

M&T BANK CORP  
Form 10-Q  
April 29, 2016  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended March 31, 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**  
**(State or other jurisdiction of**  
**incorporation or organization)**

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

**One M & T Plaza**

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

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

**(716) 842-5445**

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

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

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

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

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Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

Number of shares of the registrant's Common Stock, \$0.50 par value, outstanding as of the close of business on April 22, 2016: 158,999,014 shares.

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**M&T BANK CORPORATION**

**FORM 10-Q**

**For the Quarterly Period Ended March 31, 2016**

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET (Unaudited)

|   |  | March 31,<br>2016 | December<br>31,<br>2015 |
|---|--|-------------------|-------------------------|
| <i>Dollars in thousands, except per share</i> |  |                   |                         |
| Assets  | Cash and due from banks  | \$ 1,178,175      | 1,368,040               |
|   | Interest-bearing deposits at banks   | 9,545,181         | 7,594,350               |
|   | Trading account  | 467,987           | 273,783                 |
|   | Investment securities (includes pledged securities that can be sold or repledged of \$2,133,492 at March 31, 2016; \$2,136,712 at December 31, 2015) |                   |                         |
|   | Available for sale (cost: \$11,937,326 at March 31, 2016; \$12,138,636 at December 31, 2015)   | 12,200,647        | 12,242,671              |
|   | Held to maturity (fair value: \$2,769,343 at March 31, 2016; \$2,864,147 at December 31, 2015)   | 2,730,611         | 2,859,709               |
|   | Other (fair value: \$536,062 at March 31, 2016; \$554,059 at December 31, 2015)  | 536,062           | 554,059                 |
|   | Total investment securities  | 15,467,320        | 15,656,439              |
|   | Loans and leases   | 88,104,830        | 87,719,234              |
|   | Unearned discount  | (232,364)         | (229,735)               |
|   | Loans and leases, net of unearned discount   | 87,872,466        | 87,489,499              |
|   | Allowance for credit losses  | (962,752)         | (955,992)               |
|   | Loans and leases, net  | 86,909,714        | 86,533,507              |
|   | Premises and equipment   | 662,891           | 666,682                 |
|   | Goodwill   | 4,593,112         | 4,593,112               |
|   | Core deposit and other intangible assets   | 127,949           | 140,268                 |
|   | Accrued interest and other assets  | 5,673,303         | 5,961,703               |

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|                            |  |                       |                    |
|----------------------------|--|-----------------------|--------------------|
| Total assets               |  | \$ 124,625,632        | 122,787,884        |
| <b>Liabilities</b>         |  |                       |                    |
|                            | Noninterest-bearing deposits   | \$ 29,709,218         | 29,110,635         |
|                            | Interest-checking deposits   | 2,848,126             | 2,939,274          |
|                            | Savings deposits   | 48,649,114            | 46,627,370         |
|                            | Time deposits  | 12,841,331            | 13,110,392         |
|                            | Deposits at Cayman Islands office  | 166,787               | 170,170            |
|                            | <b>Total deposits</b>  | <b>94,214,576</b>     | <b>91,957,841</b>  |
|                            | Federal funds purchased and agreements to repurchase securities  | 206,709               | 150,546            |
|                            | Other short-term borrowings  | 1,560,117             | 1,981,636          |
|                            | Accrued interest and other liabilities   | 1,948,142             | 1,870,714          |
|                            | Long-term borrowings   | 10,341,035            | 10,653,858         |
|                            | <b>Total liabilities</b>   | <b>108,270,579</b>    | <b>106,614,595</b> |
| <b>Shareholders equity</b> | 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, 2016 and December 31, 2015; Liquidation preference of \$10,000 per share: 50,000 shares at March 31, 2016 and December 31, 2015 | 1,231,500             | 1,231,500          |
|                            | Common stock, \$.50 par, 250,000,000 shares authorized, 159,963,737 shares issued at March 31, 2016; 159,563,512 shares issued at December 31, 2015  | 79,982                | 79,782             |
|                            | Common stock issuable, 33,391 shares at March 31, 2016; 36,644 shares at December 31, 2015   | 2,180                 | 2,364              |
|                            | Additional paid-in capital   | 6,683,499             | 6,680,768          |
|                            | Retained earnings  | 8,596,752             | 8,430,502          |
|                            | Accumulated other comprehensive income (loss), net   | (150,189)             | (251,627)          |
|                            | Treasury stock - common, at cost - 841,082 shares at March 31, 2016  | (88,671)              |                    |
|                            | <b>Total shareholders equity</b>   | <b>16,355,053</b>     | <b>16,173,289</b>  |
|                            | <b>Total liabilities and shareholders equity</b>   | <b>\$ 124,625,632</b> | <b>122,787,884</b> |

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## M&amp;T BANK CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF INCOME (Unaudited)

| <i>In thousands, except per share</i> |  | Three months ended March 31 |                |
|---------------------------------------|--|-----------------------------|----------------|
|                                       |  | 2016                        | 2015           |
| Interest income                       | Loans and leases, including fees                             | \$ 863,385                  | 647,179        |
|                                       | Investment securities  |                             |                |
|                                       | Fully taxable  | 98,015                      | 85,957         |
|                                       | Exempt from federal taxes                                    | 795                         | 1,318          |
|                                       | Deposits at banks  | 10,337                      | 3,118          |
|                                       | Other  | 302                         | 515            |
|                                       | <b>Total interest income</b>                                 | <b>972,834</b>              | <b>738,087</b> |
| Interest expense                      | Interest-checking deposits                                   | 414                         | 311            |
|                                       | Savings deposits   | 15,891                      | 10,219         |
|                                       | Time deposits  | 24,322                      | 3,740          |
|                                       | Deposits at Cayman Islands office                            | 193                         | 147            |
|                                       | Short-term borrowings  | 2,162                       | 34             |
|                                       | Long-term borrowings   | 57,888                      | 64,048         |
|                                       | <b>Total interest expense</b>                                | <b>100,870</b>              | <b>78,499</b>  |
|                                       | <i>Net interest income</i>                                   | <b>871,964</b>              | <b>659,588</b> |
|                                       | Provision for credit losses                                  | 49,000                      | 38,000         |
|                                       | <b>Net interest income after provision for credit losses</b> | <b>822,964</b>              | <b>621,588</b> |
| Other income                          | Mortgage banking revenues                                    | 82,063                      | 101,601        |
|                                       | Service charges on deposit accounts                          | 102,405                     | 102,344        |
|                                       | Trust income   | 111,077                     | 123,734        |
|                                       | Brokerage services income                                    | 16,004                      | 15,461         |
|                                       | Trading account and foreign exchange gains                   | 7,458                       | 6,231          |
|                                       | Gain (loss) on bank investment securities                    | 4                           | (98)           |
|                                       | Other revenues from operations                               | 101,922                     | 90,930         |
|                                       | <b>Total other income</b>                                    | <b>420,933</b>              | <b>440,203</b> |
| Other expense                         | Salaries and employee benefits                               | 431,785                     | 389,893        |
|                                       | Equipment and net occupancy                                  | 74,178                      | 66,470         |
|                                       | Printing, postage and supplies                               | 11,986                      | 9,590          |

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|  |            |         |
|--|------------|---------|
| Amortization of core deposit and other intangible assets | 12,319     | 6,793   |
| FDIC assessments   | 25,225     | 10,660  |
| Other costs of operations                                | 220,602    | 202,969 |
| Total other expense                                      | 776,095    | 686,375 |
| Income before taxes                                      | 467,802    | 375,416 |
| Income taxes   | 169,274    | 133,803 |
| <i>Net income</i>  | \$ 298,528 | 241,613 |
| Net income available to common shareholders              |            |         |
| Basic  | \$ 275,744 | 218,830 |
| Diluted  | 275,748    | 218,837 |
| Net income per common share                              |            |         |
| Basic  | \$ 1.74    | 1.66    |
| Diluted  | 1.73       | 1.65    |
| Cash dividends per common share                          | \$ .70     | .70     |
| Average common shares outstanding                        |            |         |
| Basic  | 158,734    | 132,049 |
| Diluted  | 159,181    | 132,769 |

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## M&amp;T BANK CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

| <i>In thousands</i>  | Three months ended March 31 |            |
|--|-----------------------------|------------|
|  | 2016                        | 2015       |
| Net income   | \$ 298,528                  | \$ 241,613 |
| Other comprehensive income, net of tax and reclassification adjustments: |                             |            |
| Net unrealized gains on investment securities                            | 97,194                      | 25,339     |
| Cash flow hedges adjustments   | (24)                        | 871        |
| Foreign currency translation adjustment                                  | (53)                        | (2,384)    |
| Defined benefit plans liability adjustments                              | 4,321                       | 4,677      |
| <i>Total other comprehensive income</i>                                  | 101,438                     | 28,503     |
| <i>Total comprehensive income</i>  | \$ 399,966                  | \$ 270,116 |

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## M&amp;T BANK CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

| <i>In thousands</i>                  |  | Three months ended |             |
|--------------------------------------|--|--------------------|-------------|
|                                      |  | March 31           |             |
|                                      |  | 2016               | 2015        |
| Cash flows from operating activities | Net income   | \$ 298,528         | 241,613     |
|                                      | Adjustments to reconcile net income to net cash provided by operating activities |                    |             |
|                                      | Provision for credit losses  | 49,000             | 38,000      |
|                                      | Depreciation and amortization of premises and equipment                          | 27,141             | 24,178      |
|                                      | Amortization of capitalized servicing rights                                     | 12,249             | 12,199      |
|                                      | Amortization of core deposit and other intangible assets                         | 12,319             | 6,793       |
|                                      | Provision for deferred income taxes  | 50,075             | 37,052      |
|                                      | Asset write-downs  | 8,940              | 2,379       |
|                                      | Net gain on sales of assets  | (5,399)            | (1,066)     |
|                                      | Net change in accrued interest receivable, payable                               | (16,530)           | (2,200)     |
|                                      | Net change in other accrued income and expense                                   | 70,766             | (80,084)    |
|                                      | Net change in loans originated for sale  | 211                | 197,708     |
|                                      | Net change in trading account assets and liabilities                             | (59,080)           | (18,206)    |
|                                      | Net cash provided by operating activities  | 448,220            | 458,366     |
| Cash flows from investing activities | Proceeds from sales of investment securities                                     |                    |             |
|                                      | Available for sale   | 518                | 693         |
|                                      | Other  | 18,121             | 132         |
|                                      | Proceeds from maturities of investment securities                                |                    |             |
|                                      | Available for sale   | 511,549            | 369,649     |
|                                      | Held to maturity   | 132,636            | 148,708     |
|                                      | Purchases of investment securities   |                    |             |
|                                      | Available for sale   | (311,302)          | (1,871,491) |
|                                      | Held to maturity   | (5,343)            | (7,442)     |
|                                      | Other  | (124)              | (348)       |
|                                      | Net increase in loans and leases   | (439,712)          | (666,220)   |
|                                      | Net (increase) decrease in interest-bearing deposits at banks                    | (1,950,831)        | 179,376     |
|                                      | Capital expenditures, net  | (16,307)           | (9,598)     |
|                                      | Net decrease in loan servicing advances  | 37,600             | 76,145      |
|                                      | Other, net   | 7,920              | (21,940)    |

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|  |   |                  |                  |
|--|---|------------------|------------------|
|  | Net cash used by investing activities                     | (2,015,275)      | (1,802,336)      |
| <b>Cash flows from financing activities</b>                                |   |                  |                  |
|  | Net increase (decrease) in deposits                       | 2,264,623        | (4,543)          |
|  | Net increase (decrease) in short-term borrowings          | (343,838)        | 819              |
|  | Proceeds from long-term borrowings                        |                  | 1,500,000        |
|  | Payments on long-term borrowings                          | (317,187)        | (1,797)          |
|  | Purchases of treasury stock                               | (100,000)        |                  |
|  | Dividends paid - common                                   | (112,000)        | (93,631)         |
|  | Dividends paid - preferred                                | (17,368)         | (17,368)         |
|  | Other, net  | 2,960            | (46,014)         |
|  | <b>Net cash provided by financing activities</b>          | <b>1,377,190</b> | <b>1,337,466</b> |
|  | Net decrease in cash and cash equivalents                 | (189,865)        | (6,504)          |
|  | Cash and cash equivalents at beginning of period          | 1,368,040        | 1,373,357        |
|  | Cash and cash equivalents at end of period                | \$ 1,178,175     | 1,366,853        |
| <b>Supplemental disclosure of cash flow information</b>                    |   |                  |                  |
|  | Interest received during the period                       | \$ 968,223       | 726,475          |
|  | Interest paid during the period                           | 146,568          | 75,776           |
|  | Income taxes paid (refunded) during the period            | (86,146)         | 88,578           |
| <b>Supplemental schedule of noncash investing and financing activities</b> |   |                  |                  |
|  | Real estate acquired in settlement of loans               | \$ 33,737        | 10,846           |
|  | Securitization of residential mortgage loans allocated to |                  |                  |
|  | Available-for-sale investment securities                  | 8,452            | 12,920           |
|  | Capitalized servicing rights                              | 92               | 143              |

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## M&amp;T BANK CORPORATION AND SUBSIDIARIES

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

| <i>In thousands, except per share</i>                                     | Preferred stock | Common stock | Common stock issuable | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income (loss), net | Treasury stock | Total      |
|---|-----------------|--------------|-----------------------|----------------------------|-------------------|--|----------------|------------|
| <b>2015</b>   |                 |              |                       |                            |                   |  |                |            |
| Balance - January 1, 2015   | \$ 1,231,500    | 66,157       | 2,608                 | 3,409,506                  | 7,807,119         | (180,994)  |                | 12,335,896 |
| Total comprehensive income  |                 |              |                       |                            | 241,613           | 28,503   |                | 270,116    |
| Preferred stock cash dividends  |                 |              |                       |                            | (20,318)          |  |                | (20,318)   |
| Exercise of 2,315 Series A stock warrants into 904 shares of common stock |                 | 1            |                       | (1)                        |                   |  |                |            |
| Stock-based compensation plans:   |                 |              |                       |                            |                   |  |                |            |
| Compensation expense, net   |                 | 147          |                       | 5,425                      |                   |  |                | 5,572      |
| Exercises of stock options, net   |                 | 101          |                       | 19,378                     |                   |  |                | 19,479     |
| Stock purchase plan   |                 | 45           |                       | 10,301                     |                   |  |                | 10,346     |
| Directors stock plan  |                 | 2            |                       | 423                        |                   |  |                | 425        |
| Deferred compensation plans, net, including dividend equivalents          |                 | 2            | (298)                 | 270                        | (25)              |  |                | (51)       |
| Other   |                 |              |                       | 405                        |                   |  |                | 405        |
| Common stock cash dividends - \$.70 per share                             |                 |              |                       |                            | (93,569)          |  |                | (93,569)   |
| Balance - March 31, 2015  | \$ 1,231,500    | 66,455       | 2,310                 | 3,445,707                  | 7,934,820         | (152,491)  |                | 12,528,301 |
| <b>2016</b>   |                 |              |                       |                            |                   |  |                |            |
| Balance - January 1, 2016   | \$ 1,231,500    | 79,782       | 2,364                 | 6,680,768                  | 8,430,502         | (251,627)  |                | 16,173,289 |
| Total comprehensive income  |                 |              |                       |                            | 298,528           | 101,438  |                | 399,966    |
| Preferred stock cash dividends  |                 |              |                       |                            | (20,318)          |  |                | (20,318)   |
| Purchases of treasury stock   |                 |              |                       |                            |                   |  | (100,000)      | (100,000)  |
| Stock-based compensation plans:   |                 |              |                       |                            |                   |  |                |            |
| Compensation expense, net   |                 | 178          |                       | (978)                      |                   |  | 745            | (55)       |
| Exercises of stock options, net   |                 | 18           |                       | 2,335                      |                   |  | 265            | 2,618      |
| Stock purchase plan   |                 |              |                       | 275                        |                   |  | 10,319         | 10,594     |
| Directors stock plan  |                 | 2            |                       | 471                        |                   |  |                | 473        |

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|  |              |        |       |           |           |           |          |            |
|--|--------------|--------|-------|-----------|-----------|-----------|----------|------------|
| Deferred compensation plans,<br>net, including dividend<br>equivalents |              | 2      | (184) | 234       | (23)      |           |          | 29         |
| Other  |              |        |       | 394       |           |           |          | 394        |
| Common stock cash dividends<br>- \$.70 per share                       |              |        |       |           | (111,937) |           |          | (111,937)  |
| Balance - March 31, 2016   | \$ 1,231,500 | 79,982 | 2,180 | 6,683,499 | 8,596,752 | (150,189) | (88,671) | 16,355,053 |

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## 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, 2015 ( 2015 Annual Report ). In the opinion of management, all adjustments necessary for a fair presentation have been made and were all of a normal recurring nature.

**2. Acquisition**

On November 1, 2015, M&T completed the acquisition of Hudson City Bancorp, Inc. ( Hudson City ), headquartered in Paramus, New Jersey. On that date, Hudson City Savings Bank, the banking subsidiary of Hudson City, was merged into M&T Bank, a wholly owned banking subsidiary of M&T. Hudson City Savings Bank operated 135 banking offices in New Jersey, Connecticut and New York at the date of acquisition. The results of operations acquired in the Hudson City transaction have been included in the Company s financial results since November 1, 2015. After application of the election, allocation and proration procedures contained in the merger agreement with Hudson City, M&T paid \$2.1 billion in cash and issued 25,953,950 shares of M&T common stock in exchange for Hudson City shares outstanding at the time of the acquisition. The purchase price was approximately \$5.2 billion based on the cash paid to Hudson City shareholders, the fair value of M&T stock exchanged and the estimated fair value of Hudson City stock awards converted into M&T stock awards. The acquisition of Hudson City expanded the Company s presence in New Jersey, Connecticut and New York, and management expects that the Company will benefit from greater geographic diversity and the advantages of scale associated with a larger company.

The Hudson City transaction has been accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair value on the acquisition date. The consideration paid for Hudson City s common equity and the amounts of identifiable assets acquired and liabilities assumed as of the acquisition date were as follows:

|                                    | (in<br>thousands) |
|------------------------------------|-------------------|
| <b>Identifiable assets:</b>        |                   |
| Cash and due from banks            | \$ 131,688        |
| Interest-bearing deposits at banks | 7,568,934         |
| Investment securities              | 7,929,014         |
| Loans                              | 19,015,013        |
| Goodwill                           | 1,079,787         |
| Core deposit intangible            | 131,665           |
| Other assets                       | 843,219           |
| <b>Total identifiable assets</b>   | <b>36,699,320</b> |

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|   |              |
|---|--------------|
| Liabilities:                            |              |
| Deposits                                | 17,879,589   |
| Borrowings                              | 13,211,598   |
| Other liabilities                       | 405,025      |
| <br>                                    |              |
| Total liabilities                       | 31,496,212   |
| <br>                                    |              |
| Total consideration                     | \$ 5,203,108 |
| <br>                                    |              |
| Cash paid                               | \$ 2,064,284 |
| Common stock issued (25,953,950 shares) | 3,110,581    |
| Common stock awards converted           | 28,243       |
| <br>                                    |              |
| Total consideration                     | \$ 5,203,108 |

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**2. Acquisitions, continued**

In early November 2015, the Company sold \$5.8 billion of investment securities obtained in the acquisition and repaid \$10.6 billion of borrowings assumed in the transaction. In connection with the acquisition, the Company recorded approximately \$1.1 billion of goodwill and \$132 million of core deposit intangible. The core deposit intangible asset is being amortized over a period of 7 years using an accelerated method.

The following table presents certain pro forma information as if Hudson City had been included in the Company's results of operations in the first quarter of 2015. These results combine the historical results of Hudson City into the Company's consolidated statement of income and, while certain adjustments were made for the estimated impact of certain fair valuation adjustments and other acquisition-related activity, they are not indicative of what would have occurred had the acquisition taken place as indicated. In particular, no adjustments have been made to eliminate the impact of gains on securities transactions of \$7 million during the three months ended March 31, 2015 that may not have been recognized had the investment securities been recorded at fair value. Additionally, the Company expects to achieve operating cost savings and other business synergies as a result of the acquisition which are not reflected in the pro forma amounts that follow.

|                   | Pro forma<br>Three months<br>ended<br>March 31,<br>2015<br>(in thousands) |
|-------------------|---|
| Total revenues(a) | \$ 1,253,445  |
| Net income        | 285,237   |

(a) Represents net interest income plus other income.

In connection with the Hudson City acquisition, the Company incurred merger-related expenses related to systems conversions and other costs of integrating and conforming acquired operations with and into the Company. Those expenses consisted largely of professional services and other temporary help fees associated with preparing for systems conversions and/or integration of operations; costs related to termination of existing contractual arrangements for various services; initial marketing and promotion expenses designed to introduce M&T Bank to its new customers; severance (for former Hudson City employees); travel costs; and other costs of completing the transaction and commencing operations in new markets and offices. The Company expects that there will be additional merger-related expenses in 2016.



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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**2. Acquisitions, continued**

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

|                                | Three<br>months<br>ended<br>March 31,<br>2016<br>(in thousands) |
|--------------------------------|---|
| Salaries and employee benefits | \$ 5,274  |
| Equipment and net occupancy    | 939   |
| Printing, postage and supplies | 937   |
| Other cost of operations       | 16,012  |
| <b>Total</b>                   | <b>\$ 23,162</b>  |

There were no merger-related expenses during the first quarter of 2015.

**3. Investment securities**

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

|  | Amortized<br>cost | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Estimated<br>fair value |
|--|-------------------|------------------------------|-------------------------------|-------------------------|
|  | (in thousands)    |                              |                               |                         |
| <b>March 31, 2016</b>                            |                   |                              |                               |                         |
| Investment securities available for sale:        |                   |                              |                               |                         |
| U.S. Treasury and federal agencies               | \$ 201,002        | 1,197                        | 7                             | \$ 202,192              |
| Obligations of states and political subdivisions | 5,356             | 138                          | 46                            | 5,448                   |
| Mortgage-backed securities:                      |                   |                              |                               |                         |
| Government issued or guaranteed                  | 11,490,181        | 265,879                      | 5,998                         | 11,750,062              |
| Privately issued                                 | 65                | 2                            | 2                             | 65                      |
| Collateralized debt obligations                  | 28,483            | 18,170                       | 1,613                         | 45,040                  |
| Other debt securities                            | 136,968           | 1,407                        | 25,667                        | 112,708                 |
| Equity securities                                | 75,271            | 10,225                       | 364                           | 85,132                  |

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|  |               |         |        |               |
|--|---------------|---------|--------|---------------|
|  | 11,937,326    | 297,018 | 33,697 | 12,200,647    |
| Investment securities held to maturity:          |               |         |        |               |
| Obligations of states and political subdivisions | 103,408       | 886     | 332    | 103,962       |
| Mortgage-backed securities:                      |               |         |        |               |
| Government issued or guaranteed                  | 2,445,563     | 78,448  | 2,070  | 2,521,941     |
| Privately issued                                 | 175,467       | 1,848   | 40,048 | 137,267       |
| Other debt securities                            | 6,173         |         |        | 6,173         |
|  | 2,730,611     | 81,182  | 42,450 | 2,769,343     |
| Other securities                                 | 536,062       |         |        | 536,062       |
| Total  | \$ 15,203,999 | 378,200 | 76,147 | \$ 15,506,052 |

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**3. Investment securities, continued**

|  | Amortized<br>cost | Gross<br>unrealized<br>gains<br>(in thousands) | Gross<br>unrealized<br>losses | Estimated<br>fair value |
|--|-------------------|--|-------------------------------|-------------------------|
| December 31, 2015                                |                   |  |                               |                         |
| Investment securities available for sale:        |                   |  |                               |                         |
| U.S. Treasury and federal agencies               | \$ 299,890        | 294  | 187                           | \$ 299,997              |
| Obligations of states and political subdivisions | 5,924             | 146  | 42                            | 6,028                   |
| Mortgage-backed securities:                      |                   |  |                               |                         |
| Government issued or guaranteed                  | 11,592,959        | 142,370  | 48,701                        | 11,686,628              |
| Privately issued                                 | 74                | 2  | 2                             | 74                      |
| Collateralized debt obligations                  | 28,438            | 20,143   | 1,188                         | 47,393                  |
| Other debt securities                            | 137,556           | 1,514  | 20,190                        | 118,880                 |
| Equity securities                                | 73,795            | 10,230   | 354                           | 83,671                  |
|  | 12,138,636        | 174,699  | 70,664                        | 12,242,671              |
| Investment securities held to maturity:          |                   |  |                               |                         |
| Obligations of states and political subdivisions | 118,431           | 1,003  | 421                           | 119,013                 |
| Mortgage-backed securities:                      |                   |  |                               |                         |
| Government issued or guaranteed                  | 2,553,612         | 50,936   | 7,817                         | 2,596,731               |
| Privately issued                                 | 181,091           | 2,104  | 41,367                        | 141,828                 |
| Other debt securities                            | 6,575             |  |                               | 6,575                   |
|  | 2,859,709         | 54,043   | 49,605                        | 2,864,147               |
| Other securities                                 | 554,059           |  |                               | 554,059                 |
| Total  | \$ 15,552,404     | 228,742  | 120,269                       | \$ 15,660,877           |

There were no significant gross realized gains or losses from sales of investment securities for the quarters ended March 31, 2016 and 2015.

