

M&T BANK CORP  
Form 10-Q  
May 04, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2018

or

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

Commission File Number 1-9861

M&T BANK CORPORATION

(Exact name of registrant as specified in its charter)

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

One M & T Plaza

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

(716) 635-4000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Emerging growth company

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

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

Yes No

Number of shares of the registrant's Common Stock, \$0.50 par value, outstanding as of the close of business on April 30, 2018: 145,235,614 shares.

M&T BANK CORPORATION

FORM 10-Q

For the Quarterly Period Ended March 31, 2018

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET (Unaudited)

Dollars in thousands, except per share		March 31, 2018	December 31, 2017
<b>Assets</b>	Cash and due from banks	\$ 1,291,664	\$ 1,420,888
	Interest-bearing deposits at banks	6,135,434	5,078,903
	Federal funds sold	1,000	—
	Trading account	141,134	132,909
	Investment securities (includes pledged securities that can be sold or repledged of \$470,906 at March 31, 2018; \$487,151 at December 31, 2017) Available for sale (cost: \$10,508,620 at March 31, 2018; \$10,938,796 at December 31, 2017)	10,297,856	10,896,284
	Held to maturity (fair value: \$3,160,215 at March 31, 2018; \$3,341,762 at December 31, 2017)	3,228,756	3,353,213
	Equity and other securities (cost: \$526,593 at March 31, 2018; \$415,028 at December 31, 2017)	539,952	415,028
	<b>Total investment securities</b>	<b>14,066,564</b>	<b>14,664,525</b>
	Loans and leases	87,967,757	88,242,886
	Unearned discount	(257,008 )	(253,903 )
	Loans and leases, net of unearned discount	87,710,749	87,988,983
	Allowance for credit losses	(1,019,671 )	(1,017,198 )
	Loans and leases, net	86,691,078	86,971,785
	Premises and equipment	628,706	646,451
	Goodwill	4,593,112	4,593,112
	Core deposit and other intangible assets	64,957	71,589
	Accrued interest and other assets	5,009,175	5,013,325
	<b>Total assets</b>	<b>\$ 118,622,824</b>	<b>\$ 118,593,487</b>
<b>Liabilities</b>	Noninterest-bearing deposits	\$ 31,817,516	\$ 33,975,180
	Savings and interest-checking deposits	52,724,608	51,698,008
	Time deposits	6,126,442	6,580,962
	Deposits at Cayman Islands office	278,064	177,996
	<b>Total deposits</b>	<b>90,946,630</b>	<b>92,432,146</b>
	Short-term borrowings	1,626,129	175,099
	Accrued interest and other liabilities	1,749,320	1,593,993
	Long-term borrowings	8,591,051	8,141,430
	<b>Total liabilities</b>	<b>102,913,130</b>	<b>102,342,668</b>

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Shareholders' equity	Preferred stock, \$1.00 par, 1,000,000 shares authorized;		
	Issued and outstanding: Liquidation preference of \$1,000 per share: 731,500 shares at March 31, 2018 and December 31, 2017; Liquidation preference of \$10,000 per share: 50,000 shares at March 31, 2018 and December 31, 2017	1,231,500	1,231,500
	Common stock, \$.50 par, 250,000,000 shares authorized, 159,768,397 shares issued at March 31, 2018;		
	159,817,518 shares issued at December 31, 2017	79,884	79,909
	Common stock issuable, 24,371 shares at March 31, 2018;		
	27,138 shares at December 31, 2017	1,675	1,847
	Additional paid-in capital	6,572,281	6,590,855
	Retained earnings	10,404,458	10,164,804
	Accumulated other comprehensive income (loss), net	(483,243 )	(363,814 )
	Treasury stock — common, at cost — 12,993,850 shares at March 31, 2018;		
	9,733,115 shares at December 31, 2017	(2,096,861 )	(1,454,282 )
	Total shareholders' equity	15,709,694	16,250,819
	Total liabilities and shareholders' equity	\$ 118,622,824	\$ 118,593,487

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF INCOME (Unaudited)

In thousands, except per share		Three Months Ended	
		March 31 2018	2017
Interest income	Loans and leases, including fees	\$979,969	898,038
	Investment securities		
	Fully taxable	82,852	95,124
	Exempt from federal taxes	248	430
	Deposits at banks	18,677	12,162
	Other	404	279
	Total interest income	1,082,150	1,006,033
Interest expense	Savings and interest-checking deposits	40,527	25,634
	Time deposits	10,936	18,998
	Deposits at Cayman Islands office	381	265
	Short-term borrowings	883	216
	Long-term borrowings	53,906	46,660
	Total interest expense	106,633	91,773
	Net interest income	975,517	914,260
	Provision for credit losses	43,000	55,000
	Net interest income after provision for credit losses	932,517	859,260
Other income	Mortgage banking revenues	87,306	84,692
	Service charges on deposit accounts	105,115	104,176
	Trust income	131,375	120,015
	Brokerage services income	13,392	17,384
	Trading account and foreign exchange gains	4,637	9,691
	Gain (loss) on bank investment securities	(9,431)	—
	Other revenues from operations	126,302	110,887
	Total other income	458,696	446,845
Other expense	Salaries and employee benefits	463,428	449,741
	Equipment and net occupancy	74,797	74,366
	Outside data processing and software	48,429	44,301
	FDIC assessments	20,280	28,827
	Advertising and marketing	16,248	16,110
	Printing, postage and supplies	9,319	9,708
	Amortization of core deposit and other intangible assets	6,632	8,420
	Other costs of operations	294,211	156,379
	Total other expense	933,344	787,852
	Income before taxes	457,869	518,253
	Income taxes	105,259	169,326
	Net income	\$352,610	348,927
	Net income available to common shareholders		
	Basic	\$332,748	328,562
	Diluted	332,749	328,567
	Net income per common share		
	Basic	\$2.24	2.13

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Diluted	2.23	2.12
Cash dividends per common share	\$.75	.75
Average common shares outstanding		
Basic	148,688	154,427
Diluted	148,905	154,949

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## M&amp;T BANK CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

In thousands	Three Months Ended March 31	
	2018	2017
Net income	\$352,610	348,927
Other comprehensive income, net of tax and reclassification adjustments:		
Net unrealized gains (losses) on investment securities	(100,684)	(1,356 )
Cash flow hedges adjustments	(10,442 )	(23 )
Foreign currency translation adjustment	1,290	476
Defined benefit plans liability adjustments	7,260	3,972
Total other comprehensive income (loss)	(102,576)	3,069
Total comprehensive income	\$250,034	351,996

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

In thousands		Three Months Ended	
		March 31 2018	2017
<b>Cash flows from operating</b>			
activities	Net income	\$352,610	348,927
	Adjustments to reconcile net income to net cash provided by operating activities		
	Provision for credit losses	43,000	55,000
	Depreciation and amortization of premises and equipment	27,281	27,429
	Amortization of capitalized servicing rights	11,656	13,543
	Amortization of core deposit and other intangible assets	6,632	8,420
	Provision for deferred income taxes	(124,772 )	36,731
	Asset write-downs	3,192	5,118
	Net gain on sales of assets	(4,547 )	(11,647 )
	Net change in accrued interest receivable, payable	(14,803 )	(23,782 )
	Net change in other accrued income and expense	165,114	(209 )
	Net change in loans originated for sale	(72,403 )	712,954
	Net change in trading account assets and liabilities	91,219	113,332
	Net cash provided by operating activities	484,179	1,285,816
<b>Cash flows from investing</b>			
activities	Proceeds from sales of investment securities		
	Available for sale	100	—
	Other	254,860	100
	Proceeds from maturities of investment securities		
	Available for sale	349,294	697,756
	Held to maturity	123,923	121,455
	Purchases of investment securities		
	Available for sale	(100 )	(5,143 )
	Held to maturity	—	(539,516 )
	Other	(288,259 )	(278 )
	Net decrease in loans and leases	303,886	797,351
	Net increase in interest-bearing deposits at banks	(1,056,531)	(1,944,511)
	Capital expenditures, net	(9,544 )	(21,521 )
	Net decrease in loan servicing advances	115,163	56,437
	Other, net	(41,322 )	11,863
	Net cash used by investing activities	(248,530 )	(826,007 )
<b>Cash flows from financing</b>			
activities	Net increase (decrease) in deposits	(1,484,629)	1,550,297
	Net increase in short-term borrowings	1,451,030	21,660
	Proceeds from long-term borrowings	999,594	—
	Payments on long-term borrowings	(504,192 )	(1,401,410)

