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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.  20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018

or

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

M&T BANK CORPORATION

(Exact name of registrant as specified in its charter)

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

(716) 635-4000

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

M&T BANK CORPORATION

FORM 10-Q

For the Quarterly Period Ended March 31, 2018

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (Unaudited)

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

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

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

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

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

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

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

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

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

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

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M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)

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

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

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTES TO FINANCIAL STATEMENTS

1. Significant accounting policies

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

2. Investment securities

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

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

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. Investment securities, continued

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. Investment securities, continued

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

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

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

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. Investment securities, continued

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

3. Loans and leases and the allowance for credit losses

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

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

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Automobile | 3,468,893 | 64,995 | — | — | — | 20,613 | 3,554,501 |
| Other | 4,523,469 | 28,686 | 4,801 | 28,181 | — | 8,498 | 4,593,635 |
| Total | $85,191,592 | 991,812 | 235,325 | 49,349 | 378,000 | 864,671 | $87,710,749 |
| | | | | | | | |
| December 31, 2017 | | | | | | | |
| Commercial, financial, leasing, etc. | $21,332,234 | 167,756 | 1,322 | 327 | 21 | 240,991 | $21,742,651 |
| Real estate: | | | | | | | |
| Commercial | 24,910,381 | 166,305 | 4,444 | 6,016 | 16,815 | 184,982 | 25,288,943 |
| Residential builder and developer | 1,618,973 | 5,159 | — | — | 1,135 | 6,451 | 1,631,718 |
| Other commercial construction | 6,407,451 | 23,467 | — | — | 4,706 | 10,088 | 6,445,712 |
| Residential | 15,376,759 | 474,372 | 233,437 | 7,582 | 282,102 | 235,834 | 16,610,086 |
| Residential — limited documentation | 2,718,019 | 83,898 | — | — | 105,236 | 96,105 | 3,003,258 |
| Consumer: | | | | | | | |
| Home equity lines and loans | 5,171,345 | 38,546 | — | 9,391 | — | 74,500 | 5,293,782 |
| Automobile | 3,441,371 | 78,511 | — | — | — | 23,781 | 3,543,663 |
| Other | 4,349,071 | 40,929 | 5,202 | 24,102 | — | 9,866 | 4,429,170 |
| Total | $85,325,604 | 1,078,943 | 244,405 | 47,418 | 410,015 | 882,598 | $87,988,983 |

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

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

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

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

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

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

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

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

4. Borrowings

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

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

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

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

4. Borrowings, continued

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

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

5. Shareholders' equity

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

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

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

| | | |
|---|---|---|
| Series F (c) | | |
| Fixed-to-Floating Rate Non-cumulative Perpetual Preferred Stock, | | |
| $10,000 liquidation preference per share | 50,000 | $500,000 |

(a) Dividends, if declared, are paid at 6.375%. Warrants to purchase M&T common stock at $73.75 per share issued in connection with the Series A preferred stock expire on December 23, 2018 and totaled 220,034 at March 31, 2018.

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

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

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

6. Pension plans and other postretirement benefits

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

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

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

7. Earnings per common share

The computations of basic earnings per common share follow:

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

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

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

7. Earnings per common share, continued

The computations of diluted earnings per common share follow:

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

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

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

8. Comprehensive income

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

8. Comprehensive income, continued

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

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

9. Derivative financial instruments

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

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

9. Derivative financial instruments, continued

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

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

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

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

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

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

Derivative financial instruments used for trading account purposes included interest rate contracts, foreign exchange and other option contracts, foreign exchange forward and spot contracts, and financial futures. Interest rate contracts entered into for trading account purposes had notional values of $39.5 billion and $29.9 billion at March 31, 2018 and December 31, 2017, respectively. The notional amounts of foreign currency and other option and futures contracts entered into for trading account purposes aggregated $538 million and $530 million at March 31, 2018 and December 31, 2017, respectively.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

