M&T BANK CORP
Form 10-Q
August 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 1-9861

M&T BANK CORPORATION

(Exact name of registrant as specified in its charter)

New York	16-0968385
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One M & T Plaza	
Buffalo, New York	14203
(Address of principal executive offices)	(Zip Code)

(716) 635-4000

(Registrant's telephone number, including area code)

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, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company		

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

Number of shares of the registrant's Common Stock, $0.50 par value, outstanding as of the close of business on July 27, 2018: 143,790,862 shares.

M&T BANK CORPORATION

FORM 10-Q

For the Quarterly Period Ended June 30, 2018

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (Unaudited)

Dollars in thousands, except per share		June 30, 2018	December 31, 2017
Assets	Cash and due from banks	$1,367,594	$1,420,888
	Interest-bearing deposits at banks	6,669,985	5,078,903
	Federal funds sold	1,500	—
	Trading account	148,303	132,909
	Investment securities (includes pledged securities that can be sold or repledged of $473,505 at June 30, 2018; $487,151 at December 31, 2017)		
	Available for sale (cost: $9,912,160 at June 30, 2018; $10,938,796 at December 31, 2017)	9,658,846	10,896,284
	Held to maturity (fair value: $3,022,329 at June 30, 2018; $3,341,762 at December 31, 2017)	3,101,095	3,353,213
	Equity and other securities (cost: $507,389 at June 30, 2018; $415,028 at December 31, 2017)	523,061	415,028
	Total investment securities	13,283,002	14,664,525
	Loans and leases	88,059,392	88,242,886
	Unearned discount	(261,942)	(253,903)
	Loans and leases, net of unearned discount	87,797,450	87,988,983
	Allowance for credit losses	(1,019,248)	(1,017,198)
	Loans and leases, net	86,778,202	86,971,785
	Premises and equipment	637,809	646,451
	Goodwill	4,593,112	4,593,112
	Core deposit and other intangible assets	58,569	71,589
	Accrued interest and other assets	4,887,977	5,013,325
	Total assets	$118,426,053	$118,593,487
Liabilities	Noninterest-bearing deposits	$32,086,191	$33,975,180
	Savings and interest-checking deposits	51,107,290	51,698,008
	Time deposits	5,817,680	6,580,962
	Deposits at Cayman Islands office	261,427	177,996
	Total deposits	89,272,588	92,432,146
	Short-term borrowings	3,239,416	175,099
	Accrued interest and other liabilities	1,953,848	1,593,993
	Long-term borrowings	8,382,316	8,141,430
	Total liabilities	102,848,168	102,342,668

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 June 30, 2018 and December 31, 2017; Liquidation preference of $10,000 per share: 50,000 shares at June 30, 2018 and December 31, 2017	1,231,500	1,231,500
	Common stock, $.50 par, 250,000,000 shares authorized, 159,767,147 shares issued at June 30, 2018; 159,817,518 shares issued at December 31, 2017	79,884	79,909
	Common stock issuable, 24,447 shares at June 30, 2018; 27,138 shares at December 31, 2017	1,691	1,847
	Additional paid-in capital	6,579,395	6,590,855
	Retained earnings	10,763,638	10,164,804
	Accumulated other comprehensive income (loss), net	(517,941)	(363,814)
	Treasury stock — common, at cost — 15,530,445 shares at June 30, 2018; 9,733,115 shares at December 31, 2017	(2,560,282)	(1,454,282)
	Total shareholders’ equity	15,577,885	16,250,819
	Total liabilities and shareholders’ equity	$118,426,053	$118,593,487

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

In thousands, except per share		Three Months Ended June 30 2018	2017	Six Months Ended June 30 2018	2017
Interest income	Loans and leases, including fees	$1,024,471	924,640	$2,004,440	1,822,678
	Investment securities				
	Fully taxable	82,019	92,996	164,871	188,120
	Exempt from federal taxes	172	379	420	809
	Deposits at banks	21,869	12,213	40,546	24,375
	Other	374	185	778	464
	Total interest income	1,128,905	1,030,413	2,211,055	2,036,446
Interest expense	Savings and interest-checking deposits	48,738	30,543	89,265	56,177
	Time deposits	11,362	16,303	22,298	35,301
	Deposits at Cayman Islands office	542	281	923	546
	Short-term borrowings	1,383	378	2,266	594
	Long-term borrowings	58,093	44,708	111,999	91,368
	Total interest expense	120,118	92,213	226,751	183,986
	Net interest income	1,008,787	938,200	1,984,304	1,852,460
	Provision for credit losses	35,000	52,000	78,000	107,000
	Net interest income after provision for credit losses	973,787	886,200	1,906,304	1,745,460
Other income	Mortgage banking revenues	92,499	86,163	179,805	170,855
	Service charges on deposit accounts	106,784	106,057	211,899	210,233
	Trust income	137,641	126,797	269,016	246,812
	Brokerage services income	12,629	16,617	26,021	34,001
	Trading account and foreign exchange gains	5,255	8,084	9,892	17,775
	Gain (loss) on bank investment securities	2,326	(17)	(7,105)	(17)
	Other revenues from operations	100,280	117,115	226,582	228,002
	Total other income	457,414	460,816	916,110	907,661
Other expense	Salaries and employee benefits	418,537	398,054	881,965	847,795
	Equipment and net occupancy	73,031	73,797	147,828	148,163
	Outside data processing and software	49,712	44,575	98,141	88,876
	FDIC assessments	19,560	25,353	39,840	54,180
	Advertising and marketing	21,768	16,324	38,016	32,434
	Printing, postage and supplies	8,719	8,957	18,038	18,665
	Amortization of core deposit and other intangible assets	6,388	8,113	13,020	16,533
	Other costs of operations	178,862	175,462	473,073	331,841
	Total other expense	776,577	750,635	1,709,921	1,538,487
	Income before taxes	654,624	596,381	1,112,493	1,114,634
	Income taxes	161,464	215,328	266,723	384,654
	Net income	$493,160	381,053	$845,770	729,980
	Net income available to common shareholders				

Basic	$472,598	360,658	$805,338	689,208
Diluted	472,600	360,662	805,342	689,217
Net income per common share				
Basic	$3.26	2.36	$5.49	4.49
Diluted	3.26	2.35	5.48	4.47
Cash dividends per common share	$.80	.75	$1.55	1.50
Average common shares outstanding				
Basic	144,825	152,857	146,746	153,638
Diluted	144,998	153,276	146,941	154,108

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

In thousands	Three Months Ended June 30 2018	Three Months Ended June 30 2017	Six Months Ended June 30 2018	Six Months Ended June 30 2017
Net income	$493,160	381,053	$845,770	729,980
Other comprehensive income, net of tax and reclassification adjustments:				
Net unrealized gains (losses) on investment securities	(36,733)	16,932	(137,417)	15,576
Cash flow hedges adjustments	(2,569)	(955)	(13,011)	(978)
Foreign currency translation adjustment	(2,434)	1,150	(1,144)	1,626
Defined benefit plans liability adjustments	7,038	4,359	14,298	8,331
Total other comprehensive income (loss)	(34,698)	21,486	(137,274)	24,555
Total comprehensive income	$458,462	402,539	$708,496	754,535