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	Purchases of treasury stock	(720,966 )	(532,073 )
	Dividends paid — common	(112,318 )	(116,566 )
	Dividends paid — preferred	(17,368 )	(17,368 )
	Other, net	24,976	2,064
	Net cash used by financing activities	(363,873 )	(493,396 )
	Net decrease in cash, cash equivalents and restricted cash	(128,224 )	(33,587 )
	Cash, cash equivalents and restricted cash at beginning of period	1,420,888	1,320,549
	Cash, cash equivalents and restricted cash at end of period	\$ 1,292,664	1,286,962
Supplemental disclosure of cash			
flow information	Interest received during the period	\$ 1,077,676	1,001,129
	Interest paid during the period	118,342	116,183
	Income taxes paid during the period	37,999	29,272
Supplemental schedule of noncash investing and financing activities			
activities	Real estate acquired in settlement of loans	\$ 15,410	23,607
	Securitization of residential mortgage loans allocated to Available-for-sale investment securities	5,128	3,684
	Capitalized servicing rights	64	36

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

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

	Preferred	Common	Common	Additional	Retained	Accumulated Other Comprehensive Income	Treasury	Total
Dollars in thousands, except per share	Stock	Stock	Stock	Paid-in Capital	Earnings	(Loss), Net	Stock	
2017								
Balance —								
January 1, 2017	\$1,231,500	79,973	2,145	6,676,948	9,222,488	(294,636 )	(431,796 )	16,486,622
Total comprehensive income	—	—	—	—	348,927	3,069	—	351,996
Preferred stock cash dividends	—	—	—	—	(18,237 )	—	—	(18,237 )
Exercise of 87,515 Series A stock  warrants into 47,954 shares of  common stock	—	—	—	(5,934 )	—	—	5,934	—
Purchases of treasury stock	—	—	—	—	—	—	(532,073 )	(532,073 )
Stock-based compensation plans:								
Compensation expense, net	—	(60 )	—	(67,016 )	—	—	55,667	(11,409 )
Exercises of stock options, net	—	—	—	(3,127 )	—	—	43,789	40,662
Stock purchase plan	—	—	—	2,563	—	—	8,268	10,831
Directors' stock plan	—	—	—	126	—	—	347	473
Deferred compensation plans, net,  including dividend	—	—	(224 )	(205 )	(21 )	—	396	(54 )

equivalents									
Common stock									
cash dividends —									
\$.75 per share	—	—	—	—	(115,707 )	—	—	(115,707 )	
Balance —									
March 31, 2017	\$1,231,500	79,913	1,921	6,603,355	9,437,450	(291,567 )	(849,468 )	16,213,104	
2018									
Balance —									
January 1, 2018	\$1,231,500	79,909	1,847	6,590,855	10,164,804	(363,814 )	(1,454,282)	16,250,819	
Cumulative									
effect of change									
in									
accounting									
principle — equity									
securities	—	—	—	—	16,853	(16,853 )	—	—	
Total									
comprehensive									
income	—	—	—	—	352,610	(102,576 )	—	250,034	
Preferred stock									
cash dividends	—	—	—	—	(18,130 )	—	—	(18,130 )	
Exercise of									
36,974 Series A									
stock									
warrants into									
22,553 shares of									
common stock	—	—	—	(3,455 )	—	—	3,455	—	
Purchases of									
treasury stock	—	—	—	—	—	—	(720,966 )	(720,966 )	
Stock-based									
compensation									
plans:									
Compensation									
expense, net	—	(25 )	—	(15,362 )	—	—	21,220	5,833	
Exercises of									
stock options,									
net	—	—	—	(1,945 )	—	—	44,045	42,100	
Stock purchase									
plan	—	—	—	2,358	—	—	8,766	11,124	
Directors' stock									
plan	—	—	—	74	—	—	515	589	
Deferred	—	—	(172 )	(244 )	(18 )	—	386	(48 )	
compensation									
plans, net,									
including									
dividend									

equivalents

Common stock

cash dividends —

\$ .75 per share	—	—	—	—	(111,661 )	—	—	(111,661 )
Balance —								
March 31, 2018	\$ 1,231,500	79,884	1,675	6,572,281	10,404,458	(483,243 )	(2,096,861)	15,709,694

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## NOTES TO FINANCIAL STATEMENTS

## 1. Significant accounting policies

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

## 2. Investment securities

On January 1, 2018, the Company adopted amended guidance requiring equity investments with readily determinable fair values to be measured at fair value with changes in fair value recognized in the consolidated statement of income. This amended guidance excludes equity method investments, investments in consolidated subsidiaries, exchange membership ownership interests, and Federal Home Loan Bank of New York and Federal Reserve Bank of New York capital stock. Upon adoption the Company reclassified \$17 million, after-tax effect, from accumulated other comprehensive income to retained earnings, representing the difference between fair value and the cost basis of equity investments with readily determinable fair values at January 1, 2018. Net unrealized losses recorded as gain (loss) on bank investment securities in the consolidated statement of income during the three months ended March 31, 2018 were \$9 million. The amortized cost and estimated fair value of investment securities were as follows:

	Amortized Cost (In thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>March 31, 2018</b>				
Investment securities available for sale:				
U.S. Treasury and federal agencies	\$1,962,160	—	20,682	\$1,941,478
Obligations of states and political subdivisions	1,986	16	2	2,000
Mortgage-backed securities:				
Government issued or guaranteed	8,407,476	21,318	206,665	8,222,129
Privately issued	27	—	—	27
Other debt securities	136,971	2,457	7,206	132,222
	10,508,620	23,791	234,555	10,297,856
Investment securities held to maturity:				
Obligations of states and political subdivisions	20,209	75	36	20,248
Mortgage-backed securities:				

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Government issued or guaranteed	3,074,830	6,153	58,581	3,022,402
Privately issued	128,997	7,932	24,084	112,845
Other debt securities	4,720	—	—	4,720
	3,228,756	14,160	82,701	3,160,215
Total debt securities	\$13,737,376	37,951	317,256	\$13,458,071
Equity and other securities:				
Readily marketable equity — at fair value	48,358	14,075	716	61,717
Other — at cost	478,235	—	—	478,235
Total equity and other securities	\$526,593	14,075	716	\$539,952

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 2. Investment securities, continued

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

There were no significant gross realized gains or losses from sales of investment securities for the quarters ended March 31, 2018 and 2017.

