M&T BANK CORP
Form 10-K
February 22, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

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 of incorporation)	(I.R.S. Employer Identification No.)
One M&T Plaza, Buffalo, New York	14203
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:

716-635-4000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.50 par value	New York Stock Exchange

6.375% Cumulative Perpetual Preferred Stock, Series A, $1,000 liquidation preference per share	New York Stock Exchange
6.375% Cumulative Perpetual Preferred Stock, Series C, $1,000 liquidation preference per share	New York Stock Exchange
Warrants to purchase shares of Common Stock (expiring December 23, 2018)	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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, 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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Act). Yes No

Aggregate market value of the Common Stock, $0.50 par value, held by non-affiliates of the registrant, computed by reference to the closing price as of the close of business on June 30, 2016: $16,919,525,595.

Number of shares of the Common Stock, $0.50 par value, outstanding as of the close of business on February 17, 2017: 154,172,084 shares.

Documents Incorporated By Reference:

(1) Portions of the Proxy Statement for the 2017 Annual Meeting of Shareholders of M&T Bank Corporation in Parts II and III.

M&T BANK CORPORATION

Form 10-K for the year ended December 31, 2016

CROSS-REFERENCE SHEET

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PART I

Item 1. Business.

M&T Bank Corporation ("Registrant" or "M&T") is a New York business corporation which is registered as a financial holding company under the Bank Holding Company Act of 1956, as amended ("BHCA") and as a bank holding company ("BHC") under Article III-A of the New York Banking Law ("Banking Law"). The principal executive offices of M&T are located at One M&T Plaza, Buffalo, New York 14203. M&T was incorporated in November 1969. M&T and its direct and indirect subsidiaries are collectively referred to herein as the "Company." As of December 31, 2016 the Company had consolidated total assets of $123.4 billion, deposits of $95.5 billion and shareholders' equity of $16.5 billion. The Company had 16,000 full-time and 973 part-time employees as of December 31, 2016.

At December 31, 2016, M&T had two wholly owned bank subsidiaries: Manufacturers and Traders Trust Company ("M&T Bank") and Wilmington Trust, National Association ("Wilmington Trust, N.A."). The banks collectively offer a wide range of retail and commercial banking, trust and wealth management, and investment services to their customers. At December 31, 2016, M&T Bank represented 99% of consolidated assets of the Company.

The Company from time to time considers acquiring banks, thrift institutions, branch offices of banks or thrift institutions, or other businesses within markets currently served by the Company or in other locations that would complement the Company's business or its geographic reach. The Company has pursued acquisition opportunities in the past, continues to review different opportunities, including the possibility of major acquisitions, and intends to continue this practice.

Subsidiaries

M&T Bank is a banking corporation that is incorporated under the laws of the State of New York. M&T Bank is a member of the Federal Reserve System and the Federal Home Loan Bank System, and its deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to applicable limits. M&T acquired all of the issued and outstanding shares of the capital stock of M&T Bank in December 1969. The stock of M&T Bank represents a major asset of M&T. M&T Bank operates under a charter granted by the State of New York in 1892, and the continuity of its banking business is traced to the organization of the Manufacturers and Traders Bank in 1856. The principal executive offices of M&T Bank are located at One M&T Plaza, Buffalo, New York 14203. As of December 31, 2016, M&T Bank had 799 domestic banking offices located in New York State, Maryland, New Jersey, Pennsylvania, Delaware, Connecticut, Virginia, West Virginia, and the District of Columbia, a full-service commercial banking office in Ontario, Canada, and an office in George Town, Cayman Islands. As of December 31, 2016, M&T Bank had consolidated total assets of $122.6 billion, deposits of $97.3 billion and shareholder's equity of $14.5 billion. The deposit liabilities of M&T Bank are insured by the FDIC through its Deposit Insurance Fund ("DIF"). As a commercial bank, M&T Bank offers a broad range of financial services to a diverse base of consumers, businesses, professional clients, governmental entities and financial institutions located in its markets. Lending is largely focused on consumers residing in New York State, Maryland, New Jersey, Pennsylvania, Delaware, Connecticut, Virginia, West Virginia, and Washington, D.C., and on small and medium-size businesses based in those areas, although loans are originated through offices in other states and in Ontario, Canada. In addition, the Company conducts lending activities in various states through other subsidiaries. Trust and other fiduciary services are offered by M&T Bank and through its wholly owned subsidiary, Wilmington Trust Company. M&T Bank and certain of its subsidiaries also offer commercial mortgage loans secured by income producing properties or properties used by borrowers in a trade or business. Additional financial services are provided through other operating subsidiaries of the Company.

Wilmington Trust, N.A., a national banking association and a member of the Federal Reserve System and the FDIC, commenced operations on October 2, 1995. The deposit liabilities of Wilmington Trust, N.A. are insured by the FDIC through the DIF. The main office of Wilmington Trust, N.A. is located at 1100 North Market Street, Wilmington, Delaware 19890. Wilmington Trust, N.A. offers various trust and wealth management services. Historically, Wilmington Trust, N.A. offered selected deposit and loan products on a nationwide basis, through direct mail, telephone marketing techniques and the Internet. As of December 31, 2016, Wilmington Trust, N.A. had total assets of $3.7 billion, deposits of $3.2 billion and shareholder's equity of $496 million.

Wilmington Trust Company, a wholly owned subsidiary of M&T Bank, was incorporated as a Delaware bank and trust company in March 1901 and amended its charter in July 2011 to become a nondepository trust company. Wilmington Trust Company provides a variety of Delaware based trust, fiduciary and custodial services to its clients. As of December 31, 2016, Wilmington Trust Company had total assets of $1.3 billion and shareholder's equity of $554 million. Revenues of Wilmington Trust Company were $121 million in 2016. The headquarters of Wilmington Trust Company are located at 1100 North Market Street, Wilmington, Delaware 19890.

M&T Insurance Agency, Inc. ("M&T Insurance Agency"), a wholly owned insurance agency subsidiary of M&T Bank, was incorporated as a New York corporation in March 1955. M&T Insurance Agency provides insurance agency services principally to the commercial market. As of December 31, 2016, M&T Insurance Agency had assets of $35 million and shareholder's equity of $18 million. M&T Insurance Agency recorded revenues of $31 million during 2016. The headquarters of M&T Insurance Agency are located at 285 Delaware Avenue, Buffalo, New York 14202.

M&T Real Estate Trust ("M&T Real Estate") is a Maryland Real Estate Investment Trust that traces its origin to the incorporation of M&T Real Estate, Inc. in July 1995. M&T Real Estate engages in commercial real estate lending and provides loan servicing to M&T Bank. As of December 31, 2016, M&T Real Estate had assets of $22.9 billion, common shareholder's equity of $22.0 billion, and preferred shareholders' equity, consisting of 9% fixed-rate preferred stock (par value $1,000), of $1 million. All of the outstanding common stock and 89% of the preferred stock of M&T Real Estate is owned by M&T Bank. The remaining 11% of M&T Real Estate's outstanding preferred stock is owned by officers or former officers of the Company. M&T Real Estate recorded $852 million of revenue in 2016. The headquarters of M&T Real Estate are located at M&T Center, One Fountain Plaza, Buffalo, New York 14203.

M&T Realty Capital Corporation ("M&T Realty Capital"), a wholly owned subsidiary of M&T Bank, was incorporated as a Maryland corporation in October 1973. M&T Realty Capital engages in multifamily commercial real estate lending and provides loan servicing to purchasers of the loans it originates. As of December 31, 2016, M&T Realty Capital serviced $11.8 billion of commercial mortgage loans for non-affiliates and had assets of $1.2 billion and shareholder's equity of $119 million. M&T Realty Capital recorded revenues of $139 million in 2016. The headquarters of M&T Realty Capital are located at 25 South Charles Street, Baltimore, Maryland 21202.

M&T Securities, Inc. ("M&T Securities") is a wholly owned subsidiary of M&T Bank that was incorporated as a New York business corporation in November 1985. M&T Securities is registered as a broker/dealer under the Securities Exchange Act of 1934, as amended, and as an investment advisor under the Investment Advisors Act of 1940, as amended (the "Investment Advisors Act"). M&T Securities is licensed as a life insurance agent in each state where M&T Bank operates branch offices and in a number of other states. It provides securities brokerage, investment advisory and insurance services. As of December 31, 2016, M&T Securities had assets of $51 million and shareholder's equity of $41 million. M&T Securities recorded $99 million of revenue during 2016. The headquarters of M&T Securities are located at One M&T Plaza, Buffalo, New York 14203.

Wilmington Trust Investment Advisors, Inc. (“WT Investment Advisors”), a wholly owned subsidiary of M&T Bank, was incorporated as a Maryland corporation on June 30, 1995. WT Investment Advisors, a registered investment advisor under the Investment Advisors Act, serves as an investment advisor to the Wilmington Funds, a family of proprietary mutual funds, and institutional clients. As of December 31, 2016, WT Investment Advisors had assets of $47 million and shareholder’s equity of $40 million. WT Investment Advisors recorded revenues of $39 million in 2016. The headquarters of WT Investment Advisors are located at 100 East Pratt Street, Baltimore, Maryland 21202.

Wilmington Funds Management Corporation (“Wilmington Funds Management”) is a wholly owned subsidiary of M&T that was incorporated in September 1981 as a Delaware corporation. Wilmington Funds Management is registered as an investment advisor under the Investment Advisors Act and serves as an investment advisor to the Wilmington Funds. Wilmington Funds Management had assets of $29 million and shareholder’s equity of $28 million as of December 31, 2016. Wilmington Funds Management recorded revenues of $27 million in 2016. The headquarters of Wilmington Funds Management are located at 1100 North Market Street, Wilmington, Delaware 19890.

Wilmington Trust Investment Management, LLC (“WTIM”) is a wholly owned subsidiary of M&T and was incorporated in December 2001 as a Georgia limited liability company. WTIM is a registered investment advisor under the Investment Advisors Act and provides investment management services to clients, including certain private funds. As of December 31, 2016, WTIM has assets and shareholder’s equity of $26 million each. WTIM recorded revenues of $2 million in 2016. WTIM’s headquarters is located at Terminus 27th Floor, 3280 Peachtree Road N.E., Atlanta, Georgia 30305.

The Registrant and its banking subsidiaries have a number of other special-purpose or inactive subsidiaries. These other subsidiaries did not represent, individually and collectively, a significant portion of the Company’s consolidated assets, net income and shareholders’ equity at December 31, 2016.

Segment Information, Principal Products/Services and Foreign Operations

Information about the Registrant’s business segments is included in note 22 of Notes to Financial Statements filed herewith in Part II, Item 8, “Financial Statements and Supplementary Data” and is further discussed in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The Registrant’s reportable segments have been determined based upon its 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 Company’s international activities are discussed in note 17 of Notes to Financial Statements filed herewith in Part II, Item 8, “Financial Statements and Supplementary Data.”

The only activities that, as a class, contributed 10% or more of the sum of consolidated interest income and other income in any of the last three years were interest on loans and trust income. The amount of income from such sources during those years is set forth on the Company’s Consolidated Statement of Income filed herewith in Part II, Item 8, “Financial Statements and Supplementary Data.”

Supervision and Regulation of the Company

M&T and its subsidiaries are subject to the comprehensive regulatory framework applicable to bank and financial holding companies and their subsidiaries. Regulation of financial institutions such as M&T and its subsidiaries is intended primarily for the protection of depositors, the FDIC’s Deposit

Insurance Fund and the banking and financial system as a whole, and generally is not intended for the protection of shareholders, investors or creditors other than insured depositors.

Proposals to change the applicable regulatory framework may be introduced in the United States Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and the operating environment of the Company in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. A change in statutes, regulations or regulatory policies applicable to M&T or any of its subsidiaries could have a material effect on the business, financial condition or results of operations of the Company.

Significant changes in this regulatory scheme arising from the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") have affected the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies, and the system of regulatory oversight of the Company. As required by the Dodd-Frank Act, various federal regulatory agencies have proposed or adopted a broad range of implementing rules and regulations and have prepared numerous studies and reports for Congress. However, given that many of these regulatory changes are highly complex and are not fully implemented, the full impact of the Dodd-Frank Act regulatory reform will not be known until the rules are implemented and market practices develop under the final regulations. Furthermore, recent political developments, including the change in administration in the United States, have added uncertainty to the implementation, scope and timing of regulatory reforms, including those relating to the implementation of the Dodd-Frank Act.

Described below are material elements of selected laws and regulations applicable to M&T and its subsidiaries. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described.

Overview

M&T is registered with the Board of Governors of the Federal Reserve System ("Federal Reserve") as a BHC under the BHCA. As such, M&T and its subsidiaries are subject to the supervision, examination and reporting requirements of the BHCA and the regulations of the Federal Reserve. Its investment advisor subsidiaries are subject to SEC regulation.

In general, the BHCA limits the business of a BHC to banking, managing or controlling banks, and other activities that the Federal Reserve has determined to be so closely related to banking as to be a proper incident thereto. In addition, bank holding companies are to serve as a managerial and financial source of strength to their subsidiary depository institutions, including committing resources to support its subsidiary banks. This support may be required at times when M&T may not be inclined or able to provide it. In addition, any capital loans by a BHC to a subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a BHC's bankruptcy, any commitment by the BHC to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Bank holding companies that qualify and elect to be financial holding companies may engage in any activity, or acquire and retain the shares of a company engaged in any activity, that is either (i) financial in nature or incidental to such financial activity (as determined by the Federal Reserve, by regulation or order, in consultation with the Secretary of the Treasury) or (ii) complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository

institutions or the financial system generally (as solely determined by the Federal Reserve). Activities that are financial in nature include securities underwriting and dealing, insurance underwriting and making merchant banking investments. In order for a financial holding company to commence any new activity or to acquire a company engaged in any activity pursuant to the financial holding company provisions of the BHCA, each insured depository institution subsidiary of the financial holding company also must have at least a "satisfactory" rating under the Community Reinvestment Act of 1977 (the "CRA"). See the section captioned "Community Reinvestment Act" included elsewhere in this item.

M&T became a financial holding company on March 1, 2011. To maintain financial holding company status, a financial holding company and all of its depository institution subsidiaries must be "well capitalized" and "well managed." The failure to meet such requirements could result in material restrictions on the activities of M&T and may also adversely affect the Company's ability to enter into certain transactions or obtain necessary approvals in connection therewith, as well as loss of financial holding company status.

Current federal law also establishes a system of functional regulation under which, in addition to the broad supervisory authority that the Federal Reserve has over both the banking and non-banking activities of bank holding companies, the federal banking agencies regulate the banking activities of bank holding companies, banks and savings associations and subsidiaries of the foregoing, the U.S. Securities and Exchange Commission ("SEC") regulates their securities activities, and state insurance regulators regulate their insurance activities.

M&T Bank is a New York chartered bank and a member of the Federal Reserve Bank of New York. As a result, it is subject to extensive regulation, examination and oversight by the New York State Department of Financial Services ("NYSDFS") and the Federal Reserve. New York laws and regulations govern many aspects of M&T Bank's operations, including branching, dividends, subsidiary activities, fiduciary activities, lending, and deposit taking. M&T Bank is also subject to Federal Reserve regulations and guidance, including oversight of capital levels. Its deposits are insured by the FDIC to $250,000 per depositor, which also exercises regulatory oversight over certain aspects of M&T Bank's operations. Certain subsidiaries of M&T Bank are subject to regulation by other federal and state regulators as well. For example, M&T Securities is regulated by the SEC, the Financial Industry Regulatory Authority and state securities regulators, and WT Investment Advisors is also subject to SEC regulation.

Wilmington Trust, N.A. is a national bank with operations that include fiduciary and related activities with some limited lending and deposit business. It is subject to extensive regulation, examination and oversight by the Office of the Comptroller of the Currency ("OCC"), which governs many aspects of the operations, including fiduciary activities, capital levels, office locations, dividends and subsidiary activities. Its deposits are insured by the FDIC to $250,000 per depositor, which also exercises regulatory oversight over certain aspects of the operations of Wilmington Trust, N.A.

The Dodd-Frank Act broadened the base for FDIC insurance assessments which are based on average consolidated total assets less average Tier 1 capital and certain allowable deductions of a financial institution. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions.

Dividends

M&T is a legal entity separate and distinct from its banking and other subsidiaries. Historically, the majority of M&T's revenue has been from dividends paid to M&T by its subsidiary banks. M&T Bank and Wilmington Trust, N.A. are subject to laws and regulations imposing restrictions on the amount of dividends they may declare and pay. Future dividend payments to M&T by its subsidiary banks will be dependent on a number of factors, including the earnings and financial condition of each such bank, and are subject to the limitations referred to in note 23 of Notes to Financial Statements filed herewith in Part II, Item 8, "Financial Statements and Supplementary Data," and to other statutory powers of bank regulatory agencies.

An insured depository institution is prohibited from making any capital distribution to its owner, including any dividend, if, after making such distribution, the depository institution fails to meet the required minimum level for any relevant capital measure, including the risk-based capital adequacy and leverage standards discussed herein.

Dividend payments by M&T to its shareholders and stock repurchases by M&T are subject to the oversight of the Federal Reserve. As described below in this section under "Stress Testing and Capital Plan Review," dividends and stock repurchases (net of any new stock issuances as per a capital plan) generally may only be paid or made under a capital plan as to which the Federal Reserve has not objected.

Capital Requirements

M&T and its subsidiary banks are required to comply with applicable capital adequacy standards established by the federal banking agencies. Beginning on January 1, 2015, M&T and its subsidiary banks became subject to a new comprehensive capital framework for U.S. banking organizations that was issued by the federal banking agencies in July 2013 (the "New Capital Rules"), subject to phase-in periods for certain components and other provisions.

The New Capital Rules generally implement the Basel Committee's December 2010 final capital framework referred to as "Basel III" for strengthening international capital standards. The New Capital Rules substantially revised the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including M&T, 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 revised the definitions and the components of regulatory capital, as well as addressed other issues affecting the numerator in banking institutions' regulatory capital ratios. The New Capital Rules also addressed asset risk weights and other matters affecting the denominator in banking institutions' regulatory capital ratios.

Among other matters, the New Capital Rules: (i) introduced a 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 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").

In calculating regulatory capital ratios M&T must assign risk weights to the Company's assets and off-balance sheet items. M&T has an ongoing process to review data elements associated with certain assets that from time to time may affect how specific assets are classified and could lead to increases or decreases of the regulatory risk weights assigned to such assets. In connection with this process, in February 2017 M&T revised the risk weights assigned to certain commercial real estate construction loans as of December 31, 2016 pending completion of a review to compare loan system data elements with underlying loan documentation. That revision increased risk-weighted assets as of December 31, 2016 by 2% and thereby lowered the corresponding CET1 ratio by 26 basis points to 10.70% from an estimate of that ratio which had been previously disclosed by M&T in January 2017.

The New Capital Rules also introduce a new "capital conservation buffer," composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity and other capital instrument repurchases and compensation based on the amount of the shortfall. Thus, when fully phased-in on January 1, 2019, the capital standards applicable to M&T will include an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios inclusive of the capital conservation buffer of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%; (iii) Total capital to risk-weighted assets of at least 10.5% and (iv) a minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to average assets. In addition, M&T is also subject to the Federal Reserve's capital plan rule and supervisory Comprehensive Capital Analysis and Review ("CCAR") process, pursuant to which its ability to make capital distributions and repurchase or redeem capital securities may be limited unless M&T is able to demonstrate its ability to meet applicable minimum capital ratios and currently a 5% minimum Tier 1 common equity ratio, as well as other requirements, over a nine quarter planning horizon under a "severely adverse" macroeconomic scenario generated yearly by the federal bank regulators. See "Stress Testing and Capital Plan Review" below.

The New Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks, and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1.

In addition, under the risk-based capital rules applicable to the Company through December 31, 2014, the effects of accumulated other comprehensive income or loss ("AOCI") items included in shareholders' equity (for example, unrealized gains and losses on securities held in the available-for-sale portfolio) under U.S. GAAP were reversed for the purposes of determining regulatory capital ratios. Pursuant to the New Capital Rules, the effects of certain AOCI items are not excluded; however, non-advanced approaches banking organizations, including M&T, may make a one-time permanent election to continue to exclude these items. M&T made such election in 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 were includable in Tier 1 capital, and beginning in 2016, none of M&T's trust preferred securities were 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. Management believes that M&T is in compliance with the targeted capital ratios. M&T's regulatory capital ratios are presented in note 23 of Notes to Financial Statements filed herewith in Part II, Item 8, "Financial Statements and Supplementary Data."

Stress Testing and Capital Plan Review

As part of the enhanced prudential requirements applicable to systemically important financial institutions, the Federal Reserve conducts annual analyses of bank holding companies with at least $50 billion in assets, such as M&T, to determine whether the companies have sufficient capital on a consolidated basis necessary to absorb losses in three economic and financial scenarios generated by the Federal Reserve: baseline, adverse and severely adverse scenarios. M&T is also required to conduct its own semi-annual stress analysis (together with the Federal Reserve's stress analysis, the "stress tests") to assess the potential impact on M&T of the economic and financial conditions used as part of the Federal Reserve's annual stress analysis. The Federal Reserve may also use, and require companies to use, additional components in the adverse and severely adverse scenarios or additional or more complex scenarios designed to capture salient risks to specific business groups. M&T Bank is also required to conduct annual stress testing using the same economic and financial scenarios as M&T and report the results to the Federal Reserve. A summary of results of the Federal Reserve's analysis under the adverse and severely adverse stress scenarios are publicly disclosed, and bank holding companies subject to the rules, including M&T, must disclose a summary of the company-run severely adverse stress test results. M&T is required to include in its disclosure a summary of the severely adverse scenario stress test conducted by M&T Bank.

In addition, bank holding companies with total consolidated assets of $50 billion or more, such as M&T, must submit annual capital plans for approval as part of the Federal Reserve's CCAR process. Covered bank holding companies may execute capital actions, such as paying dividends and repurchasing stock, only in accordance with a capital plan that has been reviewed and approved by the Federal Reserve (or any approved amendments to such plan). The comprehensive capital plans include a view of capital adequacy under four scenarios — a BHC-defined baseline scenario, a baseline scenario provided by the Federal Reserve, at least one BHC-defined stress scenario, and a stress scenario provided by the Federal Reserve. The CCAR process is intended to help ensure that these bank holding companies have robust, forward-looking capital planning processes that account for each company's unique risks and that permit continued operations during times of economic and financial stress. Each of the bank holding companies participating in the CCAR process is also required to collect and report certain related data to the Federal Reserve on a quarterly basis to allow the Federal Reserve to monitor progress against the approved capital plans. Each capital plan must include a view of capital adequacy under the stress test scenarios described above. The Federal Reserve may object to a capital plan if the plan does not show that the covered BHC will maintain a Tier 1 common equity ratio of at least 5% on a pro forma basis under expected and stressful conditions throughout the nine-quarter planning horizon covered by the capital plan. Even if such quantitative thresholds are met, the Federal Reserve could object to a capital plan for qualitative reasons, including inadequate assumptions in the plan, other unresolved supervisory issues or an insufficiently robust capital adequacy process, or if the capital plan would otherwise constitute an unsafe or unsound practice or violate law. The rules also provide that a covered BHC may not make a capital distribution unless after giving effect to the distribution it will meet all minimum regulatory capital ratios and have a ratio of Tier 1 common equity to risk-weighted assets of at least 5%. The CCAR rules, consistent with prior Federal Reserve guidance, also provide that capital plans contemplating dividend payout ratios exceeding 30% of net income will receive particularly close scrutiny. M&T's annual CCAR capital plan is due in April each year and the Federal Reserve will publish the results of its supervisory CCAR review of M&T's capital plan by June 30 of each year.

The Federal Reserve generally limits a BHC's ability to make quarterly capital distributions – that is, dividends and share repurchases, if the amount of the BHC's actual cumulative quarterly capital issuances of instruments that qualify as regulatory capital are less than the BHC had indicated in its submitted capital plan as to which it received a non-objection from the Federal Reserve. For example, if the BHC issued a smaller amount of additional common stock than it had stated in its capital plan, it would be required to reduce common dividends and/or the amount of common stock repurchases so that the dollar amount of capital distributions, net of the dollar amount of additional common stock issued ("net distributions"), is no greater than the dollar amount of net distributions relating to its common stock included in its capital plan, as measured on an aggregate basis beginning in the third quarter of the nine-quarter planning horizon through the end of the then current quarter. However, not raising sufficient amounts of common stock as planned would not affect distributions related to Additional Tier 1 Capital instruments and/ or Tier 2 Capital. These limitations also contain several important qualifications and exceptions, including that scheduled dividend payments on (as opposed to repurchases of) a BHC's Additional Tier 1 Capital and Tier 2 Capital instruments are not restricted if the BHC fails to issue a sufficient amount of such instruments as planned, as well as provisions for certain de minimis excess distributions.

Liquidity

Historically, regulation and monitoring of bank and BHC liquidity has been addressed as a supervisory matter, both in the U.S. and internationally, without required formulaic measures. However, in January 2016 M&T became subject to final rules adopted by the Federal Reserve and other banking regulators ("Final LCR Rule") implementing a U.S. version of the Basel Committee's Liquidity Coverage Ratio ("LCR") requirement. The LCR requirement is intended to ensure that banks hold sufficient amounts 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 out-flows over the 30-day horizon (the denominator), in each case, as calculated pursuant to the Final LCR Rule. The Final LCR Rule requires a subject institution to 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 mortgaged-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. The total net cash outflows amount is determined under the rule by applying certain hypothetical outflow and inflow rates, which reflect certain standardized stressed assumptions, against the balances of the banking organization's funding sources, obligations, transactions and assets over the 30-day stress period. Inflows that can be included to offset outflows are limited to 75% of outflows (which effectively means that banking organizations must hold high-quality liquid assets equal to 25% of outflows even if outflows perfectly match inflows over the stress period). The total net cash outflow amount for the modified LCR applicable to M&T was capped at 70% of the outflow rate that applies to the full LCR. As of January 1, 2017, the Final LCR Rule has been fully phased-in.

The Basel III framework also included a second standard, referred to as the net stable funding ratio (“NSFR”), which is designed to promote more medium-and long-term funding of the assets and activities of banks over a one-year time horizon. In May 2016, the Federal Reserve and other federal banking regulators issued a proposed rule that would implement the NSFR for large U.S. banking organizations. Under the proposed rule, the most stringent requirements would apply to bank holding companies with $250 billion or more in total consolidated assets or $10 billion or more in on-balance sheet foreign exposure, and would require such organizations to maintain a minimum NSFR of 1.0 on an ongoing basis, calculated by dividing the organization’s available stable funding (“ASF”) by its required stable funding (“RSF”). Bank holding companies with less than $250 billion, but more than $50 billion, in total consolidated assets and less than $10 billion in on-balance sheet foreign exposure, such as M&T, would be subject to a modified NSFR requirement which would require such bank holding companies to maintain a minimum NSFR of 0.7 on an ongoing basis. Under the proposed rule, a banking organization’s ASF would be calculated by applying specified standard weightings to its equity and liabilities based on their expected stability over a one-year time horizon and its RSF would be calculated by applying specified standardized weightings to its assets, derivative exposures and commitments based on their liquidity characteristics over the same one-year time horizon. If implemented, the proposed rule would take effect on January 1, 2018.

Cross-Guarantee Provisions

Each insured depository institution “controlled” (as defined in the BHCA) by the same BHC can be held liable to the FDIC for any loss incurred, or reasonably expected to be incurred, by the FDIC due to the default of any other insured depository institution controlled by that BHC and for any assistance provided by the FDIC to any of those banks that are in danger of default. The FDIC’s claim under the cross-guarantee provisions is superior to claims of shareholders of the insured depository institution or its BHC and to most claims arising out of obligations or liabilities owed to affiliates of the institution, but is subordinate to claims of depositors, secured creditors and holders of subordinated debt (other than affiliates) of the commonly controlled insured depository institution. The FDIC may decline to enforce the cross-guarantee provisions if it determines that a waiver is in the best interest of the DIF.

Enhanced Supervision and Prudential Standards

The Dodd-Frank Act directed the Federal Reserve to enact enhanced prudential standards applicable to foreign banking organizations and bank holding companies with total consolidated assets of $50 billion or more, such as M&T. The Federal Reserve adopted amendments to Regulation YY to implement certain of the required enhanced prudential standards. Those amendments, which are intended to help increase the resiliency of the operations of these organizations, include liquidity requirements, requirements for overall risk management (including establishing a risk committee), and a 15-to-1 debt-to-equity limit for companies that the Financial Stability Oversight Council has determined pose a grave threat to financial stability. The liquidity requirements and risk management requirements became effective as to M&T on January 1, 2015. In March 2016, the Federal Reserve issued a revised proposal regarding single counterparty credit limits, which would impose a limit on credit exposure to any counterparty.

Volcker Rule

On December 10, 2013, the federal banking regulators and the SEC adopted the so-called Volcker Rule to implement the provisions of the Dodd-Frank Act limiting proprietary trading and investing in and sponsoring certain hedge funds and private equity funds (defined as covered funds in the Volcker Rule). The Company does not engage in any significant amount of proprietary trading as defined in the Volcker Rule and has implemented the required procedures for those areas in which trading does occur. The covered funds limits are imposed through a conformance period that is expected to end in July 2017. To comply with requirements of the Volcker Rule, during 2016, the Company sold the collateralized debt obligations that had been held in the available-for-sale investment securities portfolio.

Safety and Soundness Standards

Guidelines adopted by the federal bank regulatory agencies pursuant to the Federal Deposit Insurance Act, as amended (the "FDIA"), establish general standards relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits. In general, these guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. Additionally, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Limits on Undercapitalized Depository Institutions

The FDIA establishes a system of regulatory remedies to resolve the problems of undercapitalized institutions, referred to as the prompt corrective action. The federal banking regulators have established five capital categories ("well-capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized") and must take certain mandatory supervisory actions, and are authorized to take other discretionary actions, with respect to institutions which are undercapitalized, significantly undercapitalized or critically undercapitalized. The severity of these mandatory and discretionary supervisory actions depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the FDIA requires the banking regulator to appoint a receiver or conservator for an institution that is critically undercapitalized. The FDIC has specified by regulation the relevant capital levels for each category. The Federal Reserve and the OCC have specified the same or similar levels for each category. Effective January 1, 2015, the New Capital Rules created new prompt corrective action requirements by (i) introducing a CET1 ratio requirement at each level (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category (other than critically undercapitalized), with the minimum Tier 1 capital ratio for well-capitalized status being 8%; and (iii) eliminating the provision that provided that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized.

An institution that is classified as well-capitalized based on its capital levels may be classified as adequately capitalized, and an institution that is adequately capitalized or undercapitalized based upon its capital levels may be treated as though it were undercapitalized or significantly undercapitalized, respectively, if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment.

An institution that is categorized as undercapitalized, significantly undercapitalized or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking regulator. Under the FDIA, in order for the capital restoration plan to be accepted by the appropriate federal banking agency, a BHC must guarantee that a subsidiary depository institution will comply with its capital restoration plan, subject to certain limitations. The BHC must also provide appropriate assurances of performance. The obligation of a controlling BHC under the FDIA to fund a capital restoration plan is limited to the lesser of 5.0% of an undercapitalized subsidiary's assets or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except in accordance with an accepted capital restoration plan or with the approval of the FDIC. Institutions that are significantly undercapitalized or undercapitalized and either fail to submit an acceptable capital restoration plan or fail to implement an approved capital restoration plan may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. Critically undercapitalized depository institutions failing to submit or implement an acceptable capital restoration plan are subject to appointment of a receiver or conservator.

Transactions with Affiliates

There are various legal restrictions on the extent to which M&T and its non-bank subsidiaries may borrow or otherwise obtain funding from M&T Bank and Wilmington Trust, N.A. In general, Sections 23A and 23B of the Federal Reserve Act and Federal Reserve Regulation W require that any "covered transaction" by M&T Bank and Wilmington Trust, N.A. (or any of their respective subsidiaries) with an affiliate must in certain cases be secured by designated amounts of specified collateral and must be limited as follows: (a) in the case of any single such affiliate, the aggregate amount of covered transactions of the insured depository institution and its subsidiaries may not exceed 10% of the capital stock and surplus of such insured depository institution, and (b) in the case of all affiliates, the aggregate amount of covered transactions of an insured depository institution and its subsidiaries may not exceed 20% of the capital stock and surplus of such insured depository institution. The Dodd-Frank Act significantly expanded the coverage and scope of the limitations on affiliate transactions within a banking organization, including for example, the requirement that the 10% of capital limit on covered transactions begin to apply to financial subsidiaries. "Covered transactions" are defined by statute to include, among other things, a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the Federal Reserve) from the affiliate, certain derivative transactions that create a credit exposure to an affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. All covered transactions, including certain additional transactions (such as transactions with a third party in which an affiliate has a financial interest), must be conducted on market terms.

FDIC Insurance Assessments

Deposit Insurance Assessments. M&T Bank and Wilmington Trust, N.A. pay deposit insurance premiums to the FDIC based on an assessment rate established by the FDIC. Deposit insurance assessments are based on average total assets minus average tangible equity. For larger institutions, such as M&T Bank, the FDIC uses a performance score and a loss-severity score that are used to calculate an initial assessment rate. In calculating these scores, the FDIC uses a bank's capital level and supervisory ratings and certain financial measures to assess an institution's ability to withstand asset-related stress and funding-related stress. The FDIC has the ability to make discretionary adjustments to the total score based upon significant risk factors that are not adequately captured in the calculations.

In its DIF restoration plan, the FDIC designated that the DIF reserve ratio should be 1.35% by September 2020. In March 2016, the FDIC adopted a final rule that imposes a surcharge on the assessments of depository institutions with $10 billion or more in assets, including M&T Bank, beginning in the quarter following the quarter that the DIF surpasses 1.15% and continuing through the earlier of the quarter that the reserve ratio first reaches or exceeds 1.35% or December 31, 2018.

