

M&T BANK CORP  
Form 10-Q  
May 02, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2019

or

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

Commission File Number 1-9861

M&T BANK CORPORATION

(Exact name of registrant as specified in its charter)

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

One M & T Plaza

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

Registrant's telephone number, including area code:

(716) 635-4000

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

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| Title of Each Class  | Trading Symbols | Name of Each Exchange on Which Registered |
|--|-----------------|---|
| Common Stock, \$.50 par value  | MTB             | New York Stock Exchange                   |
| 6.375% Cumulative Perpetual Preferred Stock,<br>Series A, \$1,000 liquidation preference per share | MTBPr           | New York Stock Exchange                   |
| 6.375% Cumulative Perpetual Preferred Stock,<br>Series C, \$1,000 liquidation preference per share | MTBPrC          | New York Stock Exchange                   |

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

|                          |                         |                          |                           |
|--------------------------|-------------------------|--------------------------|---------------------------|
| <input type="checkbox"/> | Large accelerated filer | <input type="checkbox"/> | Accelerated filer         |
| <input type="checkbox"/> | Non-accelerated filer   | <input type="checkbox"/> | Smaller reporting company |
| <input type="checkbox"/> | Emerging growth company |                          |                           |

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

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

Number of shares of the registrant's Common Stock, \$0.50 par value, outstanding as of the close of business on April 26, 2019: 136,622,163 shares.

M&T BANK CORPORATION

FORM 10-Q

For the Quarterly Period Ended March 31, 2019

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET (Unaudited)

| (Dollars in thousands, except per share)   | March 31,<br>2019    | December 31,<br>2018 |
|--|----------------------|----------------------|
| <b>Assets</b>  |                      |                      |
| Cash and due from banks  | \$1,267,260          | \$1,605,439          |
| Interest-bearing deposits at banks   | 7,602,897            | 8,105,197            |
| Trading account  | 276,322              | 185,584              |
| Investment securities (includes pledged securities that can be sold or repledged of<br>\$471,572 at March 31, 2019; \$487,365 at December 31, 2018)<br>Available for sale (cost: \$8,398,686 at March 31, 2019;<br>\$8,869,423 at December 31, 2018) | 8,325,584            | 8,682,509            |
| Held to maturity (fair value: \$3,699,596 at March 31, 2019;<br>\$3,255,483 at December 31, 2018)  | 3,714,699            | 3,316,640            |
| Equity and other securities (cost: \$468,232 at March 31, 2019;<br>\$677,187 at December 31, 2018)   | 496,557              | 693,664              |
| <b>Total investment securities</b>   | <b>12,536,840</b>    | <b>12,692,813</b>    |
| Loans and leases   | 88,897,260           | 88,733,492           |
| Unearned discount  | (257,377 )           | (267,015 )           |
| Loans and leases, net of unearned discount   | 88,639,883           | 88,466,477           |
| Allowance for credit losses  | (1,019,337 )         | (1,019,444 )         |
| Loans and leases, net  | 87,620,546           | 87,447,033           |
| Premises and equipment   | 1,044,761            | 647,408              |
| Goodwill   | 4,593,112            | 4,593,112            |
| Core deposit and other intangible assets   | 43,947               | 47,067               |
| Accrued interest and other assets  | 5,039,520            | 4,773,750            |
| <b>Total assets</b>  | <b>\$120,025,205</b> | <b>\$120,097,403</b> |
| <b>Liabilities</b>   |                      |                      |
| Noninterest-bearing deposits   | \$29,966,753         | \$32,256,668         |
| Savings and interest-checking deposits   | 52,932,297           | 50,963,744           |
| Time deposits  | 6,501,509            | 6,124,254            |
| Deposits at Cayman Islands office  | 1,069,191            | 811,906              |
| <b>Total deposits</b>  | <b>90,469,750</b>    | <b>90,156,572</b>    |
| Short-term borrowings  | 3,602,566            | 4,398,378            |
| Accrued interest and other liabilities   | 1,889,336            | 1,637,348            |
| Long-term borrowings   | 8,476,024            | 8,444,914            |
| <b>Total liabilities</b>   | <b>104,437,676</b>   | <b>104,637,212</b>   |
| Shareholders' equity   |                      |                      |
| Preferred stock, \$1.00 par, 1,000,000 shares authorized;  | 1,231,500            | 1,231,500            |

|  |                |                |
|--|----------------|----------------|
| Issued and outstanding: Liquidation preference of \$1,000 per share: 731,500 shares at March 31, 2019 and December 31, 2018; |                |                |
| Liquidation preference of \$10,000 per share: 50,000 shares at March 31, 2019 and December 31, 2018                          |                |                |
| Common stock, \$.50 par, 250,000,000 shares authorized, 159,741,898 shares issued at March 31, 2019;                         |                |                |
| 159,765,044 shares issued at December 31, 2018   | 79,871         | 79,883         |
| Common stock issuable, 21,324 shares at March 31, 2019;  |                |                |
| 24,563 shares at December 31, 2018   | 1,514          | 1,726          |
| Additional paid-in capital   | 6,568,480      | 6,579,342      |
| Retained earnings  | 11,842,371     | 11,516,672     |
| Accumulated other comprehensive income (loss), net   | (288,009 )     | (420,081 )     |
| Treasury stock — common, at cost — 23,126,505 shares at March 31, 2019;  |                |                |
| 21,255,275 shares at December 31, 2018   | (3,848,198 )   | (3,528,851 )   |
| Total shareholders' equity   | 15,587,529     | 15,460,191     |
| Total liabilities and shareholders' equity   | \$ 120,025,205 | \$ 120,097,403 |

See accompanying notes to financial statements.

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF INCOME (Unaudited)

| (In thousands, except per share)                         | Three Months Ended |           |
|--|--------------------|-----------|
|  | March 31           |           |
|  | 2019               | 2018      |
| Interest income  |                    |           |
| Loans and leases, including fees                         | \$1,117,913        | \$979,969 |
| Investment securities                                    |                    |           |
| Fully taxable  | 80,411             | 82,852    |
| Exempt from federal taxes                                | 95                 | 248       |
| Deposits at banks  | 27,407             | 18,677    |
| Other  | 483                | 404       |
| Total interest income                                    | 1,226,309          | 1,082,150 |
| Interest expense   |                    |           |
| Savings and interest-checking deposits                   | 76,138             | 40,527    |
| Time deposits  | 21,081             | 10,936    |
| Deposits at Cayman Islands office                        | 4,738              | 381       |
| Short-term borrowings                                    | 6,713              | 883       |
| Long-term borrowings                                     | 67,579             | 53,906    |
| Total interest expense                                   | 176,249            | 106,633   |
| Net interest income                                      | 1,050,060          | 975,517   |
| Provision for credit losses                              | 22,000             | 43,000    |
| Net interest income after provision for credit losses    | 1,028,060          | 932,517   |
| Other income   |                    |           |
| Mortgage banking revenues                                | 95,311             | 87,306    |
| Service charges on deposit accounts                      | 103,112            | 105,115   |
| Trust income   | 132,786            | 131,375   |
| Brokerage services income                                | 12,476             | 13,392    |
| Trading account and foreign exchange gains               | 10,802             | 4,637     |
| Gain (loss) on bank investment securities                | 11,841             | (9,431)   |
| Other revenues from operations                           | 134,437            | 126,302   |
| Total other income                                       | 500,765            | 458,696   |
| Other expense  |                    |           |
| Salaries and employee benefits                           | 499,200            | 463,428   |
| Equipment and net occupancy                              | 79,347             | 74,797    |
| Outside data processing and software                     | 52,417             | 48,429    |
| FDIC assessments   | 9,426              | 20,280    |
| Advertising and marketing                                | 20,275             | 16,248    |
| Printing, postage and supplies                           | 9,855              | 9,319     |
| Amortization of core deposit and other intangible assets | 5,020              | 6,632     |
| Other costs of operations                                | 218,808            | 294,211   |
| Total other expense                                      | 894,348            | 933,344   |
| Income before taxes                                      | 634,477            | 457,869   |
| Income taxes   | 151,735            | 105,259   |
| Net income   | \$482,742          | \$352,610 |
| Net income available to common shareholders              |                    |           |
| Basic  | \$462,086          | \$332,748 |

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|                                   |         |         |
|-----------------------------------|---------|---------|
| Diluted                           | 462,086 | 332,749 |
| Net income per common share       |         |         |
| Basic                             | \$3.35  | \$2.24  |
| Diluted                           | 3.35    | 2.23    |
| Average common shares outstanding |         |         |
| Basic                             | 137,889 | 148,688 |
| Diluted                           | 137,920 | 148,905 |

See accompanying notes to financial statements.

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## M&amp;T BANK CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

| (In thousands)   | Three Months Ended<br>March 31 |           |
|--|--------------------------------|-----------|
|  | 2019                           | 2018      |
| Net income   | \$482,742                      | 352,610   |
| Other comprehensive income (loss), net of tax and<br>reclassification adjustments: |                                |           |
| Net unrealized gains (losses) on investment securities                             | 84,591                         | (100,684) |
| Cash flow hedges adjustments   | 44,921                         | (10,442 ) |
| Foreign currency translation adjustment  | 275                            | 1,290     |
| Defined benefit plans liability adjustments  | 2,285                          | 7,260     |
| Total other comprehensive income (loss)  | 132,072                        | (102,576) |
| Total comprehensive income   | \$614,814                      | 250,034   |

See accompanying notes to financial statements.

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

| (In thousands)   | Three Months Ended |             |
|--|--------------------|-------------|
|  | March 31           | 2018        |
| Cash flows from operating activities   |                    |             |
| Net income   | \$482,742          | \$352,610   |
| Adjustments to reconcile net income to net cash provided by operating activities |                    |             |
| Provision for credit losses  | 22,000             | 43,000      |
| Depreciation and amortization of premises and equipment                          | 50,982             | 27,281      |
| Amortization of capitalized servicing rights                                     | 16,170             | 11,656      |
| Amortization of core deposit and other intangible assets                         | 5,020              | 6,632       |
| Provision for deferred income taxes  | 13,441             | (124,772 )  |
| Asset write-downs  | 1,919              | 3,192       |
| Net gain on sales of assets  | (5,171 )           | (4,547 )    |
| Net change in accrued interest receivable, payable                               | (35,071 )          | (14,803 )   |
| Net change in other accrued income and expense                                   | (171,304 )         | 165,114     |
| Net change in loans originated for sale  | 202,670            | (72,403 )   |
| Net change in trading account assets and liabilities                             | (170,092 )         | 91,219      |
| Net cash provided by operating activities  | 413,306            | 484,179     |
| Cash flows from investing activities   |                    |             |
| Proceeds from sales of investment securities                                     |                    |             |
| Available for sale   | —                  | 100         |
| Equity and other securities  | 312,743            | 254,860     |
| Proceeds from maturities of investment securities                                |                    |             |
| Available for sale   | 371,714            | 349,294     |
| Held to maturity   | 99,960             | 123,923     |
| Purchases of investment securities   |                    |             |
| Available for sale   | (1,595 )           | (100 )      |
| Held to maturity   | (495,277 )         | —           |
| Equity and other securities  | (103,795 )         | (288,259 )  |
| Net (increase) decrease in loans and leases                                      | (412,670 )         | 303,886     |
| Net (increase) decrease in interest-bearing deposits at banks                    | 502,300            | (1,056,531) |
| Capital expenditures, net  | (30,710 )          | (9,544 )    |
| Net decrease in loan servicing advances  | 22,891             | 115,163     |
| Other, net   | 5,700              | (41,322 )   |
| Net cash provided (used) by investing activities                                 | 271,261            | (248,530 )  |
| Cash flows from financing activities   |                    |             |
| Net increase (decrease) in deposits  | 313,849            | (1,484,629) |
| Net increase (decrease) in short-term borrowings                                 | (795,812 )         | 1,451,030   |
| Proceeds from long-term borrowings   | —                  | 999,594     |
| Payments on long-term borrowings   | (1,139 )           | (504,192 )  |
| Purchases of treasury stock  | (365,628 )         | (720,966 )  |
| Dividends paid — common  | (139,595 )         | (112,318 )  |
| Dividends paid — preferred   | (17,368 )          | (17,368 )   |
| Other, net   | (17,053 )          | 24,976      |
| Net cash used by financing activities  | (1,022,746)        | (363,873 )  |

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|   |             |             |
|---|-------------|-------------|
| Net decrease in cash, cash equivalents and restricted cash          | (338,179 )  | (128,224 )  |
| Cash, cash equivalents and restricted cash at beginning of period   | 1,605,439   | 1,420,888   |
| Cash, cash equivalents and restricted cash at end of period         | \$1,267,260 | \$1,292,664 |
| Supplemental disclosure of cash flow information                    |             |             |
| Interest received during the period                                 | \$1,194,023 | \$1,077,676 |
| Interest paid during the period                                     | 191,309     | 118,342     |
| Income taxes paid during the period                                 | 149,548     | 37,999      |
| Supplemental schedule of noncash investing and financing activities |             |             |
| Real estate acquired in settlement of loans                         | \$24,840    | \$15,410    |
| Securitization of residential mortgage loans allocated to           |             |             |
| Available-for-sale investment securities                            | \$5,379     | \$5,128     |
| Capitalized servicing rights  | 83          | 64          |
| Adoption of lease accounting standard                               |             |             |
| Right-of-use assets   | \$393,877   | \$—         |
| Other liabilities   | 398,810     | —           |
| Additions to right-of-use assets under operating leases             | 20,410      | —           |

See accompanying notes to financial statements.

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

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

|   | Preferred   | Common | Common Stock | Additional Paid-in | Retained   | Accumulated Other Comprehensive Income | Treasury    | Total        |
|---|-------------|--------|--------------|--------------------|------------|--|-------------|--------------|
| Dollars in thousands, except per share  | Stock       | Stock  | Issuable     | Capital            | Earnings   | (Loss), Net                            | Stock       |              |
| 2018  |             |        |              |                    |            |  |             |              |
| Balance —   |             |        |              |                    |            |  |             |              |
| January 1, 2018   | \$1,231,500 | 79,909 | 1,847        | 6,590,855          | 10,164,804 | (363,814 )                             | (1,454,282) | \$16,250,819 |
| Cumulative effect of change in  |             |        |              |                    |            |  |             |              |
| accounting principle — equity   |             |        |              |                    |            |  |             |              |
| securities  | —           | —      | —            | —                  | 16,853     | (16,853 )                              | —           | —            |
| Total comprehensive income  | —           | —      | —            | —                  | 352,610    | (102,576 )                             | —           | 250,034      |
| Preferred stock cash dividends (a)  | —           | —      | —            | —                  | (18,130 )  | —                                      | —           | (18,130 )    |
| Exercise of 36,974 Series A stock warrants into 22,553 shares of common stock | —           | —      | —            | (3,455 )           | —          | —                                      | 3,455       | —            |
| Purchases of treasury stock   | —           | —      | —            | —                  | —          | —                                      | (720,966 )  | (720,966 )   |
| Stock-based compensation plans:   |             |        |              |                    |            |  |             |              |
| Compensation expense, net   | —           | (25 )  | —            | (15,362 )          | —          | —                                      | 21,220      | 5,833        |
| Exercises of stock options, net   | —           | —      | —            | (1,945 )           | —          | —                                      | 44,045      | 42,100       |
|   | —           | —      | —            | 2,358              | —          | —                                      | 8,766       | 11,124       |

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|                                    |             |        |        |           |            |            |             |              |  |
|------------------------------------|-------------|--------|--------|-----------|------------|------------|-------------|--------------|--|
| Stock purchase plan                |             |        |        |           |            |            |             |              |  |
| Directors' stock plan              | —           | —      | —      | 74        | —          | —          | 515         | 589          |  |
| Deferred compensation plans, net,  |             |        |        |           |            |            |             |              |  |
| including dividend equivalents     | —           | —      | (172 ) | (244 )    | (18 )      | —          | 386         | (48 )        |  |
| Common stock cash dividends —      |             |        |        |           |            |            |             |              |  |
| \$.75 per share                    | —           | —      | —      | —         | (111,661 ) | —          | —           | (111,661 )   |  |
| Balance —                          |             |        |        |           |            |            |             |              |  |
| March 31, 2018                     | \$1,231,500 | 79,884 | 1,675  | 6,572,281 | 10,404,458 | (483,243 ) | (2,096,861) | \$15,709,694 |  |
| 2019                               |             |        |        |           |            |            |             |              |  |
| Balance —                          |             |        |        |           |            |            |             |              |  |
| January 1, 2019                    | \$1,231,500 | 79,883 | 1,726  | 6,579,342 | 11,516,672 | (420,081 ) | (3,528,851) | \$15,460,191 |  |
| Total comprehensive income         | —           | —      | —      | —         | 482,742    | 132,072    | —           | 614,814      |  |
| Preferred stock cash dividends (a) | —           | —      | —      | —         | (18,130 )  | —          | —           | (18,130 )    |  |
| Purchases of treasury stock        | —           | —      | —      | —         | —          | —          | (365,628 )  | (365,628 )   |  |
| Stock-based compensation plans:    |             |        |        |           |            |            |             |              |  |
| Compensation expense, net          | —           | (12 )  | —      | (7,606 )  | —          | —          | 25,738      | 18,120       |  |
| Exercises of stock options, net    | —           | —      | —      | (2,818 )  | —          | —          | 7,545       | 4,727        |  |
| Stock purchase plan                | —           | —      | —      | (67 )     | —          | —          | 11,899      | 11,832       |  |
| Directors' stock plan              | —           | —      | —      | (84 )     | —          | —          | 613         | 529          |  |
| Deferred compensation plans, net,  |             |        |        |           |            |            |             |              |  |
| including dividend equivalents     | —           | —      | (212 ) | (316 )    | (22 )      | —          | 486         | (64 )        |  |
| Performance share unit dividends   | —           | —      | —      | 29        | (29 )      | —          | —           | —            |  |
|                                    | —           | —      | —      | —         | (138,862 ) | —          | —           | (138,862 )   |  |

Common stock  
cash dividends —

\$1.00 per  
share

Balance —

|                |             |        |       |           |            |            |             |              |
|----------------|-------------|--------|-------|-----------|------------|------------|-------------|--------------|
| March 31, 2019 | \$1,231,500 | 79,871 | 1,514 | 6,568,480 | 11,842,371 | (288,009 ) | (3,848,198) | \$15,587,529 |
|----------------|-------------|--------|-------|-----------|------------|------------|-------------|--------------|

(a) For each of the three-month periods ended March 31, 2019 and 2018, dividends per preferred share were: Preferred Series A- \$15.9375; Preferred Series C - \$15.9375; Preferred Series E - \$16.125; and Preferred Series F - \$128.125.

See accompanying notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

## 1. Significant accounting policies

The consolidated interim 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, 2018 (“2018 Annual Report”), except that effective January 1, 2019 the Company adopted accounting guidance that is discussed in notes 3, 4 and 16 herein. The financial statements contain all adjustments which are, in the opinion of management, necessary for a fair statement of the Company’s financial position, results of operations and cash flows for the interim periods presented.

## 2. Investment securities

On January 1, 2018, the Company adopted amended guidance requiring equity investments with readily determinable fair values to be measured at fair value with changes in fair value recognized in the consolidated statement of income. This amended guidance excludes equity method investments, investments in consolidated subsidiaries, exchange membership ownership interests, and Federal Home Loan Bank of New York and Federal Reserve Bank of New York capital stock. Upon adoption the Company reclassified \$17 million, after-tax effect, from accumulated other comprehensive income to retained earnings, representing the difference between fair value and the cost basis of equity investments with readily determinable fair values at January 1, 2018.

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

|  | Amortized<br>Cost<br>(In thousands) | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
|--|-------------------------------------|------------------------------|-------------------------------|-------------------------|
| <b>March 31, 2019</b>                            |                                     |                              |                               |                         |
| Investment securities available for sale:        |                                     |                              |                               |                         |
| U.S. Treasury and federal agencies               | \$1,144,288                         | \$ 4                         | \$ 4,864                      | \$1,139,428             |
| Obligations of states and political subdivisions | 1,181                               | 4                            | 4                             | 1,181                   |
| Mortgage-backed securities:                      |                                     |                              |                               |                         |
| Government issued or guaranteed                  | 7,115,459                           | 29,959                       | 91,511                        | 7,053,907               |
| Privately issued                                 | 16                                  | —                            | —                             | 16                      |
| Other debt securities                            | 137,742                             | 1,249                        | 7,939                         | 131,052                 |
|  | 8,398,686                           | 31,216                       | 104,318                       | 8,325,584               |
| Investment securities held to maturity:          |                                     |                              |                               |                         |
| U.S. Treasury and federal agencies               | 944,230                             | 735                          | 15                            | 944,950                 |
| Obligations of states and political subdivisions | 6,810                               | 27                           | —                             | 6,837                   |
| Mortgage-backed securities:                      |                                     |                              |                               |                         |
| Government issued or guaranteed                  | 2,652,219                           | 11,876                       | 19,472                        | 2,644,623               |
| Privately issued                                 | 107,858                             | 12,806                       | 21,060                        | 99,604                  |

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|   |              |           |            |              |
|---|--------------|-----------|------------|--------------|
| Other debt securities                     | 3,582        | —         | —          | 3,582        |
|   | 3,714,699    | 25,444    | 40,547     | 3,699,596    |
| Total debt securities                     | \$12,113,385 | \$ 56,660 | \$ 144,865 | \$12,025,180 |
| Equity and other securities:              |              |           |            |              |
| Readily marketable equity — at fair value | \$48,261     | \$ 28,913 | \$ 588     | \$76,586     |
| Other — at cost                           | 419,971      | —         | —          | 419,971      |
| Total equity and other securities         | \$468,232    | \$ 28,913 | \$ 588     | \$496,557    |

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 2. Investment securities, continued

|  | Amortized<br>Cost<br>(In thousands) | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
|--|-------------------------------------|------------------------------|-------------------------------|-------------------------|
| <b>December 31, 2018</b>                         |                                     |                              |                               |                         |
| Investment securities available for sale:        |                                     |                              |                               |                         |
| U.S. Treasury and federal agencies               | \$1,346,782                         | \$ —                         | \$ 9,851                      | \$1,336,931             |
| Obligations of states and political subdivisions | 1,660                               | 4                            | 5                             | 1,659                   |
| Mortgage-backed securities:                      |                                     |                              |                               |                         |
| Government issued or guaranteed                  | 7,383,340                           | 15,754                       | 182,103                       | 7,216,991               |
| Privately issued                                 | 24                                  | —                            | 2                             | 22                      |
| Other debt securities                            | 137,617                             | 770                          | 11,481                        | 126,906                 |
|  | 8,869,423                           | 16,528                       | 203,442                       | 8,682,509               |
| Investment securities held to maturity:          |                                     |                              |                               |                         |
| U.S. Treasury and federal agencies               | 446,542                             | —                            | 239                           | 446,303                 |
| Obligations of states and political subdivisions | 7,494                               | 22                           | 12                            | 7,504                   |
| Mortgage-backed securities:                      |                                     |                              |                               |                         |
| Government issued or guaranteed                  | 2,745,776                           | 4,165                        | 55,111                        | 2,694,830               |
| Privately issued                                 | 113,160                             | 12,345                       | 22,327                        | 103,178                 |
| Other debt securities                            | 3,668                               | —                            | —                             | 3,668                   |
|  | 3,316,640                           | 16,532                       | 77,689                        | 3,255,483               |
| Total debt securities                            | \$12,186,063                        | \$ 33,060                    | \$ 281,131                    | \$11,937,992            |
| Equity and other securities:                     |                                     |                              |                               |                         |
| Readily marketable equity — at fair value        | \$77,440                            | \$ 17,295                    | \$ 818                        | \$93,917                |
| Other — at cost                                  | 599,747                             | —                            | —                             | 599,747                 |
| Total equity and other securities                | \$677,187                           | \$ 17,295                    | \$ 818                        | \$693,664               |

There were no significant gross realized gains or losses from sales of investment securities for the quarters ended March 31, 2019 and 2018. Net unrealized gains recorded as gain (loss) on bank investment securities in the consolidated statement of income during the three months ended March 31, 2019 were \$12 million, compared with losses of \$9 million during the three months ended March 31, 2018.

At March 31, 2019, the amortized cost and estimated fair value of debt securities by contractual maturity were as follows:

|  | Amortized<br>Cost<br>(In thousands) | Estimated<br>Fair Value |
|--|-------------------------------------|-------------------------|
| <b>Debt securities available for sale:</b> |                                     |                         |

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|   |             |           |
|---|-------------|-----------|
| Due in one year or less                       | \$1,141,640 | 1,136,864 |
| Due after one year through five years         | 9,470       | 9,355     |
| Due after five years through ten years        | 102,101     | 99,642    |
| Due after ten years                           | 30,000      | 25,800    |
|   | 1,283,211   | 1,271,661 |
| Mortgage-backed securities available for sale | 7,115,475   | 7,053,923 |
|   | \$8,398,686 | 8,325,584 |
| Debt securities held to maturity:             |             |           |
| Due in one year or less                       | \$947,176   | 947,905   |
| Due after one year through five years         | 3,864       | 3,882     |
| Due after ten years                           | 3,582       | 3,582     |
|   | 954,622     | 955,369   |
| Mortgage-backed securities held to maturity   | 2,760,077   | 2,744,227 |
|   | \$3,714,699 | 3,699,596 |

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 2. Investment securities, continued

A summary of investment securities that as of March 31, 2019 and December 31, 2018 had been in a continuous unrealized loss position for less than twelve months and those that had been in a continuous unrealized loss position for twelve months or longer follows:

|  | Less Than 12 Months |               | 12 Months or More |                   |
|--|---------------------|---------------|-------------------|-------------------|
|  | Fair                | Unrealized    | Fair              | Unrealized        |
|  | Value               | Losses        | Value             | Losses            |
|  | (In thousands)      |               |                   |                   |
| <b>March 31, 2019</b>                            |                     |               |                   |                   |
| Investment securities available for sale:        |                     |               |                   |                   |
| U.S. Treasury and federal agencies               | \$274               | (1 )          | 1,137,550         | (4,863 )          |
| Obligations of states and political subdivisions | —                   | —             | 507               | (4 )              |
| Mortgage-backed securities:                      |                     |               |                   |                   |
| Government issued or guaranteed                  | 18,447              | (111 )        | 5,076,762         | (91,400 )         |
| Other debt securities                            | 36,500              | (294 )        | 67,662            | (7,645 )          |
|  | 55,221              | (406 )        | 6,282,481         | (103,912 )        |
| Investment securities held to maturity:          |                     |               |                   |                   |
| U.S. Treasury and federal agencies               | 249,082             | (15 )         | —                 | —                 |
| Mortgage-backed securities:                      |                     |               |                   |                   |
| Government issued or guaranteed                  | —                   | —             | 1,620,580         | (19,472 )         |
| Privately issued                                 | —                   | —             | 51,091            | (21,060 )         |
|  | 249,082             | (15 )         | 1,671,671         | (40,532 )         |
| <b>Total</b>                                     | <b>\$304,303</b>    | <b>(421 )</b> | <b>7,954,152</b>  | <b>(144,444 )</b> |
| <b>December 31, 2018</b>                         |                     |               |                   |                   |
| Investment securities available for sale:        |                     |               |                   |                   |
| U.S. Treasury and federal agencies               | \$273               | (2 )          | 1,335,559         | (9,849 )          |
| Obligations of states and political subdivisions | 629                 | (5 )          | —                 | —                 |
| Mortgage-backed securities:                      |                     |               |                   |                   |
| Government issued or guaranteed                  | 405,558             | (2,892 )      | 5,646,773         | (179,211 )        |
| Privately issued                                 | 22                  | (2 )          | —                 | —                 |
| Other debt securities                            | 53,478              | (2,187 )      | 66,014            | (9,294 )          |
|  | 459,960             | (5,088 )      | 7,048,346         | (198,354 )        |
| Investment securities held to maturity:          |                     |               |                   |                   |
| U.S. Treasury and federal agencies               | 446,303             | (239 )        | —                 | —                 |
| Obligations of states and political subdivisions | —                   | —             | 3,126             | (12 )             |
| Mortgage-backed securities:                      |                     |               |                   |                   |
| Government issued or guaranteed                  | 179,354             | (989 )        | 2,082,723         | (54,122 )         |
| Privately issued                                 | —                   | —             | 51,943            | (22,327 )         |
|  | 625,657             | (1,228 )      | 2,137,792         | (76,461 )         |

|       |             |          |           |            |
|-------|-------------|----------|-----------|------------|
| Total | \$1,085,617 | (6,316 ) | 9,186,138 | (274,815 ) |
|-------|-------------|----------|-----------|------------|

The Company owned 1,166 individual debt securities with aggregate gross unrealized losses of \$145 million at March 31, 2019. Based on a review of each of the securities in the investment securities portfolio at March 31, 2019, the Company concluded that it expected to recover the amortized cost basis of its investment. As of March 31, 2019, 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, 2019, the Company has not identified events or changes in circumstances which may have a significant adverse effect on the fair value of the \$420 million of cost method equity securities.