At March 31, 2018, the amortized cost and estimated fair value of debt securities by contractual maturity were as follows:

	Amortized Cost (In thousands)	Estimated Fair Value
Debt securities available for sale:		
Due in one year or less	\$817,981	813,574

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Due after one year through five years	1,151,292	1,134,986
Due after five years through ten years	82,301	82,049
Due after ten years	49,543	45,091
	2,101,117	2,075,700
Mortgage-backed securities available for sale	8,407,503	8,222,156
	\$10,508,620	10,297,856
Debt securities held to maturity:		
Due in one year or less	\$11,410	11,432
Due after one year through five years	8,703	8,716
Due after five years through ten years	96	100
Due after ten years	4,720	4,720
	24,929	24,968
Mortgage-backed securities held to maturity	3,203,827	3,135,247
	\$3,228,756	3,160,215

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 2. Investment securities, continued

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

	Less Than 12 Months		12 Months or More	
	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses
	(In thousands)			
<b>March 31, 2018</b>				
Investment securities available for sale:				
U.S. Treasury and federal agencies	\$241,594	(2,314 )	1,699,784	(18,368 )
Obligations of states and political subdivisions	1,020	(1 )	376	(1 )
Mortgage-backed securities:				
Government issued or guaranteed	3,825,869	(68,681 )	3,023,992	(137,984 )
Other debt securities	4,341	(90 )	64,506	(7,116 )
	4,072,824	(71,086 )	4,788,658	(163,469 )
Investment securities held to maturity:				
Obligations of states and political subdivisions	1,891	(4 )	5,454	(32 )
Mortgage-backed securities:				
Government issued or guaranteed	2,280,618	(46,285 )	249,897	(12,296 )
Privately issued	—	—	53,852	(24,084 )
	2,282,509	(46,289 )	309,203	(36,412 )
<b>Total</b>	<b>\$6,355,333</b>	<b>(117,375 )</b>	<b>5,097,861</b>	<b>(199,881 )</b>
<b>December 31, 2017</b>				
Investment securities available for sale:				
U.S. Treasury and federal agencies	\$278,132	(1,761 )	1,669,355	(16,417 )
Obligations of states and political subdivisions	—	—	474	(2 )
Mortgage-backed securities:				
Government issued or guaranteed	2,106,142	(13,695 )	3,138,841	(84,892 )
Other debt securities	3,067	(26 )	61,159	(10,449 )
Equity securities (a)	—	—	18,162	(424 )
	2,387,341	(15,482 )	4,887,991	(112,184 )
Investment securities held to maturity:				
Obligations of states and political subdivisions	2,954	(4 )	6,110	(45 )
Mortgage-backed securities:				
Government issued or guaranteed	1,331,759	(7,036 )	265,695	(6,710 )
Privately issued	5,061	(1,216 )	55,255	(26,359 )

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	1,339,774	(8,256 )	327,060	(33,114 )
Total	\$3,727,115	(23,738 )	5,215,051	(145,298 )

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

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 2. Investment securities, continued

The Company owned 1,442 individual debt securities with aggregate gross unrealized losses of \$317 million at March 31, 2018. Based on a review of each of the securities in the investment securities portfolio at March 31, 2018, the Company concluded that it expected to recover the amortized cost basis of its investment. As of March 31, 2018, the Company does not intend to sell nor is it anticipated that it would be required to sell any of its impaired investment securities at a loss. At March 31, 2018, the Company has not identified events or changes in circumstances which may have a significant adverse effect on the fair value of the \$478 million of cost method equity securities.

## 3. Loans and leases and the allowance for credit losses

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

	Current (In thousands)	Past Due	Accruing Loans		Acquired at Discount		Nonaccrual	Total
			30-89 Days	Due 90 Days or More (a)	Past Due 90 days or More (b)	Purchased (c)		
<b>March 31, 2018</b>								
Commercial, financial, leasing, etc.	\$21,377,917	51,438	5,547	26	2	262,592	\$21,697,522	
<b>Real estate:</b>								
Commercial	24,919,508	250,993	3,311	4,569	11,744	152,832	25,342,957	
Residential builder and developer	1,641,644	1,974	—	—	357	4,519	1,648,494	
Other commercial construction	6,680,584	71,115	—	—	1,194	9,162	6,762,055	
Residential	14,942,659	407,773	221,666	8,416	263,939	234,309	16,078,762	
Residential — limited documentation	2,599,705	82,738	—	—	100,764	98,977	2,882,184	
<b>Consumer:</b>								
Home equity lines and loans	5,037,213	32,100	—	8,157	—	73,169	5,150,639	

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Automobile	3,468,893	64,995	—	—	—	20,613	3,554,501
Other	4,523,469	28,686	4,801	28,181	—	8,498	4,593,635
Total	\$85,191,592	991,812	235,325	49,349	378,000	864,671	\$87,710,749

December 31, 2017

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

(a) Excludes loans acquired at a discount.

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

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

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

One-to-four family residential mortgage loans held for sale were \$288 million and \$356 million at March 31, 2018 and December 31, 2017, respectively. Commercial real estate loans held for sale were \$167 million at March 31, 2018 and \$22 million at December 31, 2017.

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

	March 31, 2018	December 31, 2017
	(In thousands)	
Outstanding principal balance	\$ 1,305,611	1,394,188
Carrying amount:		
Commercial, financial, leasing, etc.	28,637	31,105
Commercial real estate	200,932	228,054
Residential real estate	587,562	620,827
Consumer	122,073	123,413
	\$939,204	1,003,399

Purchased impaired loans included in the table above totaled \$378 million at March 31, 2018 and \$410 million at December 31, 2017, representing less than 1% of the Company's assets as of each date. A summary of changes in the accretable yield for loans acquired at a discount for the three-month periods ended March 31, 2018 and 2017 follows:

	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
	Purchased Impaired	Other Acquired	Purchased Impaired	Other Acquired
	(In thousands)			
Balance at beginning of period	\$ 157,918	133,162	\$ 154,233	201,153
Interest income	(9,819 )	(15,112 )	(10,925 )	(25,518 )
Reclassifications from nonaccretable balance	908	207	146	3,183
Other (a)	—	(73 )	—	2,492
Balance at end of period	\$ 149,007	118,184	\$ 143,454	181,310

(a) Other changes in expected cash flows including changes in interest rates and prepayment assumptions. Changes in the allowance for credit losses for the three months ended March 31, 2018 were as follows:

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Commercial,

Financial, Real Estate

Leasing,

etc. Commercial Residential Consumer Unallocated Total

(In thousands)

Beginning balance	\$328,599	374,085	65,405	170,809	78,300	\$1,017,198
Provision for credit losses	7,230	(5,225 )	10,486	29,814	695	43,000
Net charge-offs						
Charge-offs	(14,581 )	(1,366 )	(4,354 )	(36,451 )	—	(56,752 )
Recoveries	4,823	223	1,510	9,669	—	16,225
Net charge-offs	(9,758 )	(1,143 )	(2,844 )	(26,782 )	—	(40,527 )
Ending balance	\$326,071	367,717	73,047	173,841	78,995	\$1,019,671

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Changes in the allowance for credit losses for the three months ended March 31, 2017 were as follows:

	Commercial,	Financial, Real Estate	Leasing,	Commercial Residential	Consumer	Unallocated	Total
	etc.	Commercial	Residential	Consumer	Unallocated	Total	
	(In thousands)						
Beginning balance	\$ 330,833	362,719	61,127	156,288	78,030	\$ 988,997	
Provision for credit losses	28,823	1,262	5,637	18,832	446	55,000	
Net charge-offs							
Charge-offs	(16,357 )	(5,445 )	(6,259 )	(34,503 )	—	(62,564 )	
Recoveries	4,461	1,474	1,507	12,555	—	19,997	
Net (charge-offs) recoveries	(11,896 )	(3,971 )	(4,752 )	(21,948 )	—	(42,567 )	
Ending balance	\$ 347,760	360,010	62,012	153,172	78,476	\$ 1,001,430	

