yield on earning assets during the initial 2015 quarter was 3.54%, down 33 basis points from 3.87% in the year-earlier quarter, while the rate paid on interest-bearing liabilities increased 2 basis points to .57% from .55%. In the fourth quarter of 2014, the net interest spread was 2.92%, the yield on earning assets was 3.44% and the rate paid on interest-bearing liabilities was .52%. The narrowing of the net interest spread in the recent quarter as compared with the first quarter of 2014 reflects higher average balances of investment securities and interest-bearing deposits held at the Federal Reserve Bank of New York that have substantially lower yields than loans. The 5 basis point improvement in the net interest spread as compared with the final 2014 quarter was largely due to the lower average balances of interest-bearing deposits held at the Federal Reserve Bank of New York, partially offset by higher average balances of investment securities and long-term borrowings and the impact of accelerated accretion of premiums on mortgage-backed securities due to higher than originally expected prepayments.

Net interest-free funds consist largely of noninterest-bearing demand deposits and shareholders' equity, partially offset by bank owned life insurance and non-earning assets, including goodwill and core deposit and other intangible assets. Net interest-free funds averaged \$29.3 billion in the first quarter of 2015, compared with \$26.9 billion and \$31.4 billion in the first and fourth quarters of 2014, respectively. The increases in average net interest-free funds in the two most recent quarters as compared with the first quarter of 2014 were predominantly the result of higher average balances of noninterest-bearing deposits. Such deposits averaged \$25.8 billion in the recent quarter, compared with \$24.1 billion and \$28.1 billion in the first and fourth quarters of 2014, respectively. The decline in average noninterest-bearing deposits from the fourth quarter of 2014 to the initial 2015 quarter was largely due to a decline in trust-related customer deposits. Goodwill and core deposit and other intangible assets averaged \$3.6 billion during each of the quarters ended March 31, 2015, March 31, 2014 and December 31, 2014. The cash surrender value of bank owned life insurance averaged \$1.7 billion in each of the three-month periods ended March 31, 2015, March 31, 2014 and December 31, 2014. Increases in the cash surrender value of bank owned life insurance and benefits received are not included in interest income, but rather are recorded in other revenues from operations. The contribution of net interest-free funds to net interest

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**Table of Contents**

margin was .20% in each of the first quarters of 2015 and 2014, compared with .18% in the fourth quarter of 2014.

Reflecting the changes to the net interest spread and the contribution of net interest-free funds as described herein, the Company's net interest margin was 3.17% in the first three months of 2015, compared with 3.52% in the year-earlier period and 3.10% in the fourth quarter of 2014. Future changes in market interest rates or spreads, as well as changes in the composition of the Company's portfolios of earning assets and interest-bearing liabilities that result in reductions in spreads, could adversely impact the Company's net interest income and net interest margin. In particular, the relatively low interest rate environment continues to exert downward pressure on yields on loans, investment securities and other earning assets.

Management assesses the potential impact of future changes in interest rates and spreads by projecting net interest income under several interest rate scenarios. In managing interest rate risk, the Company has utilized interest rate swap agreements to modify the repricing characteristics of certain portions of its interest-bearing liabilities. Periodic settlement amounts arising from these agreements are reflected in the rates paid on interest-bearing liabilities. The notional amount of interest rate swap agreements entered into for interest rate risk management purposes was \$1.4 billion at each of March 31, 2015, March 31, 2014 and December 31, 2014. Under the terms of those interest rate swap agreements, the Company received payments based on the outstanding notional amount at fixed rates and made payments at variable rates. Those interest rate swap agreements were designated as fair value hedges of certain fixed rate long-term borrowings.

In a fair value hedge, the fair value of the derivative (the interest rate swap agreement) and changes in the fair value of the hedged item are recorded in the Company's consolidated balance sheet with the corresponding gain or loss recognized in current earnings. The difference between changes in the fair value of the interest rate swap agreements and the hedged items represents hedge ineffectiveness and is recorded in other revenues from operations in the Company's consolidated statement of income. The amounts of hedge ineffectiveness recognized during the quarters ended March 31, 2015, March 31, 2014 and December 31, 2014 were not material to the Company's results of operations. The estimated aggregate fair value of interest rate swap agreements designated as fair value hedges represented gains of approximately \$73 million at each of March 31, 2015 and December 31, 2014 and \$95 million at March 31, 2014. The fair values of such interest rate swap agreements were substantially offset by changes in the fair values of the hedged items. The changes in the fair values of the interest rate swap agreements and the hedged items primarily result from the effects of changing interest rates and spreads. The Company's credit exposure as of March 31, 2015 with respect to the estimated fair value of interest rate swap agreements used for managing interest rate risk has been substantially mitigated through master netting arrangements with trading account interest rate contracts with the same counterparty as well as counterparty postings of \$49 million of collateral with the Company.

The weighted-average rates to be received and paid under interest rate swap agreements currently in effect were 4.42% and 1.22%, respectively, at March 31, 2015. The average notional amounts of interest rate swap agreements entered into for interest rate risk management purposes, the related effect on net interest income and margin, and the weighted-average rates paid or received on those swap agreements are presented in the accompanying table. Additional information about the Company's use of interest rate swap agreements and other derivatives is included in note 10 of Notes to Financial Statements.

**Table of Contents****INTEREST RATE SWAP AGREEMENTS**

Dollars in thousands

|                            | Three months ended March 31 |          |              |          |
|----------------------------|-----------------------------|----------|--------------|----------|
|                            | 2015                        |          | 2014         |          |
|                            | Amount                      | Rate (a) | Amount       | Rate (a) |
| Increase (decrease) in:    |                             |          |              |          |
| Interest income            | \$                          | %        | \$           | %        |
| Interest expense           | (11,277)                    | (.08)    | (11,292)     | (.09)    |
| Net interest income/margin | \$ 11,277                   | .06%     | \$ 11,292    | .06%     |
| Average notional amount    | \$ 1,400,000                |          | \$ 1,400,000 |          |
| Rate received (b)          |                             | 4.42%    |              | 4.42%    |
| Rate paid (b)              |                             | 1.20%    |              | 1.19%    |

(a) Computed as an annualized percentage of average earning assets or interest-bearing liabilities.

(b) Weighted-average rate paid or received on interest rate swap agreements in effect during the period.

As a financial intermediary, the Company is exposed to various risks, including liquidity and market risk. Liquidity refers to the Company's ability to ensure that sufficient cash flow and liquid assets are available to satisfy current and future obligations, including demands for loans and deposit withdrawals, funding operating costs, and other corporate purposes. Liquidity risk arises whenever the maturities of financial instruments included in assets and liabilities differ. M&T's banking subsidiaries have access to additional funding sources through borrowings from the FHLB of New York, lines of credit with the Federal Reserve Bank of New York, the previously noted Bank Note Program, and other available borrowing facilities. The Company has, from time to time, issued subordinated capital notes to provide liquidity and enhance regulatory capital ratios. Such notes generally qualify under Federal Reserve Board's risk-based capital guidelines for inclusion in the Company's capital. However, pursuant to the Dodd-Frank Act, junior subordinated debentures associated with trust preferred securities are being phased-out of the definition of Tier 1 capital. Effective January 1, 2015, 75% of such junior subordinated debentures are excluded from the Company's Tier 1 capital, and beginning January 1, 2016, 100% will be excluded. The amounts excluded from Tier 1 capital are includable in total capital.

The Company has informal and sometimes reciprocal sources of funding available through various arrangements for unsecured short-term borrowings from a wide group of banks and other financial institutions. Short-term federal funds borrowings were \$155 million at March 31, 2015, \$180 million at March 31, 2014 and \$135 million at December 31, 2014. In general, those borrowings were unsecured and matured on the next business day. In addition to satisfying customer demand, Cayman Islands office deposits may be used by the Company as an alternative to short-term borrowings. Cayman Islands office deposits totaled \$179 million, \$248 million and \$177 million at March 31, 2015, March 31, 2014 and December 31, 2014, respectively. The Company has brokered NOW and brokered money-market deposit accounts which aggregated approximately \$1.1 billion at each of March 31, 2015 and December 31, 2014, compared with \$1.0 billion at March 31, 2014. Brokered time deposits were not a significant source of funding as of those dates.



The Company's ability to obtain funding from these or other sources could be negatively impacted should the Company experience a substantial deterioration in its financial condition or its debt ratings, or should the availability of short-term funding become restricted due to a disruption in the financial markets. The Company attempts to quantify such credit-event risk by modeling scenarios that estimate the liquidity impact resulting from a short-term ratings downgrade over various grading levels. Such impact is estimated by attempting to measure the effect on available unsecured lines of

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**Table of Contents**

credit, available capacity from secured borrowing sources and securitizable assets. In addition to deposits and borrowings, other sources of liquidity include maturities of investment securities and other earning assets, repayments of loans and investment securities, and cash generated from operations, such as fees collected for services.

Certain customers of the Company obtain financing through the issuance of variable rate demand bonds ( VRDBs ). The VRDBs are generally enhanced by letters of credit provided by M&T Bank. M&T Bank oftentimes acts as remarketing agent for the VRDBs and, at its discretion, may from time-to-time own some of the VRDBs while such instruments are remarketed. When this occurs, the VRDBs are classified as trading account assets in the Company s consolidated balance sheet. Nevertheless, M&T Bank is not contractually obligated to purchase the VRDBs. The value of VRDBs in the Company s trading account totaled \$11 million and \$4 million at March 31, 2015 and 2014, respectively, while there were no outstanding VRDBs in the Company s trading account at December 31, 2014. The total amount of VRDBs outstanding backed by M&T Bank letters of credit was \$1.9 billion at March 31, 2015, compared with \$1.7 billion at March 31, 2014 and \$2.0 billion at December 31, 2014. M&T Bank also serves as remarketing agent for most of those bonds.

The Company enters into contractual obligations in the normal course of business which require future cash payments. Such obligations include, among others, payments related to deposits, borrowings, leases, and other contractual commitments. Off-balance sheet commitments to customers may impact liquidity, including commitments to extend credit, standby letters of credit, commercial letters of credit, financial guarantees and indemnification contracts, and commitments to sell real estate loans. Because many of these commitments or contracts expire without being funded in whole or in part, the contract amounts are not necessarily indicative of future cash flows. Further discussion of these commitments is provided in note 13 of Notes to Financial Statements.

M&T s primary source of funds to pay for operating expenses, shareholder dividends and treasury stock repurchases has historically been the receipt of dividends from its banking subsidiaries, which are subject to various regulatory limitations. Dividends from any banking subsidiary to M&T are limited by the amount of earnings of the banking subsidiary in the current year and the two preceding years. For purposes of that test, at March 31, 2015 approximately \$1.2 billion was available for payment of dividends to M&T from banking subsidiaries. Information regarding the long-term debt obligations of M&T is included in note 5 of Notes to Financial Statements.

Management closely monitors the Company s liquidity position on an ongoing basis for compliance with internal policies and believes that available sources of liquidity are adequate to meet funding needs anticipated in the normal course of business. Management does not anticipate engaging in any activities, either currently or in the long-term, for which adequate funding would not be available and would therefore result in a significant strain on liquidity at either M&T or its subsidiary banks. Banking regulators have finalized rules requiring a banking company to maintain a minimum amount of liquid assets to withstand a standardized supervisory liquidity stress scenario. The effective date for those rules for the Company is January 1, 2016, subject to a two year phase-in period. The Company has taken steps as noted herein to enhance its liquidity and will take further action, as necessary, to comply with the final regulations when they take effect.

Market risk is the risk of loss from adverse changes in the market prices and/or interest rates of the Company s financial instruments. The primary market risk the Company is exposed to is interest rate risk. Interest rate risk arises from the Company s core banking activities of lending and deposit-taking, because assets and liabilities reprice at different times and by different amounts as interest rates change. As a

**Table of Contents**

result, net interest income earned by the Company is subject to the effects of changing interest rates. The Company measures interest rate risk by calculating the variability of net interest income in future periods under various interest rate scenarios using projected balances for earning assets, interest-bearing liabilities and derivatives used to hedge interest rate risk. Management's philosophy toward interest rate risk management is to limit the variability of net interest income. The balances of financial instruments used in the projections are based on expected growth from forecasted business opportunities, anticipated prepayments of loans and investment securities, and expected maturities of investment securities, loans and deposits. Management uses a value of equity model to supplement the modeling technique described above. Those supplemental analyses are based on discounted cash flows associated with on- and off-balance sheet financial instruments. Such analyses are modeled to reflect changes in interest rates and provide management with a long-term interest rate risk metric.

The Company's Asset-Liability Committee, which includes members of senior management, monitors the sensitivity of the Company's net interest income to changes in interest rates with the aid of a computer model that forecasts net interest income under different interest rate scenarios. In modeling changing interest rates, the Company considers different yield curve shapes that consider both parallel (that is, simultaneous changes in interest rates at each point on the yield curve) and non-parallel (that is, allowing interest rates at points on the yield curve to vary by different amounts) shifts in the yield curve. In utilizing the model, projections of net interest income calculated under the varying interest rate scenarios are compared to a base interest rate scenario that is reflective of current interest rates. The model considers the impact of ongoing lending and deposit-gathering activities, as well as interrelationships in the magnitude and timing of the repricing of financial instruments, including the effect of changing interest rates on expected prepayments and maturities. When deemed prudent, management has taken actions to mitigate exposure to interest rate risk through the use of on- or off-balance sheet financial instruments and intends to do so in the future. Possible actions include, but are not limited to, changes in the pricing of loan and deposit products, modifying the composition of earning assets and interest-bearing liabilities, and adding to, modifying or terminating existing interest rate swap agreements or other financial instruments used for interest rate risk management purposes.

The accompanying table as of March 31, 2015 and December 31, 2014 displays the estimated impact on net interest income from non-trading financial instruments in the base scenario described above resulting from parallel changes in interest rates across repricing categories during the first modeling year.

**SENSITIVITY OF NET INTEREST INCOME****TO CHANGES IN INTEREST RATES**

Dollars in thousands

| Changes in interest rates | Calculated increase (decrease)<br>in projected net interest income |                   |
|---------------------------|--|-------------------|
|                           | March 31, 2015   | December 31, 2014 |
| +200 basis points         | \$ 234,291   | 246,028           |
| +100 basis points         | 129,404  | 134,393           |
| -100 basis points         | (54,132)   | (74,634)          |
| -200 basis points         | (89,402)   | (109,261)         |

The Company utilized many assumptions to calculate the impact that changes in interest rates may have on net interest income. The more significant of those assumptions included the rate of prepayments of mortgage-related assets, cash flows from derivative and other financial instruments held for non-trading purposes, loan and deposit volumes and

pricing, and deposit maturities. In the scenarios presented, the Company also assumed gradual changes in rates during a twelve-month period of 100 and 200 basis points, as compared with the assumed base scenario. In the event

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**Table of Contents**

that a 100 or 200 basis point rate change cannot be achieved, the applicable rate changes are limited to lesser amounts such that interest rates cannot be less than zero. The assumptions used in interest rate sensitivity modeling are inherently uncertain and, as a result, the Company cannot precisely predict the impact of changes in interest rates on net interest income. Actual results may differ significantly from those presented due to the timing, magnitude and frequency of changes in interest rates and changes in market conditions and interest rate differentials (spreads) between maturity/repricing categories, as well as any actions, such as those previously described, which management may take to counter such changes.