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

In thousands		Six Months Ended June 30 2018	2017
Cash flows from operating activities	Net income	$845,770	729,980
	Adjustments to reconcile net income to net cash provided by operating activities		
	Provision for credit losses	78,000	107,000
	Depreciation and amortization of premises and equipment	54,092	54,901
	Amortization of capitalized servicing rights	24,207	27,984
	Amortization of core deposit and other intangible assets	13,020	16,533
	Provision for deferred income taxes	(123,980)	17,136
	Asset write-downs	5,237	8,797
	Net gain on sales of assets	(8,738)	(21,272)
	Net change in accrued interest receivable, payable	5,759	(6,350)
	Net change in other accrued income and expense	255,124	50,660
	Net change in loans originated for sale	(756,003)	545,864
	Net change in trading account assets and liabilities	128,754	92,054
	Net cash provided by operating activities	521,242	1,623,287
Cash flows from investing activities	Proceeds from sales of investment securities		
	Available for sale	418	512,129
	Equity and other securities	505,841	31,016
	Proceeds from maturities of investment securities		
	Available for sale	950,071	1,151,982
	Held to maturity	247,385	245,105
	Purchases of investment securities		
	Available for sale	(5,799)	(244,449)
	Held to maturity	—	(1,175,608)
	Equity and other securities	(520,040)	(68,825)
	Net decrease in loans and leases	859,071	1,134,470
	Net increase in interest-bearing deposits at banks	(1,591,082)	(23,191)
	Capital expenditures, net	(37,116)	(49,862)
	Net decrease in loan servicing advances	262,947	104,289
	Other, net	(8,708)	47,742
	Net cash provided by investing activities	662,988	1,664,798
Cash flows from financing activities	Net decrease in deposits	(3,157,898)	(1,949,877)
	Net increase in short-term borrowings	3,064,317	1,532,011
	Proceeds from long-term borrowings	999,594	898,200
	Payments on long-term borrowings	(706,370)	(2,728,059)

	Purchases of treasury stock	(1,196,062)	(756,967)
	Dividends paid — common	(227,565)	(230,652)
	Dividends paid — preferred	(36,260)	(36,474)
	Other, net	24,220	8,662
	Net cash used by financing activities	(1,236,024)	(3,263,156)
	Net increase (decrease) in cash, cash equivalents and restricted cash	(51,794)	24,929
	Cash, cash equivalents and restricted cash at beginning of period	1,420,888	1,320,549
	Cash, cash equivalents and restricted cash at end of period	$1,369,094	1,345,478
Supplemental disclosure of cash flow information	Interest received during the period	$2,210,063	2,038,009
	Interest paid during the period	218,731	199,621
	Income taxes paid during the period	175,619	321,106
Supplemental schedule of noncash investing and financing activities	Real estate acquired in settlement of loans	$36,418	57,202
	Securitization of residential mortgage loans allocated to		
	Available-for-sale investment securities	10,303	10,025
	Capitalized servicing rights	150	106

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)

Dollars in thousands, except per share	Preferred Stock	Common Stock	Common Stock Issuable	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net	Treasury Stock	Total
2017								
Balance — January 1, 2017	$1,231,500	79,973	2,145	6,676,948	9,222,488	(294,636)	(431,796)	16,486,622
Total comprehensive income	—	—	—	—	729,980	24,555	—	754,535
Preferred stock cash dividends	—	—	—	—	(36,474)	—	—	(36,474)
Exercise of 146,157 Series A stock warrants into 79,470 shares of common stock	—	—	—	(10,443)	—	—	10,443	—
Purchases of treasury stock	—	—	—	—	—	—	(756,967)	(756,967)
Stock-based compensation plans:								
Compensation expense, net	—	(62)	—	(58,749)	—	—	56,290	(2,521)
Exercises of stock options, net	—	—	—	(5,354)	—	—	62,428	57,074
Stock purchase plan	—	—	—	2,563	—	—	8,268	10,831
Directors' stock plan	—	—	—	173	—	—	792	965
Deferred compensation plans, net, including dividend	—	—	(205)	(208)	(43)	—	401	(55)

equivalents								
Common stock cash dividends — $1.50 per share	—	—	—	—	(230,473)	—	—	(230,473)
Balance — June 30, 2017	$1,231,500	79,911	1,940	6,604,930	9,685,478	(270,081)	(1,050,141)	16,283,537
2018								
Balance — January 1, 2018	$1,231,500	79,909	1,847	6,590,855	10,164,804	(363,814)	(1,454,282)	16,250,819
Cumulative effect of change in accounting principle — equity securities	—	—	—	—	16,853	(16,853)	—	—
Total comprehensive income	—	—	—	—	845,770	(137,274)	—	708,496
Preferred stock cash dividends	—	—	—	—	(36,260)	—	—	(36,260)
Exercise of 54,226 Series A stock warrants into 32,668 shares of common stock	—	—	—	(5,123)	—	—	5,123	—
Purchases of treasury stock	—	—	—	—	—	—	(1,196,062)	(1,196,062)
Stock-based compensation plans:								
Compensation expense, net	—	(25)	—	(6,194)	—	—	21,665	15,446
Exercises of stock options, net	—	—	—	(2,402)	—	—	53,073	50,671
Stock purchase plan	—	—	—	2,358	—	—	8,766	11,124
Directors' stock plan	—	—	—	149	—	—	1,043	1,192
Deferred compensation plans, net,	—	—	(156)	(248)	(37)	—	392	(49)

including dividend equivalents								
Common stock cash dividends — $1.55 per share	—	—	—	—	(227,492)	—	—	(227,492)
Balance — June 30, 2018	$1,231,500	79,884	1,691	6,579,395	10,763,638	(517,941)	(2,560,282)	15,577,885

NOTES TO FINANCIAL STATEMENTS

1. Significant accounting policies

The consolidated financial statements of M&T Bank Corporation ("M&T") and subsidiaries ("the Company") were compiled in accordance with generally accepted accounting principles ("GAAP") using the accounting policies set forth in note 1 of Notes to Financial Statements included in Form 10-K for the year ended December 31, 2017 ("2017 Annual Report"), except that effective January 1, 2018 the Company adopted amended accounting guidance that is discussed in notes 2, 15 and 16 herein. In the opinion of management, all adjustments necessary for a fair presentation have been made and were all of a normal recurring nature.