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

In establishing the allowance for credit losses, the Company estimates losses attributable to specific troubled credits identified through both normal and targeted credit review processes and also estimates losses inherent in other loans and leases on a collective basis. For purposes of determining the level of the allowance for credit losses, the Company evaluates its loan and lease portfolio by loan type. The amounts of loss components in the Company's loan and lease portfolios are determined through a loan-by-loan analysis of larger balance commercial loans and commercial real estate loans that are in nonaccrual status and by applying loss factors to groups of loan balances based on loan type and management's classification of such loans under the Company's loan grading system. Measurement of the specific loss components is typically based on expected future cash flows, collateral values and other factors that may impact the borrower's ability to pay. In determining the allowance for credit losses, the Company utilizes a loan grading system which is applied to commercial and commercial real estate credits on an individual loan basis. Loan grades are assigned loss component factors that reflect the Company's loss estimate for each group of loans and leases. Factors considered in assigning loan grades and loss component factors include borrower-specific information related to expected future cash flows and operating results, collateral values, geographic location, financial condition and performance, payment status, and other information; levels of and trends in portfolio charge-offs and recoveries; levels of and trends in portfolio delinquencies and impaired loans; changes in the risk profile of specific portfolios; trends in volume and terms of loans; effects of changes in credit concentrations; and observed trends and practices in the banking industry.



## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The following tables provide information with respect to loans and leases that were considered impaired as of March 31, 2018 and December 31, 2017 and for the three-month periods ended March 31, 2018 and 2017.

	March 31, 2018			December 31, 2017		
	Unpaid			Unpaid		
	Recorded	Principal	Related	Recorded	Principal	Related
	Investment Balance		Allowance	Investment Balance		Allowance
	(In thousands)					
<b>With an allowance recorded:</b>						
Commercial, financial, leasing, etc.	\$ 172,385	203,464	45,501	177,250	194,257	45,488
<b>Real estate:</b>						
Commercial	77,118	88,313	9,981	67,199	75,084	9,140
Residential builder and developer	5,536	5,828	187	5,320	5,641	308
Other commercial construction	3,893	19,598	456	4,817	20,357	647
Residential	112,068	134,431	4,048	101,724	122,602	4,000
Residential — limited documentation	76,984	92,586	4,000	77,277	92,439	3,900
<b>Consumer:</b>						
Home equity lines and loans	48,991	54,032	8,913	48,847	53,914	8,812
Automobile	12,797	15,461	2,694	13,498	15,737	2,811
Other	3,082	5,857	629	3,220	5,872	656
	512,854	619,570	76,409	499,152	585,903	75,762
<b>With no related allowance recorded:</b>						
Commercial, financial, leasing, etc.	115,336	145,450	—	89,126	115,327	—
<b>Real estate:</b>						
Commercial	96,267	104,911	—	138,356	149,716	—
Residential builder and developer	3,760	3,832	—	5,057	5,296	—
Other commercial construction	5,425	9,142	—	5,456	9,130	—
Residential	13,868	19,105	—	13,574	18,980	—
Residential — limited documentation	7,751	12,960	—	9,588	16,138	—
	242,407	295,400	—	261,157	314,587	—
<b>Total:</b>						
Commercial, financial, leasing, etc.	287,721	348,914	45,501	266,376	309,584	45,488
<b>Real estate:</b>						
Commercial	173,385	193,224	9,981	205,555	224,800	9,140
Residential builder and developer	9,296	9,660	187	10,377	10,937	308
Other commercial construction	9,318	28,740	456	10,273	29,487	647
Residential	125,936	153,536	4,048	115,298	141,582	4,000
Residential — limited documentation	84,735	105,546	4,000	86,865	108,577	3,900
<b>Consumer:</b>						
Home equity lines and loans	48,991	54,032	8,913	48,847	53,914	8,812
Automobile	12,797	15,461	2,694	13,498	15,737	2,811

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Other	3,082	5,857	629	3,220	5,872	656
Total	\$755,261	914,970	76,409	760,309	900,490	75,762

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
	Interest Income		Recognized Average	Interest Income		Recognized Average
	Recorded	Cash		Recorded	Cash	
	Investment	Total	Basis	Investment	Total	Basis
	(In thousands)					
Commercial, financial, leasing, etc.	\$272,172	783	783	271,825	478	478
Real estate:						
Commercial	181,846	3,147	3,147	182,857	975	975
Residential builder and developer	9,840	1,682	1,682	20,051	429	429
Other commercial construction	10,102	6	6	16,328	847	847
Residential	121,209	1,902	902	103,875	1,636	774
Residential — limited documentation	85,595	1,728	696	97,121	1,500	384
Consumer:						
Home equity lines and loans	48,797	414	86	45,542	399	100
Automobile	13,125	224	15	16,504	275	19
Other	3,119	85	3	3,598	72	3
Total	\$745,805	9,971	7,320	757,701	6,611	4,009

Commercial loans and commercial real estate loans with a lower expectation of default are assigned one of ten possible “pass” loan grades and are generally ascribed lower loss factors when determining the allowance for credit losses. Loans with an elevated level of credit risk are classified as “criticized” and are ascribed a higher loss factor when determining the allowance for credit losses. Criticized loans may be classified as “nonaccrual” if the Company no longer expects to collect all amounts according to the contractual terms of the loan agreement or the loan is delinquent 90 days or more. Furthermore, criticized nonaccrual commercial loans and commercial real estate loans are considered impaired and, as a result, specific loss allowances on such loans are established within the allowance for credit losses to the extent appropriate in each individual instance.

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

	Real Estate			
	Commercial, Financial, Leasing, etc. (In thousands)	Commercial	Residential Builder and Developer	Other Commercial Construction
<b>March 31, 2018</b>				
Pass	\$20,484,737	24,525,402	1,505,502	6,654,458
Criticized accrual	950,193	664,723	138,473	98,435
Criticized nonaccrual	262,592	152,832	4,519	9,162
<b>Total</b>	<b>\$21,697,522</b>	<b>25,342,957</b>	<b>1,648,494</b>	<b>6,762,055</b>
<b>December 31, 2017</b>				
Pass	\$20,490,486	24,380,184	1,485,148	6,270,812
Criticized accrual	1,011,174	723,777	140,119	164,812
Criticized nonaccrual	240,991	184,982	6,451	10,088
<b>Total</b>	<b>\$21,742,651</b>	<b>25,288,943</b>	<b>1,631,718</b>	<b>6,445,712</b>

In determining the allowance for credit losses, residential real estate loans and consumer loans are generally evaluated collectively after considering such factors as payment performance and recent loss experience and trends, which are mainly driven by current collateral values in the market place as well as the amount of loan defaults. Loss

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

rates on such loans are determined by reference to recent charge-off history and are evaluated (and adjusted if deemed appropriate) through consideration of other factors including near-term forecasted loss estimates developed by the Company's credit department. In arriving at such forecasts, the Company considers the current estimated fair value of its collateral based on geographical adjustments for home price depreciation/appreciation and overall borrower repayment performance. With regard to collateral values, the realizability of such values by the Company contemplates repayment of any first lien position prior to recovering amounts on a second lien position. However, residential real estate loans and outstanding balances of home equity loans and lines of credit that are more than 150 days past due are generally evaluated for collectibility on a loan-by-loan basis giving consideration to estimated collateral values. The carrying value of residential real estate loans and home equity loans and lines of credit for which a partial charge-off has been recognized totaled \$33 million and \$25 million, respectively, at March 31, 2018 and \$34 million and \$25 million, respectively, at December 31, 2017. Residential real estate loans and home equity loans and lines of credit that were more than 150 days past due but did not require a partial charge-off because the net realizable value of the collateral exceeded the outstanding customer balance were \$19 million and \$29 million, respectively, at March 31, 2018 and \$20 million and \$32 million, respectively, at December 31, 2017.