Changes in fair value of the Company's financial instruments can also result from a lack of trading activity for similar instruments in the financial markets. That impact is most notable on the values assigned to some of the Company's investment securities. Information about the fair valuation of such securities is presented herein under the heading "Capital" and in notes 3 and 12 of Notes to Financial Statements.

The Company engages in trading account activities to meet the financial needs of customers and to fund the Company's obligations under certain deferred compensation plans. Financial instruments utilized in trading account activities consist predominantly of interest rate contracts, such as swap agreements, and forward and futures contracts related to foreign currencies. The Company generally mitigates the foreign currency and interest rate risk associated with trading account activities by entering into offsetting trading positions that are also included in the trading account. The fair values of the offsetting positions associated with interest rate contracts and foreign currency and other option and futures contracts are presented in note 10 of Notes to Financial Statements. The amounts of gross and net positions, as well as the type of trading account activities conducted by the Company, are subject to a well-defined series of potential loss exposure limits established by management and approved by M&T's Board of Directors. However, as with any non-government guaranteed financial instrument, the Company is exposed to credit risk associated with counterparties to the Company's trading account activities.

The notional amounts of interest rate contracts entered into for trading account purposes aggregated \$17.1 billion at each of March 31, 2015 and 2014 and \$17.6 billion at December 31, 2014. The notional amounts of foreign currency and other option and futures contracts entered into for trading account purposes totaled \$1.4 billion at March 31, 2015, compared with \$1.0 billion and \$1.3 billion at March 31 and December 31, 2014, respectively. Although the notional amounts of these contracts are not recorded in the consolidated balance sheet, the fair values of all financial instruments used for trading account activities are recorded in the consolidated balance sheet. The fair values of all trading account assets and liabilities were \$363 million and \$240 million, respectively, at March 31, 2015, \$315 million and \$216 million, respectively, at March 31, 2014, and \$308 million and \$203 million, respectively, at December 31, 2014. Included in trading account assets were assets related to deferred compensation plans totaling \$25 million at March 31, 2015, compared with \$26 million at March 31, 2014 and \$27 million at December 31, 2014. Changes in the fair value of such assets are recorded as "trading account and foreign exchange gains" in the consolidated statement of income. Included in "other liabilities" in the consolidated balance sheet at March 31, 2015 were \$29 million of liabilities related to deferred compensation plans, compared with \$30 million at each of March 31 and December 31, 2014. Changes in the balances of such liabilities due to the valuation of allocated investment options to which the liabilities are indexed are recorded in "other costs of operations" in the consolidated statement of income.

Given the Company's policies, limits and positions, management believes that the potential loss exposure to the Company resulting from market risk associated with trading account activities was not material, however, as

**Table of Contents**

previously noted, the Company is exposed to credit risk associated with counterparties to transactions associated with the Company's trading activities. Additional information about the Company's use of derivative financial instruments in its trading account activities is included in note 10 of Notes to Financial Statements.

**Provision for Credit Losses**

The Company maintains an allowance for credit losses that in management's judgment appropriately reflects losses inherent in the loan and lease portfolio. A provision for credit losses is recorded to adjust the level of the allowance as deemed necessary by management. The provision for credit losses in the first quarter of 2015 was \$38 million, compared with \$32 million in the year-earlier quarter and \$33 million in the fourth quarter of 2014. Net loan charge-offs were \$36 million in the recent quarter, compared with \$32 million in each of the first and fourth quarters of 2014. Net charge-offs as an annualized percentage of average loans and leases were .22% in the initial 2015 quarter, compared with .20% in the first quarter of 2014 and .19% in the final 2014 quarter. A summary of net charge-offs by loan type is presented in the table that follows.

## NET CHARGE-OFFS

## BY LOAN/LEASE TYPE

In thousands

|                                      | First Quarter<br>2015 | First Quarter<br>2014 | Fourth Quarter<br>2014 |
|--------------------------------------|-----------------------|-----------------------|------------------------|
| Commercial, financial, leasing, etc. | \$ 8,411              | 9,146                 | 9,397                  |
| Real estate:                         |                       |                       |                        |
| Commercial                           | 6,094                 | 289                   | 1,262                  |
| Residential                          | 2,129                 | 5,822                 | 2,554                  |
| Consumer                             | 19,555                | 16,651                | 18,858                 |
|                                      | \$ 36,189             | 31,908                | 32,071                 |

Included in net charge-offs of consumer loans and leases were net charge-offs during the quarters ended March 31, 2015, March 31, 2014 and December 31, 2014, respectively, of: automobile loans of \$4 million in each respective period; recreational vehicle loans of \$3 million, \$4 million and \$3 million; and home equity loans and lines of credit, including Alt-A second lien loans, of \$6 million, \$4 million and \$4 million. Alt-A loans represent loans secured by residential real estate that at origination typically included some form of limited borrower documentation requirements as compared with more traditional loans. Loans in the Company's Alt-A portfolio were originated by the Company prior to 2008.

Loans acquired in connection with acquisition transactions subsequent to 2008 were recorded at fair value with no carry-over of any previously recorded allowance for credit losses. Determining the fair value of the acquired loans required estimating cash flows expected to be collected on the loans and discounting those cash flows at then-current interest rates. The excess of expected cash flows over the carrying value of the loans is recognized as interest income over the lives of loans. The difference between contractually required payments and the cash flows expected to be collected is referred to as the nonaccretable balance and is not recorded on the consolidated balance sheet. The nonaccretable balance reflects estimated future credit losses and other contractually required payments that the

Company does not expect to collect. The Company regularly evaluates the reasonableness of its cash flow projections. Any decreases to the expected cash flows require the Company to evaluate the need for an additional allowance for credit losses and could lead to charge-offs of acquired loan balances. Any significant increases in expected cash flows result in additional interest income to be recognized over the then-remaining lives of the loans. The carrying amount of loans obtained in acquisitions subsequent to 2008 was \$2.4 billion, \$3.7 billion and \$2.6 billion at March 31, 2015,

- 63 -

**Table of Contents**

March 31, 2014 and December 31, 2014, respectively. The portion of the nonaccretable balance related to remaining principal losses as well as life-to-date principal losses charged against the nonaccretable balance as of March 31, 2015 and December 31, 2014 are presented in the accompanying table.

|                                      | Nonaccretable balance - principal |                      |                      |                      |
|--------------------------------------|-----------------------------------|----------------------|----------------------|----------------------|
|                                      | Remaining balance                 |                      | Life-to-date charges |                      |
|                                      | March 31,<br>2015                 | December 31,<br>2014 | March 31,<br>2015    | December 31,<br>2014 |
|                                      | (in thousands)                    |                      |                      |                      |
| Commercial, financing, leasing, etc. | \$ 19,961                         | 19,589               | 78,084               | 78,736               |
| Commercial real estate               | 75,451                            | 70,261               | 271,490              | 276,681              |
| Residential real estate              | 15,104                            | 15,958               | 60,381               | 59,552               |
| Consumer                             | 27,701                            | 29,582               | 79,700               | 77,819               |
| <b>Total</b>                         | <b>\$ 138,217</b>                 | <b>135,390</b>       | <b>489,655</b>       | <b>492,788</b>       |

Nonaccrual loans totaled \$791 million or 1.18% of total loans and leases outstanding at March 31, 2015, compared with \$891 million or 1.39% a year earlier and \$799 million or 1.20% at December 31, 2014. The declines in nonaccrual loans at the two most recent quarter-ends as compared with March 31, 2014 were largely due to lower commercial loans and commercial real estate loans in nonaccrual status.

Accruing loans past due 90 days or more (excluding acquired loans) were \$237 million or .35% of total loans and leases at March 31, 2015, compared with \$307 million or .48% at March 31, 2014 and \$245 million or .37% at December 31, 2014. Those loans included loans guaranteed by government-related entities of \$194 million, \$291 million and \$218 million at March 31, 2015, March 31, 2014 and December 31, 2014, respectively. Such guaranteed loans included one-to-four family residential mortgage loans serviced by the Company that were repurchased to reduce associated servicing costs, including a requirement to advance principal and interest payments that had not been received from individual mortgagors. Despite the loans being purchased by the Company, the insurance or guarantee by the applicable government-related entity remains in force. The outstanding principal balances of the repurchased loans that are guaranteed by government-related entities totaled \$178 million, \$251 million and \$196 million at March 31, 2015, March 31, 2014 and December 31, 2014, respectively. The remaining accruing loans past due 90 days or more not guaranteed by government-related entities were loans considered to be with creditworthy borrowers that were in the process of collection or renewal. Acquired accruing loans past due 90 days or more are loans that could not be specifically identified as impaired as of the acquisition date, but were recorded at estimated fair value as of such date. Such loans totaled \$80 million at March 31, 2015, compared with \$121 million at March 31, 2014 and \$110 million at December 31, 2014.

Purchased impaired loans are loans obtained in acquisition transactions subsequent to 2008 that as of the acquisition date were specifically identified as displaying signs of credit deterioration and for which the Company did not expect to collect all outstanding principal and contractually required interest payments. Those loans were impaired at the date of acquisition, were recorded at estimated fair value and were generally delinquent in payments, but, in accordance with GAAP, the Company continues to accrue interest income on such loans based on the estimated expected cash flows associated with the loans. The carrying amount of such loans was \$184 million at March 31, 2015, or approximately .3% of total loans. Purchased impaired loans totaled \$303 million and \$198 million at March 31 and December 31, 2014, respectively. The decline in such loans from March 31, 2014 was predominantly the result of



payments received from customers.

- 64 -

**Table of Contents**

In an effort to assist borrowers, the Company modified the terms of select loans. If the borrower was experiencing financial difficulty and a concession was granted, the Company considered such modifications as troubled debt restructurings. Loan modifications included such actions as the extension of loan maturity dates and the lowering of interest rates and monthly payments. The objective of the modifications was to increase loan repayments by customers and thereby reduce net charge-offs. In accordance with GAAP, the modified loans are included in impaired loans for purposes of determining the level of the allowance for credit losses. Information about modifications of loans that are considered troubled debt restructurings is included in note 4 of Notes to Financial Statements.

Residential real estate loans modified under specified loss mitigation programs prescribed by government guarantors have not been included in renegotiated loans because the loan guarantee remains in full force and, accordingly, the Company has not granted a concession with respect to the ultimate collection of the original loan balance. Such loans aggregated \$153 million, \$224 million and \$149 million at March 31, 2015, March 31, 2014 and December 31, 2014, respectively.

Nonaccrual commercial loans and leases aggregated \$195 million at March 31, 2015, \$138 million at March 31, 2014 and \$177 million at December 31, 2014. The increases in such loans since March 31, 2014 were not concentrated in any particular industry group. Commercial real estate loans classified as nonaccrual totaled \$232 million at March 31, 2015, \$291 million at March 31, 2014 and \$239 million at December 31, 2014. The decreases in such loans at the two most recent quarter-ends as compared with March 31, 2014 was due, in part, to improving economic conditions and reflected lower loans in nonaccrual status to residential builders and developers. Loans to residential builders and developers in nonaccrual status aggregated \$65 million and \$90 million at March 31, 2015 and 2014, respectively, and \$72 million at December 31, 2014. Information about the location of nonaccrual and charged-off loans to residential real estate builders and developers as of and for the three-month period ended March 31, 2015 is presented in the accompanying table.

**RESIDENTIAL BUILDER AND DEVELOPER LOANS, NET OF UNEARNED DISCOUNT**

|              | March 31, 2015              |  |  | Quarter ended<br>March 31, 2015             |   |
|--------------|-----------------------------|--|--|---|---|
|              | Outstanding<br>balances (a) | Nonaccrual<br>Balances<br>(dollars in thousands) | Percent<br>of<br>outstanding<br>balances | Net charge-offs<br>(recoveries)<br>Balances | Annualized<br>percent<br>of<br>average<br>outstanding<br>balances |
| New York     | \$ 751,974                  | \$ 8,571   | 1.14%                                    | \$ 134                                      | .09%  |
| Pennsylvania | 137,105                     | 36,538   | 26.65                                    | (2)   | (.01)   |
| Mid-Atlantic | 400,934                     | 21,909   | 5.46                                     | 11  | .01   |
| Other        | 365,634                     | 1,504  | .41                                      |   |   |
| <b>Total</b> | <b>\$ 1,655,647</b>         | <b>\$ 68,522</b>                                 | <b>4.14%</b>                             | <b>\$ 143</b>                               | <b>.04%</b>   |

(a) *Includes approximately \$24 million of loans not secured by real estate, of which approximately \$3 million are in nonaccrual status.*

- 65 -

**Table of Contents**

Residential real estate loans in nonaccrual status at March 31, 2015 were \$246 million, compared with \$338 million at March 31, 2014 and \$258 million at December 31, 2014. The decrease in residential real estate loans classified as nonaccrual from March 31, 2014 was largely related to the payoff during the second quarter of 2014 of \$64 million of loans to one customer that were secured by residential real estate. Included in residential real estate loans classified as nonaccrual were Alt-A loans of \$74 million, \$79 million and \$78 million at March 31, 2015, March 31, 2014 and December 31, 2014, respectively. Residential real estate loans past due 90 days or more and accruing interest (excluding acquired loans) totaled \$197 million at March 31, 2015, compared with \$285 million a year earlier and \$216 million at December 31, 2014. A substantial portion of such amounts related to guaranteed loans repurchased from government-related entities. Information about the location of nonaccrual and charged-off residential real estate loans as of and for the quarter ended March 31, 2015 is presented in the accompanying table.

Nonaccrual consumer loans aggregated \$118 million at March 31, 2015, compared with \$124 million at March 31, 2014 and \$125 million at December 31, 2014. Included in nonaccrual consumer loans at March 31, 2015, March 31, 2014 and December 31, 2014 were: automobile loans of \$14 million, \$16 million and \$18 million, respectively; recreational vehicle loans of \$9 million, \$11 million and \$11 million, respectively; and outstanding balances of home equity loans and lines of credit, including junior lien Alt-A loans, of \$88 million, \$83 million and \$89 million, respectively. Information about the location of nonaccrual and charged-off home equity loans and lines of credit as of and for the quarter ended March 31, 2015 is presented in the accompanying table.