In August 2016, the FDIC announced that the DIF reserve ratio had surpassed 1.15% as of June 30, 2016. As a result, beginning in the third quarter of 2016, the range of initial assessment ranges for all institutions were adjusted downward such that the initial base deposit insurance assessment rate ranges from 3 to 30 basis points on an annualized basis. After the effect of potential base-rate adjustments, the total base assessment rate could range from 1.5 to 40 basis points on an annualized basis. Nevertheless, at the same time depository institutions with $10 billion or more in assets, including M&T Bank, became subject to the surcharge referred to in the preceding paragraph. Additionally, an institution must pay an additional premium equal to 50 basis points on every dollar (above 3% of an institution's Tier 1 capital) of long-term, unsecured debt held that was issued by another insured depository institution. M&T Bank recognized $98 million of expense related to its FDIC assessment and large bank surcharge and Wilmington Trust, N.A. recognized $417 thousand of FDIC insurance expense in 2016.

Under the FDIA, insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

FICO Assessments. In addition, the Deposit Insurance Funds Act of 1996 authorized the Financing Corporation ("FICO") to impose assessments on DIF applicable deposits in order to service the interest on FICO's bond obligations from deposit insurance fund assessments. The amount assessed on individual institutions by FICO is in addition to the amount, if any, paid for deposit insurance according to the FDIC's risk-related assessment rate schedules. FICO assessment rates may be adjusted quarterly to reflect a change in assessment base. M&T Bank recognized $6 million of expense related to its FICO assessments and Wilmington Trust, N.A. recognized $53 thousand of such expense in 2016.

Acquisitions

The BHCA requires every BHC to obtain the prior approval of the Federal Reserve before: (1) it may acquire direct or indirect ownership or control of any voting shares of any bank or savings and loan association, if after such acquisition, the BHC will directly or indirectly own or control 5% or more of the voting shares of the institution; (2) it or any of its subsidiaries, other than a bank, may acquire all or substantially all of the assets of any bank or savings and loan association; or (3) it may merge or consolidate with any other BHC. Since July 2011, financial holding companies and bank holding companies with consolidated assets exceeding $50 billion, such as M&T, have been required to (i) obtain prior approval from the Federal Reserve before acquiring certain nonbank financial companies with assets exceeding $10 billion and (ii) provide prior written notice to the Federal Reserve before acquiring direct or indirect ownership or control of any voting shares of any company having consolidated assets of $10 billion or more.

The BHCA further provides that the Federal Reserve may not approve any transaction that would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any section of the United States, or the effect of which may be substantially to lessen competition or to tend to create a monopoly in any section of the country, or that in any other manner would be in restraint of trade, unless the anticompetitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. Consideration of financial resources generally focuses on capital adequacy, and consideration of convenience and needs issues includes the parties' performance under the CRA and compliance with consumer protection laws. The Federal Reserve must take into account the institutions' effectiveness in combating money laundering. In addition, pursuant to the Dodd-Frank Act, the BHCA was amended to require the Federal Reserve, when evaluating a proposed transaction, to consider the extent to which the transaction would result in greater or more concentrated risks to the stability of the United States banking or financial system.

Executive and Incentive Compensation

Guidelines adopted by the federal banking agencies prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. The Federal Reserve has issued comprehensive guidance on incentive compensation policies (the "Incentive Compensation Guidance") intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The Incentive Compensation Guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. These three principles are incorporated into the proposed joint compensation regulations under the Dodd-Frank Act, discussed below. Any deficiencies in compensation practices that are identified may be incorporated into the organization's supervisory ratings, which can affect its ability to make acquisitions or perform other actions. The Incentive Compensation Guidance provides that enforcement actions may be taken against a banking organization if its incentive compensation arrangements or related risk-management control or governance processes pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

The Dodd-Frank Act requires the federal bank regulatory agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities having at least $1 billion in total assets, such as M&T and M&T Bank. The agencies proposed initial regulations in April 2011 and proposed revised regulations during the second quarter of 2016 that would establish general qualitative requirements applicable to all covered entities, additional specific requirements for entities with total consolidated assets of at least $50 billion, such as M&T, and further, more stringent requirements for those with total consolidated assets of at least $250 billion. The general qualitative requirements include (i) prohibiting incentive arrangements that encourage inappropriate risks by providing excessive compensation; (ii) prohibiting incentive arrangements that encourage inappropriate risks that could lead to a material financial loss; (iii) establishing requirements for performance measures to appropriately balance risk and reward; (iv) requiring board of director oversight of incentive arrangements; and (v) mandating appropriate record-keeping. For larger financial institutions, including M&T, the proposed revised regulations would also introduce additional requirements applicable only to "senior executive officers" and "significant risk-takers" (as defined in the proposed regulations), including (i) limits on performance measures and leverage relating to performance targets; (ii) minimum deferral periods;

and (iii) subjecting incentive compensation to possible downward adjustment, forfeiture and clawback. If the final regulations are adopted in the form proposed, they will impose limitations on the manner in which M&T may structure compensation for its executives.

In October 2016, the NYDFS issued guidance emphasizing that its regulated banking institutions, including M&T Bank, must ensure that any incentive compensation arrangements tied to employee performance indicators are subject to effective risk management, oversight and control.

The scope and content of the banking regulators' policies on incentive compensation are continuing to develop and are likely to continue evolving in the future. It cannot be determined at this time whether compliance with such policies will adversely affect the ability of M&T and its subsidiaries to hire, retain and motivate their key employees.

Resolution Planning

Bank holding companies with consolidated assets of $50 billion or more, such as M&T, are required to report periodically to regulators a resolution plan for their rapid and orderly resolution in the event of material financial distress or failure. M&T's resolution plan must, among other things, ensure that its depository institution subsidiaries are adequately protected from risks arising from its other subsidiaries. The regulation adopted by the Federal Reserve and FDIC sets specific standards for the resolution plans, including requiring a strategic analysis of the plan's components, a description of the range of specific actions the company proposes to take in resolution, and a description of the company's organizational structure, material entities, interconnections and interdependencies, and management information systems, among other elements. In addition, insured depository institutions with $50 billion or more in total assets, such as M&T Bank, are required to submit to the FDIC periodic plans for resolution in the event of the institution's failure. M&T and M&T Bank most recently submitted resolution plans in December 2015, as required. The next resolution plans that M&T and M&T Bank will be required to file must be submitted by December 31, 2017.

Insolvency of an Insured Depository Institution or a Bank Holding Company

If the FDIC is appointed as conservator or receiver for an insured depository institution such as M&T Bank or Wilmington Trust, N.A., upon its insolvency or in certain other events, the FDIC has the power:

- to transfer any of the depository institution's assets and liabilities to a new obligor, including a newly formed "bridge" bank without the approval of the depository institution's creditors;
- to enforce the terms of the depository institution's contracts pursuant to their terms without regard to any provisions triggered by the appointment of the FDIC in that capacity; or
- to repudiate or disaffirm any contract or lease to which the depository institution is a party, the performance of which is determined by the FDIC to be burdensome and the disaffirmance or repudiation of which is determined by the FDIC to promote the orderly administration of the depository institution.

In addition, under federal law, the claims of holders of domestic deposit liabilities and certain claims for administrative expenses against an insured depository institution would be afforded a priority over other general unsecured claims against such an institution, including claims of debt holders of the institution, in the "liquidation or other resolution" of such an institution by any receiver. As a result, whether or not the FDIC ever sought to repudiate any debt obligations of M&T Bank or Wilmington Trust, N.A., the debt holders would be treated differently from, and could receive, if anything, substantially less than, the depositors of the bank. The Dodd-Frank Act created a new resolution regime (known as "orderly liquidation authority") for systemically important financial companies, including bank holding companies and their affiliates. Under the orderly liquidation authority, the FDIC may be appointed as receiver for the systemically important institution, and its failed subsidiaries, for purposes of liquidating the entity if, among other conditions, it is determined at the time of the institution's failure that it is in default or in danger of default and the failure poses a risk to the stability of the U.S. financial system.

If the FDIC is appointed as receiver under the orderly liquidation authority, then the powers of the receiver, and the rights and obligations of creditors and other parties who have dealt with the institution, would be determined under the Dodd-Frank Act provisions, and not under the insolvency law that would otherwise apply. The powers of the receiver under the orderly liquidation authority were based on the powers of the FDIC as receiver for depository institutions under the FDIA. However, the provisions governing the rights of creditors under the orderly liquidation authority were modified in certain respects to reduce disparities with the treatment of creditors' claims under the U.S. Bankruptcy Code as compared to the treatment of those claims under the new authority. Nonetheless, substantial differences in the rights of creditors exist as between these two regimes, including the right of the FDIC to disregard the strict priority of creditor claims in some circumstances, the use of an administrative claims procedure to determine creditors' claims (as opposed to the judicial procedure utilized in bankruptcy proceedings), and the right of the FDIC to transfer claims to a "bridge" entity.

An orderly liquidation fund will fund such liquidation proceedings through borrowings from the Treasury Department and risk-based assessments made, first, on entities that received more in the resolution than they would have received in liquidation to the extent of such excess, and second, if necessary, on bank holding companies with total consolidated assets of $50 billion or more, such as M&T. If an orderly liquidation is triggered, M&T could face assessments for the orderly liquidation fund.

The FDIC has developed a strategy under the orderly liquidation authority referred to as the "single point of entry" strategy, under which the FDIC would resolve a failed financial holding company by transferring its assets (including shares of its operating subsidiaries) and, potentially, very limited liabilities to a "bridge" holding company; utilize the resources of the failed financial holding company to recapitalize the operating subsidiaries; and satisfy the claims of unsecured creditors of the failed financial holding company and other claimants in the receivership by delivering securities of one or more new financial companies that would emerge from the bridge holding company. Under this strategy, management of the failed financial holding company would be replaced and shareholders and creditors of the failed financial holding company would bear the losses resulting from the failure.

Depositor Preference

Under federal law, depositors and certain claims for administrative expenses and employee compensation against an insured depository institution would be afforded a priority over other general unsecured claims against such an institution in the "liquidation or other resolution" of such an institution by any receiver. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including depositors whose deposits are payable only outside of the United States and the parent BHC, with respect to any extensions of credit they have made to such insured depository institution.

Financial Privacy and Cybersecurity

The federal banking regulators have adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to non-affiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a non-affiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. In addition, consumers may also prevent disclosure of certain information among affiliated companies that is assembled or used to determine eligibility for a product or service, such as that shown on consumer credit reports and asset and income information from applications. Consumers also have the option to direct banks and other financial institutions not to share information about transactions and experiences with affiliated companies for the purpose of marketing products or services. Federal law makes it a criminal offense, except in limited circumstances, to obtain or attempt to obtain customer information of a financial nature by fraudulent or deceptive means.

In October 2016, the federal banking regulators jointly issued an advance notice of proposed rulemaking on enhanced cyber risk management standards that are intended to increase the operational resilience of large and interconnected entities under their supervision. Once established, the enhanced cyber risk management standards would help to reduce the potential impact of a cyber-attack or other cyber-related failure on the financial system. The advance notice of proposed rulemaking addresses five categories of cyber standards: (1) cyber risk governance; (2) cyber risk management; (3) internal dependency management; (4) external dependency management; and (5) incident response, cyber resilience, and situational awareness. In December 2016, the NYSDFS re-proposed regulations that would require financial institutions regulated by the NYSDFS, including M&T Bank, to, among other things, (i) establish and maintain a cyber security program designed to ensure the confidentiality, integrity and availability of their information systems; (ii) implement and maintain a written cyber security policy setting forth policies and procedures for the protection of their information systems and nonpublic information; and (iii) designate a Chief Information Security Officer.

Consumer Protection Laws and the Consumer Financial Protection Bureau Supervision

In connection with their respective lending and leasing activities, M&T Bank, Wilmington Trust, N.A. and certain of their subsidiaries, are each subject to a number of federal and state laws designed to protect borrowers and promote lending to various sectors of the economy. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Fair and Accurate Credit Transactions Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, and the Real Estate Settlement Procedures Act, and various state law counterparts. They are also subject to consumer protection laws governing their deposit taking activities, as well securities and insurance laws governing certain aspects of their consolidated operations. Furthermore, the Bureau of Consumer Financial Protection (“CFPB”) has issued integrated disclosure requirements under the Truth-in-Lending Act and the Real Estate Settlement Procedures Act that relate to the provision of disclosures to borrowers.

The Dodd-Frank Act established the CFPB with broad powers to supervise and enforce most federal consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The CFPB has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets, including M&T Bank.

The CFPB has focused on:

- risks to consumers and compliance with the federal consumer financial laws, when it evaluates the policies and practices of a financial institution;
- the markets in which firms operate and risks to consumers posed by activities in those markets;
- depository institutions that offer a wide variety of consumer financial products and services;
- depository institutions with a more specialized focus; and
- non-depository companies that offer one or more consumer financial products or services.

The Electronic Fund Transfer Act prohibits financial institutions from charging consumers fees for paying overdrafts on automated teller machines ("ATM") and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those type of transactions. If a consumer does not opt in, any ATM transaction or debit that overdraws the consumer's account will be denied. Overdrafts on the payment of checks and regular electronic bill payments are not covered by this rule. Before opting in, the consumer must be provided a notice that explains the financial institution's overdraft services, including the fees associated with the service, and the consumer's choices. Financial institutions must provide consumers who do not opt in with the same account terms, conditions and features (including pricing) that they provide to consumers who do opt in.

Community Reinvestment Act

The CRA is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound operations. CRA examinations are conducted by the federal agencies that are responsible for supervising depository institutions: the Federal Reserve, the FDIC and the OCC. A financial institution's performance in helping to meet the credit needs of its community is evaluated in the context of information about the institution (capacity, constraints and business strategies), its community (demographic and economic data, lending, investment, and service opportunities), and its competitors and peers. Upon completion of a CRA examination, an overall CRA Rating is assigned using a four-tiered rating system. These ratings are: "Outstanding," "Satisfactory," "Needs to Improve" and "Substantial Noncompliance." The CRA evaluation is used in evaluating applications for future approval of bank activities including mergers, acquisitions, charters, branch openings and deposit facilities. M&T Bank has a rating of "Outstanding." M&T Bank is also subject to New York State CRA examination and is assessed using a 1 to 4 scoring system. M&T Bank has an "Outstanding" rating from the NYSDFS. Wilmington Trust, N.A. was subject to the CRA until March 3, 2016 when the OCC changed its designation of Wilmington Trust, N.A. to a special purpose trust company, which exempts Wilmington Trust, N.A. from the requirements of the CRA.

Bank Secrecy and Anti-Money Laundering

Federal laws and regulations impose obligations on U.S. financial institutions, including banks and broker/dealer subsidiaries, to implement and maintain appropriate policies, procedures and controls which are reasonably designed to prevent, detect and report instances of money laundering and the financing of terrorism and to verify the identity of their customers. In addition, these provisions require the federal financial institution regulatory agencies to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing bank mergers and BHC acquisitions. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing could have serious legal and reputational consequences for the institution. As a result of an inspection by the Federal Reserve Bank of New York, on June 17, 2013

M&T and M&T Bank entered into a written agreement with the Federal Reserve Bank of New York related to M&T Bank's Bank Secrecy Act/Anti-Money Laundering Program pursuant to which M&T and M&T Bank have implemented a BSA/AML program with significantly expanded scale and scope. M&T and M&T Bank are continuing to work towards the resolution of all outstanding issues in the written agreement.

Office of Foreign Assets Control Regulation

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are typically known as the "OFAC" rules based on their administration by the U.S. Treasury Department Office of Foreign Assets Control ("OFAC"). The OFAC-administered sanctions targeting countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g. property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

Regulation of Insurers and Insurance Brokers

The Company's operations in the areas of insurance brokerage and reinsurance of credit life insurance are subject to regulation and supervision by various state insurance regulatory authorities. Although the scope of regulation and form of supervision may vary from state to state, insurance laws generally grant broad discretion to regulatory authorities in adopting regulations and supervising regulated activities. This supervision generally includes the licensing of insurance brokers and agents and the regulation of the handling of customer funds held in a fiduciary capacity. Certain of M&T's insurance company subsidiaries are subject to extensive regulatory supervision and to insurance laws and regulations requiring, among other things, maintenance of capital, record keeping, reporting and examinations.

Federal Reserve Policies

The earnings of the Company are significantly affected by the monetary and fiscal policies of governmental authorities, including the Federal Reserve. Among the instruments of monetary policy used by the Federal Reserve are open-market operations in U.S. Government securities and federal funds, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These instruments of monetary policy are used in varying combinations to influence the overall level of bank loans, investments and deposits, and the interest rates charged on loans and paid for deposits. The Federal Reserve frequently uses these instruments of monetary policy, especially its open-market operations and the discount rate, to influence the level of interest rates and to affect the strength of the economy, the level of inflation or the price of the dollar in foreign exchange markets. The monetary policies of the Federal Reserve have had a significant effect on the operating results of banking institutions in the past and are expected to continue to do so in the future. It is not possible to predict the nature of future changes in monetary and fiscal policies or the effect which they may have on the Company's business and earnings.

Competition

The Company competes in offering commercial and personal financial services with other banking institutions and with firms in a number of other industries, such as thrift institutions, credit unions, personal loan companies, sales finance companies, leasing companies, securities firms and insurance companies. Furthermore, diversified financial services companies are able to offer a combination of these services to their customers on a nationwide basis. The Company's operations are significantly impacted by state and federal regulations applicable to the banking industry. Moreover, the provisions of the Gramm-Leach-Bliley Act of 1999, the Interstate Banking Act and the Banking Law have allowed for increased competition among diversified financial services providers.

Other Information

Through a link on the Investor Relations section of M&T's website at www.mtb.com, copies of M&T's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, are made available, free of charge, as soon as reasonably practicable after electronically filing such material with, or furnishing it to, the SEC. Copies of such reports and other information are also available at no charge to any person who requests them or at www.sec.gov. Such requests may be directed to M&T Bank Corporation, Shareholder Relations Department, One M&T Plaza, 8th Floor, Buffalo, NY 14203-2399 (Telephone: (716) 842-5138). The public may read and copy any materials that M&T files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington D.C. 20549. The public may obtain information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Corporate Governance

M&T's Corporate Governance Standards and the following corporate governance documents are also available on M&T's website at the Investor Relations link: Disclosure and Regulation FD Policy; Executive Committee Charter; Nomination, Compensation and Governance Committee Charter; Audit Committee Charter; Risk Committee Charter; Financial Reporting and Disclosure Controls and Procedures Policy; Code of Ethics for CEO and Senior Financial Officers; Code of Business Conduct and Ethics; Employee Complaint Procedures for Accounting and Auditing Matters; and Excessive or Luxury Expenditures Policy. Copies of such governance documents are also available, free of charge, to any person who requests them. Such requests may be directed to M&T Bank Corporation, Shareholder Relations Department, One M&T Plaza, 8th Floor, Buffalo, NY 14203-2399 (Telephone: (716) 842-5138).

Statistical Disclosure Pursuant to Guide 3

See cross-reference sheet for disclosures incorporated elsewhere in this Annual Report on Form 10-K. Additional information is included in the following tables.

Table 1

SELECTED CONSOLIDATED YEAR-END BALANCES

	2016 (In thousands)	2015	2014	2013	2012
Interest-bearing deposits at banks	$5,000,638	$7,594,350	$6,470,867	$1,651,138	$129,945
Federal funds sold	—	—	83,392	99,573	3,000
Trading account	323,867	273,783	308,175	376,131	488,966
Investment securities					
U.S. Treasury and federal agencies	15,090,578	14,540,237	12,042,390	7,770,767	4,007,725
Obligations of states and political subdivisions	64,499	124,459	157,159	180,495	203,004
Other	1,095,391	991,743	793,993	845,235	1,863,632
Total investment securities	16,250,468	15,656,439	12,993,542	8,796,497	6,074,361
Loans and leases					
Commercial, financial, leasing, etc.	22,770,629	20,576,737	19,617,253	18,876,166	17,973,140
Real estate — construction	8,066,756	5,716,994	5,061,269	4,457,650	3,772,413
Real estate — mortgage	48,134,198	49,841,156	31,250,968	30,711,440	33,494,359
Consumer	12,130,094	11,584,347	10,969,879	10,280,527	11,550,274
Total loans and leases	91,101,677	87,719,234	66,899,369	64,325,783	66,790,186
Unearned discount	(248,261)	(229,735)	(230,413)	(252,624)	(219,229)
Loans and leases, net of unearned discount	90,853,416	87,489,499	66,668,956	64,073,159	66,570,957
Allowance for credit losses	(988,997)	(955,992)	(919,562)	(916,676)	(925,860)
Loans and leases, net	89,864,419	86,533,507	65,749,394	63,156,483	65,645,097
Goodwill	4,593,112	4,593,112	3,524,625	3,524,625	3,524,625
Core deposit and other intangible assets	97,655	140,268	35,027	68,851	115,763
Real estate and other assets owned	139,206	195,085	63,635	66,875	104,279
Total assets	123,449,206	122,787,884	96,685,535	85,162,391	83,008,803
Noninterest-bearing deposits	32,813,896	29,110,635	26,947,880	24,661,007	24,240,802
Savings and interest-checking deposits	52,346,207	49,566,644	43,393,618	38,611,021	35,763,566
Time deposits	10,131,846	13,110,392	3,063,973	3,523,838	4,562,366
Deposits at Cayman Islands office	201,927	170,170	176,582	322,746	1,044,519
Total deposits	95,493,876	91,957,841	73,582,053	67,118,612	65,611,253
Short-term borrowings	163,442	2,132,182	192,676	260,455	1,074,482
Long-term borrowings	9,493,835	10,653,858	9,006,959	5,108,870	4,607,758
Total liabilities	106,962,584	106,614,595	84,349,639	73,856,859	72,806,210
Shareholders’ equity	16,486,622	16,173,289	12,335,896	11,305,532	10,202,593

Table 2

SHAREHOLDERS, EMPLOYEES AND OFFICES

Number at Year-End	2016	2015	2014	2013	2012
Shareholders	19,802	20,693	14,551	15,015	15,623
Employees	16,973	17,476	15,782	15,893	14,943
Offices	855	863	766	796	799

Table 3

CONSOLIDATED EARNINGS

	2016	2015	2014	2013	2012
	(In thousands)				
Interest income					
Loans and leases, including fees	$3,485,050	$2,778,151	$2,596,586	$2,734,708	$2,704,156
Investment securities					
Fully taxable	361,494	372,162	340,391	209,244	227,116
Exempt from federal taxes	2,606	4,263	5,356	6,802	8,045
Deposits at banks	45,516	15,252	13,361	5,201	1,221
Other	1,205	1,016	1,183	1,379	1,147
Total interest income	3,895,871	3,170,844	2,956,877	2,957,334	2,941,685
Interest expense					
Savings and interest-checking deposits	87,704	46,140	46,869	56,235	69,354
Time deposits	102,841	27,059	15,515	26,439	46,102
Deposits at Cayman Islands office	797	615	699	1,018	1,130
Short-term borrowings	3,625	1,677	101	430	1,286
Long-term borrowings	231,017	252,766	217,247	199,983	225,297
Total interest expense	425,984	328,257	280,431	284,105	343,169
Net interest income	3,469,887	2,842,587	2,676,446	2,673,229	2,598,516
Provision for credit losses	190,000	170,000	124,000	185,000	204,000
Net interest income after provision for credit losses	3,279,887	2,672,587	2,552,446	2,488,229	2,394,516
Other income					
Mortgage banking revenues	373,697	375,738	362,912	331,265	349,064
Service charges on deposit accounts	419,102	420,608	427,956	446,941	446,698
Trust income	472,184	470,640	508,258	496,008	471,852
Brokerage services income	63,423	64,770	67,212	65,647	59,059
Trading account and foreign exchange gains	41,126	30,577	29,874	40,828	35,634
Gain (loss) on bank investment securities	30,314	(130)	—	56,457	9
Total other-than-temporary impairment (“OTTI”) losses	—	—	—	(1,884)	(32,067)
Portion of OTTI losses recognized in other comprehensive income (before taxes)	—	—	—	(7,916)	(15,755)
Net OTTI losses recognized in earnings	—	—	—	(9,800)	(47,822)
Other revenues from operations	426,150	462,834	383,061	437,859	352,776
Total other income	1,825,996	1,825,037	1,779,273	1,865,205	1,667,270
Other expense					
Salaries and employee benefits	1,623,600	1,549,530	1,404,950	1,355,178	1,314,540
Equipment and net occupancy	295,141	272,539	269,299	264,327	257,551
Outside data processing and software	172,389	164,133	151,568	134,011	125,252
FDIC assessments	105,045	52,113	55,531	69,584	101,110
Advertising and marketing	87,137	59,227	47,111	56,597	52,388
Printing, postage and supplies	39,546	38,491	38,201	39,557	41,929
Amortization of core deposit and other intangible assets	42,613	26,424	33,824	46,912	60,631

Other costs of operations	682,014	660,475	688,990	621,700	516,350
Total other expense	3,047,485	2,822,932	2,689,474	2,587,866	2,469,751
Income before income taxes	2,058,398	1,674,692	1,642,245	1,765,568	1,592,035
Income taxes	743,284	595,025	575,999	627,088	562,537
Net income	$1,315,114	$1,079,667	$1,066,246	$1,138,480	$1,029,498
Dividends declared					
Common	$441,765	$374,912	$371,137	$365,171	$357,862
Preferred	81,270	81,270	75,878	53,450	53,450

Table 4

COMMON SHAREHOLDER DATA

	2016	2015	2014	2013	2012
Per share					
Net income					
Basic	$7.80	$7.22	$7.47	$8.26	$7.57
Diluted	7.78	7.18	7.42	8.20	7.54
Cash dividends declared	2.80	2.80	2.80	2.80	2.80
Common shareholders' equity at year-end	97.64	93.60	83.88	79.81	72.73
Tangible common shareholders' equity at year-end	67.85	64.28	57.06	52.45	44.61
Dividend payout ratio	35.81%	37.56%	37.49%	33.94%	36.98%

Table 5

CHANGES IN INTEREST INCOME AND EXPENSE(a)

	2016 Compared with 2015			2015 Compared with 2014		
		Resulting from Changes in:			Resulting from Changes in:	
	Total Change	Volume	Rate	Total Change	Volume	Rate
	(Increase (decrease) in thousands)					
Interest income						
Loans and leases, including fees	$710,191	703,099	7,092	$182,975	248,119	(65,144)
Deposits at banks	30,264	10,805	19,459	1,891	1,267	624
Federal funds sold and agreements to resell securities	(32)	(65)	33	(29)	(48)	19
Trading account	195	(31)	226	(134)	169	(303)
Investment securities						
U.S. Treasury and federal agencies	(3,947)	12,524	(16,471)	32,695	77,565	(44,870)
Obligations of states and political subdivisions	(2,552)	(2,251)	(301)	(1,724)	(1,052)	(672)
Other	(6,593)	3,890	(10,483)	(886)	(20)	(866)
Total interest income	$727,526			$214,788		
Interest expense						
Interest-bearing deposits						
Savings and interest-checking deposits	$41,564	10,724	30,840	$(729)	3,031	(3,760)
Time deposits	75,782	59,607	16,175	11,544	7,356	4,188

Deposits at Cayman Islands office	182	(53)	235	(84)	(273)	189
Short-term borrowings	1,948	1,288	660	1,576	363	1,213
Long-term borrowings	(21,749)	857	(22,606)	35,519	71,014	(35,495)
Total interest expense	$97,727			$47,826		

(a) Interest income data are on a taxable-equivalent basis. The apportionment of changes resulting from the combined effect of both volume and rate was based on the separately determined volume and rate changes.

Item 1A. Risk Factors.

M&T and its subsidiaries could be adversely impacted by a number of risks and uncertainties that are difficult to predict. As a financial institution certain risk elements are inherent in the ordinary course of the Company's business activities and adverse experience with those risks could have a material impact on the Company's business, financial condition and results of operations, as well as on the values of the Company's financial instruments and M&T's common stock. The Company has developed a risk management process to identify, understand, mitigate and balance its exposure to significant risks. The following risk factors set forth some of the risks that could materially and adversely impact the Company.

Market Risk

Weakness in the economy has adversely affected the Company in the past and may adversely affect the Company in the future.

Poor business and economic conditions in general or specifically in markets served by the Company could have one or more of the following adverse effects on the Company's business:

- A decrease in the demand for loans and other products and services offered by the Company.
- A decrease in net interest income derived from the Company's lending and deposit gathering activities.
- A decrease in the value of the Company's investment securities, loans held for sale or other assets secured by residential or commercial real estate.
    - Other-than-temporary impairment of investment securities in the Company's investment securities portfolio.
- A decrease in fees from the Company's brokerage and trust businesses associated with declines or lack of growth in stock market prices.
- Potential higher FDIC assessments due to the DIF falling below minimum required levels.
- An impairment of certain intangible assets, such as goodwill.
- An increase in the number of customers and counterparties who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to the Company. An increase in the number of delinquencies, bankruptcies or defaults could result in higher levels of nonperforming assets, net charge-offs, provision for credit losses and valuation adjustments on loans held for sale.

The Company's business and financial performance is impacted significantly by market interest rates and movements in those rates. The monetary, tax and other policies of governmental agencies, including the Federal Reserve, have a significant impact on interest rates and overall financial market performance over which the Company has no control and which the Company may not be able to anticipate adequately.

As a result of the high percentage of the Company's assets and liabilities that are in the form of interest-bearing or interest-related instruments, changes in interest rates, in the shape of the yield curve or in spreads between different market interest rates, can have a material effect on the Company's business and profitability and the value of the Company's assets and liabilities. For example:

- Changes in interest rates or interest rate spreads can affect the difference between the interest that the Company earns on assets and the interest that the Company pays on liabilities, which impacts the Company’s overall net interest income and profitability.

- Such changes can affect the ability of borrowers to meet obligations under variable or adjustable rate loans and other debt instruments, and can, in turn, affect the Company’s loss rates on those assets.
- Such changes may decrease the demand for interest rate based products and services, including loans and deposits.
- Such changes can also affect the Company’s ability to hedge various forms of market and interest rate risk and may decrease the profitability or protection or increase the risk or cost associated with such hedges.
- Movements in interest rates also affect mortgage prepayment speeds and could result in the impairment of capitalized mortgage servicing assets, reduce the value of loans held for sale and increase the volatility of mortgage banking revenues, potentially adversely affecting the Company’s results of operations.

The monetary, tax and other policies of the government and its agencies, including the Federal Reserve, have a significant impact on interest rates and overall financial market performance. These governmental policies can thus affect the activities and results of operations of banking companies such as the Company. An important function of the Federal Reserve is to regulate the national supply of bank credit and certain interest rates. The actions of the Federal Reserve influence the rates of interest that the Company charges on loans and that the Company pays on borrowings and interest-bearing deposits and can also affect the value of the Company’s on-balance sheet and off-balance sheet financial instruments. Also, due to the impact on rates for short-term funding, the Federal Reserve’s policies also influence, to a significant extent, the Company’s cost of such funding. In addition, the Company is routinely subject to examinations from various governmental taxing authorities. Such examinations may result in challenges to the tax return treatment applied by the Company to specific transactions. Management believes that the assumptions and judgment used to record tax-related assets or liabilities have been appropriate. Should tax laws change or the tax authorities determine that management’s assumptions were inappropriate, the result and adjustments required could have a material effect on the Company’s results of operations. M&T cannot predict the nature or timing of future changes in monetary, tax and other policies or the effect that they may have on the Company’s business activities, financial condition and results of operations.

The Company’s business and performance is vulnerable to the impact of volatility in debt and equity markets.

As most of the Company’s assets and liabilities are financial in nature, the Company’s performance tends to be sensitive to the performance of the financial markets. Turmoil and volatility in U.S. and global financial markets can be a major contributory factor to overall weak economic conditions, leading to some of the risks discussed herein, including the impaired ability of borrowers and other counterparties to meet obligations to the Company. Financial market volatility also can have some of the following adverse effects on the Company and its business, including adversely affecting the Company’s financial condition and results of operations:

- It can affect the value or liquidity of the Company’s on-balance sheet and off-balance sheet financial instruments.
- It can affect the value of capitalized servicing assets.
- It can affect M&T’s ability to access capital markets to raise funds. Inability to access capital markets if needed, at cost effective rates, could adversely affect the Company’s liquidity and results of operations.

- It can affect the value of the assets that the Company manages or otherwise administers or services for others. Although the Company is not directly impacted by changes in the value of such assets, decreases in the value of those assets would affect related fee income and could result in decreased demand for the Company's services.
- In general, it can impact the nature, profitability or risk profile of the financial transactions in which the Company engages.

Volatility in the markets for real estate and other assets commonly securing financial products has been and may continue to be a significant contributor to overall volatility in financial markets.

The Company's regional concentrations expose it to adverse economic conditions in its primary retail banking office footprint.

The Company's core banking business is largely concentrated within the Company's retail banking office network footprint, located principally in New York, Maryland, New Jersey, Pennsylvania, Delaware, Connecticut, Virginia, West Virginia and the District of Columbia. Therefore, the Company is, or in the future may be, particularly vulnerable to adverse changes in economic conditions in the Northeast and Mid-Atlantic regions.

Risks Relating to Compliance and the Regulatory Environment

The Company is subject to extensive government regulation and supervision and this regulatory environment can be and has been significantly impacted by financial regulatory reform initiatives.