At March 31, 2016, the amortized cost and estimated fair value of debt securities by contractual maturity were as follows:

| Amortized<br>cost | Estimated<br>fair value |
|-------------------|-------------------------|
| (in thousands)    |                         |

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|   |               |            |
|---|---------------|------------|
| Debt securities available for sale:           |               |            |
| Due in one year or less                       | \$ 7,504      | 7,551      |
| Due after one year through five years         | 201,714       | 203,128    |
| Due after five years through ten years        | 2,728         | 2,926      |
| Due after ten years                           | 159,863       | 151,783    |
|   | 371,809       | 365,388    |
| Mortgage-backed securities available for sale | 11,490,246    | 11,750,127 |
|   | \$ 11,862,055 | 12,115,515 |
| Debt securities held to maturity:             |               |            |
| Due in one year or less                       | \$ 32,387     | 32,542     |
| Due after one year through five years         | 64,484        | 64,760     |
| Due after five years through ten years        | 6,537         | 6,660      |
| Due after ten years                           | 6,173         | 6,173      |
|   | 109,581       | 110,135    |
| Mortgage-backed securities held to maturity   | 2,621,030     | 2,659,208  |
|   | \$ 2,730,611  | 2,769,343  |

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**3. Investment securities, continued**

A summary of investment securities that as of March 31, 2016 and December 31, 2015 had been in a continuous unrealized loss position for less than twelve months and those that had been in a continuous unrealized loss position for twelve months or longer follows:

|  | Less than 12 months<br>Fair<br>value | Unrealized<br>losses | 12 months or more<br>Fair<br>value | Unrealized<br>losses |
|--|--------------------------------------|----------------------|------------------------------------|----------------------|
|  | (in thousands)                       |                      |                                    |                      |
| <b>March 31, 2016</b>                            |                                      |                      |                                    |                      |
| Investment securities available for sale:        |                                      |                      |                                    |                      |
| U.S. Treasury and federal agencies               | \$ 4,051                             | (7)                  |                                    |                      |
| Obligations of states and political subdivisions |                                      |                      | 1,706                              | (46)                 |
| Mortgage-backed securities:                      |                                      |                      |                                    |                      |
| Government issued or guaranteed                  | 337,672                              | (1,959)              | 1,233,329                          | (4,039)              |
| Privately issued                                 |                                      |                      | 34                                 | (2)                  |
| Collateralized debt obligations                  | 10,326                               | (527)                | 1,858                              | (1,086)              |
| Other debt securities                            | 9,825                                | (1,203)              | 88,715                             | (24,464)             |
| Equity securities                                | 2,115                                | (210)                | 146                                | (154)                |
|  | 363,989                              | (3,906)              | 1,325,788                          | (29,791)             |
| Investment securities held to maturity:          |                                      |                      |                                    |                      |
| Obligations of states and political subdivisions | 28,707                               | (215)                | 8,813                              | (117)                |
| Mortgage-backed securities:                      |                                      |                      |                                    |                      |
| Government issued or guaranteed                  | 812                                  | (12)                 | 232,432                            | (2,058)              |
| Privately issued                                 |                                      |                      | 105,355                            | (40,048)             |
|  | 29,519                               | (227)                | 346,600                            | (42,223)             |
| Total  | \$ 393,508                           | (4,133)              | 1,672,388                          | (72,014)             |
| <b>December 31, 2015</b>                         |                                      |                      |                                    |                      |
| Investment securities available for sale:        |                                      |                      |                                    |                      |
| U.S. Treasury and federal agencies               | \$ 147,508                           | (187)                |                                    |                      |
| Obligations of states and political subdivisions | 865                                  | (2)                  | 1,335                              | (40)                 |
| Mortgage-backed securities:                      |                                      |                      |                                    |                      |
| Government issued or guaranteed                  | 4,061,899                            | (48,534)             | 7,216                              | (167)                |
| Privately issued                                 |                                      |                      | 43                                 | (2)                  |

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|  |              |          |         |          |
|--|--------------|----------|---------|----------|
| Collateralized debt obligations                  | 5,711        | (335)    | 2,063   | (853)    |
| Other debt securities                            | 12,935       | (462)    | 93,344  | (19,728) |
| Equity securities                                | 18,073       | (207)    | 153     | (147)    |
|  | 4,246,991    | (49,727) | 104,154 | (20,937) |
| Investment securities held to maturity:          |              |          |         |          |
| Obligations of states and political subdivisions | 42,913       | (335)    | 5,853   | (86)     |
| Mortgage-backed securities:                      |              |          |         |          |
| Government issued or guaranteed                  | 459,983      | (1,801)  | 228,867 | (6,016)  |
| Privately issued                                 |              |          | 112,155 | (41,367) |
|  | 502,896      | (2,136)  | 346,875 | (47,469) |
| Total  | \$ 4,749,887 | (51,863) | 451,029 | (68,406) |

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**3. Investment securities, continued**

The Company owned 538 individual investment securities with aggregate gross unrealized losses of \$76 million at March 31, 2016. Based on a review of each of the securities in the investment securities portfolio at March 31, 2016, the Company concluded that it expected to recover the amortized cost basis of its investment. As of March 31, 2016, 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, 2016, the Company has not identified events or changes in circumstances which may have a significant adverse effect on the fair value of the \$536 million of cost method investment securities.

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

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

|                                      | March 31,<br>2016 | December 31,<br>2015 |
|--------------------------------------|-------------------|----------------------|
|                                      | (in thousands)    |                      |
| Outstanding principal balance        | \$ 2,918,333      | 3,122,935            |
| Carrying amount:                     |                   |                      |
| Commercial, financial, leasing, etc. | 71,577            | 78,847               |
| Commercial real estate               | 588,983           | 644,284              |
| Residential real estate              | 964,893           | 1,016,129            |
| Consumer                             | 681,535           | 725,807              |
|                                      | \$ 2,306,988      | 2,465,067            |

Purchased impaired loans included in the table above totaled \$716 million at March 31, 2016 and \$768 million at December 31, 2015, 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, 2016 and 2015 follows:

|   | Three months ended March 31, 2016 |                   |          |
|---|-----------------------------------|-------------------|----------|
|   | Purchased<br>impaired             | Other<br>acquired | Total    |
|   | (in thousands)                    |                   |          |
| Balance at beginning of period                    | \$ 184,618                        | 296,434           | 481,052  |
| Interest income                                   | (14,062)                          | (37,862)          | (51,924) |
| Reclassifications from nonaccretable balance, net | 629                               | 5,664             | 6,293    |

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|                          |            |         |         |
|--------------------------|------------|---------|---------|
| Other (a)                |            | 4,781   | 4,781   |
| Balance at end of period | \$ 171,185 | 269,017 | 440,202 |

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

|   | Three months ended March 31,<br>2015 |                   |          |
|---|--------------------------------------|-------------------|----------|
|   | Purchased<br>impaired                | Other<br>acquired | Total    |
|   | (in thousands)                       |                   |          |
| Balance at beginning of period                    | \$ 76,518                            | 397,379           | 473,897  |
| Interest income                                   | (5,206)                              | (41,277)          | (46,483) |
| Reclassifications from nonaccretable balance, net | 110                                  | 183               | 293      |
| Other (a)   |                                      | 1,610             | 1,610    |
| Balance at end of period                          | \$ 71,422                            | 357,895           | 429,317  |

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

A summary of current, past due and nonaccrual loans as of March 31, 2016 and December 31, 2015 were as follows:

|   | Current       | 30-89<br>Days<br>past due | Accruing<br>loans past<br>due 90<br>days or<br>more(a) | Accruing<br>loans<br>acquired at<br>a<br>discount<br>past due<br>90 days<br>or<br>more(b) | Purchased<br>impaired(c) | Nonaccrual | Total      |
|---|---------------|---------------------------|--|---|--------------------------|------------|------------|
|   |               |                           |  |   |                          |            |            |
| March 31, 2016                          |               |                           |  |   |                          |            |            |
| Commercial, financial,<br>leasing, etc. | \$ 20,911,645 | 30,495                    | 2,358  | 524   | 1,765                    | 279,790    | 21,226,577 |
| Real estate:                            |               |                           |  |   |                          |            |            |
| Commercial                              | 23,740,729    | 149,108                   | 41,776   | 6,818   | 39,840                   | 171,256    | 24,149,527 |
| Residential builder and<br>developer    | 1,747,261     | 15,304                    | 195  | 3,493   | 23,516                   | 32,458     | 1,822,227  |
| Other commercial<br>construction        | 3,663,835     | 28,336                    | 9,068  | 280   | 19,239                   | 20,781     | 3,741,539  |
| Residential                             | 19,747,097    | 500,241                   | 278,640  | 15,790  | 463,871                  | 186,452    | 21,192,091 |
| Residential-limited<br>documentation    | 3,757,924     | 107,679                   | 275  |   | 165,404                  | 76,265     | 4,107,547  |

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Consumer:

|                             |               |         |         |        |         |         |            |
|-----------------------------|---------------|---------|---------|--------|---------|---------|------------|
| Home equity lines and loans | 5,720,342     | 40,054  |         | 15,898 | 2,239   | 78,722  | 5,857,255  |
| Automobile                  | 2,580,241     | 33,439  |         | 2      |         | 14,817  | 2,628,499  |
| Other                       | 3,083,495     | 24,739  | 3,858   | 18,962 |         | 16,150  | 3,147,204  |
| Total                       | \$ 84,952,569 | 929,395 | 336,170 | 61,767 | 715,874 | 876,691 | 87,872,466 |

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

|   | Current       | 30-89<br>Days<br>past due | Accruing<br>loans<br>past<br>due 90<br>days or<br>more(a)<br>(in thousands) | Accruing<br>loans<br>acquired at<br>a discount<br>past due<br>90 days<br>or<br>more(b) | Purchased<br>impaired(c) | Nonaccrual | Total      |
|---|---------------|---------------------------|---|--|--------------------------|------------|------------|
| December 31, 2015                       |               |                           |   |  |                          |            |            |
| Commercial, financial,<br>leasing, etc. | \$ 20,122,648 | 52,868                    | 2,310   | 693  | 1,902                    | 241,917    | 20,422,338 |
| Real estate:                            |               |                           |   |  |                          |            |            |
| Commercial                              | 23,645,354    | 172,439                   | 12,963  | 8,790  | 46,790                   | 179,606    | 24,065,942 |
| Residential builder and<br>developer    | 1,507,856     | 7,969                     | 5,760   | 6,925  | 28,734                   | 28,429     | 1,585,673  |
| Other commercial<br>construction        | 3,428,939     | 65,932                    | 7,936   | 2,001  | 24,525                   | 16,363     | 3,545,696  |
| Residential                             | 20,507,551    | 560,312                   | 284,451   | 16,079   | 488,599                  | 153,281    | 22,010,273 |
| Residential-limited<br>documentation    | 3,885,073     | 137,289                   |   |  | 175,518                  | 61,950     | 4,259,830  |
| Consumer:                               |               |                           |   |  |                          |            |            |
| Home equity lines and<br>loans          | 5,805,222     | 45,604                    |   | 15,222   | 2,261                    | 84,467     | 5,952,776  |
| Automobile                              | 2,446,473     | 56,181                    |   | 6  |                          | 16,597     | 2,519,257  |
| Other                                   | 3,051,435     | 36,702                    | 4,021   | 18,757   |                          | 16,799     | 3,127,714  |
| Total                                   | \$ 84,400,551 | 1,135,296                 | 317,441   | 68,473   | 768,329                  | 799,409    | 87,489,499 |

(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 that were impaired at acquisition date and were recorded at fair value.

One-to-four family residential mortgage loans held for sale were \$269 million and \$353 million at March 31, 2016 and December 31, 2015, respectively. Commercial mortgage loans held for sale were \$128 million at March 31, 2016 and \$39 million at December 31, 2015.

Changes in the allowance for credit losses for the three months ended March 31, 2016 were as follows:

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|                             | Commercial,<br>Financial,<br>Leasing,<br>etc. | Real Estate |         | Consumer | Unallocated | Total    |
|-----------------------------|---|-------------|---------|----------|-------------|----------|
|                             | Commercial                                    | Residential |         |          |             |          |
|                             |   |             |         |          |             |          |
|                             | (in thousands)                                |             |         |          |             |          |
| Beginning balance           | \$ 300,404                                    | 326,831     | 72,238  | 178,320  | 78,199      | 955,992  |
| Provision for credit losses | 24,364  | 4,013       | 1,218   | 19,893   | (488)       | 49,000   |
| Net charge-offs             |   |             |         |          |             |          |
| Charge-offs                 | (6,149)                                       | (1,272)     | (6,972) | (44,319) |             | (58,712) |
| Recoveries                  | 5,247   | 2,413       | 1,887   | 6,925    |             | 16,472   |
| Net charge-offs             | (902)   | 1,141       | (5,085) | (37,394) |             | (42,240) |
| Ending balance              | \$ 323,866                                    | 331,985     | 68,371  | 160,819  | 77,711      | 962,752  |

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

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

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

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

changes in credit concentrations; and observed trends and practices in the banking industry. As updated appraisals are obtained on individual loans or other events in the market place indicate that collateral values have significantly changed, individual loan grades are adjusted as appropriate. Changes in other factors cited may also lead to loan grade changes at any time. Except for consumer and residential real estate loans that are considered smaller balance homogenous loans and acquired loans that are evaluated on an aggregated basis, the Company considers a loan to be impaired for purposes of applying GAAP when, based on current information and events, it is probable that the Company will be unable to collect all amounts according to the contractual terms of the loan agreement or the loan is delinquent 90 days. Regardless of loan type, the

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Company considers a loan to be impaired if it qualifies as a troubled debt restructuring. Modified loans, including smaller balance homogenous loans, that are considered to be troubled debt restructurings are evaluated for impairment giving consideration to the impact of the modified loan terms on the present value of the loan's expected cash flows.

The following tables provide information with respect to loans and leases that were considered impaired as of March 31, 2016 and December 31, 2015 and for the three month periods ended March 31, 2016 and 2015.

|  | March 31, 2016      |                          |                   | December 31, 2015   |                          |                   |
|--|---------------------|--------------------------|-------------------|---------------------|--------------------------|-------------------|
|  | Recorded investment | Unpaid principal balance | Related allowance | Recorded investment | Unpaid principal balance | Related allowance |
|  | (in thousands)      |                          |                   |                     |                          |                   |
| <b>With an allowance recorded:</b>         |                     |                          |                   |                     |                          |                   |
| Commercial, financial, leasing, etc.       | \$ 204,786          | 223,269                  | 58,714            | 179,037             | 195,821                  | 44,752            |
| <b>Real estate:</b>                        |                     |                          |                   |                     |                          |                   |
| Commercial                                 | 86,612              | 97,912                   | 19,600            | 85,974              | 95,855                   | 18,764            |
| Residential builder and developer          | 6,581               | 8,296                    | 839               | 3,316               | 5,101                    | 196               |
| Other commercial construction              | 2,358               | 2,678                    | 397               | 3,548               | 3,843                    | 348               |
| Residential                                | 77,579              | 95,679                   | 4,348             | 79,558              | 96,751                   | 4,727             |
| Residential-limited documentation          | 87,791              | 101,841                  | 7,000             | 90,356              | 104,251                  | 8,000             |
| <b>Consumer:</b>                           |                     |                          |                   |                     |                          |                   |
| Home equity lines and loans                | 27,544              | 28,540                   | 3,904             | 25,220              | 26,195                   | 3,777             |
| Automobile                                 | 21,289              | 21,289                   | 4,867             | 22,525              | 22,525                   | 4,709             |
| Other                                      | 17,876              | 17,876                   | 4,844             | 17,620              | 17,620                   | 4,820             |
|  | 532,416             | 597,380                  | 104,513           | 507,154             | 567,962                  | 90,093            |
| <b>With no related allowance recorded:</b> |                     |                          |                   |                     |                          |                   |
| Commercial, financial, leasing, etc.       | 105,342             | 126,130                  |                   | 93,190              | 110,735                  |                   |
| <b>Real estate:</b>                        |                     |                          |                   |                     |                          |                   |
| Commercial                                 | 92,733              | 106,710                  |                   | 101,340             | 116,230                  |                   |
| Residential builder and developer          | 28,938              | 49,177                   |                   | 27,651              | 47,246                   |                   |
| Other commercial construction              | 18,811              | 37,498                   |                   | 13,221              | 31,477                   |                   |
| Residential                                | 17,574              | 28,336                   |                   | 19,621              | 30,940                   |                   |
| Residential-limited documentation          | 17,362              | 29,544                   |                   | 18,414              | 31,113                   |                   |
|  | 280,760             | 377,395                  |                   | 273,437             | 367,741                  |                   |

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|                                      |            |         |         |         |         |        |
|--------------------------------------|------------|---------|---------|---------|---------|--------|
| Total:                               |            |         |         |         |         |        |
| Commercial, financial, leasing, etc. | 310,128    | 349,399 | 58,714  | 272,227 | 306,556 | 44,752 |
| Real estate:                         |            |         |         |         |         |        |
| Commercial                           | 179,345    | 204,622 | 19,600  | 187,314 | 212,085 | 18,764 |
| Residential builder and developer    | 35,519     | 57,473  | 839     | 30,967  | 52,347  | 196    |
| Other commercial construction        | 21,169     | 40,176  | 397     | 16,769  | 35,320  | 348    |
| Residential                          | 95,153     | 124,015 | 4,348   | 99,179  | 127,691 | 4,727  |
| Residential-limited documentation    | 105,153    | 131,385 | 7,000   | 108,770 | 135,364 | 8,000  |
| Consumer:                            |            |         |         |         |         |        |
| Home equity lines and loans          | 27,544     | 28,540  | 3,904   | 25,220  | 26,195  | 3,777  |
| Automobile                           | 21,289     | 21,289  | 4,867   | 22,525  | 22,525  | 4,709  |
| Other                                | 17,876     | 17,876  | 4,844   | 17,620  | 17,620  | 4,820  |
| Total                                | \$ 813,176 | 974,775 | 104,513 | 780,591 | 935,703 | 90,093 |

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

|                                      | Three months ended<br>March 31, 2016 |                               |                                 | Three months ended<br>March 31, 2015 |                               |               |
|--------------------------------------|--------------------------------------|-------------------------------|---------------------------------|--------------------------------------|-------------------------------|---------------|
|                                      | Average<br>recorded<br>investment    | Interest income<br>recognized |                                 | Average<br>recorded<br>investment    | Interest income<br>recognized |               |
|                                      |                                      | Total                         | Cash<br>basis<br>(in thousands) |                                      | Total                         | Cash<br>basis |
| Commercial, financial, leasing, etc. | \$ 296,584                           | 611                           | 611                             | 214,618                              | 604                           | 604           |
| Real estate:                         |                                      |                               |                                 |                                      |                               |               |
| Commercial                           | 182,454                              | 1,474                         | 1,474                           | 153,070                              | 1,102                         | 1,102         |
| Residential builder and developer    | 33,750                               | 42                            | 42                              | 73,151                               | 63                            | 63            |
| Other commercial construction        | 16,868                               | 38                            | 38                              | 25,540                               | 55                            | 55            |
| Residential                          | 96,788                               | 1,372                         | 882                             | 104,490                              | 1,446                         | 910           |
| Residential-limited documentation    | 107,473                              | 1,472                         | 630                             | 125,654                              | 1,610                         | 647           |
| Consumer:                            |                                      |                               |                                 |                                      |                               |               |
| Home equity lines and loans          | 26,019                               | 246                           | 85                              | 19,683                               | 201                           | 48            |
| Automobile                           | 21,962                               | 339                           | 36                              | 29,013                               | 450                           | 54            |
| Other                                | 17,717                               | 178                           | 27                              | 18,861                               | 174                           | 33            |
| Total                                | \$ 799,615                           | 5,772                         | 3,825                           | 764,080                              | 5,705                         | 3,516         |

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

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

|                       | Commercial,<br>Financial,<br>Leasing, etc. | Commercial<br>(in thousands) | Real Estate<br>Residential<br>Builder<br>and<br>Developer | Other<br>Commercial<br>Construction |
|-----------------------|--|------------------------------|---|-------------------------------------|
| March 31, 2016        |  |                              |   |                                     |
| Pass                  | \$ 20,155,277                              | 23,138,987                   | 1,700,088   | 3,631,947                           |
| Criticized accrual    | 791,510                                    | 839,284                      | 89,681  | 88,811                              |
| Criticized nonaccrual | 279,790                                    | 171,256                      | 32,458  | 20,781                              |
| <b>Total</b>          | <b>\$ 21,226,577</b>                       | <b>24,149,527</b>            | <b>1,822,227</b>  | <b>3,741,539</b>                    |
| December 31, 2015     |  |                              |   |                                     |
| Pass                  | \$ 19,442,183                              | 23,098,856                   | 1,497,465   | 3,432,679                           |
| Criticized accrual    | 738,238                                    | 787,480                      | 59,779  | 96,654                              |
| Criticized nonaccrual | 241,917                                    | 179,606                      | 28,429  | 16,363                              |
| <b>Total</b>          | <b>\$ 20,422,338</b>                       | <b>24,065,942</b>            | <b>1,585,673</b>  | <b>3,545,696</b>                    |

In determining the allowance for credit losses, residential real estate loans and consumer loans are generally evaluated collectively after considering such factors as payment performance and recent loss experience and trends, which are mainly driven by current collateral values in the market place as well as the amount of loan defaults. Loss rates on such loans are determined by reference to recent charge-off history and are evaluated (and adjusted if deemed appropriate) through consideration of other factors including near-term forecasted loss estimates developed by the Company's Credit Department. In arriving at such forecasts, the Company considers the current estimated fair value of its collateral based on geographical adjustments for home price depreciation/appreciation and overall borrower repayment performance. With regard to collateral values, the realizability of such values by the Company contemplates repayment of any first lien position prior to recovering amounts on a second lien position. 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 aggregated \$52 million and \$24 million, respectively, at March 31, 2016 and \$55 million and \$21 million, respectively, at December 31, 2015. Residential real estate loans and home equity loans and lines of credit that were more than 150 days past due but did not require a partial charge-off because the net realizable value of the collateral exceeded the outstanding customer balance totaled \$20 million and \$32 million, respectively, at March 31, 2016 and \$20 million and \$28 million, respectively, at December 31, 2015.

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

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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.

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

|                                       | Commercial,<br>Financial,<br>Leasing,<br>etc. | Real Estate<br>Commercial Residential |        | Consumer | Total             |
|---------------------------------------|---|---------------------------------------|--------|----------|-------------------|
|                                       |   | (in thousands)                        |        |          |                   |
| <b>March 31, 2016</b>                 |   |                                       |        |          |                   |
| Individually evaluated for impairment | \$ 58,714                                     | 20,611                                | 11,348 | 13,615   | \$ 104,288        |
| Collectively evaluated for impairment | 264,652                                       | 308,897                               | 55,970 | 145,841  | 775,360           |
| Purchased impaired                    | 500   | 2,477                                 | 1,053  | 1,363    | 5,393             |
| Allocated                             | \$ 323,866                                    | 331,985                               | 68,371 | 160,819  | 885,041           |
| Unallocated                           |   |                                       |        |          | 77,711            |
| <b>Total</b>                          |   |                                       |        |          | <b>\$ 962,752</b> |
| <b>December 31, 2015</b>              |   |                                       |        |          |                   |
| Individually evaluated for impairment | \$ 44,752                                     | 19,175                                | 12,727 | 13,306   | \$ 89,960         |
| Collectively evaluated for impairment | 255,615                                       | 307,000                               | 57,624 | 163,511  | 783,750           |
| Purchased impaired                    | 37  | 656                                   | 1,887  | 1,503    | 4,083             |
| Allocated                             | \$ 300,404                                    | 326,831                               | 72,238 | 178,320  | 877,793           |
| Unallocated                           |   |                                       |        |          | 78,199            |
| <b>Total</b>                          |   |                                       |        |          | <b>\$ 955,992</b> |

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

|                                       | Commercial,<br>Financial,<br>Leasing, etc. | Real Estate       |                               | Consumer          | Total                |
|---------------------------------------|--|-------------------|-------------------------------|-------------------|----------------------|
|                                       |  | Commercial        | Residential<br>(in thousands) |                   |                      |
| March 31, 2016                        |  |                   |                               |                   |                      |
| Individually evaluated for impairment | \$ 310,128                                 | 235,039           | 200,306                       | 66,709            | \$ 812,182           |
| Collectively evaluated for impairment | 20,914,684                                 | 29,395,659        | 24,470,057                    | 11,564,010        | 86,344,410           |
| Purchased impaired                    | 1,765                                      | 82,595            | 629,275                       | 2,239             | 715,874              |
| <b>Total</b>                          | <b>\$ 21,226,577</b>                       | <b>29,713,293</b> | <b>25,299,638</b>             | <b>11,632,958</b> | <b>\$ 87,872,466</b> |
| December 31, 2015                     |  |                   |                               |                   |                      |
| Individually evaluated for impairment | \$ 272,227                                 | 234,132           | 207,949                       | 65,365            | \$ 779,673           |
| Collectively evaluated for impairment | 20,148,209                                 | 28,863,130        | 25,398,037                    | 11,532,121        | 85,941,497           |
| Purchased impaired                    | 1,902                                      | 100,049           | 664,117                       | 2,261             | 768,329              |
| <b>Total</b>                          | <b>\$ 20,422,338</b>                       | <b>29,197,311</b> | <b>26,270,103</b>             | <b>11,599,747</b> | <b>\$ 87,489,499</b> |

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

The tables below summarize the Company's loan modification activities that were considered troubled debt restructurings for the three months ended March 31, 2016 and 2015:

|                                      | Number | Recorded investment    |                   | Financial effects of modification |              |
|--------------------------------------|--------|------------------------|-------------------|-----------------------------------|--------------|
|                                      |        | Pre-modification       | Post-modification | Recorded investment (a)           | Interest (b) |
| Three months ended March 31, 2016    |        | (dollars in thousands) |                   |                                   |              |
| Commercial, financial, leasing, etc. |        |                        |                   |                                   |              |
| Principal deferral                   | 24     | \$ 11,571              | \$ 12,721         | \$ 1,150                          | \$           |
| Combination of concession types      | 7      | 6,157                  | 5,952             | (205)                             |              |
| Real estate:                         |        |                        |                   |                                   |              |
| Commercial                           |        |                        |                   |                                   |              |
| Principal deferral                   | 16     | 3,483                  | 3,448             | (35)                              |              |
| Combination of concession types      | 5      | 3,933                  | 3,924             | (9)                               | (35)         |
| Residential                          |        |                        |                   |                                   |              |
| Principal deferral                   | 17     | 1,981                  | 2,191             | 210                               |              |
| Combination of concession types      | 10     | 2,321                  | 2,369             | 48                                |              |
| Residential-limited documentation    |        |                        |                   |                                   |              |
| Principal deferral                   | 1      | 125                    | 138               | 13                                |              |
| Combination of concession types      | 5      | 1,312                  | 1,379             | 67                                | (339)        |
| Consumer:                            |        |                        |                   |                                   |              |
| Home equity lines and loans          |        |                        |                   |                                   |              |
| Principal deferral                   | 3      | 335                    | 335               |                                   |              |
| Combination of concession types      | 23     | 2,496                  | 2,496             |                                   | (283)        |
| Automobile                           |        |                        |                   |                                   |              |
| Principal deferral                   | 48     | 521                    | 521               |                                   |              |
| Other                                | 16     | 38                     | 38                |                                   |              |
| Combination of concession types      | 8      | 85                     | 85                |                                   | (3)          |
| Other                                |        |                        |                   |                                   |              |
| Principal deferral                   | 26     | 374                    | 374               |                                   |              |

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|                                 |     |           |           |          |          |
|---------------------------------|-----|-----------|-----------|----------|----------|
| Other                           | 2   | 25        | 25        |          |          |
| Combination of concession types | 8   | 147       | 147       | (27)     |          |
| Total                           | 219 | \$ 34,904 | \$ 36,143 | \$ 1,239 | \$ (687) |

- (a) *Financial effects impacting the recorded investment included principal payments or advances, charge-offs and capitalized escrow arrearages.*
- (b) *Represents the present value of interest rate concessions discounted at the effective rate of the original loan.*

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

| Three months ended March 31, 2015    | Number     | Recorded investment    |                   | Financial effects of modification |                 |
|--------------------------------------|------------|------------------------|-------------------|-----------------------------------|-----------------|
|                                      |            | Pre-modification       | Post-modification | Recorded investment (a)           | Interest (b)    |
|                                      |            |                        |                   |                                   |                 |
|                                      |            | (dollars in thousands) |                   |                                   |                 |
| Commercial, financial, leasing, etc. |            |                        |                   |                                   |                 |
| Principal deferral                   | 21         | \$ 1,572               | \$ 1,557          | \$ (15)                           | \$              |
| Interest rate reduction              | 1          | 99                     | 99                |                                   | (19)            |
| Combination of concession types      | 3          | 9,155                  | 6,989             | (2,166)                           |                 |
| Real estate:                         |            |                        |                   |                                   |                 |
| Commercial                           |            |                        |                   |                                   |                 |
| Principal deferral                   | 7          | 3,792                  | 3,776             | (16)                              |                 |
| Combination of concession types      | 4          | 1,646                  | 1,637             | (9)                               | (52)            |
| Residential builder and developer    |            |                        |                   |                                   |                 |
| Principal deferral                   | 1          | 1,398                  | 1,398             |                                   |                 |
| Residential                          |            |                        |                   |                                   |                 |
| Principal deferral                   | 7          | 721                    | 742               | 21                                |                 |
| Combination of concession types      | 3          | 294                    | 349               | 55                                | (34)            |
| Residential-limited documentation    |            |                        |                   |                                   |                 |
| Combination of concession types      | 1          | 210                    | 210               |                                   | (4)             |
| Consumer:                            |            |                        |                   |                                   |                 |
| Home equity lines and loans          |            |                        |                   |                                   |                 |
| Principal deferral                   | 1          | 21                     | 21                |                                   |                 |
| Combination of concession types      | 5          | 196                    | 196               |                                   | (13)            |
| Automobile                           |            |                        |                   |                                   |                 |
| Principal deferral                   | 35         | 303                    | 303               |                                   |                 |
| Interest rate reduction              | 3          | 42                     | 42                |                                   | (3)             |
| Other                                | 10         | 20                     | 20                |                                   |                 |
| Combination of concession types      | 8          | 84                     | 84                |                                   | (7)             |
| Other                                |            |                        |                   |                                   |                 |
| Principal deferral                   | 22         | 296                    | 296               |                                   |                 |
| Other                                | 5          | 59                     | 59                |                                   |                 |
| Combination of concession types      | 13         | 224                    | 224               |                                   | (25)            |
| <b>Total</b>                         | <b>150</b> | <b>\$ 20,132</b>       | <b>\$ 18,002</b>  | <b>\$ (2,130)</b>                 | <b>\$ (157)</b> |

(a)



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

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

Troubled debt restructurings are considered to be impaired loans and for purposes of establishing the allowance for credit losses are evaluated for impairment giving consideration to the impact of the modified loan terms on the present value of the loan's expected cash flows. Impairment of troubled debt restructurings that have subsequently defaulted may also be measured based on the loan's observable market price or the fair value of collateral if the loan is collateral-dependent. Charge-offs may also be recognized on troubled debt restructurings that have subsequently defaulted. Loans that were modified as troubled debt restructurings during the twelve months ended March 31, 2016 and 2015 and for which there was a subsequent payment default during the three-month periods ended March 31, 2016 and 2015, respectively, were not material.