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

A summary of current, past due and nonaccrual loans as of March 31, 2019 and December 31, 2018 follows:

|   |                           |                | 30-89<br>Days  | Due 90<br>Days or<br>More (a) | Accruing<br>Loans<br>Past Due<br>90 days<br>or More (b) | Acquired at<br>Discount<br>Past Due<br>Purchased | Impaired (c) | Nonaccrual | Total               |
|---|---------------------------|----------------|----------------|-------------------------------|---|--|--------------|------------|---------------------|
|   | Current<br>(In thousands) | Past Due       |                |                               |   |  |              |            |                     |
| <b>March 31, 2019</b>                   |                           |                |                |                               |   |  |              |            |                     |
| Commercial, financial,<br>leasing, etc. | \$22,701,500              | 141,555        | 1,047          | 283                           | —   | 245,819  |              |            | \$23,090,204        |
| <b>Real estate:</b>                     |                           |                |                |                               |   |  |              |            |                     |
| Commercial                              | 25,441,419                | 159,209        | 7,394          | 158                           | 10,305  | 207,709  |              |            | 25,826,194          |
| Residential builder and<br>developer    | 1,738,846                 | 2,190          | —              | —                             | 549   | 4,392  |              |            | 1,745,977           |
| Other commercial<br>construction        | 7,036,036                 | 31,152         | 31,032         | —                             | 640   | 19,899   |              |            | 7,118,759           |
| Residential                             | 13,337,558                | 406,106        | 199,940        | 6,425                         | 187,631   | 210,266  |              |            | 14,347,926          |
| Residential — limited<br>documentation  | 2,186,132                 | 71,354         | —              | —                             | 79,658  | 84,863   |              |            | 2,422,007           |
| <b>Consumer:</b>                        |                           |                |                |                               |   |  |              |            |                     |
| Home equity lines and<br>loans          | 4,634,634                 | 31,145         | —              | 4,871                         | —   | 69,245   |              |            | 4,739,895           |
| Recreational finance                    | 4,295,732                 | 22,549         | —              | 235                           | —   | 10,972   |              |            | 4,329,488           |
| Automobile                              | 3,619,015                 | 62,846         | —              | —                             | —   | 21,209   |              |            | 3,703,070           |
| Other                                   | 1,257,839                 | 14,420         | 4,844          | 32,023                        | —   | 7,237  |              |            | 1,316,363           |
| <b>Total</b>                            | <b>\$86,248,711</b>       | <b>942,526</b> | <b>244,257</b> | <b>43,995</b>                 | <b>278,783</b>  | <b>881,611</b>                                   |              |            | <b>\$88,639,883</b> |
| <b>December 31, 2018</b>                |                           |                |                |                               |   |  |              |            |                     |
| Commercial, financial,<br>leasing, etc. | \$22,701,020              | 39,798         | 2,567          | 168                           | —   | 234,423  |              |            | \$22,977,976        |
| <b>Real estate:</b>                     |                           |                |                |                               |   |  |              |            |                     |
| Commercial                              | 25,250,983                | 134,474        | 11,457         | 10                            | 9,769   | 203,672  |              |            | 25,610,365          |

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|                                     |              |         |         |        |         |         |              |
|-------------------------------------|--------------|---------|---------|--------|---------|---------|--------------|
| Residential builder and developer   | 1,665,178    | 20,333  | —       | —      | —       | 4,798   | 1,690,309    |
| Other commercial construction       | 6,982,077    | 43,615  | 14,344  | —      | 641     | 22,205  | 7,062,882    |
| Residential                         | 13,591,790   | 404,808 | 189,682 | 6,650  | 203,044 | 233,352 | 14,629,326   |
| Residential — limited documentation | 2,278,040    | 72,544  | —       | —      | 89,851  | 84,685  | 2,525,120    |
| Consumer:                           |              |         |         |        |         |         |              |
| Home equity lines and loans         | 4,758,513    | 25,416  | —       | 5,033  | —       | 71,292  | 4,860,254    |
| Recreational finance                | 4,085,781    | 29,947  | —       | 235    | —       | 11,199  | 4,127,162    |
| Automobile                          | 3,555,757    | 79,804  | —       | —      | —       | 23,359  | 3,658,920    |
| Other                               | 1,271,811    | 15,598  | 4,477   | 27,654 | —       | 4,623   | 1,324,163    |
| Total                               | \$86,140,950 | 866,337 | 222,527 | 39,750 | 303,305 | 893,608 | \$88,466,477 |

(a) Excludes loans acquired at a discount.

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

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

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

One-to-four family residential mortgage loans held for sale were \$178 million and \$205 million at March 31, 2019 and December 31, 2018, respectively. Commercial real estate loans held for sale were \$166 million at March 31, 2019 and \$347 million at December 31, 2018.

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

|                                      | March 31,<br>2019 | December 31,<br>2018 |
|--------------------------------------|-------------------|----------------------|
|                                      | (In thousands)    |                      |
| Outstanding principal balance        | \$960,990         | \$ 1,016,785         |
| Carrying amount:                     |                   |                      |
| Commercial, financial, leasing, etc. | 25,060            | 27,073               |
| Commercial real estate               | 125,310           | 135,047              |
| Residential real estate              | 442,260           | 473,511              |
| Consumer                             | 93,486            | 91,860               |
|                                      | \$686,116         | \$ 727,491           |

Purchased impaired loans included in the table above totaled \$279 million at March 31, 2019 and \$303 million at December 31, 2018, representing less than 1% of the Company's assets as of each date. A summary of changes in the accretable yield for loans acquired at a discount for the three months ended March 31, 2019 and 2018 follows:

|  | Three Months Ended March 31 |                   |                       |                   |
|--|-----------------------------|-------------------|-----------------------|-------------------|
|  | 2019                        |                   | 2018                  |                   |
|  | Purchased<br>Impaired       | Other<br>Acquired | Purchased<br>Impaired | Other<br>Acquired |
|  | (In thousands)              |                   |                       |                   |
| Balance at beginning of period               | \$ 147,210                  | \$ 96,907         | \$ 157,918            | \$ 133,162        |
| Interest income                              | (18,082 )                   | (9,717 )          | (9,819 )              | (15,112 )         |
| Reclassifications from nonaccretable balance | 11,189                      | 4,865             | 908                   | 207               |
| Other (a)                                    | —                           | 1,632             | —                     | (73 )             |
| Balance at end of period                     | \$ 140,317                  | \$ 93,687         | \$ 149,007            | \$ 118,184        |

(a) Other changes in expected cash flows including changes in interest rates and prepayment assumptions. Changes in the allowance for credit losses for the three months ended March 31, 2019 were as follows:

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Commercial,

Financial, Real Estate

Leasing,

etc. Commercial Residential Consumer Unallocated Total

(In thousands)

|                              |           |          |          |           |        |             |
|------------------------------|-----------|----------|----------|-----------|--------|-------------|
| Beginning balance            | \$330,055 | 341,655  | 69,125   | 200,564   | 78,045 | \$1,019,444 |
| Provision for credit losses  | 6,271     | (4,203 ) | (2,447 ) | 22,883    | (504 ) | 22,000      |
| Net charge-offs              |           |          |          |           |        |             |
| Charge-offs                  | (8,500 )  | (283 )   | (3,372 ) | (32,945 ) | —      | (45,100 )   |
| Recoveries                   | 7,794     | 826      | 1,830    | 12,543    | —      | 22,993      |
| Net (charge-offs) recoveries | (706 )    | 543      | (1,542 ) | (20,402 ) | —      | (22,107 )   |
| Ending balance               | \$335,620 | 337,995  | 65,136   | 203,045   | 77,541 | \$1,019,337 |

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Changes in the allowance for credit losses for the three months ended March 31, 2018 were as follows:

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

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

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

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Information with respect to loans and leases that were considered impaired as of March 31, 2019 and December 31, 2018 and for the three-month periods ended March 31, 2019 and 2018 follows.

|                                      | March 31, 2019     |           |           | December 31, 2018  |           |           |
|--------------------------------------|--------------------|-----------|-----------|--------------------|-----------|-----------|
|                                      | Unpaid             |           |           | Unpaid             |           |           |
|                                      | Recorded           | Principal | Related   | Recorded           | Principal | Related   |
|                                      | Investment Balance |           | Allowance | Investment Balance |           | Allowance |
|                                      | (In thousands)     |           |           |                    |           |           |
| With an allowance recorded:          |                    |           |           |                    |           |           |
| Commercial, financial, leasing, etc. | \$201,337          | 220,116   | 50,192    | 153,478            | 175,549   | 46,034    |
| Real estate:                         |                    |           |           |                    |           |           |
| Commercial                           | 102,247            | 119,062   | 10,449    | 110,253            | 125,117   | 11,937    |
| Residential builder and developer    | 6,805              | 7,399     | 327       | 5,981              | 6,557     | 462       |
| Other commercial construction        | 10,696             | 13,624    | 703       | 10,563             | 11,113    | 640       |
| Residential                          | 121,351            | 142,872   | 5,291     | 124,974            | 147,817   | 5,402     |
| Residential — limited documentation  | 71,113             | 86,276    | 3,000     | 74,156             | 90,066    | 3,000     |
| Consumer:                            |                    |           |           |                    |           |           |
| Home equity lines and loans          | 47,363             | 52,583    | 9,025     | 47,982             | 53,248    | 9,135     |
| Recreational finance                 | 5,539              | 5,740     | 1,147     | 6,138              | 9,163     | 1,261     |
| Automobile                           | 3,522              | 3,603     | 729       | 3,527              | 3,599     | 729       |
| Other                                | 5,612              | 11,902    | 1,128     | 5,203              | 8,380     | 1,046     |
|                                      | 575,585            | 663,177   | 81,991    | 542,255            | 630,609   | 79,646    |
| With no related allowance recorded:  |                    |           |           |                    |           |           |
| Commercial, financial, leasing, etc. | 91,355             | 97,342    | —         | 105,507            | 136,128   | —         |
| Real estate:                         |                    |           |           |                    |           |           |
| Commercial                           | 125,289            | 138,095   | —         | 113,376            | 124,657   | —         |
| Residential builder and developer    | 2,756              | 2,781     | —         | 2,593              | 2,602     | —         |
| Other commercial construction        | 9,203              | 9,432     | —         | 11,710             | 11,880    | —         |
| Residential                          | 19,535             | 25,771    | —         | 15,379             | 20,496    | —         |
| Residential — limited documentation  | 6,145              | 10,434    | —         | 5,631              | 9,796     | —         |
|                                      | 254,283            | 283,855   | —         | 254,196            | 305,559   | —         |
| Total:                               |                    |           |           |                    |           |           |
| Commercial, financial, leasing, etc. | 292,692            | 317,458   | 50,192    | 258,985            | 311,677   | 46,034    |
| Real estate:                         |                    |           |           |                    |           |           |
| Commercial                           | 227,536            | 257,157   | 10,449    | 223,629            | 249,774   | 11,937    |
| Residential builder and developer    | 9,561              | 10,180    | 327       | 8,574              | 9,159     | 462       |
| Other commercial construction        | 19,899             | 23,056    | 703       | 22,273             | 22,993    | 640       |
| Residential                          | 140,886            | 168,643   | 5,291     | 140,353            | 168,313   | 5,402     |
| Residential — limited documentation  | 77,258             | 96,710    | 3,000     | 79,787             | 99,862    | 3,000     |
| Consumer:                            |                    |           |           |                    |           |           |
| Home equity lines and loans          | 47,363             | 52,583    | 9,025     | 47,982             | 53,248    | 9,135     |

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|                      |           |         |        |         |         |        |
|----------------------|-----------|---------|--------|---------|---------|--------|
| Recreational finance | 5,539     | 5,740   | 1,147  | 6,138   | 9,163   | 1,261  |
| Automobile           | 3,522     | 3,603   | 729    | 3,527   | 3,599   | 729    |
| Other                | 5,612     | 11,902  | 1,128  | 5,203   | 8,380   | 1,046  |
| Total                | \$829,868 | 947,032 | 81,991 | 796,451 | 936,168 | 79,646 |

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

|                                      | Three Months Ended<br>March 31, 2019 |       |       | Three Months Ended<br>March 31, 2018 |       |       |
|--------------------------------------|--------------------------------------|-------|-------|--------------------------------------|-------|-------|
|                                      | Interest<br>Income                   |       |       | Interest<br>Income                   |       |       |
|                                      | Recognized                           |       |       | Recognized                           |       |       |
|                                      | Average                              |       |       | Average                              |       |       |
|                                      | Recorded                             | Cash  |       | Recorded                             | Cash  |       |
|                                      | Investment                           | Total | Basis | Investment                           | Total | Basis |
|                                      | (In thousands)                       |       |       |                                      |       |       |
| Commercial, financial, leasing, etc. | \$265,248                            | 3,038 | 3,038 | 272,172                              | 783   | 783   |
| Real estate:                         |                                      |       |       |                                      |       |       |
| Commercial                           | 225,374                              | 1,091 | 1,091 | 181,846                              | 3,147 | 3,147 |
| Residential builder and developer    | 8,875                                | 115   | 115   | 9,840                                | 1,682 | 1,682 |
| Other commercial construction        | 20,398                               | 564   | 564   | 10,102                               | 6     | 6     |
| Residential                          | 140,403                              | 2,022 | 666   | 121,209                              | 1,902 | 902   |
| Residential — limited documentation  | 78,238                               | 1,353 | 208   | 85,595                               | 1,728 | 696   |
| Consumer:                            |                                      |       |       |                                      |       |       |
| Home equity lines and loans          | 47,556                               | 416   | 62    | 48,797                               | 414   | 86    |
| Recreational finance                 | 6,023                                | 142   | 4     | 1,458                                | 63    | 2     |
| Automobile                           | 3,530                                | 54    | 19    | 13,125                               | 224   | 15    |
| Other                                | 5,218                                | 122   | 4     | 1,661                                | 22    | 1     |
| Total                                | \$800,863                            | 8,917 | 5,771 | 745,805                              | 9,971 | 7,320 |

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

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

## Real Estate

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|                          | Commercial,<br>Financial,<br>Leasing, etc.<br>(In thousands) | Commercial        | Residential<br>Builder<br>and<br>Developer | Other<br>Commercial<br>Construction |
|--------------------------|--|-------------------|--|-------------------------------------|
| <b>March 31, 2019</b>    |  |                   |  |                                     |
| Pass                     | \$21,734,455   | 24,686,100        | 1,535,068                                  | 6,870,882                           |
| Criticized accrual       | 1,109,930  | 932,385           | 206,517                                    | 227,978                             |
| Criticized nonaccrual    | 245,819  | 207,709           | 4,392                                      | 19,899                              |
| <b>Total</b>             | <b>\$23,090,204</b>  | <b>25,826,194</b> | <b>1,745,977</b>                           | <b>7,118,759</b>                    |
| <b>December 31, 2018</b> |  |                   |  |                                     |
| Pass                     | \$21,693,705   | 24,539,706        | 1,546,002                                  | 6,890,562                           |
| Criticized accrual       | 1,049,848  | 866,987           | 139,509                                    | 150,115                             |
| Criticized nonaccrual    | 234,423  | 203,672           | 4,798                                      | 22,205                              |
| <b>Total</b>             | <b>\$22,977,976</b>  | <b>25,610,365</b> | <b>1,690,309</b>                           | <b>7,062,882</b>                    |

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

In determining the allowance for credit losses, residential real estate loans and consumer loans are generally evaluated collectively after considering such factors as payment performance and recent loss experience and trends, which are mainly driven by current collateral values in the market place as well as the amount of loan defaults. Loss rates on such loans are determined by reference to recent charge-off history and are evaluated (and adjusted if deemed appropriate) through consideration of other factors including near-term forecasted loss estimates developed by the Company's credit department. In arriving at such forecasts, the Company considers the current estimated fair value of its collateral based on geographical adjustments for home price depreciation/appreciation and overall borrower repayment performance. With regard to collateral values, the realizability of such values by the Company contemplates repayment of any first lien position prior to recovering amounts on a second lien position. However, residential real estate loans and outstanding balances of home equity loans and lines of credit that are more than 150 days past due are generally evaluated for collectibility on a loan-by-loan basis giving consideration to estimated collateral values. The carrying value of residential real estate loans and home equity loans and lines of credit for which a partial charge-off has been recognized totaled \$29 million and \$22 million, respectively, at March 31, 2019 and \$29 million and \$23 million, respectively, at December 31, 2018. Residential real estate loans and home equity loans and lines of credit that were more than 150 days past due but did not require a partial charge-off because the net realizable value of the collateral exceeded the outstanding customer balance were \$19 million and \$33 million, respectively, at March 31, 2019 and \$21 million and \$31 million, respectively, at December 31, 2018.

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

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

|                                       | Commercial,    | Financial, Real Estate<br>Leasing,<br>etc. | Commercial | Residential | Consumer | Total       |
|---------------------------------------|----------------|--|------------|-------------|----------|-------------|
|                                       | (In thousands) |  |            |             |          |             |
| March 31, 2019                        |                |  |            |             |          |             |
| Individually evaluated for impairment | \$50,192       | 11,479                                     | 8,291      | 12,029      |          | \$81,991    |
| Collectively evaluated for impairment | 285,428        | 326,516                                    | 47,028     | 191,016     |          | 849,988     |
| Purchased impaired                    | —              | —  | 9,817      | —           |          | 9,817       |
| Allocated                             | \$335,620      | 337,995                                    | 65,136     | 203,045     |          | 941,796     |
| Unallocated                           |                |  |            |             |          | 77,541      |
| Total                                 |                |  |            |             |          | \$1,019,337 |
| December 31, 2018                     |                |  |            |             |          |             |
| Individually evaluated for impairment | \$46,034       | 13,039                                     | 8,402      | 12,171      |          | \$79,646    |
| Collectively evaluated for impairment | 284,021        | 328,616                                    | 48,326     | 188,393     |          | 849,356     |
| Purchased impaired                    | —              | —  | 12,397     | —           |          | 12,397      |
| Allocated                             | \$330,055      | 341,655                                    | 69,125     | 200,564     |          | 941,399     |
| Unallocated                           |                |  |            |             |          | 78,045      |
| Total                                 |                |  |            |             |          | \$1,019,444 |

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

|                                       | Commercial,    | Financial, Real Estate<br>Leasing, etc. | Commercial | Residential | Consumer | Total        |
|---------------------------------------|----------------|---|------------|-------------|----------|--------------|
|                                       | (In thousands) |   |            |             |          |              |
| March 31, 2019                        |                |   |            |             |          |              |
| Individually evaluated for impairment | \$292,692      | 256,996                                 | 218,144    | 62,036      |          | \$829,868    |
| Collectively evaluated for impairment | 22,797,512     | 34,422,440                              | 16,284,500 | 14,026,780  |          | 87,531,232   |
| Purchased impaired                    | —              | 11,494                                  | 267,289    | —           |          | 278,783      |
| Total                                 | \$23,090,204   | 34,690,930                              | 16,769,933 | 14,088,816  |          | \$88,639,883 |
| December 31, 2018                     |                |   |            |             |          |              |
| Individually evaluated for impairment | \$258,985      | 254,476                                 | 220,140    | 62,850      |          | \$796,451    |
| Collectively evaluated for impairment | 22,718,991     | 34,098,670                              | 16,641,411 | 13,907,649  |          | 87,366,721   |

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|                    |              |            |            |            |              |
|--------------------|--------------|------------|------------|------------|--------------|
| Purchased impaired | —            | 10,410     | 292,895    | —          | 303,305      |
| Total              | \$22,977,976 | 34,363,556 | 17,154,446 | 13,970,499 | \$88,466,477 |

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

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The table that follows summarizes the Company's loan modification activities that were considered troubled debt restructurings for the three-month periods ended March 31, 2019 and 2018:

|                                      | Pre-<br>modification<br>Recorded<br>Number of<br>Investment | Post-modification (a)  |                               |        | Combination<br>of<br>Concession<br>Types | Total    |
|--------------------------------------|---|------------------------|-------------------------------|--------|--|----------|
|                                      |   | Principal<br>Deferral  | Interest<br>Rate<br>Reduction |        |  |          |
| Three Months Ended March 31, 2019    |   | (Dollars in thousands) |                               |        |  |          |
| Commercial, financial, leasing, etc. | 65  | \$ 30,615              | \$6,474                       | \$ —   | \$ 24,270                                | \$30,744 |
| Real estate:                         |   |                        |                               |        |  |          |
| Commercial                           | 15  | 9,241                  | 987                           | —      | 7,967                                    | 8,954    |
| Residential builder and developer    | 2   | 1,330                  | 1,068                         | —      | —  | 1,068    |
| Other commercial construction        | 1   | 418                    | —                             | —      | 366                                      | 366      |
| Residential                          | 17  | 3,816                  | 1,751                         | —      | 2,273                                    | 4,024    |
| Residential — limited documentation  | 1   | 236                    | 239                           | —      | —  | 239      |
| Consumer:                            |   |                        |                               |        |  |          |
| Home equity lines and loans          | 7   | 476                    | 37                            | —      | 454                                      | 491      |
| Recreational finance                 | 4   | 88                     | 88                            | —      | —  | 88       |
| Automobile                           | 20  | 317                    | 280                           | —      | 37                                       | 317      |
| Total                                | 132   | \$ 46,537              | \$10,924                      | \$ —   | \$ 35,367                                | \$46,291 |
| Three Months Ended March 31, 2018    |   |                        |                               |        |  |          |
| Commercial, financial, leasing, etc. | 56  | \$ 47,994              | \$35,673                      | \$ 624 | \$ 13,047                                | \$49,344 |
| Real estate:                         |   |                        |                               |        |  |          |
| Commercial                           | 20  | 6,780                  | 5,824                         | —      | 927                                      | 6,751    |
| Other commercial construction        | 1   | 752                    | 746                           | —      | —  | 746      |
| Residential                          | 47  | 12,636                 | 6,945                         | —      | 6,902                                    | 13,847   |
| Residential — limited documentation  | 2   | 295                    | 267                           | —      | 118                                      | 385      |
| Consumer:                            |   |                        |                               |        |  |          |
| Home equity lines and loans          | 14  | 1,348                  | 4                             | —      | 1,348                                    | 1,352    |
| Recreational finance                 | 2   | 49                     | 49                            | —      | —  | 49       |
| Automobile                           | 8   | 148                    | 148                           | —      | —  | 148      |
| Total                                | 150   | \$ 70,002              | \$49,656                      | \$ 624 | \$ 22,342                                | \$72,622 |

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

Troubled debt restructurings are considered to be impaired loans and for purposes of establishing the allowance for credit losses are evaluated for impairment giving consideration to the impact of the modified loan terms on the present value of the loan's expected cash flows. Impairment of troubled debt restructurings that have subsequently defaulted may also be measured based on the loan's observable market price or the fair value of collateral if the loan is

collateral-dependent. Charge-offs may also be recognized on troubled debt restructurings that have subsequently defaulted. Loans that were modified as troubled debt restructurings during the twelve months ended March 31, 2019 and 2018 and for which there was a subsequent payment default during the three-month periods ended March 31, 2019 and 2018, respectively, were not material.

The amount of foreclosed residential real estate property held by the Company was \$81 million and \$77 million at March 31, 2019 and December 31, 2018, respectively. There were \$382 million and \$391 million at March 31, 2019 and December 31, 2018, respectively, in loans secured by residential real estate that were in the process of foreclosure. Of all loans in the process of foreclosure at March 31, 2019, approximately 38% were classified as purchased impaired and 21% were government guaranteed.

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The Company's loan and lease portfolio includes commercial lease financing receivables consisting of direct financing and leveraged leases for machinery and equipment, railroad equipment, commercial trucks and trailers, and aircraft. Certain leases contain payment schedules that are tied to variable interest rate indices. In general, early termination options are provided if the lessee is not in default, returns the leased equipment and pays an early termination fee. Additionally, options to purchase the underlying asset by the lessee are generally at the fair market value of the equipment. Effective January 1, 2019, the Company adopted new guidance related to lease accounting published by the Financial Accounting Standards Board ("FASB"). Under the new guidance, the accounting applied by lessors is largely unchanged from previous GAAP, however, the guidance eliminates the accounting model for leveraged leases that commence after the effective date of the guidance. A summary of lease financing receivables follows:

|  | March 31,<br>2019 | December 31,<br>2018 |
|--|-------------------|----------------------|
|  | (In thousands)    |                      |
| Commercial leases:                                   |                   |                      |
| Direct financings:                                   |                   |                      |
| Lease payments receivable                            | \$1,140,794       | \$ 1,155,464         |
| Estimated residual value of leased assets            | 82,686            | 85,169               |
| Unearned income                                      | (106,797 )        | (110,458 )           |
| Investment in direct financings                      | 1,116,683         | 1,130,175            |
| Leveraged leases:                                    |                   |                      |
| Lease payments receivable                            | 82,841            | 85,007               |
| Estimated residual value of leased assets            | 81,261            | 81,261               |
| Unearned income                                      | (33,273 )         | (33,717 )            |
| Investment in leveraged leases                       | 130,829           | 132,551              |
| Total investment in leases                           | \$1,247,512       | \$ 1,262,726         |
| Deferred taxes payable arising from leveraged leases | \$73,808          | \$ 74,995            |

Included within the estimated residual value of leased assets at March 31, 2019 and December 31, 2018 were \$35 million and \$39 million, respectively, in residual value associated with direct financing leases that are guaranteed by the lessees or others.

At March 31, 2019, the minimum future lease payments to be received from lease financings were as follows:

|                                      | (In<br>thousands) |
|--------------------------------------|-------------------|
| Twelve-month period ending March 31: |                   |
| 2020                                 | \$322,403         |
| 2021                                 | 302,912           |
| 2022                                 | 220,516           |
| 2023                                 | 148,313           |

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|             |             |
|-------------|-------------|
| 2024        | 84,610      |
| Later years | 144,881     |
|             | \$1,223,635 |

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 4. Operating leases

The January 1, 2019 adoption of new lease accounting guidance resulted in the Company recording right-of-use assets and lease liabilities in the consolidated balance sheet for all operating leases with a term greater than twelve months. In addition, the Company elected the practical expedients that (1) reassessment is not needed for whether any existing contracts are or contain leases, (2) reassessment of the classification of existing operating and finance leases is not required, and (3) a lease that has a term of twelve months or less is not required to apply the asset and liability recognition requirements.

