

M&T BANK CORP  
Form 10-K  
February 20, 2015  
Table of Contents

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## Form 10-K

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

For the fiscal year ended December 31, 2014

or

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

Commission file number 1-9861

# M&T BANK CORPORATION

*(Exact name of registrant as specified in its charter)*

New York  
*(State of incorporation)*

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

One M&T Plaza, Buffalo, New York  
*(Address of principal executive offices)*

14203  
*(Zip Code)*

Registrant's telephone number, including area code:

716-635-4000

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

| Title of Each Class                                | Name of Each Exchange on Which Registered |
|--|---|
| Common Stock, \$.50 par value                      | New York Stock Exchange                   |
| 6.375% Cumulative Perpetual Preferred Stock,       | New York Stock Exchange                   |
| Series A, \$1,000 liquidation preference per share |   |
| 6.375% Cumulative Perpetual Preferred Stock,       | New York Stock Exchange                   |

# Edgar Filing: M&T BANK CORP - Form 10-K

Series C, \$1,000 liquidation preference per share  
Warrants to purchase shares of Common Stock

New York Stock Exchange

(expiring December 23, 2018)

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

8.234% Capital Securities of M&T Capital Trust I

(and the Guarantee of M&T Bank Corporation with respect thereto)

*(Title of class)*

8.234% Junior Subordinated Debentures of

M&T Bank Corporation

*(Title of class)*

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Aggregate market value of the Common Stock, \$0.50 par value, held by non-affiliates of the registrant, computed by reference to the closing price as of the close of business on June 30, 2014: \$14,427,352,292.

Number of shares of the Common Stock, \$0.50 par value, outstanding as of the close of business on February 13, 2015: 132,912,535 shares.

## Documents Incorporated By Reference:

(1) Portions of the Proxy Statement for the 2015 Annual Meeting of Shareholders of M&T Bank Corporation in Parts II and III.



**Table of Contents****M&T BANK CORPORATION**

Form 10-K for the year ended December 31, 2014

**CROSS-REFERENCE SHEET**

|  | <b>Form 10-K<br/>Page</b> |
|--|---------------------------|
| <b><u>PART I</u></b>   |                           |
| <b><u>Item 1. Business</u></b>   | 4                         |
| Statistical disclosure pursuant to Guide 3   |                           |
| I. Distribution of assets, liabilities, and shareholders' equity; interest rates and interest differential   |                           |
| A. Average balance sheets  | 47                        |
| B. Interest income/expense and resulting yield or rate on average interest-earning assets (including non-accrual loans) and interest-bearing liabilities | 47                        |
| C. Rate/volume variances   | 23                        |
| II. Investment portfolio   |                           |
| A. Year-end balances   | 21,109                    |
| B. Maturity schedule and weighted average yield  | 79                        |
| C. Aggregate carrying value of securities that exceed ten percent of shareholders' equity  | 110                       |
| III. Loan portfolio  |                           |
| A. Year-end balances   | 21, 113                   |
| B. Maturities and sensitivities to changes in interest rates   | 77                        |
| C. Risk elements   |                           |
| Nonaccrual, past due and renegotiated loans  | 60, 115-119               |
| Actual and pro forma interest on certain loans   | 115,123                   |
| Nonaccrual policy  | 104,105                   |
| Loan concentrations  | 69                        |
| IV. Summary of loan loss experience  |                           |
| A. Analysis of the allowance for loan losses   | 58,120-125                |
| Factors influencing management's judgment concerning the adequacy of the allowance and provision   | 57-69, 105, 120-125       |
| B. Allocation of the allowance for loan losses   | 68,120,124-125            |
| V. Deposits  |                           |
| A. Average balances and rates  | 47                        |
| B. Maturity schedule of domestic time deposits with balances of \$100,000 or more  | 80                        |
| VI. Return on equity and assets  | 23,42,83,85               |
| VII. Short-term borrowings   | 129                       |
| Item 1A. <u>Risk Factors</u>   | 23-32                     |
| Item 1B. <u>Unresolved Staff Comments</u>  | 32                        |
| Item 2. <u>Properties</u>  | 32-33                     |
| Item 3. <u>Legal Proceedings</u>   | 33                        |
| Item 4. <u>Mine Safety Disclosures</u>   | 33                        |
| <u>Executive Officers of the Registrant</u>  | 34-35                     |
| <b><u>PART II</u></b>  |                           |
| Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>                              | 35-38                     |
| A. Principal market  | 35                        |
| Market prices  | 93                        |
| B. Approximate number of holders at year-end   | 21                        |

**Table of Contents**

|  | <b>Form 10-K</b> |
|--|------------------|
|  | <b>Page</b>      |
| C. Frequency and amount of dividends declared  | 22-23, 93, 102   |
| D. Restrictions on dividends   | 9-14             |
| E. Securities authorized for issuance under equity compensation plans  | 35-36            |
| F. Performance graph   | 37               |
| G. Repurchases of common stock   | 38               |
| Item 6. <u>Selected Financial Data</u>   | 38               |
| A. Selected consolidated year-end balances   | 21               |
| B. Consolidated earnings, etc.   | 22               |
| Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                       | 38-94            |
| Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>   | 95               |
| Item 8. <u>Financial Statements and Supplementary Data</u>   | 95               |
| A. Report on Internal Control Over Financial Reporting   | 96               |
| B. Report of Independent Registered Public Accounting Firm   | 97               |
| C. Consolidated Balance Sheet – December 31, 2014 and 2013   | 98               |
| D. Consolidated Statement of Income – Years ended December 31, 2014, 2013 and 2012   | 99               |
| E. Consolidated Statement of Comprehensive Income – Years ended December 31, 2014, 2013 and 2012                           | 100              |
| F. Consolidated Statement of Cash Flows – Years ended December 31, 2014, 2013 and 2012                                     | 101              |
| G. Consolidated Statement of Changes in Shareholders' Equity – Years ended December 31, 2014, 2013 and 2012                | 102              |
| H. Notes to Financial Statements   | 103-169          |
| I. Quarterly Trends  | 93               |
| Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>                        | 170              |
| Item 9A. <u>Controls and Procedures</u>  | 170              |
| A. Conclusions of principal executive officer and principal financial officer regarding disclosure controls and procedures | 170              |
| B. Management's annual report on internal control over financial reporting   | 170              |
| C. Attestation report of the registered public accounting firm   | 170              |
| D. Changes in internal control over financial reporting  | 170              |
| Item 9B. <u>Other Information</u>  | 170              |
| <b><u>PART III</u></b>   |                  |
| Item 10. <u>Directors, Executive Officers and Corporate Governance</u>   | 170              |
| Item 11. <u>Executive Compensation</u>   | 170              |
| Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>             | 171              |
| Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>                                  | 171              |
| Item 14. <u>Principal Accountant Fees and Services</u>   | 171              |
| <b><u>PART IV</u></b>  |                  |
| Item 15. <u>Exhibits and Financial Statement Schedules</u>   | 171              |
| <u>SIGNATURES</u>  | 172-173          |
| <u>EXHIBIT INDEX</u>   | 174-176          |

**Table of Contents****PART I****Item 1. Business.**

M&T Bank Corporation ( Registrant or M&T ) is a New York business corporation which is registered as a financial holding company under the Bank Holding Company Act of 1956, as amended ( BHCA ) and as a bank holding company ( BHC ) under Article III-A of the New York Banking Law ( Banking Law ). The principal executive offices of M&T are located at One M&T Plaza, Buffalo, New York 14203. M&T was incorporated in November 1969. M&T and its direct and indirect subsidiaries are collectively referred to herein as the Company. As of December 31, 2014 the Company had consolidated total assets of \$96.7 billion, deposits of \$73.6 billion and shareholders' equity of \$12.3 billion. The Company had 14,609 full-time and 1,173 part-time employees as of December 31, 2014.

At December 31, 2014, M&T had two wholly owned bank subsidiaries: M&T Bank and Wilmington Trust, National Association ( Wilmington Trust, N.A. ). The banks collectively offer a wide range of retail and commercial banking, trust and wealth management, and investment services to their customers. At December 31, 2014, M&T Bank represented 99% of consolidated assets of the Company.

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

**Subsidiaries**

M&T Bank is a banking corporation that is incorporated under the laws of the State of New York. M&T Bank is a member of the Federal Reserve System and the Federal Home Loan Bank System, and its deposits are insured by the Federal Deposit Insurance Corporation ( FDIC ) up to applicable limits. M&T acquired all of the issued and outstanding shares of the capital stock of M&T Bank in December 1969. The stock of M&T Bank represents a major asset of M&T. M&T Bank operates under a charter granted by the State of New York in 1892, and the continuity of its banking business is traced to the organization of the Manufacturers and Traders Bank in 1856. The principal executive offices of M&T Bank are located at One M&T Plaza, Buffalo, New York 14203. As of December 31, 2014, M&T Bank had 693 domestic banking offices located in New York State, Pennsylvania, Maryland, Delaware, Virginia, West Virginia, and the District of Columbia, a full-service commercial banking office in Ontario, Canada, and an office in George Town, Cayman Islands. As of December 31, 2014, M&T Bank had consolidated total assets of \$95.9 billion, deposits of \$74.8 billion and shareholder's equity of \$11.5 billion. The deposit liabilities of M&T Bank are insured by the FDIC through its Deposit Insurance Fund ( DIF ). As a commercial bank, M&T Bank offers a broad range of financial services to a diverse base of consumers, businesses, professional clients, governmental entities and financial institutions located in its markets. Lending is largely focused on consumers residing in New York State, Pennsylvania, Maryland, Virginia, Delaware and Washington, D.C., and on small and medium-size businesses based in those areas, although loans are originated through lending offices in other states and in Ontario, Canada. In addition, the Company conducts lending activities in various states through other subsidiaries. Trust and other fiduciary services are offered by M&T Bank and through its wholly owned subsidiary, Wilmington Trust Company. M&T Bank and certain of its subsidiaries also offer commercial mortgage loans secured by income producing properties or properties used by borrowers in a trade or business. Additional financial services are provided through other operating subsidiaries of the Company.

Wilmington Trust, N.A., a national banking association and a member of the Federal Reserve System and the FDIC, commenced operations on October 2, 1995. The deposit liabilities of Wilmington Trust, N.A. are insured by the FDIC through the DIF. The main office of Wilmington Trust, N.A. is located at 1100 North Market Street, Wilmington, Delaware, 19890. Wilmington Trust, N.A. offers various trust and wealth management services. Historically, Wilmington Trust, N.A. offered selected deposit and loan products on a nationwide basis, through direct mail, telephone marketing techniques and the Internet. As of December 31, 2014, Wilmington Trust, N.A. had total assets of \$2.8 billion, deposits of \$2.2 billion and shareholder's equity of \$436 million.

Wilmington Trust Company, a wholly owned subsidiary of M&T Bank, was incorporated as a Delaware bank and trust company in March 1901 and amended its charter in July 2011 to become a nondepository trust company. Wilmington Trust Company provides a variety of Delaware based trust,

---

**Table of Contents**

fiduciary and custodial services to its clients. As of December 31, 2014, Wilmington Trust Company had total assets of \$1.0 billion and shareholder's equity of \$542 million. Revenues of Wilmington Trust Company were \$116 million in 2014. The headquarters of Wilmington Trust Company are located at 1100 North Market Street, Wilmington, Delaware 19890.

M&T Life Insurance Company ( M&T Life Insurance ), a wholly owned subsidiary of M&T, was incorporated as an Arizona business corporation in January 1984. M&T Life Insurance is a credit reinsurer which reinsures credit life and accident and health insurance purchased by the Company's consumer loan customers. As of December 31, 2014, M&T Life Insurance had assets of \$17 million and shareholder's equity of \$16 million. M&T Life Insurance recorded revenues of \$421 thousand during 2014. Headquarters of M&T Life Insurance are located at 101 North First Avenue, Phoenix, Arizona 85003.

M&T Insurance Agency, Inc. ( M&T Insurance Agency ), a wholly owned insurance agency subsidiary of M&T Bank, was incorporated as a New York corporation in March 1955. M&T Insurance Agency provides insurance agency services principally to the commercial market. As of December 31, 2014, M&T Insurance Agency had assets of \$29 million and shareholder's equity of \$15 million. M&T Insurance Agency recorded revenues of \$28 million during 2014. The headquarters of M&T Insurance Agency are located at 285 Delaware Avenue, Buffalo, New York 14202.

M&T Mortgage Reinsurance Company, Inc. ( M&T Reinsurance ), a wholly owned subsidiary of M&T Bank, was incorporated as a Vermont business corporation in July 1999. M&T Reinsurance enters into reinsurance contracts with insurance companies who insure against the risk of a mortgage borrower's payment default in connection with M&T Bank-related mortgage loans. M&T Reinsurance receives a share of the premium for those policies in exchange for accepting a portion of the insurer's risk of borrower default. As of December 31, 2014, M&T Reinsurance had assets of \$17 million and shareholder's equity of \$14 million. M&T Reinsurance recorded approximately \$1 million of revenue during 2014. M&T Reinsurance's principal and registered office is at 148 College Street, Burlington, Vermont 05401.

M&T Real Estate Trust ( M&T Real Estate ) is a Maryland Real Estate Investment Trust that was formed through the merger of two separate subsidiaries, but traces its origin to the incorporation of M&T Real Estate, Inc. in July 1995. M&T Real Estate engages in commercial real estate lending and provides loan servicing to M&T Bank. As of December 31, 2014, M&T Real Estate had assets of \$19.1 billion, common shareholder's equity of \$16.6 billion, and preferred shareholders' equity, consisting of 9% fixed-rate preferred stock (par value \$1,000), of \$1 million. All of the outstanding common stock and 89% of the preferred stock of M&T Real Estate is owned by M&T Bank. The remaining 11% of M&T Real Estate's outstanding preferred stock is owned by officers or former officers of the Company. M&T Real Estate recorded \$769 million of revenue in 2014. The headquarters of M&T Real Estate are located at M&T Center, One Fountain Plaza, Buffalo, New York 14203.

M&T Realty Capital Corporation ( M&T Realty Capital ), a wholly owned subsidiary of M&T Bank, was incorporated as a Maryland corporation in October 1973. M&T Realty Capital engages in multifamily commercial real estate lending and provides loan servicing to purchasers of the loans it originates. As of December 31, 2014, M&T Realty Capital serviced \$11.3 billion of commercial mortgage loans for non-affiliates and had assets of \$656 million and shareholder's equity of \$115 million. M&T Realty Capital recorded revenues of \$90 million in 2014. The headquarters of M&T Realty Capital are located at 25 South Charles Street, Baltimore, Maryland 21202.

M&T Securities, Inc. ( M&T Securities ) is a wholly owned subsidiary of M&T Bank that was incorporated as a New York business corporation in November 1985. M&T Securities is registered as a broker/dealer under the Securities Exchange Act of 1934, as amended, and as an investment advisor under the Investment Advisors Act of 1940, as amended (the Investment Advisors Act ). M&T Securities is licensed as a life insurance agent in each state where M&T Bank operates branch offices and in a number of other states. It provides securities brokerage, investment advisory and insurance services. As of December 31, 2014, M&T Securities had assets of \$43 million and shareholder's equity of \$32 million. M&T Securities recorded \$106 million of revenue during 2014. The headquarters of M&T Securities are located at One M&T Plaza, Buffalo, New York 14203.

Wilmington Trust Investment Advisors, Inc. ( WT Investment Advisors ), a wholly owned subsidiary of M&T Bank, was incorporated as a Maryland corporation on June 30, 1995. WT Investment Advisors, a registered investment advisor under the Investment Advisors Act, serves as an investment advisor to the Wilmington Funds, a family of proprietary mutual funds, and institutional clients. As of December 31, 2014, WT Investment Advisors had assets of \$41 million and shareholder's equity of \$35 million. WT Investment Advisors recorded revenues of \$49 million in 2014. The headquarters of WT

---

## **Table of Contents**

Investment Advisors are located at 100 East Pratt Street, Baltimore, Maryland 21202.

Wilmington Funds Management Corporation ( Wilmington Funds Management ) is a wholly owned subsidiary of M&T that was incorporated in September 1981 as a Delaware corporation. Wilmington Funds Management is registered as an investment advisor under the Investment Advisors Act and serves as an investment advisor to the Wilmington Funds. Wilmington Funds Management had assets of \$13 million and shareholder s equity of \$12 million as of December 31, 2014. Wilmington Funds Management recorded revenues of \$18 million in 2014. The headquarters of Wilmington Funds Management are located at 1100 North Market Street, Wilmington, Delaware 19890.

Wilmington Trust Investment Management, LLC ( WTIM ) is a wholly owned subsidiary of M&T and was incorporated in December 2001 as a Georgia limited liability company. WTIM is a registered investment advisor under the Investment Advisors Act and provides investment management services to clients, including certain private funds. As of December 31, 2014, WTIM has assets of \$25 million and shareholder s equity of \$25 million. WTIM recorded revenues of \$6 million in 2014. WTIM s headquarters is located at Terminus 27 Floor, 3280 Peachtree Road N.E., Atlanta, Georgia 30305.

The Registrant and its banking subsidiaries have a number of other special-purpose or inactive subsidiaries. These other subsidiaries did not represent, individually and collectively, a significant portion of the Company s consolidated assets, net income and shareholders equity at December 31, 2014.

### **Segment Information, Principal Products/Services and Foreign Operations**

Information about the Registrant s business segments is included in note 22 of Notes to Financial Statements filed herewith in Part II, Item 8, Financial Statements and Supplementary Data and is further discussed in Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations. The Registrant s reportable segments have been determined based upon its internal profitability reporting system, which is organized by strategic business unit. Certain strategic business units have been combined for segment information reporting purposes where the nature of the products and services, the type of customer and the distribution of those products and services are similar. The reportable segments are Business Banking, Commercial Banking, Commercial Real Estate, Discretionary Portfolio, Residential Mortgage Banking and Retail Banking. The Company s international activities are discussed in note 17 of Notes to Financial Statements filed herewith in Part II, Item 8, Financial Statements and Supplementary Data.

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

### **Supervision and Regulation of the Company**

M&T and its subsidiaries are subject to the comprehensive regulatory framework applicable to bank and financial holding companies and their subsidiaries. Regulation of financial institutions such as M&T and its subsidiaries is intended primarily for the protection of depositors, the FDIC s Deposit Insurance Fund and the banking and financial system as a whole, and generally is not intended for the protection of shareholders, investors or creditors other than insured depositors. Described below are material elements of selected laws and regulations applicable to M&T and its subsidiaries. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described.

#### **Overview**

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

In general, the BHCA limits the business of a BHC to banking, managing or controlling banks, and other activities that the Federal Reserve Board has determined to be so closely related to banking as to be a proper incident thereto. In addition, bank holding companies that qualify and elect to be financial holding companies may engage in any activity, or acquire and retain the shares of a company engaged in any activity, that is either (i) financial in nature or incidental to such financial activity (as determined by the Federal Reserve Board, by regulation or order, in consultation with the Secretary of the Treasury) or (ii) complementary to a financial activity and does not pose a substantial risk to the safety and soundness of



---

## **Table of Contents**

depository institutions or the financial system generally (as solely determined by the Federal Reserve Board). Activities that are financial in nature include securities underwriting and dealing, insurance underwriting and making merchant banking investments.

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

In order for a financial holding company to commence any new activity or to acquire a company engaged in any activity pursuant to the financial holding company provisions of the BHCA, each insured depository institution subsidiary of the financial holding company also must have at least a satisfactory rating under the Community Reinvestment Act of 1977 (the CRA). See the section captioned Community Reinvestment Act included elsewhere in this item.

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

### **Recent Developments**

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act or Dodd-Frank), which was enacted in July 2010, significantly restructures the financial regulatory regime in the United States and provides for enhanced supervision and prudential standards for, among other things, bank holding companies, like M&T, that have total consolidated assets of \$50 billion or more. Not all of the rules required or expected to be implemented under the Dodd-Frank Act have been proposed or adopted, and certain of the rules that have been proposed or adopted under the Dodd-Frank Act are subject to phase-in or transitional periods. The ultimate implications of the Dodd-Frank Act for the Company's businesses will depend to a large extent on the manner in which rules adopted pursuant to the Dodd-Frank Act are implemented by the primary U.S. financial regulatory agencies as well as potential changes in market practices and structures in response to the requirements of the Dodd-Frank Act and financial reforms in other jurisdictions.

The Dodd-Frank Act broadened the base for FDIC insurance assessments. Beginning in the second quarter of 2011, assessments are based on average consolidated total assets less average Tier 1 capital and certain allowable deductions of a financial institution. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor.

The legislation also requires that publicly traded companies give shareholders a non-binding vote on executive compensation and golden parachute payments, and authorizes the Securities and Exchange Commission to promulgate rules that would allow shareholders to nominate their own candidates using a company's proxy materials. The Dodd-Frank Act also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded.

The Dodd-Frank Act established a new Bureau of Consumer Financial Protection (CFPB) with broad powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit unfair, deceptive or abusive acts and practices. The CFPB has examination and enforcement authority over all banks and savings institutions with more than \$10 billion in assets.

In addition, the Dodd-Frank Act, among other things:

- weakened the federal preemption rules that have been applicable for national banks and gives state attorneys general the ability to enforce federal consumer protection laws;
- amended the Electronic Fund Transfer Act (EFTA) which resulted in, among other things, the Federal Reserve Board issuing rules aimed at limiting debit-card interchange fees;
- applied the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies;

---

## **Table of Contents**

provided for an increase in the FDIC assessment for depository institutions with assets of \$10 billion or more and increased the minimum reserve ratio for the deposit insurance fund from 1.15% to 1.35%;

imposed comprehensive regulation of the over-the-counter derivatives market, which would include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institution itself;

repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;

provided mortgage reform provisions regarding a customer's ability to repay, restricting variable-rate lending by requiring the ability to repay to be determined for variable-rate loans by using the maximum rate that will apply during the first five years of a variable-rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions; and

created the Financial Stability Oversight Council, which will recommend to the Federal Reserve Board increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity.

### **Enhanced Supervision and Prudential Standards**

Section 165 of the Dodd-Frank Act directed the Federal Reserve Board to enact enhanced prudential standards applicable to foreign banking organizations and bank holding companies with total consolidated assets of \$50 billion or more, such as M&T. On February 18, 2014, the Federal Reserve Board adopted amendments to Regulation YY to implement certain of the required enhanced prudential standards. These enhanced prudential standards, which are intended to help increase the resiliency of the operations of these organizations, include liquidity requirements, requirements for overall risk management (including establishing a risk committee), and a 15-to-1 debt-to-equity limit for companies that the Financial Stability Oversight Council has determined pose a grave threat to financial stability. The liquidity requirements and risk management requirements became effective as to M&T on January 1, 2015. The Federal Reserve Board has not yet adopted final single counterparty credit limits or early remediation requirements.

The rule addresses a diverse array of regulatory areas, each of which is highly complex. In some instances they implement new financial regulatory requirements and in other instances they overlap with regulatory reforms currently in existence (such as the Basel III capital and liquidity reforms discussed later in this section). M&T is analyzing the impact of the final rule on its businesses; however, the full impact will not be known until the rule and other regulatory initiatives that overlap with the final rule can be analyzed.

### **Volcker Rule**

The Dodd-Frank Act requires the federal financial regulatory agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). The statutory provision is commonly called the Volcker Rule. On December 10, 2013, the federal banking regulators and the SEC adopted final rules to implement the Volcker Rule. The Company believes that it does not engage in any significant amount of proprietary trading as defined in the Volcker Rule and that, although it may be required by the covered funds provisions to divest certain investments by the end of the compliance period, the Volcker Rule is not expected to have a significant effect on M&T's financial condition or its results of operations. Although the Volcker Rule became effective on July 21, 2012 and the final rules became effective on April 1, 2014, in connection with the adoption of the final rules on December 10, 2013 by the responsible agencies, the Federal Reserve issued an order extending the period during which institutions have to conform their investments to the requirements of the Volcker Rule to July 2016.