The Company is subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the financial system as a whole, not stockholders. These regulations and supervisory guidance affect the Company's lending practices, capital structure, amounts of capital, investment practices, dividend policy and growth, among other things. Failure to comply with laws, regulations, policies or supervisory guidance could result in civil or criminal penalties, including monetary penalties, the loss of FDIC insurance, the revocation of a banking charter, other sanctions by regulatory agencies, and/or reputation damage, which could have a material adverse effect on the Company's business, financial condition and results of operations. In this regard, government authorities, including the bank regulatory agencies, are pursuing aggressive enforcement actions with respect to compliance and other legal matters involving financial activities, which heightens the risks associated with actual and perceived compliance failures and may also adversely affect the Company's ability to enter into certain transactions or engage in certain activities, or obtain necessary regulatory approvals in connection therewith.

The U.S. government and others have recently undertaken major reforms of the regulatory oversight structure of the financial services industry. M&T expects to face increased regulation of its industry as a result of current and possible future initiatives. M&T also expects more intense scrutiny in the examination process and more aggressive enforcement of regulations on both the federal and state levels. Compliance with these new regulations and supervisory initiatives will likely increase the Company's costs, reduce its revenue and may limit its ability to pursue certain desirable business opportunities.

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. Reforms, both under the Dodd-Frank Act and otherwise, will have a significant effect on the entire financial services industry. Although it is difficult to predict the magnitude and extent of these effects, M&T believes compliance with new regulations and other initiatives will likely negatively impact revenue and increase the cost of doing business, both in terms of transition expenses and on an ongoing basis, and may also limit M&T's ability to pursue certain desirable business opportunities. Any new regulatory requirements or changes to existing requirements could require changes to the Company's businesses, result in increased compliance costs and affect the profitability of such businesses. Additionally, reform could affect the behaviors of third parties that the Company deals with in the course of its business, such as rating agencies, insurance companies and investors. Heightened regulatory practices, requirements or expectations could affect the Company in substantial and unpredictable ways, and, in turn, could have a material adverse effect on the Company's business, financial condition and results of operations. While the change in administration in the U.S. may ultimately lead to the modification of certain of the regulations adopted since the financial crisis, uncertainty about the timing and scope of any such changes as well as the cost of complying with a new regulatory regime may negatively impact the Company's businesses, at least in the short term, even if the long-term impact of any such changes may be positive for the Company's businesses.

Capital and liquidity standards adopted by the U.S. banking regulators have resulted in banks and bank holding companies needing to maintain more and higher quality capital and greater liquidity than has historically been the case.

New capital standards, both as a result of the Dodd-Frank Act and the U.S. Basel III-based capital rules have had a significant effect on banks and bank holding companies, including M&T. The U.S. capital rules require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity. For additional information, see "Capital Requirements" under Part I, Item 1 "Business."

The need to maintain more and higher quality capital, as well as greater liquidity, going forward than historically has been required, and generally increased regulatory scrutiny with respect to capital and liquidity levels, could limit the Company's business activities, including lending, and its ability to expand, either organically or through acquisitions. It could also result in M&T being required to take steps to increase its regulatory capital that may be dilutive to shareholders or limit its ability to pay dividends or otherwise return capital to shareholders, or sell or refrain from acquiring assets, the capital requirements for which are not justified by the assets' underlying risks.

In addition, the U.S. Basel III-based liquidity coverage ratio requirement and the liquidity-related provisions of the Federal Reserve's liquidity-related enhanced prudential supervision requirements adopted pursuant to Section 165 of Dodd-Frank require the Company to hold increased levels of unencumbered highly liquid investments, thereby reducing the Company's ability to invest in other longer-term assets even if deemed more desirable from a balance sheet management perspective. Moreover, U.S. federal banking agencies have been taking into account expectations regarding the ability of banks to meet these requirements, including under stressed conditions, in approving actions that represent uses of capital, such as dividend increases, share repurchases and acquisitions.

M&T's ability to return capital to shareholders and to pay dividends on common stock may be adversely affected by market and other factors outside of its control and will depend, in part, on a review of its capital plan by the Federal Reserve.

Any decision by M&T to return capital to shareholders, whether through an increase in its common stock dividend or through a share repurchase program, requires the approval of the M&T Board of Directors and depends in large part on receiving regulatory approval, including through the Federal

Reserve's CCAR process and the supervisory stress tests required under the Dodd-Frank Act whereby M&T's financial position is tested under assumed severely adverse economic conditions. Prior to the public disclosure of a bank holding company's CCAR results, the Federal Reserve will provide the BHC with the results of its supervisory stress test and will offer a one-time opportunity for the BHC to reduce planned capital distributions through the submission of a revised capital plan. The Federal Reserve may object to any capital plan in which a bank holding company's regulatory capital ratios inclusive of adjustments to planned capital distributions, if any, would not meet the minimum requirements throughout a nine-quarter period under severely adverse stress conditions. In June 2016, the Federal Reserve announced that it did not object to M&T's revised CCAR capital plan. In the future, if the Federal Reserve objects to M&T's CCAR capital plan or raises concerns regarding the qualitative aspects of M&T's capital planning process through its supervisory oversight of M&T, it could impose restrictions on M&T's ability to return capital to shareholders, which in turn could negatively impact market and investor perceptions of M&T.

In addition, Federal Reserve capital planning and stress testing rules generally limit a bank holding company's ability to make quarterly capital distributions – that is, dividends and share repurchases – if the amount of actual cumulative quarterly capital issuances of instruments that qualify as regulatory capital are less than the BHC had indicated in its submitted capital plan as to which it received a non-objection from the Federal Reserve. Under these rules, for example, if a BHC issued a smaller amount of additional common stock than it had stated in its capital plan, it would be required to reduce common dividends and/or the amount of common stock repurchases so that the dollar amount of capital distributions, net of the dollar amount of additional common stock issued ("net distributions"), is no greater than the dollar amount of net distributions relating to its common stock included in its capital plan, as measured on an aggregate basis beginning in the third quarter of the nine-quarter planning horizon through the end of the then current quarter. As such, M&T's ability to declare and pay dividends on its common stock, as well as the amount of such dividends, will depend, in part, on its ability to issue stock in accordance with its capital plan or to otherwise remain in compliance with its capital plan, which may be adversely affected by market and other factors outside of M&T's control.

The effect of resolution plan requirements may have a material adverse impact on M&T.

Bank holding companies with consolidated assets of $50 billion or more, such as M&T, are required to report periodically to regulators a resolution plan for their rapid and orderly resolution in the event of material financial distress or failure. M&T's resolution plan must, among other things, ensure that its depository institution subsidiaries are adequately protected from risks arising from its other subsidiaries. The regulation adopted by the Federal Reserve and FDIC sets specific standards for the resolution plans, including requiring a strategic analysis of the plan's components, a description of the range of specific actions the Company proposes to take in resolution, and a description of the Company's organizational structure, material entities, interconnections and interdependencies, and management information systems, among other elements. To address effectively any shortcomings in the Company's resolution plan, the Federal Reserve and the FDIC could require the Company to change its business structure or dispose of businesses, which could have a material adverse effect on its liquidity and ability to pay dividends on its stock or interest and principal on its debt.

If an orderly liquidation of a systemically important BHC or non-bank financial company were triggered, M&T could face assessments for the Orderly Liquidation Fund ("OLF").

The Dodd-Frank Act creates a new mechanism, the OLF, for liquidation of systemically important bank holding companies and non-bank financial companies. The OLF is administered by the FDIC and is based on the FDIC's bank resolution model. The Secretary of the U.S. Treasury may trigger a liquidation under this authority only after consultation with the President of the U.S. and after receiving a recommendation from the boards of the FDIC and the Federal Reserve upon a two-thirds vote. Liquidation proceedings will be funded by the OLF, which will borrow from the U.S. Treasury and impose risk-based assessments on covered financial companies. Risk-based assessments would be made, first, on entities that received more in the resolution than they would have received in the liquidation to the extent of such excess, and second, if necessary, on, among others, bank holding companies with total consolidated assets of $50 billion or more, such as M&T. Any such assessments may adversely affect the Company's business, financial condition or results of operations.

Credit Risk

Deteriorating credit quality could adversely impact the Company.

As a lender, the Company is exposed to the risk that customers will be unable to repay their loans in accordance with the terms of the agreements, and that any collateral securing the loans may be insufficient to assure full repayment. Credit losses are inherent in the business of making loans.

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. Factors that can influence the Company's credit loss experience include: (i) the impact of residential real estate values on 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 area and in central Pennsylvania that have historically experienced less economic growth and vitality than many other regions of the country; (iv) the repayment performance associated with 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 loans to other types of borrowers.

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, governmental policy regarding housing and housing finance, and general economic conditions affecting consumers.

The Company maintains an allowance for credit losses which represents, in management's judgment, the amount of losses inherent in the loan and lease portfolio. The allowance is determined by management's evaluation of the loan and lease portfolio based on such factors as the differing economic risks associated with each loan category, the current 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. The effects of probable decreases in expected principal cash flows on loans acquired at a discount are also considered in the establishment of the allowance for credit losses.

Management believes that the allowance for credit losses appropriately reflects credit losses inherent in the loan and lease portfolio. However, there is no assurance that the allowance will be sufficient to cover such credit losses, particularly if housing and employment conditions worsen or the economy experiences a downturn. In those cases, the Company may be required to increase the allowance through an increase in the provision for credit losses, which would reduce net income.

The Company may be adversely affected by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. The Company has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose the Company to credit risk in the event of a default by a counterparty or client. In addition, the Company's credit risk may be exacerbated when the collateral held by the Company cannot be realized or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to the Company. Any such losses could have a material adverse effect on the Company's financial condition and results of operations.

Liquidity Risk

The Company must maintain adequate sources of funding and liquidity.

The Company must maintain adequate funding sources in the normal course of business to support its operations and fund outstanding liabilities, as well as meet regulatory expectations. The Company primarily relies on deposits to be a low cost and stable source of funding for the loans it makes and the operations of its business. Core customer deposits, which include noninterest-bearing deposits, interest-bearing transaction accounts, savings deposits and time deposits of $250,000 or less, have historically provided the Company with a sizeable source of relatively stable and low-cost funds. In addition to customer deposits, sources of liquidity include borrowings from third party banks, securities dealers, various Federal Home Loan Banks and the Federal Reserve Bank of New York.

The Company's liquidity and ability to fund and run the business could be materially adversely affected by a variety of conditions and factors, including financial and credit market disruptions and volatility or a lack of market or customer confidence in financial markets in general, which may result in a loss of customer deposits or outflows of cash or collateral and/or ability to access capital markets on favorable terms. Other conditions and factors that could materially adversely affect the Company's liquidity and funding include a lack of market or customer confidence in, or negative news about, the Company or the financial services industry generally which also may result in a loss of deposits and/or negatively affect the ability to access the capital markets; the loss of customer deposits to alternative investments; inability to sell or securitize loans or other assets; and downgrades in one or more of the Company's credit ratings. A downgrade in the Company's credit ratings, which could result from general industry-wide or regulatory factors not solely related to the Company, could adversely affect the Company's ability to borrow funds and raise the cost of borrowings substantially and could cause creditors and business counterparties to raise collateral requirements or take other actions that could adversely affect M&T's ability to raise capital. Many of the above conditions and factors may be caused by events over which M&T has little or no control. There can be no assurance that significant disruption and volatility in the financial markets will not occur in the future.

Recent regulatory changes relating to liquidity and risk management have also impacted the Company's results of operations and competitive position. These regulations address, among other matters, liquidity stress testing, minimum liquidity requirements and restrictions on short-term debt issued by top-tier holding companies.

If the Company is unable to continue to fund assets through customer bank deposits or access funding sources on favorable terms or if the Company suffers an increase in borrowing costs or otherwise fails to manage liquidity effectively, the Company's liquidity, operating margins, financial condition and results of operations may be materially adversely affected.

M&T relies on dividends from its subsidiaries for its liquidity.

M&T is a separate and distinct legal entity from its subsidiaries. M&T typically receives substantially all of its revenue from subsidiary dividends. These dividends are the principal source of funds to pay dividends on M&T stock and interest and principal on its debt. Various federal and/or state laws and regulations, as well as regulatory expectations, limit the amount of dividends that M&T's banking subsidiaries and certain nonbank subsidiaries may pay. Regulatory scrutiny of capital levels at bank holding companies and insured depository institution subsidiaries has increased in recent years and has resulted in increased regulatory focus on all aspects of capital planning, including dividends and other distributions to shareholders of banks, such as parent bank holding companies. See "Item 1. Business — Dividends" for a discussion of regulatory and other restrictions on dividend declarations. Also, M&T's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of that subsidiary's creditors. Limitations on M&T's ability to receive dividends from its subsidiaries could have a material adverse effect on its liquidity and ability to pay dividends on its stock or interest and principal on its debt.

Strategic Risk

The financial services industry is highly competitive and creates competitive pressures that could adversely affect the Company's revenue and profitability.

The financial services industry in which the Company operates is highly competitive. The Company competes not only with commercial and other banks and thrifts, but also with insurance companies, mutual funds, hedge funds, securities brokerage firms and other companies offering financial services in the U.S., globally and over the Internet. Some of the Company's non-bank competitors are not subject to the same extensive regulations the Company and its subsidiaries are, and may have greater flexibility in competing for business. In particular, the activity and prominence of so-called marketplace lenders and other technological financial services companies have grown significantly in recent years and is expected to continue growing. The Company competes on the basis of several factors, including capital, access to capital, revenue generation, products, services, transaction execution, innovation, reputation and price. Over time, certain sectors of the financial services industry have become more concentrated, as institutions involved in a broad range of financial services have been acquired by or merged into other firms. These developments could result in the Company's competitors gaining greater capital and other resources, such as a broader range of products and services and geographic diversity. The Company may experience pricing pressures as a result of these factors and as some of its competitors seek to increase market share by reducing prices or paying higher rates of interest on deposits. Finally, technological change is influencing how individuals and firms conduct their financial affairs and changing the delivery channels for financial services, with the result that the Company may have to contend with a broader range of competitors including many that are not located within the geographic footprint of its banking office network.

Operational Risk

The Company is subject to operational risk which could adversely affect the Company’s business and reputation and create material legal and financial exposure.

Like all businesses, the Company is subject to operational risk, which represents the risk of loss resulting from human error, inadequate or failed internal processes and systems, and external events. Operational risk also encompasses reputational risk and compliance and legal risk, which is the risk of loss from violations of, or noncompliance with, laws, rules, regulations, prescribed practices or ethical standards, as well as the risk of noncompliance with contractual and other obligations. The Company is also exposed to operational risk through outsourcing arrangements, and the effect that changes in circumstances or capabilities of its outsourcing vendors can have on the Company’s ability to continue to perform operational functions necessary to its business. In addition, along with other participants in the financial services industry, the Company frequently attempts to introduce new technology-driven products and services that are aimed at allowing the Company to better serve customers and to reduce costs. The Company may not be able to effectively implement new technology-driven products and services that allows it to remain competitive or be successful in marketing these products and services to its customers. Although the Company seeks to mitigate operational risk through a system of internal controls that are reviewed and updated, no system of controls, however well designed and maintained, is infallible. Control weaknesses or failures or other operational risks could result in charges, increased operational costs, harm to the Company’s reputation or foregone business opportunities.

Changes in accounting standards could impact the Company’s financial condition and results of operations.

The accounting standard setters, including the Financial Accounting Standards Board (“FASB”), the SEC and other regulatory bodies, periodically change the financial accounting and reporting standards that govern the preparation of the Company’s consolidated financial statements. These changes can be hard to predict and can materially impact how the Company records and reports its financial condition and results of operations. In some cases, the Company could be required to apply a new or revised standard retroactively, which would result in the restating of the Company’s prior period financial statements.

M&T’s accounting policies and processes are critical to the reporting of the Company’s financial condition and results of operations. They require management to make estimates about matters that are uncertain.

Accounting policies and processes are fundamental to the Company’s reported financial condition and results of operations. Some of these policies require use of estimates and assumptions that may affect the reported amounts of assets or liabilities and financial results. Several of M&T’s accounting policies are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. Pursuant to generally accepted accounting principles, management is required to make certain assumptions and estimates in preparing the Company’s financial statements. If assumptions or estimates underlying the Company’s financial statements are incorrect, the Company may experience material losses.

Management has identified certain accounting policies as being critical because they require management’s judgment to ascertain the valuations of assets, liabilities, commitments and contingencies. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset, valuing an asset or liability, or recognizing or reducing a liability. M&T has established detailed policies and control procedures that are intended to ensure these critical accounting estimates and judgments are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding judgments and the estimates pertaining to these matters, M&T could be required to adjust accounting policies or restate prior period financial statements if those judgments and estimates prove to be incorrect. For additional information, see Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Critical Accounting Estimates" and Note 1, "Significant Accounting Policies," of Notes to Financial Statements in Part II, Item 8.

Difficulties in combining the operations of acquired entities with the Company's own operations may prevent M&T from achieving the expected benefits from its acquisitions.

M&T has expanded its business through past acquisitions and may do so in the future. Inherent uncertainties exist when integrating the operations of an acquired entity. M&T may not be able to fully achieve its strategic objectives and planned operating efficiencies in an acquisition. In addition, the markets and industries in which the Company and its actual or potential acquisition targets operate are highly competitive. The Company may lose customers or fail to retain the customers of acquired entities as a result of an acquisition. Acquisition and integration activities require M&T to devote substantial time and resources, and as a result M&T may not be able to pursue other business opportunities while integrating acquired entities with the Company.

After completing an acquisition, the Company may not realize the expected benefits of the acquisition due to lower financial results pertaining to the acquired entity. For example, the Company could experience higher credit losses, incur higher operating expenses or realize less revenue than originally anticipated related to an acquired entity.

M&T could suffer if it fails to attract and retain skilled personnel.

M&T's success depends, in large part, on its ability to attract and retain key individuals. Competition for qualified candidates in the activities and markets that the Company serves is significant and the Company may not be able to hire candidates and retain them. Growth in the Company's business, including through acquisitions, may increase its need for additional qualified personnel. If the Company is not able to hire or retain these key individuals, it may be unable to execute its business strategies and may suffer adverse consequences to its business, financial condition and results of operations.

The federal banking agencies have issued joint guidance on executive compensation designed to help ensure that a banking organization's incentive compensation policies do not encourage imprudent risk taking and are consistent with the safety and soundness of the organization. In addition, the Dodd-Frank Act required those agencies, along with the SEC, to adopt rules to require reporting of incentive compensation and to prohibit certain compensation arrangements. If as a result of complying with such rules the Company is unable to attract and retain qualified employees, or do so at rates necessary to maintain its competitive position, or if the compensation costs required to attract and retain employees become more significant, the Company's performance, including its competitive position, could be materially adversely affected.

Severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact the Company's business.

Severe weather, natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on the Company's ability to conduct business. Such events could affect the stability of the Company's deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause the Company to incur additional expenses. Although the Company has established disaster recovery plans and procedures, and monitors for significant environmental effects on its properties or its investments, the occurrence of any such event could have a material adverse effect on the Company.

The Company's information systems may experience interruptions or breaches in security.

The Company relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in disruptions to its accounting, deposit, loan and other systems, and adversely affect the Company's customer relationships. While the Company has policies and procedures designed to prevent or limit the effect of these possible events, there can be no assurance that any such failure, interruption or security breach will not occur or, if any does occur, that it can be sufficiently or timely remediated.

Information security risks for large financial institutions such as M&T have increased significantly in recent years in part because of the proliferation of new technologies, such as Internet and mobile banking to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, nation-states, activists and other external parties. There have been increasing efforts on the part of third parties, including through cyber attacks, to breach data security at financial institutions or with respect to financial transactions. There have been several instances involving financial services and consumer-based companies reporting unauthorized access to and disclosure of client or customer information or the destruction or theft of corporate data, including by executive impersonation and third party vendors. There have also been several highly publicized cases where hackers have requested "ransom" payments in exchange for not disclosing customer information.

As cyber threats continue to evolve, the Company may be required to expend significant additional resources to continue to modify or enhance its layers of defense or to investigate and remediate any information security vulnerabilities. The techniques used by cyber criminals change frequently, may not be recognized until launched and can be initiated from a variety of sources, including terrorist organizations and hostile foreign governments. These actors may attempt to fraudulently induce employees, customers or other users of the Company's systems to disclose sensitive information in order to gain access to data or the Company's systems. These risks may increase as the use of mobile payment and other Internet-based applications expands.

The occurrence of any failure, interruption or security breach of the Company's systems, particularly if widespread or resulting in financial losses to customers, could damage the Company's reputation, result in a loss of customer business, subject it to additional regulatory scrutiny, or expose it to civil litigation and financial liability.

The Company is or may become involved from time to time in suits, legal proceedings, information-gathering requests, investigations and proceedings by governmental and self-regulatory agencies that may lead to adverse consequences.

Many aspects of the Company's business involve substantial risk of legal liability. M&T and/or its subsidiaries have been named or threatened to be named as defendants in various lawsuits arising from its or its subsidiaries' business activities (and in some cases from the activities of companies

M&T has acquired). In addition, from time to time, M&T is, or may become, the subject of governmental and self-regulatory agency information-gathering requests, reviews, investigations and proceedings and other forms of regulatory inquiry, including by bank and other regulatory agencies, the SEC and law enforcement authorities. The SEC has announced a policy of seeking admissions of liability in certain settled cases, which could adversely impact the defense of private litigation. M&T is also at risk when it has agreed to indemnify others for losses related to legal proceedings, including for litigation and governmental investigations and inquiries, such as in connection with the purchase or sale of a business or assets. The results of such proceedings could lead to significant civil or criminal penalties, including monetary penalties, damages, adverse judgments, settlements, fines, injunctions, restrictions on the way in which the Company conducts its business, or reputational harm.

Although the Company establishes accruals for legal proceedings when information related to the loss contingencies represented by those matters indicates both that a loss is probable and that the amount of loss can be reasonably estimated, the Company does not have accruals for all legal proceedings where it faces a risk of loss. In addition, due to the inherent subjectivity of the assessments and unpredictability of the outcome of legal proceedings, amounts accrued may not represent the ultimate loss to the Company from the legal proceedings in question. Thus, the Company's ultimate losses may be higher, and possibly significantly so, than the amounts accrued for legal loss contingencies, which could adversely affect the Company's financial condition and results of operations.

M&T relies on other companies to provide key components of the Company's business infrastructure.

Third parties provide key components of the Company's business infrastructure such as banking services, processing, and Internet connections and network access. Any disruption in such services provided by these third parties or any failure of these third parties to handle current or higher volumes of use could adversely affect the Company's ability to deliver products and services to clients and otherwise to conduct business. Technological or financial difficulties of a third party service provider could adversely affect the Company's business to the extent those difficulties result in the interruption or discontinuation of services provided by that party. The Company may not be insured against all types of losses as a result of third party failures and insurance coverage may be inadequate to cover all losses resulting from system failures or other disruptions. Failures in the Company's business infrastructure could interrupt the operations or increase the costs of doing business.

Detailed discussions of the specific risks outlined above and other risks facing the Company are included within this Annual Report on Form 10-K in Part I, Item 1 "Business," and Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations." Furthermore, in Part II, Item 7 under the heading "Forward-Looking Statements" is included a description of certain risks, uncertainties and assumptions identified by management that are difficult to predict and that could materially affect the Company's financial condition and results of operations, as well as the value of the Company's financial instruments in general, and M&T common stock, in particular.

In addition, the market price of M&T common stock may fluctuate significantly in response to a number of other factors, including changes in securities analysts' estimates of financial performance, volatility of stock market prices and volumes, rumors or erroneous information, changes in market valuations of similar companies and changes in accounting policies or procedures as may be required by the FASB or other regulatory agencies.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Both M&T and M&T Bank maintain their executive offices at One M&T Plaza in Buffalo, New York. This twenty-one story headquarters building, containing approximately 300,000 rentable square feet of space, is owned in fee by M&T Bank and was completed in 1967. M&T, M&T Bank and their subsidiaries occupy approximately 98% of the building and the remainder is leased to non-affiliated tenants. At December 31, 2016, the cost of this property (including improvements subsequent to the initial construction), net of accumulated depreciation, was $10.2 million.

M&T Bank owns and occupies an additional facility in Buffalo, New York (known as M&T Center) with approximately 395,000 rentable square feet of space. At December 31, 2016, the cost of this building (including improvements subsequent to acquisition), net of accumulated depreciation, was $11.2 million.

M&T Bank also owns and occupies three separate facilities in the Buffalo area which support certain back-office and operations functions of the Company. The total square footage of these facilities approximates 290,000 square feet and their combined cost (including improvements subsequent to acquisition), net of accumulated depreciation, was $27.6 million at December 31, 2016.

M&T Bank owns a facility in Syracuse, New York with approximately 160,000 rentable square feet of space. Approximately 46% of that facility is occupied by M&T Bank. At December 31, 2016, the cost of that building (including improvements subsequent to acquisition), net of accumulated depreciation, was $1.2 million.

M&T Bank owns facilities in Wilmington, Delaware, with approximately 340,000 (known as Wilmington Center) and 295,000 (known as Wilmington Plaza) rentable square feet of space, respectively. M&T Bank occupies approximately 97% of Wilmington Center. Wilmington Plaza is 100% occupied by a tenant. At December 31, 2016, the cost of these buildings (including improvements subsequent to acquisition), net of accumulated depreciation, was $41.9 million and $12.6 million, respectively.

M&T Bank also owns facilities in Harrisburg, Pennsylvania and Millsboro, Delaware with approximately 220,000 and 325,000 rentable square feet of space, respectively. M&T Bank occupies approximately 29% and 89% of those facilities, respectively. At December 31, 2016, the cost of those buildings (including improvements subsequent to acquisition), net of accumulated depreciation, was $10.1 million and $9.2 million, respectively.

No other properties owned by M&T Bank have more than 100,000 square feet of space. The cost, net of accumulated depreciation and amortization, of the Company’s premises and equipment is detailed in note 6 of Notes to Financial Statements filed herewith in Part II, Item 8, “Financial Statements and Supplementary Data.”

Of the 801 domestic banking offices of M&T’s subsidiary banks at December 31, 2016, 316 are owned in fee and 485 are leased.

Item 3. Legal Proceedings.

M&T and its subsidiaries are subject in the normal course of business to various pending and threatened legal proceedings and other matters 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 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 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 subsidiary is the subject of certain governmental investigations arising from actions undertaken by Wilmington Trust Corporation prior to M&T's acquisition of Wilmington Trust Corporation and its subsidiaries, as set forth below.

DOJ Investigation (United States v. Wilmington Trust Corp., et al, District of Delaware, Crim. No. 15-23-RGA): Prior to M&T's acquisition of Wilmington Trust Corporation, the Department of Justice ("DOJ") commenced an investigation of Wilmington Trust Corporation, relating to Wilmington Trust Corporation'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 Corporation by M&T. On January 6, 2016, the U.S. Attorney for the District of Delaware obtained an indictment against Wilmington Trust Corporation relating to alleged conduct that occurred prior to M&T's acquisition of Wilmington Trust Corporation in May 2011. M&T strongly believes that this unprecedented action is unjustified and Wilmington Trust Corporation will vigorously defend itself. On August 26, 2016, the Court granted defendants joint motion for a continuance of the trial date. Trial in this matter is now scheduled to begin on October 2, 2017. Wilmington Trust Corporation and its counsel are currently involved in pretrial discovery, motion practice and trial preparation.

The indictment of Wilmington Trust Corporation could result in potential criminal remedies, or criminal or non-criminal resolutions or settlements, including, among other things, enforcement actions, potential statutory or regulatory restrictions on the ability to conduct certain businesses (for which waivers may or may not be available), fines, penalties, restitution, reputational damage 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 Corporation, alleging that Wilmington Trust Corporation's financial reporting and securities filings were in violation of securities laws. The cases were consolidated and Wilmington Trust Corporation moved to dismiss. The Court issued an order denying Wilmington Trust Corporation's motion to dismiss on March 20, 2014. Fact discovery commenced. On April 13, 2016, the Court issued an order staying fact discovery in the case pending completion of the trial in U.S. v. Wilmington Trust Corp., et al. On September 19, 2016, the plaintiffs filed a motion to modify the stay of discovery in this matter to allow for additional, limited discovery. On December 19, 2016, the Court issued an order lifting the existing stay in its entirety, subject to appropriate protective orders to be determined by the Court. On January 24, 2017, the Court issued an order scheduling trial for June 18, 2018 and entering certain protective orders.

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 3 — 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 4. Mine Safety Disclosures.
Not applicable.

Executive Officers of the Registrant

Information concerning M&T's executive officers is presented below as of February 22, 2017. The year the officer was first appointed to the indicated position with M&T or its subsidiaries is shown parenthetically. In the case of each entity noted below, officers' terms run until the first meeting of the board of directors after such entity's annual meeting, which in the case of M&T takes place immediately following the Annual Meeting of Shareholders, and until their successors are elected and qualified.

Robert G. Wilmers, age 82, is chief executive officer (2007), chairman of the board (2000) and a director (1982) of M&T. From April 1998 until July 2000, he served as president and chief executive officer of M&T and from July 2000 until June 2005 he served as chairman, president (1988) and chief executive officer (1983). He is chief executive officer (2007), chairman of the board (2005) and a director (1982) of M&T Bank, and previously served as chairman of the board of M&T Bank from March 1983 until July 2003 and as president of M&T Bank from March 1984 until June 1996.

Mark J. Czarnecki, age 61, is president (2007), chief operating officer (2014) and a director (2007) of M&T and M&T Bank. He has responsibility for the day-to-day management of the Company. Previously, he was an executive vice president of M&T (1999) and M&T Bank (1997) and was responsible for the M&T Investment Group and the Company's Retail Banking network. Mr. Czarnecki is chairman of the board, president and chief executive officer (2007) and a director (2005) of Wilmington Trust, N.A.

Robert J. Bojdak, age 61, is an executive vice president and chief credit officer (2004) of M&T and M&T Bank, and is responsible for the Company's Credit Risk Management Division. From April 2002 to April 2004, Mr. Bojdak served as senior vice president and credit deputy for M&T Bank. He is an executive vice president and a director (2004) of Wilmington Trust, N.A.

Janet M. Coletti, age 53, is an executive vice president (2015) of M&T and M&T Bank, overseeing the Company's Human Resources Division. Ms. Coletti previously served as senior vice president of M&T Bank, most recently responsible for the Business Banking Division, and has held a number of management positions within M&T Bank since 1985.

William J. Farrell II, age 59, is an executive vice president (2011) of M&T and M&T Bank, and is responsible for managing administrative and business development functions of the Company's Wealth and Institutional Services Division, which includes Institutional Client Services and M&T Insurance Agency. Mr. Farrell joined M&T through the Wilmington Trust Corporation acquisition. He joined Wilmington Trust Corporation in 1976, and held a number of senior management positions, most recently as executive vice president and head of the Corporate Client Services business. Mr. Farrell is president, chief executive officer and a director (2012) of Wilmington Trust Company, an executive vice president and a director (2011) of Wilmington Trust, N.A. and a director (2013) of M&T Securities.

Richard S. Gold, age 56, is an executive vice president (2006) and chief risk officer (2014) of M&T. He is a vice chairman and chief risk officer (2014) of M&T Bank. Mr. Gold is responsible for overseeing the Company's governance and strategy for risk management, as well as relationships with key regulators and supervisory agencies. Previously, Mr. Gold had management responsibilities for the Mortgage, Consumer Lending, Retail and Business Banking Divisions. He served as a senior vice president of M&T Bank from 2000 to 2006 and has held a number of management positions since he began his career with M&T Bank in 1989. Mr. Gold is an executive vice president (2006) and chief risk officer (2014) of Wilmington Trust, N.A.

Brian E. Hickey, age 64, is an executive vice president of M&T (1997) and M&T Bank (1996). He is a member of the Directors Advisory Council (1994) of the Rochester Division of M&T Bank. Mr. Hickey is responsible for co-managing with Mr. Martocci M&T Bank's commercial banking lines of business and all of the non-retail banking segments in Upstate New York, Western New York and in the Northern, Central and Western Pennsylvania and Connecticut regions. Mr. Hickey is also responsible for the Dealer Commercial Services line of business.

René F. Jones, age 52, is an executive vice president (2006) of M&T and a vice chairman (2014) of M&T Bank. Mr. Jones has overall responsibility for the Company's Wealth and Institutional Services Division, Treasury Division, and Mortgage and Consumer Lending Divisions. Mr. Jones is an executive vice president (2005) and a director (2007) of Wilmington Trust, N.A., and he is chairman of the board, president (2009) and a trustee (2005) of M&T Real Estate. Mr. Jones is chairman of the board and a director (2014) of Wilmington Trust Investment Advisors, and is a director (2007) of M&T Insurance Agency. Mr. Jones is chairman of the board and a director (2014) of Wilmington Trust Company. Previously, Mr. Jones served as chief financial officer (2005) of M&T, M&T Bank and Wilmington Trust, N.A. and has held a number of management positions within M&T Bank's Finance Division since 1992.

Darren J. King, age 47, is an executive vice president (2010) and chief financial officer (2016) of M&T and executive vice president (2009) and chief financial officer (2016) of M&T Bank. Mr. King has responsibility for the overall financial management of the Company. Prior to his current role, Mr. King was the Retail Banking executive with responsibility for overseeing Business Banking, Consumer Deposits, Consumer Lending and M&T Bank's Marketing and Communications team. Mr. King previously served as senior vice president of M&T Bank and has held a number of management positions within M&T Bank since 2000. Mr. King is an executive vice president (2009) and chief financial officer (2016) of Wilmington Trust, N.A.

Gino A. Martocci, age 51, is an executive vice president (2014) of M&T and M&T Bank, and is responsible for co-managing with Mr. Hickey M&T Bank's commercial banking lines of business and all non-retail banking segments in the metropolitan New York City, New Jersey, Philadelphia, Delaware, Baltimore and Washington, D.C. markets. He is also responsible for M&T Realty Capital. Mr. Martocci was a senior vice president of M&T Bank from 2002 to 2013, serving in a number of management positions. He is an executive vice president (2015) and a director (2009) of M&T Realty Capital, an executive vice president of M&T Real Estate, co-chairman of the Senior Loan Committee and a member of the New York City Mortgage Investment Committee. Mr. Martocci is also a member of the Directors Advisory Council of the New York City/Long Island (2013) and the New Jersey (2015) Divisions of M&T Bank.