The Company determines whether a contract contains a lease based on whether a contract, or a part of a contract, conveys the right to control the use of an identified asset for a period of time in exchange for consideration. If it is determined that a contract contains a lease, the consideration in the contract is separated between lease and nonlease components (for example, taxes or common area maintenance). In calculating the present value of the lease payments, the Company has utilized its incremental borrowing rate based on electing the original lease term to account for each lease component.

The right-of-use assets and lease liabilities relate to banking offices and other space occupied by the Company and use of certain equipment under noncancelable operating lease agreements, which prior to the adoption of the guidance were not reflected in the consolidated balance sheet.

As of March 31, 2019, the Company reported right-of-use assets recognized as a component of “premises and equipment” and lease liabilities recognized as a component of “accrued interest and other liabilities” in the consolidated balance sheet, as follows:

March 31,  
2019  
(In  
thousands)

|                     |            |
|---------------------|------------|
| Right-of-use assets | \$ 392,847 |
| Lease liabilities   | 419,958    |

The Company’s noncancelable operating lease agreements expire at various dates over the next 23 years. Real estate leases generally consist of fixed monthly rental payments with certain leases containing escalation clauses. Any variable lease payments or payments for nonlease components are recognized in the consolidated statement of income as a component of “equipment and net occupancy” expense based on actual costs incurred. Some of these real estate leases contain lessee options to extend the term. Those options are included in the lease term when it is determined that it is reasonably certain the option will be exercised.

The Company has noncancelable operating lease agreements for certain equipment related to ATMs, servers, printers and mail machines that are used in the normal course of operations. The ATM leases are either based on the rights to a specific square footage or a license agreement whereby the Company has the right to operate an ATM in a landlord’s location. The lease terms generally contain both fixed payments and variable payments that are transaction-based. Given the transaction-based nature of the variable payments, they are excluded from the measurement of the right-of-use asset and lease liability and are recognized in the consolidated statement of income as a component of “equipment and net occupancy” expense when incurred.



## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 4. Operating leases, continued

The following table presents information about the Company's lease costs for operating leases recorded in the consolidated balance sheet, cash paid toward lease liabilities, and the weighted-average remaining term and discount rates of the operating leases.

|  | Three<br>Months<br>Ended<br>March 31,<br>2019<br>(Dollars in<br>thousands) |
|--|--|
| Lease cost   |  |
| Operating lease cost                                       | \$ 24,639  |
| Short-term lease cost                                      | 34   |
| Variable lease cost  | 466  |
| Sublease income  | (1,917 )   |
| Total net lease cost                                       | \$ 23,222  |
| Other information  |  |
| Right-of-use assets obtained in exchange for new operating |  |
| lease liabilities  | \$ 20,410  |
| Cash paid toward lease liabilities                         | 25,656   |
| Weighted-average remaining lease term                      | 7 years  |
| Weighted-average discount rate                             | 3.2 %  |

Minimum lease payments under noncancelable operating leases are summarized in the following table. These minimum lease payments are not materially different from those reported in the 2018 Annual Report.

|                                      | (In<br>thousands) |
|--------------------------------------|-------------------|
| Twelve-month period ending March 31: |                   |
| 2020                                 | \$ 93,460         |
| 2021                                 | 87,025            |
| 2022                                 | 71,369            |
| 2023                                 | 58,847            |
| 2024                                 | 41,034            |
| Later years                          | 111,683           |
| Total lease payments                 | \$ 463,418        |
| Less: imputed interest               | 43,460            |

Total \$ 419,958

All other operating leasing activities were not material to the Company's consolidated results of operations.

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 5. Borrowings

M&T had \$523 million of fixed and variable rate junior subordinated deferrable interest debentures ("Junior Subordinated Debentures") outstanding at March 31, 2019 that are held by various trusts that were issued in connection with the issuance by those trusts of preferred capital securities ("Capital Securities") and common securities ("Common Securities"). The proceeds from the issuances of the Capital Securities and the Common Securities were used by the trusts to purchase the Junior Subordinated Debentures. The Common Securities of each of those trusts are wholly owned by M&T and are the only class of each trust's securities possessing general voting powers. The Capital Securities represent preferred undivided interests in the assets of the corresponding trust. Under the Federal Reserve Board's risk-based capital guidelines, the securities are includable in M&T's Tier 2 regulatory capital.

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

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

Also included in long-term borrowings are agreements to repurchase securities of \$406 million and \$409 million at March 31, 2019 and December 31, 2018, respectively. The agreements reflect various repurchase dates through 2020, however, the contractual maturities of the underlying investment securities extend beyond such repurchase dates. The agreements are subject to legally enforceable master netting arrangements, however, the Company has not offset any amounts related to these agreements in its consolidated financial statements. The Company posted collateral consisting primarily of government guaranteed mortgage-backed securities of \$425 million and \$428 million at March 31, 2019 and December 31, 2018, respectively.

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 6. Revenue from contracts with customers

A significant amount of the Company's revenues are derived from net interest income on financial assets and liabilities, mortgage banking revenues, trading account and foreign exchange gains, investment securities gains, loan and letter of credit fees, income from bank-owned life insurance, and certain other revenues that are generally excluded from the scope of accounting guidance for revenue from contracts with customers.

For noninterest income revenue streams, the Company recognizes the expected amount of consideration as revenue when the performance obligations related to the services under the terms of a contract are satisfied. The Company's contracts generally do not contain terms that necessitate significant judgment to determine the amount of revenue to recognize.

The Company generally charges customer accounts or otherwise bills customers upon completion of its services. Typically the Company's contracts with customers have a duration of one year or less and payment for services is received at least annually, but oftentimes more frequently as services are provided. At March 31, 2019 and December 31, 2018, the Company had \$54 million and \$56 million, respectively, of uncollected amounts receivable related to recognized revenue from the sources in the accompanying tables. Such amounts are classified in accrued interest and other assets in the Company's consolidated balance sheet. In certain situations the Company is paid in advance of providing services and defers the recognition of revenue until its service obligation is satisfied. At each of March 31, 2019 and December 31, 2018, the Company had deferred revenue of \$43 million related to the sources in the accompanying tables recorded in accrued interest and other liabilities in the consolidated balance sheet.

The following tables summarize sources of the Company's noninterest income during the three-month periods ended March 31, 2019 and 2018 that are subject to the noted accounting guidance.

|  | Commercial          |                       | Residential    |                            | All<br>Other | Total  |                               |           |
|--|---------------------|-----------------------|----------------|----------------------------|--------------|--------|-------------------------------|-----------|
|  | Business<br>Banking | Commercial<br>Banking | Real<br>Estate | Discretionary<br>Portfolio |              |        | Mortgage<br>Retail<br>Banking |           |
| Three Months Ended<br>March 31, 2019                     | (In thousands)      |                       |                |                            |              |        |                               |           |
| Classification in<br>consolidated statement<br>of income |                     |                       |                |                            |              |        |                               |           |
| Service charges on deposit<br>accounts                   | \$15,109            | 23,210                | 2,526          | —                          | 2            | 61,151 | 1,114                         | \$103,112 |
| Trust income   | 5                   | 214                   | —              | —                          | —            | —      | 132,567                       | 132,786   |
| Brokerage services income                                | —                   | —                     | —              | —                          | —            | —      | 12,476                        | 12,476    |
| Other revenues from<br>operations:                       |                     |                       |                |                            |              |        |                               |           |
| Merchant discount and credit<br>card fees                | 8,882               | 12,092                | 606            | —                          | —            | 3,138  | 420                           | 25,138    |
| Other  | —                   | 1,002                 | 1,788          | 401                        | 1,064        | 8,494  | 10,488                        | 23,237    |
|  | \$23,996            | 36,518                | 4,920          | 401                        | 1,066        | 72,783 | 157,065                       | \$296,749 |
| Three Months Ended<br>March 31, 2018                     |                     |                       |                |                            |              |        |                               |           |

Classification in  
consolidated statement

## of income

|   |          |        |       |     |       |        |         |           |
|---|----------|--------|-------|-----|-------|--------|---------|-----------|
| Service charges on deposit<br>accounts    | \$15,404 | 24,654 | 2,764 | —   | 3     | 60,601 | 1,689   | \$105,115 |
| Trust income                              | —        | —      | —     | —   | —     | —      | 131,375 | 131,375   |
| Brokerage services income                 | —        | —      | —     | —   | —     | —      | 13,392  | 13,392    |
| Other revenues from<br>operations:        |          |        |       |     |       |        |         |           |
| Merchant discount and credit<br>card fees | 7,503    | 12,712 | 554   | —   | —     | 3,388  | 615     | 24,772    |
| Other                                     | —        | 1,563  | 859   | 452 | 1,043 | 9,865  | 9,108   | 22,890    |
|   | \$22,907 | 38,929 | 4,177 | 452 | 1,046 | 73,854 | 156,179 | \$297,544 |

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

|   | Pension                                 |          | Other<br>Postretirement                 |         |
|---|---|----------|---|---------|
|   | Benefits<br>Three Months Ended March 31 |          | Benefits<br>Three Months Ended March 31 |         |
|   | 2019                                    | 2018     | 2019                                    | 2018    |
|   | (In thousands)                          |          |   |         |
| Service cost                                  | \$4,087                                 | 5,103    | 200                                     | 226     |
| Interest cost on projected benefit obligation | 20,200                                  | 18,805   | 603                                     | 557     |
| Expected return on plan assets                | (30,600)                                | (30,875) | —                                       | —       |
| Amortization of prior service cost (credit)   | 125                                     | 125      | (1,175)                                 | (1,175) |
| Amortization of net actuarial loss (gain)     | 4,450                                   | 11,100   | (300 )                                  | (200 )  |
| Net periodic cost (benefit)                   | \$(1,738 )                              | 4,258    | (672 )                                  | (592 )  |

Service cost is reflected in salaries and employee benefits expense in the consolidated statement of income. The other components of net periodic benefit cost are reflected in other costs of operations. Expenses incurred in connection with the Company's defined contribution pension and retirement savings plans totaled \$22.2 million and \$21.3 million for the three months ended March 31, 2019 and 2018, respectively, and are included in salaries and employee benefits expense.

## 8. Earnings per common share

The computations of basic earnings per common share follow:

|  | Three Months<br>Ended March 31      |           |
|--|-------------------------------------|-----------|
|  | 2019                                | 2018      |
|  | (In thousands,<br>except per share) |           |
| Income available to common shareholders: |                                     |           |
| Net income                               | \$482,742                           | 352,610   |
| Less: Preferred stock dividends (a)      | (18,130 )                           | (18,130 ) |
| Net income available to common equity    | 464,612                             | 334,480   |

Less: Income attributable to unvested stock-based

|  |           |          |
|--|-----------|----------|
| compensation awards                                    | (2,526 )  | (1,732 ) |
| Net income available to common shareholders            | \$462,086 | 332,748  |
| Weighted-average shares outstanding:                   |           |          |
| Common shares outstanding (including common stock      |           |          |
| issuable) and unvested stock-based compensation awards | 138,637   | 149,470  |
| Less: Unvested stock-based compensation awards         | (748 )    | (782 )   |
| Weighted-average shares outstanding                    | 137,889   | 148,688  |
| Basic earnings per common share                        | \$3.35    | 2.24     |

(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<br>Ended March 31      |          |
|---|-------------------------------------|----------|
|   | 2019                                | 2018     |
|   | (In thousands,<br>except per share) |          |
| Net income available to common equity   | \$464,612                           | 334,480  |
| Less: Income attributable to unvested stock-based<br>compensation awards  | (2,526 )                            | (1,731 ) |
| Net income available to common shareholders   | \$462,086                           | 332,749  |
| Adjusted weighted-average shares outstanding:   |                                     |          |
| Common and unvested stock-based compensation awards   | 138,637                             | 149,470  |
| Less: Unvested stock-based compensation awards  | (748 )                              | (782 )   |
| Plus: Incremental shares from assumed conversion of<br>stock-based compensation awards and warrants to<br>purchase common stock | 31                                  | 217      |
| Adjusted weighted-average shares outstanding  | 137,920                             | 148,905  |
| Diluted earnings per common share   | \$3.35                              | 2.23     |

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 280,818 and 237,584 common shares during the three-month periods ended March 31, 2019 and 2018, respectively, were not included in the computations of diluted earnings per common share because the effect on those periods would have been antidilutive.

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 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         |
|---|-----------------------|-----------------------|----------|-------------------------|--------------|-------------|
|   | (In thousands)        |                       |          |                         |              |             |
| Balance — January 1, 2019   | \$ (200,107)          | (354,502)             | (14,719) | \$ (569,328 )           | 149,247      | \$(420,081) |
| Other comprehensive income before reclassifications:  |                       |                       |          |                         |              |             |
| Unrealized holding gains, net   | 113,805               | —                     | —        | 113,805                 | (29,902 )    | 83,903      |
| Foreign currency translation adjustment   | —                     | —                     | 348      | 348                     | (73 )        | 275         |
| Unrealized gains on cash flow hedges  | —                     | —                     | 54,347   | 54,347                  | (14,288 )    | 40,059      |
| Total other comprehensive income before reclassifications   | 113,805               | —                     | 54,695   | 168,500                 | (44,263 )    | 124,237     |
| Amounts reclassified from accumulated other comprehensive income that (increase) decrease net income: |                       |                       |          |                         |              |             |
| Amortization of unrealized holding losses on held-to-maturity (“HTM”) securities                      | 928                   | —                     | —        | 928                     | (a) (245 )   | 683         |
| Losses realized in net income   | 7                     | —                     | —        | 7                       | (b) (2 )     | 5           |
| Accretion of net gain on terminated cash flow hedges  | —                     | —                     | (28 )    | (28 )                   | (c) 7        | (21 )       |
| Net yield adjustment from cash flow hedges currently in effect  | —                     | —                     | 6,625    | 6,625                   | (a) (1,742 ) | 4,883       |
| Amortization of prior service credit  | —                     | (1,050 )              | —        | (1,050 )                | (d) 276      | (774 )      |
| Amortization of actuarial losses  | —                     | 4,150                 | —        | 4,150                   | (d) (1,091 ) | 3,059       |
| Total other comprehensive income  | 114,740               | 3,100                 | 61,292   | 179,132                 | (47,060 )    | 132,072     |
| Balance — March 31, 2019  | \$ (85,367 )          | (351,402)             | 46,573   | \$ (390,196 )           | 102,187      | \$(288,009) |
| Balance — January 1, 2018   | \$ (59,957 )          | (413,168)             | (20,165) | \$ (493,290 )           | 129,476      | \$(363,814) |
| Cumulative effect of change in accounting principle — equity securities                               | (22,795 )             | —                     | —        | (22,795 )               | 5,942        | (16,853 )   |
| Other comprehensive income before reclassifications:  |                       |                       |          |                         |              |             |

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|   |             |           |          |              |              |             |
|---|-------------|-----------|----------|--------------|--------------|-------------|
| Unrealized holding losses, net  | (145,457)   | —         | —        | (145,457 )   | 44,176       | (101,281)   |
| Foreign currency translation adjustment   | —           | —         | 1,632    | 1,632        | (342 )       | 1,290       |
| Unrealized losses on cash flow hedges   | —           | —         | (14,719) | (14,719 )    | 3,870        | (10,849 )   |
| Total other comprehensive income (loss) before reclassifications                                      | (145,457)   | —         | (13,087) | (158,544 )   | 47,704       | (110,840)   |
| Amounts reclassified from accumulated other comprehensive income that (increase) decrease net income: |             |           |          |              |              |             |
| Amortization of unrealized holding losses on  |             |           |          |              |              |             |
| HTM securities  | 810         | —         | —        | 810          | (a) (213 )   | 597         |
| Accretion of net gain on terminated cash flow hedges  | —           | —         | (28 )    | (28 )        | (c) 7        | (21 )       |
| Net yield adjustment from cash flow hedges currently in effect  | —           | —         | 580      | 580          | (a) (152 )   | 428         |
| Amortization of prior service credit  | —           | (1,050 )  | —        | (1,050 )     | (d) 276      | (774 )      |
| Amortization of actuarial losses  | —           | 10,900    | —        | 10,900       | (d) (2,866 ) | 8,034       |
| Total other comprehensive income (loss)   | (144,647)   | 9,850     | (12,535) | (147,332 )   | 44,756       | (102,576)   |
| Balance — March 31, 2018  | \$(227,399) | (403,318) | (32,700) | \$(663,417 ) | 180,174      | \$(483,243) |

(a) Included in interest income.

(b) Included in gain (loss) on bank investment securities.

(c) Included in interest expense.

(d) Included in other costs of operations.

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

Defined

|                             | Investment Securities | Benefit Plans | Other    | Total       |
|-----------------------------|-----------------------|---------------|----------|-------------|
|                             | (In thousands)        |               |          |             |
| Balance — December 31, 2018 | \$(147,526)           | (261,303)     | (11,252) | \$(420,081) |
| Net gain during period      | 84,591                | 2,285         | 45,196   | 132,072     |
| Balance — March 31, 2019    | \$(62,935 )           | (259,018)     | 33,944   | \$(288,009) |



## 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, collateral and/or settlement provisions protecting the at-risk party. Based on adherence to the Company's credit standards and the presence of the netting, collateral or settlement provisions, the Company believes that the credit risk inherent in these contracts was not material as of March 31, 2019.

The net effect of interest rate swap agreements was to decrease net interest income by \$13 million during the three months ended March 31, 2019 and increase net interest income by \$1 million during the three months ended March 31, 2018.

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<br>thousands) | Average<br>Maturity<br>(In<br>years) | Weighted-<br>Average Rate |          | Estimated<br>Fair Value<br>Gain (Loss)<br>(a)<br>(In thousands) |
|--|---|--------------------------------------|---------------------------|----------|---|
|  |   |                                      | Fixed                     | Variable |   |
| <b>March 31, 2019</b>                              |   |                                      |                           |          |   |
| Fair value hedges:                                 |   |                                      |                           |          |   |
| Fixed rate long-term borrowings (b)                | \$4,450,000                             | 2.6                                  | 2.47%                     | 3.04%    | \$ (4,390 )   |
| Cash flow hedges:                                  |   |                                      |                           |          |   |
| Interest payments on variable rate commercial real |   |                                      |                           |          |   |
| estate loans (b)(c)                                | 29,750,000                              | 1.4                                  | 2.29%                     | 2.49%    | (12,534 )   |
| Total  | \$34,200,000                            | 1.6                                  |                           |          | \$ (16,924 )  |
| <b>December 31, 2018</b>                           |   |                                      |                           |          |   |
| Fair value hedges:                                 |   |                                      |                           |          |   |
| Fixed rate long-term borrowings (b)                | \$4,450,000                             | 2.8                                  | 2.47%                     | 3.02%    | \$ 4,219  |
| Cash flow hedges:                                  |   |                                      |                           |          |   |
| Interest payments on variable rate commercial real |   |                                      |                           |          |   |
| estate loans (b)(d)                                | 15,400,000                              | 1.3                                  | 1.52%                     | 2.35%    | 1,311   |
| Total  | \$19,850,000                            | 1.7                                  |                           |          | \$ 5,530  |

(a) Certain clearinghouse exchanges consider payments by counterparties for variation margin on derivative instruments to be settlements of those positions. The impact of such treatment at March 31, 2019 and December 31,

2018 was a reduction of the estimated fair value losses on interest rate swap agreements designated as fair value hedges of \$11.9 million and \$54.7 million, respectively, and on interest rate swap agreements designated as cash flow hedges of \$65.7 million and \$9.1 million, respectively.

- (b) Under the terms of these agreements, the Company receives settlement amounts at a fixed rate and pays at a variable rate.
- (c) Includes notional amount and terms of \$16.4 billion of forward-starting interest rate swap agreements that become effective in 2019, 2020 and 2021.
- (d) Includes notional amount and terms of \$12.6 billion of forward-starting interest rate swap agreements that become effective in 2019 and 2020.

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 \$43.3 billion and \$42.9 billion at March 31, 2019 and December 31, 2018, respectively. The notional amounts of foreign currency and other option and futures contracts entered into for trading account purposes aggregated \$832 million and \$763 million at March 31, 2019 and December 31, 2018, respectively.

## 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>2019               | December 31,<br>2018 | March 31,<br>2019                   | December 31,<br>2018 |
| (In thousands)   |                                 |                      |                                     |                      |
| Derivatives designated and qualifying as hedging instruments     |                                 |                      |                                     |                      |
| Interest rate swap agreements (a)                                | \$267                           | \$ 5,530             | \$17,191                            | \$ —                 |
| Commitments to sell real estate loans (a)                        | 1,145                           | 1,090                | 3,413                               | 6,434                |
|  | 1,412                           | 6,620                | 20,604                              | 6,434                |
| Derivatives not designated and qualifying as hedging instruments |                                 |                      |                                     |                      |
| Mortgage-related commitments to originate real estate loans      |                                 |                      |                                     |                      |
| for sale (a)   | 8,059                           | 9,304                | 626                                 | 1,592                |
| Commitments to sell real estate loans (a)                        | 3,687                           | 3,702                | 2,843                               | 4,535                |
| Trading:   |                                 |                      |                                     |                      |
| Interest rate contracts (b)                                      | 199,404                         | 118,687              | 92,383                              | 169,255              |
| Foreign exchange and other option and futures contracts (b)      | 7,880                           | 10,549               | 6,390                               | 8,870                |
|  | 219,030                         | 142,242              | 102,242                             | 184,252              |
| Total derivatives  | \$220,442                       | \$ 148,862           | \$122,846                           | \$ 190,686           |

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

(b) Asset derivatives are reported in trading account assets and liability derivatives are reported in other liabilities. The impact of variation margin payments at March 31, 2019 and December 31, 2018 was a reduction of the estimated fair value of interest rate contracts in the trading account in an asset position of \$88.1 million and \$170.7 million, respectively, and in a liability position of \$122.8 million and \$49.7 million, respectively.

|   | Amount of Gain (Loss) Recognized        |   |
|---|---|---|
|   | Three Months<br>Ended March 31,<br>2019 | Three Months<br>Ended March 31,<br>2018 |
|   | Hedged                                  | Hedged                                  |
|   | Derivative Item                         | Derivative Item                         |
| (In thousands)  |   |   |
| Derivatives in fair value hedging relationships             |   |   |
| Interest rate swap agreements:                              |   |   |
| Fixed rate long-term borrowings (a)                         | \$34,180 (34,014)                       | \$(42,390) 42,370                       |
| Derivatives not designated as hedging instruments           |   |   |
| Trading:  |   |   |
| Interest rate contracts (b)                                 | \$2,711                                 | \$(1,605 )                              |
| Foreign exchange and other option and futures contracts (b) | 1,613                                   | 2,631                                   |

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|       |         |         |
|-------|---------|---------|
| Total | \$4,324 | \$1,026 |
|-------|---------|---------|

- (a) Reported as an adjustment to interest expense.
- (b) Reported as trading account and foreign exchange gains.

| Location in the Consolidated Balance Sheet of<br>the Hedged Items in Fair Value Hedges | Carrying Amount of the<br>Hedged Item |                      | Cumulative Amount of<br>Fair Value Hedging<br>Adjustment Increasing<br>(Decreasing) the<br>Carrying Amount of the<br>Hedged Item |                      |
|--|---------------------------------------|----------------------|--|----------------------|
|  | March 31,<br>2019                     | December 31,<br>2018 | March 31,<br>2019  | December 31,<br>2018 |
| Long-term debt   | \$4,428,645                           | \$ 4,394,109         | \$(17,088)   | \$( 51,102 )         |

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 10. Derivative financial instruments, continued

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

The Company also has commitments to sell and commitments to originate residential and commercial real estate loans that are considered derivatives. The Company designates certain of the commitments to sell real estate loans as fair value hedges of real estate loans held for sale. The Company also utilizes commitments to sell real estate loans to offset the exposure to changes in the fair value of certain commitments to originate real estate loans for sale. As a result of these activities, net unrealized pre-tax gains related to hedged loans held for sale, commitments to originate loans for sale and commitments to sell loans were approximately \$16 million and \$18 million at March 31, 2019 and December 31, 2018, respectively. Changes in unrealized gains and losses are included in mortgage banking revenues and, in general, are realized in subsequent periods as the related loans are sold and commitments satisfied.

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

The aggregate fair value of derivative financial instruments in a liability position and the net liability positions with counterparties, which are subject to enforceable master netting arrangements, was \$20 million and \$21 million at March 31, 2019 and December 31, 2018, respectively. The Company was required to post collateral relating to those positions of \$20 million and \$18 million at March 31, 2019 and December 31, 2018, respectively. Certain of the Company's derivative financial instruments contain provisions that require the Company to maintain specific credit ratings from credit rating agencies to avoid higher collateral posting requirements. If the Company's debt rating were to fall below specified ratings, the counterparties of the derivative financial instruments could demand immediate incremental collateralization on those instruments in a net liability position. The aggregate fair value of all derivative financial instruments with such credit risk-related contingent features in a net liability position on March 31, 2019 was not significant. If the credit risk-related contingent features had been triggered on March 31, 2019, the Company would not have been required to post any additional collateral to counterparties.

The aggregate fair value of derivative financial instruments in an asset position and the net asset positions with counterparties, which are subject to enforceable master netting arrangements, was \$7 million and \$18 million at March 31, 2019 and December 31, 2018, respectively. Counterparties posted collateral relating to those positions of \$3 million and \$16 million at March 31, 2019 and December 31, 2018, 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 variation margin payments depending on the contracts being in a net asset or liability position. The amount of initial margin collateral posted by the Company was \$71 million and \$65 million at March 31, 2019 and December 31, 2018, respectively. The fair value asset and liability amounts of derivative contracts have been reduced by variation margin payments treated as settlements as described herein. Variation margin on derivative contracts not treated as settlements continues to represent collateral posted or received by the Company.



## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 11. Variable interest entities and asset securitizations

The Company's securitization activity has consisted of securitizing loans originated for sale into government issued or guaranteed mortgage-backed securities. The amounts of those securitizations during the three-month periods ended March 31, 2019 and 2018 are presented in the Company's consolidated statement of cash flows. The Company has not recognized any losses as a result of having securitized assets.

As described in note 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, 2019 and December 31, 2018, the Company included the junior subordinated debentures as "long-term borrowings" in its consolidated balance sheet and recognized \$23 million in other assets for its "investment" in the common securities of the trusts that will be concomitantly repaid to M&T by the respective trust from the proceeds of M&T's repayment of the junior subordinated debentures associated with preferred capital securities described in note 5.

The Company has invested as a limited partner in various partnerships that collectively had total assets of approximately \$1.1 billion at March 31, 2019 and December 31, 2018. 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 \$517 million, including \$278 million of unfunded commitments, at March 31, 2019 and \$523 million, including \$280 million of unfunded commitments, at December 31, 2018. Contingent commitments to provide additional capital contributions to these partnerships were not material at March 31, 2019. The Company has not provided financial or other support to the partnerships that was not contractually required. Management currently estimates that no material losses are probable as a result of the Company's involvement with such entities. The Company, in its position as limited partner, does not direct the activities that most significantly impact the economic performance of the partnerships and, therefore, in accordance with the accounting provisions for variable interest entities, the partnership entities are not included in the Company's consolidated financial statements. The Company's investment in qualified affordable housing projects 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 \$17 million and \$13 million of its investments in qualified affordable housing projects to income tax expense during the three-month periods ended March 31, 2019 and 2018, respectively, and recognized \$20 million and \$16 million of tax credits and other tax benefits during those 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 allowable management fees as a result of market conditions.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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, 2019.