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

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

	Commercial, Financial, Real Estate Leasing, etc.	Commercial	Residential	Consumer	Total
	(In thousands)				
March 31, 2018					
Individually evaluated for impairment	\$45,501	10,624	8,048	12,236	\$76,409
Collectively evaluated for impairment	280,570	357,093	51,093	161,605	850,361
Purchased impaired	—	—	13,906	—	13,906
Allocated	\$326,071	367,717	73,047	173,841	940,676
Unallocated					78,995
Total					\$1,019,671
December 31, 2017					
Individually evaluated for impairment	\$45,488	10,095	7,900	12,279	\$75,762
Collectively evaluated for impairment	283,111	363,990	47,645	158,530	853,276
Purchased impaired	—	—	9,860	—	9,860
Allocated	\$328,599	374,085	65,405	170,809	938,898
Unallocated					78,300
Total					\$1,017,198

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

	Commercial, Financial, Real Estate Leasing, etc.	Commercial	Residential	Consumer	Total
	(In thousands)				
March 31, 2018					
Individually evaluated for impairment	\$287,721	191,999	210,671	64,870	\$755,261
Collectively evaluated for impairment	21,409,799	33,548,212	18,385,572	13,233,905	86,577,488
Purchased impaired	2	13,295	364,703	—	378,000
Total	\$21,697,522	33,753,506	18,960,946	13,298,775	\$87,710,749
December 31, 2017					
Individually evaluated for impairment	\$266,376	226,205	202,163	65,565	\$760,309
Collectively evaluated for impairment	21,476,254	33,117,512	19,023,843	13,201,050	86,818,659



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Purchased impaired	21	22,656	387,338	—	410,015
Total	\$21,742,651	33,366,373	19,613,344	13,266,615	\$87,988,983

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

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The table that follows summarizes the Company's loan modification activities that were considered troubled debt restructurings for the three months ended March 31, 2018 and 2017:

	Number	Post-modification (a)					Combination of Concession Types	Total
		Pre- modification recorded investment	Principal Deferral	Interest Rate Reduction	Other			
Three Months Ended March 31, 2018		(Dollars in thousands)						
Commercial, financial, leasing, etc.	56	\$ 47,994	\$35,673	\$ 624	\$—	\$ 13,047	\$49,344	
Real estate:								
Commercial	20	6,780	5,824	—	—	927	6,751	
Other commercial construction	1	752	746	—	—	—	746	
Residential	47	12,636	6,945	—	—	6,902	13,847	
Residential — limited documentation	2	295	267	—	—	118	385	
Consumer:								
Home equity lines and loans	14	1,348	4	—	—	1,348	1,352	
Automobile	8	148	148	—	—	—	148	
Other	2	49	49	—	—	—	49	
Total	150	\$ 70,002	\$49,656	\$ 624	\$—	\$ 22,342	\$72,622	
Three Months Ended March 31, 2017								
Commercial, financial, leasing, etc.	50	\$ 11,921	\$4,389	\$ —	\$806	\$ 2,728	\$7,923	
Real estate:								
Commercial	20	6,702	2,991	—	—	3,606	6,597	
Residential builder and developer	3	12,291	—	—	—	10,879	10,879	
Other commercial construction	1	102	102	—	—	—	102	
Residential	41	9,380	5,593	—	—	4,355	9,948	
Residential — limited documentation	6	1,378	—	—	—	1,525	1,525	
Consumer:								
Home equity lines and loans	25	2,502	163	—	491	1,848	2,502	
Automobile	20	390	383	—	—	7	390	
Other	2	26	26	—	—	—	26	
Total	168	\$ 44,692	\$13,647	\$ —	\$1,297	\$ 24,948	\$39,892	

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

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Troubled debt restructurings are considered to be impaired loans and for purposes of establishing the allowance for credit losses are evaluated for impairment giving consideration to the impact of the modified loan terms on the present value of the loan's expected cash flows. Impairment of troubled debt restructurings that have subsequently defaulted may also be measured based on the loan's observable market price or the fair value of collateral if the loan is collateral-dependent. Charge-offs may also be recognized on troubled debt restructurings that have subsequently defaulted. Loans that were modified as troubled debt restructurings during the twelve months ended March 31, 2018 and 2017 and for which there was a subsequent payment default during the three-month periods ended March 31, 2018 and 2017, respectively, were not material.

The amount of foreclosed residential real estate property held by the Company was \$100 million and \$108 million at March 31, 2018 and December 31, 2017, respectively. There were \$458 million and \$497 million at March 31, 2018 and December 31, 2017, respectively, in loans secured by residential real estate that were in the process of foreclosure. Of all loans in the process of foreclosure at March 31, 2018, approximately 41% were classified as purchased impaired and 21% were government guaranteed.

## 4. Borrowings

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

M&T had \$520 million of fixed and variable rate junior subordinated deferrable interest debentures ("Junior Subordinated Debentures") outstanding at March 31, 2018 that are held by various trusts that were issued in connection with the issuance by those trusts of preferred capital securities ("Capital Securities") and common securities ("Common Securities"). The proceeds from the issuances of the Capital Securities and the Common Securities were used by the trusts to purchase the Junior Subordinated Debentures. The Common Securities of each of those trusts are wholly owned by M&T and are the only class of each trust's securities possessing general voting powers. The Capital Securities represent preferred undivided interests in the assets of the corresponding trust. Under the Federal Reserve Board's risk-based capital guidelines, the securities are includable in M&T's Tier 2 regulatory capital.

Holder of the Capital Securities receive preferential cumulative cash distributions unless M&T exercises its right to extend the payment of interest on the Junior Subordinated Debentures as allowed by the terms of each such debenture, in which case payment of distributions on the respective Capital Securities will be deferred for comparable periods. During an extended interest period, M&T may not pay dividends or distributions on, or repurchase, redeem or acquire any shares of its capital stock. In general, the agreements governing the Capital Securities, in the aggregate, provide a

full, irrevocable and unconditional guarantee by M&T of the payment of distributions on, the redemption of, and any liquidation distribution with respect to the Capital Securities. The obligations under such guarantee and the Capital Securities are subordinate and junior in right of payment to all senior indebtedness of M&T.

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

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 4. Borrowings, continued

at any time after an optional redemption prior to contractual maturity contemporaneously with the optional redemption of the related Junior Subordinated Debentures in whole or in part, subject to possible regulatory approval.

Also included in long-term borrowings are agreements to repurchase securities of \$419 million and \$422 million at March 31, 2018 and December 31, 2017, respectively. The agreements reflect various repurchase dates through 2020, however, the contractual maturities of the underlying investment securities extend beyond such repurchase dates. The agreements are subject to legally enforceable master netting arrangements, however, the Company has not offset any amounts related to these agreements in its consolidated financial statements. The Company posted collateral consisting primarily of government guaranteed mortgage-backed securities of \$436 million and \$442 million at March 31, 2018 and December 31, 2017, respectively.