Doris P. Meister, age 61, is an executive vice president (2016) of M&T and M&T Bank, and is responsible for overseeing the Company's wealth management business, including Wealth Advisory Services, M&T Securities and Wilmington Trust Investment Advisors. Ms. Meister is an executive vice president and a director (2016) of Wilmington Trust, N.A. and a director (2016) of M&T Securities. Prior to joining M&T in 2016, Ms. Meister served as President of U.S. Markets for BNY Mellon Wealth Management and was a Managing Director of the New York office of Bernstein Global Wealth Management.

Kevin J. Pearson, age 55, is an executive vice president (2002) of M&T and is a vice chairman (2014) of M&T Bank. He is a member of the Directors Advisory Council (2006) of the New York

City/Long Island Division of M&T Bank. Mr. Pearson is responsible for M&T Bank's Commercial Banking and Credit Divisions. Previously, Mr. Pearson served as senior vice president of M&T Bank from 2000 to 2002, and has held a number of management positions since he began his career with M&T Bank in 1989. He is an executive vice president (2003) and a trustee (2014) of M&T Real Estate, chairman of the board (2009) and a director (2003) of M&T Realty Capital, and an executive vice president and a director of Wilmington Trust, N.A. (2014).

Michael J. Todaro, age 55, is an executive vice president (2015) of M&T and M&T Bank, and is responsible for the Mortgage, Consumer Lending and Customer Asset Management Divisions. Mr. Todaro previously served as senior vice president of M&T Bank and has held a number of management positions within M&T Bank's Mortgage Division since 1995. He is an executive vice president (2015) of Wilmington Trust, N.A.

Michele D. Trolli, age 55, is an executive vice president and chief information officer (2005) of M&T and M&T Bank. Ms. Trolli leads a wide range of the Company's Technology and Banking Operations, which includes banking services, corporate services, digital and telephone banking, the enterprise data office, enterprise and cyber security, and enterprise technology.

D. Scott N. Warman, age 51, is an executive vice president (2009) and treasurer (2008) of M&T and M&T Bank. He is responsible for managing the Company's Treasury Division. Mr. Warman previously served as senior vice president of M&T Bank and has held a number of management positions within M&T Bank since 1995. He is an executive vice president and treasurer of Wilmington Trust, N.A. (2008), a trustee of M&T Real Estate (2009), and is treasurer of Wilmington Trust Company (2012).

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

M&T's common stock is traded under the symbol MTB on the New York Stock Exchange. See cross-reference sheet for disclosures incorporated elsewhere in this Annual Report on Form 10-K for market prices of M&T's common stock, approximate number of common shareholders at year-end, frequency and amounts of dividends on common stock and restrictions on the payment of dividends.

During the fourth quarter of 2016, M&T did not issue any shares of its common stock that were not registered under the Securities Act of 1933.

Equity Compensation Plan Information

The following table provides information as of December 31, 2016 with respect to shares of common stock that may be issued under M&T's existing equity compensation plans. M&T's existing equity compensation plans include the M&T Bank Corporation 2001 Stock Option Plan, the 2005 Incentive Compensation Plan, which replaced the 2001 Stock Option Plan, and the 2009 Equity Incentive Compensation Plan, each of which has been previously approved by shareholders, and the M&T Bank Corporation 2008 Directors' Stock Plan and the M&T Bank Corporation Deferred Bonus Plan, each of which did not require shareholder approval.

The table does not include information with respect to shares of common stock subject to outstanding options and rights assumed by M&T in connection with mergers and acquisitions of the companies that originally granted those options and rights. Footnote (1) to the table sets forth the total number of shares of common stock issuable upon the exercise of such assumed options and rights as of December 31, 2016, and their weighted-average exercise price.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options or Rights (A)	Weighted-Average Exercise Price of Outstanding Options or Rights (B)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column A) (C)
Equity compensation plans approved by security holders	497,001	$ 92.30	3,667,800
Equity compensation plans not approved by security holders	26,217	78.75	53,256
Total	523,218	$ 91.62	3,721,056

(1) As of December 31, 2016, a total of 1,106,805 shares of M&T common stock were issuable upon exercise of outstanding options or rights assumed by M&T in connection with merger and acquisition transactions. The weighted-average exercise price of those outstanding options or rights is $160.18 per common share.

Equity compensation plans adopted without the approval of shareholders are described below:

2008 Directors' Stock Plan. M&T maintains a plan for non-employee members of the Board of Directors of M&T and the members of its Directors Advisory Council, and the non-employee members of the Board of Directors of M&T Bank and the members of its regional Directors Advisory Councils, which allows such directors, advisory directors and members of regional Directors Advisory Councils to receive all or a portion of their directorial compensation in shares of M&T common stock.

Deferred Bonus Plan. M&T maintains a deferred bonus plan which was frozen effective January 1, 2010 and did not allow any additional deferrals after that date. Prior to January 1, 2010, the plan allowed eligible officers of M&T and its subsidiaries to elect to defer all or a portion of their annual incentive compensation awards and allocate such awards to several investment options, including M&T common stock. At the time of the deferral election, participants also elected the timing of distributions from the plan. Such distributions are payable in cash, with the exception of balances allocated to M&T common stock which are distributable in the form of shares of common stock.

Performance Graph

The following graph contains a comparison of the cumulative shareholder return on M&T common stock against the cumulative total returns of the KBW Nasdaq Bank Index, compiled by Keefe, Bruyette & Woods, Inc., and the S&P 500 Index, compiled by Standard & Poor’s Corporation, for the five-year period beginning on December 31, 2011 and ending on December 31, 2016. The KBW Nasdaq Bank Index is a market capitalization index consisting of 24 banking stocks representing leading large U.S. national money centers, regional banks and thrift institutions.

Comparison of Five-Year Cumulative Return*

Shareholder Value at Year End*

	2011	2012	2013	2014	2015	2016
M&T Bank Corporation	$100	133	162	178	176	233
KBW Nasdaq Bank Index	100	133	183	200	201	259
S&P 500 Index	100	116	154	175	177	198

* Assumes a $100 investment on December 31, 2011 and reinvestment of all dividends.

In accordance with and to the extent permitted by applicable law or regulation, the information set forth above under the heading “Performance Graph” shall not be incorporated by reference into any future filing under the Securities Act of 1933, as amended (the “Securities Act”), or the

Exchange Act and shall not be deemed to be "soliciting material" or to be "filed" with the SEC under the Securities Act or the Exchange Act.

Issuer Purchases of Equity Securities

On July 19, 2016, M&T announced that it had been authorized by its Board of Directors to purchase up to $1.15 billion of shares of its common stock through June 30, 2017. A repurchase program authorized in November 2015 by M&T's Board of Directors was completed during 2016. In total, M&T repurchased 5,607,595 common shares for $641 million during 2016.

During the fourth quarter of 2016, M&T purchased shares of its common stock as follows:

Issuer Purchases of Equity Securities

Period	(a)Total Number of Shares (or Units) Purchased (1)	(b)Average Price Paid per Share (or Unit)	(c)Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d)Maximum Number (or Approximate Dollar Value) of Shares (or Units) that may yet be Purchased Under the Plans or Programs (2)
October 1 – October 31, 2016	7,400	$ 122.03	—	$ 800,000,000
November 1 – November 30, 2016	336,833	125.02	300,000	762,666,000
December 1 – December 31, 2016	11,439	153.81	—	762,666,000
Total	355,672	$ 125.89	300,000	

(1) The total number of shares purchased during the periods indicated includes shares purchased as part of publicly announced programs and 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 July 19, 2016, M&T announced a program to purchase up to $1.15 billion of its common stock through June 30, 2017.

Item 6. Selected Financial Data.

See cross-reference sheet for disclosures incorporated elsewhere in this Annual Report on Form 10-K.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Corporate Profile and Significant Developments

M&T Bank Corporation (“M&T”) is a bank holding company headquartered in Buffalo, New York with consolidated assets of $123.4 billion at December 31, 2016. The consolidated financial information presented herein reflects M&T and all of its subsidiaries, which are referred to collectively as “the Company.” M&T’s wholly owned bank subsidiaries are M&T Bank and Wilmington Trust, National Association (“Wilmington Trust, N.A.”).

M&T Bank, with total assets of $122.6 billion at December 31, 2016, is a New York-chartered commercial bank with 799 domestic banking offices in New York State, Maryland, New Jersey, Pennsylvania, Delaware, Connecticut, Virginia, West Virginia, and the District of Columbia, a full-service commercial banking office in Ontario, Canada, and an office in the Cayman Islands. M&T Bank and its subsidiaries offer a broad range of financial services to a diverse base of consumers, businesses, professional clients, governmental entities and financial institutions located in their markets. Lending is largely focused on consumers residing in the states noted above and on small and medium size businesses based in those areas, although loans are originated through offices in other states and in Ontario, Canada. Certain lending activities are also conducted in other states through various subsidiaries. Trust and other fiduciary services are offered by M&T Bank and through its wholly owned subsidiary, Wilmington Trust Company. Other subsidiaries of M&T Bank include: M&T Real Estate Trust, a commercial mortgage lender; M&T Realty Capital Corporation, a multifamily commercial mortgage lender; M&T Securities, Inc., which provides brokerage, investment advisory and insurance services; Wilmington Trust Investment Advisors, Inc., which serves as an investment advisor to the Wilmington Funds, a family of proprietary mutual funds, and other funds and institutional clients; and M&T Insurance Agency, Inc., an insurance agency.

Wilmington Trust, N.A. is a national bank with total assets of $3.7 billion at December 31, 2016. Wilmington Trust, N.A. and its subsidiaries offer various trust and wealth management services. Wilmington Trust, N.A. also offered selected deposit and loan products on a nationwide basis, largely through telephone, Internet and direct mail marketing techniques.

On November 1, 2015, M&T completed its acquisition of Hudson City Bancorp, Inc. (“Hudson City”). Immediately following completion of the merger, Hudson City Savings Bank merged with and into M&T Bank. Pursuant to the merger agreement, M&T paid cash consideration of $2.1 billion and issued 25,953,950 shares of M&T common stock in exchange for Hudson City shares outstanding at the time of acquisition. Assets acquired totaled approximately $36.7 billion, including $19.0 billion of loans (predominantly residential real estate loans) and $7.9 billion of investment securities. Liabilities assumed aggregated $31.5 billion, including $17.9 billion of deposits and $13.2 billion of borrowings. Immediately following the acquisition, the Company restructured its balance sheet by selling $5.8 billion of investment securities obtained in the acquisition and repaying $10.6 billion of borrowings assumed in the transaction. The common stock issued added $3.1 billion to M&T’s common shareholders’ equity. In connection with the acquisition, the Company recorded $1.1 billion of goodwill and $132 million of core deposit intangible asset. The acquisition of Hudson City expanded the Company’s presence in New Jersey, Connecticut and New York.

Net acquisition and integration-related expenses (included herein as merger-related expenses) associated with the Hudson City acquisition totaled $22 million after tax-effect, or $.14 of diluted earnings per common share during 2016 and $61 million after tax-effect, or $.44 of diluted earnings per common share in 2015. There were no merger-related expenses in 2014.

Critical Accounting Estimates

The Company’s significant accounting policies conform with generally accepted accounting principles (“GAAP”) and are described in note 1 of Notes to Financial Statements. In applying those accounting policies, management of the Company is required to exercise judgment in determining many of the methodologies, assumptions and estimates to be utilized. Certain of the critical accounting estimates are more dependent on such judgment and in some cases may contribute to volatility in the Company’s reported financial performance should the assumptions and estimates used change over time due to changes in circumstances. Some of the more significant areas in which management of the Company applies critical assumptions and estimates include the following:

- Accounting for credit losses — The allowance for credit losses represents the amount that in management’s judgment appropriately reflects credit losses inherent in the loan and lease portfolio as of the balance sheet date. A provision for credit losses is recorded to adjust the level of the allowance as deemed necessary by management. In estimating losses inherent in the loan and lease portfolio, assumptions and judgment are applied to measure amounts and timing of expected future cash flows, collateral values and other factors used to determine the borrowers' abilities to repay obligations. Historical loss trends are also considered, as are economic conditions, industry trends, portfolio trends and borrower-specific financial data. In accounting for loans acquired at a discount that is, in part, attributable to credit quality which are initially recorded at fair value with no carry-over of an acquired entity's previously established allowance for credit losses, the cash flows expected at acquisition in excess of estimated fair value are recognized as interest income over the remaining lives of the loans. Subsequent decreases in the expected principal cash flows require the Company to evaluate the need for additions to the Company's allowance for credit losses. Subsequent improvements in expected cash flows result first in the recovery of any applicable allowance for credit losses and then in the recognition of additional interest income over the remaining lives of the loans. Changes in the circumstances considered when determining management's estimates and assumptions could result in changes in those estimates and assumptions, which may result in adjustment of the allowance or, in the case of loans acquired at a discount, increases in interest income in future periods. A detailed discussion of facts and circumstances considered by management in determining the allowance for credit losses is included herein under the heading "Provision for Credit Losses" and in note 5 of Notes to Financial Statements.

- Valuation methodologies — Management of the Company applies various valuation methodologies to assets and liabilities which often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets, such as trading assets, most investment securities, and residential real estate loans held for sale and related commitments. However, for those items for which an observable liquid market does not exist, management utilizes significant estimates and assumptions to value such items. Examples of these items include loans, deposits, borrowings, goodwill, core deposit and other intangible assets, other assets and liabilities obtained or assumed in business combinations, capitalized servicing assets, pension and other postretirement benefit obligations, estimated residual values of property associated with leases, and certain derivative and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Company's results of operations, financial condition or disclosures of fair value information.

In addition to valuation, the Company must assess whether there are any declines in value below the carrying value of assets that should be considered other than temporary or otherwise require an adjustment in carrying value and recognition of a loss in the consolidated statement of income. Examples include investment securities, other investments, mortgage servicing rights, goodwill, core deposit and other intangible assets, among others. Specific assumptions and estimates utilized by management are discussed in detail herein in management's discussion and analysis of financial condition and results of operations and in notes 1, 3, 4, 7, 8, 12, 18, 19 and 20 of Notes to Financial Statements.

- Commitments, contingencies and off-balance sheet arrangements — Information regarding the Company's commitments and contingencies, including guarantees and contingent liabilities arising from litigation, and their potential effects on the Company's results of operations is included in note 21 of Notes to Financial Statements. In addition, the Company is routinely subject to examinations from various governmental taxing authorities. Such examinations may result in challenges to the tax return treatment applied by the Company to specific transactions. Management believes that the assumptions and judgment used to record tax-related assets or liabilities have been appropriate. Should tax laws change or the tax authorities determine that management's assumptions were inappropriate, the result and adjustments required could have a material effect on the Company's results of operations. Information regarding the Company's income taxes is presented in note 13 of Notes to Financial Statements. The recognition or de-recognition in the Company's consolidated financial statements of assets and liabilities held by so-called variable interest entities is subject to the interpretation and application of complex accounting pronouncements or interpretations that require management to estimate and assess the relative significance of the Company's financial interests in those entities and the degree to which the Company can influence the most important activities of the entities. Information relating to the Company's involvement in such entities and the accounting treatment afforded each such involvement is included in note 19 of Notes to Financial Statements.

Overview

The Company recorded net income during 2016 of $1.32 billion or $7.78 of diluted earnings per common share, up 22% and 8%, respectively, from $1.08 billion or $7.18 of diluted earnings per common share in 2015. Basic earnings per common share also increased 8% to $7.80 in 2016 from $7.22 in 2015. Net income in 2014 totaled $1.07 billion, while diluted and basic earnings per common share were $7.42 and $7.47, respectively. The after-tax impacts of merger-related expenses associated with the 2015 acquisition of Hudson City were $22 million ($36 million pre-tax) or $.14 of diluted earnings per common share and $61 million ($97 million pre-tax) or $.44 of diluted earnings per common share in 2016 and 2015, respectively. There were no merger-related expenses in 2014. Expressed as a rate of return on average assets, net income in each of 2016 and 2015 was 1.06%, compared with 1.16% in 2014. The return on average common shareholders' equity was 8.16% in 2016, 8.32% in 2015 and 9.08% in 2014.

The Hudson City transaction was accounted for using the acquisition method of accounting and, accordingly, the results of operations acquired in such transaction have been included in the Company's financial results for the final two months of 2015 and all twelve months of 2016. The acquired operations added to the Company's average earning assets, net interest income and non-interest expenses.

Taxable-equivalent net interest income aggregated $3.50 billion in 2016, $2.87 billion in 2015 and $2.70 billion in 2014. Average earning assets increased $21.4 billion, or 23%, in 2016 as compared with 2015 due predominantly to higher average balances of loans and leases of $17.8 billion, principally due to the full-year impact of the Hudson City acquisition, and interest-bearing deposits at banks of $3.1 billion. Loans associated with Hudson City totaled $19.0 billion on the acquisition date, consisting of approximately $234 million of commercial real estate loans, $18.6 billion of residential real estate loans and $162 million of consumer loans. Offsetting the impact of higher earning assets was a three basis point (hundredths of one percent) narrowing of the net interest margin, or taxable-equivalent net interest income expressed as a percentage of average earning assets, from 3.14% in 2015 to 3.11% in 2016. Lower yields on investment securities and an increase in rates on interest-bearing deposits, reflecting the impact of time deposits in the former Hudson City markets, led to that narrowing. Average earning assets grew $9.5 billion, or 12%, in 2015 as compared with 2014 due to higher balances of loans and leases of $6.2 billion and investment securities of $2.9 billion. Loans and investment securities obtained in the acquisition of Hudson City added approximately $3.1 billion and $409 million, respectively, to average earning assets in 2015. Offsetting the impact of higher earning assets was a 17 basis point narrowing of the net interest margin from 3.31% in 2014. Lower yields on investment securities and loans and leases outstanding led to that narrowing.

The provision for credit losses increased 12% to $190 million in 2016 from $170 million in 2015. The provision in 2015 was 37% higher than $124 million in 2014. As of the acquisition date, the pre-merger Hudson City allowance for credit losses was eliminated in acquisition accounting and as provided for by GAAP, a $21 million provision for credit losses was recorded in 2015 for incurred credit losses in connection with the $18.3 billion of loans acquired at a premium that were not individually identifiable as impaired at the acquisition date. Net charge-offs were $157 million in 2016, compared with $134 million in 2015 and $121 million in 2014. Net charge-offs as a percentage of average loans and leases were .18% in 2016 and .19% in each of 2015 and 2014.

Other income totaled $1.83 billion in each of 2016 and 2015, compared with $1.78 billion in 2014. Higher gains recognized on sales of investment securities and higher trading account and foreign exchange gains in 2016 were offset by a gain in 2015 on the sale of the Company's trade processing business. During 2016, the Company sold all of its collateralized debt obligations with an amortized cost of $28 million held in the available-for-sale investment securities portfolio, resulting in a $30 million gain. Those securities, which had been obtained in previous acquisitions, were sold in response to the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") commonly referred to as the "Volcker Rule." There were no significant gains or losses on investment securities during 2015 or 2014. In 2015, the Company sold its trade processing business within the retirement services division of its Institutional Client Services business and recognized a $45 million gain. The Hudson City transaction did not have a significant impact on other income. The increase in other income in 2015 as compared with 2014 was largely due to higher commercial mortgage banking revenues, loan syndication fees and the gain on the sale of the trade processing business, partially offset by lower trust income associated with the divested business, decreased residential mortgage banking revenues and a decline in service charges on deposit accounts.

Other expense increased 8% to $3.05 billion in 2016 from $2.82 billion in 2015. Other expense totaled $2.69 billion in 2014. Included in those amounts are expenses considered by M&T to be "nonoperating" in nature, consisting of amortization of core deposit and other intangible assets of $43 million, $26 million, and $34 million in 2016, 2015 and 2014, respectively, and merger-related expenses of $36 million and $76 million in 2016 and 2015, respectively. Exclusive of those nonoperating expenses, noninterest operating expenses aggregated $2.97 billion in 2016, compared with $2.72 billion in 2015 and $2.66 billion in 2014. The increase in such expenses in 2016 as compared with 2015 reflects the full-year impact of the Hudson City acquisition and higher costs for salaries and employee benefits and FDIC assessments. In addition to the impact of Hudson City, the increase in salaries and employee benefits expense was largely attributable to higher medical benefit plan expenses and annual merit increases for employees. The rise in noninterest operating expenses from 2014 to 2015 was largely due to higher costs for salaries and employee benefits and charitable contributions, partially offset by lower professional services costs. In addition to the impact of Hudson City, the increase in salaries and employee benefits was largely attributable to annual merit increases for employees and higher pension expense. Following the realized gains on sales of investment securities, the Company made cash contributions to The M&T Charitable Foundation of $30 million in 2016, while in 2015 the Company made cash contributions to that foundation of $46 million following the realization of the gain on the sale of its trade processing business. The Company also made cash contributions of $18 million to The M&T Charitable Foundation in 2014.

The efficiency ratio measures the relationship of operating expenses to revenues. The Company's efficiency ratio, or noninterest operating expenses (as previously defined) divided by the sum of taxable-equivalent net interest income and noninterest income (exclusive of gains and losses from bank investment securities), was 56.1% in 2016, compared with 58.0% and 59.3% in 2015 and 2014, respectively. The calculations of the efficiency ratio are presented in table 2.

On June 29, 2016, M&T announced that the Federal Reserve did not object to M&T's revised 2016 Capital Plan. That capital plan includes the repurchase of up to $1.15 billion of common shares during the four-quarter period starting on July 1, 2016 and an increase in the quarterly common stock dividend in the first quarter of 2017 of up to $.05 per share to $.75 per share. M&T may also 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, 2015, consistent with the contractual terms of those instruments. Dividends are subject to declaration by M&T's Board of Directors. Furthermore, on July 19, 2016, M&T's Board of Directors authorized a new stock repurchase program to repurchase up to $1.15 billion of shares of M&T's common stock subject to all applicable regulatory limitations, including those set forth in M&T's 2016 Capital Plan.

Table 1

EARNINGS SUMMARY

Dollars in millions

Increase (Decrease)(a) 2015 to 2016 Amount	%	2014 to 2015 Amount	%		2016	2015	2014	2013	2012	Compound Growth Rat 5 Years 2011 to 201
$727.5	23	$214.8	7	Interest income(b)	$3,922.8	$3,195.3	$2,980.5	$2,982.3	$2,968.1	7 %
97.7	30	47.8	17	Interest expense	426.0	328.3	280.4	284.1	343.2	1
629.8	22	167.0	6	Net interest income(b)	3,496.8	2,867.0	2,700.1	2,698.2	2,624.9	8
20.0	12	46.0	37	Less: provision for credit losses	190.0	170.0	124.0	185.0	204.0	(7)
30.4	—	—	—	Gain (loss) on bank investment securities(c)	30.3	—	—	46.7	(47.8)	—
(29.4)	(2)	45.8	3	Other income	1,795.7	1,825.1	1,779.3	1,818.5	1,715.1	4
				Less:						
74.1	5	144.6	10	Salaries and employee benefits	1,623.6	1,549.5	1,405.0	1,355.2	1,314.6	6
150.5	12	(11.1)	(1)	Other expense	1,423.8	1,273.4	1,284.5	1,232.7	1,155.2	3
386.2	23	33.3	2	Income before income taxes	2,085.4	1,699.2	1,665.9	1,790.5	1,618.4	10
				Less:						
2.5	10	.9	3	Taxable-equivalent adjustment(b)	27.0	24.5	23.7	25.0	26.4	1
148.3	25	19.0	3	Income taxes	743.3	595.0	576.0	627.0	562.5	13
$235.4	22	$13.4	1	Net income	$1,315.1	$1,079.7	$1,066.2	$1,138.5	$1,029.5	9 %

(a) Changes were calculated from unrounded amounts.
(b) Interest income data are on a taxable-equivalent basis. The taxable-equivalent adjustment represents additional income taxes that would be due if all interest income were subject to income taxes. This adjustment, which is related to interest received on qualified municipal securities, industrial revenue financings and preferred equity securities, is based on a composite income tax rate of approximately 39%.
(c) Includes other-than-temporary impairment losses, if any.

Supplemental Reporting of Non-GAAP Results of Operations

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 $4.7 billion at each of December 31, 2016 and 2015 and $3.6 billion at December 31, 2014. Included in such intangible assets was goodwill of $4.6 billion at each of December 31, 2016 and 2015 and $3.5 billion at December 31, 2014. Amortization of core deposit and other intangible assets, after tax effect, totaled $26 million, $16 million and $21 million during 2016, 2015 and 2014, respectively.

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. Those merger-related expenses generally consist of professional services and other temporary help fees associated with the actual or planned conversion of systems and/or integration of operations; costs related to branch and office consolidations; costs related to termination of existing contractual arrangements to purchase various services; initial marketing and promotion expenses designed to introduce M&T Bank to its new customers; severance; incentive compensation costs; travel costs; and printing, supplies and other costs of completing the transactions and commencing operations in new markets and offices. Those expenses totaled \$36 million (\$22 million after-tax) in 2016 and \$76 million (\$48 million after-tax) in 2015. Also considered as a merger-related expense in 2015 was a provision for credit losses of \$21 million. GAAP provides that an allowance for credit losses associated with probable incurred losses on loans acquired at a premium be recognized. Given the recognition of such losses above and beyond the impact of forecasted losses used in determining the fair value of acquired loans, the Company considered that provision to be a merger-related expense. There were no merger-related expenses in 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 was \$1.36 billion in 2016, compared with \$1.16 billion in 2015 and \$1.09 billion in 2014. Diluted net operating earnings per common share were \$8.08 in 2016, \$7.74 in 2015 and \$7.57 in 2014.

Net operating income expressed as a rate of return on average tangible assets was 1.14% in 2016, compared with 1.18% in 2015 and 1.23% in 2014. Net operating income represented a return on average tangible common equity of 12.25% in 2016, 13.00% in 2015 and 13.76% in 2014.

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

Table 2

RECONCILIATION OF GAAP TO NON-GAAP MEASURES

	2016	2015	2014
Income statement data			
Dollars in thousands, except per share			
Net income			
Net income	$1,315,114	$1,079,667	$1,066,246
Amortization of core deposit and other intangible assets(a)	25,893	16,150	20,657
Merger-related expenses(a)	21,685	60,820	—
Net operating income	$1,362,692	$1,156,637	$1,086,903
Earnings per common share			
Diluted earnings per common share	$7.78	$7.18	$7.42
Amortization of core deposit and other intangible assets(a)	.16	.12	.15
Merger-related expenses(a)	.14	.44	—
Diluted net operating earnings per common share	$8.08	$7.74	$7.57
Other expense			
Other expense	$3,047,485	$2,822,932	$2,689,474
Amortization of core deposit and other intangible assets	(42,613)	(26,424)	(33,824)
Merger-related expenses	(35,755)	(75,976)	—
Noninterest operating expense	$2,969,117	$2,720,532	$2,655,650
Merger-related expenses			
Salaries and employee benefits	$5,334	$51,287	$—
Equipment and net occupancy	1,278	3	—
Outside data processing and software	1,067	785	—
Advertising and marketing	10,522	79	—
Printing, postage and supplies	1,482	504	—
Other costs of operations	16,072	23,318	—
Other expense	35,755	75,976	—
Provision for credit losses	—	21,000	—
Total	$35,755	$96,976	$—
Efficiency ratio			
Noninterest operating expense (numerator)	$2,969,117	$2,720,532	$2,655,650
Taxable-equivalent net interest income	3,496,849	2,867,050	2,700,088
Other income	1,825,996	1,825,037	1,779,273
Less: Gain (loss) on bank investment securities	30,314	(130)	—
Denominator	$5,292,531	$4,692,217	$4,479,361
Efficiency ratio	56.10%	57.98%	59.29%
Balance sheet data			
In millions			
Average assets			
Average assets	$124,340	$101,780	$92,143
Goodwill	(4,593)	(3,694)	(3,525)
Core deposit and other intangible assets	(117)	(45)	(50)
Deferred taxes	46	16	15
Average tangible assets	$119,676	$98,057	$88,583
Average common equity			
Average total equity	$16,419	$13,228	$12,097

Preferred stock	(1,297)	(1,232)	(1,192)
Average common equity	15,122	11,996	10,905
Goodwill	(4,593)	(3,694)	(3,525)
Core deposit and other intangible assets	(117)	(45)	(50)
Deferred taxes	46	16	15
Average tangible common equity	$10,458	$8,273	$7,345
At end of year			
Total assets			
Total assets	$123,449	$122,788	$96,686
Goodwill	(4,593)	(4,593)	(3,525)
Core deposit and other intangible assets	(98)	(140)	(35)
Deferred taxes	39	54	11
Total tangible assets	$118,797	$118,109	$93,137
Total common equity			
Total equity	$16,487	$16,173	$12,336
Preferred stock	(1,232)	(1,232)	(1,231)
Undeclared dividends — cumulative preferred stock	(3)	(2)	(3)
Common equity, net of undeclared cumulative preferred dividends	15,252	14,939	11,102
Goodwill	(4,593)	(4,593)	(3,525)
Core deposit and other intangible assets	(98)	(140)	(35)
Deferred taxes	39	54	11
Total tangible common equity	$10,600	$10,260	$7,553

(a) After any related tax effect.

Net Interest Income/Lending and Funding Activities

Taxable-equivalent net interest income aggregated $3.50 billion in 2016, up 22% from $2.87 billion in 2015. That growth was predominantly attributable to higher average earning assets in 2016, partially offset by a three basis point narrowing of the net interest margin to 3.11% in 2016 from 3.14% in 2015. The higher level of average earning assets reflected the full-year impact of assets obtained in the acquisition of Hudson City on November 1, 2015. Average earning assets rose $21.4 billion or 23% to $112.6 billion in 2016 reflecting higher average loans and leases of $17.8 billion. The narrowing of the margin reflected higher rates paid on interest-bearing deposits, including the impact of time deposits in the former Hudson City markets.

Average loans and leases increased 25% to $88.6 billion in 2016 from $70.8 billion in 2015. The most significant factors contributing to that increase were the residential real estate loans obtained in the Hudson City acquisition and growth in the commercial real estate loan and commercial loan and lease portfolios. Reflecting average balances of loans obtained in the Hudson City transaction of $16.3 billion in 2016 and $3.1 billion in 2015, average residential real estate loans increased $13.0 billion to $24.5 billion in 2016 from $11.5 billion in the previous year. Included in average residential real estate loans were loans held for sale of $354 million in 2016 and $415 million in 2015. Average commercial loans and leases increased $1.5 billion or 8% to $21.4 billion in 2016 from $19.9 billion in 2015. Commercial real estate loans averaged $30.9 billion in 2016, up 9% or $2.6 billion from $28.3 billion in 2015. Average consumer loans rose $638 million or 6% to $11.8 billion in 2016 from $11.2 billion in the prior year, predominantly due to growth in average automobile loan balances.

Taxable-equivalent net interest income increased 6% to $2.87 billion in 2015 from $2.70 billion in 2014. That improvement was the result of higher average earning assets in 2015, including $3.7 billion of average earning assets obtained in the acquisition of Hudson City. Average earning assets rose 12% to $91.2 billion in 2015 from $81.7 billion in 2014. That growth, however, was partially offset by a 17 basis point narrowing of the net interest margin to 3.14% in 2015 from 3.31% in 2014. The narrowing reflected lower average yields on investment securities and loans and leases outstanding.

Average loans and leases rose $6.2 billion or 10% to $70.8 billion in 2015 from $64.7 billion in 2014, due in part to $3.1 billion of average loans obtained in the acquisition of Hudson City. Including the impact of the acquired loan balances, average balances of residential real estate loans increased 31% or $2.7 billion to $11.5 billion in 2015 from $8.7 billion in 2014. Included in that portfolio were loans held for sale, which averaged $415 million in 2015 and $403 million 2014. Commercial loan and lease balances averaged $19.9 billion in 2015, $1.0 billion or 5% higher than $18.9 billion in 2014. Average balances of commercial real estate loans increased 7% or $1.8 billion to $28.3 billion in 2015 from $26.5 billion in 2014. Average consumer loans totaled $11.2 billion in 2015, up $584 million or 6% from $10.6 billion in 2014, reflecting growth in average balances of automobile loans.