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

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

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

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

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

Trading account assets and liabilities

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

Investment securities available for sale and equity securities

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

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.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

12. Fair value measurements, continued

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

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

Interest rate swap agreements used for interest rate risk management

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

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 12. Fair value measurements, continued

The following tables present assets and liabilities at March 31, 2019 and December 31, 2018 measured at estimated fair value on a recurring basis:

|  | Fair Value<br>Measurement <sup>(a)</sup><br>(In thousands) | Level 1   | Level 2 (a) | Level 3 |
|--|--|-----------|-------------|---------|
| <b>March 31, 2019</b>                            |  |           |             |         |
| Trading account assets                           | \$276,322  | \$46,521  | \$229,801   | \$—     |
| Investment securities available for sale:        |  |           |             |         |
| U.S. Treasury and federal agencies               | 1,139,428  | —         | 1,139,428   | —       |
| Obligations of states and political subdivisions | 1,181  | —         | 1,181       | —       |
| Mortgage-backed securities:                      |  |           |             |         |
| Government issued or guaranteed                  | 7,053,907  | —         | 7,053,907   | —       |
| Privately issued                                 | 16   | —         | —           | 16      |
| Other debt securities                            | 131,052  | —         | 131,052     | —       |
|  | 8,325,584  | —         | 8,325,568   | 16      |
| Equity securities                                | 76,586   | 43,301    | 33,285      | —       |
| Real estate loans held for sale                  | 344,350  | —         | 344,350     | —       |
| Other assets (b)                                 | 13,158   | —         | 5,099       | 8,059   |
| Total assets                                     | \$9,036,000  | \$89,822  | \$8,938,103 | \$8,075 |
| Trading account liabilities                      | \$98,771   | \$—       | \$98,771    | \$—     |
| Other liabilities (b)                            | 24,073   | —         | 23,447      | 626     |
| Total liabilities                                | \$122,844  | \$—       | \$122,218   | \$626   |
| <b>December 31, 2018</b>                         |  |           |             |         |
| Trading account assets                           | \$185,584  | \$46,018  | \$139,566   | \$—     |
| Investment securities available for sale:        |  |           |             |         |
| U.S. Treasury and federal agencies               | 1,336,931  | —         | 1,336,931   | —       |
| Obligations of states and political subdivisions | 1,659  | —         | 1,659       | —       |
| Mortgage-backed securities:                      |  |           |             |         |
| Government issued or guaranteed                  | 7,216,991  | —         | 7,216,991   | —       |
| Privately issued                                 | 22   | —         | —           | 22      |
| Other debt securities                            | 126,906  | —         | 126,906     | —       |
|  | 8,682,509  | —         | 8,682,487   | 22      |
| Equity securities                                | 93,917   | 71,989    | 21,928      | —       |
| Real estate loans held for sale                  | 551,697  | —         | 551,697     | —       |
| Other assets (b)                                 | 19,626   | —         | 10,322      | 9,304   |
| Total assets                                     | \$9,533,333  | \$118,007 | \$9,406,000 | \$9,326 |
| Trading account liabilities                      | \$178,125  | \$—       | \$178,125   | \$—     |
| Other liabilities (b)                            | 12,561   | —         | 10,969      | 1,592   |
| Total liabilities                                | \$190,686  | \$—       | \$189,094   | \$1,592 |

- (a) There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy during the three months ended March 31, 2019 and the year ended December 31, 2018.
- (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, 2019 and 2018 were as follows:

|  | Investment<br>Securities | Available for Sale<br>Privately Issued<br>Mortgage-Backed Securities | Other Assets and<br>Other Liabilities |
|--|--------------------------|--|---------------------------------------|
| 2019   |                          |  |                                       |
|  | (In thousands)           |  |                                       |
| Balance — January 1, 2019                        | \$ 22                    | 7,712  |                                       |
| Total gains (losses) realized/unrealized:        |                          |  |                                       |
| Included in earnings                             | —                        | 16,546   | (b)                                   |
| Settlements                                      | (6 )                     | —  |                                       |
| Transfers out of Level 3 (a)                     | —                        | (16,825  | )(c)                                  |
| Balance — March 31, 2019                         | \$ 16                    | 7,433  |                                       |
| Changes in unrealized gains included in earnings |                          |  |                                       |
| related to assets still held at March 31, 2019   | \$ —                     | 8,525  | (b)                                   |
| 2018   |                          |  |                                       |
| Balance — January 1, 2018                        | \$28                     | 8,303  |                                       |
| Total gains (losses) realized/unrealized:        |                          |  |                                       |
| Included in earnings                             | —                        | 8,130  | (b)                                   |
| Settlements                                      | (1 )                     | —  |                                       |
| Transfers out of Level 3 (a)                     | —                        | (7,673)  | (c)                                   |
| Balance — March 31, 2018                         | \$27                     | 8,760  |                                       |
| Changes in unrealized gains included in earnings |                          |  |                                       |
| related to assets still held at March 31, 2018   | \$—                      | 8,778  | (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) Transfers out of Level 3 consist of interest rate locks transferred to closed loans.

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.



## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 12. Fair value measurements, continued

## 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 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 in the range of 15% to 90% at March 31, 2019. 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 nonrecurring 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 \$199 million at March 31, 2019 (\$121 million and \$78 million of which were classified as Level 2 and Level 3, respectively), \$268 million at December 31, 2018 (\$120 million and \$148 million of which were classified as Level 2 and Level 3, respectively) and \$178 million at March 31, 2018 (\$97 million and \$81 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, 2019 and 2018 were decreases of \$20 million and \$27 million for the three-month periods ended March 31, 2019 and 2018, 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 \$9 million and \$19 million at March 31, 2019 and 2018, 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, 2019 and 2018.

## 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 certain Level 3 assets and liabilities at March 31, 2019 and December 31, 2018:

|                                    | Fair Value<br>(In thousands) | Valuation<br>Technique         | Unobservable<br>Inputs/Assumptions | Range<br>(Weighted-<br>Average) |
|------------------------------------|------------------------------|--------------------------------|------------------------------------|---------------------------------|
| <b>March 31, 2019</b>              |                              |                                |                                    |                                 |
| Recurring fair value measurements  |                              |                                |                                    |                                 |
| Privately issued mortgage-backed   |                              |                                |                                    |                                 |
| securities                         | \$ 16                        | Two independent pricing quotes | —                                  | —                               |
| Net other assets (liabilities) (a) | 7,433                        | Discounted cash flow           | Commitment<br>expirations          | 0%-94%<br>(17%)                 |
| <b>December 31, 2018</b>           |                              |                                |                                    |                                 |
| Recurring fair value measurements  |                              |                                |                                    |                                 |
| Privately issued mortgage-backed   |                              |                                |                                    |                                 |
| securities                         | \$ 22                        | Two independent pricing quotes | —                                  | —                               |
| Net other assets (liabilities) (a) | 7,712                        | Discounted cash flow           | Commitment<br>expirations          | 0%-95%<br>(13%)                 |

(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 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.



## 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:

|  | March 31, 2019                       |                         | Level 1   | Level 2       | Level 3    |
|--|--------------------------------------|-------------------------|-----------|---------------|------------|
|  | Carrying<br>Amount<br>(In thousands) | Estimated<br>Fair Value |           |               |            |
| <b>Financial assets:</b>                               |                                      |                         |           |               |            |
| Cash and cash equivalents                              | \$ 1,267,260                         | 1,267,260               | 1,194,318 | 72,942        | —          |
| Interest-bearing deposits at banks                     | 7,602,897                            | 7,602,897               | —         | 7,602,897     | —          |
| Trading account assets                                 | 276,322                              | 276,322                 | 46,521    | 229,801       | —          |
| Investment securities                                  | 12,536,840                           | 12,521,737              | 43,301    | 12,378,816    | 99,620     |
| <b>Loans and leases:</b>                               |                                      |                         |           |               |            |
| Commercial loans and leases                            | 23,090,204                           | 22,755,670              | —         | —             | 22,755,670 |
| Commercial real estate loans                           | 34,690,930                           | 34,424,612              | —         | 166,019       | 34,258,593 |
| Residential real estate loans                          | 16,769,933                           | 16,764,418              | —         | 3,877,095     | 12,887,323 |
| Consumer loans   | 14,088,816                           | 14,018,581              | —         | —             | 14,018,581 |
| Allowance for credit losses                            | (1,019,337 )                         | —                       | —         | —             | —          |
| Loans and leases, net                                  | 87,620,546                           | 87,963,281              | —         | 4,043,114     | 83,920,167 |
| Accrued interest receivable                            | 374,084                              | 374,084                 | —         | 374,084       | —          |
| <b>Financial liabilities:</b>                          |                                      |                         |           |               |            |
| Noninterest-bearing deposits                           | \$(29,966,753 )                      | (29,966,753 )           | —         | (29,966,753 ) | —          |
| Savings and interest-checking deposits                 | (52,932,297 )                        | (52,932,297 )           | —         | (52,932,297 ) | —          |
| Time deposits  | (6,501,509 )                         | (6,598,274 )            | —         | (6,598,274 )  | —          |
| Deposits at Cayman Islands office                      | (1,069,191 )                         | (1,069,191 )            | —         | (1,069,191 )  | —          |
| Short-term borrowings                                  | (3,602,566 )                         | (3,602,566 )            | —         | (3,602,566 )  | —          |
| Long-term borrowings                                   | (8,476,024 )                         | (8,511,141 )            | —         | (8,511,141 )  | —          |
| Accrued interest payable                               | (80,322 )                            | (80,322 )               | —         | (80,322 )     | —          |
| Trading account liabilities                            | (98,771 )                            | (98,771 )               | —         | (98,771 )     | —          |
| <b>Other financial instruments:</b>                    |                                      |                         |           |               |            |
| <b>Commitments to originate real estate</b>            |                                      |                         |           |               |            |
| loans for sale   | \$ 7,433                             | 7,433                   | —         | —             | 7,433      |
| Commitments to sell real estate loans                  | (1,424 )                             | (1,424 )                | —         | (1,424 )      | —          |
| Other credit-related commitments                       | (126,811 )                           | (126,811 )              | —         | —             | (126,811 ) |
| <b>Interest rate swap agreements used for interest</b> |                                      |                         |           |               |            |
| rate risk management                                   | (16,924 )                            | (16,924 )               | —         | (16,924 )     | —          |



## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 12. Fair value measurements, continued

|  | December 31, 2018 |                      | Level 1   | Level 2      | Level 3    |
|--|-------------------|----------------------|-----------|--------------|------------|
|  | Carrying Amount   | Estimated Fair Value |           |              |            |
|  | Amount            | Fair Value           |           |              |            |
|  | (In thousands)    |                      |           |              |            |
| <b>Financial assets:</b>                               |                   |                      |           |              |            |
| Cash and cash equivalents                              | \$ 1,605,439      | 1,605,439            | 1,528,302 | 77,137       | —          |
| Interest-bearing deposits at banks                     | 8,105,197         | 8,105,197            | —         | 8,105,197    | —          |
| Trading account assets                                 | 185,584           | 185,584              | 46,018    | 139,566      | —          |
| Investment securities                                  | 12,692,813        | 12,631,656           | 71,989    | 12,456,467   | 103,200    |
| <b>Loans and leases:</b>                               |                   |                      |           |              |            |
| Commercial loans and leases                            | 22,977,976        | 22,587,387           | —         | —            | 22,587,387 |
| Commercial real estate loans                           | 34,363,556        | 33,832,558           | —         | 346,775      | 33,485,783 |
| Residential real estate loans                          | 17,154,446        | 16,974,545           | —         | 3,920,447    | 13,054,098 |
| Consumer loans   | 13,970,499        | 13,819,545           | —         | —            | 13,819,545 |
| Allowance for credit losses                            | (1,019,444 )      | —                    | —         | —            | —          |
| Loans and leases, net                                  | 87,447,033        | 87,214,035           | —         | 4,267,222    | 82,946,813 |
| Accrued interest receivable                            | 353,965           | 353,965              | —         | 353,965      | —          |
| <b>Financial liabilities:</b>                          |                   |                      |           |              |            |
| Noninterest-bearing deposits                           | \$(32,256,668)    | (32,256,668)         | —         | (32,256,668) | —          |
| Savings and interest-checking deposits                 | (50,963,744)      | (50,963,744)         | —         | (50,963,744) | —          |
| Time deposits  | (6,124,254 )      | (6,201,957 )         | —         | (6,201,957 ) | —          |
| Deposits at Cayman Islands office                      | (811,906 )        | (811,906 )           | —         | (811,906 )   | —          |
| Short-term borrowings                                  | (4,398,378 )      | (4,398,378 )         | —         | (4,398,378 ) | —          |
| Long-term borrowings                                   | (8,444,914 )      | (8,385,289 )         | —         | (8,385,289 ) | —          |
| Accrued interest payable                               | (95,274 )         | (95,274 )            | —         | (95,274 )    | —          |
| Trading account liabilities                            | (178,125 )        | (178,125 )           | —         | (178,125 )   | —          |
| <b>Other financial instruments:</b>                    |                   |                      |           |              |            |
| <b>Commitments to originate real estate</b>            |                   |                      |           |              |            |
| loans for sale   | \$ 7,712          | 7,712                | —         | —            | 7,712      |
| Commitments to sell real estate loans                  | (6,177 )          | (6,177 )             | —         | (6,177 )     | —          |
| Other credit-related commitments                       | (131,688 )        | (131,688 )           | —         | —            | (131,688 ) |
| <b>Interest rate swap agreements used for interest</b> |                   |                      |           |              |            |
| rate risk management                                   | 5,530             | 5,530                | —         | 5,530        | —          |

With the exception of marketable securities, certain off-balance sheet financial instruments and 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 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. 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.

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 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>2019 | December 31,<br>2018 |
|--|-------------------|----------------------|
|  | (In thousands)    |                      |
| Commitments to extend credit                       |                   |                      |
| Home equity lines of credit                        | \$5,529,111       | 5,484,197            |
| Commercial real estate loans to be sold            | 199,722           | 229,401              |
| Other commercial real estate                       | 7,331,360         | 7,556,722            |
| Residential real estate loans to be sold           | 314,402           | 245,211              |
| Other residential real estate                      | 277,708           | 219,351              |
| Commercial and other                               | 14,900,142        | 14,363,803           |
| Standby letters of credit                          | 2,246,864         | 2,326,991            |
| Commercial letters of credit                       | 59,464            | 55,808               |
| Financial guarantees and indemnification contracts | 3,703,612         | 3,529,136            |
| Commitments to sell real estate loans              | 746,307           | 940,692              |

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. In addition to the amounts in the preceding table, the Company had discretionary funding commitments to commercial customers of \$8.7 billion and \$8.6 billion at March 31, 2019 and December 31, 2018, respectively, that the Company had the unconditional right to cancel prior to funding. 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 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 \$3.5 billion and \$3.4 billion at March 31, 2019 and December 31, 2018, 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.

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 13. Commitments and contingencies, continued

The Company is contractually obligated to repurchase previously sold residential real estate loans that do not ultimately meet investor sale criteria related to underwriting procedures or loan documentation. When required to do so, the Company may reimburse loan purchasers for losses incurred or may repurchase certain loans. The Company reduces residential mortgage banking revenues by an estimate for losses related to its obligations to loan purchasers. The amount of those charges is based on the volume of loans sold, the level of reimbursement requests received from loan purchasers and estimates of losses that may be associated with previously sold loans. At March 31, 2019, the Company believes that its obligation to loan purchasers was not material to the Company's consolidated financial position.

As previously disclosed, Wilmington Trust Corporation, a wholly-owned subsidiary of M&T, was the subject of a class action lawsuit alleging that Wilmington Trust Corporation's financial reporting and securities filings prior to its acquisition by M&T in 2011 were in violation of securities laws. In April 2018, the parties reached an agreement in principle and a formal settlement agreement was executed and filed with the court later in the second quarter of 2018. The proposed settlement was preliminarily approved by the court in July 2018. In the first quarter of 2018, the Company increased its reserve for litigation matters in anticipation of the settlement. The settlement amount of \$200 million was paid, pursuant to the settlement agreement, during the third quarter of 2018. The settlement agreement was approved by the court in the fourth quarter of 2018.

Wilmington Trust, N.A., a wholly owned bank subsidiary of M&T, provides retirement services, including serving in certain trustee roles relating to Employee Stock Ownership Plans ("ESOPs"). Beginning in 2010, the U.S. Department of Labor ("DOL") announced that it would increase its focus on ESOP transactions, particularly with regard to valuation issues relating to ESOP transactions. Beginning in late 2013, Wilmington Trust, N.A. began receiving requests for information and subpoenas relating to certain ESOP transactions for which it acted as trustee. In June 2016, Wilmington Trust, N.A. received a DOL subpoena seeking information on its global ESOP trustee business. In addition to these investigations, the DOL has commenced three lawsuits against Wilmington Trust, N.A. relating to its role as trustee of three ESOP transactions. Wilmington Trust, N.A. has also been named as a defendant in four private party lawsuits relating to its role as trustee for four ESOP transactions. Under applicable transaction documents, Wilmington Trust, N.A. may be entitled to indemnification by the ESOP Plan Sponsors. The DOL investigations of Wilmington Trust, N.A. and the private party lawsuits could result in civil proceedings, damages, resolutions or settlements, including, among other things, enforcement actions, which could seek or result in damages and/or fines, penalties, restitution, injunctions, enforcement efforts, reputational damage or additional costs and expenses.

M&T and its subsidiaries are subject in the normal course of business to various other pending and threatened legal proceedings and 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. The Company increased its recorded liability for legal-related matters by \$50 million and \$135 million during the three months ended March 31, 2019 and 2018, respectively. To the extent pending or threatened litigation could result in exposure in excess of the recorded 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 estimated to be between \$0 and \$100 million as of March 31, 2019. Although the Company does not believe that the outcome of pending legal matters 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.





## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 14. Segment information

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

The financial information of the Company's segments was compiled utilizing the accounting policies described in note 22 of Notes to Financial Statements in the 2018 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, the financial information of the reported segments is not necessarily comparable with similar information reported by other financial institutions. Furthermore, changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial data.

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

|                              | Three Months Ended March 31<br>2019 |                   |               | 2018         |                   |               |
|------------------------------|-------------------------------------|-------------------|---------------|--------------|-------------------|---------------|
|                              | Total                               | Inter-<br>segment | Net<br>Income | Total        | Inter-<br>segment | Net<br>Income |
|                              | Revenues(a)<br>(In thousands)       | Revenues          | (Loss)        | Revenues(a)  | Revenues          | (Loss)        |
| Business Banking             | \$ 139,322                          | 856               | 43,271        | \$ 127,884   | 918               | 37,718        |
| Commercial Banking           | 267,490                             | 840               | 132,218       | 266,396      | 850               | 125,465       |
| Commercial Real Estate       | 219,173                             | 354               | 117,498       | 202,607      | 340               | 108,303       |
| Discretionary Portfolio      | 63,917                              | (9,299 )          | 39,172        | 50,038       | (10,832 )         | 19,739        |
| Residential Mortgage Banking | 83,761                              | 14,514            | 12,941        | 82,458       | 15,421            | 14,946        |
| Retail Banking               | 430,891                             | 2,511             | 145,066       | 393,476      | 2,865             | 123,380       |
| All Other                    | 346,271                             | (9,776 )          | (7,424 )      | 311,354      | (9,562 )          | (76,941 )     |
| Total                        | \$ 1,550,825                        | —                 | 482,742       | \$ 1,434,213 | —                 | 352,610       |

## Average Total Assets

|  |      | Year<br>Ended          |
|--|------|------------------------|
| Three Months<br>Ended March 31<br>2019 | 2018 | December<br>31<br>2018 |
| (In millions)                          |      |                        |

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|                              |           |         |         |
|------------------------------|-----------|---------|---------|
| Business Banking             | \$5,702   | 5,681   | 5,631   |
| Commercial Banking           | 27,858    | 26,482  | 26,626  |
| Commercial Real Estate       | 23,572    | 22,811  | 22,885  |
| Discretionary Portfolio      | 30,341    | 34,095  | 32,123  |
| Residential Mortgage Banking | 2,071     | 2,278   | 2,161   |
| Retail Banking               | 14,403    | 13,377  | 13,656  |
| All Other                    | 12,892    | 12,960  | 13,877  |
| Total                        | \$116,839 | 117,684 | 116,959 |

(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 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 (e.g. deposits). The taxable-equivalent adjustment aggregated \$5,967,000 and \$4,809,000 for the three-month periods ended March 31, 2019 and 2018, 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.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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. That investment had no remaining carrying value at March 31, 2019 as a result of cumulative losses recognized and cash distributions received in prior years. Income recognized by M&T is included in other revenues from operations and totaled \$37 million and \$23 million for the three-month periods ended March 31, 2019 and 2018, respectively.

Bayview Financial Holdings, L.P. (together with its affiliates, "Bayview Financial"), a privately-held specialty 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 \$2.5 billion at each of March 31, 2019 and December 31, 2018. Revenues from those servicing rights were \$3 million and \$4 million for the three-month periods ended March 31, 2019 and 2018, respectively. The Company sub-services residential mortgage loans for Bayview Financial having outstanding principal balances of \$54.9 billion and \$56.8 billion at March 31, 2019 and December 31, 2018, respectively. Revenues earned for sub-servicing loans for Bayview Financial were \$28 million and \$30 million for the three-month periods ended March 31, 2019 and 2018, respectively. In addition, the Company held \$108 million and \$113 million of mortgage-backed securities in its held-to-maturity portfolio at March 31, 2019 and December 31, 2018, respectively, that were securitized by Bayview Financial. At March 31, 2019, the Company held \$94 million of Bayview Financial's \$738 million syndicated loan facility. On January 31, 2019, the Company and Bayview Financial entered into an arrangement whereby the Company would add approximately \$7.9 billion to its residential mortgage loan sub-servicing portfolio, effective April 2, 2019.

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 16. Recent accounting developments

The following table provides a description of accounting standards that were adopted by the Company in 2019 as well as standards that are not effective that could have an impact to M&T's consolidated financial statements upon adoption.

| Standard   | Description   | Required date of adoption                       | Effect on consolidated financial statements   |
|--|---|---|---|
| <b>Standards Adopted in 2019</b>                           |   |   |   |
| Leases   | The new guidance requires lessees to record a right-of-use asset and a lease liability for all leases with a term greater than 12 months. While the guidance requires all 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 those 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. | January 1, 2019<br><br>Early adoption permitted | The Company adopted the guidance on January 1, 2019 and applied the guidance retrospectively at the beginning of the period of adoption. The Company occupies certain banking offices and uses certain equipment under noncancelable operating lease agreements which prior to the adoption of the guidance were not reflected in its consolidated balance sheet. Upon adoption, the Company recognized a right-of-use asset of \$394 million and increased liabilities by \$399 million as a result of recognizing lease liabilities in its consolidated balance sheet. The new guidance did not have a material impact on the Company's consolidated statement of income. |
| Premium Amortization on Purchased Callable Debt Securities | The amended guidance requires the premium on callable debt securities to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity.  | January 1, 2019                                 | The Company adopted the amended guidance effective January 1, 2019 and applied the modified retrospective approach for reporting purposes. The  |

Early adoption permitted adoption did not have a material effect on the Company's consolidated financial position nor on its results of operations.

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 16. Recent accounting developments, continued

| Standard  | Description  | Required date of adoption   | Effect on consolidated financial statements  |
|---|--|---|--|
| Standards Not Yet Adopted as of March 31, 2019        |  |   |  |
| Measurement of Credit Losses on Financial Instruments | The amended guidance replaces the current incurred loss model for determining the allowance for credit losses. The guidance requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. The allowance for credit losses will represent a valuation account that is deducted from the amortized cost basis of the financial assets to present their net carrying value at the amount expected to be collected. The income statement will reflect the measurement of credit losses for newly recognized financial assets as well as expected increases or decreases of expected credit losses that have taken place during the period. When determining the allowance, expected credit losses over the contractual term of the financial asset(s) (taking into account prepayments) will be estimated considering relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. The amended guidance also requires recording an allowance for credit losses for purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. The initial allowance for these assets will be added to the purchase price at acquisition rather than being reported as an expense. Subsequent changes in the allowance will be recorded through the income statement as an expense adjustment. In addition, the amended guidance requires credit losses relating | January 1, 2020<br><br>Early adoption permitted as of January 1, 2019 | The Company is continuing the development of its approach for determining expected credit losses under the new guidance. The Company has a cross-functional implementation team working on model development, model validation, and development of a qualitative framework, data sourcing, and technology enhancements. The Company expects that the new guidance will result in an increase in its allowance for credit losses as a result of considering credit losses over the expected life of its loan portfolios, in particular its consumer and residential real estate loan portfolios. Increases in the level of allowances will reflect new requirements to include the nonaccretable principal difference on purchased credit impaired loans and estimated credit losses on investment securities classified as held-to-maturity, if any. The expected changes to the allowance for credit losses and the impact to the Company's financial statements are still to be determined. The amount of the change will be affected by economic conditions, reasonable forecasts of such conditions and the composition of the Company's |

to available-for-sale debt securities to be recorded through an allowance for credit losses. The calculation of credit losses for available-for-sale securities will be similar to how it is determined under existing guidance.

portfolio as of the date of adoption.

Simplifying the Test for Goodwill Impairment

The amended guidance eliminates step 2 from the goodwill impairment test.

January 1, 2020

Early adoption permitted

The amendments should be applied using a prospective transition method. The Company does not expect the guidance will have a material impact on its consolidated financial statements, unless at some point in the future one of its reporting units were to fail step 1 of the goodwill impairment test.

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 16. Recent accounting developments, continued

| Standard   | Description   | Required date                                   | Effect on consolidated financial statements   |
|--|---|---|---|
| Standards Not Yet Adopted as of March 31, 2019                     |   |   |   |
| Changes to the Disclosure Requirements for Fair Value Measurements | The amended guidance modifies the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurements. The amendments are a result of the disclosure framework project that focuses on improvements to the effectiveness of disclosures in the notes to financial statements. The amendments remove, modify, and add certain disclosure requirements. The disclosure requirements being removed relating to public companies are (1) the amount and reason for transfers between Level 1 and Level 2 of the fair value hierarchy, (2) the policy for timing of transfers between levels, and (3) the valuation process for Level 3 fair value measurements. The disclosure requirements being modified relating to public companies are (1) for investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's asset and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly, and (2) the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as a result of the use of unobservable inputs. The disclosure requirements being added relating to public companies are (1) to disclose the changes in unrealized gains and losses for the period for recurring Level 3 fair value measurements, and (2) to disclose the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. | January 1, 2020<br><br>Early adoption permitted | The amendments relating to changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurements uncertainty should be applied prospectively. All other amendments should be applied retrospectively. The Company does not expect the guidance to have a material impact on its consolidated financial statements. |



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|   |  |                          |  |
|---|--|--------------------------|--|
| Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract | The amended guidance requires a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize and which costs to expense. | January 1, 2020          | The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is evaluating the impact that the guidance will have on its consolidated financial statements. |
|   |  | Early adoption permitted |  |

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

## 16. Recent accounting developments, continued

| Standard   | Description   | Required date of adoption                       | Effect on consolidated financial statements   |
|--|---|---|---|
| Standards Not Yet Adopted as of March 31, 2019                   |   |   |   |
| Improvements to Related Party Guidance for VIEs                  | The amended guidance requires that indirect interests held through related parties in common control arrangements should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests.   | January 1, 2020<br><br>Early adoption permitted | The amendments should be applied retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. The Company does not expect the guidance to have a material impact on its consolidated financial statements. |
| Changes to the Disclosure Requirements for Defined Benefit Plans | The amended guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amendments are a result of the disclosure framework project that focuses on improvements to the effectiveness of disclosures in the notes to financial statements. The amendments remove and add certain disclosure requirements. The disclosure requirements being removed relating to public companies are (1) the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year, (2) the amount and timing of plan assets expected to be returned to the employer, (3) the 2001 disclosure requirement relating to Japanese Welfare Pension Insurance Law, (4) related party disclosures about the amount of future annual benefits covered by insurance, and (5) the effects of a one-percentage-point change in assumed health care cost trends on the benefit cost and obligation. The disclosure requirements being added relating to public companies are (1) the weighted-average interest crediting rates for cash balance plans, and (2) an | January 1, 2021<br><br>Early adoption permitted | The amendments should be applied retrospectively. The Company does not expect the guidance to have a material impact on its consolidated financial statements.  |

explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period.