**Table of Contents**

## SELECTED RESIDENTIAL REAL ESTATE-RELATED LOAN DATA

|  | March 31, 2015          |            |  | Quarter ended<br>March 31, 2015 |   |
|--|-------------------------|------------|--|---------------------------------|---|
|  |                         | Nonaccrual |  | Net charge-offs<br>(recoveries) |   |
|  | Outstanding<br>balances | Balances   | Percent<br>of<br>outstanding<br>balances | Balances                        | Annualized<br>percent<br>of<br>average<br>outstanding<br>balances |
|  | (dollars in thousands)  |            |  |                                 |   |
| <b>Residential mortgages:</b>          |                         |            |  |                                 |   |
| New York                               | \$ 3,456,314            | \$ 63,978  | 1.85%                                    | \$ 757                          | .09%  |
| Pennsylvania                           | 1,106,917               | 19,210     | 1.74                                     | 50                              | .02   |
| Mid-Atlantic                           | 2,026,129               | 30,854     | 1.52                                     | 705                             | .14   |
| Other                                  | 1,557,014               | 55,732     | 3.58                                     | 186                             | .05   |
| Total                                  | \$ 8,146,374            | \$ 169,774 | 2.08%                                    | \$ 1,698                        | .08%  |
| <b>Residential construction loans:</b> |                         |            |  |                                 |   |
| New York                               | \$ 5,999                | \$ 144     | 2.41%                                    | \$                              | %   |
| Pennsylvania                           | 3,249                   | 734        | 22.58                                    | (1)                             | (.11)   |
| Mid-Atlantic                           | 9,730                   |            |  |                                 |   |
| Other                                  | 11,199                  | 844        | 7.54                                     | 66                              | 2.14  |
| Total                                  | \$ 30,177               | \$ 1,722   | 5.71%                                    | \$ 65                           | .81%  |
| <b>Alt-A first mortgages:</b>          |                         |            |  |                                 |   |
| New York                               | \$ 55,606               | \$ 18,263  | 32.84%                                   | \$ 166                          | 1.20%   |
| Pennsylvania                           | 10,451                  | 2,910      | 27.84                                    | 61                              | 2.34  |
| Mid-Atlantic                           | 65,192                  | 9,670      | 14.83                                    | 10                              | .06   |
| Other                                  | 196,319                 | 43,427     | 22.12                                    | 129                             | .26   |
| Total                                  | \$ 327,568              | \$ 74,270  | 22.67%                                   | \$ 366                          | .44%  |
| <b>Alt-A junior lien:</b>              |                         |            |  |                                 |   |
| New York                               | \$ 1,066                | \$ 56      | 5.24%                                    | \$ 107                          | 40.21%  |
| Pennsylvania                           | 353                     | 34         | 9.76                                     |                                 |   |
| Mid-Atlantic                           | 2,801                   | 141        | 5.02                                     | (1)                             | (.08)   |
| Other                                  | 6,595                   | 508        | 7.70                                     | 282                             | 17.00   |
| Total                                  | \$ 10,815               | \$ 739     | 6.83%                                    | \$ 388                          | 14.21%  |
| <b>First lien home equity loans:</b>   |                         |            |  |                                 |   |

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|                                       |                     |                  |              |                 |             |
|---------------------------------------|---------------------|------------------|--------------|-----------------|-------------|
| New York                              | \$ 16,684           | \$ 1,648         | 9.88%        | \$ 194          | 4.55%       |
| Pennsylvania                          | 54,773              | 3,282            | 5.99         | 87              | .62         |
| Mid-Atlantic                          | 72,624              | 848              | 1.17         | 78              | .42         |
| Other                                 | 1,155               |                  |              | (2)             | (.50)       |
| <b>Total</b>                          | <b>\$ 145,236</b>   | <b>\$ 5,778</b>  | <b>3.98%</b> | <b>\$ 357</b>   | <b>.96%</b> |
| <b>First lien home equity lines:</b>  |                     |                  |              |                 |             |
| New York                              | \$ 1,358,769        | \$ 15,112        | 1.11%        | \$ 463          | .14%        |
| Pennsylvania                          | 838,591             | 5,922            | .71          | 373             | .18         |
| Mid-Atlantic                          | 857,883             | 3,959            | .46          | 184             | .09         |
| Other                                 | 37,985              | 1,515            | 3.99         |                 |             |
| <b>Total</b>                          | <b>\$ 3,093,228</b> | <b>\$ 26,508</b> | <b>.86%</b>  | <b>\$ 1,020</b> | <b>.13%</b> |
| <b>Junior lien home equity loans:</b> |                     |                  |              |                 |             |
| New York                              | \$ 13,923           | \$ 4,590         | 32.97%       | \$ (165)        | (4.72)%     |
| Pennsylvania                          | 17,731              | 998              | 5.63         | (18)            | (.39)       |
| Mid-Atlantic                          | 59,825              | 1,510            | 2.52         | 3               | .02         |
| Other                                 | 7,398               | 856              | 11.57        | 344             | 18.01       |
| <b>Total</b>                          | <b>\$ 98,877</b>    | <b>\$ 7,954</b>  | <b>8.04%</b> | <b>\$ 164</b>   | <b>.65%</b> |
| <b>Junior lien home equity lines:</b> |                     |                  |              |                 |             |
| New York                              | \$ 940,262          | \$ 30,449        | 3.24%        | \$ 1,903        | .81%        |
| Pennsylvania                          | 387,109             | 4,484            | 1.16         | 717             | .74         |
| Mid-Atlantic                          | 1,179,393           | 10,267           | .87          | 1,816           | .62         |
| Other                                 | 68,065              | 1,806            | 2.65         | (27)            | (.16)       |
| <b>Total</b>                          | <b>\$ 2,574,829</b> | <b>\$ 47,006</b> | <b>1.83%</b> | <b>\$ 4,409</b> | <b>.69%</b> |

**Table of Contents**

Real estate and other foreclosed assets totaled \$63 million and \$59 million at March 31, 2015 and March 31, 2014, and \$64 million at December 31, 2014. At March 31, 2015, foreclosed assets included \$42 million of residential real estate properties.

A comparative summary of nonperforming assets and certain past due loan data and credit quality ratios as of the end of the periods indicated is presented in the accompanying table.

**NONPERFORMING ASSET AND PAST DUE, RENEGOTIATED AND IMPAIRED LOAN DATA**

Dollars in thousands

|   | 2015              |                | 2014 Quarters  |                |                   |
|---|-------------------|----------------|----------------|----------------|-------------------|
|   | First Quarter     | Fourth         | Third          | Second         | First             |
| Nonaccrual loans  | \$ 790,586        | 799,151        | 847,784        | 880,134        | \$ 890,893        |
| Real estate and other foreclosed assets   | 62,578            | 63,635         | 67,629         | 59,793         | 59,407            |
| <b>Total nonperforming assets</b>   | <b>\$ 853,164</b> | <b>862,786</b> | <b>915,413</b> | <b>939,927</b> | <b>\$ 950,300</b> |
| Accruing loans past due 90 days or more (a)   | \$ 236,621        | 245,020        | 312,990        | 289,016        | \$ 307,017        |
| Government guaranteed loans included in totals above:   |                   |                |                |                |                   |
| Nonaccrual loans  | \$ 60,508         | 69,095         | 68,586         | 81,817         | \$ 75,959         |
| Accruing loans past due 90 days or more   | 193,618           | 217,822        | 265,333        | 275,846        | 291,418           |
| Renegotiated loans  | \$ 198,911        | 202,633        | 209,099        | 270,223        | \$ 257,889        |
| Acquired accruing loans past due 90 days or more (b)  | \$ 80,110         | 110,367        | 132,147        | 134,580        | \$ 120,996        |
| Purchased impaired loans (c):   |                   |                |                |                |                   |
| Outstanding customer balance  | \$ 335,079        | 369,080        | 429,915        | 504,584        | \$ 534,331        |
| Carrying amount   | 184,018           | 197,737        | 236,662        | 282,517        | 303,388           |
| Nonaccrual loans to total loans and leases, net of unearned discount                            | 1.18%             | 1.20%          | 1.29%          | 1.36%          | 1.39%             |
| Nonperforming assets to total net loans and leases and real estate and other foreclosed assets  | 1.27%             | 1.29%          | 1.39%          | 1.45%          | 1.48%             |
| Accruing loans past due 90 days or more (a) to total loans and leases, net of unearned discount | .35%              | .37%           | .48%           | .45%           | .48%              |

- (a) Excludes acquired loans. Predominantly residential mortgage loans.*
- (b) Acquired loans that were recorded at fair value at acquisition date. This category does not include purchased impaired loans that are presented separately.*
- (c) Accruing loans that were impaired at acquisition date and recorded at fair value.*

Management determined the allowance for credit losses by performing ongoing evaluations of the loan and lease portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications.



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**Table of Contents**

Management evaluated the impact of changes in interest rates and overall economic conditions on the ability of borrowers to meet repayment obligations when quantifying the Company's exposure to credit losses and the allowance for such losses as of each reporting date. Factors also considered by management when performing its assessment, in addition to general economic conditions and the other factors described above, included, but were not limited to: (i) the impact of residential real estate values on the Company's portfolio of loans to residential real estate builders and developers and other loans secured by residential real estate; (ii) the concentrations of commercial real estate loans in the Company's loan portfolio; (iii) the amount of commercial and industrial loans to businesses in areas of New York State outside of the New York City metropolitan area and in central Pennsylvania that have historically experienced less economic growth and vitality than the vast majority of other regions of the country; (iv) the repayment performance associated with the Company's first and second lien loans secured by residential real estate; and (v) the size of the Company's portfolio of loans to individual consumers, which historically have experienced higher net charge-offs as a percentage of loans outstanding than other loan types. The level of the allowance is adjusted based on the results of management's analysis.

Management cautiously and conservatively evaluated the allowance for credit losses as of March 31, 2015 in light of: (i) residential real estate values and the level of delinquencies of loans secured by residential real estate; (ii) economic conditions in the markets served by the Company; (iii) continuing weakness in industrial employment in upstate New York and central Pennsylvania; (iv) the significant subjectivity involved in commercial real estate valuations; and (v) the amount of loan growth experienced by the Company. While there has been general improvement in economic conditions, concerns continue to exist about the strength and sustainability of such improvements; the troubled state of financial and credit markets, including the impact international economic conditions could have on the U.S. economy; Federal Reserve positioning of monetary policy; low levels of workforce participation; and continued stagnant population growth in the upstate New York and central Pennsylvania regions (approximately 60% of the Company's loans are to customers in New York State and Pennsylvania).

The Company utilizes a loan grading system which 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. Criticized commercial loans and commercial real estate loans were \$2.0 billion at March 31, 2015, compared with \$1.8 billion at each of March 31, 2014 and December 31, 2014. The increase since December 31, 2014 included approximately \$129 million related to commercial loans to customers operating in varied industries. Loan officers with the support of loan review personnel in different geographic locations are responsible to continuously review and reassign loan grades to pass and criticized loans based on their detailed knowledge of individual borrowers and their judgment of the impact on such borrowers resulting from changing conditions in their respective geographic regions. On a quarterly basis, the Company's centralized loan review department reviews all criticized commercial loans and commercial real estate loans greater than \$1 million to determine the appropriateness of the assigned loan grade, including whether the loan should be reported as accruing or nonaccruing. For criticized nonaccrual loans, additional meetings are held with loan officers and their

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**Table of Contents**

managers, workout specialists and senior management to discuss each of the relationships. In analyzing criticized loans, borrower-specific information is reviewed, including operating results, future cash flows, recent developments and the borrower's outlook, and other pertinent data. The timing and extent of potential losses, considering collateral valuation and other factors, and the Company's potential courses of action are reviewed. To the extent that these loans are collateral-dependent, they are evaluated based on the fair value of the loan's collateral as estimated at or near the financial statement date. As the quality of a loan deteriorates to the point of classifying the loan as criticized, the process of obtaining updated collateral valuation information is usually initiated, unless it is not considered warranted given factors such as the relative size of the loan, the characteristics of the collateral or the age of the last valuation. In those cases where current appraisals may not yet be available, prior appraisals are utilized with adjustments, as deemed necessary, for estimates of subsequent declines in value as determined by line of business and/or loan workout personnel in the respective geographic regions. Those adjustments are reviewed and assessed for reasonableness by the Company's loan review department. Accordingly, for real estate collateral securing larger commercial loans and commercial real estate loans, estimated collateral values are based on current appraisals and estimates of value. For non-real estate loans, collateral is assigned a discounted estimated liquidation value and, depending on the nature of the collateral, is verified through field exams or other procedures. In assessing collateral, real estate and non-real estate values are reduced by an estimate of selling costs. With regard to residential real estate loans, the Company's loss identification and estimation techniques make reference to loan performance and house price data in specific areas of the country where collateral that was securing the Company's residential real estate loans was located. For residential real estate-related loans, including home equity loans and lines of credit, the excess of the loan balance over the net realizable value of the property collateralizing the loan is charged-off when the loan becomes 150 days delinquent. That charge-off is based on recent indications of value from external parties that are generally obtained shortly after a loan becomes nonaccrual. At March 31, 2015, approximately 55% of the Company's home equity portfolio consisted of first lien loans and lines of credit. Of the remaining junior lien loans in the portfolio, approximately 73% (or approximately 32% of the aggregate home equity portfolio) consisted of junior lien loans that were behind a first lien mortgage loan that was not owned or serviced by the Company. To the extent known by the Company, if a senior lien loan would be on nonaccrual status because of payment delinquency, even if such senior lien loan was not owned by the Company, the junior lien loan or line that is owned by the Company is placed on nonaccrual status. At March 31, 2015, the balance of junior lien loans and lines that were in nonaccrual status solely as a result of first lien loan performance was \$22 million, compared with \$30 million at March 31, 2014 and \$24 million at December 31, 2014. In monitoring the credit quality of its home equity portfolio for purposes of determining the allowance for credit losses, the Company reviews delinquency and nonaccrual information and considers recent charge-off experience. Additionally, the Company generally evaluates home equity loans and lines of credit that are more than 150 days past due for collectibility on a loan-by-loan basis and the excess of the loan balance over the net realizable value of the property collateralizing the loan is charged-off at that time. In determining the amount of such charge-offs, if the Company does not know the amount of the remaining first lien mortgage loan (typically because the Company does not own or service the first lien loan), the Company assumes that the first lien mortgage loan has had no principal amortization since the origination of the junior lien loan. Similarly, data used in estimating incurred losses for purposes of determining the allowance for credit losses also assumes no reductions in outstanding principal of first lien loans since the origination of the junior lien loan. Home equity line of credit terms vary but such lines are generally originated with an open draw period of ten years followed by an

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**Table of Contents**

amortization period of up to twenty years. At March 31, 2015, approximately 92% of all outstanding balances of home equity lines of credit related to lines that were still in the draw period, the weighted-average remaining draw periods were approximately five years, and approximately 22% were making contractually allowed payments that do not include repayment of principal.

Factors that influence the Company's credit loss experience include overall economic conditions affecting businesses and consumers, generally, but also residential and commercial real estate valuations, in particular, given the size of the Company's real estate loan portfolios. Commercial real estate valuations can be highly subjective, as they are based upon many assumptions. Such valuations can be significantly affected over relatively short periods of time by changes in business climate, economic conditions, interest rates and, in many cases, the results of operations of businesses and other occupants of the real property. Similarly, residential real estate valuations can be impacted by housing trends, the availability of financing at reasonable interest rates, and general economic conditions affecting consumers.