9. Derivative financial instruments, continued

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

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

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

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

| | | |
|---|---|---|
| Total | $1,026 | $3,786 |

(a) Effective January 1, 2018, reported as an adjustment to interest expense. Prior to 2018, reported as other revenues from operations.
(b) Reported as trading account and foreign exchange gains.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

9. Derivative financial instruments, continued

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

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

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

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

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

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

9. Derivative financial instruments, continued

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

10. Variable interest entities and asset securitizations

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

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

The Company has invested as a limited partner in various partnerships that collectively had total assets of approximately $1.0 billion at each of March 31, 2018 and December 31, 2017. Those partnerships generally construct or acquire properties for which the investing partners are eligible to receive certain federal income tax credits in accordance with government guidelines. Such investments may also provide tax deductible losses to the partners. The partnership investments also assist the Company in achieving its community reinvestment initiatives. As a limited partner, there is no recourse to the Company by creditors of the partnerships. However, the tax credits that result from the Company's investments in such partnerships are generally subject to recapture should a partnership fail to comply with the respective government regulations. The Company's maximum exposure to loss of its investments in such partnerships was $422 million, including $196 million of unfunded commitments, at March 31, 2018 and $420 million, including $201 million of unfunded commitments, at December 31, 2017. Contingent commitments to provide additional capital contributions to these partnerships were not material at March 31, 2018. The Company has not provided financial or other support to the partnerships that was not contractually required. Management currently estimates that no material losses are probable as a result of the Company's involvement with such entities. The Company, in its position as limited partner, does not direct the activities that most significantly impact the economic performance of the partnerships and, therefore, in accordance with the accounting provisions for variable interest entities, the partnership entities are not included in the Company's consolidated financial statements. The Company's investment cost is amortized to income taxes in the consolidated statement of income as tax credits and other tax benefits resulting from deductible losses associated with the projects are received. The Company amortized $13 million of its investments in qualified affordable housing projects to income tax expense during each of the three-month periods ended March 31, 2018 and 2017 and recognized $16 million of tax credits and other tax benefits during each of those periods.

10. Variable interest entities and asset securitizations, continued

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

11. Fair value measurements

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

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

- Level 1 — Valuation is based on quoted prices in active markets for identical assets and liabilities.
- Level 2 — Valuation is determined from quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active or by model-based techniques in which all significant inputs are observable in the market.
- Level 3 — Valuation is derived from model-based and other techniques in which at least one significant input is unobservable and which may be based on the Company's own estimates about the assumptions that market participants would use to value the asset or liability.

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

Trading account assets and liabilities

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

Investment securities available for sale and equity securities

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

11. Fair value measurements, continued

Real estate loans held for sale

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

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

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

Interest rate swap agreements used for interest rate risk management

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

11. Fair value measurements, continued

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

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

(a) There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy during the three months ended March 31, 2018 and the year ended December 31, 2017.

(b) Comprised predominantly of interest rate swap agreements used for interest rate risk management (Level 2), commitments to sell real estate loans (Level 2) and commitments to originate real estate loans to be held for sale (Level 3).

NOTES TO FINANCIAL STATEMENTS, CONTINUED

11. Fair value measurements, continued

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

| | Investment Securities Available for Sale Privately Issued Mortgage-Backed Securities | Other Assets and Other Liabilities | |
|---|---|---|---|
| | (In thousands) | | |
| Balance — January 1, 2018 | $ 28 | 8,303 | |
| Total gains (losses) realized/unrealized: | | | |
| Included in earnings | — | 8,130 | (b) |
| Settlements | (1 ) | — | |
| Transfers in and/or 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) |

The changes in Level 3 assets and liabilities measured at estimated fair value on a recurring basis during the three months ended March 31, 2017 were as follows:

| | Investment Securities Available for Sale Privately Issued Mortgage-Backed Securities | Other Assets and Other Liabilities | |
|---|---|---|---|
| | (In thousands) | | |
| Balance — January 1, 2017 | $ 44 | 7,325 | |
| Total gains (losses) realized/unrealized: | | | |
| Included in earnings | — | 23,940 | (b) |

| | | | |
|---|---|---|---|
| Settlements | (3) | — | |
| Transfers in and/or out of Level 3 (a) | — | (15,063) | (c) |
| Balance — March 31, 2017 | $ 41 | 16,202 | |
| Changes in unrealized gains included in earnings related to assets still held at March 31, 2017 | $ — | 15,094 | (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.