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 2019 was \$483 million or \$3.35 of diluted earnings per common share, compared with \$353 million or \$2.23 of diluted earnings per common share in the year-earlier quarter. During the fourth quarter of 2018, net income and diluted earnings per common share were \$546 million and \$3.76, respectively. Basic earnings per common share were \$3.35 in the recent quarter, compared with \$2.24 and \$3.76 in the first and fourth quarters of 2018, respectively. The annualized rate of return on average total assets for M&T and its consolidated subsidiaries ("the Company") in the first quarter of 2019 was 1.68%, compared with 1.22% in the year-earlier quarter and 1.84% in the final quarter of 2018. The annualized rate of return on average common shareholders' equity was 13.14% in the recent quarter, compared with 9.15% in the similar 2018 quarter and 14.80% in 2018's fourth quarter.

During the first quarter of 2019, the Company increased its reserve for legal matters by \$50 million in conjunction with matters associated with a subsidiary's role as trustee of Employee Stock Ownership Plans in its Institutional Client Services business. That increase, on an after-tax basis, reduced net income in the recent quarter by \$37 million, or \$.27 of diluted earnings per common share. Also during the recent quarter, M&T realized \$37 million of distributed income from Bayview Lending Group LLC ("BLG"), increasing net income in the quarter by \$28 million, or \$.20 of diluted earnings per common share.

As of March 31, 2018, the Company increased its reserve for legal matters by \$135 million in anticipation of the settlement of a civil litigation matter by a wholly-owned subsidiary of M&T, Wilmington Trust Corporation ("WT Corp."), that related to periods prior to the acquisition of WT Corp. by M&T. The increase, on an after-tax basis, reduced net income by \$102 million or \$.68 of diluted earnings per common share in the initial quarter of 2018. That matter received final court approval and is now settled. Additionally, M&T realized \$23 million of income from a distribution by BLG during 2018's first quarter, increasing net income in that quarter by \$17 million, or \$.11 of diluted earnings per common share. Legal-related accruals and income from BLG were not significant in the fourth quarter of 2018.

In the fourth quarter 2018, M&T received approval from the Internal Revenue Service to change its tax return treatment for certain loan fees retroactive to 2017. Given the reduction in Federal income tax rates resulting from the Tax Cuts and Jobs Act ("the Tax Act") that was enacted on December 22, 2017, that change in treatment resulted in a \$15 million reduction of income tax expense in 2018's fourth quarter. Following receipt of the approval, the Company increased its fourth quarter contribution to The M&T Charitable Foundation to \$20 million that, after applicable tax effect, reduced net income by \$15 million. There were no similar items in the first quarter of 2019 or 2018.

Effective January 1, 2019, the Company adopted new accounting guidance for leases. The new guidance requires lessees to record a right-of-use asset and a lease liability for all leases with a term greater than twelve months. The accounting applied by lessors is largely unchanged, however, the guidance eliminates the accounting model for leveraged leases that commence after December 31, 2018. The Company occupies certain banking offices and uses certain equipment under noncancelable operating lease agreements which, prior to January 1, 2019, were not reflected in its consolidated balance sheet. As of January 1, 2019, the Company recorded right-of-use assets of \$394 million and increased lease liabilities of \$399 million in its consolidated balance sheet. The adoption of the new guidance did not have a material impact on the consolidated statement of income for the three-month period ended March 31, 2019. For additional information on leases, see notes 3 and 4 of Notes to Financial Statements.

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. Although “net operating income” as defined by M&T is not a GAAP

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measure, M&T's management believes that this information helps investors understand the effect of acquisition activity in reported results.

Net operating income aggregated \$486 million in the first quarter of 2019, compared with \$357 million in the year-earlier quarter. Diluted net operating earnings per common share for the first three months of 2019 were \$3.38, compared with \$2.26 in the initial 2018 quarter. Net operating income and diluted net operating earnings per common share were \$550 million and \$3.79, respectively, in the fourth quarter of 2018.

Net operating income in the recent quarter expressed as an annualized rate of return on average tangible assets was 1.76%, compared with 1.28% and 1.93% in the first and fourth quarters of 2018. Net operating income represented an annualized return on average tangible common equity of 19.56% in the recent quarter, compared with 13.51% in the similar quarter of 2018 and 22.16% in the final 2018 quarter.

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

#### Taxable-equivalent Net Interest Income

Taxable-equivalent net interest income was \$1.06 billion in the first quarter of 2019, up 8% from \$980 million in the initial quarter of 2018. That growth resulted predominantly from a widening of the net interest margin, or taxable-equivalent net interest income expressed as an annualized percentage of average earning assets, to 4.04% in the recent quarter from 3.71% in the first quarter of 2018. The improvement in the net interest margin was largely the result of the higher interest rate environment due to actions initiated by the Federal Reserve to raise its target Federal funds rate in .25% increments four times during 2018. The impact of the recent quarter's expansion of the net interest margin on net interest income was partially offset by a decline in average earning assets of \$1.1 billion as compared with the first three months of 2018, reflecting reduced holdings of mortgage-backed securities and residential mortgage loans. Taxable-equivalent net interest income in the recent quarter declined \$9 million, or 1%, from the fourth quarter of 2018. A 12 basis point (hundredths of one percent) widening of the net interest margin from 3.92% in the fourth quarter of 2018 was offset by a decline in average earning assets of \$1.7 billion. That decline resulted from lower interest-bearing deposits at banks of \$2.8 billion offset, in part, by higher average loan and lease balances of \$1.2 billion.

Average loans and leases totaled \$88.5 billion in the recent quarter, up \$710 million from \$87.8 billion in the first quarter of 2018. Commercial loans and leases averaged \$23.0 billion in the first quarter of 2019, \$1.5 billion or 7% higher than in the year-earlier quarter. Average commercial real estate loans were \$34.5 billion in the recent quarter, up \$872 million, or 3%, from \$33.7 billion in the initial quarter of 2018. Included in average commercial real estate loans in the first quarters of 2019 and 2018 were loans held for sale of \$280 million and \$120 million, respectively. Reflecting ongoing repayments of loans obtained in the 2015 acquisition of Hudson City Bancorp, Inc. ("Hudson City"), average residential real estate loans declined \$2.3 billion or 12% to \$16.9 billion in the first three months of 2019 from \$19.3 billion in the year-earlier quarter. Included in average residential real estate loans were loans held for sale of \$166 million in the recent quarter and \$300 million in the first quarter of 2018. Consumer loans averaged \$14.0 billion in the first quarter of 2019, up \$710 million, or 5%, from \$13.3 billion in the initial 2018 quarter, predominantly due to growth in average recreational finance (consisting predominantly of loans secured by recreational vehicles and boats) and automobile loans that was partially offset by declines in outstanding balances of home equity loans and lines of credit.

Average loan and lease balances in the first quarter of 2019 increased \$1.2 billion, or 1%, from \$87.3 billion in the fourth quarter of 2018. Average commercial loan and lease balances in the recent quarter were up \$634 million, or 3%, from \$22.4 billion in the fourth quarter of 2018. Average commercial real estate loans in the first quarter of 2019 increased \$938 million, or 3%, from \$33.6 billion in the fourth quarter of 2018. Commercial real estate loans held for

sale averaged \$252 million in the fourth quarter of 2018. Average balances of residential real estate loans in the initial 2019 quarter declined \$482 million, or 3%, from \$17.4 billion in the fourth quarter of 2018, reflecting the continued pay down of loans obtained in the acquisition of Hudson City. Residential real estate loans held for sale averaged \$229 million in the final 2018 quarter. Average consumer loans in the recent quarter increased \$86 million, or 1%, from \$13.9 billion in 2018's fourth quarter. The accompanying table summarizes quarterly changes in the major components of the loan and lease portfolio.

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## AVERAGE LOANS AND LEASES

(net of unearned discount)

|                             | 1st Qtr.<br>2019<br>(In<br>millions) | Percent<br>Increase<br>(Decrease)<br>from |                     |
|-----------------------------|--------------------------------------|---|---------------------|
|                             |                                      | 1st<br>Qtr.<br>2018                       | 4th<br>Qtr.<br>2018 |
| Commercial, financial, etc. | \$ 23,010                            | 7 %                                       | 3 %                 |
| Real estate — commercial    | 34,524                               | 3   | 3                   |
| Real estate — consumer      | 16,939                               | (12)                                      | (3 )                |
| Consumer                    |                                      |   |                     |
| Home equity lines and loans | 4,799                                | (8 )                                      | (2 )                |
| Recreational finance        | 4,198                                | 26  | 3                   |
| Automobile                  | 3,684                                | 3   | 1                   |
| Other                       | 1,323                                | 13  | 2                   |
| Total consumer              | 14,004                               | 5   | 1                   |
| Total                       | \$ 88,477                            | 1 %                                       | 1 %                 |

The investment securities portfolio is largely comprised of residential mortgage-backed securities and shorter-term U.S. Treasury and federal agency notes. When purchasing investment securities, the Company considers its liquidity position and its overall interest-rate risk profile as well as the adequacy of expected returns relative to risks assumed, including prepayments. The investment securities portfolio averaged \$12.9 billion in the first quarter of 2019, down \$1.5 billion, or 10%, from \$14.5 billion in the year-earlier quarter and \$86 million lower than the \$13.0 billion averaged in the fourth quarter of 2018. The lower average balances in the two most recent quarters as compared with the first quarter of 2018 reflect maturities and pay downs of mortgage-backed securities. During the recent quarter, the Company purchased \$500 million of U.S. Treasury notes. There were no significant purchases of investment securities during the first or fourth quarters of 2018.

Fair value changes in equity securities with readily determinable fair values are recognized in the consolidated statement of income. Net unrealized gains on such equity securities during the first quarter of 2019 were \$12 million, compared with net unrealized losses of \$9 million during the first quarter of 2018 and net unrealized gains of \$4 million in the final 2018 quarter. Those gains and losses were predominantly related to the Company's holdings of Fannie Mae and Freddie Mac preferred stock.

The Company may occasionally sell 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. There were no significant sales of investment securities during the three-month periods ended March 31, 2019, March 31, 2018 or December 31, 2018. The amounts of investment securities held by the Company are influenced by such factors as demand for loans, which generally yield more than investment securities and other earning assets, ongoing repayments, the levels of deposits, and management of liquidity and balance sheet size and resulting capital ratios.



The Company regularly reviews its investment securities for declines in value below amortized cost that might be characterized as “other than temporary.” There were no other-than-temporary impairment charges recognized in either of the first quarters of 2019 or 2018 or in the final 2018 quarter. Based on management’s assessment of future cash flows associated with individual investment securities as of March 31, 2019, the Company concluded that declines in value below amortized cost associated with individual investment securities were temporary in nature. A further discussion of fair values of investment securities is included herein under the heading “Capital.” Additional information about the investment securities portfolio is included in notes 2 and 12 of Notes to Financial Statements.

Other earning assets include interest-bearing deposits at the Federal Reserve Bank of New York and other banks, trading account assets and federal funds sold. Those other earning assets in the aggregate averaged \$4.7 billion in the recently completed quarter, compared with \$5.0 billion in the first quarter of 2018 and \$7.4 billion in the final quarter of 2018. Interest-bearing deposits at banks averaged \$4.6 billion, \$4.9 billion and \$7.4 billion

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during the three-month periods ended March 31, 2019, March 31, 2018 and December 31, 2018, respectively. The amounts of interest-bearing deposits at banks at the respective dates were predominantly comprised of deposits held at the Federal Reserve Bank of New York. The levels of those deposits often fluctuate due to changes in trust-related deposits of commercial entities, purchases or maturities of investment securities, or borrowings to manage the Company's liquidity.

As a result of the changes described herein, average earning assets totaled \$106.1 billion in the most recent quarter, compared with \$107.2 billion in the initial 2018 quarter and \$107.8 billion in the fourth quarter of 2018.

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 \$84.8 billion in the first quarter of 2019, compared with \$88.9 billion in the year-earlier quarter and \$86.9 billion in the final quarter of 2018. The decline in average core deposits in the recent quarter from the first quarter of 2018 reflected lower balances of noninterest-bearing deposits, including trust and commercial customer deposits, and savings and interest-checking deposits, including escrow deposits. As compared with the 2018's fourth quarter, the most significant factor contributing to the lower average core deposits in the recent quarter was a \$2.3 billion decline in noninterest-bearing deposits, due in part to lower average balances of trust customer deposits. The following table provides an analysis of quarterly changes in the components of average core deposits.

#### AVERAGE CORE DEPOSITS

|  | 1st Qtr.<br>2019<br>(In millions) | Percent<br>Increase<br>(Decrease)<br>from<br>1st 4th<br>Qtr. Qtr.<br>2018 2018 |       |
|--|-----------------------------------|--|-------|
|  |                                   |  |       |
| Savings and interest-checking deposits | \$ 49,224                         | (4) %  | — %   |
| Time deposits                          | 5,302                             | (6)  | 3     |
| Noninterest-bearing deposits           | 30,315                            | (5)  | (7)   |
| Total                                  | \$ 84,841                         | (5) %  | (2) % |

The Company also receives funding from other deposit sources, including branch-related time deposits over \$250,000, deposits associated with the Company's Cayman Islands office and brokered deposits. Time deposits over \$250,000, excluding brokered deposits, averaged \$1.0 billion in the recent quarter, compared with \$605 million in the first quarter of 2018 and \$821 million in the fourth 2018 quarter. The increases in such deposits since the first quarter of 2018 were predominantly the result of the higher interest rate environment and customers' desire to earn a higher return on their deposits. Cayman Islands office deposits averaged \$972 million, \$248 million and \$693 million for the quarters ended March 31, 2019, March 31, 2018 and December 31, 2018, respectively. The increases in such deposits from the first and fourth quarters of 2018 to the recent quarter were the result of customers' desire to sweep their deposit balances into higher earning products. The Company had brokered savings and interest-bearing transaction

accounts, which in the aggregate averaged \$2.9 billion, \$1.3 billion and \$2.7 billion during the first quarter of 2019, the corresponding 2018 quarter and the fourth quarter of 2018, respectively. 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 one year or less. Average short-term borrowings totaled \$1.1 billion in the initial 2019 quarter, compared with \$280 million in the year-earlier quarter and \$315 million in the final quarter of 2018. Included in short-term borrowings were unsecured federal

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funds borrowings, which generally mature on the next business day, that averaged \$320 million and \$141 million in the first quarters of 2019 and 2018, respectively, and \$166 million in the last three months of 2018. Overnight federal funds borrowings totaled \$3.4 billion at March 31, 2019, \$177 million at March 31, 2018 and \$137 million at December 31, 2018. Short-term borrowings from Federal Home Loan Banks averaged \$718 million in the recent quarter, \$87 million in the first quarter of 2018 and \$85 million in the fourth quarter of 2018. In general, the higher borrowings were entered into to help ensure compliance with Liquidity Coverage Ratio (“LCR”) requirements and for other liquidity purposes. The LCR requirements are intended to ensure that banks hold a sufficient amount of “high quality liquid assets” to cover the anticipated net cash outflows during a hypothetical acute 30-day stress scenario. For additional information concerning the LCR rules, refer to Part I, Item 1 of M&T’s Form 10-K for the year ended December 31, 2018 under the heading “Liquidity.”

Long-term borrowings averaged \$8.5 billion in the recent quarter, compared with \$8.6 billion and \$9.2 billion in the first and fourth quarters of 2018, respectively. Average balances of outstanding senior unsecured notes were \$5.5 billion during each of the three-month periods ended March 31, 2019 and March 31, 2018 and \$6.3 billion during the quarter ended December 31, 2018. In December 2018, M&T Bank, the principal bank subsidiary of M&T, redeemed \$750 million of fixed rate senior notes that were due to mature on January 31, 2019. Also included in average long-term borrowings were amounts borrowed from the Federal Home Loan Banks of New York and Pittsburgh of \$576 million in the recent quarter and \$577 million during each of the first and fourth quarters of 2018. Subordinated capital notes included in long-term borrowings averaged \$1.4 billion in each of the three-month periods ended March 31, 2019 and December 31, 2018 and \$1.6 billion in the three-month period ended March 31, 2018. Junior subordinated debentures associated with trust preferred securities that were included in average long-term borrowings were \$522 million in each of the three-month periods ended March 31, 2019 and December 31, 2018 and \$520 million during the initial three months of 2018. Additional information regarding junior subordinated debentures is provided in note 5 of Notes to Financial Statements. Long-term borrowings also included agreements to repurchase securities, which averaged \$408 million in the first quarter of 2019, \$420 million in the year-earlier quarter and \$411 million in the fourth quarter of 2018. The repurchase agreements held at March 31, 2019 totaled \$406 million and have various repurchase dates through 2020, however, the contractual maturities of the underlying securities extend beyond such repurchase dates.

Net interest income can be impacted by 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. Net interest spread, or the difference between the taxable-equivalent yield on earning assets and the rate paid on interest-bearing liabilities, was 3.67% in the recent quarter, compared with 3.47% in the initial 2018 quarter. The yield on earning assets during the first three months of 2019 was 4.71%, up 60 basis points from 4.11% in the year-earlier period, while the rate paid on interest-bearing liabilities increased 40 basis points to 1.04% in the recent quarter from .64% in the corresponding 2018 period. In the fourth quarter of 2018, the net interest spread was 3.57%, the yield on earning assets was 4.51% and the rate paid on interest-bearing liabilities was .94%. The widening of the net interest spread in each comparison was largely due to the effect of increases in short-term interest rates initiated by the Federal Reserve during 2017 and 2018 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 \$37.1 billion in the first three months of 2019, compared with \$39.3 billion in the initial 2018 quarter and \$39.8 billion in the fourth quarter of 2018. The decrease in average net interest-free funds in the most recent quarter as compared with the first and fourth quarters of 2018 reflects lower average balances of noninterest-bearing deposits. Those deposits averaged \$30.3 billion, \$32.0 billion and \$32.6 billion in the quarters ended March 31, 2019, March 31, 2018 and December 31, 2018, respectively. The decline in such balances in the recent quarter as compared with the first and fourth quarters of 2018 was due to lower levels of deposits of commercial and trust customers. Shareholders’ equity averaged \$15.6 billion during the three-month period ended

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March 31, 2019, \$16.1 billion during the three-month period ended March 31, 2018 and \$15.4 billion during the three-month period ended December 31, 2018. Goodwill and core deposit and other intangible assets averaged \$4.6 billion in each of the two most recent quarters, compared with \$4.7 billion in the quarter ended March 31, 2018. The cash surrender value of bank owned life insurance averaged \$1.8 billion in each of the three-month

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periods ended March 31, 2019, March 31, 2018 and December 31, 2018. 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 .37% in the first quarter of 2019, compared with .24% and .35% in the first quarter of 2018 and fourth quarter of 2018, respectively. The increased contribution of net interest-free funds to net interest margin in the two most recent quarters as compared with the initial 2018 quarter reflects the higher rates on interest-bearing liabilities used to value net interest-free funds.

Reflecting the changes to the net interest spread and the contribution of interest-free funds as described herein, the Company’s net interest margin was 4.04% in the first quarter of 2019, compared with 3.71% in the similar 2018 period and 3.92% in the final quarter of 2018. Future changes in market interest rates or spreads, as well as changes in the composition of the Company’s portfolios of earning assets and interest-bearing liabilities that result in reductions in spreads, could adversely impact the Company’s net interest income and net interest margin.

Management assesses the potential impact of future changes in interest rates and spreads by projecting net interest income under several interest rate scenarios. In managing interest rate risk, the Company has utilized interest rate swap agreements to modify the repricing characteristics of certain portions of its earning assets and interest-bearing liabilities. Periodic settlement amounts arising from these agreements are reflected in either the yields on earning assets or the rates paid on interest-bearing liabilities. The notional amount of interest rate swap agreements entered into for interest rate risk management purposes was \$17.8 billion (excluding \$16.4 billion of forward-starting swap agreements) at March 31, 2019, \$7.6 billion (excluding \$2.0 billion of forward-starting swap agreements) at March 31, 2018 and \$7.3 billion (excluding \$12.6 billion of forward-starting swap agreements) at December 31, 2018. 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. Interest rate swap agreements with notional amounts of \$13.4 billion at March 31, 2019 and \$2.85 billion at March 31, 2018 and December 31, 2018 were serving as cash flow hedges of interest payments associated with variable rate commercial real estate loans. At March 31, 2019, March 31, 2018 and December 31, 2018, interest rate swap agreements with notional amounts of \$4.45 billion, \$4.7 billion and \$4.45 billion, respectively, were serving as fair value hedges of fixed rate long-term borrowings.

In a fair value hedge, the fair value of the derivative (the interest rate swap agreement) and changes in the fair value of the hedged item are recorded in the Company’s consolidated balance sheet with the corresponding gain or loss recognized in current earnings. The difference between changes in the fair value of the interest rate swap agreements and the hedged items represents hedge ineffectiveness and is recorded as an adjustment to the interest income or interest expense of the respective hedged item. In a cash flow hedge, the effective portion of the derivative’s gain or loss is initially reported as a component of other comprehensive income and subsequently reclassified into earnings when the forecasted transaction affects earnings. The ineffective portion of the derivative’s gain or loss on cash flow hedges is accounted for similar to that associated with fair value hedges. The amounts of hedge ineffectiveness recognized during each of the quarters ended March 31, 2019, March 31, 2018 and December, 2018 were not material to the Company’s consolidated results of operations. Information regarding the fair value of interest rate swap agreements and hedge ineffectiveness is presented in note 10 of Notes to Financial Statements. 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 weighted-average rates to be received and paid under interest rate swap agreements currently in effect were 2.33% and 2.63%, respectively, at March 31, 2019. 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.



## INTEREST RATE SWAP AGREEMENTS

|                             | Three Months Ended March 31 |         |             |         |
|-----------------------------|-----------------------------|---------|-------------|---------|
|                             | 2019                        |         | 2018        |         |
|                             | Amount                      | Rate(a) | Amount      | Rate(a) |
|                             | (Dollars in thousands)      |         |             |         |
| Increase (decrease) in:     |                             |         |             |         |
| Interest income             | \$(6,625 )                  | (.03 )% | \$(580 )    | — %     |
| Interest expense            | 6,385                       | .04     | (1,529 )    | (.01 )  |
| Net interest income/margin  | \$(13,010 )                 | (.05 )% | \$949       | .01 %   |
| Average notional amount (c) | \$12,662,778                |         | \$7,631,667 |         |
| Rate received (b)           |                             | 2.28 %  |             | 2.04 %  |
| Rate paid (b)               |                             | 2.69 %  |             | 1.99 %  |

(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.

(c) Excludes forward-starting interest rate swap agreements not in effect during the period.

In addition to interest rate swap agreements, the Company has entered into interest rate floor agreements that are accounted for in the trading account rather than as hedging instruments but, nevertheless, provide the Company with protection against the possibility of future declines in interest rates on earning assets. At each of March 31, 2019, March 31, 2018 and December 31, 2018, outstanding notional amounts of such agreements totaled \$15.6 billion. The fair value of those interest rate floor agreements was \$1.4 million at March 31, 2019, \$6.5 million at March 31, 2018 and \$1.9 million at December 31, 2018 and was included in trading account assets in the consolidated balance sheet. Changes in the fair value of those agreements are recorded as “trading account and foreign exchange gains” in the consolidated statement of income.

As a financial intermediary, the Company is exposed to various risks, including liquidity and market risk. Liquidity refers to the Company’s ability to ensure that sufficient cash flow and liquid assets are available to satisfy current and future obligations, including demands for loans and deposit withdrawals, funding operating costs, and other corporate purposes. Liquidity risk arises whenever the maturities of financial instruments included in assets and liabilities differ. The most significant source of funding for the Company is deposits, which are generated from a large base of consumer, corporate and institutional customers. That customer base has, over the past several years, become more geographically diverse as a result of acquisitions and expansion of the Company’s businesses. Nevertheless, the Company faces competition in offering products and services from a large array of financial market participants, including banks, thrifts, mutual funds, securities dealers and others. The Company supplements funding provided through deposits with various short-term and long-term wholesale borrowings. M&T’s bank subsidiaries have access to additional funding sources through borrowings from the FHLB of New York, lines of credit with the Federal Reserve Bank of New York, M&T Bank’s Bank Note Program, and other available borrowing facilities. The Bank Note Program enables M&T Bank to offer unsecured senior and subordinated notes. The Company has, from time to time, also issued subordinated capital notes and junior subordinated debentures associated with trust preferred securities to provide liquidity and enhance regulatory capital ratios. The Company’s junior subordinated debentures associated with trust preferred securities and other subordinated capital notes are considered Tier 2 capital and are includable in total regulatory capital. At March 31, 2019 and December 31, 2018, long-term borrowings aggregated \$8.5 billion and \$8.4 billion, respectively.

The Company has informal and sometimes reciprocal sources of funding available through various arrangements for unsecured short-term borrowings from other banks and financial institutions. Short-term federal funds borrowings



were \$3.4 billion, \$177 million and \$137 million at March 31, 2019, March 31, 2018 and December 31, 2018, respectively. In general, those borrowings were unsecured and matured on the next business day. The increase at the recent quarter-end as compared with March 31, 2018 and December 31, 2018 represented borrowings associated with the Company's management of its liquidity position, including compliance with LCR requirements. Cayman Islands office deposits are generally used to satisfy customer demand via a deposit sweep product, and may also be used as an alternative to short-term borrowings. Cayman Islands office deposits totaled

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\$1.1 billion at March 31, 2019, \$278 million at March 31, 2018 and \$812 million at December 31, 2018. The Company has also benefited from the placement of brokered deposits. The Company had brokered savings and interest-bearing checking deposit accounts which aggregated approximately \$2.8 billion at March 31, 2019, \$1.3 billion at March 31, 2018 and \$3.0 billion at December 31, 2018. Brokered time deposits were not a significant source of funding as of those dates.