## 5. Shareholders' equity

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

Issued and outstanding preferred stock of M&T as of March 31, 2018 and December 31, 2017 is presented below:

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

Series F (c)

Fixed-to-Floating Rate Non-cumulative Perpetual Preferred Stock,

\$10,000 liquidation preference per share	50,000	\$500,000
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- (a) Dividends, if declared, are paid at 6.375%. Warrants to purchase M&T common stock at \$73.75 per share issued in connection with the Series A preferred stock expire on December 23, 2018 and totaled 220,034 at March 31, 2018.
- (b) Dividends, if declared, are paid semi-annually at a rate of 6.45% through February 14, 2024 and thereafter will be paid quarterly at a rate of the three-month LIBOR plus 361 basis points. The shares are redeemable in whole or in part on or after February 15, 2024. Notwithstanding M&T's option to redeem the shares, if an event occurs such that the shares no longer qualify as Tier 1 capital, M&T may redeem all of the shares within 90 days following that occurrence.
- (c) Dividends, if declared, are paid semi-annually at a rate of 5.125% through October 31, 2026 and thereafter will be paid quarterly at a rate of the three-month LIBOR plus 352 basis points. The shares are redeemable in whole or in part on or after November 1, 2026. Notwithstanding M&T's option to redeem the shares, if an event occurs such that the shares no longer qualify as Tier 1 capital, M&T may redeem all of the shares within 90 days following that occurrence.

In addition to the Series A warrants mentioned in (a) above, a warrant to purchase 95,525 shares of M&T common stock at \$518.18 per share was outstanding at March 31, 2018. The obligation under that warrant was assumed by M&T in an acquisition and expires on December 12, 2018.

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 6. Pension plans and other postretirement benefits

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

	Pension		Other Postretirement	
	Benefits Three Months Ended March 31		Benefits Three Months Ended March 31	
	2018	2017	2018	2017
	(In thousands)			
Service cost	\$5,103	4,908	226	383
Interest cost on projected benefit obligation	18,805	19,691	557	1,080
Expected return on plan assets	(30,875)	(27,200)	—	—
Amortization of prior service cost (credit)	125	125	(1,175)	(350)
Amortization of net actuarial loss	11,100	6,800	(200)	(25)
Net periodic benefit cost	\$4,258	4,324	(592)	1,088

Service cost is reflected in salaries and employee benefits expense. The other components of net periodic benefit cost are reflected in other costs of operations. Expenses incurred in connection with the Company's defined contribution pension and retirement savings plans totaled \$21,274,000 and \$19,419,000 for the three months ended March 31, 2018 and 2017, respectively, and are included in salaries and employee benefits expense.

## 7. Earnings per common share

The computations of basic earnings per common share follow:

Three Months Ended March 31	
2018	2017
(In thousands, except per share)	

Income available to common shareholders:		
Net income	\$352,610	348,927
Less: Preferred stock dividends (a)	(18,130 )	(18,237 )
Net income available to common equity	334,480	330,690
Less: Income attributable to unvested stock-based		
compensation awards	(1,732 )	(2,128 )
Net income available to common shareholders	\$332,748	328,562
Weighted-average shares outstanding:		
Common shares outstanding (including common stock		
issuable) and unvested stock-based compensation awards	149,470	155,463
Less: Unvested stock-based compensation awards	(782 )	(1,036 )
Weighted-average shares outstanding	148,688	154,427
Basic earnings per common share		
	\$2.24	2.13

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



## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 7. Earnings per common share, continued

The computations of diluted earnings per common share follow:

	Three Months Ended March 31	
	2018	2017
	(In thousands, except per share)	
Net income available to common equity	\$334,480	330,690
Less: Income attributable to unvested stock-based compensation awards	(1,731 )	(2,123 )
Net income available to common shareholders	\$332,749	328,567
Adjusted weighted-average shares outstanding:		
Common and unvested stock-based compensation awards	149,470	155,463
Less: Unvested stock-based compensation awards	(782 )	(1,036 )
Plus: Incremental shares from assumed conversion of stock-based compensation awards and warrants to purchase common stock	217	522
Adjusted weighted-average shares outstanding	148,905	154,949
Diluted earnings per common share	\$2.23	2.12

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

Stock-based compensation awards and warrants to purchase common stock of M&T representing 237,584 and 391,764 common shares during the three-month periods ended March 31, 2018 and 2017, respectively, were not included in the computations of diluted earnings per common share because the effect on those periods would have been antidilutive.

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 8. Comprehensive income

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

	Defined			Total		
	Investment Securities (a)	Benefit Plans (b)	Other	Amount Before Tax	Income Tax	Net
	(In thousands)					
Balance — January 1, 2018	\$(59,957 )	(413,168 )	(20,165 )	\$(493,290 )	129,476	\$(363,814)
Cumulative effect of change in accounting principle — equity securities	(22,795 )	—	—	(22,795 )	5,942	(16,853 )
Other comprehensive income before reclassifications:						
Unrealized holding gains (losses), net	(145,457 )	—	—	(145,457 )	44,176	(101,281)
Foreign currency translation adjustment	—	—	1,632	1,632	(342 )	1,290
Unrealized losses on cash flow hedges	—	—	(14,719 )	(14,719 )	3,870	(10,849 )
Total other comprehensive income (loss) before reclassifications	(145,457 )	—	(13,087 )	(158,544 )	47,704	(110,840)
Amounts reclassified from accumulated other comprehensive income that (increase) decrease net income:						
Amortization of unrealized holding losses on held-to-maturity (“HTM”) securities	810	—	—	810	(c) (213 )	597
Accretion of net gain on terminated cash flow hedges	—	—	(28 )	(28 )	(d) 7	(21 )
	—	—	580	580	(d) (152 )	428

Net yield adjustment from cash flow

hedges currently in effect							
Amortization of prior service credit	—	(1,050 )	—	(1,050 )	(e) 276	(774 )	
Amortization of actuarial losses	—	10,900	—	10,900	(e) (2,866 )	8,034	
Total other comprehensive income (loss)	(144,647)	9,850	(12,535)	(147,332 )	44,756	(102,576)	
Balance — March 31, 2018	\$ (227,399)	(403,318)	(32,700)	\$ (663,417 )	180,174	\$ (483,243)	

	Investment Securities With OTTA (b) Other (In thousands)	Defined Benefit Plans	Other	Total Amount Before Tax	Income Tax	Net	
Balance — January 1, 2017	\$46,725	(73,785 )	(449,917)	(8,268 )	\$ (485,245 )	190,609	\$ (294,636)
Other comprehensive income before reclassifications:							
Unrealized holding gains (losses), net	(8,628 )	5,613	—	—	(3,015 )	1,182	(1,833 )
Foreign currency translation adjustment	—	—	—	732	732	(256 )	476
Total other comprehensive income (loss) before reclassifications	(8,628 )	5,613	—	732	(2,283 )	926	(1,357 )
Amounts reclassified from accumulated other comprehensive income that (increase) decrease							
net income:							
Amortization of unrealized holding losses on							
HTM securities	—	787	—	—	787	(c) (310 )	477
Accretion of net gain on terminated cash flow							
hedges	—	—	—	(39 )	(39 )	(d) 16	(23 )
Amortization of prior service credit	—	—	(225 )	—	(225 )	(e) 88	(137 )
Amortization of actuarial losses	—	—	6,775	—	6,775	(e) (2,666 )	4,109
Total other comprehensive income (loss)	(8,628 )	6,400	6,550	693	5,015	(1,946 )	3,069
Balance — March 31, 2017	\$38,097	(67,385 )	(443,367)	(7,575 )	\$ (480,230 )	188,663	\$ (291,567)

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

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 8. Comprehensive income, continued

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

	Defined			Total
	Investment Securities (In thousands)	Benefit Plans	Other	
Balance — December 31, 2017	\$(44,150 )	(304,546)	(15,118)	\$(363,814)
Cumulative effect of change in accounting principle — equity securities	(16,853 )	—	—	(16,853 )
Net gain (loss) during period	(100,684)	7,260	(9,152 )	(102,576)
Balance — March 31, 2018	\$(161,687)	(297,286)	(24,270)	\$(483,243)

## 9. Derivative financial instruments

As part of managing interest rate risk, the Company enters into interest rate swap agreements to modify the repricing characteristics of certain portions of the Company's portfolios of earning assets and interest-bearing liabilities. The Company designates interest rate swap agreements utilized in the management of interest rate risk as either fair value hedges or cash flow hedges. Interest rate swap agreements are generally entered into with counterparties that meet established credit standards and most contain master netting, collateral and/or settlement provisions protecting the at-risk party. Based on adherence to the Company's credit standards and the presence of the netting, collateral or settlement provisions, the Company believes that the credit risk inherent in these contracts was not significant as of March 31, 2018.