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Table 3

AVERAGE BALANCE SHEETS AND TAXABLE-EQUIVALENT RATES

	2016			2015			2014			2013		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Aver Rate
	(Average balance in millions of dollars; interest in thousands of dollars)											
	$21,397	$736,240	3.44%	19,899	638,199	3.21%	18,867	624,487	3.31%	17,736	628,154	3.54
	30,915	1,277,196	4.06	28,276	1,193,271	4.16	26,461	1,142,939	4.26	26,083	1,198,400	4.53
	24,463	958,521	3.92	11,458	468,790	4.09	8,719	368,632	4.23	10,136	418,095	4.12
	11,841	538,144	4.54	11,203	499,650	4.46	10,618	480,877	4.53	11,098	510,962	4.60
	88,616	3,510,101	3.96	70,836	2,799,910	3.95	64,665	2,616,935	4.05	65,053	2,755,611	4.24
	8,846	45,516	.51	5,775	15,252	.26	5,342	13,361	.25	2,139	5,201	.24
s to resell												
	—	3	.86	34	35	.10	89	64	.07	128	114	.09
	85	1,442	1.71	86	1,247	1.44	76	1,381	1.81	78	1,482	1.91
s	14,025	332,926	2.37	13,514	336,873	2.49	10,543	304,178	2.88	5,123	165,879	3.24
	90	3,839	4.24	143	6,391	4.46	166	8,115	4.89	194	9,999	5.15
	894	29,006	3.24	799	35,599	4.45	800	36,485	4.56	1,298	44,019	3.39
	15,009	365,771	2.44	14,456	378,863	2.62	11,509	348,778	3.03	6,615	219,897	3.32
	112,556	3,922,833	3.49	91,187	3,195,307	3.50	81,681	2,980,519	3.65	74,013	2,982,305	4.03
	(976)			(935)			(923)			(932)		
	1,273			1,242			1,277			1,380		
	11,487			10,286			10,108			9,201		
	$124,340			101,780			92,143			83,662		
ty												
osits	$52,194	87,704	.17	43,885	46,140	.11	41,508	46,869	.11	37,662	56,235	.15
	12,253	102,841	.84	4,641	27,059	.58	3,290	15,515	.47	4,045	26,439	.65
	199	797	.40	216	615	.28	327	699	.21	496	1,018	.21
	64,646	191,342	.30	48,742	73,814	.15	45,125	63,083	.14	42,203	83,692	.20
	894	3,625	.41	548	1,677	.31	215	101	.05	390	430	.11

	10,252	231,017	2.25	10,217	252,766	2.47	7,492	217,247	2.90	4,941	199,983	4.05
	75,792	425,984	.56	59,507	328,257	.55	52,832	280,431	.53	47,534	284,105	.60
	30,160			27,324			25,715			23,721		
	1,969			1,721			1,499			1,685		
	107,921			88,552			80,046			72,940		
	16,419			13,228			12,097			10,722		
equity	$124,340			101,780			92,143			83,662		
			2.93			2.95			3.12			3.43
.			.18			.19			.19			.22
ning		$3,496,849	3.11%		2,867,050	3.14%		2,700,088	3.31%		2,698,200	3.65

(a) Includes nonaccrual loans.

(b) Includes available-for-sale investment securities at amortized cost.

Table 4 summarizes average loans and leases outstanding in 2016 and percentage changes in the major components of the portfolio over the past two years.

Table 4

AVERAGE LOANS AND LEASES

(Net of unearned discount)

		Percent Increase (Decrease) from	
	2016	2015 to 2016	2014 to 2015
	(In millions)		
Commercial, financial, etc.	$ 21,397	8 %	5 %
Real estate – commercial	30,915	9	7
Real estate – consumer	24,463	114	31
Consumer			
Automobile	2,740	24	32
Home equity lines and loans	5,788	(2)	(2)
Other	3,313	8	7
Total consumer	11,841	6	6
Total	$ 88,616	25 %	10 %

Commercial loans and leases, excluding loans secured by real estate, totaled $22.6 billion at December 31, 2016, representing 25% of total loans and leases. Table 5 presents information on commercial loans and leases as of December 31, 2016 relating to geographic area, size, borrower industry and whether the loans are secured by collateral or unsecured. Of the $22.6 billion of commercial loans and leases outstanding at the end of 2016, approximately $20.0 billion, or 88%, were secured, while 40%, 25% and 23% were granted to businesses in New York State, Pennsylvania and the Mid-Atlantic area (which includes Delaware, Maryland, New Jersey, Virginia, West Virginia and the District of Columbia), respectively. The Company provides financing for leases to commercial customers, primarily for equipment. Commercial leases included in total commercial loans and leases at December 31, 2016 aggregated $1.3 billion, of which 48% were secured by collateral located in New York State, 16% were secured by collateral in Pennsylvania and another 15% were secured by collateral in the Mid-Atlantic area.

Table 5

COMMERCIAL LOANS AND LEASES, NET OF UNEARNED DISCOUNT

(Excludes Loans Secured by Real Estate)

December 31, 2016

	New York	Pennsylvania	Mid-Atlantic(a)	Other	Total	Percent of Total
	(Dollars in millions)					
Automobile dealerships	$1,684	$903	$567	$921	$4,075	18 %
Manufacturing	1,735	1,092	569	525	3,921	17
Services	1,297	871	1,223	269	3,660	16
Wholesale	964	538	494	164	2,160	10
Health services	562	290	644	74	1,570	7
Financial and insurance	675	352	318	200	1,545	7
Real estate investors	736	205	336	122	1,399	6
Transportation, communications, utilities	338	424	304	317	1,383	6
Retail	255	318	289	113	975	5
Construction	386	263	247	54	950	4
Public administration	176	68	36	1	281	1
Agriculture, forestry, fishing, etc.	29	141	49	—	219	1
Other	143	215	110	4	472	2
Total	$8,980	$5,680	$5,186	$2,764	$22,610	100 %
Percent of total	40 %	25 %	23 %	12 %	100 %	
Percent of dollars outstanding						
Secured	83 %	80 %	86 %	78 %	82 %	
Unsecured	10	16	10	12	12	
Leases	7	4	4	10	6	
Total	100 %	100 %	100 %	100 %	100 %	
Percent of dollars outstanding by size of loan						
Less than $1 million	23 %	18 %	25 %	8 %	20 %	
$1 million to $5 million	24	22	19	21	22	
$5 million to $10 million	15	21	15	22	17	
$10 million to $20 million	16	17	19	22	17	
$20 million to $30 million	8	9	7	12	9	
$30 million to $50 million	7	6	8	10	8	
Greater than $50 million	7	7	7	5	7	
Total	100 %	100 %	100 %	100 %	100 %	

(a) Includes Delaware, Maryland, New Jersey, Virginia, West Virginia and the District of Columbia.

International loans included in commercial loans and leases totaled $228 million and $191 million at December 31, 2016 and 2015, respectively. Included in such loans were $95 million and $64 million, respectively, of loans at M&T Bank's commercial banking office in Ontario, Canada. The remaining international loans are predominantly to domestic companies with foreign operations.

Loans secured by real estate, including outstanding balances of home equity loans and lines of credit which the Company classifies as consumer loans, represented approximately 69% of the loan and lease portfolio during 2016, compared with 64% in 2015 and 2014. At December 31, 2016, the Company held approximately $33.5 billion of commercial real estate loans, $22.6 billion of consumer real estate loans secured by one-to-four family residential properties (including $414 million of loans originated for sale) and $5.6 billion of outstanding balances of home equity loans and lines of credit, compared with $29.2 billion, $26.3 billion and $6.0 billion, respectively, at December 31, 2015. The decrease in the residential real estate loans reflects pay downs of loans obtained in the Hudson City acquisition. Included in commercial real estate loans at December 31, 2016 and 2015 were construction loans of $8.0 billion and $5.7 billion, respectively, including amounts due from builders and developers of residential real estate aggregating $1.9 billion and $1.6 billion at December 31, 2016 and 2015, respectively. Commercial real estate loans also included loans held for sale totaling $643 million and $39 million at December 31, 2016 and 2015, respectively.

Commercial real estate loans originated by the Company include fixed-rate instruments with monthly payments and a balloon payment of the remaining unpaid principal at maturity, in many cases five years after origination. For borrowers in good standing, the terms of such loans may be extended by the customer for an additional five years at the then-current market rate of interest. The Company also originates fixed-rate commercial real estate loans with maturities of greater than five years, generally having original maturity terms of approximately seven to ten years, and adjustable-rate commercial real estate loans. Adjustable-rate commercial real estate loans represented approximately 72% of the commercial real estate loan portfolio at the 2016 year-end. Table 6 presents commercial real estate loans by geographic area, type of collateral and size of the loans outstanding at December 31, 2016. New York City area commercial real estate loans totaled $9.4 billion at December 31, 2016. The $8.0 billion of investor-owned commercial real estate loans in the New York City area were largely secured by multifamily residential properties, retail space and office space. The Company’s experience has been that office, retail and service-related properties tend to demonstrate more volatile fluctuations in value through economic cycles and changing economic conditions than do multifamily residential properties. Approximately 33% of the aggregate dollar amount of New York City area loans were for loans with outstanding balances of $10 million or less, while loans of more than $50 million made up approximately 17% of the total.

Table 6

COMMERCIAL REAL ESTATE LOANS, NET OF UNEARNED DISCOUNT

December 31, 2016

	New York State New York City	Other	Penn-sylvania	Mid-Atlantic(a)	Other	Total	Percent of Total
	(Dollars in millions)						
Investor-owned							
Permanent finance by property type							
Office	$1,406	$906	$568	$1,297	$438	$4,615	14 %
Apartments/Multifamily	1,707	719	372	772	970	4,540	13
Retail/Service	1,514	550	448	1,059	468	4,039	12
Hotel	848	380	252	667	279	2,426	7
Industrial/Warehouse	231	219	357	252	315	1,374	4
Health facilities	43	110	21	71	12	257	1
Other	205	35	14	24	15	293	1
Total permanent	5,954	2,919	2,032	4,142	2,497	17,544	52 %
Construction/Development							
Commercial							
Construction	935	647	603	1,524	827	4,536	14 %
Land/Land development	461	32	67	185	88	833	2
Residential builder and developer							
Construction	662	1	106	198	386	1,353	4
Land/Land development	9	14	33	262	251	569	2
Total construction/ development	2,067	694	809	2,169	1,552	7,291	22 %
Total investor-owned	8,021	3,613	2,841	6,311	4,049	24,835	74 %
Owner-occupied by industry(b)							
Health services	483	529	486	787	327	2,612	8 %
Other services	211	460	251	795	71	1,788	5
Retail	138	181	228	351	96	994	3
Automobile dealerships	178	175	245	179	184	961	3
Wholesale	82	64	142	292	52	632	2
Manufacturing	71	218	156	155	29	629	2
Real estate investors	17	40	24	52	2	135	—
Other	157	180	228	351	4	920	3
Total owner-occupied	1,337	1,847	1,760	2,962	765	8,671	26 %
Total commercial real estate	$9,358	$5,460	$4,601	$9,273	$4,814	$33,506	100 %
Percent of total	28 %	16 %	14 %	28 %	14 %	100 %	

Percent of dollars outstanding by size of loan						
Less than $1 million	3 %	17 %	15 %	11 %	10 %	10 %
$1 million to $5 million	16	31	26	21	14	21
$5 million to $10 million	14	19	20	16	17	17
$10 million to $30 million	34	27	26	29	37	31
$30 million to $50 million	16	5	8	12	10	11
$50 million to $100 million	16	1	5	11	9	9
Greater than $100 million	1	—	—	—	3	1
Total	100 %	100 %	100 %	100 %	100 %	100 %

(a) Includes Delaware, Maryland, New Jersey, Virginia, West Virginia and the District of Columbia.
(b) Includes $727 million of construction loans

Commercial real estate loans secured by properties located in other parts of New York State, Pennsylvania and the Mid-Atlantic area tend to have a greater diversity of collateral types and include a significant amount of lending to customers who use the mortgaged property in their trade or business (owner-occupied). Approximately 67% of the aggregate dollar amount of commercial real estate loans in New York State secured by properties located outside of the New York City area were for loans with outstanding balances of $10 million or less. Of the outstanding balances of commercial real estate loans in Pennsylvania and the Mid-Atlantic area, approximately 61% and 48%, respectively, were for loans with outstanding balances of $10 million or less.

Commercial real estate loans secured by properties located outside of Pennsylvania, the Mid-Atlantic area and New York State comprised 14% of total commercial real estate loans as of December 31, 2016.

Commercial real estate construction and development loans made to investors presented in table 6 totaled $7.3 billion at December 31, 2016, or 8% of total loans and leases. Approximately 95% of those construction loans had adjustable interest rates. Included in such loans at the 2016 year-end were $1.9 billion of loans to builders and developers of residential real estate properties. Information about the credit performance of the Company's loans to builders and developers of residential real estate properties is included herein under the heading "Provision For Credit Losses." The remainder of the commercial real estate construction loan portfolio was comprised of loans made for various purposes, including the construction of office buildings, multifamily residential housing, retail space and other commercial development.

M&T Realty Capital Corporation, a commercial real estate lending subsidiary of M&T Bank, participates in the Delegated Underwriting and Servicing ("DUS") program of Fannie Mae, pursuant to which commercial real estate loans are originated in accordance with terms and conditions specified by Fannie Mae and sold. Under this program, loans are sold with partial credit recourse to M&T Realty Capital Corporation. The amount of recourse is generally limited to one-third of any credit loss incurred by the purchaser on an individual loan, although in some cases the recourse amount is less than one-third of the outstanding principal balance. The Company's maximum credit risk for recourse associated with sold commercial real estate loans was approximately $2.8 billion and $2.5 billion at December 31, 2016 and 2015, respectively. There have been no material losses incurred as a result of those recourse arrangements. Commercial real estate loans held for sale at December 31, 2016 and 2015 aggregated $643 million and $39 million, respectively. At December 31, 2016 and 2015, commercial real estate loans serviced by the Company for other investors were $11.8 billion and $11.0 billion, respectively. Those serviced loans are not included in the Company's consolidated balance sheet. In January 2017, M&T Realty Capital Corporation purchased commercial mortgage banking servicing rights and other assets which increased commercial real estate loans serviced for others by $2.7 billion. The purchase price and assets acquired were not material to the Company's consolidated financial position.

Real estate loans secured by one-to-four family residential properties were $22.6 billion at December 31, 2016, including approximately 34% secured by properties located in New York State, 7% secured by properties located in Pennsylvania, 29% secured by properties in New Jersey and 11% secured by properties located in other Mid-Atlantic areas. At December 31, 2016, $414 million of residential real estate loans had been originated for sale, compared with $353 million at December 31, 2015. The Company's portfolio of alternative ("Alt-A") residential real estate loans (referred to as "limited documentation loans") held for investment decreased by $686 million to $3.6 billion at December 31, 2016 from $4.3 billion at December 31, 2015. A portfolio of limited documentation loans was acquired with the Hudson City transaction which totaled $3.3 billion and $4.0 billion at December 31, 2016 and 2015, respectively. Alt-A loans represent loans that at origination typically included some form of limited borrower documentation requirements as compared with more traditional residential real estate loans. Hudson City loans that were eligible for limited documentation processing were available in amounts up to 65% of the lower of the appraised value or purchase price of the property. Hudson City discontinued its limited documentation loan program in January 2014. Loans in the Company's Alt-A portfolio prior to the Hudson City transaction were originated by the Company prior to 2008. Loans to individuals to finance the construction of one-to-four family residential properties totaled $21 million at December 31, 2016 and $34 million at December 31, 2015, or less than .1% of total loans and leases at each of those dates. Information about the credit performance of the Company's residential real estate loans is included herein under the heading "Provision For Credit Losses."

Consumer loans comprised approximately 13% of total loans and leases at each of December 31, 2016 and 2015. Outstanding balances of home equity loans and lines of credit represent the largest component of the consumer loan portfolio. Such balances represented approximately 6% of total loans and leases at December 31, 2016 and 7% at December 31, 2015. No other consumer loan product represented at least 4% of loans outstanding at December 31, 2016. Approximately 39% of home equity loans and lines of credit outstanding at December 31, 2016 were secured by properties in New York State, 26% in Maryland, 21% in Pennsylvania and 3% in New Jersey. Outstanding automobile loan balances rose to $2.9 billion at December 31, 2016 from $2.5 billion at December 31, 2015. That increase reflects continued consumer demand for motor vehicles.

Table 7 presents the composition of the Company's loan and lease portfolio at the end of 2016, including outstanding balances to businesses and consumers in New York State, Pennsylvania, the Mid-Atlantic area and other states. Approximately 39% of total loans and leases at December 31, 2016 were to New York State customers, while 16% and 30% were to Pennsylvania and the Mid-Atlantic area customers, respectively.

Table 7

LOANS AND LEASES, NET OF UNEARNED DISCOUNT

December 31, 2016

		Percent of Dollars Outstanding					
				Mid-Atlantic			
	Outstandings (In millions)	New York	Penn- sylvania	Maryland	New Jersey	Other(a)	Other
Real estate							
Residential	$ 22,591	34%	7 %	6 %	29%	5 %	19%
Commercial	33,506	44	14	12	6	10	14
Total real estate	56,097	40%	11 %	10%	15%	8 %	16%
Commercial, financial, etc.	21,337	39%	26 %	13%	5 %	6 %	11%
Consumer							
Home equity lines and loans	5,641	39%	21 %	26%	3 %	10 %	1 %
Automobile	2,944	28	21	9	7	13	22
Other secured or guaranteed	2,842	21	11	7	7	7	47
Other unsecured	719	39	22	24	1	11	3
Total consumer	12,146	32%	19 %	17%	5 %	10 %	17%
Total loans	89,580	39%	16 %	11%	11%	8 %	15%
Commercial leases	1,273	48%	16 %	9 %	3 %	3 %	21%
Total loans and leases	$ 90,853	39%	16 %	11%	11%	8 %	15%

(a) Includes Delaware, Virginia, West Virginia and the District of Columbia.

The investment securities portfolio averaged $15.0 billion in 2016, up from $14.5 billion and $11.5 billion in 2015 and 2014, respectively. 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 U.S. Treasury and federal agency notes. When purchasing investment securities, the Company considers its liquidity position and its overall interest-rate risk profile as well as the adequacy of expected returns relative to risks assumed, including prepayments. The Company manages its investment securities portfolio, in part, to satisfy the requirements of the Liquidity Coverage Ratio ("LCR") that became effective in January 2016. In September 2014, various federal banking regulators adopted final rules ("Final LCR Rule") implementing a U.S. version of the Basel Committee's LCR including the modified version applicable to bank holding companies, including 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 "high quality liquid assets" to cover the anticipated net cash outflows during a hypothetical acute 30-day stress scenario. For additional information concerning the LCR rules, refer to Part I, Item 1 of this Form 10-K under the heading "Liquidity."

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 Hudson City acquisition added approximately $7.9 billion to the investment securities portfolio on the November 1, 2015 acquisition date. As noted earlier, immediately following the acquisition, the Company restructured its balance sheet by selling $5.8 billion of those securities. During the third and fourth quarters of 2016, the Company sold the collateralized debt obligations that had been held in the available-for-sale investment securities portfolio for a gain of approximately $30 million. Purchases of Fannie Mae, Freddie Mac and Ginnie Mae mortgage-backed securities totaled $1.8 billion in 2016, $3.5 billion in 2015 and $5.2 billion in 2014. Purchases of U.S. Treasury notes totaled $1.7 billion in 2016, while purchases in 2015 or 2014 were not significant. The amounts of investment securities held by the Company are influenced by such factors as demand for loans, which generally yield more than investment securities, ongoing repayments, the levels of deposits, and management of liquidity (including the LCR) and balance sheet size and resulting capital ratios.

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 2016, 2015 or 2014. Based on management's assessment of future cash flows associated with individual investment securities as of December 31, 2016, the Company concluded that declines in value below amortized cost associated with the investment securities portfolio were temporary in nature. A further discussion of fair values of investment securities is included herein under the heading "Capital." Additional information about the investment securities portfolio is included in notes 3 and 20 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 and federal funds sold. Those other earning assets in the aggregate averaged $8.9 billion in 2016, $5.9 billion in 2015 and $5.5 billion in 2014. Interest-bearing deposits at banks averaged $8.8 billion in 2016, compared with $5.8 billion and $5.3 billion in 2015 and 2014, respectively. The higher levels of average interest-bearing deposits at banks in 2016 when compared with 2015 and 2014 resulted largely from the Company's decision to maintain higher balances at the Federal Reserve Bank of New York rather than reinvesting in other highly liquid assets due to the interest rate environment.

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

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comparable maturities. Average core deposits totaled $92.2 billion in 2016, up from $74.2 billion in 2015 and $69.1 billion in 2014. The Hudson City acquisition added approximately $17.0 billion of core deposits on November 1, 2015, including $9.7 billion of time deposits, $6.6 billion of savings deposits and $691 million of noninterest-bearing deposits. The higher average core deposits in 2016 as compared with 2015 and in 2015 as compared with 2014 were predominantly reflective of the impact of the merger with Hudson City. Funding provided by core deposits represented 82% of average earning assets in 2016, compared with 81% and 85% in 2015 and 2014, respectively. Table 8 summarizes average core deposits in 2016 and percentage changes in the components of such deposits over the past two years. Core deposits totaled $93.1 billion and $89.3 billion at December 31, 2016 and 2015, respectively.

Table 8

AVERAGE CORE DEPOSITS

		Percent Increase (Decrease) from	
	2016 (In millions)	2015 to 2016	2014 to 2015
Savings and interest-checking deposits	$51,093	19 %	6 %
Time deposits	10,969	167	40
Noninterest-bearing deposits	30,160	10	6
Total	$92,222	24 %	7 %

The Company also receives funding from other deposit 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, excluding brokered deposits, averaged $1.2 billion in 2016, $501 million in 2015 and $366 million in 2014. The higher level of such deposits in 2016 was due to the full-year impact of deposits obtained in the acquisition of Hudson City. Cayman Islands office deposits averaged $199 million in 2016, $216 million in 2015 and $327 million in 2014. Brokered time deposits averaged $59 million in 2016, compared with $37 million in 2015 and $4 million in 2014. The Company also had brokered savings and interest-bearing transaction accounts that averaged $1.1 billion in each of 2016, 2015 and 2014. 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. Short-term borrowings represent borrowing arrangements that at the time they were entered into had a contractual maturity of less than one year. Average short-term borrowings were $894 million in 2016, $548 million in 2015 and $215 million in 2014. The higher levels of such borrowings in 2016 and 2015 were predominantly due to short-term borrowings from the Federal Home Loan Bank (“FHLB”) of New York assumed in the Hudson City acquisition. Those short-term fixed-rate borrowings matured throughout 2016. There were no short-term borrowings from the Federal Home Loan Banks in 2014. Also included in short-term borrowings were unsecured federal funds borrowings, which generally mature on the next business day, that averaged $151 million, $138 million and $156 million in 2016, 2015 and 2014, respectively. Overnight federal funds borrowings totaled $112 million at December 31, 2016 and $99 million at December 31, 2015.

Long-term borrowings averaged $10.3 billion in 2016, $10.2 billion in 2015 and $7.5 billion in 2014. M&T Bank has a Bank Note Program whereby M&T Bank may offer unsecured senior and subordinated notes. Only unsecured senior notes have been issued under that program, of which $5.2 billion and $5.5 billion were outstanding at December 31, 2016 and 2015, respectively. Average balances of outstanding notes issued under that program were $5.3 billion in each of 2016 and 2015, compared with $2.9 billion in 2014. During 2014, M&T Bank issued $550 million of three-year floating rate, $1.25 billion of three-year fixed rate and $1.4 billion of five-year fixed rate notes. During 2015, M&T Bank issued $1.5 billion of fixed rate notes of which $750 million mature in 2020 and $750 million mature in 2025. During 2016, a $300 million floating rate note issued in 2013 matured. There were no issuances of borrowings under the Bank Note Program in 2016. The proceeds from the issuances of borrowings under the Bank Note Program have been predominantly utilized to purchase high quality liquid assets that 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 2016 and 2015 and $692 million in 2014, and subordinated capital notes of $1.5 billion in each of 2016 and 2015 and $1.6 billion in 2014. During 2014, M&T Bank borrowed approximately $1.1 billion from the FHLB of New York. Junior subordinated debentures associated with trust preferred securities that were included in average long-term borrowings were $515 million in 2016, $605 million in 2015 and $889 million in 2014. In accordance with its 2015 capital plan, on April 15, 2015 M&T redeemed 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%. Additional information regarding junior subordinated debentures, as well as information regarding contractual maturities of long-term borrowings, is provided in note 9 of Notes to Financial Statements. Also included in long-term borrowings were agreements to repurchase securities, which averaged $1.8 billion in 2016, $1.5 billion in 2015 and $1.4 billion during 2014. Agreements to repurchase securities assumed in connection with the Hudson City acquisition totaled $6.9 billion at November 1, 2015. Immediately following the November 1, 2015 Hudson City acquisition date the balance sheet was restructured and $6.4 billion of the assumed repurchase agreements were repaid. During 2016, $800 million of repurchase agreements matured. The agreements held at December 31, 2016 totaled $1.1 billion and have various repurchase dates through 2020, 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 December 31, 2016, interest rate swap agreements were used to hedge approximately $900 million of outstanding fixed rate long-term borrowings. Further information on interest rate swap agreements is provided in note 18 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 2.93% in 2016, compared with 2.95% in 2015 and 3.12% in 2014. The yield on the Company’s earning assets declined one basis point to 3.49% in 2016 from 3.50% in 2015, while the rate paid on interest-bearing liabilities increased one basis point to .56% in 2016 from .55% in 2015. As compared with 2015, the narrowing of the net interest spread reflects the ongoing impact of the low interest rate environment on the yields earned on investment securities, higher rates paid on interest-bearing deposits (largely associated with time deposits obtained in the Hudson City acquisition) and higher amounts of relatively low yielding balances held at the Federal Reserve Bank of New York. The yield on earning assets declined 15 basis points in 2015 from 3.65% in 2014, while the rate paid on interest-bearing liabilities increased two basis points in 2015 from .53% in 2014. The narrowing of the net interest spread in 2015 as compared with 2014 also reflected the impact of the low interest rate environment on the yields earned on investment securities and loans, higher average balances of investment securities and long-term borrowings, and the higher level of deposits held at the Federal Reserve Bank of New York.

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 $36.8 billion in 2016, compared with $31.7 billion in 2015 and $28.8 billion in 2014. The increases in average net interest-free funds in 2016 and 2015 reflect higher balances of noninterest-bearing deposits and shareholders' equity. Noninterest-bearing deposits averaged $30.2 billion in 2016, $27.3 billion in 2015 and $25.7 billion in 2014. In connection with the acquisition of Hudson City, the Company added noninterest-bearing deposits of $691 million at the acquisition date. In addition to the impact of the Hudson City acquisition, growth in noninterest-bearing deposits in 2016 reflects an increase in commercial and trust customer deposits. The growth from 2014 to 2015 reflected an increase in commercial customer deposits. Shareholders' equity averaged $16.4 billion, $13.2 billion and $12.1 billion in 2016, 2015 and 2014, respectively. The rise in shareholders' equity from 2014 to 2016 reflected $3.1 billion of common equity issued in connection with the acquisition of Hudson City, as well as net retained earnings. Goodwill and core deposit and other intangible assets averaged $4.7 billion in 2016, $3.7 billion in 2015 and $3.6 billion in 2014. Goodwill of $1.1 billion and core deposit intangible of $132 million resulted from the Hudson City acquisition. The cash surrender value of bank owned life insurance averaged $1.7 billion in each of 2016, 2015 and 2014. Increases in the cash surrender value of bank owned life insurance 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 margin was .18% in 2016 and .19% in each of 2015 and 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 3.11% in 2016, 3.14% in 2015 and 3.31% in 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.

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 $900 million and $1.4 billion at December 31, 2016 and 2015, respectively. 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. The $500 million decline in the notional amount reflects the expiration of a hedge transaction upon conversion of $500 million of fixed rate long-term borrowings to a floating rate. There were no interest rate swap agreements designated as cash flow hedges at those respective dates.

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 in 2016, 2015 and 2014 were not material to the Company's consolidated results of operations. The estimated aggregate fair value of interest rate swap agreements designated as fair value hedges represented gains of approximately $12 million at December 31, 2016 and $44 million at December 31, 2015. 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 December 31, 2016 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 $5 million of collateral with the Company. Additional information about interest rate swap agreements and the items being hedged is included in note 18 of Notes to Financial Statements. 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 interest rates paid or received on those swap agreements are presented in table 9.

Table 9

INTEREST RATE SWAP AGREEMENTS

	Year Ended December 31					
	2016		2015		2014	
	Amount	Rate(a)	Amount	Rate(a)	Amount	Rate(a)
	(Dollars in thousands)					
Increase (decrease) in:						
Interest income	$—	— %	$—	— %	$—	— %
Interest expense	(36,866)	(.05)	(44,219)	(.07)	(44,996)	(.09)
Net interest income/margin	$36,866	.04 %	$44,219	.04 %	$44,996	.06 %
Average notional amount	$1,357,650		$1,412,340		$1,400,000	
Rate received(b)		4.39 %		4.42 %		4.42 %
Rate paid(b)		1.64 %		1.28 %		1.19 %

(a) Computed as a percentage of average earning assets or interest-bearing liabilities.
(b) Weighted-average rate paid or received on interest rate swap agreements in effect during year.

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 was $190 million in 2016, compared with $170 million in 2015 and $124 million in 2014. Net charge-offs of loans were $157 million in 2016, $134 million in 2015 and $121 million in 2014. Net charge-offs as a percentage of average loans and leases outstanding were .18% in 2016, compared with .19% in each of 2015 and 2014. A summary of the Company's loan charge-offs, provision and allowance for credit losses is presented in table 10 and in note 5 of Notes to Financial Statements.

Table 10

LOAN CHARGE-OFFS, PROVISION AND ALLOWANCE FOR CREDIT LOSSES

	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Allowance for credit losses beginning balance	$955,992	$919,562	$916,676	$925,860	$908,290
Charge-offs during year					
Commercial, financial, leasing, etc.	59,244	60,983	58,943	109,329	41,148
Real estate — construction	137	3,221	1,882	9,137	27,687
Real estate — mortgage	30,801	26,382	33,527	49,079	58,572
Consumer	141,073	107,787	84,390	85,965	103,348
Total charge-offs	231,255	198,373	178,742	253,510	230,755
Recoveries during year					
Commercial, financial, leasing, etc.	30,167	30,284	22,188	11,773	11,375
Real estate — construction	4,062	6,308	4,725	18,800	3,693
Real estate — mortgage	11,124	7,626	14,640	13,718	8,847
Consumer	28,907	20,585	16,075	26,035	20,410
Total recoveries	74,260	64,803	57,628	70,326	44,325
Net charge-offs	156,995	133,570	121,114	183,184	186,430
Provision for credit losses	190,000	170,000	124,000	185,000	204,000
Allowance related to loans sold or securitized	—	—	—	(11,000)	—
Allowance for credit losses ending balance	$988,997	$955,992	$919,562	$916,676	$925,860
Net charge-offs as a percent of:					
Provision for credit losses	82.63%	78.57%	97.67%	99.02%	91.39%
Average loans and leases, net of unearned discount	.18%	.19%	.19%	.28%	.30%
Allowance for credit losses as a percent of loans and leases, net of unearned discount, at year-end	1.09%	1.09%	1.38%	1.43%	1.39%

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. For acquired loans where fair value was less than outstanding principal as of the acquisition date and the resulting discount was due, at least in part, to credit deterioration, the excess of expected cash flows over the carrying value of the loans is recognized as interest income over the lives of the 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 associated with such loans, including its estimates of lifetime principal losses. 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 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 acquired at a discount subsequent to 2008 and accounted for based on expected cash flows was $1.8 billion and $2.5 billion at December 31, 2016 and 2015, respectively. The decrease in such loans was largely attributable to payments received. The nonaccretable balance related to remaining principal losses associated with loans acquired at a discount as of December 31, 2016 and 2015 is presented in table 11. During each of the last three years, based largely on improving economic conditions and borrower repayment performance, the Company’s estimates of cash flows expected to be generated by loans acquired at a discount and accounted for based on expected cash flows improved, resulting in increases in the accretable yield. In 2016, estimated cash flows expected to be generated by acquired loans increased by $50 million, or approximately 2%. That improvement reflected a lowering of estimated principal losses by approximately $33 million, primarily due to a $19 million decrease in expected principal losses in the commercial real estate loan portfolios, as well as interest and other recoveries. In 2015, excluding expected cash flows on the purchased impaired loans acquired from Hudson City, estimated cash flows expected to be generated increased by $77 million, or approximately 3%. That improvement reflected a lowering of estimated principal losses by approximately $58 million, primarily due to a $42 million decrease in expected principal losses in the commercial real estate loan portfolios, as well as interest and other recoveries. Similarly, in 2014 the estimates of cash flows expected to be generated increased by approximately 2%, or $98 million. That improvement also reflected a lowering of estimated principal losses, largely driven by a $47 million decrease in expected principal losses that was predominantly in the acquired commercial real estate loan portfolios.

Table 11

NONACCRETABLE BALANCE — PRINCIPAL

	Remaining Balance	
	December 31, 2016	December 31, 2015
	(In thousands)	
Commercial, financial, leasing, etc.	$4,794	$ 10,806
Commercial real estate	39,867	48,173
Residential real estate	59,657	113,478
Consumer	11,275	17,952
Total	$115,593	$ 190,409

For acquired loans where the fair value exceeded the outstanding principal balance, the resulting premium is recognized as a reduction of interest income over the lives of the loans. Immediately following the acquisition date and thereafter, an allowance for credit losses is recorded for incurred losses inherent in the portfolio, consistent with the accounting for originated loans and leases. The carrying amount of Hudson City loans acquired at a premium totaled $14.2 billion and $17.8 billion at December 31, 2016 and December 31, 2015, respectively. In addition to the impact of estimated credit losses included in the determination of fair value of those loans at the acquisition date, a $21 million provision for credit losses was recorded in the fourth quarter of 2015 for incurred

losses inherent in those loans at that time. GAAP does not allow the credit loss component of the net premium associated with those loans to be bifurcated and accounted for as a nonaccreting balance as is the case with purchased impaired loans and other loans acquired at a discount. Despite the fact that the determination of aggregate fair value reflects the impact of expected credit losses, GAAP provides that incurred losses in a portfolio of loans acquired at a premium be recognized even though in a relatively homogenous portfolio of residential mortgage loans the specific loans to which the losses relate cannot be individually identified at the acquisition date. Subsequent to the acquisition date, incurred losses associated with those loans are evaluated using methods consistent with those applied to originated loans and such losses are considered by management in evaluating the Company’s allowance for credit losses.