The Company's ability to obtain funding from these 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 funding become restricted due to a disruption in the financial markets. The Company attempts to quantify such credit-event risk by modeling scenarios that estimate the liquidity impact resulting from a short-term ratings downgrade over various grading levels. Such impact is estimated by attempting to measure the effect on available unsecured lines of credit, available capacity from secured borrowing sources and securitizable assets. 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 was not material at March 31, 2019 or December 31, 2018. The total amounts of VRDBs outstanding backed by M&T Bank letters of credit were \$756 million at March 31, 2019, compared with \$1.0 billion at March 31, 2018 and \$793 million at December 31, 2018. 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 that 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 bank subsidiaries, which are subject to various regulatory limitations. Dividends from any bank subsidiary to M&T are limited by the amount of earnings of the subsidiary in the current year and the two preceding years. For purposes of that test, at March 31, 2019 approximately \$567 million was available for payment of dividends to M&T from bank subsidiaries. M&T also may obtain funding through long-term borrowings. Outstanding senior notes of M&T at March 31, 2019 and December 31, 2018 were \$761 million and \$756 million, respectively. Junior subordinated debentures of M&T associated with trust preferred securities outstanding at March 31, 2019 and December 31, 2018 totaled \$523 million and \$522 million, respectively.

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

Company is in compliance with the requirements of those rules.

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Market risk is the risk of loss from adverse changes in the market prices and/or interest rates of the Company's financial instruments. The primary market risk the Company is exposed to is interest rate risk. Interest rate risk arises from the Company's core banking activities of lending and deposit-taking, because assets and liabilities reprice at different times and by different amounts as interest rates change. As a result, net interest income earned by the Company is subject to the effects of changing interest rates. The Company measures interest rate risk by calculating the variability of net interest income in future periods under various interest rate scenarios using projected balances for earning assets, interest-bearing liabilities and derivatives used to manage interest rate risk. Management's philosophy toward interest rate risk management is to limit the variability of net interest income. The balances of financial instruments used in the projections are based on expected growth from forecasted business opportunities, anticipated prepayments of loans and investment securities, and expected maturities of investment securities, loans and deposits. Management uses a "value of equity" model to supplement the modeling technique described above. Those supplemental analyses are based on discounted cash flows associated with on- and off-balance sheet financial instruments. Such analyses are modeled to reflect changes in interest rates and provide management with a long-term interest rate risk metric. The Company has entered into interest rate swap agreements to help manage exposure to interest rate risk. At March 31, 2019, the aggregate notional amount of interest rate swap agreements entered into for risk management purposes that were currently in effect was \$17.8 billion. In addition, the Company has entered into \$16.4 billion of forward-starting interest rate swap agreements that will become effective as other swap agreements mature.

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, market-implied forward interest rates over the subsequent twelve months are generally used to determine a base interest rate scenario for the net interest income simulation. That calculated base net interest income is then compared to the income calculated under the varying interest rate scenarios. 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, 2019 and December 31, 2018 displays the estimated impact on net interest income 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

|                           | Calculated Increase (Decrease) |
|---------------------------|--------------------------------|
|                           | in Projected Net Interest      |
|                           | Income                         |
| Changes in interest rates | December 31, 2018              |

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March 31,  
2019  
(In thousands)

|                   |            |           |
|-------------------|------------|-----------|
| +200 basis points | \$(17,911) | 37,513    |
| +100 basis points | 5,430      | 36,727    |
| -100 basis points | (74,346)   | (114,307) |

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

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volumes and pricing, and deposit maturities. In the scenarios presented, the Company also assumed gradual changes in interest rates during a twelve-month period as compared with the base scenario. In the declining rate scenario, the rate changes may be limited to lesser amounts such that interest rates remain positive on all points of the yield curve. 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. The sensitivity of net interest income to changes in interest rates has lessened as of March 31, 2019 as compared with the December 31, 2018 as the Company has entered into interest rate swap agreements to mitigate exposure to declining interest rates. The Company has also entered into interest rate floor agreements that are included in the trading account. Such floor agreements provide the Company with protection against the possibility of future declines in interest rates on its earning assets. In light of the uncertainties and assumptions associated with the process, the amounts presented in the table are not considered significant to the Company's past or projected net interest income.

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 2 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 for trading account activities consist predominantly of interest rate contracts, such as interest rate 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 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 totaled \$43.3 billion at March 31, 2019, \$39.5 billion at March 31, 2018 and \$42.9 billion at December 31, 2018. The notional amounts of foreign currency and other option and futures contracts entered into for trading account purposes were \$832 million at March 31, 2019, compared with \$538 million at March 31, 2018 and \$763 million at December 31, 2018. Although the notional amounts of these contracts are not recorded in the consolidated balance sheet, the unsettled 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 recognized on the balance sheet were \$276 million and \$99 million, respectively, at March 31, 2019 and \$186 million and \$178 million, respectively, at December 31, 2018. The fair value asset and liability amounts at March 31, 2019 have been reduced by contractual settlements of \$88 million and \$123 million, respectively, and at December 31, 2018 have been reduced by contractual settlements of \$171 million and \$50 million, respectively. Included in trading account assets were assets related to deferred compensation plans aggregating \$21 million at each of March 31, 2019, March 31, 2018 and December 31, 2018. Changes in the fair values 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, 2019 were \$24 million of liabilities related to deferred compensation plans, compared with \$26 million at March 31, 2018 and \$25 million at December 31, 2018. Changes in the balances of such liabilities due to the valuation of allocated investment options to which the liabilities are indexed are recorded in "other costs of operations" in the consolidated statement of

income. Also included in trading account assets were investments in mutual funds and other assets that the Company was required to hold under terms of certain non-qualified supplemental retirement and other benefit

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plans that were assumed by the Company in various acquisitions. Those assets totaled \$26 million at March 31, 2019 and \$25 million at each of March 31, 2018 and December 31, 2018.

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 2019 was \$22 million, compared with \$43 million in the year-earlier quarter and \$38 million in the fourth quarter of 2018. Net charge-offs of loans were \$22 million in the recent quarter, compared with \$41 million and \$38 million in the first and fourth quarters of 2018, respectively. Net charge-offs as an annualized percentage of average loans and leases were .10% in the initial 2019 quarter, .19% in the similar quarter of 2018 and .17% in the final quarter of 2018. A summary of net charge-offs by loan type is presented in the table that follows.

#### NET CHARGE-OFFS (RECOVERIES)

##### BY LOAN/LEASE TYPE

|                                      | First<br>Quarter<br>2019<br>(In thousands) | First<br>Quarter<br>2018 | Fourth<br>Quarter<br>2018 |
|--------------------------------------|--|--------------------------|---------------------------|
| Commercial, financial, leasing, etc. | \$706                                      | 9,758                    | 9,593                     |
| Real estate:                         |  |                          |                           |
| Commercial                           | (543 )                                     | 1,143                    | (369 )                    |
| Residential                          | 1,542                                      | 2,844                    | 1,988                     |
| Consumer                             | 20,402                                     | 26,782                   | 26,832                    |
|                                      | \$22,107                                   | 40,527                   | 38,044                    |

Included in net charge-offs of consumer loans were net charge-offs of: automobile loans of \$7 million in the initial quarter of 2019, \$10 million in the first quarter of 2018 and \$9 million in the fourth quarter of 2018; recreational finance loans of \$7 million in the first quarter of 2019, \$5 million in the year-earlier quarter and \$6 million in the fourth quarter of 2018; and home equity loans and lines of credit secured by one-to-four family residential properties of \$1 million in each of the recent quarter and final 2018 quarter and \$2 million in the first quarter of 2018.

Loans acquired in connection with acquisition transactions subsequent to 2008 were recorded at fair value with no carry-over of any previously recorded allowance for credit losses. Determining the fair value of the acquired loans required estimating cash flows expected to be collected on the loans and discounting those cash flows at then-current interest rates. For acquired loans where fair value was less than outstanding principal as of the acquisition date and the resulting discount was due, at least in part, to credit deterioration, the excess of expected cash flows over the carrying value of the loans is recognized as interest income over the lives of loans. The difference between contractually required payments and the cash flows expected to be collected is referred to as the nonaccretable balance and is not recorded on the consolidated balance sheet. The nonaccretable balance reflects estimated future credit



losses and other contractually required payments that the Company does not expect to collect. The Company regularly evaluates the reasonableness of its cash flow projections associated with such loans, including its estimates of lifetime principal losses. Any decreases to the expected cash flows require the Company to evaluate the need for an additional allowance for credit losses and could lead to charge-offs of loan balances. Any significant increases in expected cash flows result in additional interest income to be recognized over the then-remaining lives of the loans. The carrying amount of loans acquired at a discount subsequent to 2008 and accounted for based on expected cash

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flows was \$686 million, \$939 million and \$727 million at March 31, 2019, March 31, 2018 and December 31, 2018, respectively. The nonaccretable balance related to remaining principal losses associated with loans acquired at a discount as of March 31, 2019 and December 31, 2018 is presented in the accompanying table.

#### NONACCREDITABLE BALANCE - PRINCIPAL

|                                      | Remaining balance |                   |
|--------------------------------------|-------------------|-------------------|
|                                      | March 31, 2019    | December 31, 2018 |
|                                      | (In thousands)    |                   |
| Commercial, financial, leasing, etc. | \$ 1,672          | 3,106             |
| Commercial real estate               | 7,203             | 7,545             |
| Residential real estate              | 24,979            | 25,817            |
| Consumer                             | 4,151             | 6,099             |
| Total                                | \$38,005          | 42,567            |

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 loans acquired in 2015 at a premium was \$8.9 billion and \$9.3 billion at March 31, 2019 and December 31, 2018, respectively. 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. Rather, subsequent to the acquisition date, incurred losses associated with those loans are evaluated using methods consistent with those applied to originated loans and such losses are considered by management in evaluating the Company's allowance for credit losses.

Nonaccrual loans aggregated \$882 million or .99% of total loans and leases outstanding at March 31, 2019, compared with \$865 million or .99% a year earlier and \$894 million or 1.01% at December 31, 2018.

Accruing loans past due 90 days or more (excluding loans acquired at a discount) were \$244 million, or .28% of total loans and leases at March 31, 2019, compared with \$235 million or .27% at March 31, 2018 and \$223 million or .25% at December 31, 2018. Those amounts included loans guaranteed by government-related entities of \$195 million, \$224 million and \$192 million at March 31, 2019, March 31, 2018, and December 31, 2018, respectively. Guaranteed loans included one-to-four family residential mortgage loans serviced by the Company that were repurchased to reduce associated servicing costs, including a requirement to advance principal and interest payments that had not been received from individual mortgagors. Despite the loans being purchased by the Company, the insurance or guarantee by the applicable government-related entity remains in force. The outstanding principal balances of the repurchased loans that are guaranteed by government-related entities totaled \$169 million at March 31, 2019, \$194 million at March 31, 2018 and \$165 million at December 31, 2018. 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 contractually required principal and interest payments. Those loans were impaired at the date of acquisition, were recorded at estimated fair value and were generally delinquent in payments, but, in accordance with GAAP, the Company continues to accrue interest income on such loans based on the estimated expected cash flows associated with the loans. The carrying amount of such loans was \$279 million at March 31, 2019 or .3% of total loans, compared with \$378 million at March 31, 2018 and \$303 million at December 31, 2018.

The Company modified the terms of select loans in an effort to assist borrowers. If the borrower was experiencing financial difficulty and a concession was granted, the Company considered such modifications as troubled debt restructurings. Loan modifications included such actions as the extension of loan maturity dates and

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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 3 of Notes to Financial Statements.

Residential real estate loans modified under specified loss mitigation programs prescribed by government guarantors have not been included in renegotiated loans because the loan guarantee remains in full force and, accordingly, the Company has not granted a concession with respect to the ultimate collection of the original loan balance. Such loans aggregated \$188 million, \$191 million, and \$179 million at March 31, 2019, March 31, 2018 and December 31, 2018, respectively.

Commercial loans and leases classified as nonaccrual totaled \$246 million, \$263 million and \$234 million at March 31, 2019, March 31, 2018 and December 31, 2018, respectively. Commercial real estate loans in nonaccrual status aggregated \$232 million, \$167 million and \$231 million at March 31, 2019, March 31, 2018 and December 31, 2018, respectively. The increase in such loans at the two most recent quarter-ends compared with March 31, 2018 was due, in part, to the addition during the third quarter of 2018 of an office development project in Maryland. Nonaccrual commercial real estate loans included construction-related loans of \$24 million at March 31, 2019, \$14 million at March 31, 2018 and \$27 million at December 31, 2018.

Nonaccrual residential real estate loans totaled \$295 million at March 31, 2019, compared with \$333 million at March 31, 2018 and \$318 million at December 31, 2018. Included in residential real estate loans classified as nonaccrual were limited documentation first mortgage loans of \$85 million at each of March 31, 2019 and December 31, 2018 and \$99 million at March 31, 2018. 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. The Company no longer originates limited documentation loans. Residential real estate loans past due 90 days or more and accruing interest (excluding loans acquired at a discount) aggregated \$200 million at March 31, 2019, compared with \$222 million at March 31, 2018 and \$190 million at December 31, 2018. 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, 2019 is presented in the accompanying table.

Nonaccrual consumer loans were \$109 million at March 31, 2019, compared with \$102 million at March 31, 2018 and \$110 million at December 31, 2018. Included in nonaccrual consumer loans at March 31, 2019, March 31, 2018 and December 31, 2018 were: automobile loans of \$21 million, \$21 million and \$23 million, respectively; recreational finance loans of \$11 million, \$5 million and \$11 million, respectively; and outstanding balances of home equity loans and lines of credit of \$69 million, \$73 million and \$71 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, 2019 is presented in the accompanying table.

Information about past due and nonaccrual loans as of March 31, 2019 and December 31, 2018 is also included in note 3 of Notes to Financial Statements.

## SELECTED RESIDENTIAL REAL ESTATE-RELATED LOAN DATA

|   | March 31, 2019                                    |                        |                                       | Quarter Ended<br>March 31, 2019<br>Net Charge-offs<br>(Recoveries) |  |   |
|---|---|------------------------|---------------------------------------|--|--|---|
|   | Outstanding<br>Balances<br>(Dollars in thousands) | Nonaccrual<br>Balances | Percent of<br>Outstanding<br>Balances | Balances   | Percent of<br>Average<br>Outstanding<br>Balances |   |
| <b>Residential mortgages:</b>                             |   |                        |                                       |  |  |   |
| New York  | \$4,894,449                                       | \$67,185               | 1.37                                  | % \$353  | .03  | % |
| Pennsylvania  | 1,210,022   | 15,691                 | 1.30                                  | (38 )  | (.01 )   | ) |
| Maryland  | 1,064,619   | 11,349                 | 1.07                                  | 249  | .10  |   |
| New Jersey  | 3,519,576   | 55,734                 | 1.58                                  | 704  | .08  |   |
| Other Mid-Atlantic (a)                                    | 946,702   | 8,263                  | .87                                   | (1,338)  | (.58 )   | ) |
| Other   | 2,658,256   | 51,726                 | 1.95                                  | 1,833  | .28  |   |
| Total   | \$14,293,624                                      | \$209,948              | 1.47                                  | % \$1,763  | .05  | % |
| <b>Residential construction loans:</b>                    |   |                        |                                       |  |  |   |
| New York  | \$18,156  | \$—                    | —                                     | % \$—  | —  | % |
| Pennsylvania  | 6,361   | 295                    | 4.64                                  | —  | —  |   |
| Maryland  | 6,228   | —                      | —                                     | —  | —  |   |
| New Jersey  | 7,118   | —                      | —                                     | —  | —  |   |
| Other Mid-Atlantic (a)                                    | 12,665  | —                      | —                                     | —  | —  |   |
| Other   | 3,774   | 23                     | .61                                   | (2 )   | (.22 )   | ) |
| Total   | \$54,302  | \$318                  | .59                                   | % \$(2 )   | (.02 )   | % |
| <b>Limited documentation first mortgages:</b>             |   |                        |                                       |  |  |   |
| New York  | \$1,063,437                                       | \$33,831               | 3.18                                  | % \$(98 )  | (.04 )   | % |
| Pennsylvania  | 51,493  | 6,126                  | 11.90                                 | (2 )   | (.01 )   | ) |
| Maryland  | 29,061  | 2,436                  | 8.38                                  | (1 )   | (.02 )   | ) |
| New Jersey  | 913,130   | 23,570                 | 2.58                                  | (17 )  | (.01 )   | ) |
| Other Mid-Atlantic (a)                                    | 23,430  | 993                    | 4.24                                  | (1 )   | (.01 )   | ) |
| Other   | 341,456   | 17,907                 | 5.24                                  | (100 )   | (.12 )   | ) |
| Total   | \$2,422,007                                       | \$84,863               | 3.50                                  | % \$(219 )   | (.04 )   | % |
| <b>First lien home equity loans and lines of credit:</b>  |   |                        |                                       |  |  |   |
| New York  | \$1,164,393                                       | \$15,144               | 1.30                                  | % \$443  | .15  | % |
| Pennsylvania  | 709,865   | 7,268                  | 1.02                                  | 14   | .01  |   |
| Maryland  | 580,373   | 7,117                  | 1.23                                  | 74   | .05  |   |
| New Jersey  | 62,889  | 959                    | 1.52                                  | —  | —  |   |
| Other Mid-Atlantic (a)                                    | 199,398   | 5,252                  | 2.63                                  | 109  | .22  |   |
| Other   | 26,995  | 1,033                  | 3.83                                  | 5  | .08  |   |
| Total   | \$2,743,913                                       | \$36,773               | 1.34                                  | % \$645  | .09  | % |
| <b>Junior lien home equity loans and lines of credit:</b> |   |                        |                                       |  |  |   |
| New York  | \$736,331   | \$15,934               | 2.16                                  | % \$148  | .08  | % |
| Pennsylvania  | 274,605   | 2,893                  | 1.05                                  | 242  | .35  |   |

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|                                    |             |          |       |          |         |   |
|------------------------------------|-------------|----------|-------|----------|---------|---|
| Maryland                           | 583,932     | 7,851    | 1.34  | 20       | .01     |   |
| New Jersey                         | 100,257     | 1,145    | 1.14  | (11 )    | (.05 )  |   |
| Other Mid-Atlantic (a)             | 253,350     | 2,701    | 1.07  | (10 )    | .02     |   |
| Other                              | 41,123      | 1,435    | 3.49  | (157 )   | (1.53 ) |   |
| Total                              | \$1,989,598 | \$31,959 | 1.61  | % \$232  | .05     | % |
| Limited documentation junior lien: |             |          |       |          |         |   |
| New York                           | \$588       | \$—      | —     | % \$(2 ) | (1.21 ) | % |
| Pennsylvania                       | 274         | —        | —     | —        | —       |   |
| Maryland                           | 1,239       | 51       | 4.12  | —        | —       |   |
| New Jersey                         | 378         | 171      | 45.22 | —        | —       |   |
| Other Mid-Atlantic (a)             | 589         | 76       | 12.91 | —        | —       |   |
| Other                              | 3,316       | 215      | 6.48  | (4 )     | (.48 )  |   |
| Total                              | \$6,384     | \$513    | 8.04  | % \$(6 ) | (.38 )  | % |

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

Real estate and other foreclosed assets totaled \$81 million at March 31, 2019, compared with \$102 million at March 31, 2018 and \$78 million at December 31, 2018. Net gains or losses associated with real estate and other foreclosed assets were not material during the three-months ended March 31, 2019, March 31, 2018 or December 31, 2018. At March 31, 2019, the Company's holdings of residential real estate-related properties comprised approximately 99% of foreclosed assets.

A comparative summary of nonperforming assets and certain past due, renegotiated and impaired loan data and credit quality ratios is presented in the accompanying table.

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

|  | 2019                     |                           |                          |                           |               | 2018 Quarters |                |               |                |               |
|--|--------------------------|---------------------------|--------------------------|---------------------------|---------------|---------------|----------------|---------------|----------------|---------------|
|  | 2019<br>First<br>Quarter | 2019<br>Second<br>Quarter | 2019<br>Third<br>Quarter | 2019<br>Fourth<br>Quarter | 2019<br>Total | 2018<br>First | 2018<br>Second | 2018<br>Third | 2018<br>Fourth | 2018<br>Total |
| (Dollars in thousands)                                 |                          |                           |                          |                           |               |               |                |               |                |               |
| Nonaccrual loans                                       | \$881,611                |                           |                          |                           | \$881,611     | 893,608       |                |               |                | 893,608       |
| Real estate and other foreclosed assets                | 81,335                   |                           |                          |                           | 81,335        | 78,375        |                |               |                | 78,375        |
| Total nonperforming assets                             | \$962,946                |                           |                          |                           | \$962,946     | 971,983       |                |               |                | 971,983       |
| Accruing loans past due 90 days or more(a)             | \$244,257                |                           |                          |                           | \$244,257     | 222,527       |                |               |                | 222,527       |
| Government guaranteed loans included in totals above:  |                          |                           |                          |                           |               |               |                |               |                |               |
| Nonaccrual loans                                       | \$35,481                 |                           |                          |                           | \$35,481      | 34,667        |                |               |                | 34,667        |
| Accruing loans past due 90 days or more                | 194,510                  |                           |                          |                           | 194,510       | 192,443       |                |               |                | 192,443       |
| Renegotiated loans                                     | \$267,952                |                           |                          |                           | \$267,952     | 245,367       |                |               |                | 245,367       |
| Acquired accruing loans past due 90 days or more(b)    | \$43,995                 |                           |                          |                           | \$43,995      | 39,750        |                |               |                | 39,750        |
| Purchased impaired loans(c):                           |                          |                           |                          |                           |               |               |                |               |                |               |
| Outstanding customer balance                           | \$495,163                |                           |                          |                           | \$495,163     | 529,520       |                |               |                | 529,520       |
| Carrying amount  | 278,783                  |                           |                          |                           | 278,783       | 303,305       |                |               |                | 303,305       |
| Nonaccrual loans to total loans and leases, net of     |                          |                           |                          |                           |               |               |                |               |                |               |
| unearned discount                                      | .99                      | %                         | 1.01                     | %                         | 1.00          | %             | .93            | %             | .99            | %             |
| Nonperforming assets to total net loans and leases and |                          |                           |                          |                           |               |               |                |               |                |               |
| real estate and other foreclosed assets                | 1.09                     | %                         | 1.10                     | %                         | 1.10          | %             | 1.04           | %             | 1.10           | %             |
| Accruing loans past due 90 days or more(a) to total    |                          |                           |                          |                           |               |               |                |               |                |               |
| loans and leases, net of unearned discount             | .28                      | %                         | .25                      | %                         | .29           | %             | .25            | %             | .27            | %             |

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

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

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

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 real estate values on the Company's portfolio of loans secured by commercial and 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; and (v) the size of the

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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, 2019 in light of: (i) residential real estate values and the level of delinquencies of loans secured by residential real estate; (ii) economic conditions in the markets served by the Company; (iii) slower growth in private sector employment in upstate New York and central Pennsylvania than in other regions served by the Company and nationally; (iv) the significant subjectivity involved in commercial real estate valuations; and (v) the amount of loan growth experienced by the Company. While there has been general improvement in economic conditions, concerns continue to exist about the strength and sustainability of such improvements; the volatile nature of global commodity and export markets, including the impact international economic conditions could have on the U.S. economy; Federal Reserve positioning of monetary policy; and continued stagnant population growth in the upstate New York and central Pennsylvania regions (approximately 53% of the Company's loans and leases are to customers in New York State and Pennsylvania).

The Company utilizes a loan grading system to differentiate risk amongst its commercial loans and commercial real estate loans. Loans with a lower expectation of default are assigned one of ten possible "pass" loan grades and are generally ascribed lower loss factors when determining the allowance for credit losses. Loans with an elevated level of credit risk are classified as "criticized" and are ascribed a higher loss factor when determining the allowance for credit losses. Criticized loans may be classified as "nonaccrual" if the Company no longer expects to collect all amounts according to the contractual terms of the loan agreement or the loan is delinquent 90 days or more. Criticized commercial loans and commercial real estate loans totaled \$3.0 billion at March 31, 2019, compared with \$2.3 billion at March 31, 2018 and \$2.7 billion at December 31, 2018. The higher level of such loans at March 31, 2019 as compared with December 31, 2018 reflects, in part, the addition of outstanding loan balances to a wholesale distributor and a commercial real estate construction development company. The increase in criticized loans from March 31, 2018 to December 31, 2018 reflects loans to three customers each operating in different industries and geographic regions, that were added to this classification in the fourth quarter of 2018. Given payment performance, amount of supporting collateral, and, in certain instances, the existence of loan guarantees, the Company still expects to collect the full outstanding principal balance on most criticized loans.

Loan officers in different geographic locations with the support of the Company's credit department personnel continuously review and reassign loan grades based on their detailed knowledge of individual borrowers and their judgment of the impact on such borrowers resulting from changing conditions in their respective regions. At least annually, updated financial information is obtained from commercial borrowers associated with pass grade loans and additional analysis is performed. On a quarterly basis, the Company's centralized credit department reviews all criticized commercial loans and commercial real estate loans greater than \$1 million to determine the appropriateness of the assigned loan grade, including whether the loan should be reported as accruing or nonaccruing. For criticized nonaccrual loans, additional meetings are held with loan officers and their managers, workout specialists and senior management to discuss each of the relationships. In analyzing criticized loans, borrower-specific information is reviewed, including operating results, future cash flows, recent developments and the borrower's outlook, and other pertinent data. The timing and extent of potential losses, considering collateral valuation and other factors, and the Company's potential courses of action are contemplated. To the extent that these loans are collateral-dependent, they are evaluated based on the fair value of the loan's collateral as estimated at or near the financial statement date. As the quality of a loan deteriorates to the point of classifying the loan as "criticized," the process of obtaining updated collateral valuation information is usually initiated, unless it is not considered warranted given factors such as the relative size of the loan, the characteristics of the collateral or the age of the last valuation. In those cases where current appraisals may not yet be available, prior appraisals are utilized with adjustments, as deemed necessary, for estimates of subsequent declines in value as determined by line of business and/or loan workout personnel in the

respective geographic regions. Those adjustments are reviewed and assessed for reasonableness by the Company's credit department. Accordingly, for real estate collateral securing larger commercial loans and commercial real estate loans, estimated collateral values are based on current appraisals and estimates of value. For non-real estate loans, collateral is assigned a discounted estimated liquidation value and,

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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, 2019, approximately 58% 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 61% (or approximately 25% 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, 2019, the balance of junior lien loans and lines that were in nonaccrual status solely as a result of first lien loan performance was \$8 million, compared with \$13 million at March 31, 2018 and \$10 million at December 31, 2018. 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 and for purposes of estimating incurred losses in determining the allowance for credit losses, the Company gives consideration to the required repayment of any first lien positions related to collateral property. 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, 2019, approximately 82% 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 25% were making contractually allowed payments that do not include any repayment of principal.

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

In determining the allowance for credit losses, the Company estimates losses attributable to specific troubled credits identified through both normal and targeted 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 3 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 42% of the

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Company's home equity portfolio consists of junior lien loans and lines of credit. Except for consumer loans and residential real estate loans that are considered smaller balance homogeneous loans and are evaluated collectively and loans obtained at a discount in acquisition transactions, the Company considers a loan to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts according to the contractual terms of the loan agreement or the loan is delinquent 90 days or more and has been placed in nonaccrual status. Those impaired loans are evaluated for specific loss components. Modified loans, including smaller balance homogenous loans, that are considered to be troubled debt restructurings are evaluated for impairment giving consideration to the impact of the modified loan terms on the present value of the loan's expected cash flows. Loans less than 90 days delinquent are deemed to have a minimal delay in payment and are generally not considered to be impaired. For loans acquired at a discount, the impact of estimated future credit losses represents the predominant difference between contractually required payments and the cash flows expected to be collected. Subsequent decreases to those expected cash flows require the Company to evaluate the need for an additional allowance for credit losses and could lead to charge-offs of acquired loan balances. Additional information regarding the Company's process for determining the allowance for credit losses is included in note 3 of Notes to Financial Statements.