---

## **Table of Contents**

### **Dividends**

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

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

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

### **Supervision and Regulation of M&T Bank's Subsidiaries**

M&T Bank has a number of subsidiaries. These subsidiaries are subject to the laws and regulations of both the federal government and the various states in which they conduct business. For example, M&T Securities is regulated by the SEC, the Financial Industry Regulatory Authority and state securities regulators.

### **Capital Requirements**

M&T and its subsidiary banks are required to comply with applicable capital adequacy standards established by the federal banking agencies. The risk-based capital standards that were applicable to M&T and its subsidiary banks through December 31, 2014 were based on the 1988 Capital Accord, known as Basel I, of the Basel Committee on Banking Supervision (the Basel Committee). However, in July 2013, the Federal Reserve Board, the OCC and the FDIC approved final rules (the New Capital Rules) establishing a new comprehensive capital framework for U.S. banking organizations. These rules went into effect as to M&T and its subsidiary banks on January 1, 2015, subject to phase-in periods for certain components and other provisions.

*Basel III and the New Capital Rules.* The New Capital Rules generally implement the Basel Committee's December 2010 final capital framework referred to as Basel III for strengthening international capital standards. The New Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including M&T, M&T Bank and Wilmington Trust, N.A., as compared to the U.S. general risk-based capital rules that were applicable to the Company through December 31, 2014. The New Capital Rules revise the definitions and the components of regulatory capital, as well as address other issues affecting the numerator in banking institutions' regulatory capital ratios. The New Capital Rules also address asset risk weights and other matters affecting the denominator in banking institutions' regulatory capital ratios. In addition, the New Capital Rules implement certain provisions of the Dodd-Frank Act, including the requirements of Section 939A to remove references to credit ratings from the federal agencies' rules.

Among other matters, the New Capital Rules: (i) introduce a new capital measure called Common Equity Tier 1 (CET1) and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and Additional Tier 1 capital instruments meeting certain revised requirements; (iii) mandate that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital as compared to the previous regulations. Under the New Capital Rules, for most banking organizations, including M&T, the most common form of Additional Tier 1 capital is non-cumulative perpetual preferred stock and the most common forms of Tier 2 capital are subordinated notes and a portion of the allowance for loan and lease losses, in each case, subject to the New Capital Rules' specific requirements.

**Table of Contents**

Pursuant to the New Capital Rules, the minimum capital ratios as of January 1, 2015 are as follows:

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

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

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

In addition, under the risk-based capital rules applicable to the Company through December 31, 2014, the effects of accumulated other comprehensive income or loss (AOCI) items included in shareholders' equity (for example, marks-to-market of securities held in the available-for-sale portfolio) under U.S. GAAP were reversed for the purposes of determining regulatory capital ratios. Pursuant to the New Capital Rules, the effects of certain AOCI items are not excluded; however, non-advanced approaches banking organizations, including M&T, may make a one-time permanent election to continue to exclude these items. The New Capital Rules also preclude certain hybrid securities, such as trust preferred securities, from inclusion in bank holding companies' Tier 1 capital, subject to phase-out in the case of bank holding companies, such as M&T, that had \$15 billion or more in total consolidated assets as of December 31, 2009. As a result, beginning in 2015 25% of M&T's trust preferred securities became includable in Tier 1 capital, and in 2016, none of M&T's trust preferred securities will be includable in Tier 1 capital. Trust preferred securities no longer included in M&T's Tier 1 capital may nonetheless be included as a component of Tier 2 capital on a permanent basis without phase-out and irrespective of whether such securities otherwise meet the revised definition of Tier 2 capital set forth in the New Capital Rules. Management believes that M&T is in compliance with the targeted capital ratios. More specifically, management estimates that M&T's ratio of CET1 to risk-weighted assets under the New Capital Rules on a fully phased-in basis was approximately 9.62% as of December 31, 2014, reflecting an estimate of the computation of CET1 and M&T's risk-weighted assets under the methodologies set forth in the New Capital Rules.

M&T's regulatory capital ratios under risk-based capital rules in effect through December 31, 2014 are presented in note 23 of Notes to Financial Statements filed herewith in Part II, Item 8, Financial Statements and Supplementary Data.

*Liquidity Ratios under Basel III.* Historically, regulation and monitoring of bank and BHC liquidity has been addressed as a supervisory matter, both in the U.S. and internationally, without required formulaic measures. On September 3, 2014, the Federal Reserve and other banking regulators adopted final rules (Final LCR Rule) implementing a U.S. version of the Basel Committee's Liquidity Coverage Ratio

## Table of Contents

requirement ( LCR ). The LCR is intended to ensure that banks hold sufficient amounts of so-called high quality liquid assets ( HQLA ) to cover the anticipated net cash outflows during a hypothetical acute 30-day stress scenario. The LCR is the ratio of an institution's amount of HQLA (the numerator) over projected net cash out-flows over the 30-day horizon (the denominator), in each case, as calculated pursuant to the Final LCR Rule. Once fully phased-in, a subject institution must maintain an LCR equal to at least 100% in order to satisfy this regulatory requirement. Only specific classes of assets, including U.S. Treasury securities, other U.S. government obligations and agency mortgaged-backed securities, qualify under the rule as HQLA, with classes of assets deemed relatively less liquid and/or subject to greater degree of credit risk subject to certain haircuts and caps for purposes of calculating the numerator under the Final LCR Rule. The total net cash outflows amount is determined under the rule by applying certain hypothetical outflow and inflow rates, which reflect certain standardized stressed assumptions, against the balances of the banking organization's funding sources, obligations, transactions and assets over the 30-day stress period. Inflows that can be included to offset outflows are limited to 75% of outflows (which effectively means that banking organizations must hold high-quality liquid assets equal to 25% of outflows even if outflows perfectly match inflows over the stress period). The total net cash outflow amount for the modified LCR applicable to M&T is capped at 70% of the outflow rate that applies to the full LCR. The initial compliance date for the modified LCR will be January 2016, with the requirement fully phased-in by January 2017.

The Basel III framework also included a second standard, referred to as the net stable funding ratio ( NSFR ), which is designed to promote more medium-and long-term funding of the assets and activities of banks over a one-year time horizon. Although the Basel Committee finalized its formulation of the NSFR in 2014, the U.S. banking agencies have not yet proposed an NSFR for application to U.S. banking organizations or addressed the scope of banking organizations to which it will apply. The Basel Committee's final NSFR document states that the NSFR applies to internationally active banks, as did its final LCR document as to that ratio.

*Capital Requirements of Subsidiary Depository Institutions.* M&T Bank and Wilmington Trust, N.A. are subject to substantially similar capital requirements as those applicable to M&T. As of December 31, 2014, both M&T Bank and Wilmington Trust, N.A. were in compliance with applicable minimum capital requirements. None of M&T, M&T Bank or Wilmington Trust, N.A. has been advised by any federal banking agency of a failure to meet any specific minimum capital ratio requirement applicable to it as of December 31, 2014. Failure to meet capital guidelines could subject a bank to a variety of enforcement remedies, including the termination of deposit insurance by the FDIC, and to certain restrictions on its business. See Regulatory Remedies under the FDIA below.

### **Stress Testing and Capital Plan Review**

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

In addition, bank holding companies with total consolidated assets of \$50 billion or more, such as M&T, must submit annual capital plans for approval as part of the Federal Reserve Board's CCAR process. Covered bank holding companies may execute capital actions, such as paying dividends and repurchasing stock, only in accordance with a capital plan that has been reviewed and approved by the Federal Reserve Board (or any approved amendments to such plan). The comprehensive capital plans include a view of capital adequacy under four scenarios—a BHC-defined baseline scenario, a baseline scenario provided by

**Table of Contents**

the Federal Reserve Board, at least one BHC-defined stress scenario, and a stress scenario provided by the Federal Reserve Board. The CCAR process is intended to help ensure that these bank holding companies have robust, forward-looking capital planning processes that account for each company's unique risks and that permit continued operations during times of economic and financial stress. Each of the bank holding companies participating in the CCAR process is also required to collect and report certain related data to the Federal Reserve Board on a quarterly basis to allow the Federal Reserve Board to monitor progress against the approved capital plans. Each capital plan must include a view of capital adequacy under the stress test scenarios described above. The Federal Reserve Board may object to a capital plan if the plan does not show that the covered bank holding company will maintain a Tier 1 common equity ratio (as defined under the Basel I framework) of at least 5% on a pro forma basis under expected and stressful conditions throughout the nine-quarter planning horizon covered by the capital plan. Even if such quantitative thresholds are met, the Federal Reserve Board could object to a capital plan for qualitative reasons, including inadequate assumptions in the plan, other unresolved supervisory issues or an insufficiently robust capital adequacy process, or if the capital plan would otherwise constitute an unsafe or unsound practice or violate law. The rules also provide that a covered BHC may not make a capital distribution unless after giving effect to the distribution it will meet all minimum regulatory capital ratios and have a ratio of Tier 1 common equity to risk-weighted assets of at least 5%. The CCAR rules, consistent with prior Federal Reserve Board guidance, also provide that capital plans contemplating dividend payout ratios exceeding 30% of net income will receive particularly close scrutiny. M&T's most recent CCAR capital plan was filed with the Federal Reserve Board on January 5, 2015.

In October 2014, the Federal Reserve Board amended its capital planning and stress testing rules to, among other things, generally limit a BHC's ability to make quarterly capital distributions—that is, dividends and share repurchases—commencing April 1, 2015 if the amount of the BHC's actual cumulative quarterly capital issuances of instruments that qualify as regulatory capital are less than the BHC had indicated in its submitted capital plan as to which it received a non-objection from the Federal Reserve Board. For example, if the BHC issued a smaller amount of additional common stock than it had stated in its capital plan, it would be required to reduce common dividends and/or the amount of common stock repurchases so that the dollar amount of capital distributions, net of the dollar amount of additional common stock issued (net distributions), is no greater than the dollar amount of net distributions relating to its common stock included in its capital plan, as measured on an aggregate basis beginning in the third quarter of the nine-quarter planning horizon through the end of the then current quarter. However, not raising sufficient amounts of common stock as planned would not affect distributions related to Additional Tier 1 Capital instruments and/or Tier 2 Capital. These limitations also contain several important qualifications and exceptions, including that scheduled dividend payments on (as opposed to repurchases of) a BHC's Additional Tier 1 Capital and Tier 2 Capital instruments are not restricted if the BHC fails to issue a sufficient amount of such instruments as planned, as well as provisions for certain *de minimis* excess distributions.

In addition, these amendments also revise the timeline for a BHC's annual capital plan and company and supervisory-run stress testing processes generally by pushing back the various deadlines by one quarter beginning with the capital planning cycle commencing such that the Company's annual capital planning submission will be due by April 5 (instead of January 5) and the Federal Reserve will publish the results of its supervisory CCAR review of the Company's capital plan by June 30 (instead of March 31) of each year.

**Safety and Soundness Standards**

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

**Table of Contents**

FDIA. See Regulatory Remedies under the FDIA below. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

**Regulatory Remedies under the FDIA**

The FDIA establishes a system of regulatory remedies to resolve the problems of undercapitalized institutions, referred to as the prompt corrective action. The federal banking regulators have established five capital categories ( well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized ) and must take certain mandatory supervisory actions, and are authorized to take other discretionary actions, with respect to institutions which are undercapitalized, significantly undercapitalized or critically undercapitalized. The severity of these mandatory and discretionary supervisory actions depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the FDIA requires the banking regulator to appoint a receiver or conservator for an institution that is critically undercapitalized. The FDIC has specified by regulation the relevant capital levels for each category, which are printed below. The Federal Reserve Board and the OCC have specified the same or similar levels for each category.

**Well-Capitalized**

Leverage Ratio of 5%,

Tier 1 Capital ratio of 6%,

Total Capital ratio of 10%, and

Not subject to a written agreement, order, capital directive or regulatory remedy directive requiring a specific capital level.

**Undercapitalized**

Leverage Ratio less than 4%,

Tier 1 Capital ratio less than 4%, or

Total Capital ratio less than 8%.

**Critically undercapitalized**

Tangible equity to total assets less than 2%.

For purposes of these regulations, the term tangible equity includes core capital elements counted as Tier 1 Capital for purposes of the risk-based capital standards plus the amount of outstanding cumulative perpetual preferred stock (including related surplus), minus all intangible assets with certain exceptions.

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

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

**Adequately Capitalized**

Leverage Ratio of 4%,

Tier 1 Capital ratio of 4%, and

Total Capital ratio of 8%.

**Significantly Undercapitalized**

Leverage Ratio less than 3%,

Tier 1 Capital ratio less than 3%, or

Total Capital ratio less than 6%.



---

## **Table of Contents**

deposits from correspondent banks. Critically undercapitalized depository institutions failing to submit or implement an acceptable capital restoration plan are subject to appointment of a receiver or conservator.

Effective January 1, 2015, the New Capital Rules revised the prompt corrective action requirements in effect through December 31, 2014 by (i) introducing a CET1 ratio requirement at each level (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category (other than critically undercapitalized), with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the former 6%); and (iii) eliminating the provision that provided that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The New Capital Rules do not change the total risk-based capital requirement for any prompt corrective action category.

### **Support of Subsidiary Banks**

Under longstanding Federal Reserve Board policy which has been codified by the Dodd-Frank Act, M&T is expected to act as a source of financial strength to, and to commit resources to support, its subsidiary banks. This support may be required at times when M&T may not be inclined or able to provide it. In addition, any capital loans by a BHC to a subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a BHC's bankruptcy, any commitment by the BHC to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

### **Cross-Guarantee Provisions**

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

### **Transactions with Affiliates**

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

### **FDIC Insurance Assessments**

*Deposit Insurance Assessments.* M&T Bank and Wilmington Trust, N.A. pay deposit insurance premiums to the FDIC based on an assessment rate established by the FDIC. Deposit insurance assessments are based on average total assets minus average tangible equity. For larger institutions, such as M&T Bank, the FDIC uses

**Table of Contents**

a performance score and a loss-severity score that are used to calculate an initial assessment rate. In calculating these scores, the FDIC uses a bank's capital level and supervisory ratings (its CAMELS ratings) and certain financial measures to assess an institution's ability to withstand asset-related stress and funding-related stress. The FDIC has the ability to make discretionary adjustments to the total score based upon significant risk factors that are not adequately captured in the calculations.

The initial base assessment rate ranges from 5 to 35 basis points on an annualized basis. After the effect of potential base-rate adjustments, the total base assessment rate could range from 2.5 to 45 basis points on an annualized basis. As the DIF reserve ratio grows, the rate schedule will be adjusted downward. Additionally, an institution must pay an additional premium equal to 50 basis points on every dollar (above 3% of an institution's Tier 1 capital) of long-term, unsecured debt held that was issued by another insured depository institution (excluding debt guaranteed under the Temporary Liquidity Guarantee Program).

In October 2010, the FDIC adopted a new DIF restoration plan to ensure the designated reserve ratio reaches 1.35% by September 2020. The FDIC will, at least semi-annually, update its income and loss projections for the DIF and, if necessary, propose rules to further increase assessment rates.

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

*FICO Assessments.* In addition, the Deposit Insurance Funds Act of 1996 authorized the Financing Corporation ( FICO ) to impose assessments on DIF applicable deposits in order to service the interest on FICO's bond obligations from deposit insurance fund assessments. The amount assessed on individual institutions by FICO is in addition to the amount, if any, paid for deposit insurance according to the FDIC's risk-related assessment rate schedules. FICO assessment rates may be adjusted quarterly to reflect a change in assessment base. M&T Bank recognized \$5 million of expense related to its FICO assessments and Wilmington Trust, N.A. recognized \$69 thousand of such expense in 2014.

**Acquisitions**

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

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

## **Table of Contents**

### **Executive and Incentive Compensation**

Guidelines adopted by the federal banking agencies pursuant to the FDIA prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In June 2010, the Federal Reserve Board issued comprehensive guidance on incentive compensation policies (the Incentive Compensation Guidance) intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The Incentive Compensation Guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. These three principles are incorporated into the proposed joint compensation regulations under the Dodd-Frank Act, discussed below. Any deficiencies in compensation practices that are identified may be incorporated into the organization's supervisory ratings, which can affect its ability to make acquisitions or perform other actions. The Incentive Compensation Guidance provides that enforcement actions may be taken against a banking organization if its incentive compensation arrangements or related risk-management control or governance processes pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

The Dodd-Frank Act requires the federal bank regulatory agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities, such as M&T and M&T Bank, having at least \$1 billion in total assets that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The agencies proposed such regulations in April 2011, and if the final regulations are adopted in the form initially proposed, they will impose limitations on the manner in which M&T may structure compensation for its executives.

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

### **Resolution Planning**

Bank holding companies with consolidated assets of \$50 billion or more, such as M&T, are required to report periodically to regulators a resolution plan for their rapid and orderly resolution in the event of material financial distress or failure. M&T's resolution plan must, among other things, ensure that its depository institution subsidiaries are adequately protected from risks arising from its other subsidiaries. The regulation adopted by the Federal Reserve and FDIC sets specific standards for the resolution plans, including requiring a strategic analysis of the plan's components, a description of the range of specific actions the company proposes to take in resolution, and a description of the company's organizational structure, material entities, interconnections and interdependencies, and management information systems, among other elements. In addition, insured depository institutions with \$50 billion or more in total assets, such as M&T Bank, are required to submit to the FDIC periodic plans for resolution in the event of the institution's failure. M&T and M&T Bank submitted their resolution plans on December 16, 2014.

### **Insolvency of an Insured Depository Institution or a Bank Holding Company**

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

- to transfer any of the depository institution's assets and liabilities to a new obligor, including a newly formed bridge bank without the approval of the depository institution's creditors;
- to enforce the terms of the depository institution's contracts pursuant to their terms without regard to any provisions triggered by the appointment of the FDIC in that capacity; or

---

## **Table of Contents**

to repudiate or disaffirm any contract or lease to which the depository institution is a party, the performance of which is determined by the FDIC to be burdensome and the disaffirmance or repudiation of which is determined by the FDIC to promote the orderly administration of the depository institution.

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

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

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

The FDIC has developed a strategy under the orderly liquidation authority referred to as the single point of entry strategy, under which the FDIC would resolve a failed financial holding company by transferring its assets (including shares of its operating subsidiaries) and, potentially, very limited liabilities to a bridge holding company; utilize the resources of the failed financial holding company to recapitalize the operating subsidiaries; and satisfy the claims of unsecured creditors of the failed financial holding company and other claimants in the receivership by delivering securities of one or more new financial companies that would emerge from the bridge holding company. Under this strategy, management of the failed financial holding company would be replaced and shareholders and creditors of the failed financial holding company would bear the losses resulting from the failure. The FDIC issued a notice in December 2013 describing some elements of this single point of entry strategy and seeking public comment to further develop the strategy. The orderly liquidation authority provisions of the Dodd-Frank Act became effective upon enactment. However, a number of rulemakings are required under the terms of Dodd-Frank, and a number of provisions of the new authority require clarification.

### **Depositor Preference**

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

## **Table of Contents**

### **Financial Privacy**

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

### **Consumer Protection Laws**

In connection with their respective lending and leasing activities, M&T Bank, Wilmington Trust, N.A. and certain of their subsidiaries, are each subject to a number of federal and state laws designed to protect borrowers and promote lending to various sectors of the economy. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Fair and Accurate Credit Transactions Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, and the Real Estate Settlement Procedures Act, and various state law counterparts.

In addition, federal law currently contains extensive customer privacy protection provisions. Under these provisions, a financial institution must provide to its customers, at the inception of the customer relationship and annually thereafter, the institution's policies and procedures regarding the handling of customers' nonpublic personal financial information. These provisions also provide that, except for certain limited exceptions, a financial institution may not provide such personal information to unaffiliated third parties unless the institution discloses to the customer that such information may be so provided and the customer is given the opportunity to opt out of such disclosure. Federal law makes it a criminal offense, except in limited circumstances, to obtain or attempt to obtain customer information of a financial nature by fraudulent or deceptive means.

Since July 1, 2010, a federal banking rule under the Electronic Fund Transfer Act prohibits financial institutions from charging consumers fees for paying overdrafts on automated teller machines ( ATM ) and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those type of transactions. If a consumer does not opt in, any ATM transaction or debit that overdraws the consumer's account will be denied. Overdrafts on the payment of checks and regular electronic bill payments are not covered by this rule. Before opting in, the consumer must be provided a notice that explains the financial institution's overdraft services, including the fees associated with the service, and the consumer's choices. Financial institutions must provide consumers who do not opt in with the same account terms, conditions and features (including pricing) that they provide to consumers who do opt in.

### **Consumer Financial Protection Bureau Supervision**

M&T Bank and Wilmington Trust, N.A. are supervised by the CFPB for certain consumer protection purposes. The CFPB has focused on:

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

### **Community Reinvestment Act**

M&T Bank and Wilmington Trust, N.A. are subject to the provisions of the CRA. Under the terms of the CRA, each appropriate federal bank regulatory agency is required, in connection with its examination of a bank, to assess such bank's record in assessing and meeting the credit needs of the communities served by that bank, including low- and moderate-income neighborhoods. During these examinations, the regulatory agency rates such bank's compliance with the CRA as Outstanding, Satisfactory, Needs to Improve or Substantial Noncompliance. The regulatory agency's assessment of the institution's record is part of the regulatory agency's consideration of applications to acquire, merge or consolidate with another banking

---

**Table of Contents**

institution or its holding company, or to open or relocate a branch office. Currently, M&T Bank has a CRA rating of Outstanding and Wilmington Trust, N.A. has a CRA rating of Satisfactory. In the case of a BHC applying for approval to acquire a bank or BHC, the Federal Reserve Board will assess the record of each subsidiary bank of the applicant BHC in considering the application, and such records may be the basis for denying the application. The Banking Law contains provisions similar to the CRA which are applicable to New York-chartered banks. Currently, M&T Bank has a CRA rating of Outstanding as determined by the New York State Department of Financial Services.

**USA Patriot Act**

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA Patriot Act) imposes obligations on U.S. financial institutions, including banks and broker/dealer subsidiaries, to implement and maintain appropriate policies, procedures and controls which are reasonably designed to prevent, detect and report instances of money laundering and the financing of terrorism and to verify the identity of their customers. In addition, provisions of the USA Patriot Act require the federal financial institution regulatory agencies to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing bank mergers and BHC acquisitions. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing could have serious legal and reputational consequences for the institution. As a result of an inspection by the Federal Reserve Bank of New York (Federal Reserve Bank), M&T and M&T Bank entered into a written agreement with the Federal Reserve Bank related to M&T Bank's Bank Secrecy Act/Anti-Money Laundering Program. Additional information is included in Part II, Item 7 under the caption Corporate Profile and Significant Developments.

**Office of Foreign Assets Control Regulation**

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

**Regulation of Insurers and Insurance Brokers**

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

**Governmental Policies**

The earnings of the Company are significantly affected by the monetary and fiscal policies of governmental authorities, including the Federal Reserve Board. Among the instruments of monetary policy used by the Federal Reserve Board to implement these objectives are open-market operations in U.S. Government securities and federal funds, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These instruments of monetary policy are used in varying combinations to influence the overall level of bank loans, investments and deposits, and the interest rates charged on loans and paid for deposits. The Federal Reserve Board frequently uses these instruments of

## **Table of Contents**

monetary policy, especially its open-market operations and the discount rate, to influence the level of interest rates and to affect the strength of the economy, the level of inflation or the price of the dollar in foreign exchange markets. The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of banking institutions in the past and are expected to continue to do so in the future. It is not possible to predict the nature of future changes in monetary and fiscal policies, or the effect which they may have on the Company's business and earnings.