Exclusive of the impact of hedge ineffectiveness (which was not material), the net effect of interest rate swap agreements was to increase net interest income by \$1 million and \$4 million for the three-month periods ended March 31, 2018 and 2017, respectively.

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 9. Derivative financial instruments, continued

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

	Notional Amount (In thousands)	Average Maturity (In years)	Weighted-		Estimated Fair Value Gain (a) (In thousands)
			Average Rate Fixed	Average Rate Variable	
<b>March 31, 2018</b>					
Fair value hedges:					
Fixed rate long-term borrowings (b)	\$4,700,000	3.0	2.41 %	2.48 %	\$ 316
Cash flow hedges:					
Interest payments on variable rate					
commercial real estate loans (b)(c)	4,850,000	1.7	1.52 %	1.66 %	60
Total	\$9,550,000	2.5			\$ 376
<b>December 31, 2017</b>					
Fair value hedges:					
Fixed rate long-term borrowings (b)	\$4,550,000	2.9	2.27 %	2.09 %	\$ 573
Cash flow hedges:					
Interest payments on variable rate					
commercial real estate loans (b)(c)	4,850,000	2.0	1.52 %	1.36 %	66
Total	\$9,400,000	2.5			\$ 639

(a) Certain clearinghouse exchanges consider payments by counterparties for variation margin on derivative instruments to be settlements of those positions. The impact of such treatment at March 31, 2018 and December 31, 2017 was a reduction of the estimated fair value losses on interest rate swap agreements designated as fair value hedges of \$83.2 million and \$41.1 million, respectively, and on interest rate swap agreements designated as cash flow hedges of \$30.4 million and \$16.3 million, respectively.

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

(c) Includes notional amount and terms of \$2.0 billion of forward-starting interest rate swap agreements that will become effective upon maturity in 2019 of \$2.0 billion of agreements currently in effect.

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

Derivative financial instruments used for trading account purposes included interest rate contracts, foreign exchange and other option contracts, foreign exchange forward and spot contracts, and financial futures. Interest rate contracts

entered into for trading account purposes had notional values of \$39.5 billion and \$29.9 billion at March 31, 2018 and December 31, 2017, respectively. The notional amounts of foreign currency and other option and futures contracts entered into for trading account purposes aggregated \$538 million and \$530 million at March 31, 2018 and December 31, 2017, respectively.

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 9. Derivative financial instruments, continued

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

	Asset Derivatives Fair Value		Liability Derivatives Fair Value	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
(In thousands)				
<b>Derivatives designated and qualifying as hedging instruments</b>				
Interest rate swap agreements (a)	\$376	\$ 639	\$—	\$ —
Commitments to sell real estate loans (a)	1,335	734	1,470	283
	1,711	1,373	1,470	283
<b>Derivatives not designated and qualifying as hedging instruments</b>				
Mortgage-related commitments to originate real estate loans for sale (a)	10,562	8,797	1,802	494
Commitments to sell real estate loans (a)	5,361	2,526	2,341	1,019
<b>Trading:</b>				
Interest rate contracts (b)	71,930	74,164	231,254	132,104
Foreign exchange and other option and futures contracts (b)	6,634	5,657	5,580	5,286
	94,487	91,144	240,977	138,903
<b>Total derivatives</b>	<b>\$96,198</b>	<b>\$ 92,517</b>	<b>\$242,447</b>	<b>\$ 139,186</b>

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

(b) Asset derivatives are reported in trading account assets and liability derivatives are reported in other liabilities. The impact of variation margin payments at March 31, 2018 and December 31, 2017 was a reduction of the estimated fair value of interest rate contracts in the trading account in an asset position of \$235.6 million and \$136.2 million, respectively, and in a liability position of \$6.2 million and \$12.2 million, respectively.

	Amount of Gain (Loss) Recognized		Amount of Gain (Loss) Recognized	
	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
	Hedged Derivative Item	Hedged Derivative Item	Hedged Derivative Item	Hedged Derivative Item
(In thousands)				
<b>Derivatives in fair value hedging relationships</b>				
<b>Interest rate swap agreements:</b>				
Fixed rate long-term borrowings (a)	\$(42,390)	42,370	\$(4,119)	4,012
<b>Derivatives not designated as hedging instruments</b>				
<b>Trading:</b>				
Interest rate contracts (b)	\$(1,605)		\$1,950	
Foreign exchange and other option and futures contracts (b)	2,631		1,836	



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Total	\$1,026	\$3,786
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(a) Effective January 1, 2018, reported as an adjustment to interest expense. Prior to 2018, reported as other revenues from operations.

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

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 9. Derivative financial instruments, continued

Location in the Consolidated Balance Sheet of the Hedged Items in Fair Value Hedges	Carrying Amount of the Hedged Item		Cumulative Amount of Fair Value Hedging Adjustment Increasing (Decreasing) the Carrying Amount of the Hedged Item	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Long-term debt	\$4,612,063	\$ 4,504,029	\$(82,503)	\$(40,133)

The amount of gain (loss) recognized in the consolidated statement of income associated with derivatives designated as cash flow hedges was not material.

The Company also has commitments to sell and commitments to originate residential and commercial real estate loans that are considered derivatives. The Company designates certain of the commitments to sell real estate loans as fair value hedges of real estate loans held for sale. The Company also utilizes commitments to sell real estate loans to offset the exposure to changes in the fair value of certain commitments to originate real estate loans for sale. As a result of these activities, net unrealized pre-tax gains related to hedged loans held for sale, commitments to originate loans for sale and commitments to sell loans were approximately \$17 million and \$16 million at March 31, 2018 and December 31, 2017, respectively. Changes in unrealized gains and losses are included in mortgage banking revenues and, in general, are realized in subsequent periods as the related loans are sold and commitments satisfied.

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

The aggregate fair value of derivative financial instruments in a liability position and the net liability positions with counterparties, which are subject to enforceable master netting arrangements, was \$4 million and \$13 million at March 31, 2018 and December 31, 2017, respectively. The Company was required to post collateral relating to those positions of \$4 million and \$12 million at March 31, 2018 and December 31, 2017, respectively. Certain of the Company's derivative financial instruments contain provisions that require the Company to maintain specific credit ratings from credit rating agencies to avoid higher collateral posting requirements. If the Company's debt rating were to fall below specified ratings, the counterparties of the derivative financial instruments could demand immediate incremental collateralization on those instruments in a net liability position. The aggregate fair value of all derivative financial instruments with such credit risk-related contingent features in a net liability position on March 31, 2018 was not significant. If the credit risk-related contingent features had been triggered on March 31, 2018, the Company

would not have been required to post any additional collateral to counterparties.