Management believes that the allowance for credit losses at March 31, 2019 appropriately reflected credit losses inherent in the portfolio as of that date. The allowance for credit losses totaled \$1.02 billion at each of March 31, 2019, March 31, 2018 and December 31, 2018. As a percentage of loans and leases outstanding, the allowance was 1.15% at each of March 31, 2019 and December 31, 2018 and 1.16% at March 31, 2018. 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 portfolio also change, the level of the allowance as a percentage of loans could increase or decrease in future periods. The ratio of the allowance for credit losses to nonaccrual loans was 116% at March 31, 2019, 118% at March, 31, 2018 and 114% at December 31, 2018. Given the Company's general position as a secured lender and its practice of charging-off loan balances when collection is deemed doubtful, that ratio and changes in that ratio are generally not an indicative measure of the adequacy of the Company's allowance for credit losses, nor does management rely upon that ratio in assessing the adequacy of the Company's allowance for credit losses. The level of the allowance reflects management's evaluation of the loan and lease portfolio as of each respective date.

#### Other Income

Other income totaled \$501 million in the first quarter of 2019, compared with \$459 million in the year-earlier quarter and \$481 million in the final 2018 quarter. The recent quarter's improvement as compared with the first three months of 2018 reflects higher mortgage banking revenues, valuation gains on equity securities and an increase in income received from BLG. As compared with the fourth quarter of 2018, the recent quarter's income distribution from BLG and higher valuation gains on equity securities were partially offset by declines in letter of credit and other credit-related fees and trading account and foreign exchange gains.

Mortgage banking revenues were \$95 million in the recent quarter, compared with \$87 million in the initial quarter of 2018 and \$92 million in the fourth quarter of 2018. Mortgage banking revenues are comprised of both residential and commercial mortgage banking activities. The Company's involvement in commercial mortgage banking activities includes the origination, sales and servicing of loans under the multi-family loan programs of Fannie Mae, Freddie Mac and the U.S. Department of Housing and Urban Development.

Residential mortgage banking revenues, consisting of realized gains from sales of residential real estate loans and loan servicing rights, unrealized gains and losses on residential real estate loans held for sale and related commitments, residential real estate loan servicing fees, and other residential real estate loan-related fees and income, were \$66 million in the first quarter of 2019, compared with \$62 million in the year-earlier quarter and \$57 million in 2018's

fourth quarter. The higher residential mortgage banking revenues in the recent quarter predominantly resulted from increased servicing income.

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New commitments to originate residential real estate loans to be sold were approximately \$422 million in the initial quarter of 2019, compared with \$625 million in the year-earlier quarter and \$412 million in the final 2018 quarter. Realized gains from sales of residential real estate loans and loan servicing rights and recognized net unrealized gains or losses attributable to residential real estate loans held for sale, commitments to originate loans for sale and commitments to sell loans totaled to gains of \$10 million in the first three months of 2019, \$12 million in the corresponding period of 2018 and \$8 million in 2018's fourth quarter.

Loans held for sale that were secured by residential real estate aggregated \$178 million at March 31, 2019, \$288 million at March 31, 2018 and \$205 million at December 31, 2018. Commitments to sell residential real estate loans and commitments to originate residential real estate loans for sale at pre-determined rates totaled \$380 million and \$314 million, respectively, at March 31, 2019, compared with \$522 million and \$343 million, respectively, at March 31, 2018 and \$364 million and \$245 million, respectively, at December 31, 2018. Net recognized unrealized gains on residential real estate loans held for sale, commitments to sell loans, and commitments to originate loans for sale were \$8 million at each of March 31, 2019 and March 31, 2018, compared with \$7 million December 31, 2018. Changes in such net unrealized gains or losses are recorded in mortgage banking revenues and resulted in a net increase in revenues of \$1 million in the first quarter of 2019, compared with net decreases in revenues of \$2 million in each of the first and fourth quarters of 2018.

Revenues from servicing residential real estate loans for others were \$56 million in the quarter ended March 31, 2019, compared with \$50 million and \$49 million during the quarters ended March 31, 2018 and December 31, 2018, respectively. Residential real estate loans serviced for others totaled \$90.1 billion at March 31, 2019, \$78.3 billion at March 31, 2018 and \$79.1 billion at December 31, 2018. On January 31, 2019, the Company purchased servicing rights for residential real estate loans that had outstanding principal balances of \$13.1 billion. The purchase price of such servicing rights was approximately \$145 million. Servicing revenues associated with that purchase realized in the first quarter of 2019 totaled \$8 million. Capitalized residential mortgage servicing assets aggregated \$260 million at March 31, 2019, \$116 million at March 31, 2018 and \$121 million at December 31, 2018. Reflected in residential real estate loans serviced for others were loans sub-serviced for others of \$54.9 billion, \$55.8 billion and \$56.8 billion at March 31, 2019, March 31, 2018 and December 31, 2018, respectively. Revenues earned for sub-servicing loans totaled \$28 million for each of the two most recent quarters and \$30 million for the quarter ended March 31, 2018. The Company added approximately \$7.9 billion to its residential mortgage loan sub-servicing portfolio on April 2, 2019. The contractual servicing rights associated with loans sub-serviced by the Company were predominantly held by affiliates of BLG. Information about the Company's relationship with BLG and its affiliates is included in note 15 of Notes to Financial Statements.

Commercial mortgage banking revenues totaled \$29 million in the recent quarter, compared with \$25 million and \$35 million in the first and fourth quarters of 2018, respectively. Included in such amounts were revenues from loan origination and sales activities of \$15 million in the first quarter of 2019, \$12 million in the year-earlier quarter and \$19 million in the final quarter of 2018. Commercial real estate loans originated for sale to other investors were approximately \$777 million in the recent quarter, compared with \$518 million in the first quarter of 2018 and \$916 million in the fourth quarter of 2018. Loan servicing revenues totaled \$14 million in the most recent quarter, compared with \$13 million in the initial 2018 quarter and \$16 million in the final quarter of 2018. Capitalized commercial mortgage servicing assets were \$117 million and \$112 million at March 31, 2019 and 2018, respectively, and \$115 million at December 31, 2018. Commercial real estate loans serviced for other investors totaled \$19.2 billion at March 31, 2019, \$16.3 billion a year earlier and \$18.2 billion at December 31, 2018 and included \$3.5 billion, \$3.3 billion and \$3.4 billion, respectively, of loan balances for which investors had recourse to the Company if such balances are ultimately uncollectible. Commitments to sell commercial real estate loans and commitments to originate commercial real estate loans for sale were \$366 million and \$200 million, respectively, at March 31, 2019, \$455 million and \$289 million, respectively, at March 31, 2018 and \$577 million and \$229 million, respectively, at December 31, 2018. Commercial real estate loans held for sale at March 31, 2019, March 31, 2018 and December 31,

2018 were \$166 million, \$167 million and \$347 million, respectively. The higher balance at December 31, 2018 reflects loans originated later in the fourth quarter that had not been delivered to investors.

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Service charges on deposit accounts were \$103 million and \$105 million in the first quarters of 2019 and 2018, respectively, and \$109 million in the fourth quarter of 2018. The decline in such service charges in the recent quarter as compared with the immediately preceding quarter resulted from lower consumer service charges that were in part reflective of higher seasonal transaction volumes in 2018's fourth quarter.

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 aggregated \$133 million in the first quarter of 2019, compared with \$131 million in the year-earlier quarter and \$135 million in the fourth quarter of 2018. Revenues associated with the ICS business were approximately \$71 million, \$67 million and \$72 million during the quarters ended March 31, 2019, March 31, 2018 and December 31, 2018, respectively. The higher revenues in the most recent quarter as compared with the year-earlier quarter reflect stronger sales activities. Revenues attributable to WAS totaled approximately \$55 million, \$61 million and \$56 million for the three-month periods ended March 31, 2019, March 31, 2018 and December 31, 2018, respectively. The lower revenues in the recent quarter as compared with the initial 2018 quarter reflected, in part, lower recurring fees due to product mix and competitive factors. Trust assets under management were \$92.9 billion, \$82.9 billion and \$84.9 billion at March 31, 2019, March 31, 2018 and December 31, 2018, respectively. Trust assets under management include the Company's proprietary mutual funds' assets of \$11.3 billion, \$10.6 billion and \$10.8 billion at March 31, 2019, March 31, 2018 and December 31, 2018, respectively. Additional trust income from investment management activities was \$7 million in the most recent quarter, compared with \$4 million in the first quarter of 2018 and \$8 million in the fourth quarter of 2018 and includes fees earned from retail customer investment accounts and from an affiliated investment manager. Assets managed by the affiliated manager totaled \$4.5 billion at March 31, 2019, \$6.7 billion at March 31, 2018 and \$4.2 billion at December 31, 2018. The Company's trust income from that affiliate was not material during any of the quarters then-ended.

Brokerage services income, which includes revenues from the sale of mutual funds and annuities and securities brokerage fees, totaled \$12 million in the recent quarter, compared with \$13 million in each of the first and fourth quarters of 2018. Trading account and foreign exchange activity resulted in gains of \$11 million and \$5 million during the quarters ended March 31, 2019 and 2018, respectively, compared with gains of \$17 million in the fourth quarter of 2018. The increase from the year-earlier quarter was due, in part, to improved valuations on interest rate floor agreements that are not accounted for as hedging instruments but, nevertheless, provide the Company with protection against the possibility of future declines in interest rates on earnings assets. The decline from the fourth quarter of 2018 was predominantly due to decreased activity related to interest rate swap agreements 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."

The Company recognized net gains on investment securities of \$12 million in the recent quarter and \$4 million in the fourth quarter of 2018, compared with net losses of \$9 million in the first quarter of 2018. The gains and losses represented unrealized gains and losses on investments in equity securities, largely Fannie Mae and Freddie Mac preferred stock.

Other revenues from operations were \$134 million in the first three months of 2019, compared with \$126 million in the similar 2018 period and \$111 million in the fourth quarter of 2018. The most significant contributor to the higher revenues in the initial 2019 quarter as compared with the 2018 periods was the \$37 million of income received from

BLG in the recent quarter, compared with \$23 million in the year-earlier period and no similar income in the fourth quarter of 2018. Lower letter of credit and other credit-related fees partially offset the favorable impact of the income from BLG. Included in other revenues from operations were the following significant components. Letter of credit and other credit-related fees aggregated \$24 million in the recent quarter, compared with \$29 million

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in the year-earlier quarter and \$35 million in the fourth quarter of 2018. Revenues from merchant discount and credit card fees were \$27 million in the recent quarter, compared with \$28 million in the year-earlier quarter and \$30 million in the fourth quarter of 2018. Tax-exempt income from bank owned life insurance, which includes increases in the cash surrender value of life insurance policies and benefits received, totaled \$12 million in the initial 2019 quarter and \$11 million in each of the first and fourth quarters of 2018. Insurance-related sales commissions and other revenues totaled \$14 million in the quarter ended March 31, 2019, compared with \$13 million and \$12 million in 2018's first and fourth quarters, respectively.

#### Other Expense

Other expense totaled \$894 million in the first quarter of 2019, compared with \$933 million in the year-earlier quarter and \$802 million in the final 2018 quarter. Included in those amounts are expenses considered to be "nonoperating" in nature consisting of amortization of core deposit and other intangible assets of \$5 million in each of the first quarter of 2019 and the fourth quarter of 2018, compared with \$7 million in the first quarter of 2018. Exclusive of those nonoperating expenses, noninterest operating expenses were \$889 million in the most recent quarter, compared with \$927 million in the corresponding period of 2018 and \$797 million in the final quarter of 2018. The most significant factor associated with the decreased level of operating expenses in the recent quarter as compared with the year-earlier quarter was an \$85 million decline in additions to the reserve for legal matters. The recent quarter's rise in noninterest operating expenses as compared with the fourth quarter of 2018 reflected seasonally higher stock-based compensation and employee benefits expenses and the \$50 million increase to the reserve for legal matters offset, in part, by lower charitable contributions. Table 2 provides a reconciliation of other expense to noninterest operating expense.

Salaries and employee benefits expense aggregated \$499 million in 2019's initial quarter, compared with \$463 million in the year-earlier quarter and \$439 million in the fourth quarter of 2018. The higher salaries and employee benefits expenses in the recent quarter as compared with the similar period in 2018 reflect the impact of merit and other increases for employees, higher incentive-based compensation and increased medical benefit expenses. The increase in salaries and employee benefits expense in the recent quarter as compared with 2018's fourth quarter reflects 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 2019 and 2018 included \$27 million and \$23 million, respectively, that would have been recognized over the normal vesting period if not for the accelerated 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 \$40 million and \$35 million in the three-month periods ended March 31, 2019 and March 31, 2018, respectively, and \$10 million in the three-month period ended December 31, 2018. The number of full-time equivalent employees was 17,080 at March 31, 2019, compared with 16,531 and 16,938 at March 31, 2018 and December 31, 2018, respectively.

Excluding the nonoperating expense items described earlier from each quarter, nonpersonnel operating expenses were \$390 million and \$463 million in the quarters ended March 31, 2019 and March 31, 2018, respectively, and \$358 million in the final quarter of 2018. The decline in nonpersonnel expenses in the recent quarter as compared with the first quarter of 2018 reflected lower additions to the reserve for legal matters of \$85 million. The higher level of nonpersonnel operating expenses in the recent quarter as compared with the final 2018 quarter was predominantly attributable to the recent quarter's \$50 million addition to the reserve for legal matters, partially offset by lower charitable contributions.

The efficiency ratio measures the relationship of noninterest operating expenses to revenues. The Company's efficiency ratio was 57.6% during the recent quarter, compared with 64.0% and 51.7% in the first and fourth quarters of 2018, respectively. The calculation of the efficiency ratio is presented in Table 2.

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## Income Taxes

The provision for income taxes was \$152 million in the initial quarter of 2019, compared with \$105 million in the year-earlier quarter and \$153 million in the final quarter of 2018. The effective tax rates were 23.9%, 23.0% and 21.9% for the quarters ended March 31, 2019, March 31, 2018 and December 31, 2018, respectively. In December 2018, M&T received approval from the Internal Revenue Service to change its tax return treatment for certain loan fees retroactive to 2017, resulting in a \$15 million reduction of income tax expense in the final quarter of 2018. In addition, GAAP requires that excess tax benefits and tax deficiencies associated with share-based compensation be recognized as a discrete component of income tax expense in the income statement. As a result, the Company recognized a reduction of income tax expense of \$9 million in the initial quarter of 2018. The impact of that requirement was insignificant in the first quarter of 2019 and the fourth quarter of 2018.

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 discrete or infrequently occurring items. The Company's effective tax rate in future periods will also be affected by any change in income tax laws or regulations 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 \$15.6 billion at March 31, 2019, representing 12.99% of total assets, compared with \$15.7 billion or 13.24% a year earlier and \$15.5 billion or 12.87% at December 31, 2018.

Included in shareholders' equity was preferred stock with financial statement carrying values of \$1.2 billion at each of March 31, 2019, March 31, 2018 and December 31, 2018.

Reflecting the impact of repurchases of M&T's common stock, common shareholders' equity was \$14.4 billion, or \$105.04 per share, at March 31, 2019, compared with \$14.5 billion, or \$98.60 per share, a year earlier and \$14.2 billion, or \$102.69 per share, at December 31, 2018. Tangible equity per common share, which excludes goodwill and core deposit and other intangible assets and applicable deferred tax balances, was \$71.19 at the end of the recent quarter, compared with \$66.99 at March 31, 2018 and \$69.28 at December 31, 2018. The Company's ratio of tangible common equity to tangible assets was 8.43% at March 31, 2019, compared with 8.63% a year earlier and 8.31% at December 31, 2018. 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 losses on investment securities reflected in shareholders' equity, net of applicable tax effect, were \$63 million, or \$.46 per common share, at March 31, 2019, compared with net unrealized losses of \$162 million, or \$1.10 per common share, at March 31, 2018 and \$148 million, or \$1.06 per common share, at December 31, 2018. Changes in unrealized gains and losses on investment securities are predominantly reflective of the impact of changes in interest rates on the values of such securities. Information about unrealized gains and losses as of March 31, 2019 and December 31, 2018 is included in note 2 of Notes to Financial Statements.

Reflected in the carrying amount of available-for-sale investment securities at March 31, 2019 were pre-tax effect unrealized gains of \$31 million on securities with an amortized cost of \$2.0 billion and pre-tax effect unrealized losses of \$104 million on securities with an amortized cost of \$6.4 billion. Information concerning the Company's fair valuations of investment securities is provided in notes 2 and 12 of Notes to Financial Statements.

Each reporting period the Company reviews its investment securities for other-than-temporary impairment. For debt securities, the Company analyzes the creditworthiness of the issuer or reviews the credit performance of the underlying collateral supporting the bond. For debt securities backed by pools of loans, such as privately issued

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mortgage-backed securities, the Company estimates the cash flows of the underlying loan collateral using forward-looking assumptions for default rates, loss severities and prepayment speeds. Estimated collateral cash flows are then utilized to estimate bond-specific cash flows to determine the ultimate collectibility of the bond. If the present value of the cash flows indicates that the Company should not expect to recover the entire amortized cost basis of a bond or if the Company intends to sell the bond or it more likely than not will be required to sell the bond before recovery of its amortized cost basis, an other-than-temporary impairment loss is recognized. If an other-than-temporary impairment loss is deemed to have occurred, the investment security's cost basis is adjusted, as appropriate for the circumstances.

As of March 31, 2019, 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 other-than-temporary impairment charges were not appropriate. As of March 31, 2019, the Company did not intend to sell nor is it anticipated that it would be required to sell any of its impaired securities, that is, where fair value is less than the cost basis of the security. The Company intends to continue to closely monitor the performance of its securities because changes in their underlying credit performance or other events could cause the cost basis of those securities to become other-than-temporarily impaired. However, because the unrealized losses on available-for-sale investment securities have generally already been reflected in the financial statement values for investment securities and shareholders' equity, any recognition of an other-than-temporary decline in value of those investment securities would not have a material effect on the Company's consolidated financial condition. Any other-than-temporary impairment charge related to held-to-maturity securities would result in reductions in the financial statement values for investment securities and shareholders' equity.

The Company assessed impairment losses on privately issued mortgage-backed securities in the held-to-maturity portfolio by performing internal modeling to estimate bond-specific cash flows considering recent performance of the mortgage loan collateral and utilizing assumptions about future defaults and loss severity. These bond-specific cash flows also reflect the placement of the bond in the overall securitization structure and the remaining subordination levels. In total, at March 31, 2019 and December 31, 2018, the Company had in its held-to-maturity portfolio privately issued mortgage-backed securities with an amortized cost basis of \$108 million and \$113 million, respectively, and a fair value of \$100 million and \$103 million, respectively. At March 31, 2019, 82% of the mortgage-backed securities were in the most senior tranche of the securitization structure with 15% 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 19% at March 31, 2019, calculated by dividing the remaining unpaid principal balance of bonds subordinate to the bonds owned by the Company plus any overcollateralization remaining in the securitization structure by the remaining unpaid principal balance of all bonds in the securitization structure. The weighted-average default percentage and loss severity assumptions utilized in the Company's internal modeling were 35% and 67% respectively. Given the securitization structure, some of the bonds held by the Company may defer interest payments in certain circumstances, but after considering the repayment structure and estimated future collateral cash flows of each individual senior and subordinate tranche bond, the Company has concluded that as of March 31, 2019, those privately issued mortgage-backed securities were not other-than-temporarily impaired. Nevertheless, it is possible that adverse changes in the estimated 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 \$259 million or \$1.90 per common share, at March 31, 2019, \$297 million or \$2.03 per common share, at March 31, 2018 and \$261 million, or \$1.89 per common share, at December 31, 2018.

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In accordance with M&T's revised 2018 Capital Plan filed with the Federal Reserve, M&T repurchased 2,150,000 shares of its common stock for \$366 million in the first quarter of 2019. During the initial 2018 quarter, M&T repurchased 3,783,282 common shares at a total cost of \$721 million. Repurchases of common stock in the final 2018 quarter totaled 3,060,000 shares at a cost of \$500 million. As of March 31, 2019, M&T has remaining authorization to repurchase up to \$436 million of its common shares during the second quarter of 2019.

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Cash dividends declared on M&T's common stock totaled \$139 million in the initial quarter of 2019, compared with \$112 million and \$140 million in the three-month periods ended March 31, 2018 and December 31, 2018, respectively. During 2018, M&T's Board of Directors authorized increases in the quarterly common stock dividend to \$.80 per common share in the second quarter from the previous rate of \$.75 per common share and to \$1.00 per common share in the third quarter. Cash dividends declared on preferred stock aggregated \$18 million in each of the first quarters of 2019 and 2018 and in the fourth quarter of 2018.

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

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

In addition, capital regulations require a "capital conservation buffer" of 2.5% composed entirely of CET1 on top of these minimum risk-weighted asset ratios.

The regulatory capital ratios of the Company and its bank subsidiaries, M&T Bank and Wilmington Trust, N.A., as of March 31, 2019 are presented in the accompanying table.

#### REGULATORY CAPITAL RATIOS

March 31, 2019

|                      | M&T<br>(Consolidated) | M&T<br>Bank | Wilmington<br>Trust, N.A. |
|----------------------|-----------------------|-------------|---------------------------|
| Common equity Tier 1 | 10.03%                | 10.72%      | 69.02%                    |
| Tier 1 capital       | 11.28%                | 10.72%      | 69.02%                    |
| Total capital        | 13.56%                | 12.58%      | 69.24%                    |
| Tier 1 leverage      | 9.97%                 | 9.49%       | 14.83%                    |

The Company is subject to the comprehensive regulatory framework applicable to bank and financial holding companies and their subsidiaries, which includes regular examinations by a number of 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, 2018.

Segment Information

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. The reportable segments are Business Banking, Commercial Banking, Commercial Real Estate, Discretionary Portfolio, Residential Mortgage Banking and Retail Banking.

The Business Banking segment contributed net income of \$43 million during the three-month period ended March 31, 2019, compared with \$38 million in the first quarter of 2018 and \$44 million in the fourth quarter of 2018.

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As compared with the year-earlier quarter, an \$11 million increase in net interest income was partially offset by a \$4 million combined increase in operating expenses and centrally-allocated costs, largely associated with data processing, risk management and other support services provided to the Business Banking segment. The higher net interest income reflected a widening of the net interest margin on deposits of 49 basis points offset, in part, by a 21 basis point narrowing of the net interest margin on loans. The modest decline in net income in the initial 2019 quarter as compared with the immediately preceding quarter reflected a \$3 million decrease in net interest income primarily due to two less days in the recent quarter, partially offset by lower advertising costs.

Net income of the Commercial Banking segment was \$132 million in the recent quarter, compared with \$125 million in the initial 2018 quarter and \$138 million in the final 2018 quarter. The recent quarter's improvement as compared with the first quarter of 2018 reflected a decline in the provision for credit losses of \$11 million, due to lower net charge-offs, and higher net interest income of \$8 million, largely resulting from a 63 basis point widening of the net interest margin on deposits. Those favorable factors were offset, in part, by lower letter of credit and other credit-related fees of \$5 million, predominantly due to loan syndication fees, and a \$4 million increase in centrally-allocated costs, largely associated with data processing, risk management and other support services provided to the Commercial Banking segment. The decline in net income in the initial 2019 quarter as compared with the final quarter of 2018 was primarily due to lower letter of credit and other credit-related fees of \$10 million, mainly attributable to fees for providing loan syndication services. Additionally, net interest income declined \$7 million, reflecting two less days in the recent quarter and a narrowing of the net interest margin on loans of 13 basis points. Those unfavorable factors were partially offset by a \$12 million decrease in the provision for credit losses, primarily due to lower net charge-offs.

The Commercial Real Estate segment recorded net income of \$117 million in the first quarter of 2019, compared with \$108 million in the year-earlier period and \$116 million in the fourth quarter of 2018. The 8% rise in net income in the recent quarter as compared with the first quarter of 2018 reflected an \$11 million increase in net interest income, lower FDIC assessments of \$3 million and higher trading account and foreign exchange gains of \$3 million, due largely to increased activity related to interest rate swap transactions executed on behalf of commercial customers. The higher net interest income reflected a widening of the net interest margin on deposits of 44 basis points and an increase in average outstanding loan balances of \$682 million. Partially offsetting those favorable factors was a \$6 million increase in centrally-allocated costs, largely associated with data processing, risk management and other support services provided to the Commercial Real Estate segment. The recent quarter's modest improvement in net income as compared with the immediately preceding quarter reflected a \$3 million increase in net interest income, reflecting higher average loan balances of \$709 million offset, in part, by two less days in the recent quarter, and lower FDIC assessments of \$3 million. Those favorable factors were largely offset by decreased mortgage banking revenues of \$6 million, reflecting lower origination and servicing income.

Net income earned by the Discretionary Portfolio segment totaled \$39 million during the three-month period ended March 31, 2019, compared with \$20 million in the year-earlier period and \$28 million in the fourth quarter of 2018. The significant improvement in the recent quarter's net income as compared with the initial 2018 quarter was predominantly due to valuation gains on marketable equity securities of \$21 million and an \$8 million decrease in the provision for credit losses, primarily due to the favorable impact from the Company's allocation methodologies for the provision for credit losses associated with acquired loans. Those favorable factors were partially offset by a \$12 million decline in net interest income that reflected lower average loan balances of \$2.1 billion and a 10 basis point narrowing of the net interest margin on loans. The 42% rise in net income in the recent quarter as compared with immediately preceding quarter reflected a \$7 million increase in valuation gains on marketable equity securities and a \$3 million increase in trading account and foreign exchange gains.

Net income from the Residential Mortgage Banking segment was \$13 million in the initial three months of 2019, compared with \$15 million in the first quarter of 2018 and \$2 million in 2018's fourth quarter. The decline in net

income in the recent quarter as compared with the year-earlier period reflected lower net interest income. Higher revenues from servicing residential real estate loans were largely offset by higher servicing-related costs (including intersegment costs). As compared with the final quarter of 2018, the improved performance in the recent quarter reflected higher revenues from mortgage servicing activities and a decline in centrally-allocated costs

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associated with data processing, risk management and other support services provided to the Residential Mortgage Banking segment.

Net income earned by the Retail Banking segment totaled \$145 million in the first quarter of 2019, compared with \$123 million in the year-earlier quarter and \$133 million in the final 2018 quarter. The 18% improvement in net income in the recent quarter as compared with the first quarter of 2018 resulted predominately from a \$39 million rise in net interest income, due largely to a 47 basis point widening of the net interest margin on deposits. That positive factor was partially offset by increased operating expenses, including higher personnel-related costs of \$4 million. The recent quarter's improved performance as compared with the fourth quarter of 2018 reflects an \$11 million decrease in advertising and marketing expenses, reduced centrally-allocated operating expenses associated with data processing, risk management and other support services provided to the Retail Banking segment of \$7 million, and a \$4 million decrease in the provision for credit losses. Those favorable factors were offset, in part, by a \$5 million decrease in service charges on deposit accounts.