In determining 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. In quantifying incurred losses, the Company considers the factors and uses the techniques described herein and in note 4 of Notes to Financial Statements. For purposes of determining the level of the allowance for credit losses, the Company segments its loan and lease portfolio by loan type. The amount of specific loss components in the Company's loan and lease portfolios is determined through a loan-by-loan analysis of commercial loans and commercial real estate loans in nonaccrual status. Measurement of the specific loss components is typically based on expected future cash flows, collateral values or other factors that may impact the borrower's ability to pay. Losses associated with residential real estate loans and consumer loans are generally 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. These forecasts give consideration to overall borrower repayment performance and current geographic region changes in collateral values using third party published historical price indices or automated valuation methodologies. 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 junior lien position. Approximately 45% of the Company's home equity portfolio consists of junior lien loans and lines of credit. Except for consumer loans and residential real estate loans that are considered smaller balance homogeneous loans and are evaluated collectively and loans obtained in acquisition transactions, the Company considers a loan to be impaired 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 or more and has been placed in nonaccrual status. Those impaired loans are evaluated for specific loss components. 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. Loans less than 90 days delinquent are deemed to have a minimal delay in payment and are generally not considered to be impaired. Loans acquired in connection with acquisition transactions subsequent to 2008 were recorded at fair value with no carry-over of any previously recorded allowance for credit losses. Determining the fair value of the acquired loans required estimating cash flows expected to be collected on the loans and discounting those cash flows at then-current interest rates. The impact of estimated future credit losses represents the predominant difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition. Subsequent decreases to those expected cash flows require the Company to evaluate the need for an additional allowance for credit losses and could lead to charge-offs of acquired loan balances. Additional

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**Table of Contents**

information regarding the Company's process for determining the allowance for credit losses is included in note 4 of Notes to Financial Statements.

Management believes that the allowance for credit losses at March 31, 2015 appropriately reflected credit losses inherent in the portfolio as of that date. The allowance for credit losses was \$921 million, or 1.37% of total loans and leases at March 31, 2015, compared with \$917 million or 1.43% at March 31, 2014 and \$920 million or 1.38% at December 31, 2014. The ratio of the allowance to total loans and leases at each respective date reflects the impact of loans obtained in acquisition transactions subsequent to 2008 that had been recorded at estimated fair value based on estimated future cash flows expected to be received on those loans. Those cash flows include the impact of expected defaults on customer repayment performance. As noted earlier, GAAP prohibits any carry-over of an allowance for credit losses for acquired loans recorded at fair value. The level of the allowance reflects management's evaluation of the loan and lease portfolio using the methodology and considering the factors as described herein. Should the various credit factors considered by management in establishing the allowance for credit losses change and should management's assessment of losses inherent in the loan portfolios also change, the level of the allowance as a percentage of loans could increase or decrease in future periods. The ratio of the allowance for credit losses to nonaccrual loans was 117% at March 31, 2015, compared with 103% a year earlier and 115% at December 31, 2014. Given the Company's general position as a secured lender and its practice of charging-off loan balances when collection is deemed doubtful, that ratio and changes in that ratio are generally not an indicative measure of the adequacy of the Company's allowance for credit losses, nor does management rely upon that ratio in assessing the adequacy of the allowance. The level of the allowance reflects management's evaluation of the loan and lease portfolio as of each respective date.

**Other Income**

Other income totaled \$440 million in the first quarter of 2015, compared with \$420 million in the year-earlier quarter and \$452 million in the fourth quarter of 2014. The predominant factor contributing to the improvement from the first quarter of 2014 was a \$22 million increase in mortgage banking revenues. As compared with the fourth quarter of 2014, the decline in other income reflected a decrease in loan syndication fees and declines in service charges on deposit accounts and trust income, partially offset by higher mortgage banking revenues.

Mortgage banking revenues totaled \$102 million in the recent quarter, compared with \$80 million in the initial quarter of 2014 and \$94 million in the final 2014 quarter. Mortgage banking revenues are comprised of both residential and commercial mortgage banking activities. The Company's involvement in commercial mortgage banking activities includes the origination, sales and servicing of loans under the multi-family loan programs of Fannie Mae, Freddie Mac and the U.S. Department of Housing and Urban Development.

Residential mortgage banking revenues, consisting of realized gains from sales of residential real estate loans and loan servicing rights, unrealized gains and losses on residential real estate loans held for sale and related commitments, residential real estate loan servicing fees, and other residential real estate loan-related fees and income, were \$79 million in the first quarter of 2015, compared with \$65 million in the year-earlier quarter and \$71 million in the fourth quarter of 2014. The improvement in residential mortgage banking revenues from each of the first and fourth quarters of 2014 to the recent quarter reflects an increase in commitments to originate loans for sale. The higher volumes in the recent quarter largely resulted from increased refinancing activity by consumers due to a decline in interest rates early in the quarter.

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**Table of Contents**

New commitments to originate residential real estate loans to be sold were approximately \$936 million in 2015's initial quarter, compared with \$728 million in the year-earlier quarter and \$735 million in the final quarter of 2014. Realized gains from sales of residential real estate loans and loan servicing rights (net of the impact of costs associated with obligations to repurchase real estate loans originated for sale) and recognized net unrealized gains and losses attributable to residential real estate loans held for sale, commitments to originate loans for sale and commitments to sell loans totaled to gains of \$21 million in the first quarter of 2015, compared with gains of \$15 million and \$14 million in the first and fourth quarters of 2014, respectively.

The Company is contractually obligated to repurchase previously sold loans that do not ultimately meet investor sale criteria related to underwriting procedures or loan documentation. When required to do so, the Company may reimburse purchasers for losses incurred or may repurchase certain loans. The Company reduces residential mortgage banking revenues for losses related to its obligations to loan purchasers. The amount of those charges varies based on the volume of loans sold, the level of reimbursement requests received from loan purchasers and estimates of losses that may be associated with previously sold loans. Residential mortgage banking revenues during each of the first quarter of 2015 and the final quarter of 2014 were reduced by \$1 million related to the actual or anticipated settlement of repurchase obligations. Similar reductions in the initial 2014 quarter were less than \$1 million.

Loans held for sale that were secured by residential real estate totaled \$423 million and \$292 million at March 31, 2015 and 2014, respectively, and \$435 million at December 31, 2014. Commitments to sell residential real estate loans and commitments to originate residential real estate loans for sale at pre-determined rates were \$859 million and \$661 million, respectively, at March 31, 2015, compared with \$655 million and \$522 million at March 31, 2014, and \$717 million and \$432 million, respectively, at December 31, 2014. Net recognized unrealized gains on residential real estate loans held for sale, commitments to sell loans, and commitments to originate loans for sale were \$21 million and \$17 million at March 31, 2015 and March 31, 2014, respectively, and \$19 million at December 31, 2014. Changes in such net unrealized gains and losses are recorded in mortgage banking revenues and resulted in a net increase in revenue of \$2 million in the most recent quarter, compared with net decreases in revenue of \$2 million in each of the first and fourth quarters of 2014.

Revenues from servicing residential real estate loans for others were \$58 million in the recent quarter, compared with \$50 million and \$56 million during the quarters ended March 31, 2014 and December 31, 2014, respectively. Residential real estate loans serviced for others totaled \$65.0 billion at March 31, 2015, \$73.0 billion at March 31, 2014 and \$67.2 billion at December 31, 2014. Reflected in residential real estate loans serviced for others were loans sub-serviced for others of \$40.4 billion, \$47.4 billion and \$42.1 billion at March 31, 2015, March 31, 2014 and December 31, 2014, respectively. Revenues earned for sub-servicing loans were \$35 million in the first quarter of 2015, \$26 million in the year-earlier quarter and \$33 million in the fourth quarter of 2014. The contractual servicing rights associated with loans sub-serviced by the Company were predominantly held by affiliates of Bayview Lending Group LLC (BLG).

Capitalized servicing rights consist largely of servicing associated with loans sold by the Company. Capitalized residential mortgage loan servicing assets totaled \$111 million at each of March 31, 2015 and December 31, 2014, compared with \$123 million at March 31, 2014.

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**Table of Contents**

Commercial mortgage banking revenues were \$23 million in each of the two most recent quarters, compared with \$15 million in the first quarter of 2014. Included in such amounts were revenues from loan origination and sales activities of \$13 million in each of the first quarter of 2015 and fourth quarter of 2014, compared with \$7 million in the first quarter of 2014. Commercial real estate loans originated for sale to other investors totaled approximately \$455 million in the first quarter of 2015, compared with \$136 million and \$570 million in the first and fourth quarters of 2014, respectively. Loan servicing revenues were \$10 million in each of the two most recent quarters, compared with \$8 million in the initial quarter of 2014. Capitalized commercial mortgage servicing assets aggregated \$74 million at March 31, 2015, \$71 million at March 31, 2014 and \$73 million at December 31, 2014. Commercial real estate loans serviced for other investors totaled \$11.4 billion, \$11.2 billion and \$11.3 billion at March 31, 2015, March 31, 2014 and December 31, 2014, respectively, and included \$2.4 billion, \$2.3 billion and \$2.4 billion, respectively, of loan balances for which investors had recourse to the Company if such balances are ultimately uncollectible. Commitments to sell commercial real estate loans and commitments to originate commercial real estate loans for sale were \$464 million and \$347 million, respectively, at March 31, 2015, \$190 million and \$152 million, respectively, at March 31, 2014 and \$520 million and \$212 million, respectively, at December 31, 2014. Commercial real estate loans held for sale at March 31, 2015, March 31, 2014 and December 31, 2014 were \$117 million, \$38 million, and \$308 million, respectively.

Service charges on deposit accounts totaled \$102 million in the first quarter of 2015, compared with \$104 million in the year-earlier quarter and \$106 million in the final 2014 quarter. The recent quarter's decline as compared with the earlier periods was largely due to lower consumer deposit service fees.

Trust income includes fees related to two significant businesses. The Institutional Client Services (ICS) business provides a variety of trustee, agency, investment management and administrative services for corporations and institutions, investment bankers, corporate tax, finance and legal executives, and other institutional clients who: (i) use capital markets financing structures; (ii) use independent trustees to hold retirement plan and other assets; and (iii) need investment and cash management services. The Wealth Advisory Services (WAS) business helps high net worth clients grow their wealth, protect it, and transfer it to their heirs. A comprehensive array of wealth management services are offered, including asset management, fiduciary services and family office services. Revenues associated with the ICS business were approximately \$61 million, \$57 million and \$63 million during the quarters ended March 31, 2015, March 31, 2014 and December 31, 2014, respectively. In the first quarter of 2015, the Company announced that it had agreed to sell the trade processing business within the retirement services division of ICS that was acquired with Wilmington Trust. That divestiture occurred on April 10, 2015. The portion of the business that was ultimately sold in April generated revenues of approximately \$34 million in 2014 and \$9 million during the first quarter of 2015. After considering related expenses, including the portion of those revenues paid to sub-advisors, net income attributable to the business that was sold was not material to the consolidated results of operations of the Company. Revenues attributable to WAS were approximately \$56 million and \$53 million for the three-month periods ended March 31, 2015 and 2014, respectively, and \$55 million for the three-month period ended December 31, 2014. In total, trust income aggregated \$124 million in the recent quarter, compared with \$121 million and \$128 million in the first and fourth quarters of 2014, respectively. Total trust assets, which include assets under management and assets under administration, aggregated \$293.4 billion at March 31, 2015, compared with \$270.5 billion and \$287.9 billion at March 31, 2014 and December 31, 2014, respectively. Trust assets under management were \$69.4 billion, \$65.9 billion and \$68.2 billion at March 31, 2015, March 31, 2014 and December 31, 2014, respectively. The Company's proprietary mutual funds

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**Table of Contents**

had assets of \$12.8 billion, \$13.0 billion and \$13.3 billion at March 31, 2015, March 31, 2014 and December 31, 2014, respectively.

Brokerage services income, which includes revenues from the sale of mutual funds and annuities and securities brokerage fees, totaled \$15 million in the recent quarter, compared with \$17 million in the year-earlier quarter and \$16 million in the fourth quarter of 2014. Gains from trading account and foreign exchange activity totaled \$6 million during the initial quarters of 2015 and 2014, compared with \$8 million in the final 2014 quarter. Information about the notional amount of interest rate, foreign exchange and other contracts entered into by the Company for trading account purposes is included in note 10 of Notes to Financial Statements and herein under the heading Taxable-equivalent Net Interest Income.

M&T's share of the operating losses of BLG was \$4 million in each of the first quarter of 2015, the year-earlier quarter and the fourth quarter of 2014. The operating losses of BLG in the respective quarters reflect provisions for losses associated with securitized loans and other loans held by BLG and loan servicing and other administrative costs. Under GAAP, such losses are required to be recognized by BLG despite the fact that many of the securitized loan losses will ultimately be borne by the underlying third party bondholders. As these loan losses are realized through later foreclosure and still later sale of real estate collateral, the underlying bonds will be charged-down leading to BLG's future recognition of debt extinguishment gains. The timing of such debt extinguishment is difficult to predict and given ongoing loan loss provisioning, it is not possible to project when BLG will return to profitability. As a result of credit and liquidity disruptions, BLG ceased its originations of small-balance commercial real estate loans in 2008. However, as a result of past securitization activities, BLG is entitled to cash flows from mortgage assets that it owns or that are owned by its affiliates and is also entitled to receive distributions from affiliates that provide asset management and other services. Accordingly, the Company believes that BLG is capable of realizing positive cash flows that could be available for distribution to its owners, including M&T, despite a lack of positive GAAP-earnings from its core mortgage activities. To this point, BLG's affiliates have largely reinvested their earnings to generate additional servicing and asset management activities, further contributing to the value of those affiliates. Information about the Company's relationship with BLG and its affiliates is included in note 15 of Notes to Financial Statements.

Other revenues from operations totaled \$95 million in the first quarter of 2015, compared with \$96 million in the year-earlier quarter and \$103 million in the fourth quarter of 2014. The recent quarter's decline as compared with the final 2014 quarter was largely attributable to lower fees for providing loan syndication, underwriting and advisory services. Included in other revenues from operations were the following significant components. Letter of credit and other credit-related fees totaled \$26 million in the recent quarter, compared with \$32 million in the first quarter of 2014 and \$33 million in the fourth quarter of 2014. Tax-exempt income from bank owned life insurance, which includes increases in the cash surrender value of life insurance policies and benefits received, totaled \$11 million during the recent quarter, compared with \$12 million in the initial quarter of 2014 and \$13 million in the final quarter of 2014. Revenues from merchant discount and credit card fees were \$24 million in the quarter ended March 31, 2015, compared with \$22 million and \$26 million in the quarters ended March 31, 2014 and December 31, 2014, respectively. Insurance-related sales commissions and other revenues totaled \$11 million in the initial quarter of 2015, compared with \$12 million in the year-earlier quarter and \$9 million in the fourth quarter of 2014. Other miscellaneous revenues and the changes in such revenues from period-to-period were not individually significant.

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**Table of Contents****Other Expense**

Effective January 1, 2015, M&T adopted amended guidance from the FASB for accounting for investments in qualified affordable housing projects under which the initial cost of such investments is amortized to income tax expense in proportion to the tax benefit received. The adoption of this accounting guidance did not have a significant effect on the Company's financial position or results of operations, but did result in the restatement of the consolidated financial statements for 2014 and earlier years to remove net costs associated with qualified affordable housing projects from other expense and include the amortization of the investments in income tax expense. As a result, the amortization included in income tax expense was \$10 million and \$12 million in the first quarters of 2015 and 2014, respectively. Similarly, losses removed from other costs of operations and amortization amounts now included in income tax expense were \$14 million in each of the second, third and fourth quarters of 2014.