Nonaccrual loans aggregated $920 million at December 31, 2016, compared with $799 million at each of December 31, 2015 and 2014. As a percentage of total loans and leases outstanding, nonaccrual loans represented 1.01%, .91% and 1.20% at the end of 2016, 2015 and 2014, respectively. The increase in nonaccrual loans since the 2015 year-end reflected the normal migration of previously performing residential real estate loans obtained in the acquisition of Hudson City that subsequently became over 90 days past due in 2016 and, as such, were not identifiable as purchased impaired as of the acquisition date. Those nonaccrual loans totaled $190 million at December 31, 2016. Following the acquisition accounting provisions of GAAP, Hudson City-related loans classified as nonaccrual were not significant at December 31, 2015.

Accruing loans past due 90 days or more (excluding loans acquired at a discount) totaled $301 million or .33% of total loans and leases at December 31, 2016, compared with $317 million or .36% at December 31, 2015 and $245 million or .37% at December 31, 2014. Those amounts included loans guaranteed by government-related entities of $283 million, $276 million and $218 million at December 31, 2016, 2015 and 2014, respectively. Such guaranteed loans obtained in the acquisition of Hudson City aggregated $49 million and $44 million at December 31, 2016 and 2015, respectively. Guaranteed loans also 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 $224 million at December 31, 2016, $221 million at December 31, 2015 and $196 million at December 31, 2014. 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. A summary of nonperforming assets and certain past due, renegotiated and impaired loan data and credit quality ratios is presented in table 12.

Table 12

NONPERFORMING ASSET AND PAST DUE, RENEGOTIATED AND IMPAIRED LOAN DATA

December 31	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Nonaccrual loans	$920,015	$799,409	$799,151	$874,156	$1,013,176
Real estate and other foreclosed assets	139,206	195,085	63,635	66,875	104,279
Total nonperforming assets	$1,059,221	$994,494	$862,786	$941,031	$1,117,455
Accruing loans past due 90 days or more(a)	$300,659	$317,441	$245,020	$368,510	$358,397
Government guaranteed loans included in totals above:					
Nonaccrual loans	$40,610	$47,052	$69,095	$63,647	$57,420
Accruing loans past due 90 days or more	282,659	276,285	217,822	297,918	316,403
Renegotiated loans	$190,374	$182,865	$202,633	$257,092	$271,971
Accruing loans acquired at a discount past due 90 days or more(b)	$61,144	$68,473	$110,367	$130,162	$166,554
Purchased impaired loans(c):					
Outstanding customer balance	$927,446	$1,204,004	$369,080	$579,975	$828,571
Carrying amount	578,032	768,329	197,737	330,792	447,114
Nonaccrual loans to total loans and leases, net of unearned discount	1.01%	.91%	1.20%	1.36%	1.52%
Nonperforming assets to total net loans and leases and real estate and other foreclosed assets	1.16%	1.13%	1.29%	1.47%	1.68%
Accruing loans past due 90 days or more(a) to total loans and leases, net of unearned discount	.33%	.36%	.37%	.58%	.54%

(a) Excludes loans acquired at a discount. Predominantly residential real estate loans.
(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.

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 contractually required principal and 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 aggregated $578 million at December 31, 2016, or .6% of total loans. Of that amount, $512 million related to the Hudson City acquisition. Purchased impaired loans totaled $768 million at December 31, 2015, of which $658 million related to the acquisition of Hudson City.

Accruing loans acquired at a discount 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 aggregated $61 million at December 31, 2016 and $68 million at December 31, 2015.

The Company modified the terms of select loans in an effort to assist borrowers. 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 totaled $171 million and $147 million at December 31, 2016 and December 31, 2015, respectively.

Charge-offs of commercial loans and leases, net of recoveries, aggregated $29 million in 2016, $31 million in 2015 and $37 million in 2014. Included in net charge-offs of commercial loans and leases in 2016 were $12 million of loans to a commercial maintenance services provider with operations in New Jersey and Pennsylvania, $12 million of loans to a multi-regional manufacturer of refractory brick and other castable products and recoveries of $7 million of a previously charged-off loan to an audio visual service provider. In 2015, the Company recovered $10 million relating to a relationship with a motor vehicle-related parts wholesaler. Commercial loans and leases in nonaccrual status were $261 million at December 31, 2016, $242 million at December 31, 2015 and $177 million at December 31, 2014. The December 31, 2016 balances for the largest individual commercial loans placed in nonaccrual status during 2016 were $41 million with a provider of building facility services and other specialty services to clients located throughout the United States and $26 million with the manufacturer of refractory brick and other castable products noted above. The balances for the largest individual commercial loans placed in nonaccrual status during 2015 were $22 million with the commercial maintenance service provider noted above and $15 million with a multi-regional automobile rental agency.

Net recoveries of previously charged-off commercial real estate loans during 2016 were $2 million, compared with net charge-offs of commercial real estate loans during 2015 and 2014 of $7 million and $3 million, respectively. Reflected in those amounts were net recoveries of $4 million in 2016 and $2 million in each of 2015 and 2014 of loans to residential real estate builders and developers. Commercial real estate loans classified as nonaccrual aggregated $211 million at December 31, 2016, compared with $224 million at December 31, 2015 and $239 million at December 31, 2014. The decrease in such nonaccrual loans since December 31, 2014 was due, in part, to improving economic conditions. Nonaccrual commercial real estate loans included construction-related loans of $35 million, $45 million and $97 million at the end of 2016, 2015 and 2014, respectively. Those nonaccrual construction loans included loans to residential builders and developers of $17 million at December 31, 2016, $28 million at December 31, 2015 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 year ended December 31, 2016 is presented in table 13.

Table 13

RESIDENTIAL BUILDER AND DEVELOPER LOANS, NET OF UNEARNED DISCOUNT

	December 31, 2016			Year Ended December 31, 2016 Net Charge-offs (Recoveries)	
		Nonaccrual			
	Outstanding Balances(b)	Balances	Percent of Outstanding Balances	Balances	Percent of Average Outstanding Balances
	(Dollars in thousands)				
New York	$691,558	$1,557	.23 %	$640	.09 %
Pennsylvania	141,675	13,456	9.50	(256)	(.19)
Mid-Atlantic(a)	465,340	2,139	.46	(3,956)	(.86)
Other	636,973	1,197	.19	—	—
Total	$1,935,546	$18,349	.95 %	$(3,572)	(.19) %

(a) Includes Delaware, Maryland, New Jersey, Virginia, West Virginia and the District of Columbia.
(b) Includes approximately $13 million of loans not secured by real estate, of which approximately $2 million are in nonaccrual status.

Residential real estate loan net charge-offs totaled $18 million in 2016, $9 million in 2015 and $13 million in 2014. Residential real estate loans in nonaccrual status at December 31, 2016 were $336 million, compared with $215 million and $258 million at December 31, 2015 and 2014, respectively. The increase in residential real estate loans classified as nonaccrual in 2016 as compared with 2015 reflects the normal migration of previously performing loans obtained in the acquisition of Hudson City that subsequently became more than 90 days delinquent in 2016. Such nonaccrual residential real estate loans aggregated $190 million at December 31, 2016. Those loans could not be identified as purchased impaired loans at the acquisition date because the borrowers were making loan payments at the time and the loans were not recorded at a discount. Following the acquisition accounting provisions of GAAP, Hudson City-related nonaccrual residential real estate loans were not significant at December 31, 2015. The decline in residential real estate loans classified as nonaccrual in 2015 as compared to 2014 reflected improved repayment performance by customers. Net charge-offs of limited documentation first mortgage loans aggregated $4 million in 2016, $1 million in 2015 and $4 million in 2014. Nonaccrual limited documentation first mortgage loans were $107 million at December 31, 2016 (including $70 million obtained in the acquisition of Hudson City), compared with $62 million and $78 million at December 31, 2015 and 2014, respectively. Residential real estate loans past due 90 days or more and accruing interest (excluding loans acquired at a discount) totaled $281 million (including $49 million obtained in the acquisition of Hudson City) at December 31, 2016, $284 million (including $44 million obtained in the acquisition of Hudson City) at December 31, 2015 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 year ended December 31, 2016 is presented in table 14.

Table 14

SELECTED RESIDENTIAL REAL ESTATE-RELATED LOAN DATA

	December 31, 2016			Year Ended December 31, 2016 Net Charge-offs (Recoveries)	
		Nonaccrual			
	Outstanding Balances	Balances	Percent of Outstanding Balances	Balances	Percent of Average Outstanding Balances
	(Dollars in thousands)				
Residential mortgages:					
New York	$6,217,663	$68,044	1.09 %	$4,027	.06 %
Pennsylvania	1,607,986	16,454	1.02	1,999	.11
Maryland	1,255,781	17,573	1.40	2,069	.16
New Jersey	5,148,844	50,376	.98	3,008	.05
Other Mid-Atlantic(a)	1,070,176	14,227	1.33	652	.06
Other	3,695,680	61,687	1.67	2,108	.05
Total	$18,996,130	$228,361	1.20 %	$13,863	.07 %
Residential construction loans:					
New York	$6,041	$13	.22 %	$4	.06 %
Pennsylvania	1,809	376	20.79	33	.96
Maryland	1,981	—	—	—	—
New Jersey	1,363	—	—	—	—
Other Mid-Atlantic(a)	3,226	120	3.70	—	—
Other	6,921	372	5.38	12	.14
Total	$21,341	$881	4.13 %	$49	.18 %
Limited documentation first mortgages:					
New York	$1,519,579	$36,048	2.37 %	$1,426	.09 %
Pennsylvania	76,104	7,656	10.06	120	.14
Maryland	45,010	2,942	6.54	125	.26
New Jersey	1,387,841	31,938	2.30	293	.02
Other Mid-Atlantic(a)	39,131	2,567	6.56	(221)	(.52)
Other	505,776	25,422	5.03	2,358	.42
Total	$3,573,441	$106,573	2.98 %	$4,101	.10 %
First lien home equity loans and lines of credit:					
New York	$1,290,237	$16,060	1.24 %	$2,109	.16 %
Pennsylvania	828,004	9,714	1.17	1,263	.15
Maryland	682,629	6,776	.99	429	.06
New Jersey	45,460	573	1.26	—	—
Other Mid-Atlantic(a)	208,765	1,653	.79	5	.01
Other	20,808	1,401	6.73	1	.01
Total	$3,075,903	$36,177	1.18 %	$3,807	.12 %
Junior lien home equity loans and lines of credit:					
New York	$909,908	$25,022	2.75 %	$5,399	.57 %

Pennsylvania	364,548	4,769	1.31		2,302	.60	
Maryland	797,779	9,435	1.18		4,146	.48	
New Jersey	128,782	1,242	.96		718	.58	
Other Mid-Atlantic(a)	314,046	3,054	.97		222	.07	
Other	41,864	1,791	4.28		574	1.37	
Total	$2,556,927	$45,313	1.77	%	$13,361	.50	%
Limited documentation junior lien:							
New York	$826	$—	—	%	$1	.15	%
Pennsylvania	334	—	—		—	—	
Maryland	1,388	—	—		62	3.96	
New Jersey	385	—	—		(1)	(.32)	
Other Mid-Atlantic(a)	651	—	—		—	—	
Other	4,735	325	6.86		85	1.70	
Total	$8,319	$325	3.91	%	$147	1.66	%

(a) Includes Delaware, Virginia, West Virginia and the District of Columbia.

Net charge-offs of consumer loans during 2016 aggregated $112 million, compared with $87 million in 2015 and $68 million in 2014. During 2016, the Company accelerated the charge off of consumer loans associated with customers who were either deceased or had filed for bankruptcy that, in accordance with GAAP, had previously been considered when determining the level of the allowance for credit losses and were charged-off following the Company's normal charge-off procedures to the extent the loans subsequently became delinquent. Charge-offs of such loans totaled $32 million in 2016 and included $22 million of loan balances with a current payment status at the time of charge-off. The increase from 2014 to 2015 reflected a $20 million charge-off of a single personal usage loan obtained in a previous acquisition. Included in net charge-offs of consumer loans were: automobile loans of $32 million in 2016, $12 million in 2015 and $14 million in 2014; recreational vehicle loans of $24 million, $12 million and $13 million during 2016, 2015 and 2014, respectively; and home equity loans and lines of credit secured by one-to-four family residential properties of $17 million in 2016, $15 million in 2015 and $19 million in 2014. Nonaccrual consumer loans were $112 million at December 31, 2016, compared with $118 million and $125 million at December 31, 2015 and 2014, respectively. Included in nonaccrual consumer loans at the 2016, 2015 and 2014 year-ends were: automobile loans of $19 million, $17 million and $18 million, respectively; recreational vehicle loans of $7 million, $9 million and $11 million, respectively; and outstanding balances of home equity loans and lines of credit of $82 million, $84 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 year ended December 31, 2016 is presented in table 14.

Information about past due and nonaccrual loans as of December 31, 2016 and 2015 is also included in note 4 of Notes to Financial Statements.

Real estate and other foreclosed assets totaled $139 million at December 31, 2016, compared with $195 million at December 31, 2015 and $64 million at December 31, 2014. The higher levels of real estate and other foreclosed assets in 2016 and 2015 as compared with 2014 reflect residential real estate properties associated with the Hudson City acquisition, which aggregated $84 million and $126 million at December 31, 2016 and 2015, respectively. Gains or losses resulting from sales of real estate and other foreclosed assets were not material in 2016, 2015 or 2014. At December 31, 2016, the Company's holding of residential real estate-related properties comprised approximately 93% of foreclosed assets.

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. 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 expected repayment performance associated with the Company's first and second lien loans secured by residential real estate, including loans obtained in the acquisition of Hudson City that were not classified as purchased impaired; 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 December 31, 2016 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) slower growth in private sector employment in upstate New York and central Pennsylvania than in other regions served by the Company and nationally; (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 volatile nature of global commodity and export markets, including the impact international economic conditions could have on the U.S. economy; Federal Reserve positioning of monetary policy; and continued stagnant population growth in the upstate New York and central Pennsylvania regions (approximately 55% of the Company's loans and leases 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 totaled $2.4 billion at December 31, 2016 and $2.1 billion at December 31, 2015. Largely reflecting loans to manufacturers and vehicle dealers, increases in criticized loan balances since December 31, 2015 included approximately $66 million of commercial real estate loans and $231 million of commercial loans. Approximately 98% of loan balances added to the criticized category during 2016 were less than 90 days past due and 97% had a current payment status. Given payment performance, amount of supporting collateral, and, in certain instances, the existence of loan guarantees, the Company still expects to collect the full outstanding principal balance on most of these loans.

Loan officers in different geographic locations with the support of the Company's credit department personnel 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 regions. At least annually, updated financial information is obtained from commercial borrowers associated with pass grade loans and additional analysis is performed. On a quarterly basis, the Company's centralized credit 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 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 credit 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 securing the Company's residential real estate loans is 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. Loans to consumers that file for bankruptcy are generally charged off to estimated net collateral value shortly after the Company is notified of such filings. At December 31, 2016, 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 70% (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 December 31, 2016, the balance of junior lien loans and lines that were in nonaccrual status solely as a result of first lien loan performance was $12 million, compared with $22 million at December 31, 2015. 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. When evaluating individual home equity loans and lines of credit for charge off, 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 amortization period of up to twenty years. At December 31, 2016, approximately 84% 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 19% were making contractually allowed payments that do not include any 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 5 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 at a discount 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. For loans acquired at a discount, the impact of estimated future credit losses represents the predominant difference between contractually required payments and the cash flows expected to be collected. 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.

The inherent base level loss components of the Company's allowance for credit losses are generally determined by applying loss factors to specific loan balances based on loan type and management's classification of such loans under the Company's loan grading system. The Company utilizes a loan grading system which is applied to all commercial loans and commercial real estate loans. As previously described, 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 extensively monitored by the Company's credit department to ensure consistency and strict adherence to the prescribed standards. Loan balances utilized in the inherent base level loss component computations exclude loans and leases for which specific allocations are maintained. 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, financial condition, 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. In determining the allowance for credit losses, management also gives consideration to such factors as customer, industry and geographic concentrations, as well as national and local economic conditions, including: (i) the comparatively poorer economic conditions and unfavorable business climate in many market regions served by the Company, including upstate New York and central Pennsylvania, that result in such regions generally experiencing significantly poorer economic growth and vitality as compared with much of the rest of the country; (ii) portfolio concentrations regarding loan type, collateral type and geographic location, in particular the large concentrations of commercial real estate loans secured by properties in the New York City area and other areas of New York State; and (iii) risk associated with the Company’s portfolio of consumer loans, in particular automobile loans, which generally have higher rates of loss than other types of collateralized loans.

The inherent base level loss components related to residential real estate loans and consumer loans are generally determined by applying loss factors to portfolio balances after consideration of 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 for loans secured by residential real estate, including home equity loans and lines of credit, are determined by reference to recent charge-off history and are evaluated (and adjusted if deemed appropriate) through consideration of other factors as previously described.

In evaluating collateral, the Company relies on internally and externally prepared valuations. Residential real estate valuations are usually based on sales of comparable properties in the respective location. Commercial real estate valuations also refer to sales of comparable properties but oftentimes are based on calculations that utilize many assumptions and, as a result, can be highly subjective. Specifically, commercial real estate values can be significantly affected over relatively short periods of time by changes in business climate, economic conditions and interest rates, and, in many cases, the results of operations of businesses and other occupants of the real property. Additionally, management is aware that there is oftentimes a delay in the recognition of credit quality changes in loans and, as a result, in changes to assigned loan grades due to time delays in the manifestation and reporting of underlying events that impact credit quality. Accordingly, loss estimates derived from the inherent base level loss component computation are adjusted for current national and local economic conditions and trends. The Federal Reserve stated in December 2016 that the U.S. economic recovery had continued and activity is expected to expand at a moderate pace, with further improvement in labor market conditions. Economic indicators in the most significant market regions served by the Company also showed improvement in 2016. For example, in 2016, average private sector employment in areas served by the Company was 1.7% above year-ago levels, but trailed the 2.0% U.S. average growth rate. Private sector employment increased 0.4% in upstate New York, 1.0% in areas of Pennsylvania served by the Company, 1.7% in New Jersey, 2.1% in Maryland, 2.6% in Greater Washington D.C. and 3.0% in the State of Delaware. In New York City, private sector employment increased by 2.4% in 2016. Nevertheless, the U.S. economy remains susceptible to slow global economic growth, a strong U.S. dollar and its impact on trade, and international market turbulence.

The specific loss components and the inherent base level loss components together comprise the total base level or “allocated” allowance for credit losses. Such allocated portion of the allowance represents management’s assessment of losses existing in specific larger balance loans that are reviewed in detail by management and pools of other loans that are not individually analyzed. In addition, the Company has always provided an inherent unallocated portion of the allowance that is intended to recognize probable losses that are not otherwise identifiable. The inherent unallocated allowance includes management’s subjective determination of amounts necessary for such things as the possible use of imprecise estimates in determining the allocated portion of the allowance and other risks associated with the Company's loan portfolio which may not be specifically allocable.

A comparative allocation of the allowance for credit losses for each of the past five year-ends is presented in table 15. Amounts were allocated to specific loan categories based on information available to management at the time of each year-end assessment and using the methodology described herein. Variations in the allocation of the allowance by loan category as a percentage of those loans reflect changes in management's estimate of specific loss components and inherent base level loss components, including the impact of delinquencies and nonaccrual loans. As described in note 5 of Notes to Financial Statements, loans considered impaired aggregated $761 million and $781 million at December 31, 2016 and December 31, 2015, respectively. The allocated portion of the allowance for credit losses related to impaired loans totaled $83 million at December 31, 2016 and $90 million at December 31, 2015. The unallocated portion of the allowance for credit losses was equal to .09% of gross loans outstanding at each of December 31, 2016 and 2015. Considering the inherent imprecision in the many estimates used in the determination of the allocated portion of the allowance, management deliberately remained cautious and conservative in establishing the overall allowance for credit losses. Given the Company's high concentration of real estate loans and considering the other factors already discussed herein, management considers the allocated and unallocated portions of the allowance for credit losses to be prudent and reasonable. Furthermore, the Company's allowance is general in nature and is available to absorb losses from any loan or lease category. Additional information about the allowance for credit losses is included in note 5 of Notes to Financial Statements.

Table 15

ALLOCATION OF THE ALLOWANCE FOR CREDIT LOSSES TO LOAN CATEGORIES

December 31	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Commercial, financial, leasing, etc.	$330,833	$300,404	$288,038	$273,383	$246,759
Real estate	423,846	399,069	369,837	403,634	425,908
Consumer	156,288	178,320	186,033	164,644	179,418
Unallocated	78,030	78,199	75,654	75,015	73,775
Total	$988,997	$955,992	$919,562	$916,676	$925,860
As a Percentage of Gross Loans and Leases Outstanding					
Commercial, financial, leasing, etc.	1.45 %	1.46 %	1.47 %	1.45 %	1.37 %
Real estate	.75	.72	1.02	1.15	1.14
Consumer	1.29	1.54	1.70	1.60	1.55

Management believes that the allowance for credit losses at December 31, 2016 appropriately reflected credit losses inherent in the portfolio as of that date. The allowance for credit losses was $989 million or 1.09% of total loans and leases at December 31, 2016, compared with $956 million or 1.09% at December 31, 2015 and $920 million or 1.38% at December 31, 2014. The ratio of the allowance to total loans and leases at each respective year-end reflects the impact of loans obtained in acquisition transactions subsequent to 2008 that have been recorded at estimated fair value. As noted earlier, GAAP prohibits any carry-over of an allowance for credit losses for acquired loans recorded at fair value. However, for loans acquired at a premium, GAAP provides that an allowance for credit losses be recognized for incurred losses inherent in the portfolio. The decline in the ratio of the allowance to total loans and leases at December 31, 2016 and December 31, 2015 as compared with December 31, 2014 reflects the impact of loans (predominantly residential real estate loans) obtained in the acquisition of Hudson City. 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 at the end of 2016, 2015 and 2014 was 107%, 120% and 115%, respectively. 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 Company's allowance for credit losses. The level of the allowance reflects management's evaluation of the loan and lease portfolio as of each respective date.

In establishing the allowance for credit losses, management follows the methodology described herein, including taking a conservative view of borrowers' abilities to repay loans. The establishment of the allowance is extremely subjective and requires management to make many judgments about borrower, industry, regional and national economic health and performance. In order to present examples of the possible impact on the allowance from certain changes in credit quality factors, the Company assumed the following scenarios for possible deterioration of credit quality:

- For consumer loans and leases considered smaller balance homogenous loans and evaluated collectively, a 50 basis point increase in loss factors;
- For residential real estate loans and home equity loans and lines of credit, also considered small balance homogenous loans and evaluated collectively, a 15% increase in estimated inherent losses; and
- For commercial loans and commercial real estate loans, a migration of loans to lower-ranked risk grades resulting in a 30% increase in the balance of classified credits in each risk grade.
- For possible improvement in credit quality factors, the scenarios assumed were:
- For consumer loans and leases, a 20 basis point decrease in loss factors;
- For residential real estate loans and home equity loans and lines of credit, a 10% decrease in estimated inherent losses; and
- For commercial loans and commercial real estate loans, a migration of loans to higher-ranked risk grades resulting in a 5% decrease in the balance of classified credits in each risk grade.

The scenario analyses resulted in an additional $83 million that could be identifiable under the assumptions for credit deterioration, whereas under the assumptions for credit improvement a $27 million reduction could occur. These examples are only a few of numerous reasonably possible scenarios that could be utilized in assessing the sensitivity of the allowance for credit losses based on changes in assumptions and other factors.

The Company had no concentrations of credit extended to any specific industry that exceeded 10% of total loans at December 31, 2016, however residential real estate loans comprised approximately 25% of the loan portfolio. Outstanding loans to foreign borrowers aggregated $292 million at December 31, 2016, or .3% of total loans and leases.

Other Income

Other income totaled $1.83 billion in each of 2016 and 2015, compared with $1.78 billion in 2014. The impact of gains recognized on sales of collateralized debt obligations and from higher trading account and foreign exchange gains in 2016 were offset by the impact of a $45 million gain recognized in 2015 on the sale of the Company's trade processing business within the retirement services division. The Hudson City transaction did not have a significant impact on other income in 2015 or 2016. The increase in other income from 2014 to 2015 included higher commercial mortgage banking revenues and the aforementioned gain from the sale of the trade processing business that was largely offset by lower trust income associated with that divested business.

Mortgage banking revenues aggregated $374 million in 2016, $376 million in 2015 and $363 million in 2014. 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 multifamily 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 $255 million in 2016, $281 million in 2015 and $287 million in 2014. The decline in residential mortgage banking revenues from 2014 to 2015 and from 2015 to 2016 predominantly reflects a decrease in revenues associated with servicing residential real estate loans for others.

New commitments to originate residential real estate loans to be sold declined 11% to approximately $3.1 billion in 2016, from $3.5 billion in 2015. Such commitments aggregated $3.2 billion in 2014. Realized gains from sales of residential real estate loans and loan servicing rights and recognized net unrealized gains or losses attributable to residential real estate loans held for sale, commitments to originate loans for sale and commitments to sell loans aggregated to a gain of $71 million in 2016, compared with gains of $74 million in 2015 and $75 million in 2014.

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 2016 and 2014 were each reduced by approximately $4 million, compared with $5 million in 2015, related to the actual or anticipated settlement of repurchase obligations.

Loans held for sale that were secured by residential real estate aggregated $414 million and $353 million at December 31, 2016 and 2015, respectively. Commitments to sell residential real estate loans and commitments to originate residential real estate loans for sale at pre-determined rates totaled $777 million and $479 million, respectively, at December 31, 2016, $687 million and $489 million, respectively, at December 31, 2015 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 $15 million at December 31, 2016, $16 million at December 31, 2015 and $19 million at December 31, 2014. Changes in such net unrealized gains are recorded in mortgage banking revenues and resulted in net decreases in revenue of $3 million and $1 million in 2015 and 2014, respectively. The aggregate impact of changes in net unrealized gains was less than $1 million in 2016.

Revenues from servicing residential real estate loans for others were $183 million in 2016, $206 million in 2015 and $212 million in 2014. Residential real estate loans serviced for others aggregated

$53.2 billion at December 31, 2016, $61.7 billion a year earlier and $67.2 billion at December 31, 2014 and included certain small-balance commercial real estate loans. Reflected in residential real estate loans serviced for others were loans sub-serviced for others of $30.4 billion, $37.8 billion and $42.1 billion at December 31, 2016, 2015 and 2014, respectively. Revenues earned for sub-servicing loans totaled $98 million in 2016, compared with $116 million in each of 2015 and 2014. The contractual servicing rights associated with loans sub-serviced by the Company were predominantly held by affiliates of Bayview Lending Group LLC ("BLG"). Information about the Company's relationship with BLG and its affiliates is included in note 24 of Notes to Financial Statements. Capitalized servicing rights consist largely of servicing associated with loans sold by the Company. Capitalized residential mortgage servicing assets totaled $117 million at December 31, 2016, compared with $118 million and $111 million at December 31, 2015 and 2014, respectively. Additional information about the Company's capitalized residential mortgage servicing assets, including information about the calculation of estimated fair value, is presented in note 7 of Notes to Financial Statements.

Commercial mortgage banking revenues totaled $119 million in 2016, $95 million in 2015 and $76 million in 2014. Included in such amounts were revenues from loan origination and sales activities of $76 million in 2016, $53 million in 2015 and $41 million in 2014. The rise in such revenues from 2015 to 2016 was due to higher origination volumes. Commercial real estate loans originated for sale to other investors totaled approximately $2.9 billion in 2016, compared with $2.0 billion in 2015 and $1.5 billion in 2014. Loan servicing revenues aggregated $43 million in 2016, $42 million in 2015 and $35 million in 2014. Capitalized commercial mortgage servicing assets were $104 million at December 31, 2016, $84 million at December 31, 2015 and $73 million at December 31, 2014. Commercial real estate loans serviced for other investors totaled $11.8 billion at December 31, 2016, $11.0 billion at December 31, 2015 and $11.3 billion at December 31, 2014, and included $2.8 billion, $2.5 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 aggregated $713 million and $70 million, respectively, at December 31, 2016, $96 million and $58 million, respectively, at December 31, 2015 and $520 million and $212 million, respectively, at December 31, 2014. Commercial real estate loans held for sale were $643 million, $39 million and $308 million at December 31, 2016, 2015 and 2014, respectively. The higher balances at December 31, 2016 and 2014 reflect loans originated later in the year that had not yet been delivered to investors.

Service charges on deposit accounts totaled $419 million in 2016, compared with $421 million in 2015 and $428 million in 2014. The lower levels of fees since 2014 resulted from declines in consumer service charges, particularly overdraft 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. Trust income totaled to $472 million in 2016, compared with $471 million in 2015 and $508 million in 2014. Revenues associated with the ICS business were approximately $230 million in 2016, $220 million in 2015 and $244 million in 2014. The increase in ICS revenue in 2016 when compared to the prior year was the result of stronger sales activities and higher fees earned from money-market funds, partially offset by lower retirement services revenues. The decline in ICS revenue in 2016 and 2015 as compared with 2014 reflects the April 2015 divestiture of the trade processing business within the retirement services division. Revenues related to that business reflected in trust income (in the ICS business) during 2015 and 2014 were approximately $9 million and $34 million, respectively. After considering related expenses, including the portion of those revenues paid to sub-advisors, net income attributable to the sold business during those years was not material to the consolidated results of operations of the Company. The sale resulted in an after-tax gain in 2015 of $23 million ($45 million pre-tax) that was recorded in “other revenues from operations” in the consolidated statement of income. Revenues attributable to WAS totaled approximately $212 million, $218 million and $224 million in 2016, 2015 and 2014, respectively. Total trust assets, which include assets under management and assets under administration, were $210.6 billion at December 31, 2016, compared with $199.2 billion at December 31, 2015. Trust assets under management aggregated $70.7 billion and $66.7 billion at December 31, 2016 and 2015, respectively. Additional trust income from investment management activities were $30 million, $33 million and $40 million in 2016, 2015 and 2014, respectively. That income largely relates to fees earned from retail customer investment accounts and from an affiliated investment manager. Assets managed by that affiliated manager totaled $7.3 billion and $7.1 billion at December 31, 2016 and December 31, 2015, respectively. The Company’s trust income from that affiliate was not material during 2016 or 2015. The Company’s proprietary mutual funds held assets of $10.9 billion and $12.2 billion at December 31, 2016 and 2015, respectively.

Brokerage services income, which includes revenues from the sale of mutual funds and annuities and securities brokerage fees, aggregated $63 million in 2016, $65 million in 2015 and $67 million in 2014. Trading account and foreign exchange activity resulted in gains of $41 million in 2016, $31 million in 2015 and $30 million in 2014. The higher level of such gains in 2016 as compared with 2015 resulted largely from higher activity related to interest rate swap transactions executed on behalf of commercial customers and higher gains associated with foreign exchange activities. As compared with 2014, higher activity in 2015 related to interest rate swap transactions executed on behalf of commercial customers was largely offset by decreased market values of trading account assets held in connection with deferred compensation arrangements and lower gains associated with foreign exchange activities. The Company enters into interest rate and foreign exchange contracts with customers who need such services and concomitantly enters into offsetting trading positions with third parties to minimize the risks involved with these types of transactions. 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 18 of Notes to Financial Statements and herein under the heading “Liquidity, Market Risk, and Interest Rate Sensitivity.”

The Company realized net gains from sales of investment securities of $30 million in 2016. There were no significant gains or losses on investment securities in 2015 or 2014. During 2016, the Company sold all of its collateralized debt obligations that had been held in the available-for-sale investment securities portfolio and that had been obtained through the acquisition of other banks. In total, securities with an amortized cost of $28 million were sold. Divestiture of the majority of those securities would have been required prior to July 21, 2017 in accordance with the provisions of the Volcker Rule. There were no other-than-temporary impairment losses in 2016, 2015 or 2014. Each reporting period the Company reviews its investment securities for other-than-temporary impairment. For equity securities, the Company considers various factors to determine if the decline in value is other than temporary, including the duration and extent of the decline in value, the factors contributing to the decline in fair value, including the financial condition of the issuer as well as the conditions of the industry in which it operates, and the prospects for a recovery in fair value of the equity security. For debt securities, the Company analyzes the creditworthiness of the issuer or reviews the credit performance of the underlying collateral supporting the bond. For debt securities backed by pools of loans, such as privately issued mortgage-backed securities, the Company estimates the cash flows of the underlying loan collateral using forward-looking assumptions for default rates, loss severities and prepayment speeds. Estimated collateral cash flows are then utilized to estimate bond-specific cash flows to determine the ultimate collectibility of the bond. If the present value of the cash flows indicates that the Company should not expect to recover the entire amortized cost basis of a bond or if the Company intends to sell the bond or it more likely than not will be required to sell the bond before recovery of its amortized cost basis, an other-than-temporary impairment loss is recognized. If an other-than-temporary impairment loss is deemed to have occurred, the investment security’s cost basis is adjusted, as appropriate for the circumstances. Additional information about other-than-temporary impairment considerations is included herein under the heading “Capital.”

Other revenues from operations aggregated $426 million in 2016, compared with $463 million in 2015 and $383 million in 2014. The decline in other revenues from operations in 2016 as compared to 2015 was largely due to the $45 million gain from the sale of the trade processing business in 2015 and lower letter of credit and credit-related fees (largely loan syndication fees), partially offset by higher merchant discount and credit card fees. The increase in 2015 as compared with 2014 reflected that $45 million gain from the sale of the trade processing business, $15 million of gains from the sale of equipment previously leased to commercial customers and higher loan syndication fees.