The "All Other" category reflects other activities of the Company that are not directly attributable to the reported segments. Reflected in this category are the amortization of core deposit and other intangible assets resulting from the acquisitions of financial institutions, M&T's share of the operating results and distributions associated with BLG, merger-related expenses resulting from acquisitions, and the net impact of the Company's allocation methodologies for internal transfers for funding charges and credits associated with the earning assets and interest-bearing liabilities of the Company's reportable segments and the provision for credit losses. The "All Other" category also includes trust income of the Company that reflects the ICS and WAS business activities. The various components of the "All Other" category resulted in net losses totaling \$7 million in the first quarter of 2019 and \$77 million in the year-earlier quarter, compared with net income of \$85 million in the fourth quarter of 2018. The lower loss in the recent quarter as compared with the initial 2018 quarter largely reflected: an \$85 million decline in the reserve for legal matters (a \$50 million addition to the reserve in 2019, compared with a \$135 million addition in 2018); \$14 million of higher income from BLG in 2019 (a \$37 million distribution in 2019, compared with \$23 million of income distributed in 2018); and 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. Those favorable factors were partially offset by higher personnel-related expenses of \$29 million, including stock-based and other incentive compensation and employee benefits expenses. As compared with the immediately preceding quarter, the factors contributing to the unfavorable performance in the recent quarter included: a \$64 million rise in personnel-related costs, reflecting seasonally higher stock-based compensation and employee benefits expenses; a \$50 million addition to the reserve for legal matters in 2019; a \$9 million increase in each of FDIC assessments and advertising and marketing expenses; and the unfavorable impact from the Company's allocation methodologies. Partially offsetting those unfavorable factors were the \$37 million distribution from BLG and lower charitable contributions of \$20 million in the first quarter of 2019.

#### Recent Accounting Developments

A discussion of recent accounting developments is included in note 16 of Notes to Financial Statements.

#### Forward-Looking Statements

Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this 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," "continue," "positions," "prospects" or "potential," by future conditional verbs such as "will," "would," "should," "could," or "may," or by variations of such words or by similar expressions. These statements are not guarantees of future performance and

involve certain risks, uncertainties and assumptions (“Future Factors”) which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Forward-looking statements speak only as of the date they are made and the Company assumes no duty to update forward-looking statements.

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

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

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

Table 1

## QUARTERLY TRENDS

|  | 2019             | 2018 Quarters |           |           |           |   |
|--|------------------|---------------|-----------|-----------|-----------|---|
|  | First<br>Quarter | Fourth        | Third     | Second    | First     |   |
| Earnings and dividends                                     |                  |               |           |           |           |   |
| Amounts in thousands, except per share                     |                  |               |           |           |           |   |
| Interest income (taxable-equivalent basis)                 | \$1,232,276      | 1,226,239     | 1,173,108 | 1,134,302 | 1,086,959 |   |
| Interest expense   | 176,249          | 161,321       | 138,337   | 120,118   | 106,633   |   |
| Net interest income  | 1,056,027        | 1,064,918     | 1,034,771 | 1,014,184 | 980,326   |   |
| Less: provision for credit losses                          | 22,000           | 38,000        | 16,000    | 35,000    | 43,000    |   |
| Other income   | 500,765          | 480,596       | 459,294   | 457,414   | 458,696   |   |
| Less: other expense  | 894,348          | 802,162       | 775,979   | 776,577   | 933,344   |   |
| Income before income taxes                                 | 640,444          | 705,352       | 702,086   | 660,021   | 462,678   |   |
| Applicable income taxes                                    | 151,735          | 153,175       | 170,262   | 161,464   | 105,259   |   |
| Taxable-equivalent adjustment                              | 5,967            | 5,958         | 5,733     | 5,397     | 4,809     |   |
| Net income   | \$482,742        | 546,219       | 526,091   | 493,160   | 352,610   |   |
| Net income available to common<br>shareholders-diluted     | \$462,086        | 525,328       | 505,365   | 472,600   | 332,749   |   |
| Per common share data                                      |                  |               |           |           |           |   |
| Basic earnings   | \$3.35           | 3.76          | 3.54      | 3.26      | 2.24      |   |
| Diluted earnings   | 3.35             | 3.76          | 3.53      | 3.26      | 2.23      |   |
| Cash dividends   | \$1.00           | 1.00          | 1.00      | .80       | .75       |   |
| Average common shares outstanding                          |                  |               |           |           |           |   |
| Basic  | 137,889          | 139,744       | 142,822   | 144,825   | 148,688   |   |
| Diluted  | 137,920          | 139,838       | 142,976   | 144,998   | 148,905   |   |
| Performance ratios, annualized                             |                  |               |           |           |           |   |
| Return on  |                  |               |           |           |           |   |
| Average assets   | 1.68             | % 1.84        | % 1.80    | % 1.70    | % 1.22    | % |
| Average common shareholders' equity                        | 13.14            | % 14.80       | % 14.08   | % 13.32   | % 9.15    | % |
| Net interest margin on average earning assets<br>(taxable- |                  |               |           |           |           |   |
| equivalent basis)  | 4.04             | % 3.92        | % 3.88    | % 3.83    | % 3.71    | % |
| Nonaccrual loans to total loans and leases, net<br>of      |                  |               |           |           |           |   |
| unearned discount  | .99              | % 1.01        | % 1.00    | % .93     | % .99     | % |
| Net operating (tangible) results (a)                       |                  |               |           |           |           |   |
| Net operating income (in thousands)                        | \$486,440        | 550,169       | 530,619   | 497,869   | 357,498   |   |
| Diluted net operating income per common<br>share           | \$3.38           | 3.79          | 3.56      | 3.29      | 2.26      |   |
| Annualized return on                                       |                  |               |           |           |           |   |



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|  |            |         |         |         |         |   |
|--|------------|---------|---------|---------|---------|---|
| Average tangible assets                        | 1.76       | % 1.93  | % 1.89  | % 1.79  | % 1.28  | % |
| Average tangible common shareholders' equity   | 19.56      | % 22.16 | % 21.00 | % 19.91 | % 13.51 | % |
| Efficiency ratio (b)                           | 57.56      | % 51.70 | % 51.41 | % 52.42 | % 63.98 | % |
| Balance sheet data                             |            |         |         |         |         |   |
| In millions, except per share                  |            |         |         |         |         |   |
| Average balances                               |            |         |         |         |         |   |
| Total assets (c)                               | \$ 116,839 | 117,799 | 115,997 | 116,413 | 117,684 |   |
| Total tangible assets (c)                      | 112,213    | 113,169 | 111,363 | 111,775 | 113,041 |   |
| Earning assets                                 | 106,096    | 107,785 | 105,835 | 106,210 | 107,231 |   |
| Investment securities                          | 12,949     | 13,034  | 13,431  | 13,856  | 14,467  |   |
| Loans and leases, net of unearned discount     | 88,477     | 87,301  | 87,132  | 87,406  | 87,766  |   |
| Deposits                                       | 89,733     | 91,104  | 89,252  | 90,195  | 91,119  |   |
| Common shareholders' equity (c)                | 14,337     | 14,157  | 14,317  | 14,301  | 14,827  |   |
| Tangible common shareholders' equity (c)       | 9,711      | 9,527   | 9,683   | 9,663   | 10,184  |   |
| At end of quarter                              |            |         |         |         |         |   |
| Total assets (c)                               | \$ 120,025 | 120,097 | 116,828 | 118,426 | 118,623 |   |
| Total tangible assets (c)                      | 115,400    | 115,470 | 112,197 | 113,790 | 113,982 |   |
| Earning assets                                 | 108,849    | 109,321 | 106,331 | 107,819 | 107,976 |   |
| Investment securities                          | 12,537     | 12,693  | 13,074  | 13,283  | 14,067  |   |
| Loans and leases, net of unearned discount     | 88,640     | 88,466  | 86,680  | 87,797  | 87,711  |   |
| Deposits                                       | 90,470     | 90,157  | 89,140  | 89,273  | 90,947  |   |
| Common shareholders' equity, net of undeclared |            |         |         |         |         |   |
| cumulative preferred dividends (c)             | 14,353     | 14,225  | 14,201  | 14,343  | 14,475  |   |
| Tangible common shareholders' equity (c)       | 9,728      | 9,598   | 9,570   | 9,707   | 9,834   |   |
| Equity per common share                        | 105.04     | 102.69  | 100.38  | 99.43   | 98.60   |   |
| Tangible equity per common share               | 71.19      | 69.28   | 67.64   | 67.29   | 66.99   |   |

(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

|  | 2019<br>First<br>Quarter | 2018 Quarters |           |           |           |
|--|--------------------------|---------------|-----------|-----------|-----------|
|  |                          | Fourth        | Third     | Second    | First     |
| Income statement data (in thousands, except per share) |                          |               |           |           |           |
| Net income   |                          |               |           |           |           |
| Net income   | \$482,742                | 546,219       | 526,091   | 493,160   | 352,610   |
| Amortization of core deposit and other                 |                          |               |           |           |           |
| intangible assets (a)                                  | 3,698                    | 3,950         | 4,528     | 4,709     | 4,888     |
| Net operating income                                   | \$486,440                | 550,169       | 530,619   | 497,869   | 357,498   |
| Earnings per common share                              |                          |               |           |           |           |
| Diluted earnings per common share                      | \$3.35                   | 3.76          | 3.53      | 3.26      | 2.23      |
| Amortization of core deposit and other                 |                          |               |           |           |           |
| intangible assets (a)                                  | .03                      | .03           | .03       | .03       | .03       |
| Diluted net operating earnings per common share        | \$3.38                   | 3.79          | 3.56      | 3.29      | 2.26      |
| Other expense  |                          |               |           |           |           |
| Other expense  | \$894,348                | 802,162       | 775,979   | 776,577   | 933,344   |
| Amortization of core deposit and other                 |                          |               |           |           |           |
| intangible assets                                      | (5,020 )                 | (5,359 )      | (6,143 )  | (6,388 )  | (6,632 )  |
| Noninterest operating expense                          | \$889,328                | 796,803       | 769,836   | 770,189   | 926,712   |
| Efficiency ratio                                       |                          |               |           |           |           |
| Noninterest operating expense (numerator)              | \$889,328                | 796,803       | 769,836   | 770,189   | 926,712   |
| Taxable-equivalent net interest income                 | 1,056,027                | 1,064,918     | 1,034,771 | 1,014,184 | 980,326   |
| Other income   | 500,765                  | 480,596       | 459,294   | 457,414   | 458,696   |
| Less: Gain (loss) on bank investment securities        |                          |               |           |           |           |
|  | 11,841                   | 4,219         | (3,415 )  | 2,326     | (9,431 )  |
| Denominator  | \$1,544,951              | 1,541,295     | 1,497,480 | 1,469,272 | 1,448,453 |
| Efficiency ratio                                       | 57.56 %                  | 51.70 %       | 51.41 %   | 52.42 %   | 63.98 %   |
| Balance sheet data (in millions)                       |                          |               |           |           |           |
| Average assets   |                          |               |           |           |           |
| Average assets   | \$116,839                | 117,799       | 115,997   | 116,413   | 117,684   |
| Goodwill   | (4,593 )                 | (4,593 )      | (4,593 )  | (4,593 )  | (4,593 )  |
| Core deposit and other intangible assets               | (45 )                    | (50 )         | (55 )     | (62 )     | (68 )     |
| Deferred taxes   | 12                       | 13            | 14        | 17        | 18        |
| Average tangible assets                                | \$112,213                | 113,169       | 111,363   | 111,775   | 113,041   |
| Average common equity                                  |                          |               |           |           |           |
| Average total equity                                   | \$15,569                 | 15,389        | 15,549    | 15,533    | 16,059    |
| Preferred stock  | (1,232 )                 | (1,232 )      | (1,232 )  | (1,232 )  | (1,232 )  |
| Average common equity                                  | 14,337                   | 14,157        | 14,317    | 14,301    | 14,827    |

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|   |           |          |          |          |          |
|---|-----------|----------|----------|----------|----------|
| Goodwill  | (4,593 )  | (4,593 ) | (4,593 ) | (4,593 ) | (4,593 ) |
| Core deposit and other intangible assets          | (45 )     | (50 )    | (55 )    | (62 )    | (68 )    |
| Deferred taxes                                    | 12        | 13       | 14       | 17       | 18       |
| Average tangible common equity                    | \$9,711   | 9,527    | 9,683    | 9,663    | 10,184   |
| At end of quarter                                 |           |          |          |          |          |
| Total assets                                      |           |          |          |          |          |
| Total assets                                      | \$120,025 | 120,097  | 116,828  | 118,426  | 118,623  |
| Goodwill  | (4,593 )  | (4,593 ) | (4,593 ) | (4,593 ) | (4,593 ) |
| Core deposit and other intangible assets          | (44 )     | (47 )    | (52 )    | (59 )    | (65 )    |
| Deferred taxes                                    | 12        | 13       | 14       | 16       | 17       |
| Total tangible assets                             | \$115,400 | 115,470  | 112,197  | 113,790  | 113,982  |
| Total common equity                               |           |          |          |          |          |
| Total equity                                      | \$15,588  | 15,460   | 15,436   | 15,578   | 15,710   |
| Preferred stock                                   | (1,232 )  | (1,232 ) | (1,232 ) | (1,232 ) | (1,232 ) |
| Undeclared dividends - cumulative preferred stock | (3 )      | (3 )     | (3 )     | (3 )     | (3 )     |
| Common equity, net of undeclared                  |           |          |          |          |          |
| cumulative preferred dividends                    | 14,353    | 14,225   | 14,201   | 14,343   | 14,475   |
| Goodwill  | (4,593 )  | (4,593 ) | (4,593 ) | (4,593 ) | (4,593 ) |
| Core deposit and other intangible assets          | (44 )     | (47 )    | (52 )    | (59 )    | (65 )    |
| Deferred taxes                                    | 12        | 13       | 14       | 16       | 17       |
| Total tangible common equity                      | \$9,728   | 9,598    | 9,570    | 9,707    | 9,834    |

(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

|  | 2019 First Quarter<br>Average |           |        | 2018 Fourth Quarter<br>Average |           |        | 2018 Third Quarter<br>Average |           |        | Average<br>Rate |
|--|-------------------------------|-----------|--------|--------------------------------|-----------|--------|-------------------------------|-----------|--------|-----------------|
|  | Balance                       | Interest  | Rate   | Balance                        | Interest  | Rate   | Balance                       | Interest  | Rate   |                 |
| Average balance in millions; interest in thousands |                               |           |        |                                |           |        |                               |           |        |                 |
| Assets   |                               |           |        |                                |           |        |                               |           |        |                 |
| Earning assets                                     |                               |           |        |                                |           |        |                               |           |        |                 |
| Loans and leases, net of unearned discount (a)     |                               |           |        |                                |           |        |                               |           |        |                 |
| Commercial, financial, etc.                        | \$23,010                      | \$287,676 | 5.07 % | 22,376                         | 277,350   | 4.92 % | 21,689                        | 255,735   | 4.68 % |                 |
| Real estate – commercial                           | 34,524                        | 461,050   | 5.34   | 33,586                         | 452,448   | 5.27   | 33,800                        | 440,381   | 5.10   |                 |
| Real estate – consumer                             | 16,939                        | 184,868   | 4.37   | 17,421                         | 187,670   | 4.31   | 18,006                        | 189,634   | 4.21   |                 |
| Consumer   | 14,004                        | 190,193   | 5.51   | 13,918                         | 187,723   | 5.35   | 13,637                        | 180,764   | 5.26   |                 |
| Total loans and leases, net                        | 88,477                        | 1,123,787 | 5.15   | 87,301                         | 1,105,191 | 5.02   | 87,132                        | 1,066,514 | 4.86   |                 |
| Interest-bearing deposits at banks                 | 4,605                         | 27,407    | 2.41   | 7,394                          | 41,635    | 2.23   | 5,207                         | 26,001    | 1.98   |                 |
| Federal funds sold                                 | —                             | 4         | 2.84   | —                              | 2         | 2.62   | —                             | —         | —      |                 |
| Trading account                                    | 65                            | 556       | 3.40   | 56                             | 370       | 2.65   | 65                            | 289       | 1.78   |                 |
| Investment securities (b)                          |                               |           |        |                                |           |        |                               |           |        |                 |
| U.S. Treasury and federal agencies                 | 12,151                        | 72,967    | 2.44   | 12,270                         | 72,274    | 2.34   | 12,656                        | 72,548    | 2.27   |                 |
| Obligations of states and political subdivisions   |                               |           |        |                                |           |        |                               |           |        |                 |
| Other  | 8                             | 67        | 3.25   | 10                             | 113       | 4.46   | 12                            | 146       | 4.75   |                 |
| Total investment securities                        | 790                           | 7,488     | 3.84   | 754                            | 6,654     | 3.50   | 763                           | 7,610     | 3.96   |                 |
| Total earning assets                               | 12,949                        | 80,522    | 2.52   | 13,034                         | 79,041    | 2.41   | 13,431                        | 80,304    | 2.37   |                 |
| Total earning assets                               | 106,096                       | 1,232,276 | 4.71   | 107,785                        | 1,226,239 | 4.51   | 105,835                       | 1,173,108 | 4.40   |                 |
| Allowance for credit losses                        |                               |           |        |                                |           |        |                               |           |        |                 |
|  | (1,021 )                      |           |        | (1,021 )                       |           |        | (1,020 )                      |           |        |                 |
|  | 1,317                         |           |        | 1,320                          |           |        | 1,317                         |           |        |                 |

|  |           |             |        |         |           |        |         |           |        |
|--|-----------|-------------|--------|---------|-----------|--------|---------|-----------|--------|
| Cash and due from banks                      |           |             |        |         |           |        |         |           |        |
| Other assets                                 | 10,447    |             |        | 9,715   |           |        | 9,865   |           |        |
| Total assets                                 | \$116,839 |             |        | 117,799 |           |        | 115,997 |           |        |
| Liabilities and shareholders' equity         |           |             |        |         |           |        |         |           |        |
| Interest-bearing liabilities                 |           |             |        |         |           |        |         |           |        |
| Interest-bearing deposits                    |           |             |        |         |           |        |         |           |        |
| Savings and interest-checking deposits       | \$52,095  | 76,139      | .59    | 51,820  | 69,990    | .54    | 51,552  | 56,156    | .43    |
| Time deposits                                | 6,351     | 21,081      | 1.35   | 5,960   | 16,149    | 1.07   | 5,826   | 12,976    | .88    |
| Deposits at Cayman Islands office            | 972       | 4,737       | 1.98   | 693     | 3,154     | 1.81   | 407     | 1,556     | 1.52   |
| Total interest-bearing deposits              | 59,418    | 101,957     | .70    | 58,473  | 89,293    | .61    | 57,785  | 70,688    | .49    |
| Short-term borrowings                        | 1,091     | 6,713       | 2.49   | 315     | 1,520     | 1.91   | 374     | 1,600     | 1.70   |
| Long-term borrowings                         | 8,494     | 67,579      | 3.23   | 9,239   | 70,508    | 3.03   | 9,047   | 66,049    | 2.90   |
| Total interest-bearing liabilities           | 69,003    | 176,249     | 1.04   | 68,027  | 161,321   | .94    | 67,206  | 138,337   | .82    |
| Noninterest-bearing deposits                 | 30,315    |             |        | 32,631  |           |        | 31,467  |           |        |
| Other liabilities                            | 1,952     |             |        | 1,752   |           |        | 1,775   |           |        |
| Total liabilities                            | 101,270   |             |        | 102,410 |           |        | 100,448 |           |        |
| Shareholders' equity                         | 15,569    |             |        | 15,389  |           |        | 15,549  |           |        |
| Total liabilities and shareholders' equity   | \$116,839 |             |        | 117,799 |           |        | 115,997 |           |        |
| Net interest spread                          |           |             | 3.67   |         |           | 3.57   |         |           | 3.58   |
| Contribution of interest-free funds          |           |             | .37    |         |           | .35    |         |           | .30    |
| Net interest income/margin on earning assets |           | \$1,056,027 | 4.04 % |         | 1,064,918 | 3.92 % |         | 1,034,771 | 3.88 % |

(a) Includes nonaccrual loans.

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

(continued)



## M&amp;T BANK CORPORATION AND SUBSIDIARIES

Table 3 (continued)

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

|  | 2018 Second Quarter |           |         | 2018 First Quarter |           |         |   |
|--|---------------------|-----------|---------|--------------------|-----------|---------|---|
|  | Average             | Average   | Average | Average            | Average   | Average |   |
|  | Balance             | Interest  | Rate    | Balance            | Interest  | Rate    |   |
| Average balance in millions; interest in thousands |                     |           |         |                    |           |         |   |
| Assets   |                     |           |         |                    |           |         |   |
| Earning assets                                     |                     |           |         |                    |           |         |   |
| Loans and leases, net of unearned discount (a)     |                     |           |         |                    |           |         |   |
| Commercial, financial, etc.                        | \$21,709            | \$243,081 | 4.49    | % 21,547           | 227,296   | 4.28    | % |
| Real estate – commercial                           | 33,687              | 421,705   | 4.95    | 33,652             | 397,713   | 4.73    |   |
| Real estate – consumer                             | 18,644              | 193,547   | 4.15    | 19,274             | 195,701   | 4.06    |   |
| Consumer   | 13,366              | 171,441   | 5.14    | 13,293             | 163,991   | 5.00    |   |
| Total loans and leases, net                        | 87,406              | 1,029,774 | 4.73    | 87,766             | 984,701   | 4.55    |   |
| Interest-bearing deposits at banks                 | 4,890               | 21,869    | 1.79    | 4,941              | 18,677    | 1.53    |   |
| Federal funds sold                                 | 1                   | 4         | 2.23    | 3                  | 17        | 1.85    |   |
| Trading account                                    | 57                  | 416       | 2.92    | 54                 | 404       | 3.00    |   |
| Investment securities (b)                          |                     |           |         |                    |           |         |   |
| U.S. Treasury and federal agencies                 | 13,066              | 76,704    | 2.35    | 13,689             | 78,017    | 2.31    |   |
| Obligations of states and political subdivisions   | 20                  | 217       | 4.45    | 24                 | 271       | 4.67    |   |
| Other  | 770                 | 5,318     | 2.77    | 754                | 4,872     | 2.62    |   |
| Total investment securities                        | 13,856              | 82,239    | 2.38    | 14,467             | 83,160    | 2.33    |   |
| Total earning assets                               | 106,210             | 1,134,302 | 4.28    | 107,231            | 1,086,959 | 4.11    |   |
| Allowance for credit losses                        | (1,018 )            |           |         | (1,020 )           |           |         |   |
| Cash and due from banks                            | 1,277               |           |         | 1,336              |           |         |   |
| Other assets                                       | 9,944               |           |         | 10,137             |           |         |   |
| Total assets                                       | \$116,413           |           |         | 117,684            |           |         |   |
| Liabilities and shareholders' equity               |                     |           |         |                    |           |         |   |
| Interest-bearing liabilities                       |                     |           |         |                    |           |         |   |
| Interest-bearing deposits                          |                     |           |         |                    |           |         |   |
| Savings and interest-checking deposits             | \$52,547            | 48,738    | .37     | 52,504             | 40,527    | .31     |   |
| Time deposits                                      | 5,997               | 11,362    | .76     | 6,320              | 10,936    | .70     |   |
| Deposits at Cayman Islands office                  | 225                 | 542       | .97     | 248                | 381       | .62     |   |
| Total interest-bearing deposits                    | 58,769              | 60,642    | .41     | 59,072             | 51,844    | .36     |   |
| Short-term borrowings                              | 353                 | 1,383     | 1.57    | 280                | 883       | 1.28    |   |
| Long-term borrowings                               | 8,480               | 58,093    | 2.75    | 8,606              | 53,906    | 2.54    |   |
| Total interest-bearing liabilities                 | 67,602              | 120,118   | .71     | 67,958             | 106,633   | .64     |   |
| Noninterest-bearing deposits                       | 31,426              |           |         | 32,047             |           |         |   |

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|  |             |      |      |         |      |      |
|--|-------------|------|------|---------|------|------|
| Other liabilities                            | 1,852       |      |      | 1,620   |      |      |
| Total liabilities                            | 100,880     |      |      | 101,625 |      |      |
| Shareholders' equity                         | 15,533      |      |      | 16,059  |      |      |
| Total liabilities and shareholders' equity   | \$116,413   |      |      | 117,684 |      |      |
| Net interest spread                          |             |      | 3.57 |         |      | 3.47 |
| Contribution of interest-free funds          |             |      | .26  |         |      | .24  |
| Net interest income/margin on earning assets | \$1,014,184 | 3.83 | %    | 980,326 | 3.71 | %    |

(a) Includes nonaccrual loans.

(b) 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)), René F. Jones, Chairman of the Board and Chief Executive Officer, and Darren J. King, Executive Vice President and Chief Financial Officer, concluded that M&T’s disclosure controls and procedures were effective as of March 31, 2019.

(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, 2019 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 \$100 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.

ESOP Matters: Wilmington Trust, N.A. provides retirement services, including serving in certain trustee roles relating to Employee Stock Ownership Plans (“ESOPs”). Beginning in 2010, the U.S. Department of Labor (“DOL”) announced that it would increase its focus on ESOP transactions, particularly with regard to valuation issues relating to ESOP transactions. Beginning in late 2013, Wilmington Trust, N.A. began receiving requests for information and subpoenas relating to certain ESOP transactions for which it acted as trustee. In June 2016, Wilmington Trust, N.A. received a DOL subpoena seeking information on its global ESOP trustee business. In addition to these investigations, the DOL has commenced three lawsuits against Wilmington Trust, N.A. relating to its role as trustee of three ESOP transactions. Wilmington Trust, N.A. has also been named as a defendant in four private party lawsuits relating to its role as trustee for four ESOP transactions. Under applicable transaction documents, Wilmington Trust, N.A. may be entitled to indemnification by the ESOP Plan Sponsors.

The DOL investigations of Wilmington Trust, N.A. and the private party lawsuits could result in civil proceedings, damages, resolutions or settlements, including, among other things, enforcement actions, which could seek or result in damages and/or fines, penalties, restitution, injunctions, enforcement efforts, reputational damage or additional costs and expenses.

Due to their complex nature, it is difficult to estimate when litigation or investigatory matters such as these may be resolved. As set forth in the introductory paragraph to this Item 1 — Legal Proceedings, losses from current

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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 herein.

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, 2018.

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

(a) – (b) Not applicable.

(c)

| Period                         | Issuer Purchases of Equity Securities               |  |  |   |
|--------------------------------|---|--|--|---|
|                                | (a) Total Number of Shares (or Units) Purchased (1) | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Publicly Announced Plans or Programs | (d) Maximum Number of Approximate Dollar Value of Shares (or Units) that may yet be Purchased Under the Plans or Programs (2) |
| January 1 - January 31, 2019   | 190,331   | \$ 164.40                                  | 150,000  | \$777,061,918   |
| February 1 - February 28, 2019 | 450,000   | 169.07                                     | 450,000  | 700,979,593   |
| March 1 - March 31, 2019       | 1,550,000   | 170.95                                     | 1,550,000  | 436,008,393   |
| Total                          | 2,190,331   | \$ 169.99                                  | 2,150,000  |   |

(1)

The total number of shares purchased during the periods indicated includes shares purchased as part of publicly announced programs and shares deemed to have been received from employees who exercised stock options by attesting to previously acquired common shares in satisfaction of the exercise price or shares received from employees upon the vesting of restricted stock awards in satisfaction of applicable tax withholding obligations, as is permitted under M&T's stock-based compensation plans.

(2) On July 17, 2018, M&T announced a program to purchase up to \$1.8 billion of its common stock through June 30, 2019.

Item 3. Defaults Upon Senior Securities.

(Not applicable.)

Item 4. Mine Safety Disclosures.

(None.)

Item 5. Other Information.

(None.)

Item 6. Exhibits.

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

Exhibit

No.

- 10.1 M&T Bank Corporation Form of Performance Share Unit Award Agreement. 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.

SIGNATURES

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

M&T BANK CORPORATION

Date: May 2, 2019 By: /s/ Darren J. King

Darren J. King  
Executive Vice President  
and Chief Financial Officer