The amount of foreclosed residential real estate property held by the Company was \$169 million and \$172 million at March 31, 2016 and December 31, 2015, respectively. There were \$309 million and \$315 million at March 31, 2016 and December 31, 2015, respectively, of loans secured by residential real estate that were in the process of foreclosure.

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**5. Borrowings**

M&T had \$515 million of fixed and variable rate junior subordinated deferrable interest debentures ( Junior Subordinated Debentures ) outstanding at March 31, 2016 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, beginning in 2016 none of the securities are includable in M&T's Tier 1 regulatory capital, but do qualify for inclusion in 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 at any time after an optional redemption prior to contractual maturity contemporaneously with the optional redemption of the related Junior Subordinated Debentures in whole or in part, subject to possible regulatory approval. On April 15, 2015, M&T redeemed all of the issued and outstanding Capital Securities issued by M&T Capital Trust I, M&T Capital Trust II and M&T Capital Trust III, and the related Junior Subordinated Debentures held by those respective trusts. In the aggregate, \$323 million of Junior Subordinated Debentures were redeemed.

Also included in long-term borrowings are agreements to repurchase securities of \$1.9 billion at each of March 31, 2016 and December 31, 2015. 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 \$2.1 billion and \$2.0 billion at March 31, 2016 and December 31, 2015, respectively.

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**6. Shareholders equity**

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

Issued and outstanding preferred stock of M&T as of March 31, 2016 and December 31, 2015 is presented below:

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

- (a) Dividends, if declared, are paid at 6.375%. Warrants to purchase M&T common stock at \$73.86 per share issued in connection with the Series A preferred stock expire in 2018 and totaled 719,175 at March 31, 2016 and December 31, 2015, respectively.
- (b) Dividends, if declared, are paid semi-annually at a rate of 6.875% per year. The shares are redeemable in whole or in part on or after June 15, 2016. Notwithstanding M&T's option to redeem the shares, if an event occurs such that the shares no longer qualify as Tier 1 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 6.45% through February 14, 2024 and thereafter will be paid quarterly at a rate of the three-month LIBOR plus 361 basis points (hundredths of one percent). The shares are redeemable in whole or in part on or after February 15, 2024. Notwithstanding M&T's option to redeem the shares, if an event occurs such that the shares no longer qualify as Tier 1 capital, M&T may redeem all of the shares within 90 days following that occurrence.

In addition to the Series A warrants mentioned in (a) above, a warrant to purchase 95,383 shares of M&T common stock at \$518.96 per share was outstanding at March 31, 2016 and December 31, 2015. The obligation under that warrant was assumed by M&T in an acquisition.

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**7. Pension plans and other postretirement benefits**

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

|   | Pension<br>benefits         |          | Other<br>postretirement<br>benefits |       |
|---|-----------------------------|----------|-------------------------------------|-------|
|   | Three months ended March 31 |          |                                     |       |
|   | 2016                        | 2015     | 2016                                | 2015  |
|   | (in thousands)              |          |                                     |       |
| Service cost                                  | \$ 6,382                    | 6,000    | 458                                 | 200   |
| Interest cost on projected benefit obligation | 20,883                      | 17,775   | 1,205                               | 650   |
| Expected return on plan assets                | (27,814)                    | (23,575) |                                     |       |
| Amortization of prior service credit          | (825)                       | (1,525)  | (350)                               | (350) |
| Amortization of net actuarial loss            | 8,300                       | 11,175   |                                     | 25    |
| Net periodic benefit cost                     | \$ 6,926                    | 9,850    | 1,313                               | 525   |

Expense incurred in connection with the Company's defined contribution pension and retirement savings plans totaled \$17,690,000 and \$16,750,000 for the three months ended March 31, 2016 and 2015, respectively.

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**8. Earnings per common share**

The computations of basic earnings per common share follow:

|  | Three months ended |          |
|--|--------------------|----------|
|  | March 31           |          |
|  | 2016               | 2015     |
|  | (in thousands,     |          |
|  | except per share)  |          |
| <b>Income available to common shareholders:</b>  |                    |          |
| Net income   | \$ 298,528         | 241,613  |
| Less: Preferred stock dividends (a)  | (20,318)           | (20,318) |
| Net income available to common equity  | 278,210            | 221,295  |
| Less: Income attributable to unvested stock-based compensation awards                                    | (2,466)            | (2,465)  |
| Net income available to common shareholders  | \$ 275,744         | 218,830  |
| <b>Weighted-average shares outstanding:</b>  |                    |          |
| Common shares outstanding (including common stock issuable) and unvested stock-based compensation awards | 160,220            | 133,542  |
| Less: Unvested stock-based compensation awards   | (1,486)            | (1,493)  |
| Weighted-average shares outstanding  | 158,734            | 132,049  |
| Basic earnings per common share  | \$ 1.74            | 1.66     |

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

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The computations of diluted earnings per common share follow:

|   | Three months ended<br>March 31      |         |
|---|-------------------------------------|---------|
|   | 2016                                | 2015    |
|   | (in thousands,<br>except per share) |         |
| Net income available to common equity   | \$ 278,210                          | 221,295 |
| Less: Income attributable to unvested stock-based compensation awards   | (2,462)                             | (2,458) |
| Net income available to common shareholders   | \$ 275,748                          | 218,837 |
| Adjusted weighted-average shares outstanding:   |                                     |         |
| Common and unvested stock-based compensation awards   | 160,220                             | 133,542 |
| Less: Unvested stock-based compensation awards  | (1,486)                             | (1,493) |
| Plus: Incremental shares from assumed conversion of stock-based compensation awards and warrants to purchase common stock | 447                                 | 720     |
| Adjusted weighted-average shares outstanding  | 159,181                             | 132,769 |
| Diluted earnings per common share   | \$ 1.73                             | 1.65    |

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

Stock-based compensation awards and warrants to purchase common stock of M&T representing approximately 2.8 million and 2.7 million common shares during the three-month periods ended March 31, 2016 and 2015, respectively, were not included in the computations of diluted earnings per common share because the effect on those periods would have been antidilutive.

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**9. Comprehensive income**

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

|   | Investment Securities |           | Defined benefit plans | Other          | Total amount before tax | Income tax | Net          |
|---|-----------------------|-----------|-----------------------|----------------|-------------------------|------------|--------------|
|   | With OTTI (a)         | All other |                       | (in thousands) |                         |            |              |
| Balance - January 1, 2016   | \$ 16,359             | 62,849    | (489,660)             | (4,093)        | \$ (414,545)            | 162,918    | \$ (251,627) |
| Other comprehensive income before reclassifications:  |                       |           |                       |                |                         |            |              |
| Unrealized holding gains (losses), net  | (370)                 | 159,660   |                       |                | 159,290                 | (62,680)   | 96,610       |
| Foreign currency translation adjustment   |                       |           |                       | (83)           | (83)                    | 30         | (53)         |
| Total other comprehensive income (loss) before reclassifications                                      | (370)                 | 159,660   |                       | (83)           | 159,207                 | (62,650)   | 96,557       |
| Amounts reclassified from accumulated other comprehensive income that (increase) decrease net income: |                       |           |                       |                |                         |            |              |
| Accretion of unrealized holding losses on held-to-maturity ( HTM ) securities                         |                       | 968       |                       |                | 968 (b)                 | (381)      | 587          |
| Gains realized in net income  |                       | (4)       |                       |                | (4)(c)                  | 1          | (3)          |
| Accretion of net gain on terminated cash flow hedges  |                       |           |                       | (39)           | (39)(d)                 | 15         | (24)         |
| Amortization of prior service credit  |                       |           | (1,175)               |                | (1,175)(e)              | 462        | (713)        |
| Amortization of actuarial losses  |                       |           | 8,300                 |                | 8,300 (e)               | (3,266)    | 5,034        |
| Total reclassifications   |                       | 964       | 7,125                 | (39)           | 8,050                   | (3,169)    | 4,881        |



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|                                     |           |         |           |         |              |          |              |
|-------------------------------------|-----------|---------|-----------|---------|--------------|----------|--------------|
| Total gain (loss) during the period | (370)     | 160,624 | 7,125     | (122)   | 167,257      | (65,819) | 101,438      |
| Balance - March 31, 2016            | \$ 15,989 | 223,473 | (482,535) | (4,215) | \$ (247,288) | 97,099   | \$ (150,189) |

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**9. Comprehensive income, continued**

|   | Investment Securities |           | Defined benefit plans | Other<br>(in thousands) | Total amount before tax | Income tax | Net          |
|---|-----------------------|-----------|-----------------------|-------------------------|-------------------------|------------|--------------|
|   | With OTTI (a)         | All other |                       |                         |                         |            |              |
| Balance - January 1, 2015   | \$ 7,438              | 201,828   | (503,027)             | (4,082)                 | \$ (297,843)            | 116,849    | \$ (180,994) |
| Other comprehensive income before reclassifications:  |                       |           |                       |                         |                         |            |              |
| Unrealized holding gains, net   | 8,011                 | 32,063    |                       |                         | 40,074                  | (15,247)   | 24,827       |
| Foreign currency translation adjustment   |                       |           |                       | (3,732)                 | (3,732)                 | 1,348      | (2,384)      |
| Gains on cash flow hedges   |                       |           |                       | 1,453                   | 1,453                   | (568)      | 885          |
| Total other comprehensive income(loss) before reclassifications                                       | 8,011                 | 32,063    |                       | (2,279)                 | 37,795                  | (14,467)   | 23,328       |
| Amounts reclassified from accumulated other comprehensive income that (increase) decrease net income: |                       |           |                       |                         |                         |            |              |
| Amortization of unrealized holding losses on HTM securities   |                       | 739       |                       |                         | 739 (b)                 | (289)      | 450          |
| Losses realized in net income   |                       | 98        |                       |                         | 98 (c)                  | (36)       | 62           |
| Accretion of net gain on terminated cash flow hedges  |                       |           |                       | (24)                    | (24)(d)                 | 10         | (14)         |
| Amortization of prior service credit  |                       |           | (1,875)               |                         | (1,875)(e)              | 934        | (941)        |
| Amortization of actuarial losses  |                       |           | 11,200                |                         | 11,200 (e)              | (5,582)    | 5,618        |
| Total reclassifications   |                       | 837       | 9,325                 | (24)                    | 10,138                  | (4,963)    | 5,175        |
| Total gain (loss) during the period   | 8,011                 | 32,900    | 9,325                 | (2,303)                 | 47,933                  | (19,430)   | 28,503       |

|                          |           |         |           |         |              |        |              |
|--------------------------|-----------|---------|-----------|---------|--------------|--------|--------------|
| Balance - March 31, 2015 | \$ 15,449 | 234,728 | (493,702) | (6,385) | \$ (249,910) | 97,419 | \$ (152,491) |
|--------------------------|-----------|---------|-----------|---------|--------------|--------|--------------|

(a) *Other-than-temporary impairment*

(b) *Included in interest income*

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

(d) *Included in interest expense*

(e) *Included in salaries and employee benefits expense*

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

|                               | Investment<br>securities<br>With OTTI | All other | Defined<br>benefit<br>plans<br>(in thousands) | Other   | Total        |
|-------------------------------|---------------------------------------|-----------|---|---------|--------------|
| Balance - December 31, 2015   | \$ 9,921                              | 38,166    | (296,979)                                     | (2,735) | \$ (251,627) |
| Net gain (loss) during period | (224)                                 | 97,418    | 4,321   | (77)    | 101,438      |
| Balance - March 31, 2016      | \$ 9,697                              | 135,584   | (292,658)                                     | (2,812) | \$ (150,189) |

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**10. Derivative financial instruments**

As part of managing interest rate risk, the Company enters into interest rate swap agreements to modify the repricing characteristics of certain portions of the Company's portfolios of earning assets and interest-bearing liabilities. The Company designates interest rate swap agreements utilized in the management of interest rate risk as either fair value hedges or cash flow hedges. Interest rate swap agreements are generally entered into with counterparties that meet established credit standards and most contain master netting and collateral provisions protecting the at-risk party. Based on adherence to the Company's credit standards and the presence of the netting and collateral provisions, the Company believes that the credit risk inherent in these contracts was not significant as of March 31, 2016.

The net effect of interest rate swap agreements was to increase net interest income by \$10 million and \$11 million for the three-month periods ended March 31, 2016 and 2015, respectively.

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

|                                     | Notional<br>amount<br>(in thousands) | Average<br>maturity<br>(in years) | Weighted-<br>average rate |          |
|-------------------------------------|--------------------------------------|-----------------------------------|---------------------------|----------|
|                                     |                                      |                                   | Fixed                     | Variable |
| <b>March 31, 2016</b>               |                                      |                                   |                           |          |
| Fair value hedges:                  |                                      |                                   |                           |          |
| Fixed rate long-term borrowings (a) | \$ 1,400,000                         | 1.4                               | 4.42%                     | 1.59%    |
| <b>December 31, 2015</b>            |                                      |                                   |                           |          |
| Fair value hedges:                  |                                      |                                   |                           |          |
| Fixed rate long-term borrowings (a) | \$ 1,400,000                         | 1.7                               | 4.42%                     | 1.39%    |

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

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 \$18.9 billion and \$18.4 billion at March 31, 2016 and December 31, 2015, respectively. The notional amounts of foreign currency and other option and futures contracts entered into for trading account purposes aggregated \$2.8 billion and \$1.6 billion at March 31, 2016 and December

31, 2015, respectively.

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**10. Derivative financial instruments, continued**

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

|  | Asset derivatives<br>Fair value |                      | Liability derivatives<br>Fair value |                      |
|--|---------------------------------|----------------------|-------------------------------------|----------------------|
|  | March 31,<br>2016               | December 31,<br>2015 | March 31,<br>2016                   | December 31,<br>2015 |
| (in thousands)   |                                 |                      |                                     |                      |
| <b>Derivatives designated and qualifying as hedging instruments</b>      |                                 |                      |                                     |                      |
| Fair value hedges:   |                                 |                      |                                     |                      |
| Interest rate swap agreements (a)  | \$ 41,259                       | 43,892               | \$                                  |                      |
| Commitments to sell real estate loans (a)                                | 412                             | 1,844                | 3,243                               | 656                  |
|  | 41,671                          | 45,736               | 3,243                               | 656                  |
| <b>Derivatives not designated and qualifying as hedging instruments</b>  |                                 |                      |                                     |                      |
| Mortgage-related commitments to originate real estate loans for sale (a) |                                 |                      |                                     |                      |
|  | 16,929                          | 10,282               | 44                                  | 403                  |
| Commitments to sell real estate loans (a)                                | 428                             | 533                  | 2,413                               | 846                  |
| Trading:   |                                 |                      |                                     |                      |
| Interest rate contracts (b)  | 329,739                         | 203,517              | 278,981                             | 153,723              |
| Foreign exchange and other option and futures contracts (b)              | 17,807                          | 8,569                | 16,888                              | 7,022                |
|  | 364,903                         | 222,901              | 298,326                             | 161,994              |
| <b>Total derivatives</b>   | <b>\$ 406,574</b>               | <b>268,637</b>       | <b>\$ 301,569</b>                   | <b>162,650</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.

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**10. Derivative financial instruments, continued**

|   | Amount of gain (loss) recognized     |             |                                      |             |
|---|--------------------------------------|-------------|--------------------------------------|-------------|
|   | Three months ended<br>March 31, 2016 |             | Three months ended<br>March 31, 2015 |             |
|   | Derivative                           | Hedged item | Derivative                           | Hedged item |
|   | (in thousands)                       |             |                                      |             |
| <b>Derivatives in fair value hedging relationships</b>      |                                      |             |                                      |             |
| Interest rate swap agreements:                              |                                      |             |                                      |             |
| Fixed rate long-term borrowings (a)                         | \$ (2,633)                           | 1,870       | \$ (396)                             | 161         |
| <b>Derivatives not designated as hedging instruments</b>    |                                      |             |                                      |             |
| Trading:  |                                      |             |                                      |             |
| Interest rate contracts (b)                                 | \$ 974                               |             | \$ 660                               |             |
| Foreign exchange and other option and futures contracts (b) | 1,212                                |             | 2,789                                |             |
| Total   | \$ 2,186                             |             | \$ 3,449                             |             |

(a) Reported as other revenues from operations.

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

The Company 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 \$22 million and \$18 million at March 31, 2016 and December 31, 2015, respectively. Changes in unrealized gains and losses are included in mortgage banking revenues and, in general, are realized in subsequent periods as the related loans are sold and commitments satisfied.

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

The aggregate fair value of derivative financial instruments in a liability position, which are subject to enforceable master netting arrangements, was \$98 million and \$59 million at March 31, 2016 and December 31, 2015,

respectively. After consideration of such netting arrangements, the net liability positions with counterparties aggregated \$95 million and \$55 million at March 31, 2016 and December 31, 2015, respectively. The Company was required to post collateral relating to those positions of \$84 million and \$52 million, at March 31, 2016 and December 31, 2015, 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,

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**10. Derivative financial instruments, continued**

the counterparties to 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, 2016 was \$19 million, for which the Company had posted collateral of \$13 million in the normal course of business. If the credit risk-related contingent features had been triggered on March 31, 2016, the maximum amount of additional collateral the Company would have been required to post with counterparties was \$6 million.

The aggregate fair value of derivative financial instruments in an asset position, which are subject to enforceable master netting arrangements, was \$24 million and \$23 million at March 31, 2016 and December 31, 2015, respectively. After consideration of such netting arrangements, the net asset positions with counterparties aggregated \$21 million and \$19 million at March 31, 2016 and December 31, 2015, respectively. Counterparties posted collateral relating to those positions of \$21 million and \$22 million at March 31, 2016 and December 31, 2015, respectively. Trading account interest rate swap agreements entered into with customers are subject to the Company's credit risk standards and often contain collateral provisions.

In addition to the derivative contracts noted above, the Company clears certain derivative transactions through a clearinghouse rather than directly with counterparties. Those transactions cleared through a clearinghouse require initial margin collateral and additional collateral for contracts in a net liability position. The net fair values of derivative financial instruments cleared through clearinghouses at March 31, 2016 was a net liability position of \$156 million and at December 31, 2015 was a net liability position of \$50 million. Collateral posted with clearinghouses was \$204 million and \$99 million at March 31, 2016 and December 31, 2015, respectively.

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

In accordance with GAAP, at December 31, 2015 the Company determined that it was the primary beneficiary of a residential mortgage loan securitization trust considering its role as servicer and its retained subordinated interests in the trust. As a result, the Company had included the one-to-four family residential mortgage loans that were included in the trust in its consolidated financial statements. In the first quarter of 2016, the securitization trust was terminated as the Company exercised its right to purchase the underlying mortgage loans pursuant to the clean-up call provisions of the trust. At December 31, 2015, the carrying value of the loans in the securitization trust was \$81 million. The outstanding principal amount of mortgage-backed securities issued by the qualified special purpose trust that was held by parties unrelated to the Company at December 31, 2015 was \$13 million.

As described in note 5, M&T has issued junior subordinated debentures payable to various trusts that have issued Capital Securities. M&T owns the common securities of those trust entities. The Company is not considered to be the primary beneficiary of those entities and, accordingly, the trusts are not included in the Company's consolidated financial statements. At each of March 31, 2016 and December 31, 2015, the Company included the junior subordinated debentures as long-term borrowings in its consolidated balance sheet and recognized \$24 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 5.

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The Company has invested as a limited partner in various partnerships that collectively had total assets of approximately \$1.1 billion at each of March 31, 2016 and December 31, 2015. 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 \$290 million, including \$80 million of unfunded commitments, at March 31, 2016 and \$295 million, including \$78 million of unfunded commitments, at December 31, 2015. Contingent commitments to provide additional capital contributions to these partnerships were not material at March 31, 2016. The Company has not provided financial or other support to the partnerships that was not contractually required. Management currently estimates that no material losses are probable as a result of the Company's involvement with such entities. The Company, in its position as a limited partner, does not direct the activities that most significantly impact the economic performance of the partnerships and, therefore, in accordance with the accounting provisions for variable interest entities, the partnership entities are not included in the Company's consolidated financial statements. 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 \$11 million and \$10 million of its investments in qualified affordable housing projects to income tax expense during the three-month periods ended March 31, 2016 and 2015, respectively, and recognized \$14 million of tax credits and other tax benefits during each of those respective periods.

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 management fees. Such waivers were not material during the three months ended March 31, 2016 and 2015.

**12. Fair value measurements**

GAAP permits an entity to choose to measure eligible financial instruments and other items at fair value. The Company has not made any fair value elections at March 31, 2016.

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.

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

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

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

***Trading account assets and liabilities***

Trading account assets and liabilities consist primarily of interest rate swap agreements and foreign exchange contracts with customers who require such services with offsetting positions with third parties to minimize the Company's risk with respect to such transactions. The Company generally determines the fair value of its derivative trading account assets and liabilities using externally developed pricing models based on market observable inputs and, therefore, classifies such valuations as Level 2. Mutual funds held in connection with deferred compensation 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***

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

Included in collateralized debt obligations are securities backed by trust preferred securities issued by financial institutions and other entities. The Company could not obtain pricing indications for many of these securities from its two primary independent pricing sources. The Company, therefore, performed internal modeling to estimate the cash flows and fair value of its portfolio of securities backed by trust preferred securities at March 31, 2016 and December 31, 2015. The modeling techniques included estimating cash flows using bond-specific assumptions about future collateral defaults and related loss severities. The resulting cash flows were then discounted by reference to market yields observed in the single-name trust preferred securities market. In determining a market yield applicable to the estimated cash flows, a margin over LIBOR ranging from 4% to 10%, with a weighted-average of 8%, was used. Significant unobservable inputs used in the determination of estimated fair value of collateralized debt obligations are included in the accompanying table of significant unobservable inputs to Level 3 measurements. At March 31, 2016, the total amortized cost and fair value of securities backed by trust preferred securities issued by financial institutions

and other entities were \$28 million and \$45 million, respectively, and at December 31, 2015 were \$28 million and \$47 million, respectively. Privately issued mortgage-backed securities and securities backed by trust preferred securities issued by financial institutions and other entities constituted all of the available-for-sale investment securities classified as Level 3 valuations.