2. Investment securities

On January 1, 2018, the Company adopted amended guidance requiring equity investments with readily determinable fair values to be measured at fair value with changes in fair value recognized in the consolidated statement of income. This amended guidance excludes equity method investments, investments in consolidated subsidiaries, exchange membership ownership interests, and Federal Home Loan Bank of New York and Federal Reserve Bank of New York capital stock. Upon adoption the Company reclassified $17 million, after-tax effect, from accumulated other comprehensive income to retained earnings, representing the difference between fair value and the cost basis of equity investments with readily determinable fair values at January 1, 2018. Net unrealized gains recorded as gain (loss) on bank investment securities in the consolidated statement of income during the three months ended June 30, 2018 were $2 million and net unrealized losses during the six months ended June 30, 2018 were $7 million. The amortized cost and estimated fair value of investment securities were as follows:

	Amortized Cost (In thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2018				
Investment securities available for sale:				
U.S. Treasury and federal agencies	$1,726,242	4	18,425	$1,707,821
Obligations of states and political subdivisions	1,914	12	1	1,925
Mortgage-backed securities:				
Government issued or guaranteed	8,046,603	15,521	244,825	7,817,299
Privately issued	26	—	2	24
Other debt securities	137,375	2,225	7,823	131,777
	9,912,160	17,762	271,076	9,658,846
Investment securities held to maturity:				
Obligations of states and political subdivisions	13,547	57	20	13,584
Mortgage-backed securities:				
Government issued or guaranteed	2,960,045	4,539	71,183	2,893,401
Privately issued	122,906	11,451	23,610	110,747
Other debt securities	4,597	—	—	4,597

	3,101,095	16,047	94,813	3,022,329
Total debt securities	$13,013,255	33,809	365,889	$12,681,175
Equity and other securities:				
Readily marketable equity — at fair value	70,810	16,527	855	86,482
Other — at cost	436,579	—	—	436,579
Total equity and other securities	$507,389	16,527	855	$523,061

NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. Investment securities, continued

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
December 31, 2017				
Investment securities available for sale:				
U.S. Treasury and federal agencies	$1,965,665	—	18,178	$1,947,487
Obligations of states and political subdivisions	2,555	36	2	2,589
Mortgage-backed securities:				
Government issued or guaranteed	8,755,482	59,497	98,587	8,716,392
Privately issued	28	—	—	28
Other debt securities	136,905	2,402	10,475	128,832
Equity securities	78,161	23,219	424	100,956
	10,938,796	85,154	127,666	10,896,284
Investment securities held to maturity:				
Obligations of states and political subdivisions	24,562	109	49	24,622
Mortgage-backed securities:				
Government issued or guaranteed	3,187,953	27,236	13,746	3,201,443
Privately issued	135,688	2,574	27,575	110,687
Other debt securities	5,010	—	—	5,010
	3,353,213	29,919	41,370	3,341,762
Other securities — at cost	415,028	—	—	415,028
Total	$14,707,037	115,073	169,036	$14,653,074

There were no significant gross realized gains or losses from sales of investment securities for the three-month and six-month periods ended June 30, 2018 and 2017, respectively.

At June 30, 2018, the amortized cost and estimated fair value of debt securities by contractual maturity were as follows:

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Debt securities available for sale:		
Due in one year or less	$1,297,040	1,286,504

Due after one year through five years	436,548	428,617
Due after five years through ten years	96,521	95,992
Due after ten years	35,422	30,410
	1,865,531	1,841,523
Mortgage-backed securities available for sale	8,046,629	7,817,323
	$9,912,160	9,658,846
Debt securities held to maturity:		
Due in one year or less	$7,630	7,633
Due after one year through five years	5,917	5,951
Due after ten years	4,597	4,597
	18,144	18,181
Mortgage-backed securities held to maturity	3,082,951	3,004,148
	$3,101,095	3,022,329

NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. Investment securities, continued

A summary of investment securities that as of June 30, 2018 and December 31, 2017 had been in a continuous unrealized loss position for less than twelve months and those that had been in a continuous unrealized loss position for twelve months or longer follows:

	Less Than 12 Months		12 Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)			
June 30, 2018				
Investment securities available for sale:				
U.S. Treasury and federal agencies	$164,931	(1,622)	1,539,796	(16,803)
Obligations of states and political subdivisions	—	—	375	(1)
Mortgage-backed securities:				
Government issued or guaranteed	3,872,321	(91,083)	2,907,972	(153,742)
Privately issued	8	(2)	—	—
Other debt securities	4,323	(94)	63,902	(7,729)
	4,041,583	(92,801)	4,512,045	(178,275)
Investment securities held to maturity:				
Obligations of states and political subdivisions	—	—	4,218	(20)
Mortgage-backed securities:				
Government issued or guaranteed	2,252,672	(58,405)	250,341	(12,778)
Privately issued	—	—	53,579	(23,610)
	2,252,672	(58,405)	308,138	(36,408)
Total	$6,294,255	(151,206)	4,820,183	(214,683)
December 31, 2017				
Investment securities available for sale:				
U.S. Treasury and federal agencies	$278,132	(1,761)	1,669,355	(16,417)
Obligations of states and political subdivisions	—	—	474	(2)
Mortgage-backed securities:				
Government issued or guaranteed	2,106,142	(13,695)	3,138,841	(84,892)
Other debt securities	3,067	(26)	61,159	(10,449)
Equity securities (a)	—	—	18,162	(424)
	2,387,341	(15,482)	4,887,991	(112,184)
Investment securities held to maturity:				
Obligations of states and political subdivisions	2,954	(4)	6,110	(45)
Mortgage-backed securities:				
Government issued or guaranteed	1,331,759	(7,036)	265,695	(6,710)

Privately issued	5,061	(1,216)	55,255	(26,359)
	1,339,774	(8,256)	327,060	(33,114)
Total	$3,727,115	(23,738)	5,215,051	(145,298)

(a) Beginning January 1, 2018, equity securities with readily determinable fair values are required to be measured at fair value with changes in fair value recognized in the consolidated statement of income. As a result, subsequent to December 31, 2017 disclosing the time period for which these equity securities had been in a continuous unrealized loss position is no longer relevant.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. Investment securities, continued

The Company owned 1,487 individual debt securities with aggregate gross unrealized losses of $366 million at June 30, 2018. Based on a review of each of the securities in the investment securities portfolio at June 30, 2018, the Company concluded that it expected to recover the amortized cost basis of its investment. As of June 30, 2018, 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 June 30, 2018, the Company has not identified events or changes in circumstances which may have a significant adverse effect on the fair value of the $437 million of cost method equity securities.