## **Competition**

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

## **Other Legislative and Regulatory Initiatives**

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

## **Other Information**

Through a link on the Investor Relations section of M&T's website at [www.mtb.com](http://www.mtb.com), copies of M&T's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, are made available, free of charge, as soon as reasonably practicable after electronically filing such material with, or furnishing it to, the SEC. Copies of such reports and other information are also available at no charge to any person who requests them or at [www.sec.gov](http://www.sec.gov). Such requests may be directed to M&T Bank Corporation, Shareholder Relations Department, One M&T Plaza, 8th Floor, Buffalo, NY 14203-2399 (Telephone: (716) 842-5138).

## **Corporate Governance**

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

## **Statistical Disclosure Pursuant to Guide 3**

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

**Table of Contents****Table 1****SELECTED CONSOLIDATED YEAR-END BALANCES**

|  | 2014           | 2013         | 2012       | 2011       | 2010       |
|--|----------------|--------------|------------|------------|------------|
|  | (In thousands) |              |            |            |            |
| Interest-bearing deposits at banks               | \$ 6,470,867   | \$ 1,651,138 | \$ 129,945 | \$ 154,960 | \$ 101,222 |
| Federal funds sold                               | 83,392         | 99,573       | 3,000      | 2,850      | 25,000     |
| Trading account                                  | 308,175        | 376,131      | 488,966    | 561,834    | 523,834    |
| Investment securities                            |                |              |            |            |            |
| U.S. Treasury and federal agencies               | 12,042,390     | 7,770,767    | 4,007,725  | 5,200,489  | 4,177,783  |
| Obligations of states and political subdivisions | 157,159        | 180,495      | 203,004    | 228,949    | 251,544    |
| Other  | 793,993        | 845,235      | 1,863,632  | 2,243,716  | 2,721,213  |
| Total investment securities                      | 12,993,542     | 8,796,497    | 6,074,361  | 7,673,154  | 7,150,540  |
| Loans and leases                                 |                |              |            |            |            |
| Commercial, financial, leasing, etc.             | 19,617,253     | 18,876,166   | 17,973,140 | 15,952,105 | 13,645,600 |
| Real estate construction                         | 5,061,269      | 4,457,650    | 3,772,413  | 4,203,324  | 4,332,618  |
| Real estate mortgage                             | 31,250,968     | 30,711,440   | 33,494,359 | 28,202,217 | 22,854,160 |
| Consumer   | 10,969,879     | 10,280,527   | 11,550,274 | 12,020,229 | 11,483,564 |
| Total loans and leases                           | 66,899,369     | 64,325,783   | 66,790,186 | 60,377,875 | 52,315,942 |
| Unearned discount                                | (230,413)      | (252,624)    | (219,229)  | (281,870)  | (325,560)  |
| Loans and leases, net of unearned discount       | 66,668,956     | 64,073,159   | 66,570,957 | 60,096,005 | 51,990,382 |
| Allowance for credit losses                      | (919,562)      | (916,676)    | (925,860)  | (908,290)  | (902,941)  |
| Loans and leases, net                            | 65,749,394     | 63,156,483   | 65,645,097 | 59,187,715 | 51,087,441 |
| Goodwill   | 3,524,625      | 3,524,625    | 3,524,625  | 3,524,625  | 3,524,625  |
| Core deposit and other intangible assets         | 35,027         | 68,851       | 115,763    | 176,394    | 125,917    |
| Real estate and other assets owned               | 63,635         | 66,875       | 104,279    | 156,592    | 220,049    |
| Total assets                                     | 96,685,535     | 85,162,391   | 83,008,803 | 77,924,287 | 68,021,263 |
| Noninterest-bearing deposits                     | 26,947,880     | 24,661,007   | 24,240,802 | 20,017,883 | 14,557,568 |
| NOW accounts                                     | 2,307,815      | 1,989,441    | 1,979,619  | 1,912,226  | 1,393,349  |
| Savings deposits                                 | 41,085,803     | 36,621,580   | 33,783,947 | 31,001,083 | 26,431,281 |
| Time deposits                                    | 3,063,973      | 3,523,838    | 4,562,366  | 6,107,530  | 5,817,170  |
| Deposits at Cayman Islands office                | 176,582        | 322,746      | 1,044,519  | 355,927    | 1,605,916  |
| Total deposits                                   | 73,582,053     | 67,118,612   | 65,611,253 | 59,394,649 | 49,805,284 |
| Short-term borrowings                            | 192,676        | 260,455      | 1,074,482  | 782,082    | 947,432    |
| Long-term borrowings                             | 9,006,959      | 5,108,870    | 4,607,758  | 6,686,226  | 7,840,151  |
| Total liabilities                                | 84,349,639     | 73,856,859   | 72,806,210 | 68,653,078 | 59,663,568 |
| Shareholders equity                              | 12,335,896     | 11,305,532   | 10,202,593 | 9,271,209  | 8,357,695  |

**Table 2****SHAREHOLDERS, EMPLOYEES AND OFFICES**

| Number at Year-End | 2014   | 2013   | 2012   | 2011   | 2010   |
|--------------------|--------|--------|--------|--------|--------|
| Shareholders       | 14,551 | 15,015 | 15,623 | 15,959 | 12,773 |
| Employees          | 15,782 | 15,893 | 14,943 | 15,666 | 13,365 |
| Offices            | 766    | 796    | 799    | 849    | 778    |



**Table of Contents****Table 3****CONSOLIDATED EARNINGS**

|  | 2014           | 2013         | 2012         | 2011         | 2010         |
|--|----------------|--------------|--------------|--------------|--------------|
|  | (In thousands) |              |              |              |              |
| <b>Interest income</b>   |                |              |              |              |              |
| Loans and leases, including fees   | \$ 2,596,586   | \$ 2,734,708 | \$ 2,704,156 | \$ 2,522,567 | \$ 2,394,082 |
| Deposits at banks  | 13,361         | 5,201        | 1,221        | 2,934        | 88           |
| Federal funds sold   | 64             | 104          | 21           | 57           | 42           |
| Resell agreements  |                | 10           |              | 132          | 404          |
| Trading account  | 1,119          | 1,265        | 1,126        | 1,198        | 615          |
| Investment securities  |                |              |              |              |              |
| Fully taxable  | 340,391        | 209,244      | 227,116      | 256,057      | 324,695      |
| Exempt from federal taxes  | 5,356          | 6,802        | 8,045        | 9,142        | 9,869        |
| Total interest income  | 2,956,877      | 2,957,334    | 2,941,685    | 2,792,087    | 2,729,795    |
| <b>Interest expense</b>  |                |              |              |              |              |
| NOW accounts   | 1,404          | 1,287        | 1,343        | 1,145        | 850          |
| Savings deposits   | 45,465         | 54,948       | 68,011       | 84,314       | 85,226       |
| Time deposits  | 15,515         | 26,439       | 46,102       | 71,014       | 100,241      |
| Deposits at Cayman Islands office  | 699            | 1,018        | 1,130        | 962          | 1,368        |
| Short-term borrowings  | 101            | 430          | 1,286        | 1,030        | 3,006        |
| Long-term borrowings   | 217,247        | 199,983      | 225,297      | 243,866      | 271,578      |
| Total interest expense   | 280,431        | 284,105      | 343,169      | 402,331      | 462,269      |
| <b>Net interest income</b>   | 2,676,446      | 2,673,229    | 2,598,516    | 2,389,756    | 2,267,526    |
| Provision for credit losses  | 124,000        | 185,000      | 204,000      | 270,000      | 368,000      |
| Net interest income after provision for credit losses                          | 2,552,446      | 2,488,229    | 2,394,516    | 2,119,756    | 1,899,526    |
| <b>Other income</b>  |                |              |              |              |              |
| Mortgage banking revenues  | 362,912        | 331,265      | 349,064      | 166,021      | 184,625      |
| Service charges on deposit accounts  | 427,956        | 446,941      | 446,698      | 455,095      | 478,133      |
| Trust income   | 508,258        | 496,008      | 471,852      | 332,385      | 122,613      |
| Brokerage services income  | 67,212         | 65,647       | 59,059       | 56,470       | 49,669       |
| Trading account and foreign exchange gains                                     | 29,874         | 40,828       | 35,634       | 27,224       | 27,286       |
| Gain on bank investment securities   |                | 56,457       | 9            | 150,187      | 2,770        |
| Total other-than-temporary impairment ( OTTI ) losses                          |                | (1,884)      | (32,067)     | (72,915)     | (115,947)    |
| Portion of OTTI losses recognized in other comprehensive income (before taxes) |                | (7,916)      | (15,755)     | (4,120)      | 29,666       |
| Net OTTI losses recognized in earnings   |                | (9,800)      | (47,822)     | (77,035)     | (86,281)     |
| Equity in earnings of Bayview Lending Group LLC                                | (16,672)       | (16,126)     | (21,511)     | (24,231)     | (25,768)     |
| Other revenues from operations   | 399,733        | 453,985      | 374,287      | 496,796      | 355,053      |
| Total other income   | 1,779,273      | 1,865,205    | 1,667,270    | 1,582,912    | 1,108,100    |
| <b>Other expense</b>   |                |              |              |              |              |
| Salaries and employee benefits   | 1,404,950      | 1,355,178    | 1,314,540    | 1,203,993    | 999,709      |
| Equipment and net occupancy  | 269,299        | 264,327      | 257,551      | 249,514      | 216,064      |
| Printing, postage and supplies   | 38,201         | 39,557       | 41,929       | 40,917       | 33,847       |

Edgar Filing: M&T BANK CORP - Form 10-K

|  |                     |                     |                     |                   |                   |
|--|---------------------|---------------------|---------------------|-------------------|-------------------|
| Amortization of core deposit and other intangible assets | 33,824              | 46,912              | 60,631              | 61,617            | 58,103            |
| FDIC assessments   | 55,531              | 69,584              | 101,110             | 100,230           | 79,324            |
| Other costs of operations                                | 941,052             | 860,327             | 733,499             | 821,797           | 527,790           |
| Total other expense                                      | 2,742,857           | 2,635,885           | 2,509,260           | 2,478,068         | 1,914,837         |
| Income before income taxes                               | 1,588,862           | 1,717,549           | 1,552,526           | 1,224,600         | 1,092,789         |
| Income taxes   | 522,616             | 579,069             | 523,028             | 365,121           | 356,628           |
| <b>Net income</b>  | <b>\$ 1,066,246</b> | <b>\$ 1,138,480</b> | <b>\$ 1,029,498</b> | <b>\$ 859,479</b> | <b>\$ 736,161</b> |
| <b>Dividends declared</b>                                |                     |                     |                     |                   |                   |
| Common   | \$ 371,137          | \$ 365,171          | \$ 357,862          | \$ 350,196        | \$ 335,502        |
| Preferred  | 75,878              | 53,450              | 53,450              | 48,203            | 40,225            |

**Table of Contents****Table 4****COMMON SHAREHOLDER DATA**

|  | 2014    | 2013    | 2012    | 2011    | 2010    |
|--|---------|---------|---------|---------|---------|
| Per share  |         |         |         |         |         |
| Net income                                       |         |         |         |         |         |
| Basic  | \$ 7.47 | \$ 8.26 | \$ 7.57 | \$ 6.37 | \$ 5.72 |
| Diluted  | 7.42    | 8.20    | 7.54    | 6.35    | 5.69    |
| Cash dividends declared                          | 2.80    | 2.80    | 2.80    | 2.80    | 2.80    |
| Common shareholders' equity at year-end          | 83.88   | 79.81   | 72.73   | 66.82   | 63.54   |
| Tangible common shareholders' equity at year-end | 57.06   | 52.45   | 44.61   | 37.79   | 33.26   |
| Dividend payout ratio                            | 37.49%  | 33.94%  | 36.98%  | 44.15%  | 48.98%  |

**Table 5****CHANGES IN INTEREST INCOME AND EXPENSE(a)**

|  | 2014 Compared with 2013            |                       |                     | 2013 Compared with 2012 |                       |                     |
|--|------------------------------------|-----------------------|---------------------|-------------------------|-----------------------|---------------------|
|  | Total Change                       | Resulting from Volume | Resulting from Rate | Total Change            | Resulting from Volume | Resulting from Rate |
|  | (Increase (decrease) in thousands) |                       |                     |                         |                       |                     |
| Interest income  |                                    |                       |                     |                         |                       |                     |
| Loans and leases, including fees                       | \$ (138,676)                       | (16,282)              | (122,394)           | \$ 29,624               | 100,052               | (70,428)            |
| Deposits at banks                                      | 8,160                              | 7,938                 | 222                 | 3,980                   | 3,925                 | 55                  |
| Federal funds sold and agreements to resell securities | (50)                               | (29)                  | (21)                | 93                      | 128                   | (35)                |
| Trading account  | (101)                              | (27)                  | (74)                | 88                      | (298)                 | 386                 |
| Investment securities                                  |                                    |                       |                     |                         |                       |                     |
| U.S. Treasury and federal agencies                     | 138,299                            | 158,630               | (20,331)            | 15,379                  | 19,078                | (3,699)             |
| Obligations of states and political subdivisions       | (1,884)                            | (1,395)               | (489)               | (1,639)                 | (1,339)               | (300)               |
| Other  | (7,534)                            | (19,986)              | 12,452              | (33,296)                | (30,940)              | (2,356)             |
| Total interest income                                  | \$ (1,786)                         |                       |                     | \$ 14,229               |                       |                     |
| Interest expense                                       |                                    |                       |                     |                         |                       |                     |
| Interest-bearing deposits                              |                                    |                       |                     |                         |                       |                     |
| NOW accounts   | \$ 117                             | 117                   |                     | \$ (56)                 | 110                   | (166)               |
| Savings deposits                                       | (9,483)                            | 5,494                 | (14,977)            | (13,063)                | 5,798                 | (18,861)            |
| Time deposits  | (10,924)                           | (4,401)               | (6,523)             | (19,663)                | (9,814)               | (9,849)             |
| Deposits at Cayman Islands office                      | (319)                              | (319)                 |                     | (112)                   | (223)                 | 111                 |
| Short-term borrowings                                  | (329)                              | (149)                 | (180)               | (856)                   | (570)                 | (286)               |
| Long-term borrowings                                   | 17,264                             | 84,315                | (67,051)            | (25,314)                | (23,672)              | (1,642)             |
| Total interest expense                                 | \$ (3,674)                         |                       |                     | \$ (59,064)             |                       |                     |

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

**Item 1A. Risk Factors.**

M&T and its subsidiaries could be adversely impacted by various risks and uncertainties which are difficult to predict. As a financial institution, the Company has significant exposure to market risk, including interest-rate risk, liquidity risk and credit risk, among others. Adverse experience with these or other risks could have a material impact on the Company's financial condition and results of operations, as well as on the value of the Company's financial instruments in general, and M&T's common stock, in particular.

---

**Table of Contents**

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

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

A decrease in the demand for loans and other products and services offered by the Company.

A decrease in net interest income derived from the Company's lending and deposit gathering activities.

A decrease in the value of the Company's investment securities, loans held for sale or other assets secured by residential or commercial real estate.

Other-than-temporary impairment of investment securities in the Company's investment securities portfolio.

A decrease in fees from the Company's brokerage and trust businesses associated with declines or lack of growth in stock market prices.

Potential higher FDIC assessments due to the DIF falling below minimum required levels.

An impairment of certain intangible assets, such as goodwill.

An increase in the number of customers and counterparties who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to the Company. An increase in the number of delinquencies, bankruptcies or defaults could result in higher levels of nonperforming assets, net charge-offs, provision for credit losses and valuation adjustments on loans held for sale.

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

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

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

Such changes can affect the ability of borrowers to meet obligations under variable or adjustable rate loans and other debt instruments, and can, in turn, affect the Company's loss rates on those assets.

Such changes may decrease the demand for interest rate based products and services, including loans and deposits.

Such changes can also affect the Company's ability to hedge various forms of market and interest rate risk and may decrease the profitability or protection or increase the risk or cost associated with such hedges.

Movements in interest rates also affect mortgage prepayment speeds and could result in the impairment of capitalized mortgage servicing assets, reduce the value of loans held for sale and increase the volatility of mortgage banking revenues, potentially adversely affecting the Company's results of operations.

The monetary, tax and other policies of the government and its agencies, including the Federal Reserve, have a significant impact on interest rates and overall financial market performance. These governmental policies can thus affect the activities and results of operations of banking companies such as the Company. An important function of the Federal Reserve is to regulate the national supply of bank credit and certain interest rates. The actions of the Federal Reserve influence the rates of interest that the Company charges on loans and that the Company pays on borrowings and interest-bearing deposits and can also affect the value of the Company's on-balance sheet and off-balance sheet financial instruments. Also, due to the impact on rates for short-term funding, the Federal Reserve's policies also influence, to a significant extent, the Company's cost of such funding. In addition, the Company is routinely subject to examinations from various governmental taxing authorities. Such examinations may result in challenges to the tax return treatment applied by the Company to specific transactions. Management believes that the assumptions and

---

## **Table of Contents**

judgment used to record tax-related assets or liabilities have been appropriate. Should tax laws change or the tax authorities determine that management's assumptions were inappropriate, the result and adjustments required could have a material effect on the Company's results of operations. M&T cannot predict the nature or timing of future changes in monetary, tax and other policies or the effect that they may have on the Company's business activities, financial condition and results of operations.

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

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

It can affect the value or liquidity of the Company's on-balance sheet and off-balance sheet financial instruments.

It can affect the value of capitalized servicing assets.

It can affect M&T's ability to access capital markets to raise funds. Inability to access capital markets if needed, at cost effective rates, could adversely affect the Company's liquidity and results of operations.

It can affect the value of the assets that the Company manages or otherwise administers or services for others. Although the Company is not directly impacted by changes in the value of such assets, decreases in the value of those assets would affect related fee income and could result in decreased demand for the Company's services.

In general, it can impact the nature, profitability or risk profile of the financial transactions in which the Company engages.

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

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

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

### ***Risks Relating to the Regulatory Environment***

*The Company is subject to extensive government regulation and supervision and this regulatory environment is being significantly impacted by the financial regulatory reform initiatives in the United States, including the Dodd-Frank Act and related regulations.*

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

---

## Table of Contents

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

Not all of the rules required or expected to be implemented under the Dodd-Frank Act have been proposed or adopted, and certain of the rules that have been proposed or adopted under the Dodd-Frank Act are subject to phase-in or transitional periods. Reforms, both under the Dodd-Frank Act and otherwise, will have a significant effect on the entire financial services industry. Although it is difficult to predict the magnitude and extent of these effects, M&T believes compliance with new regulations and other initiatives will likely negatively impact revenue and increase the cost of doing business, both in terms of transition expenses and on an ongoing basis, and may also limit M&T's ability to pursue certain desirable business opportunities. Any new regulatory requirements or changes to existing requirements could require changes to the Company's businesses, result in increased compliance costs and affect the profitability of such businesses. Additionally, reform could affect the behaviors of third parties that the Company deals with in the course of its business, such as rating agencies, insurance companies and investors. Heightened regulatory practices, requirements or expectations could affect the Company in substantial and unpredictable ways, and, in turn, could have a material adverse effect on the Company's business, financial condition and results of operations.

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

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

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

In addition, the new U.S. final Basel III-based liquidity coverage ratio requirement that will come into effect, subject to certain phase-in requirements, in 2016 and the liquidity-related provisions of the Federal Reserve's liquidity-related enhanced prudential supervision requirements adopted pursuant to Section 165 of Dodd-Frank will require the Company to hold increased levels of unencumbered highly liquid investments, thereby reducing the Company's ability to invest in other longer-term assets even if deemed more desirable from a balance sheet management perspective. Moreover, although these new requirements are being phased in over time, U.S. federal banking agencies have been taking into account expectations regarding the ability of banks to meet these new requirements, including under stressed conditions, in approving actions that represent uses of capital, such as dividend increases, share repurchases and acquisitions.

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

Bank holding companies with consolidated assets of \$50 billion or more, such as M&T, are required to report periodically to regulators a resolution plan for their rapid and orderly resolution in the event of material financial distress or failure. M&T's resolution plan must, among other things, ensure that its depository institution subsidiaries are adequately protected from risks arising from its other subsidiaries. The regulation adopted by the Federal Reserve and FDIC sets specific standards for the resolution plans, including requiring a strategic analysis of the plan's components, a description of the range of specific

## **Table of Contents**

actions the Company proposes to take in resolution, and a description of the Company's organizational structure, material entities, interconnections and interdependencies, and management information systems, among other elements. To address effectively any shortcomings in the Company's resolution plan, the Federal Reserve and the FDIC could require the Company to change its business structure or dispose of businesses, which could have a material adverse effect on its liquidity and ability to pay dividends on its stock or interest and principal on its debt.

### ***Risks Relating to the Company's Business***

*Deteriorating credit quality could adversely impact the Company.*

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

Factors that influence the Company's credit loss experience include overall economic conditions affecting businesses and consumers, generally, but also residential and commercial real estate valuations, in particular, given the size of the Company's real estate loan portfolios. Factors that can influence the Company's credit loss experience include: (i) the impact of residential real estate values on loans to residential real estate builders and developers and other loans secured by residential real estate; (ii) the concentrations of commercial real estate loans in the Company's loan portfolio; (iii) the amount of commercial and industrial loans to businesses in areas of New York State outside of the New York City metropolitan area and in central Pennsylvania that have historically experienced less economic growth and vitality than many other regions of the country; (iv) the repayment performance associated with first and second lien loans secured by residential real estate; and (v) the size of the Company's portfolio of loans to individual consumers, which historically have experienced higher net charge-offs as a percentage of loans outstanding than loans to other types of borrowers.

Commercial real estate valuations can be highly subjective as they are based upon many assumptions. Such valuations can be significantly affected over relatively short periods of time by changes in business climate, economic conditions, interest rates and, in many cases, the results of operations of businesses and other occupants of the real property. Similarly, residential real estate valuations can be impacted by housing trends, the availability of financing at reasonable interest rates, governmental policy regarding housing and housing finance and general economic conditions affecting consumers.

The Company maintains an allowance for credit losses which represents, in management's judgment, the amount of losses inherent in the loan and lease portfolio. The allowance is determined by management's evaluation of the loan and lease portfolio based on such factors as the differing economic risks associated with each loan category, the current financial condition of specific borrowers, the economic environment in which borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications. The effects of probable decreases in expected principal cash flows on acquired loans are also considered in the establishment of the allowance for credit losses.

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

*The Company must maintain adequate sources of funding and liquidity.*

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

The Company's liquidity and ability to fund and run the business could be materially adversely affected by a variety of conditions and factors, including financial and credit market disruptions and



---

**Table of Contents**

volatility or a lack of market or customer confidence in financial markets in general, which may result in a loss of customer deposits or outflows of cash or collateral and/or ability to access capital markets on favorable terms.

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

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

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

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

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

*M&T may be adversely affected by the soundness of other financial institutions.*

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

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

M&T is a separate and distinct legal entity from its subsidiaries. M&T typically receives substantially all of its revenue from subsidiary dividends. These dividends are the principal source of funds to pay dividends on

---

## **Table of Contents**

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

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

The Federal Reserve recently amended its capital planning and stress testing rules to, among other things, generally limit a bank holding company's ability to make quarterly capital distributions – that is, dividends and share repurchases – commencing April 1, 2015 if the amount of actual cumulative quarterly capital issuances of instruments that qualify as regulatory capital are less than the bank holding company had indicated in its submitted capital plan as to which it received a non-objection from the Federal Reserve. Under these new rules, for example, if a bank holding company issued a smaller amount of additional common stock than it had stated in its capital plan, it would be required to reduce common dividends and/or the amount of common stock repurchases so that the dollar amount of capital distributions, net of the dollar amount of additional common stock issued ( net distributions ), is no greater than the dollar amount of net distributions relating to its common stock included in its capital plan, as measured on an aggregate basis beginning in the third quarter of the nine-quarter planning horizon through the end of the then current quarter. As such, M&T's ability to declare and pay dividends on its common stock, as well as the amount of such dividends, will depend, in part, on its ability to issue stock as per its capital plan or to otherwise remain in compliance with its capital plan, which may be adversely affected by market and other factors outside of M&T's control.