11. Fair value measurements, continued

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

Loans

Loans are generally not recorded at fair value on a recurring basis. Periodically, the Company records nonrecurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Nonrecurring adjustments also include certain impairment amounts for collateral-dependent loans when establishing the allowance for credit losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan and, as a result, the carrying value of the loan less the calculated valuation amount does not necessarily represent the fair value of the loan. Real estate collateral is typically valued using appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace and the related nonrecurring fair value measurement adjustments have generally been classified as Level 2, unless significant adjustments have been made to the valuation that are not readily observable by market participants. Non-real estate collateral supporting commercial loans generally consists of business assets such as receivables, inventory and equipment. Fair value estimations are typically determined by discounting recorded values of those assets to reflect estimated net realizable value considering specific borrower facts and circumstances and the experience of credit personnel in their dealings with similar borrower collateral liquidations. Such discounts were generally in the range of 15% to 90% at March 31, 2018. 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 $178 million at March 31, 2018 ($97 million and $81 million of which were classified as Level 2 and Level 3, respectively), $210 million at December 31, 2017 ($145 million and $65 million of which were classified as Level 2 and Level 3, respectively) and $210 million at March 31, 2017 ($88 million and $122 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, 2018 and 2017 were decreases of $27 million and $42 million for the three-month periods ended March 31, 2018 and March 31, 2017, 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 $19 million and $32 million at March 31, 2018 and 2017, 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, 2018 and 2017.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

11. 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, 2018 and December 31, 2017:

| | Fair Value (In thousands) | Valuation Technique | Unobservable Inputs/Assumptions | Range (Weighted-Average) |
|---|---|---|---|---|
| March 31, 2018 | | | | |
| Recurring fair value measurements | | | | |
| Privately issued mortgage-backed securities | $ 27 | Two independent pricing quotes | — | — |
| Net other assets (liabilities) (a) | 8,760 | Discounted cash flow | Commitment expirations | 0%-76% (19%) |
| | | | | |
| December 31, 2017 | | | | |
| Recurring fair value measurements | | | | |
| Privately issued mortgage-backed securities | $ 28 | Two independent pricing quotes | — | — |
| Net other assets (liabilities) (a) | 8,303 | Discounted cash flow | Commitment expirations | 0%-78% (22%) |

(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

11. 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, 2018 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Level 1 | Level 2 | Level 3 |
| | (In thousands) | | | | |
| Financial assets: | | | | | |
| Cash and cash equivalents | $1,292,664 | 1,292,664 | 1,206,172 | 86,492 | — |
| Interest-bearing deposits at banks | 6,135,434 | 6,135,434 | — | 6,135,434 | — |
| Trading account assets | 141,134 | 141,134 | 46,215 | 94,919 | — |
| Investment securities | 14,066,564 | 13,998,023 | 43,496 | 13,841,655 | 112,872 |
| Loans and leases: | | | | | |
| Commercial loans and leases | 21,697,522 | 21,294,038 | — | — | 21,294,038 |
| Commercial real estate loans | 33,753,506 | 33,123,306 | — | 166,773 | 32,956,533 |
| Residential real estate loans | 18,960,946 | 18,812,289 | — | 4,226,284 | 14,586,005 |
| Consumer loans | 13,298,775 | 13,112,874 | — | — | 13,112,874 |
| Allowance for credit losses | (1,019,671 ) | — | — | — | — |
| Loans and leases, net | 86,691,078 | 86,342,507 | — | 4,393,057 | 81,949,450 |
| Accrued interest receivable | 332,151 | 332,151 | — | 332,151 | — |
| Financial liabilities: | | | | | |