Included in other revenues from operations were the following significant components. Letter of credit and other credit-related fees totaled $120 million, $134 million and $129 million in 2016, 2015 and 2014, respectively. The decrease from 2015 to 2016 was largely due to a decline in loan syndication fees. Revenues from merchant discount and credit card fees were $111 million in 2016, $105 million in 2015 and $96 million in 2014. The continued trend of higher revenues since 2014 was largely attributable to increased transaction volumes related to merchant activity and usage of the Company’s credit card products. Tax-exempt income earned from bank owned life insurance, which includes increases in the cash surrender value of life insurance policies and benefits received, aggregated $54 million in 2016, compared with $53 million in 2015 and $50 million in 2014. Insurance-related sales commissions and other revenues totaled $43 million in 2016, compared with $38 million in 2015 and $42 million in 2014. Automated teller machine usage fees aggregated $14 million in each of 2016 and 2015 and $15 million in 2014. Gains from sales of equipment previously leased to commercial customers were $8 million in 2016, $17 million in 2015 and $2 million in 2014.

M&T’s share of the operating losses of BLG recognized using the equity method of accounting was $11 million in 2016, compared with $14 million and $17 million in 2015 and 2014, respectively. Those amounts are reflected in “other revenues from operations.” The operating losses of BLG in the respective years reflect provisions for losses associated with securitized loans and other loans held by BLG and loan servicing and other administrative costs. 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. Information about the Company’s relationship with BLG and its affiliates is included in note 24 of Notes to Financial Statements.

Other Expense

Other expense aggregated $3.05 billion in 2016, compared to $2.82 billion in 2015 and $2.69 billion in 2014. Included in those amounts are expenses considered to be “nonoperating” in nature consisting of amortization of core deposit and other intangible assets of $43 million, $26 million and $34 million in 2016, 2015 and 2014, respectively, and merger-related expenses of $36 million and $76 million in 2016 and 2015, respectively. There were no merger-related expenses during 2014. Exclusive of those nonoperating expenses, noninterest operating expenses aggregated $2.97 billion in 2016, $2.72 billion in 2015 and $2.66 billion in 2014. The most significant factors contributing to the increase from 2015 to 2016 were costs associated with the operations obtained in the Hudson City acquisition, higher salaries and employee benefits expenses and increased FDIC assessments. The rise in such expenses in 2015 as compared with 2014 was largely attributable to costs associated with the operations obtained in the Hudson City acquisition, higher costs for salaries and employee benefits and increased contributions to The M&T Charitable Foundation, partially offset by lower professional services costs.

In 2016, salaries and employee benefits expense aggregated $1.62 billion, compared with $1.55 billion and $1.40 billion in 2015 and 2014, respectively. The higher level of expenses in 2016 reflects the full-year impact of the additional employees formerly associated with Hudson City as well as annual merit increases and incentive compensation costs. There were $51 million of merger-related expenses included in salaries and employee benefits expense in 2015 predominantly related to severance for former Hudson City employees. Excluding that $51 million, the higher expense level in 2015 as compared with 2014 was largely attributable to the impact of annual merit increases, higher pension and incentive compensation costs, and the impact of the additional employees formerly associated with Hudson City. Stock-based compensation totaled $65 million in each of 2016 and 2014 and $67 million in 2015. Reflecting employees associated with the operations obtained from Hudson City, the number of full-time equivalent employees were 16,593 and 16,979 at December 31, 2016 and 2015, respectively, compared with 15,312 at December 31, 2014.

The Company provides pension and other postretirement benefits (including a retirement savings plan) for its employees. Expenses related to such benefits totaled $94 million in 2016, $100 million in 2015 and $63 million in 2014. The Company sponsors both defined benefit and defined contribution pension plans. Pension benefit expense for those plans was $52 million in 2016, $63 million in 2015 and $28 million in 2014. Included in those amounts are $25 million in 2016, $23 million in 2015 and $22 million in 2014 for a defined contribution pension plan that the Company began on January 1, 2006. The decrease in pension and other postretirement benefits expense in 2016 as compared to 2015 reflects a $15 million decrease in amortization of actuarial losses accumulated in the defined benefit pension plans. The increase in pension and other postretirement benefits expense in 2015 as compared with 2014 was largely reflective of a $31 million increase in such amortization. No contributions were required or made to the qualified defined benefit pension plan in 2016, 2015, or 2014. The determination of pension expense and the recognition of net pension assets and liabilities for defined benefit pension plans requires management to make various assumptions that can significantly impact the actuarial calculations related thereto. Those assumptions include the expected long-term rate of return on plan assets, the rate of increase in future compensation levels and the discount rate. Changes in any of those assumptions will impact the Company’s pension expense. The expected long-term rate of return assumption is determined by taking into consideration asset allocations, historical returns on the types of assets held and current economic factors. Returns on invested assets are periodically compared with target market indices for each asset type to aid management in evaluating such returns. The discount rate used by the Company to determine the present value of the Company’s future benefit obligations reflects specific market yields for a hypothetical portfolio of highly rated corporate bonds that would produce cash flows similar to the Company’s benefit plan obligations and the level of market interest rates in general as of the year-end. Other factors used to estimate the projected benefit obligations include actuarial assumptions for turnover rate, retirement age and disability rate. Those other factors do not tend to change significantly over time. The Company reviews its pension plan assumptions annually to ensure that such assumptions are reasonable and adjusts those assumptions, as necessary, to reflect changes in future expectations. The Company utilizes actuaries and others to aid in that assessment.

The Company's 2016 pension expense for its defined benefit plans was determined using the following assumptions: a long-term rate of return on assets of 6.50%; a rate of future compensation increase of 4.37%; and a discount rate of 4.25%. To demonstrate the sensitivity of pension expense to changes in the Company's pension plan assumptions, 25 basis point increases in: the rate of return on plan assets would have resulted in a decrease in pension expense of $4 million; the rate of increase in compensation would have resulted in an increase in pension expense of $500,000; and the discount rate would have resulted in a decrease in pension expense of $6 million. Decreases of 25 basis points in those assumptions would have resulted in similar changes in amount, but in the opposite direction from the changes presented in the preceding sentence. The accounting guidance for defined benefit pension plans reflects the long-term nature of benefit obligations and the investment horizon of plan assets, and has the effect of reducing expense volatility related to short-term changes in interest rates and market valuations. Actuarial gains and losses include the impact of plan amendments, in addition to various gains and losses resulting from changes in assumptions and investment returns which are different from that which was assumed. As of December 31, 2016, the Company had cumulative unrecognized actuarial losses of approximately $461 million that could result in an increase in the Company's future pension expense depending on several factors, including whether such losses at each measurement date exceed ten percent of the greater of the projected benefit obligation or the market-related value of plan assets. In accordance with GAAP, net unrecognized gains or losses that exceed that threshold are required to be amortized over the expected service period of active employees, and are included as a component of net pension cost. Amortization of those net unrealized losses had the effect of increasing the Company's pension expense by approximately $30 million in 2016, $45 million in 2015 and $14 million in 2014. The decrease in the cumulative unrecognized actuarial losses from $494 million at December 31, 2015 reflects the aforementioned amortization of unrealized losses in 2016.

GAAP requires an employer to recognize in its balance sheet as an asset or liability the overfunded or underfunded status of a defined benefit postretirement plan, measured as the difference between the fair value of plan assets and the benefit obligation. For a pension plan, the benefit obligation is the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation is the accumulated postretirement benefit obligation. Gains or losses and prior service costs or credits that arise during the period, but are not included as components of net periodic benefit cost, are to be recognized as a component of other comprehensive income. As of December 31, 2016, the combined benefit obligations of the Company's defined benefit postretirement plans exceeded the fair value of the assets of such plans by approximately $475 million. Of that amount, $270 million was related to non-qualified pension and other postretirement benefit plans that are generally not funded until benefits are paid. In the Company's qualified defined benefit pension plan, the projected benefit obligation exceeded the fair value of assets by approximately $205 million as of December 31, 2016 and $218 million as of December 31, 2015. Higher asset balances at December 31, 2016 contributed to that change in funded status. The Company was required to have a net pension and postretirement benefit liability for the pension and other postretirement benefit plans that was equal to $475 million at December 31, 2016. Accordingly, as of December 31, 2016 the Company recorded an additional postretirement benefit adjustment of $450 million. After applicable tax effect, that adjustment reduced accumulated other comprehensive income (and thereby shareholders' equity) by $273 million. The result of this was a year-over-year decrease of $40 million to the additional minimum postretirement benefit liability from $490 million recorded at December 31, 2015. After applicable tax effect, the $40 million decrease in the additional required liability adjustment increased other comprehensive income in 2016 by $24 million from the prior year-end amount of $297 million. In determining the benefit obligation for defined benefit postretirement plans the Company used a discount rate of 4.00% at December 31, 2016 and 4.25% at December 31, 2015. A 25 basis point decrease in the assumed discount rate as of December 31, 2016 to 3.75% would have resulted in increases in the combined benefit obligations of all defined benefit postretirement plans (including pension and other plans) of $76 million (pre-tax impact). A 25 basis point increase in the assumed discount rate to 4.25% would have decreased the combined benefit obligations of all defined benefit postretirement plans by $72 million (pre-tax impact). Information about the Company’s pension plans, including significant assumptions utilized in completing actuarial calculations for the plans, is included in note 12 of Notes to Financial Statements.

The Company also provides a retirement savings plan (“RSP”) that is a defined contribution plan in which eligible employees of the Company may defer up to 50% of qualified compensation via contributions to the plan. The Company makes an employer matching contribution in an amount equal to 75% of an employee’s contribution, up to 4.5% of the employee’s qualified compensation. RSP expense totaled $37 million in 2016, $34 million in 2015 and $32 million in 2014.

Expenses associated with the defined benefit and defined contribution pension plans and the RSP aggregated $89 million in 2016, $97 million in 2015 and $60 million in 2014. Expenses associated with providing medical and other postretirement benefits were $5 million in 2016, $3 million in 2015 and $2 million 2014.

Excluding the nonoperating expense items already noted, nonpersonnel operating expenses were $1.35 billion in 2016, compared with $1.22 billion in 2015 and $1.25 billion in 2014. The increase in nonpersonnel operating expenses in 2016 as compared with 2015 was largely due to costs associated with the operations obtained in the Hudson City acquisition and higher expenses for FDIC assessments, advertising and marketing, partially offset by lower charitable contributions. The decrease in nonpersonnel operating expenses in 2015 from 2014 was predominantly attributable to lower expenses for professional services and litigation-related costs, offset, in part, by higher charitable contributions of $28 million. Professional services costs related to BSA/AML activities, compliance, capital planning and stress testing, risk management and other operational initiatives were elevated throughout 2014. Litigation-related charges in 2014 were associated with pre-acquisition activities of M&T’s Wilmington Trust entities.

Income Taxes

The provision for income taxes was $743 million in 2016, $595 million in 2015 and $576 million in 2014. The effective tax rates were 36.1% in 2016, 35.5% in 2015 and 35.1% in 2014. The increase in the effective rate in 2016 from 2015 reflects the impact of generally recurring tax credits and other tax-exempt income being a smaller percentage of 2016’s higher income before income taxes. Income tax expense in 2015 reflected two largely offsetting items. The Company attributed $11 million of non-deductible goodwill to the basis of the trade processing business sold in April 2015, which reduced the recorded gain, but did not result in an income tax benefit. During the fourth quarter of 2015, the provision for income taxes was reduced by $5 million to reflect technology research credits related to 2011 through 2014 that were accepted by the Internal Revenue Service in December 2015. During the second quarter of 2014, the Company resolved with tax authorities previously uncertain tax positions associated with pre-acquisition activities of M&T’s Wilmington Trust entities, resulting in a reduction of the provision for income taxes of $8 million. Excluding that reduction of income tax expense, the effective tax rate for 2014 would have been 35.6%. 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.

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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. Information about amounts accrued for uncertain tax positions and a reconciliation of income tax expense to the amount computed by applying the statutory federal income tax rate to pre-tax income is provided in note 13 of Notes to Financial Statements.

International Activities

Assets and revenues associated with international activities represent less than 1% of the Company's consolidated assets and revenues. International assets included $292 million and $265 million of loans to foreign borrowers at December 31, 2016 and 2015, respectively. Deposits in the Company's office in the Cayman Islands aggregated $202 million at December 31, 2016 and $170 million at December 31, 2015. The Company uses such deposits to facilitate customer demand and as an alternative to short-term borrowings when the costs of such deposits seem reasonable. Loans and deposits at M&T Bank's commercial banking office in Ontario, Canada as of December 31, 2016 totaled $133 million and $50 million, respectively, compared with $95 million and $35 million, respectively, at December 31, 2015. The Company also offers trust-related services in Europe. Revenues from providing such services during 2016, 2015 and 2014 were approximately $25 million, $26 million and $31 million, respectively.

Liquidity, Market Risk, and Interest Rate Sensitivity

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.

The most significant source of funding for the Company is core deposits, which are generated from a large base of consumer, corporate and institutional customers. That customer base has, over the past several years, become more geographically diverse as a result of acquisitions and expansion of the Company's businesses. Nevertheless, the Company faces competition in offering products and services from a large array of financial market participants, including banks, thrifts, mutual funds, securities dealers and others. Core deposits financed 83% of the Company's earning assets at each of December 31, 2016 and 2014, compared with 81% at December 31, 2015.

The Company supplements funding provided through core deposits with various short-term and long-term wholesale borrowings, including federal funds purchased and securities sold under agreements to repurchase, brokered deposits, Cayman Islands office deposits and longer-term borrowings. At December 31, 2016, M&T Bank had short-term and long-term credit facilities with the FHLBs aggregating $22.5 billion. Outstanding borrowings under FHLB credit facilities totaled $1.2 billion and $3.1 billion at December 31, 2016 and 2015, respectively. Such borrowings were secured by loans and investment securities. As a result of the Hudson City acquisition, the Company assumed $2.0 billion of short-term borrowings from the FHLB of New York. Such borrowings had fixed rates of interest and matured on various dates in 2016. M&T Bank had an available line of credit with the Federal Reserve Bank of New York that totaled approximately $11.2 billion at December 31, 2016. The amount of that line is dependent upon the balances of loans and securities pledged as collateral. There were no borrowings outstanding under such line of credit at December 31, 2016 or December 31, 2015. M&T Bank has a Bank Note Program whereby M&T

Bank may offer unsecured senior and subordinated notes. Only unsecured senior notes have been issued under that program. Those outstanding notes totaled $5.2 billion at December 31, 2016 and $5.5 billion at December 31, 2015. The proceeds of the issuances of borrowings under the Bank Note Program have been predominantly utilized to purchase high-quality liquid assets that meet the requirements of the LCR.

From time to time, the Company has issued subordinated capital notes and junior subordinated debentures associated with trust preferred securities to provide liquidity and enhance regulatory capital ratios. However, pursuant to the Dodd-Frank Act, the Company’s junior subordinated debentures associated with trust preferred securities have been phased-out of the definition of Tier 1 capital. Effective January 1, 2015, 75% of such securities were excluded from the Company’s Tier 1 capital, and beginning January 1, 2016 all were excluded. The amounts excluded from Tier 1 capital are still includable in total capital. In accordance with its 2015 capital plan, in April 2015 M&T redeemed the junior subordinated debentures associated with the $310 million of trust preferred securities of M&T Capital Trusts I, II and III. Information about the Company’s borrowings is included in note 9 of Notes to Financial Statements.

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 totaled $112 million and $99 million at December 31, 2016 and 2015, respectively. 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 $202 million and $170 million at December 31, 2016 and 2015, respectively. The Company has also benefited from the placement of brokered deposits. The Company has brokered savings and interest-bearing checking deposit accounts which aggregated $1.2 billion at each of December 31, 2016 and 2015. 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 credit, available capacity from secured borrowing sources and securitizable assets. Information about the credit ratings of M&T and M&T Bank is presented in table 16. Additional information regarding the terms and maturities of all of the Company’s short-term and long-term borrowings is provided in note 9 of Notes to Financial Statements. 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.

Table 16

DEBT RATINGS

	Moody's	Standard and Poor's	Fitch
M&T Bank Corporation			
Senior debt	A3	A–	A
Subordinated debt	A3	BBB+	A–
M&T Bank			
Short-term deposits	Prime-1	A-1	F1
Long-term deposits	Aa2	A	A+
Senior debt	A2	A	A
Subordinated debt	A3	A–	A–

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 $30 million at December 31, 2016 (all of which were remarketed in January 2017) and less than $1 million at December 31, 2015. The total amount of VRDBs outstanding backed by M&T Bank letters of credit was $1.3 billion and $1.7 billion at December 31, 2016 and 2015, respectively. M&T Bank also serves as remarketing agent for most of those bonds.

Table 17

MATURITY DISTRIBUTION OF SELECTED LOANS(a)

December 31, 2016	Demand	2017	2018 - 2021	After 2021
	(In thousands)			
Commercial, financial, etc.	$6,971,475	$3,616,703	$9,427,225	$1,092,732
Real estate — construction	41,223	3,324,793	4,225,443	439,580
Total	$7,012,698	$6,941,496	$13,652,668	$1,532,312
Floating or adjustable interest rates			$12,015,298	$1,004,290
Fixed or predetermined interest rates			1,637,370	528,022
Total			$13,652,668	$1,532,312

(a) The data do not include nonaccrual loans.

The Company enters into contractual obligations in the normal course of business that require future cash payments. The contractual amounts and timing of those payments as of December 31, 2016 are summarized in table 18. 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 21 of Notes to Financial Statements. Table 18 summarizes the Company's other commitments as of December 31, 2016 and the timing of the expiration of such commitments.

Table 18

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

December 31, 2016	Less Than One Year	One to Three Years	Three to Five Years	Over Five Years	Total
	(In thousands)				
Payments due for contractual obligations					
Time deposits	$6,682,736	$2,226,615	$1,215,706	$6,789	$10,131,846
Deposits at Cayman Islands office	201,927	—	—	—	201,927
Federal funds purchased and agreements to repurchase securities	163,442	—	—	—	163,442
Long-term borrowings	3,442,484	3,013,860	1,770,083	1,267,408	9,493,835
Operating leases	99,847	169,262	102,724	94,825	466,658
Other	91,304	57,401	17,472	40,432	206,609
Total	$10,681,740	$5,467,138	$3,105,985	$1,409,454	$20,664,317
Other commitments					
Commitments to extend credit	$9,431,954	$6,831,786	$4,506,591	$4,261,231	$25,031,562
Standby letters of credit	1,618,032	992,324	344,686	32,049	2,987,091
Commercial letters of credit	14,939	825	28,959	—	44,723
Financial guarantees and indemnification contracts	95,461	325,899	436,302	2,185,918	3,043,580
Commitments to sell real estate loans	1,444,354	44,883	—	—	1,489,237
Total	$12,604,740	$8,195,717	$5,316,538	$6,479,198	$32,596,193

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 December 31, 2016 approximately $627 million 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 9 of Notes to Financial Statements.

Table 19

MATURITY AND TAXABLE-EQUIVALENT YIELD OF INVESTMENT SECURITIES

December 31, 2016	One Year or Less	One to Five Years	Five to Ten Years	Over Ten Years	Total
	(Dollars in thousands)				
Investment securities available for sale(a)					
U.S. Treasury and federal agencies					
Carrying value	$155,828	$1,746,716	$—	$—	$1,902,544
Yield	1.16 %	1.04 %	—	—	1.05 %
Obligations of states and political subdivisions					
Carrying value	584	1,557	—	1,500	3,641
Yield	6.31 %	7.62 %	—	6.28 %	6.85 %
Mortgage-backed securities(b)					
Government issued or guaranteed					
Carrying value	598,628	2,533,948	3,564,284	4,258,001	10,954,861
Yield	2.31 %	2.32 %	2.32 %	2.25 %	2.29 %
Privately issued					
Carrying value	33	11	—	—	44
Yield	3.95 %	4.43 %	—	—	4.07 %
Other debt securities					
Carrying value	1,922	2,269	3,132	111,193	118,516
Yield	3.63 %	4.56 %	6.47 %	2.45 %	2.58 %
Equity securities					
Carrying value	—	—	—	—	352,466
Yield	—	—	—	—	.91 %
Total investment securities available for sale					
Carrying value	756,995	4,284,501	3,567,416	4,370,694	13,332,072
Yield	2.08 %	1.80 %	2.32 %	2.26 %	2.08 %
Investment securities held to maturity					
Obligations of states and political subdivisions					
Carrying value	24,533	34,073	2,252	—	60,858
Yield	4.66 %	5.54 %	6.56 %	—	5.23 %
Mortgage-backed securities(b)					
Government issued or guaranteed					
Carrying value	127,293	360,496	479,018	1,266,366	2,233,173
Yield	2.68 %	2.68 %	2.68 %	2.65 %	2.66 %
Privately issued					
Carrying value	5,878	24,194	32,152	95,480	157,704
Yield	4.77 %	4.77 %	4.76 %	4.67 %	4.71 %
Other debt securities					
Carrying value	—	—	—	5,543	5,543

Yield	—	—	—	4.50 %	4.50 %
Total investment securities held to maturity					
Carrying value	157,704	418,763	513,422	1,367,389	2,457,278
Yield	3.07 %	3.03 %	2.82 %	2.80 %	2.86 %
Other investment securities	—	—	—	—	461,118
Total investment securities					
Carrying value	$914,699	$4,703,264	$4,080,838	$5,738,083	$16,250,468
Yield	2.25 %	1.91 %	2.38 %	2.39 %	2.14 %

(a) Investment securities available for sale are presented at estimated fair value. Yields on such securities are based on amortized cost.

(b) Maturities are reflected based upon contractual payments due. Actual maturities are expected to be significantly shorter as a result of loan repayments in the underlying mortgage pools.

Table 20

MATURITY OF DOMESTIC CERTIFICATES OF DEPOSIT AND TIME DEPOSITS

WITH BALANCES OF $100,000 OR MORE

	December 31, 2016 (In thousands)
Under 3 months	$ 968,051
3 to 6 months	668,465
6 to 12 months	907,618
Over 12 months	1,468,420
Total	$ 4,012,554

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 enacted the LCR 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 was January 1, 2016, subject to a phase-in period. The Company has taken steps as noted herein to enhance its liquidity and is in compliance with the phase-in requirements of the rules.

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 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 has entered into interest rate swap agreements to help manage exposure to interest rate risk. At December 31, 2016, the aggregate notional amount of interest rate swap agreements entered into for interest rate risk management purposes was $900 million. Information about interest rate swap agreements entered into for interest rate risk management purposes is included herein under the heading "Net Interest Income/Lending and Funding Activities" and in note 18 of Notes to Financial Statements.

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

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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.

Table 21 displays as of December 31, 2016 and 2015 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.

Table 21

SENSITIVITY OF NET INTEREST INCOME TO CHANGES IN INTEREST RATES

	Calculated Increase (Decrease) in Projected Net Interest Income December 31	
Changes in interest rates	2016	2015
	(In thousands)	
+200 basis points	$227,283	$243,958
+100 basis points	147,400	145,169
-50 basis points	(98,945)	(99,603)

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 increases in interest rates during a twelve-month period of 100 and 200 basis points, as compared with the assumed base scenario, as well as a gradual decrease of 50 basis points. In the declining rate scenario, the rate changes may be limited to lesser amounts such that interest rates remain positive on all points of the yield curve. In 2016, the Company suspended the -100 basis point scenario due to the persistent low level of interest rates. This scenario will be reinstated if and when interest rates rise sufficiently to make the analysis more meaningful. 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.

Table 22 presents cumulative totals of net assets (liabilities) repricing on a contractual basis within the specified time frames, as adjusted for the impact of interest rate swap agreements entered

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into for interest rate risk management purposes. Management believes that this measure does not appropriately depict interest rate risk since changes in interest rates do not necessarily affect all categories of earning assets and interest-bearing liabilities equally nor, as assumed in the table, on the contractual maturity or repricing date. Furthermore, this static presentation of interest rate risk fails to consider the effect of ongoing lending and deposit gathering activities, projected changes in balance sheet composition or any subsequent interest rate risk management activities the Company is likely to implement.

Table 22

CONTRACTUAL REPRICING DATA

December 31, 2016	Three Months or Less	Four to Twelve Months	One to Five Years	After Five Years	Total
	(Dollars in thousands)				
Loans and leases, net	$52,329,463	$ 5,830,801	$17,166,648	$15,526,504	$90,853,416
Investment securities	855,044	934,350	4,811,227	9,649,847	16,250,468
Other earning assets	5,087,011	776	—	—	5,087,787
Total earning assets	58,271,518	6,765,927	21,977,875	25,176,351	112,191,671
Savings and interest-checking deposits	52,346,207	—	—	—	52,346,207
Time deposits	2,448,960	4,233,776	3,442,321	6,789	10,131,846
Deposits at Cayman Islands office	201,927	—	—	—	201,927
Total interest-bearing deposits	54,997,094	4,233,776	3,442,321	6,789	62,679,980
Short-term borrowings	163,442	—	—	—	163,442
Long-term borrowings	3,082,764	1,739,902	3,871,731	799,438	9,493,835
Total interest-bearing liabilities	58,243,300	5,973,678	7,314,052	806,227	72,337,257
Interest rate swap agreements	(900,000)	400,000	500,000	—	—
Periodic gap	$(871,782)	$ 1,192,249	$15,163,823	$24,370,124	
Cumulative gap	(871,782)	320,467	15,484,290	39,854,414	
Cumulative gap as a % of total earning assets	(0.8)%	0.3%	13.8%	35.5%	

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 investment securities is presented herein under the heading “Capital” and in notes 3 and 20 of Notes to Financial Statements.

The Company engages in limited 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 trading account positions associated with interest rate contracts and foreign currency and other option and futures contracts are presented in note 18 of Notes to Financial Statements. The amounts of gross and net trading account 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 totaled $21.6 billion at December 31, 2016 and $18.4 billion at December 31, 2015. The notional amounts of foreign currency and other option and futures contracts entered into for trading account purposes were $471 million and $1.6 billion at December 31, 2016 and 2015, 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 $324 million and $174 million, respectively, at December 31, 2016 and $274 million and $161 million, respectively, at December 31, 2015. Included in trading account assets at December 31, 2016 and 2015 were $22 million and $24 million, respectively, of assets related to deferred compensation plans. 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 December 31, 2016 and 2015 were $26 million and $28 million, respectively, of liabilities related to deferred compensation plans. 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. Also included in trading account assets were investments in mutual funds and other assets that the Company was required to hold under terms of certain non-qualified supplemental retirement and other benefit plans that were assumed by the Company in various acquisitions. Those assets totaled $24 million and $33 million at December 31, 2016 and 2015, respectively.

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 previously noted, the Company is exposed to credit risk associated with counterparties to transactions related to the Company's trading account activities. Additional information about the Company's use of derivative financial instruments in its trading account activities is included in note 18 of Notes to Financial Statements.

Capital

Shareholders' equity was $16.5 billion at December 31, 2016 and represented 13.35% of total assets, compared with $16.2 billion or 13.17% at December 31, 2015 and $12.3 billion or 12.76% at December 31, 2014.

Included in shareholders' equity was preferred stock with financial statement carrying values of $1.2 billion at December 31, 2016 and 2015. On October 28, 2016, M&T issued 50,000 shares of Series F Perpetual Fixed-to-Floating Rate Non-cumulative Preferred Stock, par value $1.00 per share and liquidation preference of $10,000 per share. Through October 31, 2026 holders of the Series F preferred stock are entitled to receive, only when, as and if declared by M&T's Board of Directors, non-cumulative cash dividends at an annual rate of 5.125%, payable semi-annually in arrears. Subsequent to November 1, 2026 holders will be entitled to receive quarterly cash dividends at an annual rate of three-month London Interbank Offered Rate ("LIBOR") plus 352 basis points. The Series F preferred stock may be redeemed at M&T's option, in whole or in part, on any dividend payment date on or after November 1, 2026 or, in whole but not in part, at any time within 90 days following a regulatory capital treatment event whereby the full liquidation value of the shares no longer qualifies as Tier 1 capital. On December 15, 2016, M&T redeemed 50,000 shares of the

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Series D Fixed Rate Non-cumulative Perpetual Preferred Stock, par value $1.00 per share and liquidation preference of $10,000 per share, having received the approval of the Federal Reserve to redeem such shares after issuing the Series F preferred stock. On February 11, 2014, M&T issued 350,000 shares of Series E Perpetual Fixed-to-Floating Rate Non-cumulative Preferred Stock, par value $1.00 per share and liquidation preference of $1,000 per share. Dividends, if and when 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. Further information concerning M&T's preferred stock can be found in note 10 of Notes to Financial Statements.

Common shareholders' equity was $15.3 billion, or $97.64 per share, at December 31, 2016, compared with $14.9 billion, or $93.60 per share, at December 31, 2015 and $11.1 billion, or $83.88 per share, at December 31, 2014. In conjunction with the acquisition of Hudson City, M&T issued 25,953,950 common shares, which added $3.1 billion to common shareholders' equity on November 1, 2015. Tangible equity per common share, which excludes goodwill and core deposit and other intangible assets and applicable deferred tax balances, was $67.85 at December 31, 2016, compared with $64.28 and $57.06 at December 31, 2015 and 2014, respectively. The Company's ratio of tangible common equity to tangible assets was 8.92% at December 31, 2016, compared with 8.69% and 8.11% at December 31, 2015 and 2014, respectively. Reconciliations of total common shareholders' equity and tangible common equity and total assets and tangible assets as of December 31, 2016, 2015 and 2014 are presented in table 2. During 2016, 2015 and 2014, the ratio of average total shareholders' equity to average total assets was 13.21%, 13.00% and 13.13%, respectively. The ratio of average common shareholders' equity to average total assets was 12.16%, 11.79% and 11.83% in 2016, 2015 and 2014, respectively.

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 losses on investment securities reflected in shareholders' equity, net of applicable tax effect, were $16 million, or $.10 per common share, at December 31, 2016, compared with net unrealized gains of $48 million, or $.30 per common share, at December 31, 2015 and $127 million, or $.96 per common share, at December 31, 2014. Changes in unrealized gains and losses on investment securities are predominantly reflective of the impact of changes in interest rates on the values of such securities. Information about unrealized gains and losses as of December 31, 2016 and 2015 is included in note 3 of Notes to Financial Statements.

Reflected in net unrealized losses at December 31, 2016 were pre-tax effect unrealized gains of $135 million on available-for-sale investment securities with an amortized cost of $4.5 billion and pre-tax effect unrealized losses of $141 million on securities with an amortized cost of $8.8 billion. The pre-tax effect unrealized losses reflect $17 million of losses on trust preferred securities issued by financial institutions having an amortized cost of $102 million and an estimated fair value of $85 million (generally considered Level 2 valuations). Further information concerning the Company's valuations of available-for-sale investment securities is provided in note 20 of Notes to Financial Statements.

As of December 31, 2016, based on a review of each of the 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. During 2016, the Company sold all of its collateralized debt obligations held in the available-for-sale investment securities portfolio for a pre-tax gain of $30 million. Those securities had been obtained through the acquisition of other banks. Divestiture of the majority of the securities would have been required prior to July 21, 2017 in accordance with the Volcker Rule. As of December 31, 2016, the Company did not intend to sell nor is it anticipated that it would be required to sell any of its 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 20 of the Notes to Financial Statements. For additional information concerning the Volcker Rule, refer to Part I, Item 1 of this Form 10-K under the heading "Volcker Rule."

The Company assessed 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 December 31, 2016 and 2015, the Company had in its held-to-maturity portfolio privately issued mortgage-backed securities with an amortized cost basis of $158 million and $181 million, respectively, and a fair value of $121 million and $142 million, respectively. At December 31, 2016, 85% of the mortgage-backed securities were in the most senior tranche of the securitization structure with 25% 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 December 31, 2016, 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 December 31, 2016. The weighted-average default percentage and loss severity assumptions utilized in the Company's internal modeling were 30% and 79%, respectively. The Company has concluded that as of December 31, 2016, those 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.

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 $273 million, or $1.75 per common share, at December 31, 2016, $297 million, or $1.86 per common share, at December 31, 2015 and $306 million, or $2.31 per common share, at December 31, 2014. Information about the funded status of the Company's pension and other postretirement benefit plans is included in note 12 of Notes to Financial Statements.

On June 29, 2016, M&T announced that the Federal Reserve did not object to M&T's revised 2016 Capital Plan. That plan includes the repurchase of up to $1.15 billion of common shares during the four-quarter period starting on July 1, 2016 and an increase in the quarterly common stock dividend in the first quarter of 2017 of up to $.05 per share to $.75 per share. M&T may also 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, 2015, consistent with the contractual terms of those instruments. Dividends are subject to declaration by M&T's Board of Directors. Furthermore, on July 19, 2016, M&T's Board of Directors authorized a new stock repurchase program to repurchase up to $1.15 billion of shares of M&T's common stock subject to all applicable regulatory limitations, including those set forth in M&T's 2016 Capital Plan. During 2016, in accordance with the 2016 and 2015 Capital Plans, M&T repurchased 5,607,595 common shares for $641 million. The remaining amount of authorized common share repurchases pursuant to the 2016 Capital Plan at December 31, 2016 totaled $763 million, of which $538 million should be repurchased in the first quarter of 2017 and $225 million in the second quarter. The Company did not repurchase any shares of its common stock in 2015 or 2014.

Cash dividends declared on M&T's common stock totaled $442 million in 2016, compared with $375 million and $371 million in 2015 and 2014, respectively. Dividends per common share totaled $2.80 in each of 2016, 2015 and 2014. Dividends of $81 million in each of 2016 and 2015 and $76 million in 2014 were declared on preferred stock in accordance with the terms of each series. No dividends were declared in 2016 on the Series F preferred stock issued in October 2016.

M&T and its subsidiary banks are required to comply with applicable capital adequacy standards established by the federal banking agencies. Pursuant to those regulations, the minimum capital ratios are as follows:

- 4.5% Common Equity Tier 1 ("CET1") to risk-weighted assets (each as defined in the capital regulations);
- 6.0% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets (each as defined in the capital regulations);
- 8.0% Total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets (each as defined in the capital regulations); and
- 4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio"), as defined in the capital regulations.