*The Company is subject to operational risk.*

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

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

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

---

## **Table of Contents**

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

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

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

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

M&T has regularly considered opportunities to expand and improve its business through acquisition of other financial institutions. Inherent uncertainties exist when integrating the operations of an acquired entity. M&T may not be able to fully achieve its strategic objectives and planned operating efficiencies in an acquisition. In addition, the markets and industries in which the Company and its potential acquisition targets operate are highly competitive. The Company may lose customers or fail to retain the customers of acquired entities as a result of an acquisition. Future acquisition and integration activities may require M&T to devote substantial time and resources, and as a result M&T may not be able to pursue other business opportunities.

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

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

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

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

---

**Table of Contents**

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

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

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

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

There have been increasing efforts on the part of third parties, including through cyber attacks, to breach data security at financial institutions or with respect to financial transactions. There have been several recent instances involving financial services and consumer-based companies reporting the unauthorized disclosure of client or customer information or the destruction or theft of corporate data. In addition, because the techniques used to cause such security breaches change frequently, often are not recognized until launched against a target and may originate from less regulated and remote areas around the world, the Company may be unable to proactively address these techniques or to implement adequate preventative measures. The ability of the Company's customers to bank remotely, including online and through mobile devices, requires secure transmission of confidential information and increases the risk of data security breaches.

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

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

Many aspects of the Company's business involve substantial risk of legal liability. M&T and/or its subsidiaries have been named or threatened to be named as defendants in various lawsuits arising from its or its subsidiaries' business activities (and in some cases from the activities of companies M&T has acquired). In addition, from time to time, M&T is, or may become, the subject of governmental and self-regulatory agency information-gathering requests, reviews, investigations and proceedings and other forms of regulatory inquiry, including by bank regulatory agencies, the SEC and law enforcement authorities. The SEC has announced a policy of seeking admissions of liability in certain settled cases, which could adversely impact the defense of private litigation. M&T is also at risk when it has agreed to indemnify others for losses related to legal proceedings, including litigation and governmental investigations and inquiries, they face, such as in connection with the purchase or sale of a business or assets. The results of such proceedings could lead to significant civil or criminal penalties, including monetary penalties, damages, adverse judgments, settlements, fines, injunctions, restrictions on the way in which the Company conducts its business, or reputational harm.

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

---

**Table of Contents**

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

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

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

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

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

Both M&T and M&T Bank maintain their executive offices at One M&T Plaza in Buffalo, New York. This twenty-one story headquarters building, containing approximately 300,000 rentable square feet of space, is owned in fee by M&T Bank and was completed in 1967. M&T, M&T Bank and their subsidiaries occupy approximately 98% of the building and the remainder is leased to non-affiliated tenants. At December 31, 2014, the cost of this property (including improvements subsequent to the initial construction), net of accumulated depreciation, was \$12.0 million.

M&T Bank owns an additional facility in Buffalo, New York with approximately 395,000 rentable square feet of space. Approximately 89% of this facility, known as M&T Center, is occupied by M&T Bank and its subsidiaries, with the remainder leased to non-affiliated tenants. At December 31, 2014, the cost of this building (including improvements subsequent to acquisition), net of accumulated depreciation, was \$8.8 million.

M&T Bank also owns and occupies two separate facilities in the Buffalo area which support certain back-office and operations functions of the Company. The total square footage of these facilities approximates 225,000 square feet and their combined cost (including improvements subsequent to acquisition), net of accumulated depreciation, was \$18.1 million at December 31, 2014.

M&T Bank also owns a facility in Syracuse, New York with approximately 160,000 rentable square feet of space. Approximately 47% of this facility is occupied by M&T Bank. At December 31, 2014, the cost of this building (including improvements subsequent to acquisition), net of accumulated depreciation, was \$2.8 million.

M&T Bank owns facilities in Wilmington, Delaware, with approximately 340,000 (known as Wilmington Center) and 295,000 (known as Wilmington Plaza) rentable square feet of space, respectively. M&T Bank occupies approximately 92% of Wilmington Center. Wilmington Plaza is 100% occupied by a tenant. At December 31, 2014, the cost of these buildings (including improvements subsequent to acquisition), net of accumulated depreciation, was \$43.0 million and \$13.3 million, respectively.

## Edgar Filing: M&T BANK CORP - Form 10-K

M&T Bank also owns facilities in Harrisburg, Pennsylvania and Millsboro, Delaware with approximately 220,000 and 325,000 rentable square feet of space, respectively. M&T Bank occupies

**Table of Contents**

approximately 30% and 89% of these respective facilities. At December 31, 2014, the cost of these buildings (including improvements subsequent to acquisition), net of accumulated depreciation, was \$10.7 million and \$6.9 million, respectively.

No other properties owned by M&T Bank have more than 100,000 square feet of space. The cost, net of accumulated depreciation and amortization, of the Company's premises and equipment is detailed in note 6 of Notes to Financial Statements filed herewith in Part II, Item 8, Financial Statements and Supplementary Data. Of the 695 domestic banking offices of the Registrant's subsidiary banks at December 31, 2014, 291 are owned in fee and 404 are leased.

**Item 3. Legal Proceedings.**

M&T and its subsidiaries are subject in the normal course of business to various pending and threatened legal proceedings in which claims for monetary damages are asserted. On an on-going basis management, after consultation with legal counsel, assesses the Company's liabilities and contingencies in connection with such legal proceedings. For those matters where it is probable that the Company will incur losses and the amounts of the losses can be reasonably estimated, the Company records an expense and corresponding liability in its consolidated financial statements. To the extent the pending or threatened litigation could result in exposure in excess of that liability, the amount of such excess is not currently estimable. Although not considered probable, the range of reasonably possible losses for such matters in the aggregate, beyond the existing recorded liability, was between \$0 and \$40 million. Although the Company does not believe that the outcome of pending litigations will be material to the Company's consolidated financial position, it cannot rule out the possibility that such outcomes will be material to the consolidated results of operations for a particular reporting period in the future.

*Wilmington Trust Corporation Investigative and Litigation Matters*

M&T's Wilmington Trust Corporation (Wilmington Trust) subsidiary is the subject of a governmental investigation arising from actions undertaken by Wilmington Trust prior to M&T's acquisition of Wilmington Trust and its subsidiaries, as set forth below.

*DOJ Investigation:* Prior to M&T's acquisition of Wilmington Trust, the Department of Justice (DOJ) commenced an investigation of Wilmington Trust, relating to Wilmington Trust's financial reporting and securities filings, as well as certain commercial real estate lending relationships involving its subsidiary bank, Wilmington Trust Company, all of which relate to filings and activities occurring prior to the acquisition of Wilmington Trust by M&T. Counsel for Wilmington Trust has met with the DOJ to discuss the DOJ investigation. The DOJ investigation is ongoing.

This investigation could lead to administrative or legal proceedings resulting in potential civil and/or criminal remedies, or settlements, including, among other things, enforcement actions, fines, penalties, restitution or additional costs and expenses.

*In Re Wilmington Trust Securities Litigation (U.S. District Court, District of Delaware, Case No. 10-CV-0990-SLR):* Beginning on November 18, 2010, a series of parties, purporting to be class representatives, commenced a putative class action lawsuit against Wilmington Trust, alleging that Wilmington Trust's financial reporting and securities filings were in violation of securities laws. The cases were consolidated and Wilmington Trust moved to dismiss. The court issued an order denying Wilmington Trust's motion to dismiss on March 20, 2014. The parties are currently engaged in the discovery phase of the lawsuit.

Due to their complex nature, it is difficult to estimate when litigation and investigatory matters such as these may be resolved. As set forth in the introductory paragraph to this Item 3 Legal Proceedings, losses from current litigation and regulatory matters which the Company is subject to that are not currently considered probable are within a range of reasonably possible losses for such matters in the aggregate, beyond the existing recorded liability, and are included in the range of reasonably possible losses set forth above.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Table of Contents****Executive Officers of the Registrant**

Information concerning the Registrant's executive officers is presented below as of February 20, 2015. The year the officer was first appointed to the indicated position with the Registrant or its subsidiaries is shown parenthetically. In the case of each entity noted below, officers' terms run until the first meeting of the board of directors after such entity's annual meeting, which in the case of the Registrant takes place immediately following the Annual Meeting of Shareholders, and until their successors are elected and qualified.

Robert G. Wilmers, age 80, is chief executive officer (2007), chairman of the board (2000) and a director (1982) of the Registrant. From April 1998 until July 2000, he served as president and chief executive officer of the Registrant and from July 2000 until June 2005 he served as chairman, president (1988) and chief executive officer (1983) of the Registrant. He is chief executive officer (2007), chairman of the board (2005) and a director (1982) of M&T Bank, and previously served as chairman of the board of M&T Bank from March 1983 until July 2003 and as president of M&T Bank from March 1984 until June 1996.

Mark J. Czarnecki, age 59, is president (2007), chief operating officer (2014) and a director (2007) of the Registrant and of M&T Bank. Previously, he was an executive vice president of the Registrant (1999) and M&T Bank (1997) and was responsible for the M&T Investment Group and the Company's Retail Banking network. Mr. Czarnecki is chairman of the board, president and chief executive officer (2007) and a director (2005) of Wilmington Trust, N.A.

Robert J. Bojdak, age 59, is an executive vice president and chief credit officer (2004) of the Registrant and M&T Bank. In addition to managing the Company's credit risk, Mr. Bojdak was also responsible for managing the Company's enterprise-wide risk, including operational, compliance and investment risk, until February 2013. From April 2002 to April 2004, Mr. Bojdak served as senior vice president and credit deputy for M&T Bank. He is an executive vice president and a director of Wilmington Trust, N.A. (2004).

Stephen J. Braunscheidel, age 58, is an executive vice president (2004) of the Registrant and M&T Bank, and is in charge of the Company's Human Resources Division. Mr. Braunscheidel previously served as senior vice president of M&T Bank and has held a number of management positions within M&T Bank since 1978.

William J. Farrell II, age 57, is an executive vice president (2011) of the Registrant and M&T Bank, and is responsible for managing M&T's Wealth and Institutional Services Division, which includes Wealth Advisory Services, Institutional Client Services, Asset Management, M&T Securities and M&T Insurance Agency. Mr. Farrell joined M&T through the Wilmington Trust acquisition. He joined Wilmington Trust in 1976 and held a number of senior management positions, most recently as executive vice president and head of the Corporate Client Services business. Mr. Farrell is president, chief executive officer and a director (2012) of Wilmington Trust Company, an executive vice president and a director (2011) of Wilmington Trust, N.A. and a director (2013) of M&T Securities.

Richard S. Gold, age 54, is an executive vice president (2007) and chief risk officer (2014) of the Registrant. He is a vice chairman and chief risk officer of M&T Bank (2014). Mr. Gold is responsible for managing the Company's enterprise-wide risk, including operational, compliance and investment risk. He is also responsible for the Office of Regulatory Projects. Previously, Mr. Gold was responsible for managing the Company's Residential Mortgage and Business Banking Divisions. Mr. Gold served as senior vice president of M&T Bank from 2000 to 2006, most recently responsible for the Retail Banking Division, including M&T Securities. Mr. Gold is an executive vice president (2006) and chief risk officer (2014) of Wilmington Trust, N.A.

Brian E. Hickey, age 62, is an executive vice president of the Registrant (1997) and M&T Bank (1996). He is a member of the Directors Advisory Council (1994) of the Rochester Division of M&T Bank. Mr. Hickey is responsible for managing all of the non-retail segments in Upstate New York and in the Northern and Central/Western Pennsylvania regions. Mr. Hickey is also responsible for the Auto Floor Plan lending business.

René F. Jones, age 50, is an executive vice president (2006) and chief financial officer (2005) of the Registrant. He is a vice chairman (2014) and chief financial officer (2005) of M&T Bank. Mr. Jones is also responsible for Wilmington Trust's wealth and institutional services businesses and for M&T's Treasury Division. Previously, Mr. Jones was a senior vice president in charge of the Financial Performance Measurement department within M&T Bank's Finance Division. Mr. Jones has held a number of management positions within M&T Bank's Finance Division since 1992. Mr. Jones is an executive vice president and chief financial officer (2005) and a director (2007) of Wilmington Trust, N.A., and he is chairman of the board, president (2009) and a trustee (2005) of M&T Real Estate. He is chairman of the

**Table of Contents**

board and a director (2014) of Wilmington Trust Investment Advisors, and is a director of M&T Insurance Agency (2007) and M&T Securities (2005). Mr. Jones is chairman of the board (2014), chief financial officer (2012) and a director (2014) of Wilmington Trust Company.

Darren J. King, age 45, is an executive vice president of the Registrant (2010) and M&T Bank (2009), and is in charge of the Retail Banking Division, the Consumer Lending Division, the Business Banking Division and the Marketing and Communications Division. Mr. King previously served as senior vice president of M&T Bank and has held a number of management positions within M&T Bank since 2000. Mr. King is an executive vice president of Wilmington Trust, N.A. (2009).

Gino A. Martocci, age 49, is an executive vice president of the Registrant and M&T Bank (2014), and is responsible for M&T's New York City, Baltimore and Washington, D.C. metropolitan markets. He also is responsible for M&T's specialty businesses, commercial planning and analysis, commercial payment systems, and M&T Realty Capital. Mr. Martocci served as senior vice president of M&T Bank from 2002 to 2013, serving in a number of management positions. He is a director (2009) of M&T Realty Capital, and an executive vice president of M&T Real Estate. Mr. Martocci is also the chairman of the Directors Advisory Council (2013) of the New York City/Long Island Division of M&T Bank.

Kevin J. Pearson, age 53, is an executive vice president (2002) of the Registrant and is a vice chairman (2014) of M&T Bank. He is a member of the Directors Advisory Council (2006) of the New York City/Long Island Division of M&T Bank. Mr. Pearson is responsible for managing all of M&T Bank's commercial banking lines of business. Previously, he was responsible for all of the non-retail segments in the New York City, Philadelphia, Connecticut, New Jersey, Tarrytown, Greater Washington D.C. and Northern Virginia, Southern Pennsylvania and Delaware markets of M&T Bank, as well as the Company's commercial real estate business, Commercial Marketing and Treasury Management. He is an executive vice president (2003) and a trustee (2014) of M&T Real Estate, chairman of the board (2009) and a director (2003) of M&T Realty Capital, and an executive vice president and a director of Wilmington Trust, N.A. (2014). Mr. Pearson served as senior vice president of M&T Bank from 2000 to 2002.

Michele D. Trolli, age 53, is an executive vice president and chief information officer of the Registrant and M&T Bank (2005). She is in charge of the Company's Banking Services, Technology, Alternative Banking and Global Sourcing groups. Previously, Ms. Trolli was in charge of the Technology and Banking Operations Division, the Retail Banking Division and the Corporate Services Group of M&T Bank.

D. Scott N. Warman, age 49, is an executive vice president (2009) and treasurer (2008) of the Registrant and M&T Bank. He is responsible for managing the Company's Treasury Division. Mr. Warman previously served as senior vice president of M&T Bank and has held a number of management positions within M&T Bank since 1995. He is an executive vice president and treasurer of Wilmington Trust, N.A. (2008), a trustee of M&T Real Estate (2009), and is treasurer of Wilmington Trust Company (2012).

**PART II**

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

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

During the fourth quarter of 2014, M&T did not issue any shares of its common stock that were not registered under the Securities Act of 1933.

**Equity Compensation Plan Information**

The following table provides information as of December 31, 2014 with respect to shares of common stock that may be issued under M&T's existing equity compensation plans. M&T's existing equity compensation plans include the M&T Bank Corporation 2001 Stock Option Plan, the 2005 Incentive Compensation Plan, which replaced the 2001 Stock Option Plan, and the 2009 Equity Incentive Compensation Plan, each of which has been previously approved by shareholders, and the M&T Bank Corporation 2008 Directors' Stock Plan and the M&T Bank Corporation Deferred Bonus Plan, each of which did not require shareholder approval.

**Table of Contents**

The table does not include information with respect to shares of common stock subject to outstanding options and rights assumed by M&T in connection with mergers and acquisitions of the companies that originally granted those options and rights. Footnote (1) to the table sets forth the total number of shares of common stock issuable upon the exercise of such assumed options and rights as of December 31, 2014, and their weighted-average exercise price.

| Plan Category   | Number of Securities to be Issued Upon Exercise of Outstanding Options or Rights<br>(A) | Weighted-Average Exercise Price of Outstanding Options or Rights<br>(B) | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column A)<br>(C) |
|---|---|---|--|
| Equity compensation plans approved by security holders:     |   |   |  |
| 2001 Stock Option Plan                                      | 149,452   | \$ 101.78   |  |
| 2005 Incentive Compensation Plan                            | 3,215,487   | 104.92  | 3,374,586  |
| 2009 Equity Incentive Compensation Plan                     | 3,500   | 72.89   | 1,023,910  |
| Equity compensation plans not approved by security holders: |   |   |  |
| 2008 Directors Stock Plan                                   | 3,384   | 125.62  | 84,898   |
| Deferred Bonus Plan   | 29,297  | 65.45   |  |
| <b>Total</b>  | <b>3,401,120</b>  | <b>\$ 104.42</b>  | <b>4,483,394</b>   |

(1) As of December 31, 2014, a total of 76,464 shares of M&T common stock were issuable upon exercise of outstanding options or rights assumed by M&T in connection with merger and acquisition transactions. The weighted-average exercise price of those outstanding options or rights is \$129.04 per common share.

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

**2008 Directors Stock Plan.** M&T maintains a plan for non-employee members of the Board of Directors of M&T and the members of its Directors Advisory Council, and the non-employee members of the Board of Directors of M&T Bank and the members of its regional Directors Advisory Councils, which allows such directors, advisory directors and members of regional Directors Advisory Councils to receive all or a portion of their directorial compensation in shares of M&T common stock.

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

**Table of Contents****Performance Graph**

The following graph contains a comparison of the cumulative shareholder return on M&T common stock against the cumulative total returns of the KBW Bank Index, compiled by Keefe, Bruyette & Woods, Inc., and the S&P 500 Index, compiled by Standard & Poor's Corporation, for the five-year period beginning on December 31, 2009 and ending on December 31, 2014. The KBW Bank Index is a market capitalization index consisting of 24 companies representing leading national money centers and regional banks or thrifts.

**Shareholder Value at Year End\***

|                      | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|----------------------|------|------|------|------|------|------|
| M&T Bank Corporation | 100  | 135  | 122  | 163  | 198  | 218  |
| KBW Bank Index       | 100  | 123  | 95   | 126  | 174  | 190  |
| S&P 500 Index        | 100  | 115  | 117  | 136  | 180  | 205  |

\* Assumes a \$100 investment on December 31, 2009 and reinvestment of all dividends.

In accordance with and to the extent permitted by applicable law or regulation, the information set forth above under the heading "Performance Graph" shall not be incorporated by reference into any future filing under the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act and shall not be deemed to be "soliciting material" or to be "filed" with the SEC under the Securities Act or the Exchange Act.

**Table of Contents****Issuer Purchases of Equity Securities**

In February 2007, M&T announced that it had been authorized by its Board of Directors to purchase up to 5,000,000 shares of its common stock. M&T did not repurchase any shares pursuant to such plan during 2014.

During the fourth quarter of 2014, M&T purchased shares of its common stock as follows:

| Period                         | (a)Total<br>Number<br>of Shares<br>(or Units)<br>Purchased(1) | (b)Average<br>Price Paid<br>per Share<br>(or Unit) | (c)Total<br>Number<br>of Shares<br>(or Units)<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | (d)Maximum<br>Number (or<br>Approximate<br>Dollar<br>Value)<br>of Shares<br>(or Units)<br>that may yet<br>be Purchased<br>Under the<br>Plans or<br>Programs(2) |
|--------------------------------|---|--|---|--|
| October 1 - October 31, 2014   | 586   | \$ 121.57  |   | 2,181,500  |
| November 1 - November 30, 2014 | 3,819   | 124.83   |   | 2,181,500  |
| December 1 - December 31, 2014 | 9,276   | 127.03   |   | 2,181,500  |
| Total                          | 13,681  | \$ 126.19  |   |  |

- (1) The total number of shares purchased during the periods indicated reflects shares deemed to have been received from employees who exercised stock options by attesting to previously acquired common shares in satisfaction of the exercise price or shares received from employees upon the vesting of restricted stock awards in satisfaction of applicable tax withholding obligations, as is permitted under M&T's stock-based compensation plans.
- (2) On February 22, 2007, M&T announced a program to purchase up to 5,000,000 shares of its common stock. No shares were purchased under such program during the periods indicated.

**Item 6. Selected Financial Data.**

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

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. Corporate Profile and Significant Developments**

M&T Bank Corporation ( M&T ) is a bank holding company headquartered in Buffalo, New York with consolidated assets of \$96.7 billion at December 31, 2014. The consolidated financial information presented herein reflects M&T and all of its subsidiaries, which are referred to collectively as the Company. M&T's wholly owned bank subsidiaries are M&T Bank and Wilmington Trust, National Association ( Wilmington Trust, N.A. ).

M&T Bank, with total assets of \$95.9 billion at December 31, 2014, is a New York-chartered commercial bank with 693 domestic banking offices in New York State, Pennsylvania, Maryland, Delaware, Virginia, West Virginia, and the District of Columbia, a full-service commercial banking office in Ontario, Canada, and an office in the Cayman Islands. M&T Bank and its subsidiaries offer a broad range of financial services to a diverse base of consumers, businesses, professional clients, governmental entities and financial institutions located in their markets. Lending

## Edgar Filing: M&T BANK CORP - Form 10-K

is largely focused on consumers residing in New York State, Pennsylvania, Maryland, Virginia, Delaware and Washington, D.C., and on small and medium size businesses based in those areas, although loans are originated through lending offices in other states and in Ontario, Canada. Certain lending activities are also conducted in other states through various subsidiaries. Trust and other fiduciary services are offered by M&T Bank and through its wholly owned subsidiary, Wilmington Trust Company. Other subsidiaries of M&T Bank include: M&T Real Estate Trust, a commercial mortgage lender; M&T Realty Capital Corporation, a multifamily commercial mortgage lender; M&T Securities, Inc., which provides brokerage, investment advisory and insurance services; Wilmington Trust Investment Advisors, Inc., which serves as an investment advisor to the Wilmington Funds, a family of proprietary mutual funds, and other funds and institutional clients; and M&T Insurance Agency, Inc., an insurance agency.

---

**Table of Contents**

Wilmington Trust, N.A., with total assets of \$2.8 billion at December 31, 2014, is a national bank with offices in Wilmington, Delaware and Oakfield, New York. Wilmington Trust, N.A. and its subsidiaries offer various trust and wealth management services. Wilmington Trust, N.A. also offered selected deposit and loan products on a nationwide basis, largely through telephone, Internet and direct mail marketing techniques.

On August 27, 2012, M&T announced that it had entered into a definitive agreement with Hudson City Bancorp, Inc. ( Hudson City ), headquartered in Paramus, New Jersey, under which Hudson City would be acquired by M&T. Pursuant to the terms of the agreement, Hudson City common shareholders will receive consideration for each common share of Hudson City in an amount valued at .08403 of an M&T share in the form of either M&T common stock or cash, based on the election of each Hudson City shareholder, subject to proration as specified in the merger agreement (which provides for an aggregate split of total consideration of 60% common stock of M&T and 40% cash). The estimated purchase price considering the closing price of M&T's common stock of \$125.62 on December 31, 2014 was \$5.4 billion.