Reflecting the application of the new accounting guidance, other expense totaled \$686 million in the first quarter of 2015, compared with \$690 million in the year-earlier quarter and \$666 million in the final quarter of 2014. Included in those amounts are expenses considered by management to be nonoperating in nature consisting of amortization of core deposit and other intangible assets of \$7 million in each of the two most recent quarters and \$10 million in the first quarter of 2014. There were no merger-related expenses during those respective quarters. Exclusive of these nonoperating expenses, noninterest operating expenses totaled \$680 million in each of the first quarters of 2015 and 2014 and \$659 million in the fourth quarter of 2014. Operating expenses in the recent quarter as compared with the year-earlier period reflected lower costs for professional services, FDIC assessments and equipment and net occupancy expenses that were offset by higher salaries and employee benefits expenses. The rise in noninterest operating expenses from the fourth quarter of 2014 was largely due to seasonally higher stock-based compensation and employee benefits expenses offset, in part, by lower professional services costs. Table 2 provides a reconciliation of other expense to noninterest operating expense.

Salaries and employee benefits expense totaled \$390 million in 2015's initial quarter, compared with \$371 million in the year-earlier quarter and \$345 million in the fourth quarter of 2014. As compared with the year-earlier period, the recent quarter reflects the impact of annual merit increases for employees, higher incentive compensation costs and higher pension expense. The increase in pension expense is predominantly attributable to an increase in the amortization of unrecognized actuarial losses. Cumulative unrecognized actuarial losses increased from \$191 million at December 31, 2013 to \$512 million at December 31, 2014 due predominantly to a 75 basis point reduction in the discount rate and revised mortality tables released in 2014 by the Society of Actuaries used to determine the pension benefit obligation. In accordance with GAAP, net unrecognized gains or losses that exceed ten percent of the greater of the projected benefit obligation or the market-related value of plan assets are required to be amortized over the expected service period of active employees, and are included as a component of net pension cost. In addition to higher pension expense and merit increases, seasonally higher stock-based compensation, unemployment insurance, payroll-related taxes and the Company's contributions for retirement savings plan benefits related to annual incentive compensation payments also contributed to the rise in salaries and employee benefits expense in the recent quarter as compared with the fourth quarter of 2014. The Company, in accordance with GAAP, has accelerated the recognition of compensation costs for stock-based awards granted to retirement-eligible employees and employees who will become retirement-eligible prior to full vesting of the award. As a result, stock-based compensation expense during the first quarters of 2015 and 2014 included \$14 million and \$16 million, respectively, that would have been recognized over the normal vesting period.



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**Table of Contents**

if not for the accelerated expense recognition provisions of GAAP. That acceleration had no effect on the value of stock-based compensation awarded to employees. Salaries and employee benefits expense included stock-based compensation of \$28 million and \$30 million in the quarters ended March 31, 2015 and March 31, 2014, respectively, and \$12 million in the quarter ended December 31, 2014. The number of full-time equivalent employees was 15,263 at March 31, 2015, compared with 15,316 and 15,312 at March 31, 2014 and December 31, 2014, respectively.

Excluding the nonoperating expenses described earlier from each quarter, nonpersonnel operating expenses were \$290 million and \$309 million in the quarters ended March 31, 2015 and March 31, 2014, respectively, and \$314 million in the fourth quarter of 2014. The decrease in such expenses in the recent quarter as compared with the year-earlier quarter and the final quarter of 2014 reflected a lower level of professional services costs. Professional services costs include legal expenses, which were elevated in the fourth quarter of 2014. Other professional services costs were lower in the initial quarter of 2015 as certain projects were either completed or reached significant milestones. Professional services costs related to BSA/AML compliance, capital planning and stress testing, risk management and other operational initiatives were elevated throughout 2014. As compared with the first quarter of 2014, in addition to the decline in professional services costs, lower FDIC assessments and equipment and net occupancy expenses also contributed to the decrease in nonpersonnel operating expenses in the initial 2015 quarter. The efficiency ratio measures the relationship of noninterest operating expenses to revenues. The Company's efficiency ratio was 61.5% in the first quarter of 2015, compared with 62.8% in the year-earlier period and 57.8% in the fourth quarter of 2014.

**Income Taxes**

The provision for income taxes for the first quarter of 2015 was \$134 million, compared with \$125 million in the year-earlier quarter and \$157 million in the fourth quarter of 2014. The effective tax rates were 35.6%, 35.4% and 36.1% for the quarters ended March 31, 2015, March 31, 2014 and December 31, 2014, respectively. As noted earlier, effective January 1, 2015 M&T adopted amended guidance from the FASB for accounting for investments in qualified affordable housing projects, which resulted in the restatement of the consolidated financial statements for 2014 and earlier years. The adoption of the guidance resulted in higher effective tax rates than existed prior to such adoption. The effective tax rate is affected by the level of income earned that is exempt from tax relative to the overall level of pre-tax income, the level of income allocated to the various state and local jurisdictions where the Company operates, because tax rates differ among such jurisdictions, and the impact of any large but infrequently occurring items.

The Company's effective tax rate in future periods will be affected by the results of operations allocated to the various tax jurisdictions within which the Company operates, any change in income tax laws or regulations within those jurisdictions, and interpretations of income tax regulations that differ from the Company's interpretations by any of various tax authorities that may examine tax returns filed by M&T or any of its subsidiaries.

**Capital**

Shareholders' equity was \$12.5 billion at March 31, 2015, representing 12.73% of total assets, compared with \$11.9 billion or 13.43% at March 31, 2014 and \$12.3 billion or 12.76% at December 31, 2014.

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**Table of Contents**

Included in shareholders' equity was preferred stock with a financial statement carrying value of \$1.2 billion at each of March 31, 2015, March 31, 2014 and December 31, 2014. Further information concerning M&T's preferred stock can be found in note 6 of Notes to Financial Statements.

Common shareholders' equity aggregated \$11.3 billion, or \$84.95 per share, at March 31, 2015, compared with \$10.7 billion, or \$81.05 per share, at March 31, 2014 and \$11.1 billion, or \$83.88 per share, at December 31, 2014. Tangible equity per common share, which excludes goodwill and core deposit and other intangible assets and applicable deferred tax balances, was \$58.29 at March 31, 2015, \$53.92 at March 31, 2014 and \$57.06 at December 31, 2014. The Company's ratio of tangible common equity to tangible assets was 8.17% at March 31, 2015, compared with 8.34% a year earlier and 8.11% at December 31, 2014. Reconciliations of total common shareholders' equity and tangible common equity and total assets and tangible assets as of each of those respective dates are presented in table 2.

Shareholders' equity reflects accumulated other comprehensive income or loss, which includes the net after-tax impact of unrealized gains or losses on investment securities classified as available for sale, unrealized losses on held-to-maturity securities for which an other-than-temporary impairment charge has been recognized, gains or losses associated with interest rate swap agreements designated as cash flow hedges, foreign currency translation adjustments and adjustments to reflect the funded status of defined benefit pension and other postretirement plans. Net unrealized gains on investment securities, net of applicable tax effect, were \$153 million, or \$1.15 per common share, at March 31, 2015, compared with net unrealized gains of \$72 million, or \$.55 per common share, at March 31, 2014 and \$127 million, or \$.96 per common share, at December 31, 2014. Information about unrealized gains and losses as of March 31, 2015 and December 31, 2014 is included in note 3 of Notes to Financial Statements.

Reflected in net unrealized gains at March 31, 2015 were pre-tax effect unrealized losses of \$30 million on available-for-sale investment securities with an amortized cost of \$1.7 billion and pre-tax effect unrealized gains of \$308 million on securities with an amortized cost of \$8.7 billion. The pre-tax effect unrealized losses reflect \$19 million of losses on trust preferred securities issued by financial institutions having an amortized cost of \$124 million and an estimated fair value of \$105 million (generally considered Level 2 valuations). Further information concerning the Company's valuations of available-for-sale investment securities is provided in note 12 of Notes to Financial Statements.

The Company assesses impairment losses on privately issued mortgage-backed securities in the held-to-maturity portfolio by performing internal modeling to estimate bond-specific cash flows considering recent performance of the mortgage loan collateral and utilizing assumptions about future defaults and loss severity. These bond-specific cash flows also reflect the placement of the bond in the overall securitization structure and the remaining subordination levels. In total, at March 31, 2015 and December 31, 2014, the Company had in its held-to-maturity portfolio privately issued mortgage-backed securities with an amortized cost basis of \$198 million and \$202 million, respectively, and a fair value of \$162 million and \$158 million, respectively. At March 31, 2015, 87% of the mortgage-backed securities were in the most senior tranche of the securitization structure with 28% being independently rated as investment grade. The mortgage-backed securities are generally collateralized by residential and small-balance commercial real estate loans originated between 2004 and 2008 and had a weighted-average credit enhancement of 16% at March 31, 2015, calculated by dividing the remaining unpaid principal balance of bonds subordinate to the bonds owned by the Company plus any overcollateralization remaining in the securitization structure by the remaining unpaid principal balance of all bonds in the securitization structure. All mortgage-backed securities in the held-to-maturity portfolio had a current payment status as of March 31, 2015.



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**Table of Contents**

The weighted-average default percentage and loss severity assumptions utilized in the Company's internal modeling were 33% and 74%, respectively. The Company has concluded that as of March 31, 2015, its privately issued mortgage-backed securities were not other-than-temporarily impaired. Nevertheless, it is possible that adverse changes in the future performance of mortgage loan collateral underlying such securities could impact the Company's conclusions.

As of March 31, 2015, based on a review of each of the remaining securities in the investment securities portfolio, the Company concluded that the declines in the values of any securities containing an unrealized loss were temporary and that any additional other-than-temporary impairment charges were not appropriate. It is likely that the Company will be required to sell certain of its collateralized debt obligations backed by trust preferred securities held in the available-for-sale portfolio to comply with the provisions of the Volcker Rule. However, the amortized cost and fair value of those collateralized debt obligations were \$25 million and \$30 million, respectively, at March 31, 2015 and the Company did not expect that it would realize any material losses if it ultimately was required to sell such securities. As of that date, the Company did not intend to sell nor is it anticipated that it would be required to sell any of its other impaired securities, that is, where fair value is less than the cost basis of the security. The Company intends to continue to closely monitor the performance of its securities because changes in their underlying credit performance or other events could cause the cost basis of those securities to become other-than-temporarily impaired. However, because the unrealized losses on available-for-sale investment securities have generally already been reflected in the financial statement values for investment securities and shareholders' equity, any recognition of an other-than-temporary decline in value of those investment securities would not have a material effect on the Company's consolidated financial condition. Any other-than-temporary impairment charge related to held-to-maturity securities would result in reductions in the financial statement values for investment securities and shareholders' equity. Additional information concerning fair value measurements and the Company's approach to the classification of such measurements is included in note 12 of the Notes to Financial Statements.

Adjustments to reflect the funded status of defined benefit pension and other postretirement plans, net of applicable tax effect, reduced accumulated other comprehensive income by \$301 million, or \$2.26 per common share, at March 31, 2015, \$306 million, or \$2.31 per common share, at December 31, 2014, and \$97 million, or \$.74 per common share, at March 31, 2014. The increase in such adjustment at March 31, 2015 and December 31, 2014 as compared with March 31, 2014 was the result of two main factors: a 75 basis point decrease in the discount rate used to measure the benefit obligations of the defined benefit plans and the use of updated mortality tables for the U.S. published in 2014 by the Society of Actuaries.

Cash dividends declared on M&T's common stock during the quarter ended March 31, 2015 totaled \$94 million, compared with \$92 million and \$93 million in the quarters ended March 31 and December 31, 2014, respectively, and represented a quarterly dividend payment of \$.70 per common share in each of those three quarters.

Cash dividends declared on preferred stock are detailed in the table that follows. There were no cash dividends declared in the first quarter of 2014 on the Series E Preferred Stock issued in February 2014.

**Table of Contents**

## PREFERRED STOCK DIVIDENDS

Dollars in thousands

|              | First Quarter<br>2015 | First Quarter<br>2014 | Fourth Quarter<br>2014 |
|--------------|-----------------------|-----------------------|------------------------|
| Series A     | \$ 3,666              | 3,666                 | 3,666                  |
| Series C     | 2,414                 | 2,414                 | 2,414                  |
| Series D     | 8,594                 | 8,594                 | 8,594                  |
| Series E     | 5,644                 |                       | 5,644                  |
| <b>Total</b> | <b>\$ 20,318</b>      | <b>14,674</b>         | <b>20,318</b>          |

The Company did not repurchase any shares of its common stock during 2014 or the first quarter of 2015.

M&T and its subsidiary banks are required to comply with applicable capital adequacy standards established by the federal banking agencies. In July 2013, the Federal Reserve Board, the OCC and the FDIC approved New Capital Rules establishing a new comprehensive capital framework for U.S. banking organizations. These rules went into effect as to M&T and its subsidiary banks on January 1, 2015, subject to phase-in periods for certain components and other provisions.

The New Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including M&T and its subsidiaries, M&T Bank and Wilmington Trust, N.A., as compared to the U.S. general risk-based capital rules that were applicable to the Company through December 31, 2014. The New Capital Rules revise the definitions and the components of regulatory capital, as well as address other issues affecting the numerator in banking institutions' regulatory capital ratios. The New Capital Rules also address asset risk weights and other matters affecting the denominator in banking institutions' regulatory capital ratios. In addition, the New Capital Rules implement certain provisions of the Dodd-Frank Act, including the requirements of Section 939A to remove references to credit ratings from the federal agencies' rules.

Among other matters, the New Capital Rules: (i) introduce a new capital measure called Common Equity Tier 1 ( CET1 ) and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and Additional Tier 1 capital instruments meeting certain revised requirements; (iii) mandate that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital as compared to the previous regulations. Under the New Capital Rules, for most banking organizations, including M&T, the most common form of Additional Tier 1 capital is non-cumulative perpetual preferred stock and the most common forms of Tier 2 capital are subordinated notes and a portion of the allowance for loan and lease losses, in each case, subject to the New Capital Rules' specific requirements.

Pursuant to the New Capital Rules, the minimum capital ratios as of January 1, 2015 are as follows:

4.5% CET1 to risk-weighted assets;

6.0% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets;

8.0% Total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets; and

4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the leverage ratio ).

Pursuant to the New Capital Rules, non-advanced approaches banking organizations, including M&T, may make a one-time permanent election to exclude the effects of certain accumulated other comprehensive income or loss

**Table of Contents**

items reflected in shareholders' equity under U.S. GAAP. M&T made that election during the first quarter of 2015. The New Capital Rules also preclude certain hybrid securities, such as trust preferred securities, from inclusion in bank holding companies' Tier 1 capital, subject to phase-out in the case of bank holding companies, such as M&T, that had \$15 billion or more in total consolidated assets as of December 31, 2009. As a result, beginning in 2015 25% of M&T's trust preferred securities became includable in Tier 1 capital, and in 2016, none of M&T's trust preferred securities will be includable in Tier 1 capital. Trust preferred securities no longer included in M&T's Tier 1 capital may nonetheless be included as a component of Tier 2 capital on a permanent basis without phase-out and irrespective of whether such securities otherwise meet the revised definition of Tier 2 capital set forth in the New Capital Rules. A detailed discussion of the new regulatory capital rules is included in Part I, Item 1 of Form 10-K for the year ended December 31, 2014.