In addition, capital regulations provide for the phase-in of a "capital conservation buffer" composed entirely of CET1 on top of these minimum risk-weighted asset ratios. When fully phased-in on January 1, 2019 the capital conservation buffer will be 2.5%. For 2016, the phase-in transition portion of that buffer was .625%. The regulatory capital amounts and ratios of M&T and its bank subsidiaries as of December 31, 2016 are presented in note 23 of Notes to Financial Statements. A detailed discussion of the regulatory capital rules is included in Part I, Item 1 of this Form 10-K under the heading "Capital Requirements."

The Company is also subject to the comprehensive regulatory framework applicable to bank and financial holding companies and their subsidiaries, which includes regular examinations by a number of federal regulators. Regulation of financial institutions such as M&T and its subsidiaries is intended primarily for the protection of depositors, the Deposit Insurance Fund of the FDIC and the banking and financial system as a whole, and generally is not intended for the protection of shareholders, investors or creditors other than insured depositors. Changes in laws, regulations and regulatory policies applicable to the Company's operations can increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive environment in which the Company operates, all of which could have a material effect on the business, financial condition or results of operations of the Company and in M&T's ability to pay dividends. For additional information concerning this comprehensive regulatory framework, refer to Part I, Item 1 of this Form 10-K.

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 were 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. M&T and M&T Bank have since made substantial progress in implementing a BSA/AML program with significantly expanded scale and scope, as recognized by the Board of Governors of the Federal Reserve System in its Order approving M&T and M&T Bank’s applications to acquire Hudson City and Hudson City Savings Bank. M&T and M&T Bank are continuing to work towards the resolution of all outstanding issues in the written agreement.

Fourth Quarter Results

Net income during the fourth quarter of 2016 was $331 million, up 22% from $271 million in the year-earlier quarter. The final 2015 quarter reflected the impact of merger-related expenses associated with the acquisition of Hudson City. There were no merger-related expenses in the fourth quarter of 2016. Diluted and basic earnings per common share were each $1.98 in the final quarter of 2016, compared with diluted and basic earnings per common share of $1.65 in the year-earlier quarter. The annualized rates of return on average assets and average common shareholders’ equity for the fourth quarter of 2016 were 1.05% and 8.13%, respectively, compared with .93% and 7.22%, respectively, in the similar quarter of 2015.

Net operating income totaled $336 million in the fourth quarter of 2016, compared with $338 million in the year-earlier quarter. Diluted net operating earnings per common share were $2.01 and $2.09 in the fourth quarters of 2016 and 2015, respectively. The annualized net operating returns on average tangible assets and average tangible common equity in the final quarter of 2016 were 1.10% and 11.93%, respectively, compared with 1.21% and 13.26%, respectively, in the corresponding 2015 quarter. Reconciliations of GAAP results with non-GAAP results for the quarterly periods of 2016 and 2015 are provided in table 24.

Net interest income on a taxable-equivalent basis aggregated $883 million in the last quarter of 2016, 9% above $813 million recorded in the year-earlier period. That improvement was attributable to a 10% increase in average earning assets, which grew to $114.3 billion in the recent quarter from $103.6 billion in the fourth quarter of 2015. The growth in earning assets was largely the result of higher average loans, which rose to $90.0 billion in the fourth quarter of 2016, up $8.9 billion, or 11%, from $81.1 billion in the year-earlier quarter. Partially offsetting the favorable impact of the asset growth was a four basis point narrowing of the net interest margin to 3.08% in the recent quarter from 3.12% in 2015’s fourth quarter. Average commercial loan and lease balances were $21.9 billion in the recent quarter, up $1.7 billion or 8% from $20.2 billion in the fourth quarter of 2015. Commercial real estate loans averaged $32.8 billion in the fourth quarter of 2016, up $3.8 billion or 13% from $29.0 billion in the year-earlier quarter. The growth in commercial loans and commercial real estate loans reflects higher loan demand by customers. Included in the commercial real estate loan portfolio were average balances of loans held for sale of $524 million in the final 2016 quarter, compared with $145 million in the year-earlier period. Average residential real estate loans outstanding increased $2.7 billion to $23.1 billion in the recent quarter from $20.4 billion in the fourth quarter of 2015, reflecting the full-quarter impact of loans acquired in the Hudson City acquisition, net of loan repayments during 2016. Included in the residential real estate loan portfolio were average balances of loans held for sale of $410 million in the recent quarter, compared with $368 million in the fourth quarter of 2015. Consumer loans averaged $12.1 billion in the recent quarter, up $576 million, or 5%, from $11.5 billion in the final 2015 quarter. That increase was primarily due to higher average balances of automobile and recreational vehicle loans. Total loans and leases at December 31, 2016 rose $1.2 billion to $90.9

billion from $89.6 billion at September 30, 2016. That growth was predominantly attributable to an increase in outstanding commercial real estate loans. The net interest spread narrowed in the fourth quarter of 2016 to 2.88%, down six basis points from 2.94% in the last quarter of 2015. The yield on earning assets in the final 2016 quarter was 3.45%, down three basis points from the year-earlier quarter. That decline reflects the impact of higher average balances of relatively low-yielding interest-bearing deposits held at the Federal Reserve Bank of New York and lower yields on investment securities. The rate paid on interest-bearing liabilities in the fourth quarter of 2016 was .57%, up three basis points from .54% in the similar 2015 quarter. That increase was largely due to higher rates paid on interest-bearing deposits, in part associated with time deposits obtained in the Hudson City acquisition. The contribution of net interest-free funds to the Company’s net interest margin was .20% in the recent quarter, compared with .18% in the fourth 2015 quarter. As a result, the Company’s net interest margin narrowed to 3.08% in the final quarter of 2016 from 3.12% in the corresponding period of 2015.

The provision for credit losses in the final quarter of 2016 was $62 million, compared with $58 million in the year-earlier period. A $21 million provision for credit losses was recorded in the fourth quarter of 2015, in accordance with GAAP, related to loans obtained in the acquisition of Hudson City that had a fair value in excess of outstanding principal. GAAP provides that an allowance for credit losses on such loans be recorded beyond the recognition of the fair value of the loans at the acquisition date. Net loan charge-offs were $49 million in the recent quarter, representing an annualized .22% of average loans and leases outstanding, compared with $36 million or .18% during the fourth quarter of 2015. Net charge-offs included: residential real estate loans of $5 million in the final 2016 quarter, compared with $2 million in 2015’s fourth quarter; net charge-offs of commercial real estate loans of $1 million in the recent quarter, compared with net recoveries of $2 million in the year-earlier quarter; net charge-offs of commercial loans of $17 million in the fourth quarter of 2016, compared with net recoveries of $3 million in year-earlier quarter; and net charge-offs of consumer loans of $26 million in the recently completed quarter, compared with $39 million 2015’s fourth quarter. Net charge-offs of commercial loans and leases in the fourth quarter of 2016 included a $12 million charge-off associated with a multi-regional manufacturer of refractory brick and other castable products. Reflected in net recoveries of previously charged-off commercial loans in the fourth quarter of 2015 were $10 million of recoveries from a motor vehicle-related parts wholesaler. Net charge-offs of consumer loans in the fourth quarter of 2015 included a $20 million charge-off associated with a personal usage loan obtained in a previous acquisition.

Other income aggregated $465 million in the three-month period ended December 31, 2016, up from $448 million in the similar period of 2015. That improvement resulted predominantly from higher mortgage banking revenues and trust income. The $11 million rise in mortgage banking revenues includes higher commercial mortgage banking revenues of $9 million resulting from increased loan origination and sales activities. The $7 million increase in trust income was primarily the result of higher revenues in the ICS business reflecting increased fees earned from money-market funds and stronger sales activities.

During the fourth quarter of 2016, other expense aggregated $769 million, compared with $786 million in the similar 2015 quarter. Included in such amounts are expenses considered to be “nonoperating” in nature consisting of amortization of core deposit and other intangible assets of $9 million and $10 million during the quarters ended December 31, 2016 and 2015, respectively, and merger-related expenses of $76 million in the fourth quarter of 2015. Exclusive of those nonoperating expenses, noninterest operating expenses were $760 million in the fourth quarter of 2016, compared with $701 million in the year-earlier quarter. The increased operating expenses in the recently completed quarter reflect the $30 million contribution to The M&T Charitable Foundation and higher expenses for salaries and employee benefits and FDIC assessments. The recent quarter increase in salaries and employee benefits resulted largely from higher incentive compensation costs as compared with 2015's fourth quarter. The Company's efficiency ratio during the fourth quarters of 2016 and 2015 was 56.4% and 55.5%, respectively. Table 24 includes a reconciliation of other expense to noninterest operating expense and the calculation of the efficiency ratio for each of the quarters of 2016 and 2015.

Segment Information

In accordance with GAAP, the Company's reportable segments have been determined based upon its 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 of Notes to Financial Statements. 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, reported segments and the financial information of the reported segments are 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. During 2016, the Company revised its funds transfer pricing allocation related to borrowings and to the residential real estate loans obtained in the acquisition of Hudson City, retroactive to 2015. Accordingly, financial information for the Discretionary Portfolio segment and the "All Other" category for 2015 has been reclassified to conform to the current allocation methodology. Financial information about the Company's segments, including the impact of the change noted above, is presented in note 22 of Notes to Financial Statements.

The Business Banking segment provides a wide range of services to small businesses and professionals within markets served by the Company through the Company's branch network, business banking centers and other delivery channels such as telephone banking, Internet banking and automated teller machines. Services and products offered by this segment include various business loans and leases, including loans guaranteed by the Small Business Administration, business credit cards, deposit products, and financial services such as cash management, payroll and direct deposit, merchant credit card and letters of credit. The Business Banking segment recorded net income of $93 million in 2016, compared with $99 million in 2015. That 5% decline was attributable to higher centrally-allocated costs largely associated with the acquired Hudson City operations, an increase in FDIC assessments of $3 million and higher personnel costs and advertising and marketing expenses of $2 million each, offset, in part, by a $15 million rise in net interest income and a $3 million decline in the provision for credit losses. The growth in net interest income reflected an increase in average outstanding deposit balances of $986 million. Net income for this segment also aggregated $99 million in 2014. Declines in 2015 in net interest income of $7 million and service charges on deposit accounts of $2 million were offset by a $3 million decrease in the provision for credit losses, due to lower net charge-offs, a $4 million increase in merchant discount and credit card fees and lower costs for FDIC assessments of $2 million. The decline in net interest income resulted from a narrowing of the net interest margin on deposits of 18 basis points offset, in part, by an increase in average outstanding deposit balances of $615 million.

The Commercial Banking segment provides a wide range of credit products and banking services for middle-market and large commercial customers, mainly within the markets served by the Company. Services provided by this segment include commercial lending and leasing, letters of credit, deposit products, and cash management services. The Commercial Banking segment

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contributed net income of $412 million in 2016, compared with $431 million in 2015. That decline was due to the following factors: lower letter of credit and other credit-related fees of $15 million, largely due to loan syndication fees; higher FDIC assessments of $13 million; an increase in the provision for credit losses of $10 million; lower gains on the sale of previously leased equipment of $9 million; an increase in personnel costs of $5 million; and higher allocated operating expenses associated with data processing, risk management and other support services provided to the Commercial Banking segment. Those unfavorable factors were largely offset by a $32 million rise in net interest income and a $4 million increase in corporate advisory fees. The higher net interest income resulted from higher average outstanding loan and deposit balances of $1.4 billion and $794 million, respectively. Net income for the Commercial Banking segment totaled $403 million in 2014. The 7% improvement in net income in 2015 as compared with 2014 resulted from: a $7 million rise in net interest income, reflecting growth in average outstanding loan and deposit balances of $1.3 billion and $569 million, respectively, partially offset by a narrowing of the net interest margin on loans and deposits of eight basis points and six basis points, respectively; increased gains from the sale of equipment previously leased to commercial customers of $15 million; higher credit-related and other fees of $8 million; and an $8 million decline in the provision for credit losses, reflecting a partial recovery of $10 million associated with a relationship with a motor vehicle-related parts wholesaler previously charged-off in 2013.

The Commercial Real Estate segment provides credit and deposit services to its customers. Real estate securing loans in this segment is generally located in New York State, Maryland, New Jersey, Pennsylvania, Delaware, Connecticut, Virginia, West Virginia, the District of Columbia and the western portion of the United States. Commercial real estate loans may be secured by apartment/multifamily buildings; office, retail and industrial space; or other types of collateral. Activities of this segment also include the origination, sales and servicing of commercial real estate loans through the Fannie Mae DUS program and other programs. Commercial real estate loans held for sale are included in this segment. Net income of the Commercial Real Estate segment aggregated $350 million in 2016, up 3% from $341 million in 2015. That improvement resulted from: a rise in net interest income of $30 million; higher mortgage banking revenues of $27 million, resulting from increased loan origination activities; and higher trading account and foreign exchange gains of $8 million, largely due to increased volumes of interest rate swap transactions executed by commercial customers. Those favorable factors were partially offset by increased FDIC assessments of $14 million, a $10 million rise in personnel-related expenses, a $5 million increase in the provision for credit losses and higher allocated operating expenses associated with data processing, risk management and other support services provided to the Commercial Real Estate segment. The higher net interest income was attributable to a $2.3 billion increase in average loan balances and a 19 basis point widening of the net interest margin on deposits, offset, in part, by a 22 basis point narrowing of the net interest margin on loans. Net income for this segment was $316 million in 2014. The 8% increase in net income in 2015 as compared with 2014 reflected increases in net interest income and mortgage banking revenues. The $23 million rise in net interest income resulted largely from increases in average outstanding loan and deposit balances of $1.4 billion and $393 million, respectively, partially offset by a narrowing of the net interest margin on deposits and loans of 11 basis points and six basis points, respectively. The increase in mortgage banking revenues of $13 million was largely reflective of an increase in loans originated for sale and higher servicing revenues.

The Discretionary Portfolio segment includes investment and trading account securities, residential real estate loans (including those obtained in the Hudson City acquisition) and other assets; short-term and long-term borrowed funds; brokered deposits; and Cayman Islands office deposits. This segment also provides foreign exchange services to customers. The Discretionary Portfolio segment recorded net income of $164 million in 2016 and $59 million in 2015. Reflected in 2016's results were pre-tax investment securities gains of $30 million from the sale of the Company's collateralized debt obligations. In addition to the investment securities gains, the improved performance of this segment in 2016 as compared with 2015 was due to a $248 million rise in net interest income, which reflects the impact of the acquisition of Hudson City. Those favorable factors were partially offset by increases of $25 million in the provision for credit losses and $16 million in FDIC assessments, and higher loan and other real estate servicing costs. Net income contributed by the Discretionary Portfolio segment totaled $48 million in 2014. The higher net income in 2015 as compared with 2014 reflected the impact of the residential real estate loans obtained in the November 1, 2015 acquisition of Hudson City. Partially offsetting the favorable impact of those loans on net interest income was a 27 basis point narrowing of the net interest margin on investment securities, resulting from the Company's allocation of funding charges associated with those assets. A $9 million year-over-year decline in the provision for credit losses also contributed to the improvement in the segment's net income. Those favorable factors were partially offset by higher loan servicing and other costs.

The Residential Mortgage Banking segment originates and services residential mortgage loans and sells substantially all of those loans in the secondary market to investors or to the Discretionary Portfolio segment. In addition to the geographic regions served by or contiguous with the Company's branch network, the Company maintains mortgage loan origination offices in several western states. The Company periodically purchases the rights to service loans and also sub-services residential real estate loans for others. Residential real estate loans held for sale are included in this segment. The Residential Mortgage Banking segment's net income declined 10% to $80 million in 2016 from $89 million in 2015. That decline reflected lower revenues from servicing residential real estate loans for unaffiliated parties of $23 million, offset, in part, by a $7 million rise in net interest income and increased intersegment revenues. Net income for the Residential Mortgage Banking segment in 2015 was up 5% from $85 million in 2014. The improved performance in 2015 resulted from lower amortization of capitalized servicing rights of $19 million (reflecting lower prepayment trends), partially offset by increased professional services, personnel costs and centrally-allocated loan servicing expenses.

The Retail Banking segment offers a variety of services to consumers through several delivery channels which include branch offices, automated teller machines, and telephone, mobile and Internet banking. The Company has branch offices in New York State, Maryland, New Jersey, Pennsylvania, Delaware, Connecticut, Virginia, West Virginia and the District of Columbia. Credit services offered by this segment include consumer installment loans, automobile loans (originated both directly and indirectly through dealers), home equity loans and lines of credit and credit cards. The segment also offers to its customers deposit products, including demand, savings and time accounts; investment products, including mutual funds and annuities; and other services. Net income for the Retail Banking segment was $275 million in 2016, up 3% from $268 million in 2015. An increase in net interest income of $157 million, predominantly due to the impact of deposits obtained in the acquisition of Hudson City, was largely offset by the following unfavorable factors: a $47 million rise in the provision for credit losses, including the accelerated partial charge-offs of $32 million recognized on loans for which the customer was either bankrupt or deceased; increases in expenses for personnel, equipment and net occupancy, and advertising and marketing of $45 million, $18 million and $11 million, respectively, that include the impact of the expanded operations associated with the acquisition of Hudson City; higher FDIC assessments of $10 million; and higher allocated operating expenses associated with data processing, risk management and other support services provided from centralized service areas. This segment's net income declined 2% in 2015 from $273 million in 2014. An $8 million rise in net interest income, largely due to increases in average outstanding loan balances, and a $4 million decline in the provision for credit losses, largely due to lower net charge-offs, were more than offset by a $6 million decline in fees earned for providing deposit account services, a $5 million decrease in servicing revenues related to securitized automobile loans, and higher operating expenses, including expenses associated with operations added in the Hudson City acquisition.

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 expenses resulting from 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 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 of $58 million, $206 million and $158 million in 2016, 2015 and 2014, respectively. Reflected in 2015’s results was the $45 million pre-tax gain related to the sale of the trade processing business within the retirement services division. The improved performance in 2016 as compared with 2015 was predominantly due to the favorable 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 and a $61 million decrease in merger-related expenses associated with the acquisition of Hudson City. The most significant factors contributing to the unfavorable performance in 2015 as compared with 2014 include: higher personnel-related expenses, including the impact of merger-related expenses and increased pension costs; a decline in trust income, predominantly due to the impact of the April 2015 sale of the trade processing business; and higher charitable contributions. Those unfavorable factors were offset, in part, by lower professional services costs, largely related to elevated 2014 costs associated with BSA/AML and other company-wide initiatives, the $45 million gain from the sale of the trade processing business, and the favorable impact from the Company’s allocation methodologies.

Recent Accounting Developments

A discussion of recent accounting developments is included in note 26 of Notes to Financial Statements.

Forward-Looking Statements

Management’s Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Annual 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,” “continue, “positions,” “prospects” or “potential,” by future conditional verbs such as “will,” “would,” “should,” “could,” or “may,” or by 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 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 23

QUARTERLY TRENDS

	2016 Quarters				2015 Quarters			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Earnings and dividends								
Amounts in thousands, except per share								
Interest income (taxable-equivalent basis)	$990,284	976,240	977,143	979,166	908,734	776,274	766,374	743,925
Interest expense	107,137	111,175	106,802	100,870	95,333	77,199	77,226	78,499
Net interest income	883,147	865,065	870,341	878,296	813,401	699,075	689,148	665,426
Less: provision for credit losses	62,000	47,000	32,000	49,000	58,000	44,000	30,000	38,000
Other income	465,459	491,350	448,254	420,933	448,108	439,699	497,027	440,203
Less: other expense	769,103	752,392	749,895	776,095	786,113	653,816	696,628	686,375
Income before income taxes	517,503	557,023	536,700	474,134	417,396	440,958	459,547	381,254
Applicable income taxes	179,549	200,314	194,147	169,274	140,074	154,309	166,839	133,803
Taxable-equivalent adjustment	7,383	6,725	6,522	6,332	6,357	6,248	6,020	5,838
Net income	$330,571	349,984	336,031	298,528	270,965	280,401	286,688	241,613
Net income available to common shareholders-diluted	$307,797	326,998	312,974	275,748	248,059	257,346	263,481	218,837
Per common share data								
Basic earnings	$1.98	2.10	1.98	1.74	1.65	1.94	1.99	1.66
Diluted earnings	1.98	2.10	1.98	1.73	1.65	1.93	1.98	1.65
Cash dividends	$.70	.70	.70	.70	.70	.70	.70	.70
Average common shares outstanding								
Basic	155,123	155,493	157,802	158,734	150,027	132,630	132,356	132,049
Diluted	155,700	156,026	158,341	159,181	150,718	133,376	133,116	132,769
Performance ratios, annualized								
Return on								
Average assets	1.05%	1.12%	1.09%	.97%	.93%	1.13%	1.18%	1.02%
Average common shareholders' equity	8.13%	8.68%	8.38%	7.44%	7.22%	8.93%	9.37%	7.99%
	3.08%	3.05%	3.13%	3.18%	3.12%	3.14%	3.17%	3.17%

Net interest margin on average earning assets (taxable-equivalent basis)								
Nonaccrual loans to total loans and leases, net of unearned discount	1.01 %	.93 %	.96 %	1.00 %	.91 %	1.15 %	1.17 %	1.18 %
Net operating (tangible) results(a)								
Net operating income (in thousands)	$336,095	355,929	350,604	320,064	337,613	282,907	290,341	245,776
Diluted net operating income per common share	2.01	2.13	2.07	1.87	2.09	1.95	2.01	1.68
Annualized return on								
Average tangible assets	1.10 %	1.18 %	1.18 %	1.09 %	1.21 %	1.18 %	1.24 %	1.08 %
Average tangible common shareholders' equity	11.93 %	12.77 %	12.68 %	11.62 %	13.26 %	12.98 %	13.76 %	11.90 %
Efficiency ratio(b)	56.42 %	55.92 %	55.06 %	57.00 %	55.53 %	57.05 %	58.23 %	61.46 %
Balance sheet data								
In millions, except per share								
Average balances								
Total assets(c)	$125,734	124,725	123,706	123,252	115,052	98,515	97,598	95,892
Total tangible assets(c)	121,079	120,064	119,039	118,577	110,772	94,989	94,067	92,346
Earning assets	114,254	112,864	111,872	111,211	103,587	88,446	87,333	85,212
Investment securities	15,417	14,361	14,914	15,348	15,786	14,441	14,195	13,376
Loans and leases, net of unearned discount	89,977	88,732	88,155	87,584	81,110	67,849	67,670	66,587
Deposits	96,914	95,852	94,033	92,391	85,657	73,821	72,958	71,698
Common shareholders' equity(c)	15,181	15,115	15,145	15,047	13,775	11,555	11,404	11,227
Tangible common shareholders' equity(c)	10,526	10,454	10,478	10,372	9,495	8,029	7,873	7,681
At end of quarter								
Total assets(c)	$123,449	126,841	123,821	124,626	122,788	97,797	97,080	98,378

Total tangible assets(c)	118,797	122,183	119,157	119,955	118,109	94,272	93,552	94,834
Earning assets	112,192	115,293	112,057	113,005	110,802	87,807	86,990	87,959
Investment securities	16,250	14,734	14,963	15,467	15,656	14,495	14,752	14,393
Loans and leases, net of unearned discount	90,853	89,646	88,522	87,872	87,489	68,540	68,131	67,099
Deposits	95,494	98,137	94,650	94,215	91,958	72,945	72,630	73,594
Common shareholders' equity, net of undeclared cumulative preferred dividends(c)	15,252	15,106	15,237	15,120	14,939	11,687	11,433	11,294
Tangible common shareholders' equity(c)	10,600	10,448	10,573	10,449	10,260	8,162	7,905	7,750
Equity per common share	97.64	97.47	96.49	95.00	93.60	87.67	85.90	84.95
Tangible equity per common share	67.85	67.42	66.95	65.65	64.28	61.22	59.39	58.29
Market price per common share								
High	$158.35	120.40	121.11	119.24	127.39	134.00	128.70	129.58
Low	112.25	111.13	107.01	100.08	111.50	111.86	117.86	111.78
Closing	156.43	116.10	118.23	111.00	121.18	121.95	124.93	127.00

(a) Excludes amortization and balances related to goodwill and core deposit and other intangible assets and merger-related 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 24.

(b) Excludes impact of merger-related 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 24.

Table 24

RECONCILIATION OF QUARTERLY GAAP TO NON-GAAP MEASURES

	2016 Quarters				2015 Quarters			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Income statement data								
Dollars in thousands, except per share								
Net income								
Net income	$330,571	349,984	336,031	298,528	270,965	280,401	286,688	241,613
Amortization of core deposit and other intangible assets(a)	5,524	5,945	6,936	7,488	5,828	2,506	3,653	4,163
Merger-related expenses(a)	—	—	7,637	14,048	60,820	—	—	—
Net operating income	$336,095	355,929	350,604	320,064	337,613	282,907	290,341	245,776
Earnings per common share								
Diluted earnings per common share	$1.98	2.10	1.98	1.73	1.65	1.93	1.98	1.65
Amortization of core deposit and other intangible assets(a)	.03	.03	.04	.05	.04	.02	.03	.03
Merger-related expenses(a)	—	—	.05	.09	.40	—	—	—
Diluted net operating earnings per common share	$2.01	2.13	2.07	1.87	2.09	1.95	2.01	1.68
Other expense								
Other expense	$769,103	752,392	749,895	776,095	786,113	653,816	696,628	686,375
Amortization of core deposit and other intangible assets	(9,089)	(9,787)	(11,418)	(12,319)	(9,576)	(4,090)	(5,965)	(6,793)
Merger-related expenses	—	—	(12,593)	(23,162)	(75,976)	—	—	—
Noninterest operating expense	$760,014	742,605	725,884	740,614	700,561	649,726	690,663	679,582

Merger-related expenses								
Salaries and employee benefits	$—	—	60	5,274	51,287	—	—	—
Equipment and net occupancy	—	—	339	939	3	—	—	—
Outside data processing and software	—	—	352	715	785	—	—	—
Advertising and marketing	—	—	6,327	4,195	79	—	—	—
Printing, postage and supplies	—	—	545	937	504	—	—	—
Other costs of operations	—	—	4,970	11,102	23,318	—	—	—
Other expense	—	—	12,593	23,162	75,976	—	—	—
Provision for credit losses	—	—	—	—	21,000	—	—	—
Total	$—	—	12,593	23,162	96,976	—	—	—
Efficiency ratio								
Noninterest operating expense (numerator)	$760,014	742,605	725,884	740,614	700,561	649,726	690,663	679,582
Taxable-equivalent net interest income	883,147	865,065	870,341	878,296	813,401	699,075	689,148	665,426
Other income	465,459	491,350	448,254	420,933	448,108	439,699	497,027	440,203
Less: Gain (loss) on bank investment securities	1,566	28,480	264	4	(22)	—	(10)	(98)
Denominator	$1,347,040	1,327,935	1,318,331	1,299,225	1,261,531	1,138,774	1,186,185	1,105,727
Efficiency ratio	56.42%	55.92%	55.06%	57.00%	55.53%	57.05%	58.23%	61.46%
Balance sheet data								
In millions								
Average assets								
Average assets	$125,734	124,725	123,706	123,252	115,052	98,515	97,598	95,892
Goodwill	(4,593)	(4,593)	(4,593)	(4,593)	(4,218)	(3,513)	(3,514)	(3,525)
Core deposit and other intangible assets	(102)	(112)	(122)	(134)	(101)	(20)	(25)	(31)
Deferred taxes	40	44	48	52	39	7	8	10
Average tangible assets	$121,079	120,064	119,039	118,577	110,772	94,989	94,067	92,346
Average common equity								
Average total equity	$16,673	16,347	16,377	16,279	15,007	12,787	12,636	12,459
Preferred stock	(1,492)	(1,232)	(1,232)	(1,232)	(1,232)	(1,232)	(1,232)	(1,232)
Average common equity	15,181	15,115	15,145	15,047	13,775	11,555	11,404	11,227
Goodwill	(4,593)	(4,593)	(4,593)	(4,593)	(4,218)	(3,513)	(3,514)	(3,525)

Core deposit and other intangible assets	(102)	(112)	(122)	(134)	(101)	(20)	(25)	(31)
Deferred taxes	40	44	48	52	39	7	8	10
Average tangible common equity	$10,526	10,454	10,478	10,372	9,495	8,029	7,873	7,681
At end of quarter								
Total assets								
Total assets	$123,449	126,841	123,821	124,626	122,788	97,797	97,080	98,378
Goodwill	(4,593)	(4,593)	(4,593)	(4,593)	(4,593)	(3,513)	(3,513)	(3,525)
Core deposit and other intangible assets	(98)	(107)	(117)	(128)	(140)	(18)	(22)	(28)
Deferred taxes	39	42	46	50	54	6	7	9
Total tangible assets	$118,797	122,183	119,157	119,955	118,109	94,272	93,552	94,834
Total common equity								
Total equity	$16,487	16,341	16,472	16,355	16,173	12,922	12,668	12,528
Preferred stock	(1,232)	(1,232)	(1,232)	(1,232)	(1,232)	(1,232)	(1,232)	(1,232)
Undeclared dividends - cumulative preferred stock	(3)	(3)	(3)	(3)	(2)	(3)	(3)	(2)
Common equity, net of undeclared cumulative preferred dividends	15,252	15,106	15,237	15,120	14,939	11,687	11,433	11,294
Goodwill	(4,593)	(4,593)	(4,593)	(4,593)	(4,593)	(3,513)	(3,513)	(3,525)
Core deposit and other intangible assets	(98)	(107)	(117)	(128)	(140)	(18)	(22)	(28)
Deferred taxes	39	42	46	50	54	6	7	9
Total tangible common equity	$10,600	10,448	10,573	10,449	10,260	8,162	7,905	7,750

(a) After any related tax effect.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Incorporated by reference to the discussion contained in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the captions "Liquidity, Market Risk, and Interest Rate Sensitivity" (including Table 21) and "Capital."

Item 8. Financial Statements and Supplementary Data.

Financial Statements and Supplementary Data consist of the financial statements as indexed and presented below and Table 23 "Quarterly Trends" presented in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Index to Financial Statements and Financial Statement Schedules

Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting at M&T Bank Corporation and subsidiaries ("the Company"). Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016 based on criteria described in "Internal Control — Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2016.

The consolidated financial statements of the Company have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, that was engaged to express an opinion as to the fairness of presentation of such financial statements. PricewaterhouseCoopers LLP was also engaged to assess the effectiveness of the Company's internal control over financial reporting. The report of PricewaterhouseCoopers LLP follows this report.

M&T BANK CORPORATION

ROBERT G. WILMERS
Chairman of the Board and Chief Executive Officer

Darren J. King
Executive Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of

M&T Bank Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity present fairly, in all material respects, the financial position of M&T Bank Corporation and its subsidiaries at December 31, 2016 and December 31, 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Buffalo, New York

February 22, 2017

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M&T BANK CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheet

(Dollars in thousands, except per share)	December 31 2016	2015
Assets		
Cash and due from banks	$1,320,549	$1,368,040
Interest-bearing deposits at banks	5,000,638	7,594,350
Trading account	323,867	273,783
Investment securities (includes pledged securities that can be sold or repledged of $1,203,473 at December 31, 2016; $2,136,712 at December 31, 2015)		
Available for sale (cost: $13,338,301 at December 31, 2016; $12,138,636 at December 31, 2015)	13,332,072	12,242,671
Held to maturity (fair value: $2,451,222 at December 31, 2016; $2,864,147 at December 31, 2015)	2,457,278	2,859,709
Other (fair value: $461,118 at December 31, 2016; $554,059 at December 31, 2015)	461,118	554,059
Total investment securities	16,250,468	15,656,439
Loans and leases	91,101,677	87,719,234
Unearned discount	(248,261)	(229,735)
Loans and leases, net of unearned discount	90,853,416	87,489,499
Allowance for credit losses	(988,997)	(955,992)
Loans and leases, net	89,864,419	86,533,507
Premises and equipment	675,263	666,682
Goodwill	4,593,112	4,593,112
Core deposit and other intangible assets	97,655	140,268
Accrued interest and other assets	5,323,235	5,961,703
Total assets	$123,449,206	$122,787,884
Liabilities		
Noninterest-bearing deposits	$32,813,896	$29,110,635
Savings and interest-checking deposits	52,346,207	49,566,644
Time deposits	10,131,846	13,110,392
Deposits at Cayman Islands office	201,927	170,170
Total deposits	95,493,876	91,957,841
Federal funds purchased and agreements to repurchase securities	163,442	150,546
Other short-term borrowings	—	1,981,636
Accrued interest and other liabilities	1,811,431	1,870,714
Long-term borrowings	9,493,835	10,653,858
Total liabilities	106,962,584	106,614,595
Shareholders' equity		
Preferred stock, $1.00 par, 1,000,000 shares authorized;	1,231,500	1,231,500

Issued and outstanding: Liquidation preference of $1,000 per share: 731,500 shares at December 31, 2016 and December 31, 2015; Liquidation preference of $10,000 per share: 50,000 shares at December 31, 2016 and December 31, 2015		
Common stock, $.50 par, 250,000,000 shares authorized, 159,945,678 shares issued at December 31, 2016; 159,563,512 shares issued at December 31, 2015	79,973	79,782
Common stock issuable, 32,403 shares at December 31, 2016; 36,644 shares at December 31, 2015	2,145	2,364
Additional paid-in capital	6,676,948	6,680,768
Retained earnings	9,222,488	8,430,502
Accumulated other comprehensive income (loss), net	(294,636)	(251,627)
Treasury stock - common, at cost - 3,764,742 shares at December 31, 2016	(431,796)	—
Total shareholders' equity	16,486,622	16,173,289
Total liabilities and shareholders' equity	$123,449,206	$122,787,884

See accompanying notes to financial statements.

M&T BANK CORPORATION AND SUBSIDIARIES

Consolidated Statement of Income

	Year Ended December 31		
(In thousands, except per share)	2016	2015	2014
Interest income			