The aggregate fair value of derivative financial instruments in an asset position and the net asset positions with counterparties, which are subject to enforceable master netting arrangements, was \$38 million and \$13 million at March 31, 2018 and December 31, 2017, respectively. Counterparties posted collateral relating to those positions of \$32 million and \$12 million at March 31, 2018 and December 31, 2017, respectively. Trading account interest rate swap agreements entered into with customers are subject to the Company's credit risk standards and often contain collateral provisions.

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 9. Derivative financial instruments, continued

In addition to the derivative contracts noted above, the Company clears certain derivative transactions through a clearinghouse, rather than directly with counterparties. Those transactions cleared through a clearinghouse require initial margin collateral and variation margin payments depending on the contracts being in a net asset or liability position. The amount of initial margin collateral posted by the Company was \$53 million and \$52 million at March 31, 2018 and December 31, 2017, respectively. The fair value asset and liability amounts of derivative contracts at March 31, 2018 have been reduced by variation margin payments treated as settlements of \$122 million and \$6 million, respectively. Variation margin on derivative contracts not treated as settlements continues to represent collateral posted or received by the Company.

## 10. Variable interest entities and asset securitizations

The Company's securitization activity has consisted of securitizing loans originated for sale into government issued or guaranteed mortgage-backed securities. The amounts of those securitizations during the three-month periods March 31, 2018 and March 31, 2017 are presented in the Company's consolidated statement of cash flows. The Company has not recognized any losses as a result of having securitized assets.

As described in note 4, M&T has issued junior subordinated debentures payable to various trusts that have issued Capital Securities. M&T owns the common securities of those trust entities. The Company is not considered to be the primary beneficiary of those entities and, accordingly, the trusts are not included in the Company's consolidated financial statements. At each of March 31, 2018 and December 31, 2017, the Company included the junior subordinated debentures as "long-term borrowings" in its consolidated balance sheet and recognized \$23 million in other assets for its "investment" in the common securities of the trusts that will be concomitantly repaid to M&T by the respective trust from the proceeds of M&T's repayment of the junior subordinated debentures associated with preferred capital securities described in note 4.

The Company has invested as a limited partner in various partnerships that collectively had total assets of approximately \$1.0 billion at each of March 31, 2018 and December 31, 2017. Those partnerships generally construct or acquire properties for which the investing partners are eligible to receive certain federal income tax credits in accordance with government guidelines. Such investments may also provide tax deductible losses to the partners. The partnership investments also assist the Company in achieving its community reinvestment initiatives. As a limited partner, there is no recourse to the Company by creditors of the partnerships. However, the tax credits that result from the Company's investments in such partnerships are generally subject to recapture should a partnership fail to comply with the respective government regulations. The Company's maximum exposure to loss of its investments in such partnerships was \$422 million, including \$196 million of unfunded commitments, at March 31, 2018 and \$420 million, including \$201 million of unfunded commitments, at December 31, 2017. Contingent commitments to provide additional capital contributions to these partnerships were not material at March 31, 2018. The Company has not provided financial or other support to the partnerships that was not contractually required. Management currently estimates that no material losses are probable as a result of the Company's involvement with such entities. The Company, in its position as limited partner, does not direct the activities that most significantly impact the economic performance of the partnerships and, therefore, in accordance with the accounting provisions for variable interest entities, the partnership entities are not included in the Company's consolidated financial statements. The Company's investment cost is amortized to income taxes in the consolidated statement of income as tax credits and other tax benefits resulting from deductible losses associated with the projects are received. The Company amortized \$13

million of its investments in qualified affordable housing projects to income tax expense during each of the three-month periods ended March 31, 2018 and 2017 and recognized \$16 million of tax credits and other tax benefits during each of those periods.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

10. Variable interest entities and asset securitizations, continued

The Company serves as investment advisor for certain registered money-market funds. The Company has no explicit arrangement to provide support to those funds, but may waive portions of its allowable management fees as a result of market conditions.

11. Fair value measurements

GAAP permits an entity to choose to measure eligible financial instruments and other items at fair value. The Company has not made any fair value elections at March 31, 2018.

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

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

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

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

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

Trading account assets and liabilities

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

Investment securities available for sale and equity securities

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

11. Fair value measurements, continued

Real estate loans held for sale

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

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

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

Interest rate swap agreements used for interest rate risk management

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



## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 11. Fair value measurements, continued

The following tables present assets and liabilities at March 31, 2018 and December 31, 2017 measured at estimated fair value on a recurring basis:

	Fair Value Measurements(a) (In thousands)	Level 1	Level 2 (a)	Level 3
<b>March 31, 2018</b>				
Trading account assets	\$141,134	\$46,215	\$94,919	\$—
Investment securities available for sale:				
U.S. Treasury and federal agencies	1,941,478	—	1,941,478	—
Obligations of states and political subdivisions	2,000	—	2,000	—
Mortgage-backed securities:				
Government issued or guaranteed	8,222,129	—	8,222,129	—
Privately issued	27	—	—	27
Other debt securities	132,222	—	132,222	—
	10,297,856	—	10,297,829	27
Equity securities	61,717	43,496	18,221	—
Real estate loans held for sale	455,196	—	455,196	—
Other assets (b)	17,634	—	7,072	10,562
<b>Total assets</b>	<b>\$10,973,537</b>	<b>\$89,711</b>	<b>\$10,873,237</b>	<b>\$10,589</b>
Trading account liabilities	\$236,834	\$—	\$236,834	\$-
Other liabilities (b)	5,613	—	3,811	1,802
<b>Total liabilities</b>	<b>\$242,447</b>	<b>\$—</b>	<b>\$240,645</b>	<b>\$1,802</b>
<b>December 31, 2017</b>				
Trading account assets	\$132,909	\$47,873	\$85,036	\$—
Investment securities available for sale:				
U.S. Treasury and federal agencies	1,947,487	—	1,947,487	—
Obligations of states and political subdivisions	2,589	—	2,589	—
Mortgage-backed securities:				
Government issued or guaranteed	8,716,392	—	8,716,392	—
Privately issued	28	—	—	28
Other debt securities	128,832	—	128,832	—
Equity securities	100,956	73,232	27,724	—
	10,896,284	73,232	10,823,024	28
Real estate loans held for sale	378,047	—	378,047	—
Other assets (b)	12,696	—	3,899	8,797
<b>Total assets</b>	<b>\$11,419,936</b>	<b>\$121,105</b>	<b>\$11,290,006</b>	<b>\$8,825</b>
Trading account liabilities	\$137,390	\$—	\$137,390	\$—
Other liabilities (b)	1,796	—	1,302	494
<b>Total liabilities</b>	<b>\$139,186</b>	<b>\$—</b>	<b>\$138,692</b>	<b>\$494</b>

- (a) There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy during the three months ended March 31, 2018 and the year ended December 31, 2017.
- (b) Comprised predominantly of interest rate swap agreements used for interest rate risk management (Level 2), commitments to sell real estate loans (Level 2) and commitments to originate real estate loans to be held for sale (Level 3).

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

11. Fair value measurements, continued

The changes in Level 3 assets and liabilities measured at estimated fair value on a recurring basis during the three months ended March 31, 2018 were as follows:

	Investment Securities	
	Available for Sale	Other
	Privately Issued	Assets
	Mortgage-Backed	
	Securities Liabilities	
	(In thousands)	
Balance — January 1, 2018	\$ 28	8,303
Total gains (losses) realized/unrealized:		
Included in earnings	—	