3. Loans and leases and the allowance for credit losses

A summary of current, past due and nonaccrual loans as of June 30, 2018 and December 31, 2017 follows:

	Current (In thousands)	30-89 Days Past Due	Accruing Loans Past Due 90 Days or More (a)	Accruing Loans Acquired at a Discount Past Due 90 days or More (b)	Purchased Impaired (c)	Nonaccrual	Total
June 30, 2018							
Commercial, financial, leasing, etc.	$21,615,676	29,906	4,210	31	3	245,031	$21,894,857
Real estate:							
Commercial	25,352,075	212,480	10,621	4,330	10,579	153,552	25,743,637
Residential builder and developer	1,628,793	8,668	—	—	547	5,212	1,643,220
Other commercial construction	6,597,814	140,490	4,000	—	1,053	7,723	6,751,080
Residential	14,456,180	425,894	200,159	8,019	244,865	215,850	15,550,967
Residential — limited documentation	2,488,340	79,179	—	—	95,418	96,808	2,759,745
Consumer:							
Home equity lines and loans	4,931,331	29,589	49	6,856	—	66,690	5,034,515

Automobile	3,450,113	69,398	—	—	—	19,564	3,539,075
Other	4,807,912	30,732	3,987	28,169	—	9,554	4,880,354
Total	$85,328,234	1,026,336	223,026	47,405	352,465	819,984	$87,797,450
December 31, 2017							
Commercial, financial, leasing, etc.	$21,332,234	167,756	1,322	327	21	240,991	$21,742,651
Real estate:							
Commercial	24,910,381	166,305	4,444	6,016	16,815	184,982	25,288,943
Residential builder and developer	1,618,973	5,159	—	—	1,135	6,451	1,631,718
Other commercial construction	6,407,451	23,467	—	—	4,706	10,088	6,445,712
Residential	15,376,759	474,372	233,437	7,582	282,102	235,834	16,610,086
Residential — limited documentation	2,718,019	83,898	—	—	105,236	96,105	3,003,258
Consumer:							
Home equity lines and loans	5,171,345	38,546	—	9,391	—	74,500	5,293,782
Automobile	3,441,371	78,511	—	—	—	23,781	3,543,663
Other	4,349,071	40,929	5,202	24,102	—	9,866	4,429,170
Total	$85,325,604	1,078,943	244,405	47,418	410,015	882,598	$87,988,983

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

One-to-four family residential mortgage loans held for sale were $283 million and $356 million at June 30, 2018 and December 31, 2017, respectively. Commercial real estate loans held for sale were $868 million at June 30, 2018 and $22 million at December 31, 2017.

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

	June 30, 2018	December 31, 2017
	(In thousands)	
Outstanding principal balance	$1,213,758	1,394,188
Carrying amount:		
Commercial, financial, leasing, etc.	27,726	31,105
Commercial real estate	183,126	228,054
Residential real estate	545,438	620,827
Consumer	107,492	123,413
	$863,782	1,003,399

Purchased impaired loans included in the table above totaled $352 million at June 30, 2018 and $410 million at December 31, 2017, representing less than 1% of the Company's assets as of each date. A summary of changes in the accretable yield for loans acquired at a discount for the three months and six months ended June 30, 2018 and 2017 follows:

	Three Months Ended June 30,			
	2018		2017	
	Purchased Impaired	Other Acquired	Purchased Impaired	Other Acquired
	(In thousands)			
Balance at beginning of period	$149,007	118,184	$143,454	$181,310
Interest income	(7,969)	(15,394)	(10,806)	(20,923)
Reclassifications from nonaccretable balance	8,350	10,998	884	1,852
Other (a)	—	3,927	—	860
Balance at end of period	$149,388	117,715	$133,532	$163,099

Six Months Ended June 30,

	2018		2017	
	Purchased Impaired	Other Acquired	Purchased Impaired	Other Acquired
	(In thousands)			
Balance at beginning of period	$157,918	$133,162	$154,233	201,153
Interest income	(17,788)	(30,506)	(21,731)	(46,441)
Reclassifications from nonaccretable balance	9,258	11,205	1,030	5,035
Other (a)	—	3,854	—	3,352
Balance at end of period	$149,388	$117,715	$133,532	163,099

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Changes in the allowance for credit losses for the three months ended June 30, 2018 were as follows:

	Commercial, Financial, Leasing, etc.	Real Estate Commercial	Residential	Consumer	Unallocated	Total
	(In thousands)					
Beginning balance	$326,071	367,717	73,047	173,841	78,995	$1,019,671
Provision for credit losses	11,250	(10,845)	5,242	30,801	(1,448)	35,000
Net charge-offs						
Charge-offs	(14,900)	(4,548)	(3,966)	(34,033)	—	(57,447)
Recoveries	6,409	1,437	1,800	12,378	—	22,024
Net charge-offs	(8,491)	(3,111)	(2,166)	(21,655)	—	(35,423)
Ending balance	$328,830	353,761	76,123	182,987	77,547	$1,019,248

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

	Commercial, Financial, Leasing, etc.	Real Estate Commercial	Residential	Consumer	Unallocated	Total
	(In thousands)					
Beginning balance	$347,760	360,010	62,012	153,172	78,476	$1,001,430
Provision for credit losses	13,368	7,638	7,163	24,190	(359)	52,000
Net charge-offs						
Charge-offs	(25,247)	(1,853)	(5,899)	(28,683)	—	(61,682)
Recoveries	3,433	434	2,730	9,880	—	16,477
Net charge-offs	(21,814)	(1,419)	(3,169)	(18,803)	—	(45,205)
Ending balance	$339,314	366,229	66,006	158,559	78,117	$1,008,225

Changes in the allowance for credit losses for the six months ended June 30, 2018 were as follows:

Real Estate

	Commercial, Financial, Leasing, etc.	Commercial	Residential	Consumer	Unallocated	Total
	(In thousands)					
Beginning balance	$328,599	374,085	65,405	170,809	78,300	$1,017,198
Provision for credit losses	18,480	(16,070)	15,728	60,615	(753)	78,000
Net charge-offs						
Charge-offs	(29,481)	(5,914)	(8,320)	(70,484)	—	(114,199)
Recoveries	11,232	1,660	3,310	22,047	—	38,249
Net charge-offs	(18,249)	(4,254)	(5,010)	(48,437)	—	(75,950)
Ending balance	$328,830	353,761	76,123	182,987	77,547	$1,019,248

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

	Commercial, Financial, Leasing, etc.	Real Estate Commercial	Real Estate Residential	Consumer	Unallocated	Total
	(In thousands)					
Beginning balance	$330,833	362,719	61,127	156,288	78,030	$988,997
Provision for credit losses	42,191	8,900	12,800	43,022	87	107,000
Net charge-offs						
Charge-offs	(41,604)	(7,298)	(12,158)	(63,186)	—	(124,246)
Recoveries	7,894	1,908	4,237	22,435	—	36,474
Net charge-offs	(33,710)	(5,390)	(7,921)	(40,751)	—	(87,772)
Ending balance	$339,314	366,229	66,006	158,559	78,117	$1,008,225

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

In establishing the allowance for credit losses, the Company estimates losses attributable to specific troubled credits identified through both normal and targeted 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 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.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Information with respect to loans and leases that were considered impaired as of June 30, 2018 and December 31, 2017 and for the three-month and six-month periods ended June 30, 2018 and 2017 follows.