As of December 31, 2014, Hudson City reported \$36.6 billion of assets, including \$21.7 billion of loans (predominantly residential real estate loans) and \$7.9 billion of investment securities, and \$31.8 billion of liabilities, including \$19.4 billion of deposits. The merger has received the approval of the common shareholders of M&T and Hudson City. However, the merger is subject to a number of conditions, including regulatory approvals.

On June 17, 2013, M&T and M&T Bank entered into a written agreement with the Federal Reserve Bank of New York. Under the terms of the agreement, M&T and M&T Bank are required to submit to the Federal Reserve Bank of New York a revised compliance risk management program designed to ensure compliance with the Bank Secrecy Act and anti-money-laundering laws and regulations ( BSA/AML ) and to take certain other steps to enhance their compliance practices. The Company commenced a major initiative, including the hiring of outside consulting firms, intended to fully address those regulator concerns. M&T and M&T Bank continue to make progress towards completing this initiative. In view of the timeframe required to implement this initiative, demonstrate its efficacy to the satisfaction of the regulators and otherwise meet any other regulatory requirements that may be imposed in connection with these matters, M&T and Hudson City have extended the date after which either party may elect to terminate the merger agreement if the merger has not yet been completed to April 30, 2015. Nevertheless, M&T's pending acquisition of Hudson City remains subject to regulatory approval, including approval by the Federal Reserve, and certain other closing conditions and, as a result, there can be no assurances that the merger will be completed by that date.

**Recent Legislative Developments**

The Dodd-Frank Wall Street Reform and Consumer Protection Act ( Dodd-Frank Act ) that was signed into law on July 21, 2010 has and will continue to significantly change the bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies, and the system of regulatory oversight of the Company. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. Not all of the rules required or expected to be implemented under the Dodd-Frank Act have been proposed or adopted, and certain of the rules that have been proposed or adopted under the Dodd-Frank Act are subject to phase-in or transitional periods. The implications of the Dodd-Frank Act for the Company's businesses continue to depend to a large extent on the implementation of the legislation by the Federal Reserve and other agencies. A discussion of the provisions of the Dodd-Frank Act is included in Part I, Item 1 of this Form 10-K.

In July 2013, the Federal Reserve, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation approved final rules (the New Capital Rules ) establishing a new comprehensive capital framework for U.S. banking organizations. These rules went into effect as to M&T on January 1, 2015. The New Capital Rules generally implement the Basel Committee on Banking Supervision's (the Basel Committee ) December 2010 final capital framework for strengthening international capital standards (referred to as Basel III ) and are intended to ensure that banking organizations have adequate capital levels given the risk levels of assets and off-balance sheet obligations. The New Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including M&T and M&T Bank, as compared to the U.S. general risk-based capital rules that were applicable to M&T and M&T Bank through December 31, 2014.

---

**Table of Contents**

The New Capital Rules also preclude certain hybrid securities, such as trust preferred securities, from inclusion in bank holding companies' Tier 1 capital, subject to phase-out in the case of bank holding companies, such as M&T, that had \$15 billion or more in total consolidated assets as of December 31, 2009. As a result, beginning in 2015, 25% of M&T's trust preferred securities will be includable in Tier 1 capital, and in 2016 and thereafter, none of M&T's trust preferred securities will be includable in Tier 1 capital. Trust preferred securities no longer included in M&T's Tier 1 capital may nonetheless be included as a component of Tier 2 capital on a permanent basis without phase-out and irrespective of whether such securities otherwise meet the revised definition of Tier 2 capital set forth in the New Capital Rules. In the first quarter of 2014, M&T redeemed \$350 million of 8.50% junior subordinated debentures associated with the trust preferred capital securities of M&T Capital Trust IV and issued a like amount of 6.45% preferred stock that qualifies as Tier 1 regulatory capital. A detailed discussion of the New Capital Rules is included in Part I, Item 1 of this Form 10-K under the heading "Capital Requirements."

Management believes that the Company is in compliance with the revised capital adequacy requirements. More specifically, management estimates that the Company's ratio of Common Equity Tier 1 ( CET1 ) to risk-weighted assets under the New Capital Rules (and as defined therein) on a fully phased-in basis was approximately 9.62% as of December 31, 2014, reflecting an estimate of the computation of CET1 and the Company's risk-weighted assets under the methodologies set forth in the New Capital Rules.

The Company's regulatory capital ratios under risk-based capital rules in effect through December 31, 2014 are presented in note 23 of Notes to Financial Statements.

On December 10, 2013, the Federal Reserve, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Securities and Exchange Commission adopted the final version of the Volcker Rule, which was mandated under the Dodd-Frank Act. The Volcker Rule is intended to reduce risks posed to banking entities from proprietary trading activities and investments in or relationships with covered funds. Banking entities are generally prohibited from engaging in proprietary trading. Under the Volcker Rule, the Company was required to be in compliance with the prohibition on proprietary trading and the requirement to develop an extensive compliance program by July 2015; however, in December 2014, the Federal Reserve extended the compliance period to July 2016 for investments in and relationships with covered funds that were in place prior to December 31, 2013. The Federal Reserve has indicated that it intends to further extend the compliance period to July 2017.

The Company does not believe that it engages in any significant amount of proprietary trading as defined in the Volcker Rule and that any impact would be minimal. In addition, a review of the Company's investments was undertaken to determine if any meet the Volcker Rule's definition of "covered funds." Based on that review, the Company believes that any impact related to investments considered to be covered funds would not have a material effect on the Company's financial condition or its results of operations. Nevertheless, the Company may be required to divest certain investments subject to the Volcker Rule.

On September 3, 2014, the Federal Reserve and other banking regulators adopted final rules ( " Final LCR Rule " ) implementing a U.S. version of the Basel Committee's Liquidity Coverage Ratio requirement ( LCR ) including the modified version applicable to bank holding companies, such as M&T, with \$50 billion in total consolidated assets that are not "advanced approaches" institutions. The LCR is intended to ensure that banks hold a sufficient amount of so-called "high quality liquid assets" ( HQLA ) to cover the anticipated net cash outflows during a hypothetical acute 30-day stress scenario. The LCR is the ratio of an institution's amount of HQLA (the numerator) over projected net cash out-flows over the 30-day horizon (the denominator), in each case, as calculated pursuant to the Final LCR Rule. Once fully phased-in, a subject institution must maintain an LCR equal to at least 100% in order to satisfy this regulatory requirement. Only specific classes of assets, including U.S. Treasury securities, other U.S. government obligations and agency mortgaged-backed securities, qualify under the rule as HQLA, with classes of assets deemed relatively less liquid and/or subject to greater degree of credit risk subject to certain haircuts and caps for purposes of calculating the numerator under the Final LCR Rule.

The initial compliance date for the modified LCR is January 2016, with the requirement fully phased-in by January 2017. The Company intends to comply with the LCR when it becomes effective. A detailed discussion of the LCR and its requirements is included in Part I, Item 1 of this Form 10-K under the heading "Liquidity Ratios under Basel III."

---

**Table of Contents****Critical Accounting Estimates**

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

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

**Valuation methodologies** Management of the Company applies various valuation methodologies to assets and liabilities which often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets, such as trading assets, most investment securities, and residential real estate loans held for sale and related commitments. However, for those items for which an observable liquid market does not exist, management utilizes significant estimates and assumptions to value such items. Examples of these items include loans, deposits, borrowings, goodwill, core deposit and other intangible assets, and other assets and liabilities obtained or assumed in business combinations; capitalized servicing assets; pension and other postretirement benefit obligations; estimated residual values of property associated with leases; and certain derivative and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Company's results of operations. In addition to valuation, the Company must assess whether there are any declines in value below the carrying value of assets that should be considered other than temporary or otherwise require an adjustment in carrying value and recognition of a loss in the consolidated statement of income. Examples include investment securities, other investments, mortgage servicing rights, goodwill, core deposit and other intangible assets, among others. Specific assumptions and estimates utilized by management are discussed in detail herein in management's discussion and analysis of financial condition and results of operations and in notes 1, 3, 4, 7, 8, 12, 18, 19 and 20 of Notes to Financial Statements.

**Commitments, contingencies and off-balance sheet arrangements** Information regarding the Company's commitments and contingencies, including guarantees and contingent liabilities arising from litigation, and their potential effects on the Company's results of operations is included in note 21 of Notes to Financial Statements. In addition, the Company is routinely subject to examinations from various governmental taxing authorities. Such examinations may result in challenges to the tax

**Table of Contents**

return treatment applied by the Company to specific transactions. Management believes that the assumptions and judgment used to record tax-related assets or liabilities have been appropriate. Should tax laws change or the tax authorities determine that management's assumptions were inappropriate, the result and adjustments required could have a material effect on the Company's results of operations. Information regarding the Company's income taxes is presented in note 13 of Notes to Financial Statements. The recognition or de-recognition in the Company's consolidated financial statements of assets and liabilities held by so-called variable interest entities is subject to the interpretation and application of complex accounting pronouncements or interpretations that require management to estimate and assess the relative significance of the Company's financial interests in those entities and the degree to which the Company can influence the most important activities of the entities. Information relating to the Company's involvement in such entities and the accounting treatment afforded each such involvement is included in note 19 of Notes to Financial Statements.

**Overview**

The Company recorded net income during 2014 of \$1.07 billion or \$7.42 of diluted earnings per common share, down 6% and 10%, respectively, from \$1.14 billion or \$8.20 of diluted earnings per common share in 2013. Basic earnings per common share decreased 10% to \$7.47 in 2014 from \$8.26 in 2013. Net income in 2012 totaled \$1.03 billion, while diluted and basic earnings per common share were \$7.54 and \$7.57, respectively. The after-tax impact of merger-related expenses associated with acquisition transactions was \$8 million (\$12 million pre-tax) or \$.06 of basic and diluted earnings per common share in 2013, compared with \$6 million (\$10 million pre-tax) or \$.05 of basic and diluted earnings per common share in 2012. The 2013 merger-related expenses were associated with the pending acquisition of Hudson City and the 2012 expenses related to the May 16, 2011 acquisition of Wilmington Trust Corporation (Wilmington Trust). There were no merger-related expenses in 2014. Expressed as a rate of return on average assets, net income in 2014 was 1.16%, compared with 1.36% in 2013 and 1.29% in 2012. The return on average common shareholders' equity was 9.08% in 2014, 10.93% in 2013 and 10.96% in 2012.

The Company's financial performance in 2014 as compared with 2013 reflected a significantly lower provision for credit losses and higher mortgage banking revenues, offset by lower net gains from investment securities and loan securitization transactions and higher operating expenses largely resulting from increased costs for professional services and salaries. During 2013, the Company sold the majority of its privately issued mortgage-backed securities that had been held in the available-for-sale investment securities portfolio for an after-tax loss of \$28 million (\$46 million pre-tax), or \$.22 per diluted common share. In addition, the Company's holdings of Visa and MasterCard shares were sold for an after-tax gain of \$62 million (\$103 million pre-tax), or \$.48 per diluted common share. Also reflected in 2013's results were after-tax gains from loan securitization transactions of \$38 million (\$63 million pre-tax), or \$.29 per diluted common share. The Company securitized during the second and third quarters of 2013 approximately \$1.3 billion of one-to-four family residential real estate loans previously held in the Company's loan portfolio into guaranteed mortgage-backed securities with Ginnie Mae and recognized gains of \$42 million. The Company retained the substantial majority of those securities in its investment securities portfolio. In addition, the Company securitized and sold in September 2013 approximately \$1.4 billion of automobile loans held in its loan portfolio, resulting in a gain of \$21 million. As compared with 2012, the positive impact of the 2013 securities transactions and gains on securitization activities were partially offset by higher operating expenses largely attributable to increased costs for professional services and salaries.

Taxable-equivalent net interest income totaled \$2.70 billion in each of 2014 and 2013. Average earning assets grew \$7.7 billion, or 10%, in 2014 due to higher balances of investment securities and interest-bearing deposits at banks. Offsetting the impact of higher earning assets was a 34 basis point (hundredths of one percent) narrowing of the net interest margin, or taxable-equivalent net interest income divided by average earning assets, from 3.65% in 2013 to 3.31% in 2014. Taxable-equivalent net interest income rose \$73 million or 3% in 2013 as compared with 2012, resulting from a \$2.4 billion, or 4%, increase in average loans and leases. The net interest margin in 2013 was 8 basis points lower than in 2012.

The provision for credit losses in 2014 declined 33% to \$124 million from \$185 million in 2013. The Company experienced significant improvement in credit quality during 2014. Net charge-offs of \$121 million in 2014 were down from \$183 million in the prior year. Net charge-offs as a percentage of average loans and leases were .19% and .28% in 2014 and 2013, respectively. The provision for credit losses in 2013 was \$19 million or 9% lower than \$204 million in 2012. Net charge-offs in 2012 were \$186 million, or .30% of average loans and leases.

---

**Table of Contents**

Other income aggregated \$1.78 billion in 2014, compared with \$1.87 billion in 2013 and \$1.67 billion in 2012. Included in other income in 2013 were net gains on investment securities of \$47 million, compared with net losses on investment securities of \$48 million in 2012. There were no gains or losses on investment securities in 2014. Excluding gains and losses on investment securities and the previously noted \$63 million of gains from loan securitization transactions in 2013, other income in 2014 was up \$24 million from \$1.76 billion in 2013. Higher mortgage banking revenues and trust income in 2014 were partially offset by a decline in service charges on deposit accounts. After excluding investment securities gains and losses and the loan securitization transactions, other income in 2013 was \$40 million or 2% above \$1.72 billion in 2012. In that comparison, higher trust, brokerage services and credit card interchange income in 2013 were partially offset by lower mortgage banking revenues. Reflected in gains and losses on investment securities were other-than-temporary impairment charges of \$10 million and \$48 million in 2013 and 2012, respectively, on certain privately issued collateralized mortgage obligations ( CMOs ).

Other expense increased 4% to \$2.74 billion in 2014 from \$2.64 billion in 2013. During 2012, other expense totaled \$2.51 billion. Included in those amounts are expenses considered by M&T to be nonoperating in nature, consisting of amortization of core deposit and other intangible assets of \$34 million, \$47 million and \$61 million in 2014, 2013 and 2012, respectively, and merger-related expenses of \$12 million and \$10 million in 2013 and 2012, respectively. Exclusive of those nonoperating expenses, noninterest operating expenses aggregated \$2.71 billion in 2014, compared with \$2.58 billion in 2013 and \$2.44 billion in 2012. The increase in such expenses in 2014 as compared with 2013 was largely attributable to higher costs for professional services and salaries associated with BSA/AML activities, compliance, capital planning and stress testing, and risk management activities. The rise in noninterest operating expenses from 2012 to 2013 was largely attributable to higher costs for professional services and salaries, partially offset by lower FDIC assessments. In addition, the Company reached a legal settlement of a previously disclosed lawsuit related to issues that were alleged to occur at Wilmington Trust prior to its acquisition by M&T that led to a \$40 million loss accrual as of December 31, 2013. That accrual was partially offset by the reversal of an accrual for a contingent compensation obligation assumed in the May 2011 acquisition of Wilmington Trust that expired, resulting in a \$26 million reduction of other costs of operations in 2013.

The efficiency ratio measures the relationship of operating expenses to revenues. The Company's efficiency ratio, or noninterest operating expenses (as previously defined) divided by the sum of taxable-equivalent net interest income and noninterest income (exclusive of gains and losses from bank investment securities), was 60.5% in 2014, compared with 57.0% and 56.2% in 2013 and 2012, respectively. The calculations of the efficiency ratio are presented in table 2.

**Table of Contents****Table 1****EARNINGS SUMMARY***Dollars in millions*

| Increase (Decrease)(a) |      |              |      | Compound   |         |         |         |         |                            |
|------------------------|------|--------------|------|------------|---------|---------|---------|---------|----------------------------|
| 2013 to 2014           |      | 2012 to 2013 |      |            |         |         |         |         | Growth Rate                |
| Amount                 | %    | Amount       | %    | 2014       | 2013    | 2012    | 2011    | 2010    | 5 Years<br>2009 to<br>2014 |
| \$ (1.8)               |      | \$ 14.2      |      | \$ 2,980.5 | 2,982.3 | 2,968.1 | 2,817.9 | 2,753.8 | 2%                         |
| (3.7)                  | (1)  | (59.1)       | (17) | 280.4      | 284.1   | 343.2   | 402.3   | 462.3   | (16)                       |
| 1.9                    |      | 73.3         | 3    | 2,700.1    | 2,698.2 | 2,624.9 | 2,415.6 | 2,291.5 | 5                          |
| (61.0)                 | (33) | (19.0)       | (9)  | 124.0      | 185.0   | 204.0   | 270.0   | 368.0   | (27)                       |
| (46.7)                 |      | 94.5         |      |            | 46.7    | (47.8)  | 73.2    | (83.5)  |                            |
| (39.2)                 | (2)  | 103.4        | 6    | 1,779.3    | 1,818.5 | 1,715.1 | 1,509.8 | 1,191.6 | 8                          |
|                        |      |              |      |            |         |         |         |         |                            |
| 49.8                   | 4    | 40.6         | 3    | 1,405.0    | 1,355.2 | 1,314.6 | 1,204.0 | 999.7   | 7                          |
| 57.2                   | 4    | 86.0         | 7    | 1,337.9    | 1,280.7 | 1,194.7 | 1,274.1 | 915.1   | 6                          |
|                        |      |              |      |            |         |         |         |         |                            |
| (130.0)                | (7)  | 163.6        | 10   | 1,612.5    | 1,742.5 | 1,578.9 | 1,250.5 | 1,116.8 | 24                         |
|                        |      |              |      |            |         |         |         |         |                            |
| (1.3)                  | (5)  | (1.4)        | (5)  | 23.7       | 25.0    | 26.4    | 25.9    | 24.0    | 2                          |
| (56.4)                 | (10) | 56.0         | 11   | 522.6      | 579.0   | 523.0   | 365.1   | 356.6   | 30                         |
| \$ (72.3)              | (6)  | \$ 109.0     | 11   | \$ 1,066.2 | 1,138.5 | 1,029.5 | 859.5   | 736.2   | 23%                        |

(a) Changes were calculated from unrounded amounts.

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

(c) Includes other-than-temporary impairment losses, if any.

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

As a result of business combinations and other acquisitions, the Company had intangible assets consisting of goodwill and core deposit and other intangible assets totaling \$3.6 billion at each of December 31, 2014, 2013 and 2012. Included in such intangible assets was goodwill of \$3.5 billion at each of those dates. Amortization of core deposit and other intangible assets, after tax effect, totaled \$21 million, \$29 million and \$37 million during 2014, 2013 and 2012, respectively.

M&T consistently provides supplemental reporting of its results on a net operating or tangible basis, from which M&T excludes the after-tax effect of amortization of core deposit and other intangible assets (and the related goodwill, core deposit intangible and other intangible asset balances, net of applicable deferred tax amounts) and gains and expenses associated with merging acquired operations into the Company, since such items are considered by management to be nonoperating in nature. Those merger-related expenses generally consist of professional services

## Edgar Filing: M&T BANK CORP - Form 10-K

and other temporary help fees associated with the actual or planned conversion of systems and/or integration of operations; costs related to branch and office consolidations; costs related to termination of existing contractual arrangements to purchase various services; initial marketing and promotion expenses designed to introduce M&T Bank to its new customers; severance for former employees; incentive compensation costs; travel costs; and printing, supplies and other costs of completing the transactions and commencing operations in new markets and offices. Although net operating income as defined by M&T is not a GAAP measure, M&T's management believes that this information helps investors understand the effect of acquisition activity in reported results.

Net operating income was \$1.09 billion in 2014, compared with \$1.17 billion in 2013. Diluted net operating earnings per common share in 2014 were \$7.57, compared with \$8.48 in 2013. Net operating income and diluted net operating earnings per common share were \$1.07 billion and \$7.88, respectively, in 2012.

**Table of Contents****Table 2****RECONCILIATION OF GAAP TO NON-GAAP MEASURES**

|   | 2014         | 2013         | 2012         |
|---|--------------|--------------|--------------|
| <b>Income statement data</b>                                |              |              |              |
| <i>In thousands, except per share</i>                       |              |              |              |
| <b>Net income</b>   |              |              |              |
| Net income  | \$ 1,066,246 | \$ 1,138,480 | \$ 1,029,498 |
| Amortization of core deposit and other intangible assets(a) | 20,657       | 28,644       | 37,011       |
| Merger-related expenses(a)                                  |              | 7,511        | 6,001        |
| Net operating income  | \$ 1,086,903 | \$ 1,174,635 | \$ 1,072,510 |
| <b>Earnings per common share</b>                            |              |              |              |
| Diluted earnings per common share                           | \$ 7.42      | \$ 8.20      | \$ 7.54      |
| Amortization of core deposit and other intangible assets(a) | .15          | .22          | .29          |
| Merger-related expenses(a)                                  |              | .06          | .05          |
| Diluted net operating earnings per common share             | \$ 7.57      | \$ 8.48      | \$ 7.88      |
| <b>Other expense</b>  |              |              |              |
| Other expense   | \$ 2,742,857 | \$ 2,635,885 | \$ 2,509,260 |
| Amortization of core deposit and other intangible assets    | (33,824)     | (46,912)     | (60,631)     |
| Merger-related expenses                                     |              | (12,364)     | (9,879)      |
| Noninterest operating expense                               | \$ 2,709,033 | \$ 2,576,609 | \$ 2,438,750 |
| <b>Merger-related expenses</b>                              |              |              |              |
| Salaries and employee benefits                              | \$           | \$ 836       | \$ 4,997     |
| Equipment and net occupancy                                 |              | 690          | 15           |
| Printing, postage and supplies                              |              | 1,825        |              |
| Other costs of operations                                   |              | 9,013        | 4,867        |
| Total   | \$           | \$ 12,364    | \$ 9,879     |
| <b>Efficiency ratio</b>                                     |              |              |              |
| Noninterest operating expense (numerator)                   | \$ 2,709,033 | \$ 2,576,609 | \$ 2,438,750 |
| Taxable-equivalent net interest income                      | 2,700,088    | 2,698,200    | 2,624,907    |
| Other income  | 1,779,273    | 1,865,205    | 1,667,270    |
| Less: Gain on bank investment securities                    |              | 56,457       | 9            |
| Net OTTI losses recognized in earnings                      |              | (9,800)      | (47,822)     |
| Denominator   | \$ 4,479,361 | \$ 4,516,748 | \$ 4,339,990 |
| Efficiency ratio  | 60.48%       | 57.05%       | 56.19%       |
| <b>Balance sheet data</b>                                   |              |              |              |
| <i>In millions</i>  |              |              |              |
| <b>Average assets</b>                                       |              |              |              |
| Average assets  | \$ 92,143    | \$ 83,662    | \$ 79,983    |
| Goodwill  | (3,525)      | (3,525)      | (3,525)      |
| Core deposit and other intangible assets                    | (50)         | (90)         | (144)        |
| Deferred taxes  | 15           | 27           | 42           |
| Average tangible assets                                     | \$ 88,583    | \$ 80,074    | \$ 76,356    |

Edgar Filing: M&T BANK CORP - Form 10-K

**Average common equity**

|                      |           |           |          |
|----------------------|-----------|-----------|----------|
| Average total equity | \$ 12,097 | \$ 10,722 | \$ 9,703 |
| Preferred stock      | (1,192)   | (878)     | (869)    |

|  |         |         |         |
|--|---------|---------|---------|
| Average common equity                    | 10,905  | 9,844   | 8,834   |
| Goodwill                                 | (3,525) | (3,525) | (3,525) |
| Core deposit and other intangible assets | (50)    | (90)    | (144)   |
| Deferred taxes                           | 15      | 27      | 42      |

|                                |          |          |          |
|--------------------------------|----------|----------|----------|
| Average tangible common equity | \$ 7,345 | \$ 6,256 | \$ 5,207 |
|--------------------------------|----------|----------|----------|

**At end of year**

**Total assets**

|  |           |           |           |
|--|-----------|-----------|-----------|
| Total assets                             | \$ 96,686 | \$ 85,162 | \$ 83,009 |
| Goodwill                                 | (3,525)   | (3,525)   | (3,525)   |
| Core deposit and other intangible assets | (35)      | (69)      | (116)     |
| Deferred taxes                           | 11        | 21        | 34        |

|                       |           |           |           |
|-----------------------|-----------|-----------|-----------|
| Total tangible assets | \$ 93,137 | \$ 81,589 | \$ 79,402 |
|-----------------------|-----------|-----------|-----------|

**Total common equity**

|   |           |           |           |
|---|-----------|-----------|-----------|
| Total equity                                    | \$ 12,336 | \$ 11,306 | \$ 10,203 |
| Preferred stock                                 | (1,231)   | (882)     | (873)     |
| Undeclared dividends cumulative preferred stock | (3)       | (3)       | (3)       |

|   |         |         |         |
|---|---------|---------|---------|
| Common equity, net of undeclared cumulative preferred dividends | 11,102  | 10,421  | 9,327   |
| Goodwill  | (3,525) | (3,525) | (3,525) |
| Core deposit and other intangible assets                        | (35)    | (69)    | (116)   |
| Deferred taxes  | 11      | 21      | 34      |

|                              |          |          |          |
|------------------------------|----------|----------|----------|
| Total tangible common equity | \$ 7,553 | \$ 6,848 | \$ 5,720 |
|------------------------------|----------|----------|----------|

(a) After any related tax effect.