The regulatory capital ratios of the Company, M&T Bank and Wilmington Trust, N.A. as of March 31, 2015 are presented in the accompanying table.

**REGULATORY CAPITAL RATIOS**

March 31, 2015

|                      | M&T<br>(Consolidated) | M&T<br>Bank | Wilmington<br>Trust,<br>N.A. |
|----------------------|-----------------------|-------------|------------------------------|
| Common equity Tier 1 | 9.78%                 | 10.33%      | 57.32%                       |
| Tier 1 capital       | 11.68%                | 10.33%      | 57.32%                       |
| Total capital        | 14.92%                | 12.88%      | 57.87%                       |
| Tier 1 leverage      | 10.17%                | 9.02%       | 19.61%                       |

On March 12, 2015, M&T announced that the Federal Reserve did not object to M&T's proposed 2015 Capital Plan. Accordingly, M&T may maintain a quarterly common stock dividend of \$.70 per share; continue to pay dividends and interest on other equity and debt instruments included in regulatory capital, including preferred stock, trust preferred securities and subordinated debt that were outstanding at December 31, 2014, consistent with the contractual terms of those instruments; repurchase up to \$200 million of common shares during the first half of 2016; and redeem or repurchase up to \$310 million of trust preferred securities. Common and preferred dividends are subject to approval by M&T's Board of Directors in the ordinary course of business. As noted earlier, M&T redeemed \$310 million of trust preferred securities on April 15, 2015.

**Segment Information**

As required by GAAP, the Company's reportable segments have been determined based upon its internal profitability reporting system, which is organized by strategic business unit. Financial information about the Company's segments is presented in note 14 of Notes to Financial Statements. During 2015, certain methodology changes were made and, accordingly, the financial information for the Company's reportable segments for 2014 have been restated to conform with the methods and assumptions used in 2015. As described in note 14 of Notes to Financial Statements, the methodology changes were largely the result of updated funds transfer pricing and various cost allocations. Additionally, the segment financial data also reflect the Company's adoption of amended guidance for accounting for investments in qualified affordable housing projects.

The Business Banking segment earned \$25 million in each of the first quarters of 2015 and 2014, compared with \$26 million in the fourth quarter of 2014. As compared with the first quarter of 2014, a \$4 million decrease in net interest income in the recent quarter was largely offset by higher merchant discount and credit card fees and lower noninterest operating expenses. The lower net interest income reflects a narrowing of the net



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**Table of Contents**

interest margin on deposits of 26 basis points, partially offset by a \$444 million increase in average outstanding deposit balances. The modest decrease in net income in the recent quarter as compared with the immediately preceding quarter resulted from a \$4 million decrease in net interest income, partially offset by lower costs associated with the allocation of expenses related to BSA/AML compliance, risk management, and other operational initiatives across the Company. The decline in net interest income resulted largely from a 4 basis point narrowing of the net interest margin on loans and a \$346 million decline in average outstanding deposit balances.

Net income earned by the Commercial Banking segment totaled \$96 million in the first quarter of 2015, compared with \$99 million for each of the three-month periods ended March 31, 2014 and December 31, 2014. The 2% decline in net income as compared with the first quarter of 2014 resulted largely from a \$3 million decrease in net interest income and a \$4 million decrease in credit-related fees. The decline in net interest income was the result of a narrowing of the net interest margin on loans and deposits of 11 basis points and 17 basis points, respectively, partially offset by higher average outstanding loan and deposit balances of \$1.2 billion and \$912 million, respectively. The recent quarter's decline in net income as compared with 2014's fourth quarter was largely due to a \$4 million decrease in net interest income, a \$4 million increase in the provision for credit losses and a \$2 million decrease in credit-related fees, partially offset by lower FDIC assessments and other operating expenses. The lower net interest income reflected a narrowing of the net interest margin on loans of 3 basis points and lower average deposit balances of \$107 million offset, in part, by higher average outstanding loans of \$574 million.

The Commercial Real Estate segment's net income aggregated \$80 million for the first quarter of 2015, up 10% from the \$73 million earned in the first three months of 2014, but down 4% from the \$83 million recorded in 2014's fourth quarter. The improvement from the year-earlier quarter reflects a \$7 million increase in mortgage banking revenues and a \$4 million decrease in the provision for credit losses, the result of recoveries of previously charged off loans in the recent quarter, partially offset by higher personnel-related expenses of \$2 million. The increase in mortgage banking revenues was largely due to higher loan origination and sales activities. The decline in net income as compared with the final 2014 quarter was largely due to a \$4 million decrease in credit-related fees and a \$4 million decline in net interest income. The lower net interest income was due to a narrowing of the net interest margin on loans and deposits of 4 basis points each, partially offset by increases in average outstanding loan and deposit (predominantly noninterest-bearing) balances of \$331 million and \$106 million, respectively.

The Discretionary Portfolio segment recorded net income of \$6 million during the three-month period ended March 31, 2015, compared with \$11 million in the year-earlier period and \$9 million in the fourth quarter of 2014. The decline in net income as compared with the first quarter of 2014 reflects a \$9 million decrease in net interest income that was largely attributable to a 32 basis point narrowing of the net interest margin on investment securities, partially offset by a \$4.1 billion increase in average balances of investment securities due to purchases of Fannie Mae and Ginnie Mae mortgage-backed securities to meet new liquidity requirements that are scheduled to become effective for M&T on January 1, 2016. The recent quarter's unfavorable performance as compared with the immediately preceding quarter resulted largely from a \$6 million decrease in net interest income that resulted from a 17 basis point narrowing of the net interest margin on investment securities, partially offset by a \$399 million increase in average outstanding investment securities balances.

Net income of the Residential Mortgage Banking segment rose 72% to \$32 million in the recent quarter from \$19 million in the first quarter of 2014,

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**Table of Contents**

and was 43% higher than the \$22 million earned in 2014's fourth quarter. The improved performance from the year-earlier period was attributable to the following favorable factors: a \$9 million increase in revenues from mortgage origination and sales activities (including intersegment revenues), due to higher origination volumes; an \$8 million increase in revenues from servicing residential real estate loans, predominantly the result of higher sub-servicing fees; and reduced amortization of capitalized servicing assets reflecting reduced prepayment speeds associated with serviced loans. The main factors contributing to the recent quarter's increased net income as compared with the final quarter of 2014 was an \$8 million increase in revenues from mortgage origination and sales activities (including intersegment revenues), due to higher origination volumes, and lower operating expenses, including reduced personnel and professional services costs and lower amortization of capitalized servicing assets.

Net income earned by the Retail Banking segment totaled \$69 million in each of the first quarters of 2015 and 2014, compared with \$59 million in the fourth quarter of 2014. As compared with the first quarter of 2014, a \$3 million decrease in net interest income and lower service charges on deposit accounts were offset by lower personnel, equipment and occupancy expenses. The decrease in net interest income reflected a 10 basis point narrowing of the net interest margin on deposits and a \$120 million decrease in average outstanding deposit balances, partially offset by a \$652 million increase in average outstanding loan balances. The recent quarter's 16% improvement in net income as compared with the fourth quarter of 2014 reflected a \$10 million decrease in advertising and promotional expenses largely associated with the launch of the new brand campaign throughout the Company's footprint during the final 2014 quarter, a \$3 million decrease in personnel expenses and lower operating expenses related to the allocation of the costs of Company-wide operational initiatives, offset, in part, by a \$6 million seasonal decline in service charges on deposit accounts and a \$4 million decrease in net interest income, reflecting a narrowing of the margin on deposit balances.

The All Other category reflects other activities of the Company that are not directly attributable to the reported segments. Reflected in this category are the amortization of core deposit and other intangible assets resulting from the acquisitions of financial institutions, M&T's share of the operating losses of BLG, merger-related gains and expenses related to acquisitions and the net impact of the Company's allocation methodologies for internal transfers for funding charges and credits associated with the earning assets and interest-bearing liabilities of the Company's reportable segments and the provision for credit losses. The All Other category also includes the trust income of the Company that reflects the ICS and WAS business activities. The various components of the All Other category resulted in net losses totaling \$67 million for the quarter ended March 31, 2015, \$66 million in the first quarter of 2014 and \$22 million in the fourth quarter of 2014. As compared with the first quarter of 2014, higher personnel-related expenses in the recent quarter due to BSA/AML and other company-wide initiatives and a \$4 million increase in advertising, promotion and travel expenses were largely offset by lower professional services costs of \$11 million, a \$3 million decrease in amortization of core deposit intangibles and declines in other operating expenses. The most significant factors contributing to the increased net loss in the recent quarter as compared with the immediately preceding quarter were: a \$51 million increase in personnel costs, largely related to seasonally higher stock-based compensation, payroll-related taxes and employer contributions for retirement savings plans recorded in the first quarter of 2015; an \$8 million increase in advertising, promotion, and travel expenses; a decline in trust income of \$5 million; and the unfavorable impact from the Company's allocation methodologies for internal transfers for funding charges and credits associated with earning assets and interest-bearing liabilities of the Company's reportable segments.

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**Table of Contents****Recent Accounting Developments**

As previously noted, the Company adopted amended accounting guidance for investments in qualified affordable housing projects under which the initial cost of investments in qualified affordable housing projects is amortized in proportion to the tax credits and other tax benefits received from such projects and recognized in the income statement as a component of income tax expense. As required, the guidance was applied retrospectively to all periods presented. The adoption of this guidance did not have a significant effect on the Company's financial position or results of operations, but did result in the restatement of the consolidated statement of income for the three-month period ended March 31, 2014 to remove \$12 million of losses associated with qualified affordable housing projects from other costs of operations and include the amortization of the initial cost of the investment in income tax expense. The Company amortized \$10 million of its investments in qualified affordable housing projects to income tax expense during the three-month period ended March 31, 2015.

In the first quarter of 2015, the Company adopted amended accounting guidance from the FASB related to the classification of certain government-guaranteed mortgage loans upon foreclosure. This guidance requires that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure; (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based upon the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The adoption of this guidance did not have a significant effect on the Company's consolidated financial position or results of operations.

Effective January 1, 2015, the Company adopted amended accounting guidance for repurchase-to-maturity transactions and repurchase financings. The adoption had no impact on the Company's consolidated financial position or results of operations. The Company has made the required disclosures in note 5 of Notes to Financial Statements.

In January 2015, the Company also adopted amended accounting and disclosure guidance for reclassification of residential real estate collateralized consumer mortgage loans upon foreclosure. The amended guidance clarifies that an in-substance repossession or foreclosure occurs and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The amended guidance also requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The Company's adoption of this guidance on January 1, 2015 did not have a significant effect on the Company's financial position or results of operations. The Company has made the required disclosures in note 4 of Notes to Financial Statements.

In April 2015, the FASB issued amended accounting guidance for debt issuance costs. The amended guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a

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**Table of Contents**

direct deduction from the carrying amount of that debt liability. This guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. The Company does not expect a material change in the presentation of its financial position upon adoption of this amended guidance.

In February 2015, the FASB issued amended accounting guidance relating to the consolidation of variable interest entities to modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities and to eliminate the presumption that a general partner should consolidate a limited partnership. The amended guidance also eliminates certain conditions in the assessment of whether fees paid by a legal entity to a decision maker or a service provider represent a variable interest in the legal entity and reduces the extent to which related party arrangements cause an entity to be considered a primary beneficiary. The new guidance eliminates the indefinite deferral of existing consolidation guidance for certain investment funds, but provides a scope exception for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. This guidance is effective for annual and interim periods within those annual periods beginning after December 15, 2015. The Company is still evaluating the impact the guidance could have on its consolidated financial statements.

In June 2014, the FASB issued amended accounting guidance for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The amended guidance requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. This guidance is effective for annual periods and interim periods within those annual periods beginning after December 31, 2015, with earlier adoption permitted. The Company does not expect the amended guidance published by the FASB to have a material impact on its financial position or results of operations.

In May 2014, the FASB issued amended accounting and disclosure guidance for revenue from contracts with customers. The core principle of the accounting guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; (5) recognize revenue when (or as) the entity satisfies a performance obligation. The guidance also specifies the accounting for some costs to obtain or fulfill a contract with a customer. The amended disclosure guidance requires sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The amended guidance is effective for annual reporting periods beginning

**Table of Contents**

after December 15, 2016, including interim periods within that reporting period. The guidance should be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this guidance recognized at the date of initial application. The Company is still evaluating the impact the guidance could have on its consolidated financial statements.

**Forward-Looking Statements**

Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this quarterly report contain forward-looking statements that are based on current expectations, estimates and projections about the Company's business, management's beliefs and assumptions made by management. Forward-looking statements are typically identified by words such as believe, expect, anticipate, intend, target, estimate, positions, prospects or potential, by future conditional verbs such as will, would, should, could, or may, variations of such words or by similar expressions. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ( Future Factors ) which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Forward-looking statements speak only as of the date they are made and the Company assumes no duty to update forward-looking statements.

Future Factors include changes in interest rates, spreads on earning assets and interest-bearing liabilities, and interest rate sensitivity; prepayment speeds, loan originations, credit losses and market values of loans, collateral securing loans and other assets; sources of liquidity; common shares outstanding; common stock price volatility; fair value of and number of stock-based compensation awards to be issued in future periods; the impact of changes in market values on trust-related revenues; legislation and/or regulation affecting the financial services industry as a whole, and M&T and its subsidiaries individually or collectively, including tax legislation or regulation; regulatory supervision and oversight, including monetary policy and capital requirements; changes in accounting policies or procedures as may be required by the FASB or other regulatory agencies; increasing price and product/service competition by competitors, including new entrants; rapid technological developments and changes; the ability to continue to introduce competitive new products and services on a timely, cost-effective basis; the mix of products/services; containing costs and expenses; governmental and public policy changes; protection and validity of intellectual property rights; reliance on large customers; technological, implementation and cost/financial risks in large, multi-year contracts; the outcome of pending and future litigation and governmental proceedings, including tax-related examinations and other matters; continued availability of financing; financial resources in the amounts, at the times and on the terms required to support M&T and its subsidiaries' future businesses; and material differences in the actual financial results of merger, acquisition and investment activities compared with M&T's initial expectations, including the full realization of anticipated cost savings and revenue enhancements.

These are representative of the Future Factors that could affect the outcome of the forward-looking statements. In addition, such statements could be affected by general industry and market conditions and growth rates, general economic and political conditions, either nationally or in the states in which M&T and its subsidiaries do business, including interest rate and currency exchange rate fluctuations, changes and trends in the securities markets, and other Future Factors.