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

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

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

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

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

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

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

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

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

The following tables present assets and liabilities at March 31, 2016 and December 31, 2015 measured at estimated fair value on a recurring basis:

|  | Fair value measurements at March 31, 2016 |            |            |         |
|--|---|------------|------------|---------|
|  | 2016                                      | Level 1(a) | Level 2(a) | Level 3 |
|  | (in thousands)                            |            |            |         |
| Trading account assets                           | \$ 467,987                                | 69,689     | 398,298    |         |
| Investment securities available for sale:        |   |            |            |         |
| U.S. Treasury and federal agencies               | 202,192                                   |            | 202,192    |         |
| Obligations of states and political subdivisions | 5,448                                     |            | 5,448      |         |
| Mortgage-backed securities:                      |   |            |            |         |
| Government issued or guaranteed                  | 11,750,062                                |            | 11,750,062 |         |
| Privately issued                                 | 65  |            |            | 65      |
| Collateralized debt obligations                  | 45,040                                    |            |            | 45,040  |
| Other debt securities                            | 112,708                                   |            | 112,708    |         |
| Equity securities                                | 85,132                                    | 67,150     | 17,982     |         |
|  | 12,200,647                                | 67,150     | 12,088,392 | 45,105  |
| Real estate loans held for sale                  | 396,764                                   |            | 396,764    |         |
| Other assets (b)                                 | 59,028                                    |            | 42,099     | 16,929  |
| Total assets                                     | \$ 13,124,426                             | 136,839    | 12,925,553 | 62,034  |
| Trading account liabilities                      | \$ 295,869                                |            | 295,869    |         |
| Other liabilities (b)                            | 5,700                                     |            | 5,656      | 44      |
| Total liabilities                                | \$ 301,569                                |            | 301,525    | 44      |



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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

|  | Fair value<br>measurements at<br>December 31,<br>2015 | Level 1(a)     | Level 2(a) | Level 3 |
|--|---|----------------|------------|---------|
|  |   | (in thousands) |            |         |
| Trading account assets                           | \$ 273,783  | 56,763         | 217,020    |         |
| Investment securities available for sale:        |   |                |            |         |
| U.S. Treasury and federal agencies               | 299,997   |                | 299,997    |         |
| Obligations of states and political subdivisions | 6,028   |                | 6,028      |         |
| Mortgage-backed securities:                      |   |                |            |         |
| Government issued or guaranteed                  | 11,686,628  |                | 11,686,628 |         |
| Privately issued                                 | 74  |                |            | 74      |
| Collateralized debt obligations                  | 47,393  |                |            | 47,393  |
| Other debt securities                            | 118,880   |                | 118,880    |         |
| Equity securities                                | 83,671  | 65,178         | 18,493     |         |
|  | 12,242,671  | 65,178         | 12,130,026 | 47,467  |
| Real estate loans held for sale                  | 392,036   |                | 392,036    |         |
| Other assets (b)                                 | 56,551  |                | 46,269     | 10,282  |
| Total assets                                     | \$ 12,965,041   | 121,941        | 12,785,351 | 57,749  |
| Trading account liabilities                      | \$ 160,745  |                | 160,745    |         |
| Other liabilities (b)                            | 1,905   |                | 1,502      | 403     |
| Total liabilities                                | \$ 162,650  |                | 162,247    | 403     |

- (a) There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy during the three months ended March 31, 2016 and the year ended December 31, 2015.
- (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

**12. Fair value measurements, continued**

The changes in Level 3 assets and liabilities measured at estimated fair value on a recurring basis during the three months ended March 31, 2016 were as follows:

|   |  | Investment securities available for sale    |                                 |                                    |
|---|--|---|---------------------------------|------------------------------------|
|   |  | Privately issued mortgage-backed securities | Collateralized debt obligations | Other assets and other liabilities |
|   |  |   | (in thousands)                  |                                    |
| Balance   | January 1, 2016                        | \$ 74                                       | \$ 47,393                       | \$ 9,879                           |
| Total gains (losses) realized/unrealized:   |  |   |                                 |                                    |
|   | Included in earnings                   |   |                                 | 23,898(b)                          |
|   | Included in other comprehensive income |   | (2,148)(c)                      |                                    |
|   | Settlements                            | (9)   | (205)                           |                                    |
|   | Transfers in and/or out of Level 3 (a) |   |                                 | (16,892)(d)                        |
| Balance   | March 31, 2016                         | \$ 65                                       | \$ 45,040                       | \$ 16,885                          |
| Changes in unrealized gains included in earnings related to assets still held at March 31, 2016 |  |   |                                 |                                    |
|   |  | \$  | \$                              | \$ 14,539(b)                       |

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

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

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

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

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

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

***Loans***

Loans are generally not recorded at fair value on a recurring basis. Periodically, the Company records nonrecurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Nonrecurring adjustments also include certain impairment amounts for collateral-dependent loans when establishing the allowance for credit losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan and, as a result, the carrying value of the loan less the calculated valuation amount does not necessarily represent the fair value of the loan. Real estate collateral is typically valued using appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace and the related nonrecurring fair value measurement adjustments have generally been classified as Level 2, unless significant adjustments have been made to the valuation that are not readily observable by market participants. Non-real estate collateral supporting commercial loans generally consists of business assets such as receivables, inventory and equipment. Fair value estimations are typically determined by discounting recorded values of those assets to reflect estimated net realizable value considering specific borrower facts and circumstances and the experience of credit personnel in their dealings with similar borrower collateral liquidations. Such discounts were generally in the range of 10% to 90% at March 31, 2016. As these discounts are not readily observable and are considered significant, the valuations have been classified as Level 3. Automobile collateral is typically valued by reference to independent pricing sources based on recent sales transactions of similar vehicles, and the related non-recurring fair value measurement adjustments have been classified as Level 2. Collateral values for other consumer installment loans are generally estimated based on historical recovery rates for similar types of loans. As these recovery rates are not readily observable by market participants, such valuation adjustments have been classified as Level 3. Loans subject to nonrecurring fair value measurement were \$226 million at March 31, 2016 (\$127 million and \$99 million of which were classified as Level 2 and Level 3, respectively), \$210 million at December 31, 2015 (\$106 million and \$104 million of which were classified as Level 2 and Level 3, respectively) and \$101 million at March 31, 2015 (\$67 million and \$34 million of which were classified as Level 2 and Level 3, respectively). Changes in fair value recognized for partial charge-offs of loans and loan impairment reserves on loans held by the Company on March 31, 2016 and 2015 were decreases of \$27 million and \$8 million for the three-month periods ended March 31, 2016 and 2015, respectively.

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

Assets taken in foreclosure of defaulted loans are primarily comprised of commercial and residential real property and are generally measured at the lower of cost or fair value less costs to sell. The fair value of the real property is generally determined using appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace, and the related nonrecurring fair value measurement adjustments have generally been classified as Level 2. Assets taken in foreclosure of defaulted loans subject to nonrecurring fair value measurement were \$62 million and \$11 million at March 31, 2016 and March 31, 2015, respectively. Changes in fair value recognized for those foreclosed assets held by the Company were not

material during the three-month periods ended March 31, 2016 and 2015.

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The following tables present quantitative information about significant unobservable inputs used in the fair value measurements for Level 3 assets and liabilities at March 31, 2016 and December 31, 2015:

|   | Fair value<br>at<br>March 31,<br>2016<br>(in thousands)    | Valuation<br>technique         | Unobservable<br>input/assumptions       | Range<br>(weighted-<br>average) |
|---|--|--------------------------------|---|---------------------------------|
| <b><u>Recurring fair value measurements</u></b> |  |                                |   |                                 |
| Privately issued mortgage backed securities     | \$ 65  | Two independent pricing quotes |   |                                 |
| Collateralized debt obligations                 | 45,040   | Discounted cash flow           | Probability of default<br>Loss severity | 10%-56% (31%)<br>100%           |
| Net other assets (liabilities)<br>(a)           | 16,885   | Discounted cash flow           | Commitment expirations                  | 0%-66% (31%)                    |
|   | Fair value at<br>December 31,<br>2015<br>(in<br>thousands) | Valuation<br>technique         | Unobservable<br>input/assumptions       | Range<br>(weighted-<br>average) |
| <b><u>Recurring fair value measurements</u></b> |  |                                |   |                                 |
| Privately issued mortgage backed securities     | \$ 74  | Two independent pricing quotes |   |                                 |
| Collateralized debt obligations                 | 47,393   | Discounted cash flow           | Probability of default<br>Loss severity | 10%-56% (31%)<br>100%           |

|                                |       |            |                        |              |
|--------------------------------|-------|------------|------------------------|--------------|
| Net other assets (liabilities) |       | Discounted |                        |              |
| (a)                            | 9,879 | cash flow  | Commitment expirations | 0%-60% (39%) |

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

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

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

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



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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

|  | Carrying<br>amount | Estimated<br>fair value | March 31, 2016            |                 |            |
|--|--------------------|-------------------------|---------------------------|-----------------|------------|
|  |                    |                         | Level 1<br>(in thousands) | Level 2         | Level 3    |
| <b>Financial assets:</b>                               |                    |                         |                           |                 |            |
| Cash and cash equivalents                              | \$ 1,178,175       | \$ 1,178,175            | \$ 1,112,933              | \$ 65,242       | \$         |
| Interest-bearing deposits at banks                     | 9,545,181          | 9,545,181               |                           | 9,545,181       |            |
| Trading account assets                                 | 467,987            | 467,987                 | 69,689                    | 398,298         |            |
| Investment securities                                  | 15,467,320         | 15,506,052              | 67,150                    | 15,256,530      | 182,372    |
| <b>Loans and leases:</b>                               |                    |                         |                           |                 |            |
| Commercial loans and leases                            | 21,226,577         | 20,875,827              |                           |                 | 20,875,827 |
| Commercial real estate loans                           | 29,713,293         | 29,569,740              |                           | 127,736         | 29,442,004 |
| Residential real estate loans                          | 25,299,638         | 25,386,240              |                           | 4,590,667       | 20,795,573 |
| Consumer loans   | 11,632,958         | 11,553,135              |                           |                 | 11,553,135 |
| Allowance for credit losses                            | (962,752)          |                         |                           |                 |            |
| Loans and leases, net                                  | 86,909,714         | 87,384,942              |                           | 4,718,403       | 82,666,539 |
| Accrued interest receivable                            | 318,486            | 318,486                 |                           | 318,486         |            |
| <b>Financial liabilities:</b>                          |                    |                         |                           |                 |            |
| Noninterest-bearing deposits                           | \$ (29,709,218)    | \$ (29,709,218)         |                           | \$ (29,709,218) |            |
| Savings and interest-checking<br>deposits              | (51,497,240)       | (51,497,240)            |                           | (51,497,240)    |            |
| Time deposits  | (12,841,331)       | (12,879,619)            |                           | (12,879,619)    |            |
| Deposits at Cayman Islands office                      | (166,787)          | (166,787)               |                           | (166,787)       |            |
| Short-term borrowings                                  | (1,766,826)        | (1,766,826)             |                           | (1,766,826)     |            |
| Long-term borrowings                                   | (10,341,035)       | (10,338,217)            |                           | (10,338,217)    |            |
| Accrued interest payable                               | (80,605)           | (80,605)                |                           | (80,605)        |            |
| Trading account liabilities                            | (295,869)          | (295,869)               |                           | (295,869)       |            |
| <b>Other financial instruments:</b>                    |                    |                         |                           |                 |            |
| Commitments to originate real<br>estate loans for sale | \$ 16,885          | \$ 16,885               |                           | \$              | \$ 16,885  |
| Commitments to sell real estate<br>loans               | (4,816)            | (4,816)                 |                           | (4,816)         |            |

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|   |           |           |           |
|---|-----------|-----------|-----------|
| Other credit-related commitments  | (118,521) | (118,521) | (118,521) |
| Interest rate swap agreements used<br>for interest rate risk management | 41,259    | 41,259    | 41,259    |

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

|  | Carrying<br>amount | Estimated<br>fair value | December 31, 2015         |                 |            |
|--|--------------------|-------------------------|---------------------------|-----------------|------------|
|  |                    |                         | Level 1<br>(in thousands) | Level 2         | Level 3    |
| <b>Financial assets:</b>   |                    |                         |                           |                 |            |
| Cash and cash equivalents  | \$ 1,368,040       | \$ 1,368,040            | \$ 1,276,678              | \$ 91,362       | \$         |
| Interest-bearing deposits at banks                                   | 7,594,350          | 7,594,350               |                           | 7,594,350       |            |
| Trading account assets   | 273,783            | 273,783                 | 56,763                    | 217,020         |            |
| Investment securities  | 15,656,439         | 15,660,877              | 65,178                    | 15,406,404      | 189,295    |
| <b>Loans and leases:</b>   |                    |                         |                           |                 |            |
| Commercial loans and leases  | 20,422,338         | 20,146,201              |                           |                 | 20,146,201 |
| Commercial real estate loans   | 29,197,311         | 29,044,244              |                           | 38,774          | 29,005,470 |
| Residential real estate loans  | 26,270,103         | 26,267,771              |                           | 4,727,816       | 21,539,955 |
| Consumer loans   | 11,599,747         | 11,550,270              |                           |                 | 11,550,270 |
| Allowance for credit losses  | (955,992)          |                         |                           |                 |            |
| Loans and leases, net  | 86,533,507         | 87,008,486              |                           | 4,766,590       | 82,241,896 |
| Accrued interest receivable  | 306,496            | 306,496                 |                           | 306,496         |            |
| <b>Financial liabilities:</b>  |                    |                         |                           |                 |            |
| Noninterest-bearing deposits   | \$ (29,110,635)    | \$ (29,110,635)         |                           | \$ (29,110,635) |            |
| Savings and interest-checking deposits                               | (49,566,644)       | (49,566,644)            |                           | (49,566,644)    |            |
| Time deposits  | (13,110,392)       | (13,135,042)            |                           | (13,135,042)    |            |
| Deposits at Cayman Islands office                                    | (170,170)          | (170,170)               |                           | (170,170)       |            |
| Short-term borrowings  | (2,132,182)        | (2,132,182)             |                           | (2,132,182)     |            |
| Long-term borrowings   | (10,653,858)       | (10,639,556)            |                           | (10,639,556)    |            |
| Accrued interest payable   | (85,145)           | (85,145)                |                           | (85,145)        |            |
| Trading account liabilities  | (160,745)          | (160,745)               |                           | (160,745)       |            |
| <b>Other financial instruments:</b>                                  |                    |                         |                           |                 |            |
| Commitments to originate real estate loans for sale                  | \$ 9,879           | \$ 9,879                |                           | \$              | \$ 9,879   |
| Commitments to sell real estate loans                                | 875                | 875                     |                           | 875             |            |
| Other credit-related commitments                                     | (122,334)          | (122,334)               |                           |                 | (122,334)  |
| Interest rate swap agreements used for interest rate risk management | 43,892             | 43,892                  |                           | 43,892          |            |

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

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

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

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

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

***Loans and leases***

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

***Deposits***

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

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

***Long-term borrowings***

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

***Other commitments and contingencies***

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

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

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

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

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

**13. Commitments and contingencies**

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

|  | March 31,<br>2016 | December<br>31,<br>2015 |
|--|-------------------|-------------------------|
|  | (in thousands)    |                         |
| Commitments to extend credit                       |                   |                         |
| Home equity lines of credit                        | \$ 5,604,610      | 5,631,680               |
| Commercial real estate loans to be sold            | 184,198           | 57,597                  |
| Other commercial real estate                       | 5,727,946         | 5,949,933               |
| Residential real estate loans to be sold           | 520,694           | 488,621                 |
| Other residential real estate                      | 281,735           | 212,619                 |
| Commercial and other                               | 12,077,612        | 11,802,850              |
| Standby letters of credit                          | 3,330,241         | 3,330,013               |
| Commercial letters of credit                       | 45,798            | 55,559                  |
| Financial guarantees and indemnification contracts | 2,773,590         | 2,794,322               |
| Commitments to sell real estate loans              | 958,337           | 782,885                 |

Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Standby and commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party, whereas commercial letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and a third party. The credit risk associated with commitments to extend credit and standby and commercial letters

of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

Financial guarantees and indemnification contracts are oftentimes similar to standby letters of credit and include mandatory purchase agreements issued to ensure that customer obligations are fulfilled, recourse obligations associated with sold loans, and other guarantees of customer performance or compliance with designated rules and regulations. Included in financial guarantees and



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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**13. Commitments and contingencies, continued**

indemnification contracts are loan principal amounts sold with recourse in conjunction with the Company's involvement in the Fannie Mae Delegated Underwriting and Servicing program. The Company's maximum credit risk for recourse associated with loans sold under this program totaled approximately \$2.6 billion and \$2.5 billion at March 31, 2016 and December 31, 2015, respectively.

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

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

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

The Company is contractually obligated to repurchase previously sold residential real estate loans that do not ultimately meet investor sale criteria related to underwriting procedures or loan documentation. When required to do so, the Company may reimburse loan purchasers for losses incurred or may repurchase certain loans. The Company reduces residential mortgage banking revenues by an estimate for losses related to its obligations to loan purchasers. The amount of those charges is based on the volume of loans sold, the level of reimbursement requests received from loan purchasers and estimates of losses that may be associated with previously sold loans. Subject to the outcome of the matter discussed in the following paragraph, at March 31, 2016, management believes that any further liability arising out of the Company's obligation to loan purchasers is not material to the Company's consolidated financial position.

The Company is the subject of an investigation by government agencies relating to the origination of Federal Housing Administration (FHA) insured residential home loans and residential home loans sold to Freddie Mac and Fannie Mae. A number of other U.S. financial institutions have announced similar investigations. Regarding FHA loans, the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General and the Department of Justice (collectively, the Government) are investigating whether the Company complied with underwriting guidelines concerning certain loans where HUD paid FHA insurance claims. The Company is fully cooperating with the investigation. The Government has advised the Company that based upon its review of a sample of loans for which an FHA insurance claim was paid by HUD, some of the loans do not meet underwriting guidelines. The Company, based on its own review of the sample, does not agree with the sampling methodology and loan analysis employed by the Government. Regarding loans originated by the Company and sold to Freddie Mac and Fannie Mae, the investigation concerns whether the mortgages sold to Freddie Mac and Fannie Mae comply with applicable underwriting guidelines. The Company is also cooperating with that portion of the investigation. The investigation could lead to claims by the Government under the False Claims Act and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, which allow treble and other special damages substantially in excess of actual losses. Remedies in these proceedings or settlements may include restitution, fines, penalties, or alterations in the Company's business practices. The Company and the Government continue settlement discussions regarding the investigation and although progress has been made, the parties have not yet reached a definitive agreement. Based upon the current

status of these negotiations, management expects that this potential settlement should not have a material impact on the Company's consolidated financial condition or results of operations in future periods.

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**13. Commitments and contingencies, continued**

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.

**14. Segment information**

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

The financial information of the Company's segments was compiled utilizing the accounting policies described in note 22 of Notes to Financial Statements in the 2015 Annual Report. 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 segment results 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. Effective July 1, 2015, the Company changed its internal profitability reporting to move a builder and developer lending unit from the Residential Mortgage Banking segment to the Commercial Real Estate segment. Accordingly, financial information presented herein for the three-month period ended March 31, 2015 has been reclassified to conform to the current presentation. As a result, total revenues and net income decreased in the Residential Mortgage Banking segment and increased in the Commercial Real Estate segment by \$6 million and \$3 million, respectively, for the three-month period ended March 31, 2015 from that which was previously reported.

As also described in note 22 in the 2015 Annual Report, neither goodwill nor core deposit and other intangible assets (and the amortization charges associated with such assets) resulting from acquisitions of financial institutions have been allocated to the Company's reportable segments, but are included in the All Other category. The Company does, however, assign such intangible assets to business units for purposes of testing for impairment.



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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**14. Segment information, continued**

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

|                              | Three months ended March 31 |                                       |                         |                      |                                       |                         |
|------------------------------|-----------------------------|---------------------------------------|-------------------------|----------------------|---------------------------------------|-------------------------|
|                              | Total<br>revenues(a)        | 2016<br>Inter-<br>segment<br>revenues | Net<br>income<br>(loss) | Total<br>revenues(a) | 2015<br>Inter-<br>segment<br>revenues | Net<br>income<br>(loss) |
|                              | (in thousands)              |                                       |                         |                      |                                       |                         |
| Business Banking             | \$ 113,689                  | 991                                   | 25,448                  | \$ 108,560           | 1,045                                 | 24,811                  |
| Commercial Banking           | 253,617                     | 1,056                                 | 101,327                 | 246,581              | 1,085                                 | 96,423                  |
| Commercial Real Estate       | 177,380                     | 387                                   | 80,529                  | 169,021              | 82                                    | 82,591                  |
| Discretionary Portfolio      | 86,835                      | (14,323)                              | 39,988                  | 15,474               | (5,443)                               | 5,954                   |
| Residential Mortgage Banking | 96,935                      | 19,660                                | 17,077                  | 105,757              | 11,387                                | 29,460                  |
| Retail Banking               | 339,046                     | 3,014                                 | 63,288                  | 300,391              | 3,137                                 | 68,888                  |
| All Other                    | 225,395                     | (10,785)                              | (29,129)                | 154,007              | (11,293)                              | (66,514)                |
| Total                        | \$ 1,292,897                |                                       | 298,528                 | \$ 1,099,791         |                                       | 241,613                 |

|                              | Average total assets           |           |                           |
|------------------------------|--------------------------------|-----------|---------------------------|
|                              | Three months ended<br>March 31 |           | Year ended<br>December 31 |
|                              | 2016                           | 2015      | 2015                      |
|                              | (in millions)                  |           |                           |
| Business Banking             | \$ 5,424                       | 5,300     | 5,339                     |
| Commercial Banking           | 24,838                         | 23,683    | 24,143                    |
| Commercial Real Estate       | 19,839                         | 18,334(b) | 18,827                    |
| Discretionary Portfolio      | 42,509                         | 22,714    | 26,648                    |
| Residential Mortgage Banking | 2,647                          | 3,197(b)  | 2,918                     |
| Retail Banking               | 11,568                         | 10,788    | 11,035                    |
| All Other                    | 16,427                         | 11,876    | 12,870                    |
| Total                        | \$ 123,252                     | 95,892    | 101,780                   |

(a) Total revenues are comprised of net interest income and other income. Net interest income is the difference between taxable-equivalent interest earned on assets and interest paid on liabilities owed by a segment and a

*funding charge (credit) based on the Company's internal funds transfer pricing and allocation methodology. Segments are charged a cost to fund any assets (e.g. loans) and are paid a funding credit for any funds provided*

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**14. Segment information, continued**

*(e.g. deposits). The taxable-equivalent adjustment aggregated \$6,332,000 and \$5,838,000 for the three-month periods ended March 31, 2016 and 2015, respectively, and is eliminated in All Other total revenues. Intersegment revenues are included in total revenues of the reportable segments. The elimination of intersegment revenues is included in the determination of All Other total revenues.*

*(b) Average assets of the Commercial Real Estate and Residential Mortgage Banking segments for the three-month period ended March 31, 2015 differ by approximately \$315 million from the previously reported balances reflecting the noted change in the Company's internal profitability reporting to move a builder and developer lending unit from the Residential Mortgage Banking segment to the Commercial Real Estate segment.*

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

M&T holds a 20% minority interest in Bayview Lending Group LLC ( BLG ), a privately-held commercial mortgage company. M&T recognizes income or loss from BLG using the equity method of accounting. The carrying value of that investment was \$20 million at March 31, 2016.

Bayview Financial Holdings, L.P. (together with its affiliates, Bayview Financial ), a privately-held specialty mortgage finance company, is BLG's majority investor. In addition to their common investment in BLG, the Company and Bayview Financial conduct other business activities with each other. The Company has obtained loan servicing rights for mortgage loans from BLG and Bayview Financial having outstanding principal balances of \$4.0 billion and \$4.1 billion at March 31, 2016 and December 31, 2015, respectively. Revenues from those servicing rights were \$5 million and \$6 million during the three-month periods ended March 31, 2016 and 2015, respectively. The Company sub-services residential real estate loans for Bayview Financial having outstanding principal balances totaling \$36.3 billion and \$37.7 billion at March 31, 2016 and December 31, 2015, respectively. Revenues earned for sub-servicing loans for Bayview Financial were \$23 million and \$35 million for the three-month periods ended March 31, 2016 and 2015, respectively. In addition, the Company held \$175 million and \$181 million of mortgage-backed securities in its held-to-maturity portfolio at March 31, 2016 and December 31, 2015, respectively, that were securitized by Bayview Financial.

**16. Sale of trust accounts**

In April 2015, the Company sold the trade processing business within the retirement services division of its Institutional Client Services business. That sale resulted in an after-tax gain of \$23 million (\$45 million pre-tax) that reflected the allocation of approximately \$11 million of previously recorded goodwill to the divested business. Revenues of the sold business had been included in trust income and were \$9 million during the three months ended March 31, 2015. After considering related expenses, net income attributable to the business that was sold was not material to the consolidated results of operations of the Company during the first quarter of 2015.

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

Net income for M&T Bank Corporation ( M&T ) in the first quarter of 2016 was \$299 million or \$1.73 of diluted earnings per common share, compared with \$242 million or \$1.65 of diluted earnings per common share in the initial 2015 quarter. During the fourth quarter of 2015, net income totaled \$271 million or \$1.65 of diluted earnings per common share. Basic earnings per common share were \$1.74 in the recent quarter, compared with \$1.66 and \$1.65 in the first and fourth quarters of 2015, respectively. The annualized rate of return on average total assets for M&T and its consolidated subsidiaries ( the Company ) in the initial 2016 quarter was .97%, compared with 1.02% in the year-earlier quarter and .93% in the fourth quarter of 2015. The annualized rate of return on average common shareholders' equity was 7.44% in the first three months of 2016, compared with 7.99% and 7.22% in the first and fourth quarters of 2015, respectively.

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, the principal bank subsidiary of M&T. 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 and leases (including approximately \$234 million of commercial real estate loans, \$18.6 billion of residential real estate loans and \$162 million of consumer loans). 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.

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

M&T consistently provides supplemental reporting of its results on a net operating or tangible basis, from which M&T excludes the after-tax effect of amortization of core deposit and other intangible assets (and the related goodwill, core deposit intangible and other intangible asset balances, net of applicable deferred tax amounts) and 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 acquisition and integration-related expenses (herein referred to as merger-related expenses) totaled \$23 million (\$14 million after-tax effect) in the first quarter of 2016 (\$.09 per diluted common share), compared with \$97 million (\$61 million after-tax effect) in the fourth quarter of 2015 (\$.40 per diluted common share). There were no merger-related expenses in the first quarter of 2015. Reflected in merger-related expenses in the fourth quarter of 2015 was a provision for credit losses of \$21 million. GAAP



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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 considers that provision to be a merger-related expense. Although net operating income as defined by M&T is not a GAAP measure, M&T's management believes that this information helps investors understand the effect of acquisition activity in reported results.

Net operating income aggregated \$320 million in the initial quarter of 2016, compared with \$246 million in the first quarter of 2015. Diluted net operating earnings per common share for the recent quarter were \$1.87, compared with \$1.68 in the year-earlier quarter. Net operating income and diluted net operating earnings per common share were \$338 million and \$2.09, respectively, in the final 2015 quarter.

Net operating income in the first quarter of 2016 expressed as an annualized rate of return on average tangible assets was 1.09%, compared with 1.08% and 1.21% in the first and fourth quarters of 2015, respectively. Net operating income represented an annualized return on average tangible common equity of 11.62% in the recent quarter, compared with 11.90% in the year-earlier quarter and 13.26% in the fourth quarter of 2015.

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

**Taxable-equivalent Net Interest Income**

Taxable-equivalent net interest income was \$878 million in the first quarter of 2016, up 32% from \$665 million in the year-earlier period. That growth resulted predominantly from the impact of higher average earning assets, which rose \$26.0 billion, or 31%, to \$111.2 billion in the recent quarter from \$85.2 billion in the first quarter of 2015. The higher level of average earning assets in the initial 2016 quarter reflected a \$21.0 billion increase in average loans and leases (due predominantly to the Hudson City acquisition, which added \$18.1 billion to average loans), a \$3.1 billion increase in average interest-bearing deposits at the Federal Reserve Bank of New York and a \$2.0 billion rise in average balances of investment securities. As compared with 2015's initial quarter, there was a one basis point (hundredth of one percent) widening of the Company's net interest margin, or taxable-equivalent net interest income expressed as an annualized percentage of average earning assets, in the recent quarter to 3.18%. Taxable-equivalent net interest income in the recent quarter rose \$65 million from the \$813 million recorded in the fourth quarter of 2015, largely due to the full-quarter impact of the Hudson City transaction, and a 6 basis point widening of the net interest margin. Contributing to that widening was the full-quarter impact of the increase in interest rates initiated by the Federal Reserve in mid-December 2015.