---

**Table of Contents**

Net operating income expressed as a rate of return on average tangible assets was 1.23% in 2014, compared with 1.47% in 2013 and 1.40% in 2012. Net operating income represented a return on average tangible common equity of 13.76% in 2014, compared with 17.79% and 19.42% in 2013 and 2012, respectively.

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

**Net Interest Income/Lending and Funding Activities**

Taxable-equivalent net interest income aggregated \$2.70 billion in each of 2014 and 2013. Growth in average earning assets in 2014 was offset by a narrowing of the net interest margin. Average earning assets rose 10% to \$81.7 billion in 2014 from \$74.0 billion in 2013, the result of higher average balances of investment securities and interest-bearing deposits at the Federal Reserve Bank of New York. The net interest margin narrowed to 3.31% in 2014 from 3.65% in 2013. Contributing to that decline was a 19 basis point reduction in the average yield on loans and leases and the lower yielding cash balances on deposit with the Federal Reserve Bank of New York.

Average loans and leases declined \$388 million or 1% to \$64.7 billion in 2014 from \$65.1 billion in 2013. Commercial loans and leases averaged \$18.9 billion in 2014, \$1.1 billion or 6% higher than in the prior year. That growth reflected increased demand by customers. Average balances of commercial real estate loans increased 1% or \$379 million to \$26.5 billion in 2014 from \$26.1 billion in 2013. Average residential real estate balances declined to \$8.7 billion in 2014 from \$10.1 billion in the preceding year. Included in that portfolio were loans originated for sale, which averaged \$403 million in 2014 and \$909 million in 2013. Excluding loans held for sale, average residential real estate loans decreased \$911 million from 2013 to 2014, resulting largely from the full-year impact of the securitizations during mid-2013 of \$1.3 billion of loans held in the loan portfolio. Average consumer loans totaled \$10.6 billion in 2014, down \$480 million or 4% from \$11.1 billion in 2013 due to the full-year impact of the \$1.4 billion automobile loan securitization transaction completed during the third quarter of 2013.

Net interest income on a taxable-equivalent basis increased \$73 million or 3% in 2013 from \$2.62 billion in 2012. That improvement resulted from a 5% rise in average earning assets, to \$74.0 billion in 2013 from \$70.3 billion in 2012. The increase in average earning assets was the result of higher average loans and leases and interest-bearing deposits held at the Federal Reserve Bank of New York. The net interest margin declined 8 basis points in 2013 from 3.73% in 2012. That narrowing was largely due to an 11 basis point reduction in the average yield on loans and leases and the lower yielding cash balances on deposit at the Federal Reserve Bank of New York.

Average balances of loans and leases increased \$2.4 billion or 4% in 2013 from \$62.7 billion in 2012. Commercial loans and leases averaged \$17.7 billion in 2013, up \$1.4 billion or 9% from \$16.3 billion in 2012. Average commercial real estate loans increased \$1.2 billion or 5% to \$26.1 billion in 2013 from \$24.9 billion in the preceding year. The growth in commercial loans and commercial real estate loans reflected higher loan demand by customers. Residential real estate loan balances rose \$409 million or 4% to \$10.1 billion in 2013 from \$9.7 billion in 2012, resulting from the impact of the Company retaining for portfolio during the first eight months of 2012 a majority of originated residential real estate loans, partially offset by the mid-2013 securitizations noted earlier. Consumer loans averaged \$11.1 billion in 2013, down \$635 million or 5% from \$11.7 billion in 2012 due, in part, to the impact of the third quarter 2013 automobile loan securitization transaction.

**Table of Contents****Table 3****AVERAGE BALANCE SHEETS AND TAXABLE-EQUIVALENT RATES**

|                        | 2014   |                  |              | 2013            |                  |              | 2012            |                  |              | 2011            |                  |              | 2010            |                  |
|------------------------|--|------------------|--------------|-----------------|------------------|--------------|-----------------|------------------|--------------|-----------------|------------------|--------------|-----------------|------------------|
|                        | Average Balance                                      | Average Interest | Average Rate | Average Balance | Average Interest | Average Rate | Average Balance | Average Interest | Average Rate | Average Balance | Average Interest | Average Rate | Average Balance | Average Interest |
|                        | (Average balance in millions; interest in thousands) |                  |              |                 |                  |              |                 |                  |              |                 |                  |              |                 |                  |
| Assets                 |  |                  |              |                 |                  |              |                 |                  |              |                 |                  |              |                 |                  |
| and leases, earned (a) |  |                  |              |                 |                  |              |                 |                  |              |                 |                  |              |                 |                  |
| cial, etc.             | \$ 18,867  | \$ 624,487       | 3.31%        | 17,736          | 628,154          | 3.54%        | 16,336          | 606,495          | 3.71%        | 14,655          | 564,787          | 3.85%        | 13,092          | 521,747          |
| te                     | 26,461   | 1,142,939        | 4.26         | 26,083          | 1,198,400        | 4.53         | 24,907          | 1,138,723        | 4.50         | 22,901          | 1,051,772        | 4.59         | 20,714          | 974,047          |
| te                     | 8,719  | 368,632          | 4.23         | 10,136          | 418,095          | 4.12         | 9,727           | 421,516          | 4.33         | 6,778           | 334,421          | 4.93         | 5,746           | 303,262          |
| er                     | 10,618   | 480,877          | 4.53         | 11,098          | 510,962          | 4.60         | 11,732          | 559,253          | 4.77         | 11,865          | 592,386          | 4.99         | 11,745          | 613,479          |
| ns and et              | 64,665   | 2,616,935        | 4.05         | 65,053          | 2,755,611        | 4.24         | 62,702          | 2,725,987        | 4.35         | 56,199          | 2,543,366        | 4.53         | 51,297          | 2,412,535        |
| earing at banks        | 5,342  | 13,361           | .25          | 2,139           | 5,201            | .24          | 528             | 1,221            | .23          | 1,195           | 2,934            | .25          | 102             | 88               |
| funds sold             |  |                  |              |                 |                  |              |                 |                  |              |                 |                  |              |                 |                  |
| ements to              | 89   | 64               | .07          | 128             | 114              | .09          | 4               | 21               | .55          | 180             | 189              | .11          | 221             | 446              |
| ccount                 | 76   | 1,381            | 1.81         | 78              | 1,482            | 1.91         | 96              | 1,394            | 1.45         | 94              | 1,411            | 1.50         | 94              | 789              |
| nt (b)                 |  |                  |              |                 |                  |              |                 |                  |              |                 |                  |              |                 |                  |
| asury and agencies     | 10,543   | 304,178          | 2.88         | 5,123           | 165,879          | 3.24         | 4,538           | 150,500          | 3.32         | 4,165           | 155,339          | 3.73         | 4,483           | 191,677          |
| ns of                  |  |                  |              |                 |                  |              |                 |                  |              |                 |                  |              |                 |                  |
| political              | 166  | 8,115            | 4.89         | 194             | 9,999            | 5.15         | 220             | 11,638           | 5.29         | 244             | 13,704           | 5.61         | 266             | 15,107           |
| ns                     | 800  | 36,485           | 4.56         | 1,298           | 44,019           | 3.39         | 2,211           | 77,315           | 3.50         | 2,655           | 101,020          | 3.80         | 3,269           | 133,176          |
| vestment s             | 11,509   | 348,778          | 3.03         | 6,615           | 219,897          | 3.32         | 6,969           | 239,453          | 3.44         | 7,064           | 270,063          | 3.82         | 8,018           | 339,960          |
| ning                   | 81,681   | 2,980,519        | 3.65         | 74,013          | 2,982,305        | 4.03         | 70,299          | 2,968,076        | 4.22         | 64,732          | 2,817,963        | 4.35         | 59,732          | 2,753,818        |
| ce for                 |  |                  |              |                 |                  |              |                 |                  |              |                 |                  |              |                 |                  |
| ses                    | (923)  |                  |              | (932)           |                  |              | (922)           |                  |              | (916)           |                  |              | (906)           |                  |
| due from               |  |                  |              |                 |                  |              |                 |                  |              |                 |                  |              |                 |                  |
|                        | 1,277  |                  |              | 1,380           |                  |              | 1,384           |                  |              | 1,207           |                  |              | 1,099           |                  |
| sets                   | 10,108   |                  |              | 9,201           |                  |              | 9,222           |                  |              | 8,954           |                  |              | 8,455           |                  |
| ets                    | \$ 92,143  |                  |              | 83,662          |                  |              | 79,983          |                  |              | 73,977          |                  |              | 68,380          |                  |

es and  
lders

earing

Edgar Filing: M&T BANK CORP - Form 10-K

|              |              |         |      |           |         |      |           |         |      |           |         |      |           |         |
|--------------|--------------|---------|------|-----------|---------|------|-----------|---------|------|-----------|---------|------|-----------|---------|
| bearing      |              |         |      |           |         |      |           |         |      |           |         |      |           |         |
| counts       | \$ 1,034     | 1,404   | .14  | 923       | 1,287   | .14  | 856       | 1,343   | .16  | 753       | 1,145   | .15  | 601       | 850     |
| deposits     | 40,474       | 45,465  | .11  | 36,739    | 54,948  | .15  | 33,398    | 68,011  | .20  | 30,403    | 84,314  | .28  | 26,190    | 85,226  |
| posits       | 3,290        | 15,515  | .47  | 4,045     | 26,439  | .65  | 5,347     | 46,102  | .86  | 6,480     | 71,014  | 1.10 | 6,583     | 100,241 |
| at Islands   | 327          | 699     | .21  | 496       | 1,018   | .21  | 605       | 1,130   | .19  | 779       | 962     | .12  | 953       | 1,368   |
| bearing      | 45,125       | 63,083  | .14  | 42,203    | 83,692  | .20  | 40,206    | 116,586 | .29  | 38,415    | 157,435 | .41  | 34,327    | 187,685 |
| m            | 215          | 101     | .05  | 390       | 430     | .11  | 839       | 1,286   | .15  | 827       | 1,030   | .12  | 1,854     | 3,006   |
| m            | 7,492        | 217,247 | 2.90 | 4,941     | 199,983 | 4.05 | 5,527     | 225,297 | 4.08 | 6,959     | 243,866 | 3.50 | 9,169     | 271,578 |
| bearing      | 52,832       | 280,431 | .53  | 47,534    | 284,105 | .60  | 46,572    | 343,169 | .74  | 46,201    | 402,331 | .87  | 45,350    | 462,269 |
| est-bearing  | 25,715       |         |      | 23,721    |         |      | 21,761    |         |      | 17,273    |         |      | 13,709    |         |
| bilities     | 1,499        |         |      | 1,685     |         |      | 1,947     |         |      | 1,499     |         |      | 1,218     |         |
| bilities     | 80,046       |         |      | 72,940    |         |      | 70,280    |         |      | 64,973    |         |      | 60,277    |         |
| ders equity  | 12,097       |         |      | 10,722    |         |      | 9,703     |         |      | 9,004     |         |      | 8,103     |         |
| bilities and |              |         |      | 83,662    |         |      | 79,983    |         |      | 73,977    |         |      | 68,380    |         |
| ders equity  | \$ 92,143    |         |      |           |         |      |           |         |      |           |         |      |           |         |
| est spread   |              |         | 3.12 |           |         | 3.43 |           |         | 3.48 |           |         | 3.48 |           |         |
| tion of      |              |         |      |           |         |      |           |         |      |           |         |      |           |         |
| ree funds    |              |         | .19  |           |         | .22  |           |         | .25  |           |         | .25  |           |         |
| est          |              |         |      |           |         |      |           |         |      |           |         |      |           |         |
| margin on    |              |         |      |           |         |      |           |         |      |           |         |      |           |         |
| assets       | \$ 2,700,088 | 3.31%   |      | 2,698,200 | 3.65%   |      | 2,624,907 | 3.73%   |      | 2,415,632 | 3.73%   |      | 2,291,549 |         |

(a) Includes nonaccrual loans.

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

**Table of Contents**

Table 4 summarizes average loans and leases outstanding in 2014 and percentage changes in the major components of the portfolio over the past two years.

**Table 4****AVERAGE LOANS AND LEASES****(Net of unearned discount)**

|                             | 2014<br>(In millions) | Percent Increase<br>(Decrease) from |              |
|-----------------------------|-----------------------|-------------------------------------|--------------|
|                             |                       | 2013 to 2014                        | 2012 to 2013 |
| Commercial, financial, etc. | \$ 18,867             | 6 %                                 | 9%           |
| Real estate commercial      | 26,461                | 1                                   | 5            |
| Real estate consumer        | 8,719                 | (14)                                | 4            |
| Consumer                    |                       |                                     |              |
| Automobile                  | 1,675                 | (23)                                | (16)         |
| Home equity lines           | 5,747                 |                                     | (3)          |
| Home equity loans           | 314                   | (24)                                | (27)         |
| Other                       | 2,882                 | 5                                   | 3            |
| Total consumer              | 10,618                | (4)                                 | (5)          |
| Total                       | \$ 64,665             | (1)%                                | 4%           |

Commercial loans and leases, excluding loans secured by real estate, aggregated \$19.5 billion at December 31, 2014, representing 29% of total loans and leases. Table 5 presents information on commercial loans and leases as of December 31, 2014 relating to geographic area, size, borrower industry and whether the loans are secured by collateral or unsecured. Of the \$19.5 billion of commercial loans and leases outstanding at the end of 2014, approximately \$17.0 billion, or 87%, were secured, while 44%, 25% and 18% were granted to businesses in New York State, Pennsylvania and the Mid-Atlantic area (which includes Maryland, Delaware, Virginia, West Virginia and the District of Columbia), respectively. The Company provides financing for leases to commercial customers, primarily for equipment. Commercial leases included in total commercial loans and leases at December 31, 2014 aggregated \$1.2 billion, of which 50% were secured by collateral located in New York State, 17% were secured by collateral in Pennsylvania and another 12% were secured by collateral in the Mid-Atlantic area.

**Table of Contents****Table 5****COMMERCIAL LOANS AND LEASES, NET OF UNEARNED DISCOUNT***(Excludes Loans Secured by Real Estate)***December 31, 2014**

|   | New York              | Pennsylvania    | Mid-Atlantic    | Other           | Total            | Percent of Total |
|---|-----------------------|-----------------|-----------------|-----------------|------------------|------------------|
|   | (Dollars in millions) |                 |                 |                 |                  |                  |
| Automobile dealerships                                | \$ 1,518              | \$ 792          | \$ 363          | \$ 817          | \$ 3,490         | 18%              |
| Services  | 1,109                 | 682             | 914             | 377             | 3,082            | 16               |
| Manufacturing   | 1,475                 | 855             | 283             | 454             | 3,067            | 16               |
| Wholesale   | 887                   | 444             | 414             | 253             | 1,998            | 10               |
| Financial and insurance                               | 754                   | 228             | 357             | 40              | 1,379            | 7                |
| Transportation, communications, utilities             | 427                   | 404             | 167             | 255             | 1,253            | 6                |
| Real estate investors                                 | 673                   | 207             | 163             | 101             | 1,144            | 6                |
| Health services                                       | 515                   | 168             | 329             | 45              | 1,057            | 5                |
| Construction  | 394                   | 279             | 159             | 56              | 888              | 5                |
| Retail  | 208                   | 231             | 88              | 115             | 642              | 3                |
| Public administration                                 | 160                   | 84              | 46              | 1               | 291              | 2                |
| Agriculture, forestry, fishing, mining, etc.          | 26                    | 127             | 32              | 2               | 187              | 1                |
| Other   | 425                   | 284             | 247             | 27              | 983              | 5                |
| <b>Total</b>  | <b>\$ 8,571</b>       | <b>\$ 4,785</b> | <b>\$ 3,562</b> | <b>\$ 2,543</b> | <b>\$ 19,461</b> | <b>100%</b>      |
| <b>Percent of total</b>                               | <b>44%</b>            | <b>25%</b>      | <b>18%</b>      | <b>13%</b>      | <b>100%</b>      |                  |
| <b>Percent of dollars outstanding</b>                 |                       |                 |                 |                 |                  |                  |
| Secured   | 82%                   | 79%             | 83%             | 81%             | 81%              |                  |
| Unsecured   | 11                    | 17              | 13              | 9               | 13               |                  |
| Leases  | 7                     | 4               | 4               | 10              | 6                |                  |
| <b>Total</b>  | <b>100%</b>           | <b>100%</b>     | <b>100%</b>     | <b>100%</b>     | <b>100%</b>      |                  |
| <b>Percent of dollars outstanding by size of loan</b> |                       |                 |                 |                 |                  |                  |
| Less than \$1 million                                 | 22%                   | 19%             | 29%             | 11%             | 21%              |                  |
| \$1 million to \$5 million                            | 21                    | 24              | 20              | 22              | 22               |                  |
| \$5 million to \$10 million                           | 15                    | 19              | 14              | 26              | 17               |                  |
| \$10 million to \$20 million                          | 16                    | 23              | 19              | 23              | 19               |                  |
| \$20 million to \$30 million                          | 10                    | 13              | 7               | 10              | 10               |                  |
| \$30 million to \$50 million                          | 11                    | 1               | 8               | 8               | 8                |                  |
| Greater than \$50 million                             | 5                     | 1               | 3               |                 | 3                |                  |
| <b>Total</b>  | <b>100%</b>           | <b>100%</b>     | <b>100%</b>     | <b>100%</b>     | <b>100%</b>      |                  |

**Table of Contents**

International loans included in commercial loans and leases totaled \$167 million and \$170 million at December 31, 2014 and 2013, respectively. Included in such loans were \$61 million and \$72 million, respectively, of loans at M&T Bank's commercial branch in Ontario, Canada.

Loans secured by real estate, including outstanding balances of home equity loans and lines of credit which the Company classifies as consumer loans, represented approximately 64% of the loan and lease portfolio during 2014, compared with 65% in 2013 and 66% in 2012. At December 31, 2014, the Company held approximately \$27.6 billion of commercial real estate loans, \$8.7 billion of consumer real estate loans secured by one-to-four family residential properties (including \$435 million of loans originated for sale) and \$6.0 billion of outstanding balances of home equity loans and lines of credit, compared with \$26.1 billion, \$8.9 billion and \$6.1 billion, respectively, at December 31, 2013. Included in total loans and leases were amounts due from builders and developers of residential real estate aggregating \$1.5 billion and \$1.3 billion at December 31, 2014 and 2013, respectively, substantially all of which were classified as commercial real estate loans.

Commercial real estate loans originated by the Company include fixed-rate instruments with monthly payments and a balloon payment of the remaining unpaid principal at maturity, in many cases five years after origination. For borrowers in good standing, the terms of such loans may be extended by the customer for an additional five years at the then-current market rate of interest. The Company also originates fixed-rate commercial real estate loans with maturities of greater than five years, generally having original maturity terms of approximately seven to ten years, and adjustable-rate commercial real estate loans. Adjustable-rate commercial real estate loans represented approximately 65% of the commercial real estate loan portfolio at the 2014 year-end. Table 6 presents commercial real estate loans by geographic area, type of collateral and size of the loans outstanding at December 31, 2014. New York City metropolitan area commercial real estate loans totaled \$9.2 billion at December 31, 2014. The \$7.1 billion of investor-owned commercial real estate loans in the New York City metropolitan area were largely secured by multifamily residential properties, retail space, and office space. The Company's experience has been that office, retail and service-related properties tend to demonstrate more volatile fluctuations in value through economic cycles and changing economic conditions than do multifamily residential properties. Approximately 44% of the aggregate dollar amount of New York City-area loans were for loans with outstanding balances of \$10 million or less, while loans of more than \$50 million made up approximately 11% of the total.