**Table of Contents**

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

Table 1

## QUARTERLY TRENDS

|  | 2015          |         | 2014 Quarters |         |         |
|--|---------------|---------|---------------|---------|---------|
|  | First Quarter | Fourth  | Third         | Second  | First   |
| <b>Earnings and dividends</b>  |               |         |               |         |         |
| <i>Amounts in thousands, except per share</i>                            |               |         |               |         |         |
| Interest income (taxable-equivalent basis)                               | \$ 743,925    | 762,619 | 748,864       | 740,139 | 728,897 |
| Interest expense   | 78,499        | 74,772  | 73,964        | 65,176  | 66,519  |
| Net interest income  | 665,426       | 687,847 | 674,900       | 674,963 | 662,378 |
| Less: provision for credit losses  | 38,000        | 33,000  | 29,000        | 30,000  | 32,000  |
| Other income   | 440,203       | 451,643 | 451,111       | 456,412 | 420,107 |
| Less: other expense  | 686,375       | 666,221 | 665,359       | 667,660 | 690,234 |
| Income before income taxes   | 381,254       | 440,269 | 431,652       | 433,715 | 360,251 |
| Applicable income taxes  | 133,803       | 156,713 | 150,467       | 143,530 | 125,289 |
| Taxable-equivalent adjustment  | 5,838         | 6,007   | 5,841         | 5,849   | 5,945   |
| Net income   | \$ 241,613    | 277,549 | 275,344       | 284,336 | 229,017 |
| Net income available to common shareholders-diluted                      | \$ 218,837    | 254,239 | 251,917       | 260,695 | 211,731 |
| Per common share data  |               |         |               |         |         |
| Basic earnings   | \$ 1.66       | 1.93    | 1.92          | 1.99    | 1.63    |
| Diluted earnings   | 1.65          | 1.92    | 1.91          | 1.98    | 1.61    |
| Cash dividends   | \$ .70        | .70     | .70           | .70     | .70     |
| Average common shares outstanding  |               |         |               |         |         |
| Basic  | 132,049       | 131,450 | 131,265       | 130,856 | 130,212 |
| Diluted  | 132,769       | 132,278 | 132,128       | 131,828 | 131,126 |
| <b>Performance ratios, annualized</b>                                    |               |         |               |         |         |
| Return on  |               |         |               |         |         |
| Average assets   | 1.02%         | 1.12%   | 1.17%         | 1.27%   | 1.07%   |
| Average common shareholders equity                                       | 7.99%         | 9.10%   | 9.18%         | 9.79%   | 8.22%   |
| Net interest margin on average earning assets (taxable-equivalent basis) | 3.17%         | 3.10%   | 3.23%         | 3.40%   | 3.52%   |
| Nonaccrual loans to total loans and leases, net of unearned discount     | 1.18%         | 1.20%   | 1.29%         | 1.36%   | 1.39%   |

| <b>Net operating (tangible) results (a)</b>   |            |         |         |         |         |
|---|------------|---------|---------|---------|---------|
| Net operating income (in thousands)           | \$ 245,776 | 281,929 | 279,838 | 289,974 | 235,162 |
| Diluted net operating income per common share | 1.68       | 1.95    | 1.94    | 2.02    | 1.66    |
| Annualized return on                          |            |         |         |         |         |
| Average tangible assets                       | 1.08%      | 1.18%   | 1.24%   | 1.35%   | 1.15%   |
| Average tangible common shareholders equity   | 11.90%     | 13.55%  | 13.80%  | 14.92%  | 12.76%  |
| Efficiency ratio (b)                          | 61.46%     | 57.84%  | 58.44%  | 58.20%  | 62.83%  |

**Balance sheet data***In millions, except per share*

| Average balances                           |           |        |        |        |        |
|--|-----------|--------|--------|--------|--------|
| Total assets (c)                           | \$ 95,892 | 98,644 | 93,245 | 89,873 | 86,665 |
| Total tangible assets (c)                  | 92,346    | 95,093 | 89,689 | 86,311 | 83,096 |
| Earning assets                             | 85,212    | 87,965 | 82,776 | 79,556 | 76,288 |
| Investment securities                      | 13,376    | 12,978 | 12,780 | 10,959 | 9,265  |
| Loans and leases, net of unearned discount | 66,587    | 65,767 | 64,763 | 64,343 | 63,763 |
| Deposits                                   | 71,698    | 75,515 | 70,772 | 69,659 | 67,327 |
| Common shareholders equity (c)             | 11,227    | 11,211 | 11,015 | 10,808 | 10,576 |
| Tangible common shareholders equity (c)    | 7,681     | 7,660  | 7,459  | 7,246  | 7,007  |

## At end of quarter

|  |           |        |        |        |        |
|--|-----------|--------|--------|--------|--------|
| Total assets (c)   | \$ 98,378 | 96,686 | 97,228 | 90,835 | 88,530 |
| Total tangible assets (c)  | 94,834    | 93,137 | 93,674 | 87,276 | 84,965 |
| Earning assets   | 87,959    | 86,278 | 86,751 | 80,062 | 77,950 |
| Investment securities  | 14,393    | 12,994 | 13,348 | 12,120 | 10,364 |
| Loans and leases, net of unearned discount                                       | 67,099    | 66,669 | 65,572 | 64,748 | 64,135 |
| Deposits   | 73,594    | 73,582 | 74,342 | 69,829 | 68,699 |
| Common shareholders equity, net of undeclared cumulative preferred dividends (c) | 11,294    | 11,102 | 11,099 | 10,934 | 10,652 |
| Tangible common shareholders equity (c)  | 7,750     | 7,553  | 7,545  | 7,375  | 7,087  |
| Equity per common share  | 84.95     | 83.88  | 83.99  | 82.86  | 81.05  |
| Tangible equity per common share   | 58.29     | 57.06  | 57.10  | 55.89  | 53.92  |

**Market price per common share**

|         |           |        |        |        |        |
|---------|-----------|--------|--------|--------|--------|
| High    | \$ 129.58 | 128.96 | 128.69 | 125.90 | 123.04 |
| Low     | 111.78    | 112.42 | 118.51 | 116.10 | 109.16 |
| Closing | 127.00    | 125.62 | 123.29 | 124.05 | 121.30 |

- (a) Excludes amortization and balances related to goodwill and core deposit and other intangible assets and merger-related gains and expenses which, except in the calculation of the efficiency ratio, are net of applicable income tax effects. A reconciliation of net income and net operating income appears in Table 2.
- (b) Excludes impact of merger-related gains and expenses and net securities transactions.
- (c) The difference between total assets and total tangible assets, and common shareholders equity and tangible common shareholders equity, represents goodwill, core deposit and other intangible assets, net of applicable deferred tax balances. A reconciliation of such balances appears in Table 2.





**Table of Contents**

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

Table 2

## RECONCILIATION OF QUARTERLY GAAP TO NON-GAAP MEASURES

|  | 2015<br>First<br>Quarter | Fourth  | 2014 Quarters<br>Third | Second  | First    |
|--|--------------------------|---------|------------------------|---------|----------|
| <b>Income statement data</b>                                 |                          |         |                        |         |          |
| <i>In thousands, except per share</i>                        |                          |         |                        |         |          |
| <b>Net income</b>  |                          |         |                        |         |          |
| Net income   | \$ 241,613               | 277,549 | 275,344                | 284,336 | 229,017  |
| Amortization of core deposit and other intangible assets (a) | 4,163                    | 4,380   | 4,494                  | 5,638   | 6,145    |
| Net operating income   | \$ 245,776               | 281,929 | 279,838                | 289,974 | 235,162  |
| <b>Earnings per common share</b>                             |                          |         |                        |         |          |
| Diluted earnings per common share                            | \$ 1.65                  | 1.92    | 1.91                   | 1.98    | 1.61     |
| Amortization of core deposit and other intangible assets (a) | .03                      | .03     | .03                    | .04     | .05      |
| Diluted net operating earnings per common share              | \$ 1.68                  | 1.95    | 1.94                   | 2.02    | 1.66     |
| <b>Other expense</b>   |                          |         |                        |         |          |
| Other expense  | \$ 686,375               | 666,221 | 665,359                | 667,660 | 690,234  |
| Amortization of core deposit and other intangible assets     | (6,793)                  | (7,170) | (7,358)                | (9,234) | (10,062) |
| Noninterest operating expense                                | \$ 679,582               | 659,051 | 658,001                | 658,426 | 680,172  |
| <b>Efficiency ratio</b>                                      |                          |         |                        |         |          |
| Noninterest operating expense (numerator)                    | \$ 679,582               | 659,051 | 658,001                | 658,426 | 680,172  |
| Taxable-equivalent net interest income                       | 665,426                  | 687,847 | 674,900                | 674,963 | 662,378  |
| Other income   | 440,203                  | 451,643 | 451,111                | 456,412 | 420,107  |
| Less: Loss on bank investment securities                     | (98)                     |         |                        |         |          |

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|                  |              |           |           |           |           |
|------------------|--------------|-----------|-----------|-----------|-----------|
| Denominator      | \$ 1,105,727 | 1,139,490 | 1,126,011 | 1,131,375 | 1,082,485 |
| Efficiency ratio | 61.46%       | 57.84%    | 58.44%    | 58.20%    | 62.83%    |

**Balance sheet data**

*In millions*

**Average assets**

|  |           |         |         |         |         |
|--|-----------|---------|---------|---------|---------|
| Average assets                           | \$ 95,892 | 98,644  | 93,245  | 89,873  | 86,665  |
| Goodwill                                 | (3,525)   | (3,525) | (3,525) | (3,525) | (3,525) |
| Core deposit and other intangible assets | (31)      | (38)    | (45)    | (53)    | (64)    |
| Deferred taxes                           | 10        | 12      | 14      | 16      | 20      |

|                         |           |        |        |        |        |
|-------------------------|-----------|--------|--------|--------|--------|
| Average tangible assets | \$ 92,346 | 95,093 | 89,689 | 86,311 | 83,096 |
|-------------------------|-----------|--------|--------|--------|--------|

**Average common equity**

|                      |           |         |         |         |         |
|----------------------|-----------|---------|---------|---------|---------|
| Average total equity | \$ 12,459 | 12,442  | 12,247  | 12,039  | 11,648  |
| Preferred stock      | (1,232)   | (1,231) | (1,232) | (1,231) | (1,072) |

|                       |        |        |        |        |        |
|-----------------------|--------|--------|--------|--------|--------|
| Average common equity | 11,227 | 11,211 | 11,015 | 10,808 | 10,576 |
|-----------------------|--------|--------|--------|--------|--------|

|  |         |         |         |         |         |
|--|---------|---------|---------|---------|---------|
| Goodwill                                 | (3,525) | (3,525) | (3,525) | (3,525) | (3,525) |
| Core deposit and other intangible assets | (31)    | (38)    | (45)    | (53)    | (64)    |
| Deferred taxes                           | 10      | 12      | 14      | 16      | 20      |

|                                |          |       |       |       |       |
|--------------------------------|----------|-------|-------|-------|-------|
| Average tangible common equity | \$ 7,681 | 7,660 | 7,459 | 7,246 | 7,007 |
|--------------------------------|----------|-------|-------|-------|-------|

**At end of quarter**

**Total assets**

|  |           |         |         |         |         |
|--|-----------|---------|---------|---------|---------|
| Total assets                             | \$ 98,378 | 96,686  | 97,228  | 90,835  | 88,530  |
| Goodwill                                 | (3,525)   | (3,525) | (3,525) | (3,525) | (3,525) |
| Core deposit and other intangible assets | (28)      | (35)    | (42)    | (49)    | (59)    |
| Deferred taxes                           | 9         | 11      | 13      | 15      | 19      |

|                       |           |        |        |        |        |
|-----------------------|-----------|--------|--------|--------|--------|
| Total tangible assets | \$ 94,834 | 93,137 | 93,674 | 87,276 | 84,965 |
|-----------------------|-----------|--------|--------|--------|--------|

**Total common equity**

|   |           |         |         |         |         |
|---|-----------|---------|---------|---------|---------|
| Total equity                                      | \$ 12,528 | 12,336  | 12,333  | 12,169  | 11,887  |
| Preferred stock                                   | (1,232)   | (1,231) | (1,232) | (1,232) | (1,232) |
| Undeclared dividends - cumulative preferred stock | (2)       | (3)     | (2)     | (3)     | (3)     |

|   |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|
| Common equity, net of undeclared cumulative preferred dividends | 11,294 | 11,102 | 11,099 | 10,934 | 10,652 |
|---|--------|--------|--------|--------|--------|

|  |         |         |         |         |         |
|--|---------|---------|---------|---------|---------|
| Goodwill                                 | (3,525) | (3,525) | (3,525) | (3,525) | (3,525) |
| Core deposit and other intangible assets | (28)    | (35)    | (42)    | (49)    | (59)    |

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|                              |    |       |       |       |       |       |
|------------------------------|----|-------|-------|-------|-------|-------|
| Deferred taxes               |    | 9     | 11    | 13    | 15    | 19    |
| Total tangible common equity | \$ | 7,750 | 7,553 | 7,545 | 7,375 | 7,087 |

(a) *After any related tax effect.*

- 88 -

**Table of Contents**

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

Table 3

## AVERAGE BALANCE SHEETS AND ANNUALIZED TAXABLE-EQUIVALENT RATES

|   | 2015 First Quarter |                |                 | 2014 Fourth Quarter |                |                 | 2014 Third Quarter |                |                 |
|---|--------------------|----------------|-----------------|---------------------|----------------|-----------------|--------------------|----------------|-----------------|
|   | Average<br>Balance | Interest       | Average<br>Rate | Average<br>Balance  | Interest       | Average<br>Rate | Average<br>Balance | Interest       | Average<br>Rate |
| <i>Balance in millions; interest in thousands</i>   |                    |                |                 |                     |                |                 |                    |                |                 |
| <b>Earning assets</b>                               |                    |                |                 |                     |                |                 |                    |                |                 |
| Loans and leases, net of unearned discount*         |                    |                |                 |                     |                |                 |                    |                |                 |
| Commercial, financial, etc.                         | \$ 19,457          | \$ 153,866     | 3.21%           | 19,117              | 156,627        | 3.25%           | 18,889             | 156,440        |                 |
| State - commercial                                  | 27,596             | 288,121        | 4.18            | 27,064              | 293,283        | 4.24            | 26,487             | 283,476        |                 |
| State - consumer                                    | 8,572              | 88,850         | 4.15            | 8,654               | 90,637         | 4.19            | 8,634              | 90,023         |                 |
| Consumer  | 10,962             | 121,366        | 4.49            | 10,932              | 123,681        | 4.49            | 10,753             | 122,408        |                 |
| Loans and leases, net                               | 66,587             | 652,203        | 3.97            | 65,767              | 664,228        | 4.01            | 64,763             | 652,347        |                 |
| Interest-bearing deposits at banks                  | 5,073              | 3,118          | .25             | 9,054               | 5,744          | .25             | 5,083              | 3,198          |                 |
| Money market funds sold and agreements to resell    |                    |                |                 |                     |                |                 |                    |                |                 |
| Time deposits                                       | 97                 | 24             | .10             | 86                  | 18             | .08             | 80                 | 14             |                 |
| Other earning account                               | 79                 | 565            | 2.87            | 80                  | 353            | 1.76            | 70                 | 287            |                 |
| Investment securities**                             |                    |                |                 |                     |                |                 |                    |                |                 |
| Treasury and federal agencies                       | 12,437             | 78,313         | 2.55            | 12,032              | 82,843         | 2.73            | 11,817             | 82,475         |                 |
| Municipalities of states and political subdivisions | 159                | 1,967          | 5.04            | 160                 | 1,963          | 4.86            | 162                | 1,897          |                 |
| Other investment securities                         | 780                | 7,735          | 4.02            | 786                 | 7,470          | 3.77            | 801                | 8,646          |                 |
| Investment securities                               | 13,376             | 88,015         | 2.67            | 12,978              | 92,276         | 2.82            | 12,780             | 93,018         |                 |
| <b>Earning assets</b>                               | <b>85,212</b>      | <b>743,925</b> | <b>3.54</b>     | <b>87,965</b>       | <b>762,619</b> | <b>3.44</b>     | <b>82,776</b>      | <b>748,864</b> |                 |
| Provision for credit losses                         | (925)              |                |                 | (924)               |                |                 | (924)              |                |                 |
| Due from banks                                      | 1,221              |                |                 | 1,290               |                |                 | 1,273              |                |                 |
| Other assets  | 10,384             |                |                 | 10,313              |                |                 | 10,120             |                |                 |
| <b>Assets</b>                                       | <b>\$ 95,892</b>   |                |                 | <b>98,644</b>       |                |                 | <b>93,245</b>      |                |                 |
| <b>Liabilities and shareholders' equity</b>         |                    |                |                 |                     |                |                 |                    |                |                 |
| Interest-bearing liabilities                        |                    |                |                 |                     |                |                 |                    |                |                 |
| Interest-bearing deposits                           |                    |                |                 |                     |                |                 |                    |                |                 |
| Accounts  | \$ 1,121           | 311            | .11             | 1,083               | 383            | .14             | 1,037              | 394            |                 |