Average loans and leases rose \$21.0 billion or 32% to \$87.6 billion in the initial 2016 quarter from \$66.6 billion in the first quarter of 2015. Commercial loans and leases averaged \$20.7 billion in the first quarter of 2016, up \$1.3 billion or 6% from \$19.5 billion in the first quarter of 2015. Average commercial real estate loans increased 7% or \$1.8 billion to \$29.4 billion in the recent quarter from \$27.6 billion in the initial 2015 quarter. Reflecting average balances of \$17.7 billion of loans obtained in the Hudson City acquisition, average residential real estate loans increased to \$25.9 billion in the initial quarter of 2016 from \$8.6 billion in the first quarter of 2015. Included in those amounts were residential real estate loans held for sale, which averaged \$323 million in the recent quarter and \$387 million in the year-earlier quarter. Average consumer loans totaled \$11.6 billion in the first quarter of 2016, up \$620 million or 6% from \$11.0 billion in the year-earlier quarter predominantly due to growth in average automobile loan balances.

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Average loan balances in the first quarter of 2016 increased \$6.5 billion from \$81.1 billion in the fourth quarter of 2015. Average outstanding commercial loan and lease balances rose \$497 million, or 2%, average balances of commercial real estate loans increased \$452 million, or 2%, average residential real estate loan balances were up \$5.5 billion, or 27%, and average outstanding consumer loans increased \$35 million from the final 2015 quarter. The growth in the residential real estate loan category resulted from the full-quarter impact of loans obtained in the acquisition of Hudson City. The accompanying table summarizes quarterly changes in the major components of the loan and lease portfolio.

**AVERAGE LOANS AND LEASES**

(net of unearned discount)

Dollars in millions

|                             | 1st Qtr.<br>2016 | Percent increase<br>(decrease) from |                  |
|-----------------------------|------------------|-------------------------------------|------------------|
|                             |                  | 1st Qtr.<br>2015                    | 4th Qtr.<br>2015 |
| Commercial, financial, etc. | \$ 20,717        | 6%                                  | 2%               |
| Real estate - commercial    | 29,426           | 7                                   | 2                |
| Real estate - consumer      | 25,859           | 202                                 | 27               |
| Consumer                    |                  |                                     |                  |
| Automobile                  | 2,573            | 27                                  | 5                |
| Home equity lines and loans | 5,903            | (1)                                 |                  |
| Other                       | 3,106            | 5                                   | (2)              |
| Total consumer              | 11,582           | 6                                   |                  |
| Total                       | \$ 87,584        | 32%                                 | 8%               |

The investment securities portfolio averaged \$15.3 billion in the recent quarter, up \$2.0 billion or 15% from \$13.4 billion in the initial quarter of 2015. Investment securities averaged \$15.8 billion in the fourth quarter of 2015. The increase from the year-earlier quarter reflects mortgage-backed securities retained from the acquisition of Hudson City and the net effect of purchases, partially offset by maturities and paydowns of mortgage-backed securities. The Company purchased approximately \$3.5 billion of Fannie Mae and Ginnie Mae securities that were added to the investment securities portfolio during 2015, and another \$305 million of Fannie Mae and Ginnie Mae securities that were purchased during the first quarter of 2016. Those purchases reflect increased holdings of investment securities to satisfy the requirements of the U.S. version of the Basel Committee's Liquidity Coverage Ratio requirements (LCR) that became effective in January 2016.

The investment securities portfolio is largely comprised of residential mortgage-backed securities, debt securities issued by municipalities, trust preferred securities issued by certain financial institutions, and shorter-term U.S. Treasury and federal agency notes. When purchasing investment securities, the Company also considers its liquidity position and overall interest-rate risk profile as well as the adequacy of expected returns relative to risks assumed, including prepayments. In managing its investment securities portfolio, the Company occasionally sells investment

securities as a result of changes in interest rates and spreads, actual or anticipated prepayments, credit risk associated with a particular security, or as a result of restructuring its investment securities portfolio in connection with a business combination. The 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 of Hudson City, the Company restructured its balance sheet by selling \$5.8 billion of those securities.

The Company regularly reviews its investment securities for declines in value below amortized cost that might be characterized as other than temporary. There were no other-than-temporary impairment charges recognized in either of the first quarters of 2016 and 2015 or in the final 2015 quarter. Additional information about the investment securities portfolio is included in notes 3 and 12 of Notes to Financial Statements.

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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 \$8.3 billion in the recently completed quarter, compared with \$5.2 billion and \$6.7 billion in the first and fourth quarters of 2015, respectively. Interest-bearing deposits at banks averaged \$8.2 billion, \$5.1 billion and \$6.6 billion during the three-month periods ended March 31, 2016, March 31, 2015 and December 31, 2015, respectively. The rise in average interest-bearing deposits at banks in the recent quarter as compared with the year-earlier quarter and the fourth quarter of 2015 was due, in part, to 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 current interest rate environment. The amounts of investment securities and other earning assets held by the Company are influenced by such factors as demand for loans, which generally yield more than investment securities and other earning assets, ongoing repayments, the levels of deposits, and management of liquidity (including the LCR) and balance sheet size and resulting capital ratios.

As a result of the changes described herein, average earning assets totaled \$111.2 billion in the first quarter of 2016, compared with \$85.2 billion in the year-earlier quarter and \$103.6 billion in the fourth quarter of 2015.

The most significant source of funding for the Company is core deposits. The Company considers noninterest-bearing deposits, interest-bearing transaction accounts, savings deposits and time deposits of \$250,000 or less as core deposits. The Company's branch network is its principal source of core deposits, which generally carry lower interest rates than wholesale funds of comparable maturities. Average core deposits totaled \$89.7 billion in the first quarter of 2016, compared with \$70.1 billion in the year-earlier quarter and \$83.3 billion in the fourth quarter of 2015. 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 the two most recent quarters were predominantly reflective of the impact of the merger with Hudson City. The following table provides an analysis of quarterly changes in the components of average core deposits.

**AVERAGE CORE DEPOSITS**

Dollars in millions

|                              | 1st Qtr.<br>2016 | Percent increase from |                  |
|------------------------------|------------------|-----------------------|------------------|
|                              |                  | 1st Qtr.<br>2015      | 4th Qtr.<br>2015 |
| Interest-checking deposits   | \$ 1,333         | 21%                   | 2%               |
| Savings deposits             | 47,805           | 18                    | 7                |
| Time deposits                | 11,709           | 339                   | 35               |
| Noninterest-bearing deposits | 28,870           | 12                    | 2                |
| <b>Total</b>                 | <b>\$ 89,717</b> | <b>28%</b>            | <b>8%</b>        |

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 certificates of deposit, averaged \$1.2 billion in the recent quarter, compared with \$347 million and \$948 million in the first and fourth quarters of 2015, respectively. The higher averages in the two most recent quarters as compared with the initial 2015 quarter were predominantly due to deposits obtained in the acquisition of Hudson City. Cayman Islands office deposits averaged \$187 million, \$224 million and \$223 million for the three-month

periods ended March 31, 2016, March 31, 2015 and December 31, 2015, respectively. Brokered time deposits averaged \$59 million in each of the recent quarter and the fourth quarter of 2015. There were no brokered time deposits in the first quarter of 2015. The Company also had brokered interest-bearing transaction and brokered money-market deposit

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accounts, which in the aggregate averaged approximately \$1.2 billion in each of the first quarter of 2016 and the fourth quarter of 2015, and \$1.0 billion in the first quarter of 2015. The levels of brokered deposit accounts reflect the demand for such deposits, largely resulting from the desire of brokerage firms to earn reasonable yields while ensuring that customer deposits are fully insured. The level of Cayman Islands office deposits are also reflective of customer demand. Additional amounts of Cayman Islands office deposits or brokered deposits may be added in the future depending on market conditions, including demand by customers and other investors for those deposits, and the cost of funds available from alternative sources at the time.

The Company also uses borrowings from banks, securities dealers, various Federal Home Loan Banks, the Federal Reserve Bank of New York and others as sources of funding. 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 totaled \$2.1 billion in the first quarter of 2016, compared with \$196 million in the year-earlier quarter and \$1.6 billion in the final quarter of 2015. The higher level of such borrowings in the two most recent quarters was predominantly due to short-term borrowings from the Federal Home Loan Bank of New York assumed in the Hudson City acquisition. Those short-term fixed-rate borrowings have various maturity dates throughout 2016. Included in short-term borrowings were unsecured federal funds borrowings, which generally mature on the next business day, that averaged \$137 million and \$147 million in the first quarters of 2016 and 2015, respectively, and \$131 million in the final quarter of 2015.

Long-term borrowings averaged \$10.5 billion in the recent quarter, compared with \$9.8 billion in the year-earlier quarter and \$10.7 billion in the fourth quarter of 2015. M&T Bank has a Bank Note Program whereby M&T Bank may offer unsecured senior and subordinated notes. Average balances of notes outstanding under that program were \$5.4 billion, \$4.9 billion and \$5.5 billion during the three-month periods ended March 31, 2016, March 31, 2015 and December 31, 2015, respectively. 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. Also included in average long-term borrowings were amounts borrowed from various Federal Home Loan Banks of \$1.2 billion in each of the initial quarters of 2016 and 2015 and in the fourth quarter of 2015. Subordinated capital notes included in long-term borrowings averaged \$1.5 billion during each of the three-month periods ended March 31, 2016, March 31, 2015 and December 31, 2015. Junior subordinated debentures associated with trust preferred securities that were included in average long-term borrowings were \$514 million during the two most recent quarters and \$835 million in the first quarter of 2015. 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 is provided in note 5 of Notes to Financial Statements. Also included in long-term borrowings were agreements to repurchase securities, which averaged \$1.9 billion during the two most recent quarters and \$1.4 billion in the first quarter of 2015. The increase from the first quarter of 2015 reflects agreements to repurchase securities assumed in connection with the Hudson City acquisition. The repurchase agreements held at March 31, 2016 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 March 31, 2016, interest rate swap agreements were used to hedge approximately \$1.4 billion of outstanding fixed rate long-term borrowings. Further information on interest rate swap agreements is provided in note 10 of Notes to Financial Statements.

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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 3.01% in the recent quarter and 2.97% in the first quarter of 2015. The yield on earning assets during each of the initial quarters of 2016 and 2015 was 3.54%, while the rate paid on interest-bearing liabilities decreased 4 basis points to .53% in the recent quarter from .57% in the year-earlier period. In the fourth quarter of 2015, the net interest spread was 2.94%, the yield on earning assets was 3.48% and the rate paid on interest-bearing liabilities was .54%. The widening of the net interest spread in the recent quarter as compared with the first quarter of 2015 reflects a higher proportion of deposits and short-term borrowings as components of interest-bearing liabilities and lower rates paid on long-term borrowings. The 7 basis point improvement in the net interest spread as compared with the final 2015 quarter was largely due to the full-quarter effect of the increase in short-term interest rates initiated by the Federal Reserve in mid-December 2015 that contributed to higher yields on loans and leases.

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 \$35.1 billion in the first quarter of 2016, compared with \$29.3 billion and \$34.0 billion in the first and fourth quarters of 2015, respectively. The increases in average net interest-free funds in the two most recent quarters as compared with the first quarter of 2015 reflect higher average balances of noninterest-bearing deposits and shareholders' equity. Those deposits averaged \$28.9 billion in the recent quarter, compared with \$25.8 billion and \$28.4 billion in the first and fourth quarters of 2015, respectively. 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 merger, growth in noninterest-bearing deposits since the first quarter of 2015 was due, in part, to higher deposits of commercial and trust customers. The rise in average shareholders' equity included \$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 the recent quarter, compared with \$3.6 billion in the first quarter of 2015 and \$4.3 billion in the fourth quarter of 2015. 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 the three-month periods ended March 31, 2016, March 31, 2015 and December 31, 2015. Increases in the cash surrender value of bank owned life insurance and benefits received are not included in interest income, but rather are recorded in other revenues from operations. The contribution of net interest-free funds to net interest margin was .17% in the first quarter of 2016, compared with .20% in the first quarter of 2015 and .18% in the fourth quarter of 2015.

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 3.18% in the first quarter of 2016, compared with 3.17% in the first quarter of 2015 and 3.12% in the fourth quarter of 2015. 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

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interest rate swap agreements to modify the repricing characteristics of certain portions of its interest-bearing liabilities. Periodic settlement amounts arising from these agreements are reflected in the rates paid on interest-bearing liabilities. The notional amount of interest rate swap agreements entered into for interest rate risk management purposes was \$1.4 billion at each of March 31, 2016, March 31, 2015 and December 31, 2015. 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. 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 during the quarters ended March 31, 2016, March 31, 2015 and December 31, 2015 were not material to the Company's results of operations. The estimated aggregate fair value of interest rate swap agreements designated as fair value hedges represented gains of approximately \$41 million at March 31, 2016, \$73 million at March 31, 2015 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 March 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 \$21 million of collateral with the Company.

The weighted-average rates to be received and paid under interest rate swap agreements currently in effect were 4.42% and 1.59%, respectively, at March 31, 2016. 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 the accompanying table. Additional information about the Company's use of interest rate swap agreements and other derivatives is included in note 10 of Notes to Financial Statements.



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

Dollars in thousands

|                            | Three months ended March 31 |          |              |          |
|----------------------------|-----------------------------|----------|--------------|----------|
|                            | 2016                        |          | 2015         |          |
|                            | Amount                      | Rate (a) | Amount       | Rate (a) |
| Increase (decrease) in:    |                             |          |              |          |
| Interest income            | \$                          | %        | \$           | %        |
| Interest expense           | (10,333)                    | (.05)    | (11,277)     | (.08)    |
| Net interest income/margin | \$ 10,333                   | .04%     | \$ 11,277    | .06%     |
| Average notional amount    | \$ 1,400,000                |          | \$ 1,400,000 |          |
| Rate received (b)          |                             | 4.42%    |              | 4.42%    |
| Rate paid (b)              |                             | 1.45%    |              | 1.20%    |

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

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

As a financial intermediary, the Company is exposed to various risks, including liquidity and market risk. Liquidity refers to the Company's ability to ensure that sufficient cash flow and liquid assets are available to satisfy current and future obligations, including demands for loans and deposit withdrawals, funding operating costs, and other corporate purposes. Liquidity risk arises whenever the maturities of financial instruments included in assets and liabilities differ. The Company has, from time to time, 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 Wall Street Reform and Consumer Protection Act (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, 100% were excluded. The amounts excluded from Tier 1 capital are includable in total capital. In accordance with its 2015 capital plan, in April 2015 M&T redeemed the junior subordinated debentures associated with the trust preferred securities of M&T Capital Trusts I, II and III.

The Company has informal and sometimes reciprocal sources of funding available through various arrangements for unsecured short-term borrowings from a wide group of banks and other financial institutions. Short-term federal funds borrowings were \$157 million at March 31, 2016, \$155 million at March 31, 2015 and \$99 million at December 31, 2015. 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 \$167 million, \$179 million and \$170 million at March 31, 2016, March 31, 2015 and December 31, 2015, respectively. The Company has also benefited from the placement of brokered deposits. The Company has brokered interest-bearing transaction and brokered money-market deposit accounts which aggregated approximately \$1.1 billion at each of March 31, 2016 and March 31, 2015, compared with \$1.2 billion at December 31, 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,

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

Certain customers of the Company obtain financing through the issuance of variable rate demand bonds ( VRDBs ). The VRDBs are generally enhanced by letters of credit provided by M&T Bank. M&T Bank oftentimes acts as remarketing agent for the VRDBs and, at its discretion, may from time-to-time own some of the VRDBs while such instruments are remarketed. When this occurs, the VRDBs are classified as trading account assets in the Company s consolidated balance sheet. Nevertheless, M&T Bank is not contractually obligated to purchase the VRDBs. The value of VRDBs in the Company s trading account totaled \$37 million and \$11 million at March 31, 2016 and 2015, respectively, while less than \$1 million were held at December 31, 2015. The total amount of VRDBs outstanding backed by M&T Bank letters of credit was \$1.7 billion at each of March 31, 2016 and December 31, 2015, compared with \$1.9 billion at March 31, 2015. M&T Bank also serves as remarketing agent for most of those bonds.

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

M&T s primary source of funds to pay for operating expenses, shareholder dividends and treasury stock repurchases has historically been the receipt of dividends from its banking subsidiaries, which are subject to various regulatory limitations. Dividends from any banking subsidiary to M&T are limited by the amount of earnings of the banking subsidiary in the current year and the two preceding years. For purposes of that test, at March 31, 2016 approximately \$1.3 billion was available for payment of dividends to M&T from banking subsidiaries. Information regarding the long-term debt obligations of M&T is included in note 5 of Notes to Financial Statements.

Management closely monitors the Company s liquidity position on an ongoing basis for compliance with internal policies and believes that available sources of liquidity are adequate to meet funding needs anticipated in the normal course of business. Management does not anticipate engaging in any activities, either currently or in the long-term, for which adequate funding would not be available and would therefore result in a significant strain on liquidity at either M&T or its subsidiary banks. Banking regulators have finalized rules requiring a banking company to maintain a minimum amount of liquid assets to withstand a standardized supervisory liquidity stress scenario. The effective date for those rules for the Company 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



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

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

The accompanying table as of March 31, 2016 and December 31, 2015 displays the estimated impact on net interest income from non-trading financial instruments in the base scenario described above resulting from parallel changes in interest rates across repricing categories during the first modeling year.

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

Dollars in thousands

| Changes in interest rates | Calculated increase (decrease)   |                   |
|---------------------------|----------------------------------|-------------------|
|                           | in projected net interest income |                   |
|                           | March 31, 2016                   | December 31, 2015 |
| +200 basis points         | \$ 280,537                       | \$ 243,958        |
| +100 basis points         | 163,692                          | 145,169           |
| -50 basis points          | (115,291)                        | (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 at all points on the yield curve. In 2016,

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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.

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 12 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 10 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 aggregated \$18.9 billion at March 31, 2016, \$17.1 billion at March 31, 2015 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 totaled \$2.8 billion at March 31, 2016, compared with \$1.4 billion and \$1.6 billion at March 31 and December 31, 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 \$468 million and \$296 million, respectively, at March 31, 2016, \$363 million and \$240 million, respectively, at March 31, 2015, and \$274 million and \$161 million, respectively, at December 31, 2015. Included in trading account assets were assets related to deferred compensation plans totaling \$22 million at March 31, 2016, compared with \$25 million at March 31, 2015 and \$24 million at December 31, 2015. Changes in the fair value of such assets are recorded as "trading account and foreign exchange gains" in the consolidated statement of income. Included in "other liabilities" in the consolidated balance sheet at March 31, 2016 were \$26 million of liabilities related to deferred compensation plans, compared with \$29 million and \$28 million at March 31 and December 31, 2015, respectively. 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

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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 \$48 million, \$24 million, and \$33 million at March 31, 2016, March 31, 2015 and December 31, 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 10 of Notes to Financial Statements.

**Provision for Credit Losses**

The Company maintains an allowance for credit losses that in management's judgment appropriately reflects losses inherent in the loan and lease portfolio. A provision for credit losses is recorded to adjust the level of the allowance as deemed necessary by management. The provision for credit losses in the first quarter of 2016 was \$49 million, compared with \$38 million in the year-earlier quarter and \$58 million in the fourth quarter of 2015. 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 Hudson City acquisition 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 \$42 million in the recent quarter, compared with \$36 million in each of the first and fourth quarters of 2015. Net charge-offs as an annualized percentage of average loans and leases were .19% in the initial 2016 quarter, compared with .22% in the year-earlier quarter and .18% in the final 2015 quarter. A summary of net charge-offs by loan type is presented in the table that follows.

**NET CHARGE-OFFS (RECOVERIES)****BY LOAN/LEASE TYPE**

In thousands

|                                      | First Quarter<br>2016 | First Quarter<br>2015 | Fourth Quarter<br>2015 |
|--------------------------------------|-----------------------|-----------------------|------------------------|
| Commercial, financial, leasing, etc. | \$ 902                | 8,411                 | (3,358)                |
| Real estate:                         |                       |                       |                        |
| Commercial                           | (1,141)               | 6,094                 | (1,743)                |
| Residential                          | 5,085                 | 2,129                 | 2,462                  |
| Consumer                             | 37,394                | 19,555                | 38,445                 |
|                                      | \$ 42,240             | 36,189                | 35,806                 |

Included in net charge-offs of consumer loans and leases were net charge-offs during the quarters ended March 31, 2016, March 31, 2015 and December 31, 2015, respectively, of: automobile loans of \$11 million, \$4 million and \$3 million; recreational vehicle loans of \$12 million, \$3 million and \$3 million; and home equity loans and lines of credit of \$5 million, \$6 million and \$3 million. During the first quarter of 2016, the Company charged off 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. Such charge-offs totaled



\$14 million in the recent quarter and included \$11 million of loan balances with a current payment status. Net charge-offs of consumer loans in the fourth quarter of 2015 included a \$20 million charge-off of a single personal usage loan obtained in a previous acquisition.

Loans acquired in connection with acquisition transactions subsequent to 2008 were recorded at fair value with no carry-over of any previously

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recorded allowance for credit losses. Determining the fair value of acquired loans requires 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. 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 \$2.3 billion, \$2.4 billion and \$2.5 billion at March 31, 2016, March 31, 2015 and December 31, 2015, respectively. The decrease in the recent quarter as compared with December 31, 2015 was largely attributable to payments received. The nonaccretable balance related to remaining principal losses associated with loans acquired at a discount as of March 31, 2016 and December 31, 2015 is presented in the accompanying table.

**NONACCRETABLE BALANCE - PRINCIPAL**

|                                      | Remaining balance |                      |
|--------------------------------------|-------------------|----------------------|
|                                      | March 31,<br>2016 | December 31,<br>2015 |
|                                      | (in thousands)    |                      |
| Commercial, financial, leasing, etc. | \$ 6,565          | 10,806               |
| Commercial real estate               | 49,640            | 48,173               |
| Residential real estate              | 91,093            | 113,478              |
| Consumer                             | 15,207            | 17,952               |
| <b>Total</b>                         | <b>\$ 162,505</b> | <b>190,409</b>       |

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 was \$17.0 billion and \$17.8 billion at March 31, 2016 and December 31, 2015, respectively. As noted previously, a \$21 million provision for credit losses was recorded in the fourth quarter of 2015 for incurred losses inherent in those loans. 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.

Nonaccrual loans totaled \$877 million or 1.00% of total loans and leases outstanding at March 31, 2016, compared with \$791 million or 1.18% a

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year earlier and \$799 million or .91% at December 31, 2015. The increase in nonaccrual loans at the most recent quarter-end as compared with March 31, and December 31, 2015 reflects the normal migration of previously performing loans obtained in the acquisition of Hudson City that became over 90 days past due during the recent quarter and, as such, were not identifiable as purchased impaired as of the acquisition date.

Accruing loans past due 90 days or more (excluding loans acquired at a discount) totaled \$336 million or .38% of total loans and leases at March 31, 2016, compared with \$237 million or .35% at March 31, 2015 and \$317 million or .36% at December 31, 2015. Those loans included loans guaranteed by government-related entities of \$279 million, \$194 million and \$276 million at March 31, 2016, March 31, 2015 and December 31, 2015, respectively. Such guaranteed loans obtained in the acquisition of Hudson City totaled \$44 million at each of March 31, 2016 and December 31, 2015. 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 \$226 million, \$178 million and \$221 million at March 31, 2016, March 31, 2015 and December 31, 2015, respectively. The remaining accruing loans past due 90 days or more not guaranteed by government-related entities were loans considered to be with creditworthy borrowers that were in the process of collection or renewal.

Purchased impaired loans are loans obtained in acquisition transactions subsequent to 2008 that as of the acquisition date were specifically identified as displaying signs of credit deterioration and for which the Company did not expect to collect all outstanding principal and contractually required interest payments. Those loans were impaired at the date of acquisition, were recorded at estimated fair value and were generally delinquent in payments, but, in accordance with GAAP, the Company continues to accrue interest income on such loans based on the estimated expected cash flows associated with the loans. The carrying amount of such loans was \$716 million at March 31, 2016, or approximately .8% of total loans. Of that amount, \$624 million is related to the Hudson City acquisition. Purchased impaired loans totaled \$184 million and \$768 million at March 31 and December 31, 2015, respectively.

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 totaled \$62 million at March 31, 2016, compared with \$80 million at March 31, 2015 and \$68 million at December 31, 2015.

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

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Residential real estate loans modified under specified loss mitigation programs prescribed by government guarantors have not been included in renegotiated loans because the loan guarantee remains in full force and, accordingly, the Company has not granted a concession with respect to the ultimate collection of the original loan balance. Such loans aggregated \$155 million, \$153 million and \$147 million at March 31, 2016, March 31, 2015 and December 31, 2015, respectively.

Nonaccrual commercial loans and leases aggregated \$280 million at March 31, 2016, \$195 million at March 31, 2015 and \$242 million at December 31, 2015. The largest commercial loans placed in nonaccrual status since March 31, 2015 were a \$24 million relationship with a commercial maintenance services provider with operations in New Jersey and Pennsylvania that was placed in nonaccrual status in the third quarter of 2015 and a \$40 million relationship with a multi-regional manufacturer of refractory brick and other cast-able products placed in nonaccrual status in the first quarter of 2016. Commercial real estate loans classified as nonaccrual totaled \$224 million at March 31, 2016 and December 31, 2015, and \$232 million at March 31, 2015. Nonaccrual commercial real estate loans included construction-related loans of \$53 million, \$90 million and \$45 million at March 31, 2016, March 31, 2015 and December 31, 2015, respectively. Those nonaccrual construction loans included loans to residential builders and developers of \$32 million and \$65 million at March 31, 2016 and 2015, respectively, and \$28 million at December 31, 2015. Information about the location of nonaccrual and charged-off loans to residential real estate builders and developers as of and for the three-month period ended March 31, 2016 is presented in the accompanying table.