**Table of Contents****Table 6****COMMERCIAL REAL ESTATE LOANS, NET OF UNEARNED DISCOUNT****December 31, 2014**

|   | Metropolitan<br>New<br>York<br>City | Other<br>New York<br>State | Pennsylvania    | Mid-<br>Atlantic | Other           | Total            | Percent of<br>Total |
|---|-------------------------------------|----------------------------|-----------------|------------------|-----------------|------------------|---------------------|
| (Dollars in millions)                                 |                                     |                            |                 |                  |                 |                  |                     |
| <b>Investor-owned</b>                                 |                                     |                            |                 |                  |                 |                  |                     |
| Permanent finance by property type                    |                                     |                            |                 |                  |                 |                  |                     |
| Retail/Service  | \$ 1,488                            | \$ 508                     | \$ 407          | \$ 869           | \$ 659          | \$ 3,931         | 14%                 |
| Office  | 1,229                               | 828                        | 471             | 868              | 346             | 3,742            | 14                  |
| Apartments/Multifamily                                | 1,533                               | 591                        | 289             | 524              | 507             | 3,444            | 12                  |
| Hotel   | 737                                 | 356                        | 304             | 347              | 366             | 2,110            | 8                   |
| Industrial/Warehouse                                  | 286                                 | 203                        | 216             | 275              | 206             | 1,186            | 4                   |
| Health facilities                                     | 48                                  | 41                         | 21              | 19               | 10              | 139              | 1                   |
| Other   | 112                                 | 16                         | 12              | 30               | 20              | 190              | 1                   |
| <b>Total permanent</b>                                | <b>5,433</b>                        | <b>2,543</b>               | <b>1,720</b>    | <b>2,932</b>     | <b>2,114</b>    | <b>14,742</b>    | <b>54%</b>          |
| <b>Construction/Development</b>                       |                                     |                            |                 |                  |                 |                  |                     |
| Commercial  |                                     |                            |                 |                  |                 |                  |                     |
| Construction  | 608                                 | 529                        | 290             | 695              | 228             | 2,350            | 9%                  |
| Land/Land development                                 | 512                                 | 24                         | 45              | 122              | 64              | 767              | 3                   |
| Residential builder and developer                     |                                     |                            |                 |                  |                 |                  |                     |
| Construction  | 569                                 | 2                          | 64              | 126              | 190             | 951              | 3                   |
| Land/Land development                                 | 11                                  | 21                         | 67              | 277              | 138             | 514              | 2                   |
| <b>Total construction/development</b>                 | <b>1,700</b>                        | <b>576</b>                 | <b>466</b>      | <b>1,220</b>     | <b>620</b>      | <b>4,582</b>     | <b>17%</b>          |
| <b>Total investor-owned</b>                           | <b>7,133</b>                        | <b>3,119</b>               | <b>2,186</b>    | <b>4,152</b>     | <b>2,734</b>    | <b>19,324</b>    | <b>71%</b>          |
| <b>Owner-occupied by industry(a)</b>                  |                                     |                            |                 |                  |                 |                  |                     |
| Health services                                       | 866                                 | 521                        | 319             | 568              | 319             | 2,593            | 9%                  |
| Other services  | 264                                 | 335                        | 256             | 497              | 40              | 1,392            | 5                   |
| Retail  | 166                                 | 177                        | 218             | 285              | 61              | 907              | 3                   |
| Wholesale   | 122                                 | 185                        | 225             | 155              | 131             | 818              | 3                   |
| Manufacturing   | 156                                 | 200                        | 162             | 90               | 32              | 640              | 2                   |
| Real estate investors                                 | 126                                 | 66                         | 155             | 140              | 50              | 537              | 2                   |
| Automobile dealerships                                | 87                                  | 85                         | 61              | 125              | 4               | 362              | 1                   |
| Other   | 283                                 | 177                        | 217             | 302              | 16              | 995              | 4                   |
| <b>Total owner-occupied</b>                           | <b>2,070</b>                        | <b>1,746</b>               | <b>1,613</b>    | <b>2,162</b>     | <b>653</b>      | <b>8,244</b>     | <b>29%</b>          |
| <b>Total commercial real estate</b>                   | <b>\$ 9,203</b>                     | <b>\$ 4,865</b>            | <b>\$ 3,799</b> | <b>\$ 6,314</b>  | <b>\$ 3,387</b> | <b>\$ 27,568</b> | <b>100%</b>         |
| <b>Percent of total</b>                               | <b>33%</b>                          | <b>18%</b>                 | <b>14%</b>      | <b>23%</b>       | <b>12%</b>      | <b>100%</b>      |                     |
| <b>Percent of dollars outstanding by size of loan</b> |                                     |                            |                 |                  |                 |                  |                     |
| Less than \$1 million                                 | 5%                                  | 21%                        | 19%             | 15%              | 7%              | 12%              |                     |
| \$1 million to \$5 million                            | 22                                  | 36                         | 32              | 27               | 18              | 26               |                     |

Edgar Filing: M&T BANK CORP - Form 10-K

|                               |      |      |      |      |      |      |
|-------------------------------|------|------|------|------|------|------|
| \$5 million to \$10 million   | 17   | 20   | 18   | 16   | 15   | 18   |
| \$10 million to \$30 million  | 34   | 21   | 26   | 21   | 32   | 27   |
| \$30 million to \$50 million  | 11   | 2    | 3    | 11   | 10   | 8    |
| \$50 million to \$100 million | 9    |      | 2    | 10   | 18   | 8    |
| Greater than \$100 million    | 2    |      |      |      |      | 1    |
| Total                         | 100% | 100% | 100% | 100% | 100% | 100% |

(a) Includes \$428 million of construction loans.

**Table of Contents**

Commercial real estate loans secured by properties located in other parts of New York State, Pennsylvania and the Mid-Atlantic area tend to have a greater diversity of collateral types and include a significant amount of lending to customers who use the mortgaged property in their trade or business (owner-occupied). Approximately 77% of the aggregate dollar amount of commercial real estate loans in New York State secured by properties located outside of the metropolitan New York City area were for loans with outstanding balances of \$10 million or less. Of the outstanding balances of commercial real estate loans in Pennsylvania and the Mid-Atlantic area, approximately 69% and 58%, respectively, were for loans with outstanding balances of \$10 million or less.

Commercial real estate loans secured by properties located outside of Pennsylvania, the Mid-Atlantic area, New York State and areas of states neighboring New York considered to be part of the New York City metropolitan area, comprised 12% of total commercial real estate loans as of December 31, 2014.

Commercial real estate construction and development loans made to investors presented in table 6 totaled \$4.6 billion at December 31, 2014, or 7% of total loans and leases. Approximately 95% of those construction loans had adjustable interest rates. Included in such loans at the 2014 year-end were \$1.5 billion of loans to developers of residential real estate properties. Information about the credit performance of the Company's loans to builders and developers of residential real estate properties is included herein under the heading Provision For Credit Losses. The remainder of the commercial real estate construction loan portfolio was comprised of loans made for various purposes, including the construction of office buildings, multifamily residential housing, retail space and other commercial development.

M&T Realty Capital Corporation, a commercial real estate lending subsidiary of M&T Bank, participates in the Delegated Underwriting and Servicing ( DUS ) program of Fannie Mae, pursuant to which commercial real estate loans are originated in accordance with terms and conditions specified by Fannie Mae and sold. Under this program, loans are sold with partial credit recourse to M&T Realty Capital Corporation. The amount of recourse is generally limited to one-third of any credit loss incurred by the purchaser on an individual loan, although in some cases the recourse amount is less than one-third of the outstanding principal balance. The Company's maximum credit risk for recourse associated with sold commercial real estate loans was approximately \$2.4 billion and \$2.3 billion at December 31, 2014 and 2013, respectively. There have been no material losses incurred as a result of those recourse arrangements. Commercial real estate loans held for sale at December 31, 2014 and 2013 aggregated \$308 million and \$68 million, respectively. At December 31, 2014 and 2013, commercial real estate loans serviced for other investors by the Company were \$11.3 billion and \$11.4 billion, respectively. Those serviced loans are not included in the Company's consolidated balance sheet.

Real estate loans secured by one-to-four family residential properties were \$8.7 billion at December 31, 2014, including approximately 41% secured by properties located in New York State, 13% secured by properties located in Pennsylvania and 25% secured by properties located in the Mid-Atlantic area. At December 31, 2014, \$435 million of residential real estate loans had been originated for sale, compared with \$401 million at December 31, 2013. The Company's portfolio of alternative ( Alt-A ) residential real estate loans held for investment at December 31, 2014 declined to \$351 million from \$396 million at December 31, 2013. Alt-A loans represent loans that at origination typically included some form of limited borrower documentation requirements as compared with more traditional residential real estate loans. Loans in the Company's Alt-A portfolio were originated by the Company prior to 2008. Loans to individuals to finance the construction of one-to-four family residential properties totaled \$35 million at December 31, 2014 and \$34 million at December 31, 2013, or approximately .1% of total loans and leases at each of those dates. Information about the credit performance of the Company's Alt-A loans and other residential real estate loans is included herein under the heading Provision For Credit Losses.

Consumer loans comprised approximately 16% of total loans and leases at each of December 31, 2014 and 2013. Outstanding balances of home equity lines of credit represent the largest component of the consumer loan portfolio. Such balances represented approximately 9% of total loans and leases at each of December 31, 2014 and 2013. No other consumer loan product represented at least 4% of loans outstanding at December 31, 2014. Approximately 41% of home equity lines of credit outstanding at December 31, 2014 were secured by properties in New York State, and 21% and 36% were secured by properties in Pennsylvania and the Mid-Atlantic area, respectively. Outstanding automobile loan balances rose to nearly \$2.0 billion at December 31, 2014 from \$1.4 billion at December 31, 2013. That increase reflects higher consumer demand for motor vehicles.

**Table of Contents**

Table 7 presents the composition of the Company's loan and lease portfolio at the end of 2014, including outstanding balances to businesses and consumers in New York State, Pennsylvania, the Mid-Atlantic area and other states. Approximately 45% of total loans and leases at December 31, 2014 were to New York State customers, while 18% and 23% were to Pennsylvania and the Mid-Atlantic area customers, respectively.

**Table 7****LOANS AND LEASES, NET OF UNEARNED DISCOUNT****December 31, 2014**

|                             | Outstandings<br>(In<br>millions) | New York<br>State | Percent of Dollars Outstanding |              |       |
|-----------------------------|----------------------------------|-------------------|--------------------------------|--------------|-------|
|                             |                                  |                   | Pennsylvania                   | Mid-Atlantic | Other |
| Real estate                 |                                  |                   |                                |              |       |
| Residential                 | \$ 8,657                         | 41%               | 13%                            | 25%          | 21%   |
| Commercial                  | 27,568                           | 51(a)             | 14                             | 23           | 12    |
| Total real estate           | 36,225                           | 49%               | 14%                            | 23%          | 14%   |
| Commercial, financial, etc. | 18,272                           | 44%               | 25%                            | 19%          | 12%   |
| Consumer                    |                                  |                   |                                |              |       |
| Home equity lines           | 5,747                            | 41%               | 21%                            | 36%          | 2%    |
| Home equity loans           | 275                              | 13                | 28                             | 53           | 6     |
| Automobile                  | 1,979                            | 31                | 23                             | 23           | 23    |
| Other secured or guaranteed | 2,263                            | 24                | 14                             | 17           | 45    |
| Other unsecured             | 719                              | 40                | 23                             | 34           | 3     |
| Total consumer              | 10,983                           | 34%               | 21%                            | 30%          | 15%   |
| Total loans                 | 65,480                           | 45%               | 18%                            | 23%          | 14%   |
| Commercial leases           | 1,189                            | 49%               | 17%                            | 12%          | 22%   |
| Total loans and leases      | \$ 66,669                        | 45%               | 18%                            | 23%          | 14%   |

(a) Includes loans secured by properties located in neighboring states generally considered to be within commuting distance of New York City.

Average balances of investment securities were \$11.5 billion in 2014, up from \$6.6 billion and \$7.0 billion in 2013 and 2012, respectively. The significant rise in such balances in 2014 reflects the net effect of purchases of mortgage-backed securities during 2013 and 2014 and the impact of investment securities sales and securitizations in 2013 as described below. Beginning in the second quarter of 2013, the Company undertook certain actions to improve its regulatory capital and liquidity positions in response to evolving regulatory requirements. As a result, in the second quarter of 2013 approximately \$1.0 billion of privately issued mortgage-backed securities held in the available-for-sale portfolio were sold, as were the Company's holdings of Visa and MasterCard common stock. In the second and third quarters of 2013, the Company securitized approximately \$1.3 billion of residential real estate loans guaranteed by the Federal Housing Authority (FHA) that were held in its loan portfolio. A substantial majority of the Ginnie Mae securities resulting from those securitizations were retained by the Company. During the second quarter of 2013, the Company also began originating FHA residential real estate loans for purposes of securitizing such loans into Ginnie Mae mortgage-backed securities to be retained in the Company's investment securities portfolio. Approximately \$1.6 billion of such loans were originated and securitized during 2013. Finally, the Company purchased approximately \$1.9 billion of Ginnie Mae securities and \$250 million of Fannie Mae securities that were added to the investment securities portfolio during 2013, and another \$4.6 billion of Fannie Mae securities and

## Edgar Filing: M&T BANK CORP - Form 10-K

\$602 million of Ginnie Mae securities were purchased during 2014. The Company has increased its holdings of investment securities in response to changing regulatory requirements.

---

**Table of Contents**

The investment securities portfolio is largely comprised of residential mortgage-backed securities, debt securities issued by municipalities, trust preferred securities issued by certain financial institutions, and shorter-term U.S. Treasury and federal agency notes. When purchasing investment securities, the Company considers its liquidity position and its overall interest-rate risk profile as well as the adequacy of expected returns relative to risks assumed, including prepayments. In managing its investment securities portfolio, the Company occasionally sells investment securities as a result of changes in interest rates and spreads, actual or anticipated prepayments, credit risk associated with a particular security, or as a result of restructuring its investment securities portfolio in connection with a business combination. As noted above, in 2013 the Company sold investment securities to reduce its exposure to higher risk securities in response to changing regulatory capital and liquidity standards.

The Company regularly reviews its investment securities for declines in value below amortized cost that might be characterized as other than temporary. Nevertheless, there were no other-than-temporary impairment charges recognized in 2014. Pre-tax other-than-temporary impairment charges of \$10 million and \$48 million were recognized during 2013 and 2012, respectively, related to certain privately issued mortgage-backed securities. Persistently high unemployment, loan delinquencies and foreclosures that led to a backlog of homes held for sale by financial institutions and others were significant factors contributing to the recognition of the other-than-temporary impairment charges related to those securities. As noted earlier, substantially all of the privately issued mortgage-backed securities held in the available-for-sale portfolio were sold in the second quarter of 2013. The impairment charges recognized during 2013 and 2012 related to a subset of those sold securities. Based on management's assessment of future cash flows associated with individual investment securities as of December 31, 2014, the Company concluded that declines in value below amortized cost associated with the investment securities portfolio were temporary in nature. A further discussion of fair values of investment securities is included herein under the heading Capital. Additional information about the investment securities portfolio is included in notes 3 and 20 of Notes to Financial Statements.

Other earning assets include interest-bearing deposits at the Federal Reserve Bank of New York and other banks, trading account assets, federal funds sold and agreements to resell securities. Those other earning assets in the aggregate averaged \$5.5 billion in 2014, \$2.3 billion in 2013 and \$628 million in 2012. Interest-bearing deposits at banks averaged \$5.3 billion in 2014, compared with \$2.1 billion and \$528 million in 2013 and 2012, respectively. The higher levels of average interest-bearing deposits at banks in 2014 and 2013 were due, in part, to higher Wilmington Trust-related customer deposits. The amounts of investment securities and other earning assets held by the Company are influenced by such factors as demand for loans, which generally yield more than investment securities and other earning assets, ongoing repayments, the levels of deposits, and management of liquidity and balance sheet size and resulting capital ratios.

The most significant source of funding for the Company is core deposits. The Company considers noninterest-bearing deposits, interest-bearing transaction accounts, savings deposits and time deposits of \$250,000 or less as core deposits. The Company's branch network is its principal source of core deposits, which generally carry lower interest rates than wholesale funds of comparable maturities. Average core deposits totaled \$69.1 billion in 2014, up from \$63.8 billion in 2013 and \$59.1 billion in 2012. The growth in core deposits from 2012 to 2014 was due, in part, to higher deposits of trust customers and the lack of attractive alternative investments available to the Company's customers resulting from lower interest rates and from the economic environment in the U.S. The low interest rate environment has resulted in a shift in customer savings trends, as average time deposits have continued to decline, while average noninterest-bearing deposits and savings deposits have generally increased. Funding provided by core deposits represented 85% of average earning assets in 2014, compared with 86% and 84% in 2013 and 2012, respectively. Table 8 summarizes average core deposits in 2014 and percentage changes in the components of such deposits over the past two years. Core deposits aggregated \$72.0 billion and \$65.4 billion at December 31, 2014 and 2013, respectively.

**Table of Contents****Table 8****AVERAGE CORE DEPOSITS**

|                              | 2014<br>(In millions) | Percentage Increase<br>(Decrease) from |              |
|------------------------------|-----------------------|--|--------------|
|                              |                       | 2013 to 2014                           | 2012 to 2013 |
| NOW accounts                 | \$ 1,010              | 12%                                    | 8%           |
| Savings deposits             | 39,440                | 10                                     | 10           |
| Time deposits                | 2,921                 | (15)                                   | (18)         |
| Noninterest-bearing deposits | 25,715                | 8                                      | 9            |
| <b>Total</b>                 | <b>\$ 69,086</b>      | <b>8%</b>                              | <b>8%</b>    |

The Company has additional funding sources, including branch-related time deposits over \$250,000, deposits associated with the Company's Cayman Islands office, and brokered deposits. Time deposits over \$250,000, excluding brokered certificates of deposit, averaged \$366 million in 2014, \$325 million in 2013 and \$410 million in 2012. Cayman Islands office deposits averaged \$327 million in 2014, \$496 million in 2013 and \$605 million in 2012. Brokered time deposits averaged \$4 million in 2014, compared with \$279 million in 2013 and \$741 million in 2012. There were no brokered time deposits outstanding at December 31, 2014. At December 31, 2013, such deposits totaled \$26 million. The Company also had brokered NOW and brokered money-market deposit accounts, which in the aggregate averaged \$1.1 billion in each of 2014, 2013 and 2012. The levels of brokered NOW and brokered money-market deposit accounts reflect the demand for such deposits, largely resulting from the desire of brokerage firms to earn reasonable yields while ensuring that customer deposits are fully insured. The level of Cayman Islands office deposits are also reflective of customer demand. Additional amounts of Cayman Islands office deposits or brokered deposits may be added in the future depending on market conditions, including demand by customers and other investors for those deposits, and the cost of funds available from alternative sources at the time.

The Company also uses borrowings from banks, securities dealers, various Federal Home Loan Banks, the Federal Reserve Bank of New York and others as sources of funding. Average short-term borrowings totaled \$215 million in 2014, \$390 million in 2013 and \$839 million in 2012. Included in short-term borrowings were unsecured federal funds borrowings, which generally mature on the next business day, that averaged \$156 million, \$284 million and \$669 million in 2014, 2013 and 2012, respectively. Overnight federal funds borrowings represented the largest component of average short-term borrowings and totaled \$135 million at December 31, 2014 and \$169 million at December 31, 2013.

Long-term borrowings averaged \$7.5 billion in 2014, \$4.9 billion in 2013 and \$5.5 billion in 2012. During the first quarter of 2013, M&T Bank initiated a Bank Note Program whereby M&T Bank may offer unsecured senior and subordinated notes. Average balances of notes issued under that program were \$2.9 billion in 2014 and \$657 million in 2013. During March 2013, \$300 million of three-year floating rate senior notes and \$500 million of fixed rate senior notes were issued. During 2014, M&T Bank issued \$550 million of three-year floating rate, \$1.25 billion of three-year fixed rate and \$1.4 billion of five-year fixed rate senior notes. The proceeds of the issuances have been predominantly utilized to purchase additional liquid investments that will meet the regulatory liquidity requirements. In addition, in February 2015 M&T Bank issued \$1.5 billion of senior notes of which \$750 million mature in 2020 and \$750 million mature in 2025. Also included in average long-term borrowings were amounts borrowed from the Federal Home Loan Banks of New York, Atlanta and Pittsburgh of \$692 million in 2014, \$30 million in 2013 and \$768 million in 2012, and subordinated capital notes of \$1.6 billion in each of 2014 and 2013 and \$2.0 billion in 2012. During the second quarter of 2014, M&T Bank borrowed approximately \$1.1 billion from the Federal Home Loan Bank (FHLB) of New York. Those borrowings were split between three-year and five-year terms at fixed rates of interest. On November 1, 2014, M&T Bank redeemed \$50 million of 9.50% subordinated notes that were due to mature in 2018. On April 15, 2013, \$250 million of 4.875% subordinated notes of the Company matured and were redeemed. On July 2, 2012, M&T Bank redeemed \$400 million of subordinated capital notes that were due to mature in 2013, as such notes ceased to qualify as regulatory capital during the one-year period before their contractual maturity date. Junior subordinated debentures associated with trust preferred securities that were included in average long-term borrowings were \$889 million in 2014 and

**Table of Contents**

\$1.2 billion in each of 2013 and 2012. M&T redeemed \$350 million of 8.50% junior subordinated debentures associated with trust preferred securities in the first quarter of 2014. Additional information regarding junior subordinated debentures, as well as information regarding contractual maturities of long-term borrowings, is provided in note 9 of Notes to Financial Statements. Also included in long-term borrowings were agreements to repurchase securities, which averaged \$1.4 billion during each of 2014, 2013 and 2012. The agreements have various repurchase dates through 2017, however, the contractual maturities of the underlying securities extend beyond such repurchase dates. The Company has utilized interest rate swap agreements to modify the repricing characteristics of certain components of long-term debt. As of December 31, 2014, interest rate swap agreements were used to hedge approximately \$1.4 billion of outstanding fixed rate long-term borrowings. Further information on interest rate swap agreements is provided in note 18 of Notes to Financial Statements.

Changes in the composition of the Company's earning assets and interest-bearing liabilities, as discussed herein, as well as changes in interest rates and spreads, can impact net interest income. Net interest spread, or the difference between the taxable-equivalent yield on earning assets and the rate paid on interest-bearing liabilities, was 3.12% in 2014, compared with 3.43% in 2013 and 3.48% in 2012. The yield on the Company's earning assets declined 38 basis points to 3.65% in 2014 from 4.03% in 2013, while the rate paid on interest-bearing liabilities decreased 7 basis points to .53% in 2014 from .60% in 2013. The yield on earning assets during 2013 decreased 19 basis points from 4.22% in 2012, while the rate paid on interest-bearing liabilities declined 14 basis points from .74% in 2012. The declines in yields on earning assets and rates on interest-bearing liabilities reflect the impact of actions taken by the Federal Reserve to maintain the target range for the federal funds rate of 0% to .25% and to control the level of interest rates in general.

Net interest-free funds consist largely of noninterest-bearing demand deposits and shareholders' equity, partially offset by bank owned life insurance and non-earning assets, including goodwill and core deposit and other intangible assets. Net interest-free funds averaged \$28.8 billion in 2014, compared with \$26.5 billion in 2013 and \$23.7 billion in 2012. The significant increases in average net interest-free funds in 2014 and 2013 were largely the result of higher balances of noninterest-bearing deposits, which averaged \$25.7 billion in 2014, \$23.7 billion in 2013 and \$21.8 billion in 2012. Goodwill and core deposit and other intangible assets averaged \$3.6 billion in each of 2014 and 2013 and \$3.7 billion in 2012. The cash surrender value of bank owned life insurance averaged \$1.7 billion in 2014 and \$1.6 billion in each of 2013 and 2012. Increases in the cash surrender value of bank owned life insurance are not included in interest income, but rather are recorded in other revenues from operations. The contribution of net interest-free funds to net interest margin was .19% in 2014, .22% in 2013 and .25% in 2012.

Reflecting the changes to the net interest spread and the contribution of net interest-free funds as described herein, the Company's net interest margin was 3.31% in 2014, 3.65% in 2013 and 3.73% in 2012. Future changes in market interest rates or spreads, as well as changes in the composition of the Company's portfolios of earning assets and interest-bearing liabilities that result in reductions in spreads, could adversely impact the Company's net interest income and net interest margin. In particular, the relatively low interest rate environment continues to exert downward pressure on yields on loans, investment securities and other earning assets.

Management assesses the potential impact of future changes in interest rates and spreads by projecting net interest income under several interest rate scenarios. In managing interest rate risk, the Company has utilized interest rate swap agreements to modify the repricing characteristics of certain portions of its interest-bearing liabilities. Periodic settlement amounts arising from these agreements are reflected in the rates paid on interest-bearing liabilities. The notional amount of interest rate swap agreements entered into for interest rate risk management purposes was \$1.4 billion at each of December 31, 2014 and 2013. Under the terms of those swap agreements, the Company received payments based on the outstanding notional amount of the agreements at fixed rates and made payments at variable rates. Those swap agreements were designated as fair value hedges of certain fixed rate long-term borrowings. There were no interest rate swap agreements designated as cash flow hedges at those respective dates.

In a fair value hedge, the fair value of the derivative (the interest rate swap agreement) and changes in the fair value of the hedged item are recorded in the Company's consolidated balance sheet with the corresponding gain or loss recognized in current earnings. The difference between changes in the fair value of the interest rate swap agreements and the hedged items represents hedge ineffectiveness and is recorded in other revenues from operations in the Company's consolidated statement of income. The amounts of hedge ineffectiveness recognized in 2014, 2013 and 2012 were not material to the Company's results of operations. The estimated aggregate fair value of interest rate swap agreements designated as fair value

**Table of Contents**

hedges represented gains of approximately \$73 million at December 31, 2014 and \$103 million at December 31, 2013. The fair values of such swap agreements were substantially offset by changes in the fair values of the hedged items. The changes in the fair values of the interest rate swap agreements and the hedged items primarily result from the effects of changing interest rates and spreads. The Company's credit exposure as of December 31, 2014 with respect to the estimated fair value of interest rate swap agreements used for managing interest rate risk has been substantially mitigated through master netting arrangements with trading account interest rate contracts with the same counterparty as well as counterparty postings of \$49 million of collateral with the Company. Additional information about swap agreements and the items being hedged is included in note 18 of Notes to Financial Statements. The average notional amounts of interest rate swap agreements entered into for interest rate risk management purposes, the related effect on net interest income and margin, and the weighted-average interest rates paid or received on those swap agreements are presented in table 9.