	June 30, 2018			December 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In thousands)					
With an allowance recorded:						
Commercial, financial, leasing, etc.	$157,228	180,016	37,589	177,250	194,257	45,488
Real estate:						
Commercial	85,588	96,221	9,316	67,199	75,084	9,140
Residential builder and developer	6,085	6,465	211	5,320	5,641	308
Other commercial construction	1,829	17,670	345	4,817	20,357	647
Residential	117,111	139,966	4,068	101,724	122,602	4,000
Residential — limited documentation	76,040	91,851	4,000	77,277	92,439	3,900
Consumer:						
Home equity lines and loans	48,436	53,538	8,757	48,847	53,914	8,812
Automobile	12,467	15,396	2,595	13,498	15,737	2,811
Other	3,011	6,036	614	3,220	5,872	656
	507,795	607,159	67,495	499,152	585,903	75,762
With no related allowance recorded:						
Commercial, financial, leasing, etc.	112,604	139,843	—	89,126	115,327	—
Real estate:						
Commercial	89,024	99,658	—	138,356	149,716	—
Residential builder and developer	4,353	4,471	—	5,057	5,296	—
Other commercial construction	6,021	9,726	—	5,456	9,130	—
Residential	12,665	17,161	—	13,574	18,980	—
Residential — limited documentation	6,831	11,853	—	9,588	16,138	—
	231,498	282,712	—	261,157	314,587	—
Total:						
Commercial, financial, leasing, etc.	269,832	319,859	37,589	266,376	309,584	45,488
Real estate:						
Commercial	174,612	195,879	9,316	205,555	224,800	9,140
Residential builder and developer	10,438	10,936	211	10,377	10,937	308
Other commercial construction	7,850	27,396	345	10,273	29,487	647
Residential	129,776	157,127	4,068	115,298	141,582	4,000
Residential — limited documentation	82,871	103,704	4,000	86,865	108,577	3,900
Consumer:						
Home equity lines and loans	48,436	53,538	8,757	48,847	53,914	8,812
Automobile	12,467	15,396	2,595	13,498	15,737	2,811

Other	3,011	6,036	614	3,220	5,872	656
Total	$739,293	889,871	67,495	760,309	900,490	75,762

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

	Three Months Ended June 30, 2018			Three Months Ended June 30, 2017		
		Interest Income Recognized			Interest Income Recognized	
	Average Recorded Investment	Total	Cash Basis	Average Recorded Investment	Total	Cash Basis
	(In thousands)					
Commercial, financial, leasing, etc.	$271,413	1,333	1,333	230,767	805	805
Real estate:						
Commercial	168,224	3,811	3,811	200,005	813	813
Residential builder and developer	8,494	—	—	15,577	467	467
Other commercial construction	7,443	53	53	14,213	86	86
Residential	126,185	2,329	937	108,036	1,465	606
Residential — limited documentation	83,776	1,428	317	95,208	1,449	339
Consumer:						
Home equity lines and loans	48,644	433	72	46,872	422	91
Automobile	12,636	225	14	15,506	262	21
Other	3,066	88	3	3,468	75	3
Total	$729,881	9,700	6,540	729,652	5,844	3,231

	Six Months Ended June 30, 2018			Six Months Ended June 30, 2017		
		Interest Income Recognized			Interest Income Recognized	
	Average Recorded Investment	Total	Cash Basis	Average Recorded Investment	Total	Cash Basis
	(In thousands)					
Commercial, financial, leasing, etc.	$271,793	2,116	2,116	251,352	1,283	1,283
Real estate:						

Commercial	175,035	6,958	6,958	191,935	1,788	1,788
Residential builder and developer	9,167	1,682	1,682	17,552	896	896
Other commercial construction	8,773	59	59	14,922	933	933
Residential	123,697	4,231	1,839	106,166	3,101	1,380
Residential — limited documentation	84,686	3,156	1,013	96,033	2,949	723
Consumer:						
Home equity lines and loans	48,721	847	158	46,327	821	191
Automobile	12,881	449	29	15,931	537	40
Other	3,092	173	6	3,510	147	6
Total	$737,845	19,671	13,860	743,728	12,455	7,240

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. 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.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

	Commercial, Financial, Leasing, etc.	Real Estate Commercial	Residential Builder and Developer	Other Commercial Construction
	(In thousands)			
June 30, 2018				
Pass	$20,769,679	24,954,015	1,503,766	6,594,613
Criticized accrual	880,147	636,070	134,242	148,744
Criticized nonaccrual	245,031	153,552	5,212	7,723
Total	$21,894,857	25,743,637	1,643,220	6,751,080
December 31, 2017				
Pass	$20,490,486	24,380,184	1,485,148	6,270,812
Criticized accrual	1,011,174	723,777	140,119	164,812
Criticized nonaccrual	240,991	184,982	6,451	10,088
Total	$21,742,651	25,288,943	1,631,718	6,445,712

In determining the allowance for credit losses, residential real estate loans and consumer loans are generally evaluated collectively after considering such factors as payment performance and recent loss experience and trends, which are mainly driven by current collateral values in the market place as well as the amount of loan defaults. Loss rates on such loans are determined by reference to recent charge-off history and are evaluated (and adjusted if deemed appropriate) through consideration of other factors including near-term forecasted loss estimates developed by the Company's credit department. In arriving at such forecasts, the Company considers the current estimated fair value of its collateral based on geographical adjustments for home price depreciation/appreciation and overall borrower repayment performance. With regard to collateral values, the realizability of such values by the Company contemplates repayment of any first lien position prior to recovering amounts on a second lien position. However, residential real estate loans and outstanding balances of home equity loans and lines of credit that are more than 150 days past due are generally evaluated for 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 totaled $32 million and $25 million, respectively, at June 30, 2018 and $34 million and $25 million, respectively, at December 31, 2017. Residential real estate loans and home equity loans and lines of credit that were more than 150 days past due but did not require a partial charge-off because the net realizable value of the collateral exceeded the outstanding customer balance were $15 million and $30 million, respectively, at June 30, 2018 and $20 million and $32 million, respectively, at December 31, 2017.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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, Financial, Leasing, etc.	Real Estate Commercial	Residential	Consumer	Total
	(In thousands)				
June 30, 2018					
Individually evaluated for impairment	$37,589	9,872	8,068	11,966	$67,495
Collectively evaluated for impairment	291,241	343,889	54,999	171,021	861,150
Purchased impaired	—	—	13,056	—	13,056
Allocated	$328,830	353,761	76,123	182,987	941,701
Unallocated					77,547
Total					$1,019,248
December 31, 2017					
Individually evaluated for impairment	$45,488	10,095	7,900	12,279	$75,762
Collectively evaluated for impairment	283,111	363,990	47,645	158,530	853,276
Purchased impaired	—	—	9,860	—	9,860
Allocated	$328,599	374,085	65,405	170,809	938,898
Unallocated					78,300
Total					$1,017,198