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

|                 | March 31, 2016                 |                        |  | Quarter ended<br>March 31, 2016<br>Net charge-offs<br>(recoveries) |   |
|-----------------|--------------------------------|------------------------|--|--|---|
|                 | Outstanding<br>balances<br>(b) | Nonaccrual<br>Balances | Percent<br>of<br>outstanding<br>balances | Balances   | Annualized<br>percent<br>of<br>average<br>outstanding<br>balances |
|                 |                                | (dollars in thousands) |  |  |   |
| New York        | \$ 823,828                     | \$ 2,868               | .35%                                     | \$ 71  | .01%  |
| Pennsylvania    | 136,965                        | 26,898                 | 19.64                                    | (18)   | (.01)   |
| Mid-Atlantic(a) | 428,913                        | 3,740                  | .87                                      | (952)  | (.22)   |
| Other           | 450,849                        | 1,277                  | .28                                      |  |   |
| <b>Total</b>    | <b>\$ 1,840,555</b>            | <b>\$ 34,783</b>       | <b>1.89%</b>                             | <b>\$ (899)</b>  | <b>(.05)%</b>   |

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

(b) Includes approximately \$18 million of loans not secured by real estate, of which approximately \$2 million are in nonaccrual status.

Residential real estate loans in nonaccrual status at March 31, 2016 were \$263 million, compared with \$246 million at March 31, 2015 and \$215 million at December 31, 2015. The increase in residential real estate loans classified as nonaccrual at March 31, 2016 as compared with December 31, 2015 reflects the normal migration of \$80 million of previously performing loans obtained with the acquisition of Hudson City that became more than 90 days delinquent during the recent quarter. Those loans could not be identified as purchased impaired loans at the acquisition date because the borrowers were making current loan payments at the time and the loans were not recorded at a

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discount. The decrease in residential real estate loans classified as nonaccrual from March 31, 2015 to December 31, 2015 reflects improved repayment performance by customers. Included in residential real estate loans classified as nonaccrual were limited documentation first mortgage loans of \$76 million, \$74 million and \$62 million at March 31, 2016, March 31, 2015 and December 31, 2015, respectively. Limited documentation first mortgage loans represent loans secured by residential real estate that at origination typically included some form of limited borrower documentation requirements as compared with more traditional loans. Such loans in the Company's portfolio prior to the Hudson City transaction were originated by the Company before 2008. Hudson City discontinued its limited documentation loan program in January 2014. Residential real estate loans past due 90 days or more and accruing interest (excluding loans acquired at a discount) totaled \$279 million (including \$44 million obtained in the acquisition of Hudson City) at March 31, 2016, compared with \$197 million a year earlier and \$284 million at December 31, 2015. A substantial portion of such amounts related to guaranteed loans repurchased from government-related entities. Information about the location of nonaccrual and charged-off residential real estate loans as of and for the quarter ended March 31, 2016 is presented in the accompanying table.

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## SELECTED RESIDENTIAL REAL ESTATE-RELATED LOAN DATA

|  | March 31, 2016          |                        |  | Quarter ended<br>March 31, 2016 |   |
|--|-------------------------|------------------------|--|---------------------------------|---|
|  | Outstanding<br>balances | Nonaccrual<br>Balances | Percent<br>of<br>outstanding<br>balances | Net charge-offs<br>(recoveries) | Annualized<br>percent<br>of<br>average<br>outstanding<br>balances |
|  | (dollars in thousands)  |                        |  |                                 |   |
| <b>Residential mortgages:</b>                            |                         |                        |  |                                 |   |
| New York   | \$ 6,623,498            | \$ 68,450              | 1.03%                                    | \$ 1,740                        | .10%  |
| Pennsylvania   | 1,800,458               | 16,332                 | .91                                      | 736                             | .16   |
| Maryland   | 1,309,386               | 13,567                 | 1.04                                     | 483                             | .15   |
| New Jersey   | 6,058,466               | 27,216                 | .45                                      | 454                             | .03   |
| Other Mid-Atlantic(a)                                    | 1,127,285               | 12,800                 | 1.14                                     | 217                             | .08   |
| Other  | 4,242,521               | 47,061                 | 1.11                                     | 452                             | .04   |
| <b>Total</b>   | <b>\$ 21,161,614</b>    | <b>\$ 185,426</b>      | <b>.88%</b>                              | <b>\$ 4,082</b>                 | <b>.08%</b>   |
| <b>Residential construction loans:</b>                   |                         |                        |  |                                 |   |
| New York   | \$ 6,019                | \$ 23                  | .38%                                     | \$                              | %   |
| Pennsylvania   | 4,678                   | 482                    | 10.31                                    | 13                              | 1.15  |
| Maryland   | 4,269                   |                        |  |                                 |   |
| New Jersey   | 890                     |                        |  |                                 |   |
| Other Mid-Atlantic(a)                                    | 3,207                   |                        |  |                                 |   |
| Other  | 11,414                  | 521                    | 4.56                                     | 19                              | .62   |
| <b>Total</b>   | <b>\$ 30,477</b>        | <b>\$ 1,026</b>        | <b>3.37%</b>                             | <b>\$ 32</b>                    | <b>.41%</b>   |
| <b>Limited documentation first mortgages:</b>            |                         |                        |  |                                 |   |
| New York   | \$ 1,717,886            | \$ 23,091              | 1.34%                                    | \$ 574                          | .13%  |
| Pennsylvania   | 86,663                  | 4,858                  | 5.61                                     | 25                              | .11   |
| Maryland   | 48,923                  | 2,755                  | 5.63                                     | 164                             | 1.34  |
| New Jersey   | 1,612,316               | 13,541                 | .84                                      | 12                              | .01   |
| Other Mid-Atlantic(a)                                    | 43,947                  | 3,180                  | 7.24                                     | (84)                            | (.75)   |
| Other  | 597,812                 | 28,840                 | 4.82                                     | 280                             | .19   |
| <b>Total</b>   | <b>\$ 4,107,547</b>     | <b>\$ 76,265</b>       | <b>1.86%</b>                             | <b>\$ 971</b>                   | <b>.09%</b>   |
| <b>First lien home equity loans and lines of credit:</b> |                         |                        |  |                                 |   |
| New York   | \$ 1,333,557            | \$ 17,149              | 1.29%                                    | \$ 365                          | .11%  |
| Pennsylvania   | 864,700                 | 9,746                  | 1.13                                     | 270                             | .13   |



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|                       |              |           |       |        |      |
|-----------------------|--------------|-----------|-------|--------|------|
| Maryland              | 702,543      | 6,675     | .95   | 149    | .08  |
| New Jersey            | 41,188       | 234       | .57   |        |      |
| Other Mid-Atlantic(a) | 211,391      | 498       | .24   | 4      | .01  |
| Other                 | 19,789       | 1,368     | 6.91  | 1      | .02  |
| Total                 | \$ 3,173,168 | \$ 35,670 | 1.12% | \$ 789 | .10% |

Junior lien home equity loans and lines of credit:

|                       |              |           |       |          |       |
|-----------------------|--------------|-----------|-------|----------|-------|
| New York              | \$ 942,014   | \$ 26,558 | 2.82% | \$ 2,021 | .80%  |
| Pennsylvania          | 382,366      | 3,464     | .91   | 745      | .72   |
| Maryland              | 855,594      | 7,004     | .82   | 1,120    | .49   |
| New Jersey            | 131,933      | 2,068     | 1.57  | 13       | .04   |
| Other Mid-Atlantic(a) | 321,220      | 1,226     | .38   | 75       | .09   |
| Other                 | 41,868       | 2,281     | 5.45  | (1)      | (.01) |
| Total                 | \$ 2,674,995 | \$ 42,601 | 1.59% | \$ 3,973 | .56%  |

Limited documentation junior lien:

|                       |          |        |       |       |       |
|-----------------------|----------|--------|-------|-------|-------|
| New York              | \$ 841   | \$     | %     | \$ 2  | .73%  |
| Pennsylvania          | 342      |        |       |       |       |
| Maryland              | 1,604    | 72     | 4.50  |       |       |
| New Jersey            | 389      |        |       |       |       |
| Other Mid-Atlantic(a) | 745      |        |       |       |       |
| Other                 | 5,171    | 379    | 7.32  | 60    | 4.61  |
| Total                 | \$ 9,092 | \$ 451 | 4.96% | \$ 62 | 2.71% |

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

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Nonaccrual consumer loans aggregated \$110 million at March 31, 2016, compared with \$118 million at each of March 31, 2015 and December 31, 2015. Included in nonaccrual consumer loans at March 31, 2016, March 31, 2015 and December 31, 2015 were: automobile loans of \$15 million, \$14 million and \$17 million, respectively; recreational vehicle loans of \$16 million, \$9 million and \$9 million, respectively; and outstanding balances of home equity loans and lines of credit of \$79 million, \$88 million and \$84 million, respectively. Information about the location of nonaccrual and charged-off home equity loans and lines of credit as of and for the quarter ended March 31, 2016 is presented in the accompanying table.

Real estate and other foreclosed assets totaled \$188 million and \$63 million at March 31, 2016 and March 31, 2015, respectively, and \$195 million at December 31, 2015. The higher levels of real estate and other foreclosed assets at March 31, 2016 and December 31, 2015 reflect residential real estate properties associated with the Hudson City acquisition, which totaled \$121 million and \$126 million at those respective dates. Gains or losses resulting from the sales of real estate and other foreclosed assets were not material in the three-month periods ended March 31, 2016, March 31, 2015 or December 31, 2015. At March 31, 2016, the Company's holding of residential real estate-related properties comprised approximately 90% of foreclosed assets.

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

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

Dollars in thousands

|   | 2016                |                | 2015 Quarters  |                |                |
|---|---------------------|----------------|----------------|----------------|----------------|
|   | First Quarter       | Fourth         | Third          | Second         | First          |
| Nonaccrual loans  | \$ 876,691          | 799,409        | 787,098        | 797,146        | 790,586        |
| Real estate and other foreclosed assets   | 188,004             | 195,085        | 66,144         | 63,734         | 62,578         |
| <b>Total nonperforming assets</b>   | <b>\$ 1,064,695</b> | <b>994,494</b> | <b>853,242</b> | <b>860,880</b> | <b>853,164</b> |
| Accruing loans past due 90 days or more(a)  | \$ 336,170          | 317,441        | 231,465        | 238,568        | 236,621        |
| Government guaranteed loans included in totals above:   |                     |                |                |                |                |
| Nonaccrual loans  | \$ 49,688           | 47,052         | 48,955         | 58,259         | 60,508         |
| Accruing loans past due 90 days or more   | 279,340             | 276,285        | 193,998        | 206,775        | 193,618        |
| Renegotiated loans  | \$ 200,771          | 182,865        | 189,639        | 197,145        | 198,911        |
| Accruing loans acquired at a discount past due 90 days or more(b)                               | \$ 61,767           | 68,473         | 80,827         | 78,591         | 80,110         |
| Purchased impaired loans(c):  |                     |                |                |                |                |
| Outstanding customer balance  | \$ 1,124,776        | 1,204,004      | 278,979        | 312,507        | 335,079        |
| Carrying amount   | 715,874             | 768,329        | 149,421        | 169,240        | 184,018        |
| Nonaccrual loans to total loans and leases, net of unearned discount                            | 1.00%               | .91%           | 1.15%          | 1.17%          | 1.18%          |
| Nonperforming assets to total net loans and leases and real estate and other foreclosed assets  | 1.21%               | 1.13%          | 1.24%          | 1.26%          | 1.27%          |
| Accruing loans past due 90 days or more (a) to total loans and leases, net of unearned discount | .38%                | .36%           | .34%           | .35%           | .35%           |

(a) Excludes loans acquired at a discount. Predominantly residential mortgage 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.

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

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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 March 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 troubled state 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 are to customers in New York State and Pennsylvania).

The Company utilizes a loan grading system which is applied to all commercial loans and commercial real estate loans. Loan grades are utilized to differentiate risk within the portfolio and consider the expectations of default for each loan. Commercial loans and commercial real estate loans with a lower expectation of default are assigned one of ten possible pass loan grades and are generally ascribed lower loss factors when determining the allowance for credit losses. Loans with an elevated level of credit risk are classified as criticized and are ascribed a higher loss factor when determining the allowance for credit losses. Criticized loans may be classified as nonaccrual if the Company no longer expects to collect all amounts according to the contractual terms of the loan agreement or the loan is delinquent 90 days or more. Criticized commercial loans and commercial real estate loans were \$2.3 billion at March 31, 2016, compared with \$2.1 billion at December 31, 2015. The increase since December 31, 2015 included \$74 million related to commercial real estate loans and \$91 million related to commercial loans. Approximately 94% of loan balances added to the criticized category during the recent quarter were less than 90 days past due and 91% had a current payment status. The borrower industries most significantly impacting the higher level of criticized loans were investment real estate, services and manufacturing.

Loan officers with the support of loan review personnel in different geographic locations are responsible to continuously review and reassign loan grades to pass and criticized loans based on their detailed knowledge of individual borrowers and their judgment of the impact on such borrowers resulting from changing conditions in their respective geographic regions. 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 loan review department reviews all criticized commercial 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

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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 loan review department. Accordingly, for real estate collateral securing larger commercial 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 March 31, 2016, approximately 54% 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 72% (or approximately 33% of the aggregate home equity portfolio) consisted of junior lien loans that were behind a first lien mortgage loan that was not owned or serviced by the Company. To the extent known by the Company, if a senior lien loan would be on nonaccrual status because of payment delinquency, even if such senior lien loan was not owned by the Company, the junior lien loan or line that is owned by the Company is placed on nonaccrual status. At March 31, 2016, the balance of junior lien loans and lines that were in nonaccrual status solely as a result of first lien loan performance was \$23 million, compared with \$22 million at each of March 31, 2015 and 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 March 31, 2016,

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approximately 86% 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 21% were making contractually allowed payments that do not include repayment of principal.

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

In determining the allowance for credit losses, the Company estimates losses attributable to specific troubled credits identified through both normal and detailed or intensified credit review processes and also estimates losses inherent in other loans and leases. In quantifying incurred losses, the Company considers the factors and uses the techniques described herein and in note 4 of Notes to Financial Statements. For purposes of determining the level of the allowance for credit losses, the Company segments its loan and lease portfolio by loan type. The amount of specific loss components in the Company's loan and lease portfolios is determined through a loan-by-loan analysis of commercial loans and commercial real estate loans in nonaccrual status. Measurement of the specific loss components is typically based on expected future cash flows, collateral values or other factors that may impact the borrower's ability to pay. Losses associated with residential real estate loans and consumer loans are generally determined by reference to recent charge-off history and are evaluated (and adjusted if deemed appropriate) through consideration of other factors including near-term forecasted loss estimates developed by the Company's credit department. These forecasts give consideration to overall borrower repayment performance and current geographic region changes in collateral values using third party published historical price indices or automated valuation methodologies. With regard to collateral values, the realizability of such values by the Company contemplates repayment of any first lien position prior to recovering amounts on a junior lien position. Approximately 46% 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 homogeneous 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

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

Management believes that the allowance for credit losses at March 31, 2016 appropriately reflected credit losses inherent in the portfolio as of that date. The allowance for credit losses was \$963 million, or 1.10% of total loans and leases at March 31, 2016, compared with \$921 million or 1.37% at March 31, 2015 and \$956 million or 1.09% at December 31, 2015. The ratio of the allowance to total loans and leases at each respective date reflects the impact of loans obtained in acquisition transactions subsequent to 2008 that 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 declines in the ratio of the allowance to total loans and leases at March 31, 2016 and December 31, 2015 from March 31, 2015 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 to nonaccrual loans at March 31, 2016 was 110%, compared with 117% a year earlier and 120% at December 31, 2015. Given the Company's general position as a secured lender and its practice of charging-off loan balances when collection is deemed doubtful, that ratio and changes in that ratio are generally not an indicative measure of the adequacy of the Company's allowance for credit losses, nor does management rely upon that ratio in assessing the adequacy of the allowance. The level of the allowance reflects management's evaluation of the loan and lease portfolio as of each respective date.

**Other Income**

Other income totaled \$421 million in the first quarter of 2016, compared with \$440 million in the year-earlier quarter and \$448 million in the fourth quarter of 2015. The most significant factors contributing to the decline in other income from the first quarter of 2015 were a \$20 million decrease in mortgage banking revenues and a \$13 million decrease in trust income, partially offset by increases in bank-owned life insurance income and credit-related fees. As compared with the fourth quarter of 2015, the recent quarter decline in other income reflected lower loan syndication fees and declines in commercial mortgage banking revenues, service charges on deposit accounts and trust income.

Mortgage banking revenues totaled \$82 million in the recent quarter, compared with \$102 million in the initial quarter of 2015 and \$88 million in the final 2015 quarter. Mortgage banking revenues are comprised of both residential and commercial mortgage banking activities. The Company's involvement in commercial mortgage banking activities includes the origination, sales and servicing of loans under the multi-family loan programs of Fannie Mae, Freddie Mac and the U.S. Department of Housing and Urban Development.

Residential mortgage banking revenues, consisting of realized gains from sales of residential real estate loans and loan servicing rights, unrealized gains and losses on residential real estate loans held for sale and related commitments, residential real estate loan servicing fees, and



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other residential real estate loan-related fees and income, were \$60 million in each of the first quarter of 2016 and the final quarter of 2015, compared with \$79 million in the first quarter of 2015. As compared with the first quarter of 2015, the recent quarter decline in residential mortgage banking revenues reflects a decline in revenues associated with servicing residential real estate loans for others and lower gains from origination activities, due largely to decreased volumes of loans originated for sale.

New commitments to originate residential real estate loans to be sold were approximately \$659 million in 2016's initial quarter, compared with \$936 million in the year-earlier quarter and \$667 million in the final quarter of 2015. Realized gains from sales of residential real estate loans and loan servicing rights and recognized net unrealized gains and losses attributable to residential real estate loans held for sale, commitments to originate loans for sale and commitments to sell loans totaled to gains of \$14 million in each of the first quarter of 2016 and the final 2015 quarter, compared with gains of \$21 million in the first quarter of 2015.

The Company is contractually obligated to repurchase previously sold loans that do not ultimately meet investor sale criteria related to underwriting procedures or loan documentation. When required to do so, the Company may reimburse purchasers for losses incurred or may repurchase certain loans. The Company reduces residential mortgage banking revenues for losses related to its obligations to loan purchasers. The amount of those charges varies based on the volume of loans sold, the level of reimbursement requests received from loan purchasers and estimates of losses that may be associated with previously sold loans. Residential mortgage banking revenues during each of the first quarter of 2016 and the first and final quarters of 2015 were reduced by \$1 million related to the actual or anticipated settlement of repurchase obligations.

Loans held for sale that were secured by residential real estate totaled \$269 million and \$423 million at March 31, 2016 and 2015, respectively, and \$353 million at December 31, 2015. Commitments to sell residential real estate loans and commitments to originate residential real estate loans for sale at pre-determined rates were \$646 million and \$521 million, respectively, at March 31, 2016, compared with \$859 million and \$661 million, respectively, at March 31, 2015, and \$687 million and \$489 million, respectively, at December 31, 2015. Net recognized unrealized gains on residential real estate loans held for sale, commitments to sell loans, and commitments to originate loans for sale were \$17 million and \$21 million at March 31, 2016 and March 31, 2015, respectively, and \$16 million at December 31, 2015. Changes in such net unrealized gains are recorded in mortgage banking revenues and resulted in net increases in revenue of \$1 million in the most recent quarter and \$2 million in the year-earlier quarter, compared with a net decrease in revenue of \$3 million in the fourth quarter of 2015.

Revenues from servicing residential real estate loans for others were \$45 million in the recent quarter, compared with \$58 million and \$46 million during the quarters ended March 31, 2015 and December 31, 2015, respectively. Residential real estate loans serviced for others totaled \$60.0 billion at March 31, 2016, \$65.0 billion at March 31, 2015 and \$61.7 billion at December 31, 2015. Reflected in residential real estate loans serviced for others were loans sub-serviced for others of \$36.3 billion, \$40.4 billion and \$37.8 billion at March 31, 2016, March 31, 2015 and December 31, 2015, respectively. Revenues earned for sub-servicing loans were \$23 million in the first quarter of 2016, \$35 million in the year-earlier quarter and \$25 million in the fourth quarter of 2015. The contractual servicing rights associated with loans sub-serviced by the Company were predominantly held by affiliates of Bayview Lending Group LLC (BLG).

Capitalized servicing rights consist largely of servicing associated with loans sold by the Company. Capitalized residential mortgage loan



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servicing assets totaled \$118 million at each of March 31, 2016 and December 31, 2015, compared with \$111 million at March 31, 2015.

Commercial mortgage banking revenues were \$22 million in the most recent quarter, compared with \$23 million in the first quarter of 2015 and \$27 million in the fourth quarter of 2015. Included in such amounts were revenues from loan origination and sales activities of \$12 million in the first quarter of 2016, \$13 million in the first quarter of 2015 and \$15 million in the fourth quarter of 2015. Commercial real estate loans originated for sale to other investors totaled approximately \$355 million in the first quarter of 2016, compared with \$455 million and \$464 million in the first and fourth quarters of 2015, respectively. Loan servicing revenues were \$10 million in each of the first quarters of 2016 and 2015, compared with \$12 million in the final quarter of 2015. Capitalized commercial mortgage servicing assets aggregated \$84 million at each of March 31, 2016 and December 31, 2015, compared with \$74 million at March 31, 2015. Commercial real estate loans serviced for other investors totaled \$10.9 billion, \$11.4 billion and \$11.0 billion at March 31, 2016, March 31, 2015 and December 31, 2015, respectively, and included \$2.6 billion, \$2.4 billion and \$2.5 billion, respectively, of loan balances for which investors had recourse to the Company if such balances are ultimately uncollectible. Commitments to sell commercial real estate loans and commitments to originate commercial real estate loans for sale were \$312 million and \$184 million, respectively, at March 31, 2016, \$464 million and \$347 million, respectively, at March 31, 2015 and \$96 million and \$58 million, respectively, at December 31, 2015. Commercial real estate loans held for sale at March 31, 2016, March 31, 2015 and December 31, 2015 were \$128 million, \$117 million, and \$39 million, respectively.

Service charges on deposit accounts totaled \$102 million in each of the first quarters of 2016 and 2015, compared with \$106 million in the final 2015 quarter. The recent quarter's decline as compared with the fourth quarter of 2015 was largely due to seasonally lower consumer deposit 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 \$111 million in the first quarter of 2016, compared with \$124 million in the first quarter of 2015 and \$115 million in the fourth quarter of 2015. Revenues associated with the ICS business were approximately \$52 million, \$61 million and \$54 million during the quarters ended March 31, 2016, March 31, 2015 and December 31, 2015, respectively. The ICS revenue decline in the two most recent quarters as compared with the first quarter of 2015 reflects the April 2015 divestiture of the trade processing business within the retirement services division of ICS. Revenues related to that business reflected in trust income (in the ICS business) during the first quarter of 2015 were approximately \$9 million. After considering related expenses, including the portion of those revenues paid to sub-advisors, net income attributable to the sold business was not material to the consolidated results of operations of the Company in 2015's initial quarter. Revenues attributable to WAS were approximately \$51 million and \$56 million for the three-month periods ended March 31, 2016 and 2015, respectively, and \$52 million for the three-month period ended December 31, 2015. The decline in such recent quarter revenues as compared with the first and fourth quarters

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of 2015 was due largely to lower customer balances and market performance. Total trust assets, which include assets under management and assets under administration, aggregated \$200.0 billion at March 31, 2016, compared with \$293.4 billion and \$199.2 billion at March 31, 2015 and December 31, 2015, respectively. The declines in trust assets at the two most recent quarter-ends as compared with March 31, 2015 were predominantly due to the customer account balances included in the April 2015 sale of the trade processing business. Trust assets under management were \$66.2 billion, \$69.4 billion and \$66.7 billion at March 31, 2016, March 31, 2015 and December 31, 2015, respectively. Additional trust income from investment management activities totaled \$8 million in the recent quarter, \$9 million in the fourth quarter of 2015 and \$7 million in the first quarter of 2015. That income largely relates to fees earned from retail customer investment accounts and from an affiliated investment manager. Assets managed by that affiliated manager were \$6.7 billion at March 31, 2016, \$9.4 billion at March 31, 2015 and \$7.1 billion at December 31, 2015. The Company's trust income from that affiliate was not material for any of the quarters then-ended. The Company's proprietary mutual funds had assets of \$11.4 billion, \$12.8 billion and \$12.2 billion at March 31, 2016, March 31, 2015 and December 31, 2015, respectively.

Brokerage services income, which includes revenues from the sale of mutual funds and annuities and securities brokerage fees, totaled \$16 million in each of the two most recent quarters, compared with \$15 million in the first quarter of 2015. Gains from trading account and foreign exchange activity totaled \$7 million during the first quarter of 2016, compared with \$6 million in the first quarter of 2015 and \$10 million in the final 2015 quarter. The recent quarter decline as compared with the immediately preceding quarter resulted from lower activity related to interest rate swap transactions executed on behalf of commercial customers. Information about the notional amount of interest rate, foreign exchange and other contracts entered into by the Company for trading account purposes is included in note 10 of Notes to Financial Statements and herein under the heading Taxable-equivalent Net Interest Income.

Other revenues from operations totaled \$102 million in the first quarter of 2016, compared with \$91 million in the year-earlier quarter and \$115 million in the fourth quarter of 2015. The increase in the recent quarter as compared with the year-earlier quarter reflects higher bank-owned life insurance income, credit-related fees and merchant discount and credit card fees. The recent quarter's decline as compared with the final 2015 quarter was largely attributable to lower fees for providing loan syndication and corporate advisory services. Included in other revenues from operations were the following significant components. Letter of credit and other credit-related fees totaled \$28 million in the recent quarter, compared with \$26 million in the first quarter of 2015 and \$42 million in the fourth quarter of 2015. Tax-exempt income from bank owned life insurance, which includes increases in the cash surrender value of life insurance policies and benefits received, totaled \$16 million during the recent quarter, compared with \$11 million in the initial quarter of 2015 and \$15 million in the final quarter of 2015. Revenues from merchant discount and credit card fees were \$26 million in the quarter ended March 31, 2016, compared with \$24 million and \$28 million in the quarters ended March 31, 2015 and December 31, 2015, respectively. Insurance-related sales commissions and other revenues totaled \$12 million in the initial quarter of 2016, compared with \$11 million in the year-earlier quarter and \$10 million in the fourth quarter of 2015. M&T's share of the operating losses of BLG recognized using the equity method of accounting was \$4 million in each of the first quarters of 2016 and 2015 and \$3 million in the fourth quarter of 2015. Information about the Company's relationship with BLG and its affiliates is included in note 15 of Notes to Financial Statements. Other miscellaneous revenues and the changes in such revenues from period-to-period were not individually significant.