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|  |           |            |       |        |         |       |        |         |
|--|-----------|------------|-------|--------|---------|-------|--------|---------|
| deposits                                 | 41,525    | 10,219     | .10   | 42,949 | 11,151  | .10   | 41,056 | 11,532  |
| deposits                                 | 3,017     | 3,740      | .50   | 3,128  | 3,915   | .50   | 3,227  | 3,805   |
| deposits at Cayman Islands office        | 224       | 147        | .27   | 265    | 149     | .22   | 325    | 161     |
| Interest-bearing deposits                | 45,887    | 14,417     | .13   | 47,425 | 15,598  | .13   | 45,645 | 15,892  |
| Term borrowings                          | 196       | 34         | .07   | 195    | 25      | .05   | 181    | 19      |
| Term borrowings                          | 9,835     | 64,048     | 2.64  | 8,954  | 59,149  | 2.62  | 8,547  | 58,053  |
| <b>Interest-bearing liabilities</b>      | 55,918    | 78,499     | .57   | 56,574 | 74,772  | .52   | 54,373 | 73,964  |
| Interest-bearing deposits                | 25,811    |            |       | 28,090 |         |       | 25,127 |         |
| Liabilities                              | 1,704     |            |       | 1,538  |         |       | 1,498  |         |
| Liabilities                              | 83,433    |            |       | 86,202 |         |       | 80,998 |         |
| Shareholders' equity                     | 12,459    |            |       | 12,442 |         |       | 12,247 |         |
| Liabilities and shareholders' equity     | \$ 95,892 |            |       | 98,644 |         |       | 93,245 |         |
| Interest spread                          |           |            | 2.97  |        |         | 2.92  |        |         |
| Provision of interest-free funds         |           |            | .20   |        |         | .18   |        |         |
| Interest income/margin on earning assets |           | \$ 665,426 | 3.17% |        | 687,847 | 3.10% |        | 674,900 |

\* Includes nonaccrual loans.

\*\* Includes available-for-sale securities at amortized cost.

(continued)

**Table of Contents**

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

Table 3 (continued)

## AVERAGE BALANCE SHEETS AND ANNUALIZED TAXABLE-EQUIVALENT RATES (continued)

| <i>Average balance in millions; interest in thousands</i> | 2014 Second Quarter |                |              | 2014 First Quarter |                |              |
|---|---------------------|----------------|--------------|--------------------|----------------|--------------|
|   | Average Balance     | Interest       | Average Rate | Average Balance    | Interest       | Average Rate |
| <b>Assets</b>   |                     |                |              |                    |                |              |
| Earning assets  |                     |                |              |                    |                |              |
| Loans and leases, net of unearned discount*               |                     |                |              |                    |                |              |
| Commercial, financial, etc.                               | \$ 18,978           | \$ 157,891     | 3.34%        | 18,476             | 153,529        | 3.37%        |
| Real estate - commercial                                  | 26,140              | 278,596        | 4.22         | 26,143             | 287,584        | 4.40         |
| Real estate - consumer                                    | 8,746               | 95,439         | 4.36         | 8,844              | 92,533         | 4.19         |
| Consumer  | 10,479              | 118,157        | 4.52         | 10,300             | 116,631        | 4.59         |
| Total loans and leases, net                               | 64,343              | 650,083        | 4.05         | 63,763             | 650,277        | 4.14         |
| Interest-bearing deposits at banks                        | 4,080               | 2,535          | .25          | 3,089              | 1,884          | .25          |
| Federal funds sold and agreements to resell securities    | 90                  | 16             | .07          | 100                | 16             | .07          |
| Trading account   | 84                  | 264            | 1.25         | 71                 | 477            | 2.68         |
| Investment securities**                                   |                     |                |              |                    |                |              |
| U.S. Treasury and federal agencies                        | 9,984               | 74,046         | 2.97         | 8,286              | 64,814         | 3.17         |
| Obligations of states and political subdivisions          | 166                 | 1,986          | 4.82         | 177                | 2,269          | 5.20         |
| Other   | 809                 | 11,209         | 5.56         | 802                | 9,160          | 4.63         |
| Total investment securities                               | 10,959              | 87,241         | 3.19         | 9,265              | 76,243         | 3.34         |
| <b>Total earning assets</b>                               | <b>79,556</b>       | <b>740,139</b> | <b>3.73</b>  | <b>76,288</b>      | <b>728,897</b> | <b>3.87</b>  |
| Allowance for credit losses                               | (922)               |                |              | (923)              |                |              |
| Cash and due from banks                                   | 1,224               |                |              | 1,322              |                |              |
| Other assets  | 10,015              |                |              | 9,978              |                |              |
| Total assets  | \$ 89,873           |                |              | 86,665             |                |              |
| <b>Liabilities and shareholders equity</b>                |                     |                |              |                    |                |              |
| Interest-bearing liabilities                              |                     |                |              |                    |                |              |
| Interest-bearing deposits                                 |                     |                |              |                    |                |              |
| NOW accounts  | \$ 1,026            | 330            | .13          | 988                | 297            | .12          |

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|   |                  |               |            |               |               |            |
|---|------------------|---------------|------------|---------------|---------------|------------|
| Savings deposits                                  | 39,478           | 11,181        | .11        | 38,358        | 11,601        | .12        |
| Time deposits                                     | 3,350            | 3,855         | .46        | 3,460         | 3,940         | .46        |
| Deposits at Cayman Islands office                 | 339              | 181           | .21        | 380           | 208           | .22        |
| <b>Total interest-bearing deposits</b>            | <b>44,193</b>    | <b>15,547</b> | <b>.14</b> | <b>43,186</b> | <b>16,046</b> | <b>.15</b> |
| Short-term borrowings                             | 220              | 25            | .05        | 264           | 32            | .05        |
| Long-term borrowings                              | 6,525            | 49,604        | 3.05       | 5,897         | 50,441        | 3.47       |
| <b>Total interest-bearing liabilities</b>         | <b>50,938</b>    | <b>65,176</b> | <b>.51</b> | <b>49,347</b> | <b>66,519</b> | <b>.55</b> |
| Noninterest-bearing deposits                      | 25,466           |               |            | 24,141        |               |            |
| Other liabilities                                 | 1,430            |               |            | 1,529         |               |            |
| <b>Total liabilities</b>                          | <b>77,834</b>    |               |            | <b>75,017</b> |               |            |
| Shareholders' equity                              | 12,039           |               |            | 11,648        |               |            |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 89,873</b> |               |            | <b>86,665</b> |               |            |
| Net interest spread                               |                  |               | 3.22       |               |               | 3.32       |
| Contribution of interest-free funds               |                  |               | .18        |               |               | .20        |
| Net interest income/margin on earning assets      |                  | \$ 674,963    | 3.40%      |               | 662,378       | 3.52%      |

\* Includes nonaccrual loans.

\*\* Includes available-for-sale securities at amortized cost.

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**Table of Contents**

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

Incorporated by reference to the discussion contained under the caption "Taxable-equivalent Net Interest Income" in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

**Item 4. Controls and Procedures.**

(a) Evaluation of disclosure controls and procedures. Based upon their evaluation of the effectiveness of M&T's disclosure controls and procedures (as defined in Exchange Act rules 13a-15(e) and 15d-15(e)), Robert G. Wilmers, Chairman of the Board and Chief Executive Officer, and René F. Jones, Executive Vice President and Chief Financial Officer, concluded that M&T's disclosure controls and procedures were effective as of March 31, 2015.

(b) Changes in internal control over financial reporting. M&T regularly assesses the adequacy of its internal control over financial reporting and enhances its controls in response to internal control assessments and internal and external audit and regulatory recommendations. No changes in internal control over financial reporting have been identified in connection with the evaluation of disclosure controls and procedures during the quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, M&T's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

M&T and its subsidiaries are subject in the normal course of business to various pending and threatened legal proceedings in which claims for monetary damages are asserted. On an on-going basis management, after consultation with legal counsel, assesses the Company's liabilities and contingencies in connection with such legal proceedings. For those matters where it is probable that the Company will incur losses and the amounts of the losses can be reasonably estimated, the Company records an expense and corresponding liability in its consolidated financial statements. To the extent the pending or threatened litigation could result in exposure in excess of that liability, the amount of such excess is not currently estimable. Although not considered probable, the range of reasonably possible further losses for such matters in the aggregate, beyond the existing recorded liability, was between \$0 and \$40 million. Although the Company does not believe that the outcome of pending litigations will be material to the Company's consolidated financial position, it cannot rule out the possibility that such outcomes will be material to the consolidated results of operations for a particular reporting period in the future.

*Wilmington Trust Corporation Investigative and Litigation Matters*

M&T's Wilmington Trust Corporation ( "Wilmington Trust" ) subsidiary is the subject of certain governmental investigations arising from actions undertaken by Wilmington Trust prior to M&T's acquisition of Wilmington Trust and its subsidiaries, as set forth below.

*DOJ Investigation:* Prior to M&T's acquisition of Wilmington Trust, the Department of Justice ( "DOJ" ) commenced an investigation of Wilmington Trust, relating to Wilmington Trust's financial reporting and securities filings, as well as certain commercial real estate lending relationships involving its subsidiary bank, Wilmington Trust Company, all of which relate to filings and activities occurring prior to the acquisition of Wilmington Trust by M&T. Counsel for Wilmington Trust has met with the DOJ to discuss the DOJ investigation. The DOJ investigation is ongoing.





**Table of Contents**

This investigation could lead to administrative or legal proceedings resulting in potential civil and/or criminal remedies, or settlements, including, among other things, enforcement actions, fines, penalties, restitution or additional costs and expenses.

*In Re Wilmington Trust Securities Litigation (U.S. District Court, District of Delaware, Case No. 10-CV-0990-SLR):* Beginning on November 18, 2010, a series of parties, purporting to be class representatives, commenced a putative class action lawsuit against Wilmington Trust, alleging that Wilmington Trust's financial reporting and securities filings were in violation of securities laws. The cases were consolidated and Wilmington Trust moved to dismiss. The Court issued an order denying Wilmington Trust's motion to dismiss on March 20, 2014. The parties are currently engaged in the discovery phase of the lawsuit.

Due to their complex nature, it is difficult to estimate when litigation and investigatory matters such as these may be resolved. As set forth in the introductory paragraph to this Item 1 Legal Proceedings, losses from current litigation and regulatory matters which the Company is subject to that are not currently considered probable are within a range of reasonably possible losses for such matters in the aggregate, beyond the existing recorded liability, and are included in the range of reasonably possible losses set forth above.

Item 1A. Risk Factors.

There have been no material changes in risk factors relating to M&T to those disclosed in response to Item 1A. to Part I of Form 10-K for the year ended December 31, 2014.

**Table of Contents**

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

(a) (b) Not applicable.

(c)

## Issuer Purchases of Equity Securities

| Period                         | (a) Total<br>Number<br>of Shares<br>(or Units)<br>Purchased (1) | (b) Average<br>Price Paid<br>per Share<br>(or Unit) | (c) Total<br>Number<br>of<br>Shares<br>(or Units)<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans<br>or<br>Programs | (d) Maximum<br>Number (or<br>Approximate<br>Dollar Value)<br>of Shares<br>(or Units)<br>that may yet<br>be<br>Purchased<br>Under the<br>Plans or<br>Programs<br>(2) |
|--------------------------------|---|---|--|---|
| January 1 - January 31, 2015   | 173,268   | \$ 113.81   |  | 2,181,500   |
| February 1 - February 28, 2015 | 1,029   | 120.54  |  | 2,181,500   |
| March 1 - March 31, 2015       | 1,636   | 125.64  |  | 2,181,500   |
| Total                          | 175,933   | \$ 113.96   |  |   |

- (1) *The total number of shares purchased during the periods indicated reflects shares deemed to have been received from employees who exercised stock options by attesting to previously acquired common shares in satisfaction of the exercise price or shares received from employees upon the vesting of restricted stock awards in satisfaction of applicable tax withholding obligations, as is permitted under M&T's stock-based compensation plans.*
- (2) *On February 22, 2007, M&T announced a program to purchase up to 5,000,000 shares of its common stock. No shares were purchased under such program during the periods indicated.*

## Item 3. Defaults Upon Senior Securities.

(Not applicable.)

## Item 4. Mine Safety Disclosures.

(None.)

Item 5. Other Information.  
(None.)

- 93 -

**Table of Contents**

Item 6. Exhibits.

The following exhibits are filed as a part of this report.

Exhibit

No.

|         |   |
|---------|---|
| 31.1    | Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.                             |
| 31.2    | Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.                             |
| 32.1    | Certification of Chief Executive Officer under 18 U.S.C. §1350 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith. |
| 32.2    | Certification of Chief Financial Officer under 18 U.S.C. §1350 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith. |
| 101.INS | XBRL Instance Document. Filed herewith.   |
| 101.SCH | XBRL Taxonomy Extension Schema. Filed herewith.   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase. Filed herewith.   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase. Filed herewith.   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase. Filed herewith.  |
| 101.DEF | XBRL Taxonomy Definition Linkbase. Filed herewith.  |

**Table of Contents**

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

M&T BANK CORPORATION

Date: May 8, 2015

By: /s/ René F. Jones  
René F. Jones  
Executive Vice President and Chief Financial  
Officer

EXHIBIT INDEX

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