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

	Commercial, Financial, Leasing, etc.	Real Estate Commercial	Residential	Consumer	Total
	(In thousands)				
June 30, 2018					
Individually evaluated for impairment	$269,832	192,900	212,647	63,914	$739,293
Collectively evaluated for impairment	21,625,022	33,932,858	17,757,782	13,390,030	86,705,692
Purchased impaired	3	12,179	340,283	—	352,465
Total	$21,894,857	34,137,937	18,310,712	13,453,944	$87,797,450

December 31, 2017					
Individually evaluated for impairment	$266,376	226,205	202,163	65,565	$760,309
Collectively evaluated for impairment	21,476,254	33,117,512	19,023,843	13,201,050	86,818,659
Purchased impaired	21	22,656	387,338	—	410,015
Total	$21,742,651	33,366,373	19,613,344	13,266,615	$87,988,983

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.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The table that follows summarizes the Company's loan modification activities that were considered troubled debt restructurings for the three-month and six-month periods ended June 30, 2018 and 2017:

			Post-modification (a)				
	Number	Pre-modification Recorded Investment	Principal Deferral	Interest Rate Reduction	Other	Combination of Concession Types	Total
Three Months Ended June 30, 2018	(Dollars in thousands)						
Commercial, financial, leasing, etc.	47	$ 41,390	$9,673	$ 29	$6,111	$ 25,021	$40,834
Real estate:							
Commercial	28	7,200	7,376	175	394	—	7,945
Residential	30	7,951	2,814	—	—	5,766	8,580
Residential — limited documentation	3	584	200	—	—	458	658
Consumer:							
Home equity lines and loans	10	555	—	—	—	559	559
Automobile	19	333	321	—	—	12	333
Total	137	$ 58,013	$20,384	$ 204	$6,505	$ 31,816	$58,909
Three Months Ended June 30, 2017							
Commercial, financial, leasing, etc.	63	$ 65,613	$8,172	$ —	$5,556	$ 35,232	$48,960
Real estate:							
Commercial	30	26,045	11,782	—	—	14,276	26,058
Other commercial construction	1	66	66	—	—	—	66
Residential	30	7,956	2,982	—	—	5,486	8,468
Residential — limited documentation	7	1,831	235	—	—	1,660	1,895
Consumer:							
Home equity lines and loans	35	3,229	416	—	—	2,818	3,234
Automobile	22	428	380	—	—	48	428
Other	3	54	54	—	—	—	54
Total	191	$ 105,222	$24,087	$ —	$5,556	$ 59,520	$89,163

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

			Post-modification (a)				
Six Months Ended June 30, 2018	Number	Pre-modification Recorded Investment	Principal Deferral	Interest Rate Reduction	Other	Combination of Concession Types	Total
	(Dollars in thousands)						
Commercial, financial, leasing, etc.	103	$ 89,384	$45,346	$ 653	$6,111	$ 38,068	$90,178
Real estate:							
Commercial	48	13,980	13,200	175	394	927	14,696
Other commercial construction	1	752	746	—	—	—	746
Residential	77	20,587	9,759	—	—	12,668	22,427
Residential — limited documentation	5	879	467	—	—	576	1,043
Consumer:							
Home equity lines and loans	24	1,903	4	—	—	1,907	1,911
Automobile	27	481	469	—	—	12	481
Other	2	49	49	—	—	—	49
Total	287	$ 128,015	$70,040	$ 828	$6,505	$ 54,158	$131,531
Six Months Ended June 30, 2017							
Commercial, financial, leasing, etc.	113	$ 77,534	$12,561	$ —	$6,362	$ 37,960	$56,883
Real estate:							
Commercial	50	32,747	14,773	—	—	17,882	32,655
Residential builder and developer	3	12,291	—	—	—	10,879	10,879
Other commercial construction	2	168	168	—	—	—	168
Residential	71	17,336	8,575	—	—	9,841	18,416
Residential — limited documentation	13	3,209	235	—	—	3,185	3,420
Consumer:							
Home equity lines and loans	60	5,731	579	—	491	4,666	5,736
Automobile	42	818	763	—	—	55	818
Other	5	80	80	—	—	—	80
Total	359	$ 149,914	$37,734	$ —	$6,853	$ 84,468	$129,055

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

Troubled debt restructurings are considered to be impaired loans and for purposes of establishing the allowance for credit losses are evaluated for impairment giving consideration to the impact of the modified loan terms on the present value of the loan's expected cash flows. Impairment of troubled debt restructurings that have subsequently defaulted may also be measured based on the loan's observable market price or the fair value of collateral if the loan is collateral-dependent. Charge-offs may also be recognized on troubled debt restructurings that have subsequently defaulted. Loans that were modified as troubled debt restructurings during the twelve months ended June 30, 2018 and 2017 and for which there was a subsequent payment default during the six-month periods ended June 30, 2018 and 2017, respectively, were not material.

The amount of foreclosed residential real estate property held by the Company was $97 million and $108 million at June 30, 2018 and December 31, 2017, respectively. There were $433 million and $497 million at June 30, 2018 and December 31, 2017, respectively, in loans secured by residential real estate that were in the process of foreclosure. Of all loans in the process of foreclosure at June 30, 2018, approximately 41% were classified as purchased impaired and 21% were government guaranteed.

4. Borrowings

During January 2018, M&T Bank, the principal subsidiary of M&T, issued $1.0 billion of senior notes that mature in January 2021 pursuant to a Bank Note Program, of which $650 million have a 2.625% fixed interest rate and $350 million have a variable rate paid quarterly at rates that are indexed to the three-month London Interbank Offered Rate (“LIBOR”). In July 2018, M&T issued $750 million of senior notes that mature in July 2023, of which $500 million have a 3.55% fixed interest rate and $250 million have a variable rate paid quarterly at rates that are indexed to the three-month LIBOR.

M&T had $521 million of fixed and variable rate junior subordinated deferrable interest debentures ("Junior Subordinated Debentures") outstanding at June 30, 2018 that are held by various trusts that were issued in connection with the issuance by those trusts of preferred capital securities ("Capital Securities") and common securities ("Common Securities"). The proceeds from the issuances of the Capital Securities and the Common Securities were used by the trusts to purchase the Junior Subordinated Debentures. The Common Securities of each of those trusts are wholly owned by M&T and are the only class of each trust's securities possessing general voting powers. The Capital Securities represent preferred undivided interests in the assets of the corresponding trust. Under the Federal Reserve Board’s risk-based capital guidelines, the securities are includable in M&T’s Tier 2 regulatory capital.