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

Other expense totaled \$776 million in the first quarter of 2016, compared with \$686 million in the year-earlier quarter and \$786 million in the final quarter of 2015. Included in those amounts are expenses considered by management to be nonoperating in nature consisting of amortization of core deposit and other intangible assets of \$12 million in the most recent quarter, compared with \$7 million in the first quarter of 2015 and \$10 million in the fourth quarter of 2015 and merger-related expenses of \$23 million in the first quarter of 2016 and \$76 million in the fourth quarter of 2015. There were no merger-related expenses during the first quarter of 2015. Exclusive of those nonoperating expenses, noninterest operating expenses totaled \$741 million in the first quarter of 2016, compared with \$680 million in the year-earlier quarter and \$701 million in the fourth quarter of 2015. The most significant factors contributing to the increase in the recent quarter as compared with the year-earlier period were costs associated with the operations obtained in the Hudson City acquisition, higher costs for salaries and employee benefits, and increased Federal Deposit Insurance Corporation ( FDIC ) assessments. The rise in noninterest operating expenses from the fourth quarter of 2015 reflected the full-quarter impact of the Hudson City acquisition, along with seasonally higher stock-based compensation and employee benefits expenses offset, in part, by lower professional services costs. Table 2 provides a reconciliation of other expense to noninterest operating expense.

Salaries and employee benefits expense totaled \$432 million in 2016's initial quarter, compared with \$390 million in the year-earlier quarter and \$434 million in the fourth quarter of 2015. Merger-related salaries and employee benefits expenses were \$51 million (consisting predominantly of severance) in the fourth quarter of 2015 and \$5 million in the first quarter of 2016. As compared with the year-earlier period, the recent quarter reflects the impact of the additional employees associated with the Company's expanded operations and the impact of annual merit increases for employees. Excluding merger-related expenses, the higher expense level in the recent quarter as compared with the final quarter of 2015 was largely attributable to seasonally higher stock-based compensation, medical plan costs, payroll-related taxes, unemployment insurance and the Company's contributions for retirement savings plan benefits related to annual incentive compensation payments. The Company, in accordance with GAAP, has accelerated the recognition of compensation costs for stock-based awards granted to retirement-eligible employees and employees who will become retirement-eligible prior to full vesting of the award. As a result, stock-based compensation expense during the first quarters of 2016 and 2015 included \$16 million and \$14 million, respectively, that would have been recognized over the normal vesting period if not for the accelerated expense recognition provisions of GAAP. That acceleration had no effect on the value of stock-based compensation awarded to employees. Salaries and employee benefits expense included stock-based compensation of \$29 million and \$28 million in the quarters ended March 31, 2016 and March 31, 2015, respectively, and \$11 million in the quarter ended December 31, 2015. The number of full-time equivalent employees was 16,718 at March 31, 2016, compared with 15,263 and 16,979 at March 31, 2015 and December 31, 2015, respectively.

Excluding the nonoperating expenses described earlier from each quarter, nonpersonnel operating expenses were \$314 million and \$290 million in the quarters ended March 31, 2016 and March 31, 2015, respectively, and \$317 million in the fourth quarter of 2015. The increase in such expenses in the recent quarter as compared with the year-earlier quarter reflected higher equipment and net occupancy expenses and increased FDIC assessments due largely to the impact of the acquisition of Hudson City. The efficiency ratio measures the relationship of noninterest operating expenses to revenues. The Company's efficiency ratio was 57.0% in the first quarter of 2016, compared with 61.5% in the year-earlier period and 55.5% in the fourth

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quarter of 2015. The calculation of the efficiency ratio is presented in table 2.

**Income Taxes**

The provision for income taxes for the first quarter of 2016 was \$169 million, compared with \$134 million in the year-earlier quarter and \$140 million in the fourth quarter of 2015. The effective tax rates were 36.2%, 35.6% and 34.1% for the quarters ended March 31, 2016, March 31, 2015 and December 31, 2015, respectively. 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. The effective tax rate is affected by the level of income earned that is exempt from tax relative to the overall level of pre-tax income, the level of income allocated to the various state and local jurisdictions where the Company operates, because tax rates differ among such jurisdictions, and the impact of any large but infrequently occurring items.

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

**Capital**

Shareholders' equity was \$16.4 billion at March 31, 2016, representing 13.12% of total assets, compared with \$12.5 billion or 12.73% at March 31, 2015 and \$16.2 billion or 13.17% at December 31, 2015.

Included in shareholders' equity was preferred stock with a financial statement carrying value of \$1.2 billion at each of March 31, 2016, March 31, 2015 and December 31, 2015. Further information concerning M&T's preferred stock can be found in note 6 of Notes to Financial Statements.

Common shareholders' equity aggregated \$15.1 billion, or \$95.00 per share, at March 31, 2016, compared with \$11.3 billion, or \$84.95 per share, a year earlier and \$14.9 billion, or \$93.60 per share, at December 31, 2015. 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 \$65.65 at March 31, 2016, \$58.29 at March 31, 2015 and \$64.28 at December 31, 2015. The Company's ratio of tangible common equity to tangible assets was 8.71% at March 31, 2016, compared with 8.17% a year earlier and 8.69% at December 31, 2015. Reconciliations of total common shareholders' equity and tangible common equity and total assets and tangible assets as of each of those respective dates are presented in table 2.

Shareholders' equity reflects accumulated other comprehensive income or loss, which includes the net after-tax impact of unrealized gains or losses on investment securities classified as available for sale, unrealized losses on held-to-maturity securities for which an other-than-temporary impairment charge has been recognized, gains or losses associated with interest rate swap agreements designated as cash flow hedges, foreign currency translation adjustments and adjustments to reflect the funded status of defined benefit pension and other postretirement plans. Net unrealized gains on investment securities, net of applicable tax effect, were \$145 million, or \$.91 per common share, at March 31, 2016, compared with net unrealized gains of \$153 million, or \$1.15 per common share, at March 31, 2015 and \$48 million, or \$.30 per common share, at December 31, 2015. The higher unrealized gains at the recent quarter-end as compared with December 31, 2015 resulted largely



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from a decline in yields on treasury securities with comparable duration to the majority of the Company's government issued or guaranteed mortgage-backed securities portfolio. Information about unrealized gains and losses as of March 31, 2016 and December 31, 2015 is included in note 3 of Notes to Financial Statements.

Reflected in net unrealized gains at March 31, 2016 were pre-tax effect unrealized losses of \$34 million on available-for-sale investment securities with an amortized cost of \$1.7 billion and pre-tax effect unrealized gains of \$297 million on securities with an amortized cost of \$10.2 billion. The pre-tax effect unrealized losses reflect \$26 million of losses on trust preferred securities issued by financial institutions having an amortized cost of \$124 million and an estimated fair value of \$98 million (generally considered Level 2 valuations). Further information concerning the Company's valuations of available-for-sale investment securities is provided in note 12 of Notes to Financial Statements.

As of March 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. It is likely that the Company will be required to sell certain of its collateralized debt obligations backed by trust preferred securities held in the available-for-sale portfolio to comply with the provisions of the Dodd-Frank Act commonly referred to as the Volcker Rule. However, the amortized cost and fair value of those collateralized debt obligations were \$24 million and \$29 million, respectively, at March 31, 2016 and the Company does not expect that it would realize any material losses if it ultimately was required to sell such securities. As of that date, the Company did not intend to sell nor is it anticipated that it would be required to sell any of its other impaired securities, that is, where fair value is less than the cost basis of the security. The Company intends to continue to closely monitor the performance of its securities because changes in their underlying credit performance or other events could cause the cost basis of those securities to become other-than-temporarily impaired. However, because the unrealized losses on available-for-sale investment securities have generally already been reflected in the financial statement values for investment securities and shareholders' equity, any recognition of an other-than-temporary decline in value of those investment securities would not have a material effect on the Company's consolidated financial condition. Any other-than-temporary impairment charge related to held-to-maturity securities would result in reductions in the financial statement values for investment securities and shareholders' equity. Additional information concerning fair value measurements and the Company's approach to the classification of such measurements is included in note 12 of the Notes to Financial Statements.

The Company assesses impairment losses on privately issued mortgage-backed securities in the held-to-maturity portfolio by performing internal modeling to estimate bond-specific cash flows considering recent performance of the mortgage loan collateral and utilizing assumptions about future defaults and loss severity. These bond-specific cash flows also reflect the placement of the bond in the overall securitization structure and the remaining subordination levels. In total, at March 31, 2016 and December 31, 2015, the Company had in its held-to-maturity portfolio privately issued mortgage-backed securities with an amortized cost basis of \$175 million and \$181 million, respectively, and a fair value of \$137 million and \$142 million, respectively. At March 31, 2016, 89% of the mortgage-backed securities were in the most senior tranche of the securitization structure with 28% being independently rated as investment grade. The mortgage-backed securities are generally collateralized by residential and small-balance commercial real estate loans originated between 2004 and 2008 and had a weighted-average credit enhancement of 15% at March 31, 2016, calculated by dividing the remaining unpaid principal balance of bonds subordinate to the



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bonds owned by the Company plus any overcollateralization remaining in the securitization structure by the remaining unpaid principal balance of all bonds in the securitization structure. All mortgage-backed securities in the held-to-maturity portfolio had a current payment status as of March 31, 2016. The weighted-average default percentage and loss severity assumptions utilized in the Company's internal modeling were 33% and 88%, respectively. The Company has concluded that as of March 31, 2016, its privately issued mortgage-backed securities were not other-than-temporarily impaired. Nevertheless, it is possible that adverse changes in the future performance of mortgage loan collateral underlying such securities could impact the Company's conclusions.

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 \$293 million, or \$1.84 per common share, at March 31, 2016, \$297 million, or \$1.86 per common share, at December 31, 2015, and \$301 million, or \$2.26 per common share, at March 31, 2015.

On March 12, 2015, M&T announced that the Federal Reserve did not object to M&T's proposed 2015 Capital Plan. Accordingly, M&T was allowed to maintain a quarterly common stock dividend of \$.70 per share; continue to pay dividends and interest on other equity and debt instruments included in regulatory capital, including preferred stock, trust preferred securities and subordinated debt that were outstanding at December 31, 2014, consistent with the contractual terms of those instruments; repurchase up to \$200 million of common shares during the first half of 2016; and redeem or repurchase up to \$310 million of trust preferred securities. Those latter securities were redeemed in April 2015. Common and preferred dividends are subject to approval by M&T's Board of Directors in the ordinary course of business. As the Hudson City transaction occurred later than contemplated in that 2015 Capital Plan, common stock dividends paid in relation to the common stock issued as merger consideration were less than projected. With the concurrence of the Federal Reserve, the distribution of that capital, approximately \$54 million, is being re-allocated into the common stock repurchase program for the second quarter of 2016.

The Company did not repurchase any shares of its common stock during 2015. However, M&T commenced a program to repurchase its common shares in accordance with its approved 2015 Capital Plan, and in the first quarter of 2016 repurchased 948,545 shares for \$100 million. M&T's Board of Directors has authorized the repurchase of up to \$154 million of common stock in the second quarter of 2016.

Cash dividends declared on M&T's common stock during the quarter ended March 31, 2016 totaled \$112 million, compared with \$94 million in each of the quarters ended March 31 and December 31, 2015, respectively, and represented a quarterly dividend payment of \$.70 per common share in each of those quarters. Cash dividends declared on preferred stock aggregated \$20 million in each of the first quarters of 2016 and 2015 and the fourth quarter of 2015.

M&T and its subsidiary banks are required to comply with applicable capital adequacy regulations 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

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

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 phased-in transition portion of that buffer is .625%.

The regulatory capital ratios of the Company, M&T Bank and Wilmington Trust, N.A. as of March 31, 2016 are presented in the accompanying table.

**REGULATORY CAPITAL RATIOS**

March 31, 2016

|                      | M&T<br>(Consolidated) | M&T<br>Bank | Wilmington<br>Trust,<br>N.A. |
|----------------------|-----------------------|-------------|------------------------------|
| Common equity Tier 1 | 11.06%                | 11.33%      | 73.17%                       |
| Tier 1 capital       | 12.35%                | 11.33%      | 73.17%                       |
| Total capital        | 14.84%                | 13.35%      | 73.84%                       |
| Tier 1 leverage      | 9.96%                 | 9.15%       | 20.72%                       |

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 M&T's Form 10-K for the year ended December 31, 2015 and Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations of that Form 10-K under the heading Regulatory Oversight.

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.

**Segment Information**

As required by GAAP, the Company's reportable segments have been determined based upon its internal profitability reporting system, which is organized by strategic business unit. Financial information about the Company's segments is presented in note 14 of Notes to Financial Statements. Effective July 1, 2015, the Company changed its internal profitability reporting to move a builder and developer lending unit from the Residential Mortgage Banking

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segment to the Commercial Real Estate segment and, accordingly, the financial information for the Company's reportable segments for the three-month period ended March 31, 2015 has been restated to reflect that change.

The Business Banking segment earned \$25 million in each of the two most recent quarters and in the first quarter of 2015. As compared with the year-earlier quarter, a \$4 million increase in net interest income and a \$3 million decline in the provision for credit losses, due to lower net charge-offs, were offset by higher centrally-allocated costs largely associated with the acquired Hudson City operations. The higher net interest income resulted predominantly from an increase in average outstanding deposit balances of \$1.1 billion. As compared with the immediately preceding quarter, a decrease in the provision for credit losses, largely due to lower net charge-offs, was offset by lower revenues from merchant discount and credit card fees and modestly higher centrally-allocated costs.

The Commercial Banking segment contributed net income of \$101 million during the quarter ended March 31, 2016, compared with \$96 million in the year-earlier quarter and \$118 million in the fourth quarter of 2015. The recent quarter's 5% improvement as compared with the first quarter of 2015 reflected an \$8 million decline in the provision for credit losses, primarily due to lower net charge-offs, and a \$7 million increase in net interest income. The higher net interest income resulted from increases in average outstanding loan balances of \$1.1 billion and a widening of the net interest margin on deposits of 13 basis points, partially offset by a narrowing of the net interest margin on loans of 9 basis points. Those favorable factors were offset, in part, by an increase in centrally-allocated technology-related costs and other operating expenses. The recent quarter's decline in net income as compared with 2015's fourth quarter was largely due to lower credit-related and other fees of \$13 million and a \$10 million increase in the provision for credit losses, largely due to a \$10 million partial recovery in the final 2015 quarter of a previously charged-off loan related to a relationship with a motor vehicle-related parts wholesaler.

The Commercial Real Estate segment contributed net income of \$81 million in the first quarter of 2016, compared with \$83 million in the year-earlier period and \$90 million in the fourth quarter of 2015. The modest decline in net income as compared with the first quarter of 2015 reflects a \$3 million increase in the provision for credit losses, due to lower recoveries of previously charged-off loans, and higher operating expenses that were largely offset by a \$5 million increase in net interest income, reflecting increases in average outstanding loan and deposit balances of \$1.5 billion and \$371 million, respectively. The recent quarter decline in net income as compared with the final 2015 quarter was largely due to lower net interest income and trading account and foreign exchange gains of \$2 million each, increases in personnel costs of \$2 million and other higher operating expenses. The lower net interest income was predominantly due to a narrowing of the net interest margin on loans of 10 basis points, partially offset by an increase in average outstanding loan balances of \$439 million and a widening of the net interest margin on deposits of 16 basis points.

The Discretionary Portfolio segment recorded net income of \$40 million during the three-month period ended March 31, 2016, compared with \$6 million in the year-earlier period and \$31 million in the fourth quarter of 2015. The significant improvement as compared with the first quarter of 2015 was predominantly due to the impact of residential real estate loans obtained in the acquisition of Hudson City. A \$5 million increase in bank owned life insurance revenues also contributed to that improvement. Those favorable factors were offset, in part, by a \$3 million increase in the provision for credit losses and higher loan and other real estate-related servicing costs. The recent quarter's favorable performance as compared with the immediately preceding quarter included the full-quarter impact of the residential real estate loans obtained in the acquisition of Hudson City, partially offset by

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a \$4 million increase in the provision for credit losses, primarily due to higher net charge-offs.

Net income from the Residential Mortgage Banking segment was \$17 million in the recent quarter, compared with \$29 million in the first quarter of 2015 and \$13 million in 2015's fourth quarter. The decline in net income as compared with the year-earlier period was largely attributable to a \$7 million decrease in revenues from mortgage origination and sales activities (including intersegment revenues) due to lower origination volumes and a decline in revenues from subservicing residential real estate loans. Contributing to the recent quarter's improved results as compared with the final quarter of 2015 were a \$2 million improvement in net interest income and decreased centrally-allocated loan servicing expenses. The improvement in net interest income reflected a widening of the net interest margin on loans.

Net income earned by the Retail Banking segment totaled \$63 million in the first quarter of 2016, compared with \$69 million in the year-earlier quarter and \$65 million in the final 2015 quarter. The primary contributors to the recent quarter decline in net income as compared with the year-earlier period were: a \$21 million increase in the provision for credit losses, largely due to partial charge-offs recognized in the first quarter of 2016 on loans for which the Company identified that the customer was either bankrupt or deceased; a \$15 million rise in personnel-related expenses and higher equipment and net occupancy costs of \$4 million, reflecting the impact of the Hudson City acquisition; a \$3 million increase in advertising and promotional expenses and higher centrally-allocated operating costs. Those unfavorable factors were largely offset by an increase in net interest income of \$39 million, predominantly due to the impact of deposits obtained in the acquisition of Hudson City. The recent quarter's modest decline in net income as compared with the fourth quarter of 2015 reflected a \$23 million increase in the provision for credit losses, largely due to the aforementioned partial charge-offs recognized in the first quarter of 2016, seasonally lower service charges on deposit accounts of \$5 million and higher personnel-related expenses of \$4 million due to the full-quarter impact of the Hudson City acquisition. Those unfavorable factors were largely offset by a \$17 million rise in net interest income and an \$8 million decrease in advertising and promotional expenses. The improvement in net interest income predominantly reflected the full-quarter impact of consumer deposits obtained in the acquisition of Hudson City.

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, including the November 2015 Hudson City transaction, 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 the trust income of the Company that reflects the ICS and WAS business activities. The various components of the All Other category resulted in net losses totaling \$29 million for the quarter ended March 31, 2016, \$67 million in the year-earlier quarter and \$71 million in the fourth quarter of 2015. As compared with the first quarter of 2015, 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 the provision for credit losses, and decreases in professional services costs of \$7 million were offset, in part, by: merger-related expenses aggregating \$23 million in the recent quarter (there were no such expenses in the first quarter of 2015); higher personnel-related expenses of \$17 million; a decline in trust income of \$13 million, in

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large part reflecting the impact of the sale of the trade processing business within the retirement services division of ICS in April 2015; and increased FDIC assessments of \$10 million. Merger-related costs in the fourth quarter of 2015 aggregated \$97 million. Excluding merger-related costs in each of the two most recent quarters, the All Other category resulted in net losses for the quarters ended March 31, 2016 and December 31, 2015 of \$15 million and \$10 million, respectively. The increased net loss from the immediately preceding quarter was mostly due to an increase in personnel-related and other operating costs, offset, in part, by the favorable impact from the Company's allocation methodologies and lower professional services costs.

**Recent Accounting Developments**

Effective January 1, 2016, the Company adopted amended accounting guidance relating to the consolidation of variable interest entities to modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities and to eliminate the presumption that a general partner should consolidate a limited partnership. The amended guidance also eliminates certain conditions in the assessment of whether fees paid by a legal entity to a decision maker or a service provider represent a variable interest in the legal entity and reduces the extent to which related party arrangements cause an entity to be considered a primary beneficiary. The new guidance eliminates the indefinite deferral of existing consolidation guidance for certain investment funds, but provides a scope exception for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

In January 2016, the Company also adopted amended accounting guidance for debt issuance costs. The guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The adoption of this guidance did not have a material effect on the Company's consolidated financial position at January 1, 2016.

In the first quarter of 2016, the Company adopted amended accounting guidance for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The amended guidance requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. The adoption of this guidance did not have a material effect on the Company's consolidated financial position or results of operations.

Amended guidance for measurement-period adjustments related to business combinations was also adopted by the Company in the first quarter of 2016. The amended guidance requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the





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reporting period in which the adjustment amounts are determined. The acquirer is now required to record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The adoption of this guidance did not have a material effect on the Company's consolidated financial position or results of operations.

In March 2016, the Financial Accounting Standards Board ( FASB ) issued amended guidance for share-based transactions. The amended guidance requires that all excess tax benefits and tax deficiencies be recognized as income tax expense or benefit in the income statement and that excess tax benefits should be recognized regardless of whether the benefit reduces taxes payable in the current period. The guidance allows an entity to make an accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The guidance permits share-based awards that allow for the withholding of shares up to the maximum statutory tax ratio in applicable jurisdictions to qualify for equity classification. The previous GAAP threshold was restricted to the employer's minimum statutory withholding requirements. The guidance also specifies certain changes to the reporting of share-based transactions on the statement of cash flows and is effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. The Company is still evaluating the impact the amended guidance may have on its consolidated financial statements.

In March 2016, the FASB issued amended accounting guidance for the transition to the equity method of accounting. The amended guidance eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method has been in effect during all previous periods that the investment had been held. Instead, the amended guidance requires the investor to adopt the equity method of accounting as of the date the investment first qualifies for such accounting. The guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. The Company does not expect the guidance to have a material impact on its consolidated financial statements.

In March 2016, the FASB issued two amendments to its rules on accounting for derivatives and hedging. The first amendment clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The second amendment clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment is required to assess the embedded call (put) options solely in accordance with a four-step decision sequence and no longer has to assess whether the event that triggers the ability to exercise the option is related to interest rates or credit risks. Both amendments are effective for annual periods and interim periods within those annual periods beginning after December 15, 2016, with early adoption permitted. The Company does not expect the guidance will have a material impact on its consolidated financial statements.

In February 2016, the FASB issued guidance related to the accounting for leases. The core principle of the guidance is that all leases create an asset and a liability for the lessee and, therefore, lease assets and lease liabilities should be recognized in the balance sheet. Lease assets will be recognized as a right-of-use asset and lease liabilities will be recognized as a liability to make lease payments. While the guidance requires all

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leases to be recognized in the balance sheet, there continues to be a differentiation between finance leases and operating leases for purposes of income statement recognition and cash flow statement presentation. For finance leases, interest on the lease liability and amortization of the right-of-use asset will be recognized separately in the statement of income. Repayments of principal on lease liabilities will be classified within financing activities and payments of interest on the lease liability will be classified within operating activities in the statement of cash flows. For operating leases, a single lease cost is recognized in the statement of income and allocated over the lease term, generally on a straight-line basis. All cash payments are presented within operating activities in the statement of cash flows. The accounting applied by lessors is largely unchanged from existing GAAP, however, the guidance eliminates the accounting model for leveraged leases for leases that commence after the effective date of the guidance. The guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. The Company occupies certain banking offices and uses certain equipment under noncancelable operating lease agreements, which currently are not reflected in its consolidated balance sheet. Such leases generally will be required to be presented in the Company's consolidated balance sheet upon adoption of this guidance. The Company is evaluating the impact the guidance will have on its consolidated financial statements.

In January 2016, the FASB issued amended guidance related to recognition and measurement of financial assets and liabilities. The amended guidance requires that equity investments (excluding those accounted for under the equity method of accounting or those that result in consolidation of the investee) be measured at fair value with changes in fair value recognized in net income. An entity can elect to measure equity investments that do not have readily determinable fair values at cost less impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. The impairment assessment of equity investments without readily determinable fair values is simplified by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates impairment exists, an entity is required to measure the investment at fair value. The guidance eliminates the requirement for public business entities to disclose the method and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. Further, the guidance requires public entities to use the exit price when measuring the fair value of financial instruments for disclosure purposes. The guidance also requires an entity to present separately in other comprehensive income, a change in the instrument-specific credit risk when the entity has elected to measure a liability at fair value in accordance with the fair value option. Separate presentation of financial assets and financial liabilities by measurement category and type of instrument on the balance sheet or accompanying notes to the financial statements is required. The guidance also clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. This guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. The Company is evaluating the impact the guidance could have on its consolidated financial statements.

In May 2014, the FASB issued amended accounting and disclosure guidance for revenue from contracts with customers. The core principle of the accounting guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract;

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(3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; (5) recognize revenue when (or as) the entity satisfies a performance obligation. The guidance also specifies the accounting for some costs to obtain or fulfill a contract with a customer. The amended disclosure guidance requires sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB deferred the effective date of this guidance by one year. The amended guidance is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The guidance should be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this guidance recognized at the date of initial application. The Company is still evaluating the impact the guidance could have on its consolidated financial statements.

**Forward-Looking Statements**

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

Future Factors include changes in interest rates, spreads on earning assets and interest-bearing liabilities, and interest rate sensitivity; prepayment speeds, loan originations, credit losses and market values of loans, collateral securing loans and other assets; sources of liquidity; common shares outstanding; common stock price volatility; fair value of and number of stock-based compensation awards to be issued in future periods; the impact of changes in market values on trust-related revenues; legislation and/or regulation affecting the financial services industry as a whole, and M&T and its subsidiaries individually or collectively, including tax legislation or regulation; regulatory supervision and oversight, including monetary policy and capital requirements; changes in accounting policies or procedures as may be required by the FASB or 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,

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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.

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## M&amp;T BANK CORPORATION AND SUBSIDIARIES

Table 1

## QUARTERLY TRENDS

|  | 2016<br>First Quarter | Fourth  | 2015 Quarters |         | First   |
|--|-----------------------|---------|---------------|---------|---------|
|  |                       |         | Third         | Second  |         |
| <b>Earnings and dividends</b>  |                       |         |               |         |         |
| <i>Amounts in thousands, except per share</i>                            |                       |         |               |         |         |
| Interest income (taxable-equivalent basis)                               | \$ 979,166            | 908,734 | 776,274       | 766,374 | 743,925 |
| Interest expense   | 100,870               | 95,333  | 77,199        | 77,226  | 78,499  |
| Net interest income  | 878,296               | 813,401 | 699,075       | 689,148 | 665,426 |
| Less: provision for credit losses  | 49,000                | 58,000  | 44,000        | 30,000  | 38,000  |
| Other income   | 420,933               | 448,108 | 439,699       | 497,027 | 440,203 |
| Less: other expense  | 776,095               | 786,113 | 653,816       | 696,628 | 686,375 |
| Income before income taxes   | 474,134               | 417,396 | 440,958       | 459,547 | 381,254 |
| Applicable income taxes  | 169,274               | 140,074 | 154,309       | 166,839 | 133,803 |
| Taxable-equivalent adjustment  | 6,332                 | 6,357   | 6,248         | 6,020   | 5,838   |
| Net income   | \$ 298,528            | 270,965 | 280,401       | 286,688 | 241,613 |
| Net income available to common shareholders-diluted                      | \$ 275,748            | 248,059 | 257,346       | 263,481 | 218,837 |
| Per common share data  |                       |         |               |         |         |
| Basic earnings   | \$ 1.74               | 1.65    | 1.94          | 1.99    | 1.66    |
| Diluted earnings   | 1.73                  | 1.65    | 1.93          | 1.98    | 1.65    |
| Cash dividends   | \$ .70                | .70     | .70           | .70     | .70     |
| Average common shares outstanding  |                       |         |               |         |         |
| Basic  | 158,734               | 150,027 | 132,630       | 132,356 | 132,049 |
| Diluted  | 159,181               | 150,718 | 133,376       | 133,116 | 132,769 |
| <b>Performance ratios, annualized</b>                                    |                       |         |               |         |         |
| Return on  |                       |         |               |         |         |
| Average assets   | .97%                  | .93%    | 1.13%         | 1.18%   | 1.02%   |
| Average common shareholders equity                                       | 7.44%                 | 7.22%   | 8.93%         | 9.37%   | 7.99%   |
| Net interest margin on average earning assets (taxable-equivalent basis) | 3.18%                 | 3.12%   | 3.14%         | 3.17%   | 3.17%   |
| Nonaccrual loans to total loans and leases, net of unearned discount     | 1.00%                 | .91%    | 1.15%         | 1.17%   | 1.18%   |

| <b>Net operating (tangible) results (a)</b>   |            |         |         |         |         |
|---|------------|---------|---------|---------|---------|
| Net operating income (in thousands)           | \$ 320,064 | 337,613 | 282,907 | 290,341 | 245,776 |
| Diluted net operating income per common share | 1.87       | 2.09    | 1.95    | 2.01    | 1.68    |
| Annualized return on                          |            |         |         |         |         |
| Average tangible assets                       | 1.09%      | 1.21%   | 1.18%   | 1.24%   | 1.08%   |
| Average tangible common shareholders equity   | 11.62%     | 13.26%  | 12.98%  | 13.76%  | 11.90%  |
| Efficiency ratio (b)                          | 57.00%     | 55.53%  | 57.05%  | 58.23%  | 61.46%  |

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

| Average balances                           |            |         |        |        |        |
|--|------------|---------|--------|--------|--------|
| Total assets (c)                           | \$ 123,252 | 115,052 | 98,515 | 97,598 | 95,892 |
| Total tangible assets (c)                  | 118,577    | 110,772 | 94,989 | 94,067 | 92,346 |
| Earning assets                             | 111,211    | 103,587 | 88,446 | 87,333 | 85,212 |
| Investment securities                      | 15,348     | 15,786  | 14,441 | 14,195 | 13,376 |
| Loans and leases, net of unearned discount | 87,584     | 81,110  | 67,849 | 67,670 | 66,587 |
| Deposits                                   | 92,391     | 85,657  | 73,821 | 72,958 | 71,698 |
| Common shareholders equity (c)             | 15,047     | 13,775  | 11,555 | 11,404 | 11,227 |
| Tangible common shareholders equity (c)    | 10,372     | 9,495   | 8,029  | 7,873  | 7,681  |

## At end of quarter

|  |            |         |        |        |        |
|--|------------|---------|--------|--------|--------|
| Total assets (c)   | \$ 124,626 | 122,788 | 97,797 | 97,080 | 98,378 |
| Total tangible assets (c)  | 119,955    | 118,109 | 94,272 | 93,552 | 94,834 |
| Earning assets   | 113,005    | 110,802 | 87,807 | 86,990 | 87,959 |
| Investment securities  | 15,467     | 15,656  | 14,495 | 14,752 | 14,393 |
| Loans and leases, net of unearned discount                                       | 87,872     | 87,489  | 68,540 | 68,131 | 67,099 |
| Deposits   | 94,215     | 91,958  | 72,945 | 72,630 | 73,594 |
| Common shareholders equity, net of undeclared cumulative preferred dividends (c) | 15,120     | 14,939  | 11,687 | 11,433 | 11,294 |
| Tangible common shareholders equity (c)  | 10,449     | 10,260  | 8,162  | 7,905  | 7,750  |
| Equity per common share  | 95.00      | 93.60   | 87.67  | 85.90  | 84.95  |
| Tangible equity per common share   | 65.65      | 64.28   | 61.22  | 59.39  | 58.29  |

**Market price per common share**

|         |           |        |        |        |        |
|---------|-----------|--------|--------|--------|--------|
| High    | \$ 119.24 | 127.39 | 134.00 | 128.70 | 129.58 |
| Low     | 100.08    | 111.50 | 111.86 | 117.86 | 111.78 |
| Closing | 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 2.
- (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 2.



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## M&amp;T BANK CORPORATION AND SUBSIDIARIES

Table 2

## RECONCILIATION OF QUARTERLY GAAP TO NON-GAAP MEASURES

|  | 2016<br>First<br>Quarter | Fourth   | 2015 Quarters<br>Third | Second  | First   |
|--|--------------------------|----------|------------------------|---------|---------|
| <b>Income statement data</b>                                 |                          |          |                        |         |         |
| <i>In thousands, except per share</i>                        |                          |          |                        |         |         |
| <b>Net income</b>  |                          |          |                        |         |         |
| Net income   | \$ 298,528               | 270,965  | 280,401                | 286,688 | 241,613 |
| Amortization of core deposit and other intangible assets (a) | 7,488                    | 5,828    | 2,506                  | 3,653   | 4,163   |
| Merger-related expenses (a)                                  | 14,048                   | 60,820   |                        |         |         |
| Net operating income   | \$ 320,064               | 337,613  | 282,907                | 290,341 | 245,776 |
| <b>Earnings per common share</b>                             |                          |          |                        |         |         |
| Diluted earnings per common share                            | \$ 1.73                  | 1.65     | 1.93                   | 1.98    | 1.65    |
| Amortization of core deposit and other intangible assets (a) | .05                      | .04      | .02                    | .03     | .03     |
| Merger-related expenses (a)                                  | .09                      | .40      |                        |         |         |
| Diluted net operating earnings per common share              | \$ 1.87                  | 2.09     | 1.95                   | 2.01    | 1.68    |
| <b>Other expense</b>   |                          |          |                        |         |         |
| Other expense  | \$ 776,095               | 786,113  | 653,816                | 696,628 | 686,375 |
| Amortization of core deposit and other intangible assets     | (12,319)                 | (9,576)  | (4,090)                | (5,965) | (6,793) |
| Merger-related expenses                                      | (23,162)                 | (75,976) |                        |         |         |
| Noninterest operating expense                                | \$ 740,614               | 700,561  | 649,726                | 690,663 | 679,582 |
| <b>Merger-related expenses</b>                               |                          |          |                        |         |         |
| Salaries and employee benefits                               | \$ 5,274                 | 51,287   |                        |         |         |
| Equipment and net occupancy                                  | 939                      | 3        |                        |         |         |
| Printing, postage and supplies                               | 937                      | 504      |                        |         |         |
| Other costs of operations                                    | 16,012                   | 24,182   |                        |         |         |



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|                             |                  |               |  |  |  |
|-----------------------------|------------------|---------------|--|--|--|
| Other expense               | 23,162           | 75,976        |  |  |  |
| Provision for credit losses |                  | 21,000        |  |  |  |
| <b>Total</b>                | <b>\$ 23,162</b> | <b>96,976</b> |  |  |  |

**Efficiency ratio**

|   |                     |                  |                  |                  |                  |
|---|---------------------|------------------|------------------|------------------|------------------|
| Noninterest operating expense (numerator)       | \$ 740,614          | 700,561          | 649,726          | 690,663          | 679,582          |
| Taxable-equivalent net interest income          | 878,296             | 813,401          | 699,075          | 689,148          | 665,426          |
| Other income                                    | 420,933             | 448,108          | 439,699          | 497,027          | 440,203          |
| Less: Gain (loss) on bank investment securities | 4                   | (22)             |                  | (10)             | (98)             |
| <b>Denominator</b>                              | <b>\$ 1,299,225</b> | <b>1,261,531</b> | <b>1,138,774</b> | <b>1,186,185</b> | <b>1,105,727</b> |
| <b>Efficiency ratio</b>                         | <b>57.00%</b>       | <b>55.53%</b>    | <b>57.05%</b>    | <b>58.23%</b>    | <b>61.46%</b>    |

**Balance sheet data**

*In millions*

**Average assets**

|  |                   |                |               |               |               |
|--|-------------------|----------------|---------------|---------------|---------------|
| Average assets                           | \$ 123,252        | 115,052        | 98,515        | 97,598        | 95,892        |
| Goodwill                                 | (4,593)           | (4,218)        | (3,513)       | (3,514)       | (3,525)       |
| Core deposit and other intangible assets | (134)             | (101)          | (20)          | (25)          | (31)          |
| Deferred taxes                           | 52                | 39             | 7             | 8             | 10            |
| <b>Average tangible assets</b>           | <b>\$ 118,577</b> | <b>110,772</b> | <b>94,989</b> | <b>94,067</b> | <b>92,346</b> |

**Average common equity**

|  |                  |               |               |               |               |
|--|------------------|---------------|---------------|---------------|---------------|
| Average total equity                     | \$ 16,279        | 15,007        | 12,787        | 12,636        | 12,459        |
| Preferred stock                          | (1,232)          | (1,232)       | (1,232)       | (1,232)       | (1,232)       |
| <b>Average common equity</b>             | <b>15,047</b>    | <b>13,775</b> | <b>11,555</b> | <b>11,404</b> | <b>11,227</b> |
| Goodwill                                 | (4,593)          | (4,218)       | (3,513)       | (3,514)       | (3,525)       |
| Core deposit and other intangible assets | (134)            | (101)         | (20)          | (25)          | (31)          |
| Deferred taxes                           | 52               | 39            | 7             | 8             | 10            |
| <b>Average tangible common equity</b>    | <b>\$ 10,372</b> | <b>9,495</b>  | <b>8,029</b>  | <b>7,873</b>  | <b>7,681</b>  |

**At end of quarter**

**Total assets**

|  |                   |                |               |               |               |
|--|-------------------|----------------|---------------|---------------|---------------|
| Total assets                             | \$ 124,626        | 122,788        | 97,797        | 97,080        | 98,378        |
| Goodwill                                 | (4,593)           | (4,593)        | (3,513)       | (3,513)       | (3,525)       |
| Core deposit and other intangible assets | (128)             | (140)          | (18)          | (22)          | (28)          |
| Deferred taxes                           | 50                | 54             | 6             | 7             | 9             |
| <b>Total tangible assets</b>             | <b>\$ 119,955</b> | <b>118,109</b> | <b>94,272</b> | <b>93,552</b> | <b>94,834</b> |

**Total common equity**

|              |           |        |        |        |        |
|--------------|-----------|--------|--------|--------|--------|
| Total equity | \$ 16,355 | 16,173 | 12,922 | 12,668 | 12,528 |
|--------------|-----------|--------|--------|--------|--------|

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|   |           |         |         |         |         |
|---|-----------|---------|---------|---------|---------|
| Preferred stock   | (1,232)   | (1,232) | (1,232) | (1,232) | (1,232) |
| Undeclared dividends - cumulative preferred stock               | (3)       | (2)     | (3)     | (3)     | (2)     |
| Common equity, net of undeclared cumulative preferred dividends | 15,120    | 14,939  | 11,687  | 11,433  | 11,294  |
| Goodwill  | (4,593)   | (4,593) | (3,513) | (3,513) | (3,525) |
| Core deposit and other intangible assets                        | (128)     | (140)   | (18)    | (22)    | (28)    |
| Deferred taxes  | 50        | 54      | 6       | 7       | 9       |
| Total tangible common equity                                    | \$ 10,449 | 10,260  | 8,162   | 7,905   | 7,750   |

(a) After any related tax effect.

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## M&amp;T BANK CORPORATION AND SUBSIDIARIES

Table 3

## AVERAGE BALANCE SHEETS AND ANNUALIZED TAXABLE-EQUIVALENT RATES

|   | 2016 First Quarter |                |                 | 2015 Fourth Quarter |                |                 | 2015 Third Quarter |                |                 |
|---|--------------------|----------------|-----------------|---------------------|----------------|-----------------|--------------------|----------------|-----------------|
|   | Average<br>Balance | Interest       | Average<br>Rate | Average<br>Balance  | Interest       | Average<br>Rate | Average<br>Balance | Interest       | Average<br>Rate |
| <i>balance in millions; interest in thousands</i> |                    |                |                 |                     |                |                 |                    |                |                 |
| <b>assets</b>                                     |                    |                |                 |                     |                |                 |                    |                |                 |
| and leases, net of unearned discount*             |                    |                |                 |                     |                |                 |                    |                |                 |
| Commercial, financial, etc.                       | \$ 20,717          | \$ 174,657     | 3.39%           | 20,221              | 164,515        | 3.23%           | 19,939             | 161,709        |                 |
| Rate - commercial                                 | 29,426             | 309,415        | 4.16            | 28,973              | 303,960        | 4.11            | 28,309             | 302,626        |                 |
| Rate - consumer                                   | 25,859             | 254,144        | 3.93            | 20,369              | 204,420        | 4.01            | 8,348              | 87,047         |                 |
| Other   | 11,582             | 130,971        | 4.55            | 11,547              | 129,103        | 4.44            | 11,253             | 126,369        |                 |
| Loans and leases, net                             | 87,584             | 869,187        | 3.99            | 81,110              | 801,998        | 3.92            | 67,849             | 677,751        |                 |
| Non-bearing deposits at banks                     | 8,193              | 10,337         | .51             | 6,622               | 4,931          | .30             | 6,060              | 3,852          |                 |
| Money market funds                                | 1                  | 1              | .77             | 1                   | 2              | .54             |                    |                |                 |
| Time deposits                                     | 85                 | 378            | 1.78            | 68                  | 317            | 1.88            | 96                 | 125            |                 |
| Investment securities**                           |                    |                |                 |                     |                |                 |                    |                |                 |
| Treasury and federal agencies                     | 14,264             | 90,138         | 2.54            | 14,778              | 89,052         | 2.39            | 13,548             | 86,152         |                 |
| Bonds of states and political subdivisions        | 113                | 1,164          | 4.13            | 128                 | 1,419          | 4.40            | 138                | 1,398          |                 |
| Other   | 971                | 7,961          | 3.30            | 880                 | 11,015         | 4.96            | 755                | 6,996          |                 |
| Other investment securities                       | 15,348             | 99,263         | 2.60            | 15,786              | 101,486        | 2.55            | 14,441             | 94,546         |                 |
| <b>Earning assets</b>                             | <b>111,211</b>     | <b>979,166</b> | <b>3.54</b>     | <b>103,587</b>      | <b>908,734</b> | <b>3.48</b>     | <b>88,446</b>      | <b>776,274</b> |                 |
| Provision for credit losses                       | (955)              |                |                 | (947)               |                |                 | (937)              |                |                 |
| Due from banks                                    | 1,288              |                |                 | 1,348               |                |                 | 1,218              |                |                 |
| Other assets                                      | 11,708             |                |                 | 11,064              |                |                 | 9,788              |                |                 |
| <b>Total assets</b>                               | <b>\$ 123,252</b>  |                |                 | <b>115,052</b>      |                |                 | <b>98,515</b>      |                |                 |
| <b>liabilities and shareholders' equity</b>       |                    |                |                 |                     |                |                 |                    |                |                 |
| <b>liabilities</b>                                |                    |                |                 |                     |                |                 |                    |                |                 |
| <b>liabilities bearing deposits</b>               |                    |                |                 |                     |                |                 |                    |                |                 |
| Checking deposits                                 | \$ 1,359           | 414            | .12             | 1,331               | 384            | .11             | 1,309              | 360            |                 |
| Other deposits                                    | 48,976             | 15,891         | .13             | 45,974              | 13,219         | .11             | 41,197             | 10,937         |                 |

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|  |            |            |       |         |         |       |        |         |
|--|------------|------------|-------|---------|---------|-------|--------|---------|
| Deposits                                 | 12,999     | 24,322     | .75   | 9,686   | 15,986  | .65   | 2,858  | 3,643   |
| Deposits at Cayman Islands office        | 187        | 193        | .42   | 224     | 167     | .30   | 206    | 151     |
| Interest-bearing deposits                | 63,521     | 40,820     | .26   | 57,215  | 29,756  | .21   | 45,570 | 15,091  |
| Term borrowings                          | 2,082      | 2,162      | .42   | 1,615   | 1,575   | .39   | 174    | 32      |
| Short-term borrowings                    | 10,528     | 57,888     | 2.21  | 10,748  | 64,002  | 2.36  | 10,114 | 62,076  |
| <b>Interest-bearing liabilities</b>      | 76,131     | 100,870    | .53   | 69,578  | 95,333  | .54   | 55,858 | 77,199  |
| Interest-bearing deposits                | 28,870     |            |       | 28,443  |         |       | 28,251 |         |
| Liabilities                              | 1,972      |            |       | 2,024   |         |       | 1,619  |         |
| Liabilities                              | 106,973    |            |       | 100,045 |         |       | 85,728 |         |
| Shareholders' equity                     | 16,279     |            |       | 15,007  |         |       | 12,787 |         |
| Liabilities and shareholders' equity     | \$ 123,252 |            |       | 115,052 |         |       | 98,515 |         |
| Interest spread                          |            |            | 3.01  |         |         | 2.94  |        |         |
| Utilization of interest-free funds       |            |            | .17   |         |         | .18   |        |         |
| Interest income/margin on earning assets |            | \$ 878,296 | 3.18% |         | 813,401 | 3.12% |        | 699,075 |

\* Includes nonaccrual loans.

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

(continued)

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## M&amp;T BANK CORPORATION AND SUBSIDIARIES

Table 3 (continued)

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

| <i>Average balance in millions; interest in thousands</i> | 2015 Second Quarter |                |              | 2015 First Quarter |                |              |
|---|---------------------|----------------|--------------|--------------------|----------------|--------------|
|   | Average Balance     | Interest       | Average Rate | Average Balance    | Interest       | Average Rate |
| <b>Assets</b>   |                     |                |              |                    |                |              |
| Earning assets  |                     |                |              |                    |                |              |
| Loans and leases, net of unearned discount*               |                     |                |              |                    |                |              |
| Commercial, financial, etc.                               | \$ 19,973           | \$ 158,109     | 3.18%        | 19,457             | 153,866        | 3.21%        |
| Real estate - commercial                                  | 28,208              | 298,565        | 4.19         | 27,596             | 288,121        | 4.18         |
| Real estate - consumer                                    | 8,447               | 88,473         | 4.19         | 8,572              | 88,850         | 4.15         |
| Consumer  | 11,042              | 122,812        | 4.46         | 10,962             | 121,366        | 4.49         |
| Total loans and leases, net                               | 67,670              | 667,959        | 3.96         | 66,587             | 652,203        | 3.97         |
| Interest-bearing deposits at banks                        |                     |                |              |                    |                |              |
| Federal funds   | 5,326               | 3,351          | .25          | 5,073              | 3,118          | .25          |
| Trading account   | 39                  | 9              | .10          | 97                 | 24             | .10          |
| Investment securities**                                   | 103                 | 239            | .92          | 79                 | 565            | 2.87         |
| U.S. Treasury and federal agencies                        | 13,265              | 83,356         | 2.52         | 12,437             | 78,313         | 2.55         |
| Obligations of states and political subdivisions          | 149                 | 1,607          | 4.32         | 159                | 1,967          | 5.04         |
| Other   | 781                 | 9,853          | 5.06         | 780                | 7,735          | 4.02         |
| Total investment securities                               | 14,195              | 94,816         | 2.68         | 13,376             | 88,015         | 2.67         |
| <b>Total earning assets</b>                               | <b>87,333</b>       | <b>766,374</b> | <b>3.52</b>  | <b>85,212</b>      | <b>743,925</b> | <b>3.54</b>  |
| Allowance for credit losses                               | (929)               |                |              | (925)              |                |              |
| Cash and due from banks                                   | 1,180               |                |              | 1,221              |                |              |
| Other assets  | 10,014              |                |              | 10,384             |                |              |
| Total assets  | \$ 97,598           |                |              | 95,892             |                |              |
| <b>Liabilities and shareholders equity</b>                |                     |                |              |                    |                |              |
| Interest-bearing liabilities                              |                     |                |              |                    |                |              |
| Interest-bearing deposits                                 |                     |                |              |                    |                |              |
| Interest-checking deposits                                | \$ 1,333            | 349            | .11          | 1,121              | 311            | .11          |
| Savings deposits  | 41,712              | 10,361         | .10          | 41,525             | 10,219         | .10          |

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|   |                  |               |            |               |               |            |
|---|------------------|---------------|------------|---------------|---------------|------------|
| Time deposits                                     | 2,948            | 3,690         | .50        | 3,017         | 3,740         | .50        |
| Deposits at Cayman Islands office                 | 212              | 150           | .28        | 224           | 147           | .27        |
| <b>Total interest-bearing deposits</b>            | <b>46,205</b>    | <b>14,550</b> | <b>.13</b> | <b>45,887</b> | <b>14,417</b> | <b>.13</b> |
| Short-term borrowings                             | 195              | 36            | .07        | 196           | 34            | .07        |
| Long-term borrowings                              | 10,164           | 62,640        | 2.47       | 9,835         | 64,048        | 2.64       |
| <b>Total interest-bearing liabilities</b>         | <b>56,564</b>    | <b>77,226</b> | <b>.55</b> | <b>55,918</b> | <b>78,499</b> | <b>.57</b> |
| Noninterest-bearing deposits                      | 26,753           |               |            | 25,811        |               |            |
| Other liabilities                                 | 1,645            |               |            | 1,704         |               |            |
| <b>Total liabilities</b>                          | <b>84,962</b>    |               |            | <b>83,433</b> |               |            |
| Shareholders' equity                              | 12,636           |               |            | 12,459        |               |            |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 97,598</b> |               |            | <b>95,892</b> |               |            |
| Net interest spread                               |                  |               | 2.97       |               |               | 2.97       |
| Contribution of interest-free funds               |                  |               | .20        |               |               | .20        |
| Net interest income/margin on earning assets      |                  | \$ 689,148    | 3.17%      |               | 665,426       | 3.17%      |

\* Includes nonaccrual loans.

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

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

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

**Item 4. Controls and Procedures.**

(a) Evaluation of disclosure controls and procedures. Based upon their evaluation of the effectiveness of M&T's disclosure controls and procedures (as defined in Exchange Act rules 13a-15(e) and 15d-15(e)), Robert G. Wilmers, Chairman of the Board and Chief Executive Officer, and René F. Jones, Executive Vice President and Chief Financial Officer, concluded that M&T's disclosure controls and procedures were effective as of March 31, 2016.

(b) Changes in internal control over financial reporting. M&T regularly assesses the adequacy of its internal control over financial reporting and enhances its controls in response to internal control assessments and internal and external audit and regulatory recommendations. No changes in internal control over financial reporting have been identified in connection with the evaluation of disclosure controls and procedures during the quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, M&T's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

M&T and its subsidiaries are subject in the normal course of business to various pending and threatened legal proceedings 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

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May 2011. M&T strongly believes that this unprecedented action is unjustified and Wilmington Trust Corporation will vigorously defend itself.

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.*

*Other Matters*

The Company is the subject of an investigation by government agencies relating to the origination of Federal Housing Administration (FHA) insured residential home loans and residential home loans sold to Freddie Mac and Fannie Mae. A number of other U.S. financial institutions have announced similar investigations. Regarding FHA loans, the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General and the DOJ (collectively, the Government) are investigating whether the Company complied with underwriting guidelines concerning certain loans where HUD paid FHA insurance claims. The Company is fully cooperating with the investigation. The Government has advised the Company that based upon its review of a sample of loans for which an FHA insurance claim was paid by HUD, some of the loans do not meet underwriting guidelines. The Company, based on its own review of the sample, does not agree with the sampling methodology and loan analysis employed by the Government. Regarding loans originated by the Company and sold to Freddie Mac and Fannie Mae, the investigation concerns whether the mortgages sold to Freddie Mac and Fannie Mae comply with applicable underwriting guidelines. The Company is also cooperating with that portion of the investigation. The investigation could lead to claims by the Government under the False Claims Act and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, which allow treble and other special damages substantially in excess of actual losses. Remedies in these proceedings or settlements may include restitution, fines, penalties, or alterations in the Company's business practices. The Company and the Government continue settlement discussions regarding the investigation and although progress has been made, the parties have not yet reached a definitive agreement. Based upon the current status of these negotiations, management expects that this potential settlement should not have a material impact on the Company's consolidated financial condition or results of operations in future periods.

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

Item 1A. Risk Factors.

There have been no material changes in risk factors relating to M&T to those disclosed in response to Item 1A. to Part I of Form 10-K for the year ended December 31, 2015.

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

(a) (b) Not applicable.

(c)

## Issuer Purchases of Equity Securities

| Period                         | (a) Total<br>Number<br>of Shares<br>(or Units)<br>Purchased (1) | (b) Average<br>Price Paid<br>per Share<br>(or Unit) | (c) Total<br>Number<br>of<br>Shares<br>(or Units)<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | (d) Maximum<br>Number (or<br>Approximate<br>Dollar Value)<br>of Shares<br>(or Units)<br>that may yet<br>be Purchased<br>Under the<br>Plans or<br>Programs (2) |
|--------------------------------|---|---|---|---|
| January 1 - January 31, 2016   | 1,186,638   | \$ 106.38   | 948,545   | \$ 100,000,000  |
| February 1 - February 29, 2016 | 583   | 105.73  |   | 100,000,000   |
| March 1 - March 31, 2016       | 441   | 111.45  |   | 154,000,000   |
| Total                          | 1,187,662   | \$ 106.38   | 948,545   |   |

- (1) *The total number of shares purchased during the periods indicated reflects 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 November 17, 2015, M&T announced a program to purchase up to \$200,000,000 of its common stock through June 30, 2016. On March 31, 2016, M&T's Board of Directors authorized the repurchase of up to \$54,000,000 of additional shares through June 30, 2016, as part of the repurchase program currently in effect.*

## Item 3. Defaults Upon Senior Securities.

(Not applicable.)

## Item 4. Mine Safety Disclosures.

(None.)

Item 5. Other Information.  
(None.)

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Item 6. Exhibits.

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

Exhibit

No.

|         |   |
|---------|---|
| 10.1    | M&T Bank Corporation Supplemental Pension Plan, as amended. Filed herewith.   |
| 10.2    | M&T Bank Corporation Supplemental Retirement Savings Plan, as amended. Filed herewith.  |
| 31.1    | Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.                             |
| 31.2    | Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.                             |
| 32.1    | Certification of Chief Executive Officer under 18 U.S.C. §1350 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith. |
| 32.2    | Certification of Chief Financial Officer under 18 U.S.C. §1350 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith. |
| 101.INS | XBRL Instance Document. Filed herewith.   |
| 101.SCH | XBRL Taxonomy Extension Schema. Filed herewith.   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase. Filed herewith.   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase. Filed herewith.   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase. Filed herewith.  |
| 101.DEF | XBRL Taxonomy Definition Linkbase. Filed herewith.  |

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SIGNATURES

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

M&T BANK CORPORATION

Date: April 29, 2016

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

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