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

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

Also included in long-term borrowings are agreements to repurchase securities of $416 million and $422 million at June 30, 2018 and December 31, 2017, respectively. The agreements reflect various repurchase dates through 2020, however, the contractual maturities of the underlying investment securities extend beyond such repurchase dates. The agreements are subject to legally enforceable master netting arrangements, however, the Company has not offset any amounts related to these agreements in its consolidated financial statements. The Company posted collateral consisting primarily of government guaranteed mortgage-backed securities of $433 million and $442 million at June 30, 2018 and December 31, 2017, respectively.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

5. 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 June 30, 2018 and December 31, 2017 is presented below:

	Shares Issued and Outstanding	Carrying Value
	(Dollars in thousands)	
Series A (a)		
Fixed Rate Cumulative Perpetual Preferred Stock, $1,000 liquidation preference per share	230,000	$230,000
Series C (a)		
Fixed Rate Cumulative Perpetual Preferred Stock, $1,000 liquidation preference per share	151,500	$151,500
Series E (b)		
Fixed-to-Floating Rate Non-cumulative Perpetual Preferred Stock, $1,000 liquidation preference per share	350,000	$350,000
Series F (c)		
Fixed-to-Floating Rate Non-cumulative Perpetual Preferred Stock, $10,000 liquidation preference per share	50,000	$500,000

(a) Dividends, if declared, are paid at 6.375%. Warrants to purchase M&T common stock at $73.71 per share issued in connection with the Series A preferred stock expire on December 23, 2018 and totaled 202,782 at June 30, 2018.

(b) Dividends, if declared, are paid semi-annually at a rate of 6.45% through February 14, 2024 and thereafter will be paid quarterly at a rate of the three-month LIBOR plus 361 basis points. The shares are redeemable in whole or in part on or after February 15, 2024. Notwithstanding M&T's option to redeem the shares, if an event occurs such that the shares no longer qualify as Tier 1 capital, M&T may redeem all of the shares within 90 days following that occurrence.

(c) Dividends, if declared, are paid semi-annually at a rate of 5.125% through October 31, 2026 and thereafter will be paid quarterly at a rate of the three-month LIBOR plus 352 basis points. The shares are redeemable in whole or in part on or after November 1, 2026. Notwithstanding M&T's option to redeem the shares, if an event occurs such that the shares no longer qualify as Tier 1 capital, M&T may redeem all of the shares within 90 days following that occurrence.

In addition to the Series A warrants mentioned in (a) above, a warrant to purchase 95,580 shares of M&T common stock at $517.89 per share was outstanding at June 30, 2018. The obligation under that warrant was assumed by M&T in an acquisition and expires on December 12, 2018.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

6. Pension plans and other postretirement benefits

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

	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended June 30			
	2018	2017	2018	2017
	(In thousands)			
Service cost	$5,069	5,189	243	202
Interest cost on projected benefit obligation	18,548	19,943	589	778
Expected return on plan assets	(30,688)	(27,062)	—	—
Amortization of prior service cost (credit)	153	154	(1,189)	(329)
Amortization of net actuarial loss (gain)	10,796	7,831	(213)	(469)
Net periodic benefit cost	$3,878	6,055	(570)	182

	Pension Benefits		Other Postretirement Benefits	
	Six Months Ended June 30			
	2018	2017	2018	2017
	(In thousands)			
Service cost	$10,172	10,097	469	585
Interest cost on projected benefit obligation	37,353	39,634	1,146	1,858
Expected return on plan assets	(61,563)	(54,262)	—	—
Amortization of prior service cost (credit)	278	279	(2,364)	(679)
Amortization of net actuarial loss (gain)	21,896	14,631	(413)	(494)
Net periodic benefit cost	$8,136	10,379	(1,162)	1,270

Service cost is reflected in salaries and employee benefits expense. The other components of net periodic benefit cost are reflected in other costs of operations. Expenses incurred in connection with the Company's defined contribution pension and retirement savings plans totaled $17,194,000 and $17,623,000 for the three months ended June 30, 2018 and 2017, respectively, and $38,468,000 and $37,042,000 for the six months ended June 30, 2018 and 2017, respectively, and are included in salaries and employee benefits expense.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

7. Earnings per common share

The computations of basic earnings per common share follow:

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
	(In thousands, except per share)			
Income available to common shareholders:				
Net income	$493,160	381,053	845,770	729,980
Less: Preferred stock dividends (a)	(18,130)	(18,237)	(36,260)	(36,474)
Net income available to common equity	475,030	362,816	809,510	693,506
Less: Income attributable to unvested stock-based compensation awards	(2,432)	(2,158)	(4,172)	(4,298)
Net income available to common shareholders	$472,598	360,658	805,338	689,208
Weighted-average shares outstanding:				
Common shares outstanding (including common stock issuable) and unvested stock-based compensation awards	145,571	153,770	147,510	154,612
Less: Unvested stock-based compensation awards	(746)	(913)	(764)	(974)
Weighted-average shares outstanding	144,825	152,857	146,746	153,638
Basic earnings per common share	$3.26	2.36	5.49	4.49

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

The computations of diluted earnings per common share follow:

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
	(In thousands, except per share)			
Net income available to common equity	$475,030	362,816	809,510	693,506
Less: Income attributable to unvested stock-based compensation awards	(2,430)	(2,154)	(4,168)	(4,289)
Net income available to common shareholders	$472,600	360,662	805,342	689,217
Adjusted weighted-average shares outstanding:				
Common and unvested stock-based compensation awards	145,571	153,770	147,510	154,612

Less: Unvested stock-based compensation awards	(746)	(913)	(764)	(974)
Plus: Incremental shares from assumed conversion of stock-based compensation awards and warrants to purchase common stock	173	419	195	470
Adjusted weighted-average shares outstanding	144,998	153,276	146,941	154,108
Diluted earnings per common share	$3.26	2.35	5.48	4.47

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 212,244 and 412,826 common shares during the three-month periods ended June 30, 2018 and 2017, respectively, and 224,844 and 402,367 common shares during the six-month periods ended June 30, 2018 and 2017, respectively, were not included in the computations of diluted earnings per common share because the effect on those periods would have been antidilutive.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

8. 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 (a)	Defined Benefit Plans	Other	Total Amount Before Tax		Income Tax	Net
	(In thousands)						
Balance — January 1, 2018	$(59,957)	(413,168)	(20,165)	$(493,290)		129,476	$(363,814)
Cumulative effect of change in accounting principle — equity securities	(22,795)	—	—	(22,795)		5,942	(16,853)
Other comprehensive income before reclassifications:							
Unrealized holding gains (losses), net	(187,989)	—	—	(187,989)		49,414	(138,575)
Foreign currency translation adjustment	—	—	(1,448)	(1,448)		304	(1,144)
Unrealized losses on cash flow hedges	—	—	(21,065)	(21,065)		5,538	(15,527)
Total other comprehensive income (loss) before reclassifications	(187,989)	—	(22,513)	(210,502)		55,256	(155,246)
Amounts reclassified from accumulated other comprehensive income that (increase) decrease net income:							
Amortization of unrealized holding losses on held-to-maturity (“HTM”) securities	1,590	—	—	1,590	(c)	(418)	1,172
Gains realized in net income	(18)	—	—	(18)	(d)	4	(14)
Accretion of net gain on terminated cash flow hedges	—	—	(56)	(56)	(e)	15	(41)
Net yield adjustment from cash flow	—	—	3,469	3,469	(e)	(912)	2,557

hedges currently in effect							
Amortization of prior service credit		—	(2,086)	—	(2,086) (f)	549	(1,537)
Amortization of actuarial losses		—	21,483	—	21,483 (f)	(5,648)	15,835
Total other comprehensive income (loss)		(186,417)	19,397	(19,100)	(186,120)	48,846	(137,274)
Balance — June 30, 2018		$(269,169)	(393,771)	(39,265)	$(702,205)	184,264	$(517,941)

	Investment Securities With OTTI (In thousands)	Investment Securities All Other	Defined Benefit Plans	Other	Total Amount Before Tax	Income Tax	Net
Balance — January 1, 2017	$46,725	(73,785)	(449,917)	(8,268)	$(485,245)	190,609	$(294,636)
Other comprehensive income before reclassifications:							
Unrealized holding gains (losses), net	(13,802)	37,728	—	—	23,926	(9,404)	14,522
Foreign currency translation adjustment	—	—	—	2,502	2,502	(876)	1,626
Unrealized losses on cash flow hedges	—	—	—	(441)	(441)	174	(267)
Total other comprehensive income (loss) before reclassifications	(13,802)	37,728	—	2,061	25,987	(10,106)	15,881
Amounts reclassified from accumulated other comprehensive income that (increase) decrease net income:							
Amortization of unrealized holding losses on HTM securities	—	1,721	—	—	1,721 (c)	(677)	1,044
(Gains) losses realized in net income	(50)	67	—	—	17 (d)	(7)	10
Accretion of net gain on terminated cash flow hedges	—	—	—	(78)	(78) (e)	31	(47)
Net yield adjustment from cash flow hedges currently in effect	—	—	—	(1,094)	(1,094) (e)	430	(664)
Amortization of prior service credit	—	—	(400)	—	(400) (f)	157	(243)
Amortization of actuarial losses	—	—	14,137	—	14,137 (f)	(5,563)	8,574

Total other comprehensive income (loss)	(13,852)	39,516	13,737	889	40,290	(15,735)	24,555
Balance — June 30, 2017	$32,873	(34,269)	(436,180)	(7,379)	$(444,955)	174,874	$(270,081)

(a) Beginning January 1, 2018, equity securities with readily determinable fair values are required to be measured at fair value with changes in fair value recognized in the income statement. All investment securities with an other-than-temporary impairment charge are within scope of the adopted accounting guidance and no longer require separate presentation.
(b) Other-than-temporary impairment
(c) Included in interest income
(d) Included in gain (loss) on bank investment securities
(e) Included in interest expense
(f) Included in other costs of operations

NOTES TO FINANCIAL STATEMENTS, CONTINUED

8. Comprehensive income, continued

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

	Investment Securities	Defined Benefit Plans	Other	Total
	(In thousands)			
Balance — December 31, 2017	$(44,150)	(304,546)	(15,118)	$(363,814)
Cumulative effect of change in accounting principle — equity securities	(16,853)	—	—	(16,853)
Net gain (loss) during period	(137,417)	14,298	(14,155)	(137,274)
Balance — June 30, 2018	$(198,420)	(290,248)	(29,273)	$(517,941)

9. Derivative financial instruments

As part of managing interest rate risk, the Company enters into interest rate swap agreements to modify the repricing characteristics of certain portions of the Company's portfolios of earning assets and interest-bearing liabilities. The Company designates interest rate swap agreements utilized in the management of interest rate risk as either fair value hedges or cash flow hedges. Interest rate swap agreements are generally entered into with counterparties that meet established credit standards and most contain master netting, collateral and/or settlement provisions protecting the at-risk party. Based on adherence to the Company's credit standards and the presence of the netting, collateral or settlement provisions, the Company believes that the credit risk inherent in these contracts was not significant as of June 30, 2018.

The net effect of interest rate swap agreements was to decrease net interest income by $5 million and $4 million for the three-month and six-month periods ended June 30, 2018, respectively, compared with increases of $7 million and $11 million for the three-month and six-month periods ended June 30, 2017, respectively.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

9. Derivative financial instruments, continued

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

	Notional Amount (In thousands)	Average Maturity (In years)	Weighted- Average Rate Fixed	Variable	Estimated Fair Value Gain (Loss) (a) (In thousands)
June 30, 2018					
Fair value hedges:					
Fixed rate long-term borrowings (b)	$4,700,000	2.7	2.41%	2.72%	$ (185)
Cash flow hedges:					
Interest payments on variable rate commercial real estate loans (b)(c)	7,700,000	1.4	1.52%	1.98%	56
Total	$12,400,000	1.9			$ (129)
December 31, 2017					
Fair value hedges:					
Fixed rate long-term borrowings (b)	$4,550,000	2.9	2.27%	2.09%	$ 573
Cash flow hedges:					
Interest payments on variable rate commercial real estate loans (b)(d)	4,850,000	2.0	1.52%	1.36%	66
Total	$9,400,000	2.5			$ 639

(a) Certain clearinghouse exchanges consider payments by counterparties for variation margin on derivative instruments to be settlements of those positions. The impact of such treatment at June 30, 2018 and December 31, 2017 was a reduction of the estimated fair value losses on interest rate swap agreements designated as fair value hedges of $96.1 million and $41.1 million, respectively, and on interest rate swap agreements designated as cash flow hedges of $33.9 million and $16.3 million, respectively.

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

(c) Includes notional amount and terms of $4.85 billion of forward-starting interest rate swap agreements that will become effective in 2019 and 2020 upon maturity of a like amount of other swap agreements.

(d) Includes notional amount and terms of $2.0 billion of forward-starting interest rate swap agreements that will become effective in 2019 upon maturity of a like amount of other swap agreements.

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 $40.3 billion and $29.9 billion at June 30, 2018 and December 31, 2017, respectively. The notional amounts of foreign currency and other option and futures contracts entered into for trading account purposes aggregated $647 million and $530 million at June 30, 2018 and December 31, 2017, respectively.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

9. 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 Fair Value		Liability Derivatives Fair Value	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
	(In thousands)			
Derivatives designated and qualifying as hedging instruments				
Interest rate swap agreements (a)	$397	$ 639	$526	$ —
Commitments to sell real estate loans (a)	3,872	734	4,696	283
	4,269	1,373	5,222	283
Derivatives not designated and qualifying as hedging instruments				
Mortgage-related commitments to originate real estate loans for sale (a)	11,801	8,797	1,050	494
Commitments to sell real estate loans (a)	3,917	2,526	2,211	1,019
Trading:				
Interest rate contracts (b)	72,973	74,164	274,959	132,104
Foreign exchange and other option and futures contracts (b)	8,514	5,657	6,579	5,286
	97,205	91,144	284,799	138,903
Total derivatives	$101,474	$		