**Table 9****INTEREST RATE SWAP AGREEMENTS**

|                            | 2014                   |         | Year Ended December 31<br>2013 |         | 2012       |         |
|----------------------------|------------------------|---------|--------------------------------|---------|------------|---------|
|                            | Amount                 | Rate(a) | Amount                         | Rate(a) | Amount     | Rate(a) |
|                            | (Dollars in thousands) |         |                                |         |            |         |
| Increase (decrease) in:    |                        |         |                                |         |            |         |
| Interest income            | \$                     | %       | \$                             | %       | \$         | %       |
| Interest expense           | (44,996)               | (.09)   | (41,326)                       | (.09)   | (36,368)   | (.08)   |
| Net interest income/margin | \$ 44,996              | .06%    | \$ 41,326                      | .06%    | \$ 36,368  | .05%    |
| Average notional amount    | \$ 1,400,000           |         | \$ 1,160,274                   |         | \$ 900,000 |         |
| Rate received(b)           |                        | 4.42%   |                                | 5.03%   |            | 6.07%   |
| Rate paid(b)               |                        | 1.19%   |                                | 1.47%   |            | 2.03%   |

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

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

**Provision for Credit Losses**

The Company maintains an allowance for credit losses that in management's judgment appropriately reflects losses inherent in the loan and lease portfolio. A provision for credit losses is recorded to adjust the level of the allowance as deemed necessary by management. The provision for credit losses was \$124 million in 2014, compared with \$185 million in 2013 and \$204 million in 2012. Net loan charge-offs aggregated \$121 million in 2014, \$183 million in 2013 and \$186 million in 2012. Net loan charge-offs as a percentage of average loans outstanding were .19% in 2014, compared with .28% in 2013 and .30% in 2012. A summary of the Company's loan charge-offs, provision and allowance for credit losses is presented in table 10 and in note 5 of Notes to Financial Statements.

**Table of Contents****Table 10****LOAN CHARGE-OFFS, PROVISION AND ALLOWANCE FOR CREDIT LOSSES**

|   | 2014                   | 2013           | 2012           | 2011           | 2010           |
|---|------------------------|----------------|----------------|----------------|----------------|
|   | (Dollars in thousands) |                |                |                |                |
| Allowance for credit losses beginning balance   | \$ 916,676             | \$ 925,860     | \$ 908,290     | \$ 902,941     | \$ 878,022     |
| Charge-offs during year   |                        |                |                |                |                |
| Commercial, financial, leasing, etc.  | 58,943                 | 109,329        | 41,148         | 55,021         | 91,650         |
| Real estate construction  | 1,882                  | 9,137          | 27,687         | 63,529         | 86,603         |
| Real estate mortgage  | 33,527                 | 49,079         | 58,572         | 81,691         | 108,500        |
| Consumer  | 84,390                 | 85,965         | 103,348        | 109,246        | 125,593        |
| <b>Total charge-offs</b>  | <b>178,742</b>         | <b>253,510</b> | <b>230,755</b> | <b>309,487</b> | <b>412,346</b> |
| Recoveries during year  |                        |                |                |                |                |
| Commercial, financial, leasing, etc.  | 22,188                 | 11,773         | 11,375         | 10,224         | 26,621         |
| Real estate construction  | 4,725                  | 18,800         | 3,693          | 5,930          | 4,975          |
| Real estate mortgage  | 14,640                 | 13,718         | 8,847          | 10,444         | 10,954         |
| Consumer  | 16,075                 | 26,035         | 20,410         | 18,238         | 23,963         |
| <b>Total recoveries</b>   | <b>57,628</b>          | <b>70,326</b>  | <b>44,325</b>  | <b>44,836</b>  | <b>66,513</b>  |
| Net charge-offs   | 121,114                | 183,184        | 186,430        | 264,651        | 345,833        |
| Provision for credit losses   | 124,000                | 185,000        | 204,000        | 270,000        | 368,000        |
| Allowance related to loans sold or securitized  |                        | (11,000)       |                |                |                |
| Consolidation of loan securitization trusts   |                        |                |                |                | 2,752          |
| Allowance for credit losses ending balance  | \$ 919,562             | \$ 916,676     | \$ 925,860     | \$ 908,290     | \$ 902,941     |
| Net charge-offs as a percent of:  |                        |                |                |                |                |
| Provision for credit losses   | 97.67%                 | 99.02%         | 91.39%         | 98.02%         | 93.98%         |
| Average loans and leases, net of unearned discount  | .19%                   | .28%           | .30%           | .47%           | .67%           |
| Allowance for credit losses as a percent of loans and leases, net of unearned discount, at year-end | 1.38%                  | 1.43%          | 1.39%          | 1.51%          | 1.74%          |

Loans acquired in connection with acquisition transactions subsequent to 2008 were recorded at fair value with no carry-over of any previously recorded allowance for credit losses. Determining the fair value of the acquired loans required estimating cash flows expected to be collected on the loans and discounting those cash flows at then-current interest rates. The excess of expected cash flows over the carrying value of the loans is recognized as interest income over the lives of the loans. The difference between contractually required payments and the cash flows expected to be collected is referred to as the nonaccretable balance and is not recorded on the consolidated balance sheet. The nonaccretable balance reflects estimated future credit losses and other contractually required payments that the Company does not expect to collect. The Company regularly evaluates the reasonableness of its cash flow projections. Any decreases to the expected cash flows require the Company to evaluate the need for an additional allowance for credit losses and could lead to charge-offs of acquired loan balances. Any significant increases in expected cash flows result in additional interest income to be recognized over the then-remaining lives of the loans. The carrying amount of loans obtained in acquisitions subsequent to 2008 was \$2.6 billion and \$4.0 billion at December 31, 2014 and 2013, respectively. The portion of the nonaccretable balance related to remaining principal losses as well as life-to-date principal losses charged against the nonaccretable balance since acquisition date as of December 31, 2014 and 2013 are presented in table 11. The Company regularly reviews its cash flow

**Table of Contents**

projections for acquired loans, including its estimates of lifetime principal losses. During each of the last three years, based largely on improving economic conditions, the Company's estimates of cash flows expected to be generated by acquired loans improved, resulting in increases in the accretable yield. In 2014, estimated cash flows expected to be generated by acquired loans increased by \$98 million, or approximately 2%. That improvement reflected a lowering of estimated principal losses by approximately \$47 million, primarily due to a \$41 million decrease in expected principal losses in the acquired commercial real estate portfolios, as well as interest and other recoveries. Similarly, in 2013 the estimates of cash flows expected to be generated by acquired loans increased by approximately 3%, or \$179 million. That improvement also reflected a lowering of estimated principal losses, largely driven by a \$160 million decrease in expected principal losses in the acquired commercial real estate portfolios. In 2012, estimated cash flows expected to be generated by acquired loans increased by \$178 million, or approximately 2%. That improvement was also largely driven by a reduction of estimated principal losses, including a \$132 million decrease in expected principal losses in the acquired commercial real estate portfolios.

**Table 11****NONACCRETABLE BALANCE PRINCIPAL**

|                                      | Remaining Balance    |                      | Life-to-date Charges |                      |
|--------------------------------------|----------------------|----------------------|----------------------|----------------------|
|                                      | December 31,<br>2014 | December 31,<br>2013 | December 31,<br>2014 | December 31,<br>2013 |
|                                      | (In thousands)       |                      |                      |                      |
| Commercial, financing, leasing, etc. | \$ 19,589            | \$ 31,931            | \$ 78,736            | \$ 69,772            |
| Commercial real estate               | 70,261               | 110,984              | 276,681              | 277,222              |
| Residential real estate              | 15,958               | 23,201               | 59,552               | 54,177               |
| Consumer                             | 29,582               | 33,989               | 77,819               | 74,039               |
| <b>Total</b>                         | <b>\$ 135,390</b>    | <b>\$ 200,105</b>    | <b>\$ 492,788</b>    | <b>\$ 475,210</b>    |

Nonaccrual loans totaled \$799 million or 1.20% of outstanding loans and leases at December 31, 2014, compared with \$874 million or 1.36% at December 31, 2013 and \$1.01 billion or 1.52% at December 31, 2012. The decline in nonaccrual loans at the 2014 year-end as compared with December 31, 2013 was largely due to lower commercial real estate and residential real estate loans on nonaccrual status. As compared with the end of 2012, the decline in nonaccrual loans at December 31, 2013 was largely due to lower commercial loans and commercial real estate loans classified as nonaccrual. Since December 31, 2012, additions to nonaccrual loans were more than offset by the impact on such loans from payments received and charge-offs. Improving economic conditions in the U.S. continue to have a favorable impact on borrower repayment performance.

Accruing loans past due 90 days or more (excluding acquired loans) totaled \$245 million or .37% of total loans and leases at December 31, 2014, compared with \$369 million or .58% at December 31, 2013 and \$358 million or .54% at December 31, 2012. Those loans included loans guaranteed by government-related entities of \$218 million, \$298 million and \$316 million at December 31, 2014, 2013 and 2012, respectively. Such guaranteed loans included one-to-four family residential mortgage loans serviced by the Company that were repurchased to reduce servicing costs, including a requirement to advance principal and interest payments that had not been received from individual mortgagors. Despite the loans being purchased by the Company, the insurance or guarantee by the applicable government-related entity remains in force. The outstanding principal balances of the repurchased loans that are guaranteed by government-related entities totaled \$196 million at December 31, 2014, \$255 million at December 31, 2013 and \$294 million at December 31, 2012. The remaining accruing loans past due 90 days or more not guaranteed by government-related entities were loans considered to be with creditworthy borrowers that were in the process of collection or renewal. A summary of nonperforming assets and certain past due, renegotiated and impaired loan data and credit quality ratios is presented in table 12.

**Table of Contents****Table 12****NONPERFORMING ASSET AND PAST DUE, RENEGOTIATED AND IMPAIRED LOAN DATA**

| <b>December 31</b>   | <b>2014</b>       | <b>2013</b>       | <b>2012</b>                   | <b>2011</b>         | <b>2010</b>         |
|--|-------------------|-------------------|-------------------------------|---------------------|---------------------|
|  |                   |                   | <b>(Dollars in thousands)</b> |                     |                     |
| Nonaccrual loans   | \$ 799,151        | \$ 874,156        | \$ 1,013,176                  | \$ 1,097,581        | \$ 1,139,740        |
| Real estate and other foreclosed assets  | 63,635            | 66,875            | 104,279                       | 156,592             | 220,049             |
| <b>Total nonperforming assets</b>  | <b>\$ 862,786</b> | <b>\$ 941,031</b> | <b>\$ 1,117,455</b>           | <b>\$ 1,254,173</b> | <b>\$ 1,359,789</b> |
| Accruing loans past due 90 days or more(a)   | \$ 245,020        | \$ 368,510        | \$ 358,397                    | \$ 287,876          | \$ 250,705          |
| <b>Government guaranteed loans included in totals above:</b>                                   |                   |                   |                               |                     |                     |
| Nonaccrual loans   | \$ 69,095         | \$ 63,647         | \$ 57,420                     | \$ 40,529           | \$ 39,883           |
| Accruing loans past due 90 days or more  | 217,822           | 297,918           | 316,403                       | 252,503             | 207,243             |
| Renegotiated loans   | \$ 202,633        | \$ 257,092        | \$ 271,971                    | \$ 214,379          | \$ 233,342          |
| <b>Acquired accruing loans past due 90 days or more(b)</b>                                     | <b>\$ 110,367</b> | <b>\$ 130,162</b> | <b>\$ 166,554</b>             | <b>\$ 163,738</b>   | <b>\$ 91,022</b>    |
| <b>Purchased impaired loans(c):</b>  |                   |                   |                               |                     |                     |
| Outstanding customer balance   | \$ 369,080        | \$ 579,975        | \$ 828,571                    | \$ 1,267,762        | \$ 219,477          |
| Carrying amount  | 197,737           | 330,792           | 447,114                       | 653,362             | 97,019              |
| Nonaccrual loans to total loans and leases, net of unearned discount                           | 1.20%             | 1.36%             | 1.52%                         | 1.83%               | 2.19%               |
| Nonperforming assets to total net loans and leases and real estate and other foreclosed assets | 1.29%             | 1.47%             | 1.68%                         | 2.08%               | 2.60%               |
| Accruing loans past due 90 days or more(a) to total loans and leases, net of unearned discount | .37%              | .58%              | .54%                          | .48%                | .48%                |

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

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

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

Purchased impaired loans are loans obtained in acquisition transactions subsequent to 2008 that as of the acquisition date were specifically identified as displaying signs of credit deterioration and for which the Company did not expect to collect all outstanding principal and contractually required interest payments. Those loans were impaired at the date of acquisition, were recorded at estimated fair value and were generally delinquent in payments, but, in accordance with GAAP, the Company continues to accrue interest income on such loans based on the estimated expected cash flows associated with the loans. The carrying amount of such loans was \$198 million at December 31, 2014, or .3% of total loans. Purchased impaired loans totaled \$331 million at December 31, 2013. The decline in such loans during 2014 was predominantly the result of payments received from customers.

## Edgar Filing: M&T BANK CORP - Form 10-K

Acquired accruing loans past due 90 days or more are loans that could not be specifically identified as impaired as of the acquisition date, but were recorded at estimated fair value as of such date. Such loans totaled \$110 million at December 31, 2014 and \$130 million at December 31, 2013.

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

**Table of Contents**

dates and the lowering of interest rates and monthly payments. The objective of the modifications was to increase loan repayments by customers and thereby reduce net charge-offs. In accordance with GAAP, the modified loans are included in impaired loans for purposes of determining the level of the allowance for credit losses. Information about modifications of loans that are considered troubled debt restructurings is included in note 4 of Notes to Financial Statements.

Residential real estate loans modified under specified loss mitigation programs prescribed by government guarantors have not been included in renegotiated loans because the loan guarantee remains in full force and, accordingly, the Company has not granted a concession with respect to the ultimate collection of the original loan balance. Such loans totaled \$149 million and \$206 million at December 31, 2014 and December 31, 2013, respectively.

Charge-offs of commercial loans and leases, net of recoveries, were \$37 million in 2014, \$98 million in 2013 and \$30 million in 2012. Reflected in net charge-offs of commercial loans and leases in 2013 were \$49 million of charge-offs for a relationship with a motor vehicle-related parts wholesaler. Commercial loans and leases in nonaccrual status aggregated \$177 million at December 31, 2014, \$111 million at December 31, 2013 and \$152 million at December 31, 2012. The increase in such loans from the 2013 year-end to December 31, 2014 was not concentrated in any particular industry group and no individual borrower relationship exceeded \$14 million of the increase in nonaccrual commercial loans and leases.

Net charge-offs of commercial real estate loans during 2014, 2013 and 2012 totaled \$3 million, \$12 million and \$36 million, respectively. Reflected in such charge-offs in 2014 and 2013 were net recoveries of \$2 million and \$12 million, respectively, of loans to residential real estate builders and developers, compared with net charge-offs of \$23 million in 2012. Commercial real estate loans classified as nonaccrual aggregated \$239 million at December 31, 2014, compared with \$305 million at December 31, 2013 and \$412 million at December 31, 2012. The decline in such nonaccrual loans as compared with December 31, 2013 was due, in part, to improving economic conditions and reflected lower loans in nonaccrual status to residential builders and developers. The decrease in nonaccrual commercial real estate loans from December 31, 2012 to the 2013 year-end was predominantly due to lower nonaccrual loans to residential builders and developers. At December 31, 2014 and 2013, commercial real estate loans to residential builders and developers classified as nonaccrual aggregated \$72 million and \$96 million, respectively, compared with \$182 million at December 31, 2012. Information about the location of nonaccrual and charged-off loans to residential real estate builders and developers as of and for the year ended December 31, 2014 is presented in table 13.

**Table 13****RESIDENTIAL BUILDER AND DEVELOPER LOANS, NET OF UNEARNED DISCOUNT**

|              | December 31, 2014          |                        |   | Year Ended<br>December 31, 2014          |   |
|--------------|----------------------------|------------------------|---|--|---|
|              | Outstanding<br>Balances(a) | Nonaccrual<br>Balances | Percent of<br>Outstanding<br>Balances<br>(Dollars in thousands) | Net Charge-offs (Recoveries)<br>Balances | Percent of Average<br>Outstanding<br>Balances |
| New York     | \$ 590,093                 | \$ 8,435               | 1.43%   | \$ 140                                   | .03 %   |
| Pennsylvania | 133,459                    | 38,255                 | 28.66   | (80)                                     | (.06)   |
| Mid-Atlantic | 409,882                    | 12,389                 | 3.02  | (2,108)                                  | (.45)   |
| Other        | 357,910                    | 15,370                 | 4.29  | (144)                                    | (.05)   |
| <b>Total</b> | <b>\$ 1,491,344</b>        | <b>\$ 74,449</b>       | <b>4.99%</b>  | <b>\$ (2,192)</b>                        | <b>(.16)%</b>                                 |

(a) Includes approximately \$26 million of loans not secured by real estate, of which approximately \$2 million are in nonaccrual status. Net charge-offs of residential real estate loans totaled \$13 million in each of 2014 and 2013 and \$38 million in 2012. The lower net charge-offs of such loans in 2014 and 2013 as compared with 2012 reflect lower Alt-A loan charge-offs and generally improved economic conditions and residential real estate valuations. Residential real estate loans in nonaccrual status at December 31, 2014 totaled \$258 million, compared with

\$334 million and \$345 million at December 31, 2013 and 2012, respectively. The decrease in

**Table of Contents**

residential real estate loans classified as nonaccrual from December 31, 2013 to the 2014 year-end was predominantly related to the payoff during the second quarter of 2014 of \$64 million of loans to one customer that were secured by residential real estate. Net charge-offs of Alt-A first mortgage loans were \$4 million in 2014, \$8 million in 2013 and \$20 million in 2012. Nonaccrual Alt-A first mortgage loans aggregated \$78 million at December 31, 2014, compared with \$81 million and \$96 million at December 31, 2013 and 2012, respectively. Residential real estate loans past due 90 days or more and accruing interest (excluding acquired loans) totaled \$216 million, \$295 million and \$313 million at December 31, 2014, 2013 and 2012, respectively. A substantial portion of such amounts related to guaranteed loans repurchased from government-related entities. Information about the location of nonaccrual and charged-off residential real estate loans as of and for the year ended December 31, 2014 is presented in table 14.

Consumer loan net charge-offs during 2014 were \$68 million, compared with \$60 million in 2013 and \$83 million in 2012. Included in net charge-offs of consumer loans were: automobile loans of \$14 million in 2014, \$11 million in 2013 and \$14 million in 2012; recreational vehicle loans of \$13 million, \$15 million and \$18 million during 2014, 2013 and 2012, respectively; and home equity loans and lines of credit secured by one-to-four family residential properties of \$19 million in 2014, \$12 million in 2013 and \$31 million in 2012. Reflected in net charge-offs of home equity loans and lines of credit in 2013 were \$9 million of recoveries of previously charged-off loans related to a portfolio of loans acquired in 2007. Nonaccrual consumer loans totaled \$125 million at each of December 31, 2014 and 2013, compared with \$104 million at December 31, 2012. Included in nonaccrual consumer loans at the 2014, 2013 and 2012 year-ends were: automobile loans of \$18 million, \$21 million and \$25 million, respectively; recreational vehicle loans of \$11 million, \$12 million and \$10 million, respectively; and outstanding balances of home equity loans and lines of credit, including junior lien Alt-A loans, of \$89 million, \$79 million and \$58 million, respectively. Information about the location of nonaccrual and charged-off home equity loans and lines of credit as of and for the year ended December 31, 2014 is presented in table 14.



Edgar Filing: M&T BANK CORP - Form 10-K

|       |              |           |      |          |      |
|-------|--------------|-----------|------|----------|------|
| Total | \$ 3,125,419 | \$ 26,188 | .84% | \$ 3,315 | .11% |
|-------|--------------|-----------|------|----------|------|

**Junior lien home equity loans**

|              |           |          |        |        |       |
|--------------|-----------|----------|--------|--------|-------|
| New York     | \$ 14,878 | \$ 4,440 | 29.85% | \$ 512 | 2.92% |
| Pennsylvania | 18,790    | 963      | 5.13   | (57)   | (.26) |
| Mid-Atlantic | 63,786    | 1,194    | 1.87   | 378    | .52   |
| Other        | 8,029     | 697      | 8.68   | 944    | 10.79 |

|       |            |          |       |          |       |
|-------|------------|----------|-------|----------|-------|
| Total | \$ 105,483 | \$ 7,294 | 6.92% | \$ 1,777 | 1.48% |
|-------|------------|----------|-------|----------|-------|

**Junior lien home equity lines**

|              |            |           |       |          |      |
|--------------|------------|-----------|-------|----------|------|
| New York     | \$ 956,282 | \$ 31,185 | 3.26% | \$ 6,527 | .68% |
| Pennsylvania | 394,075    | 4,785     | 1.21  | 1,521    | .39  |
| Mid-Atlantic | 1,202,227  | 9,762     | .81   | 2,660    | .22  |
| Other        | 69,297     | 1,729     | 2.50  | 720      | 1.04 |

|       |              |           |       |           |      |
|-------|--------------|-----------|-------|-----------|------|
| Total | \$ 2,621,881 | \$ 47,461 | 1.81% | \$ 11,428 | .44% |
|-------|--------------|-----------|-------|-----------|------|

---

**Table of Contents**

Information about past due and nonaccrual loans as of December 31, 2014 is also included in note 4 of Notes to Financial Statements.

Real estate and other foreclosed assets totaled \$64 million at December 31, 2014, compared with \$67 million at December 31, 2013 and \$104 million at December 31, 2012. The decline in real estate and other foreclosed assets during 2013 reflects sales of such assets. Gains or losses resulting from sales of real estate and other foreclosed assets were not material in 2014, 2013 or 2012. At December 31, 2014, the Company's holding of residential real estate-related properties comprised approximately 79% of foreclosed assets.

Management determined the allowance for credit losses by performing ongoing evaluations of the loan and lease portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications. Management evaluated the impact of changes in interest rates and overall economic conditions on the ability of borrowers to meet repayment obligations when quantifying the Company's exposure to credit losses and the allowance for such losses as of each reporting date. Factors also considered by management when performing its assessment, in addition to general economic conditions and the other factors described above, included, but were not limited to: (i) the impact of residential real estate values on the Company's portfolio of loans to residential real estate builders and developers and other loans secured by residential real estate; (ii) the concentrations of commercial real estate loans in the Company's loan portfolio; (iii) the amount of commercial and industrial loans to businesses in areas of New York State outside of the New York City metropolitan area and in central Pennsylvania that have historically experienced less economic growth and vitality than the vast majority of other regions of the country; (iv) the repayment performance associated with the Company's first and second lien loans secured by residential real estate; and (v) the size of the Company's portfolio of loans to individual consumers, which historically have experienced higher net charge-offs as a percentage of loans outstanding than other loan types. The level of the allowance is adjusted based on the results of management's analysis.

Management cautiously and conservatively evaluated the allowance for credit losses as of December 31, 2014 in light of: (i) residential real estate values and the level of delinquencies of loans secured by residential real estate; (ii) economic conditions in the markets served by the Company; (iii) continuing weakness in industrial employment in upstate New York and central Pennsylvania; (iv) the significant subjectivity involved in commercial real estate valuations; and (v) the amount of loan growth experienced by the Company. While there has been general improvement in economic conditions, concerns continue to exist about the strength and sustainability of such improvements; the troubled state of financial and credit markets, including the impact international economic conditions could have on the U.S. economy; Federal Reserve positioning of monetary policy; low levels of workforce participation; and continued stagnant population growth in the upstate New York and central Pennsylvania regions (approximately 60% of the Company's loans are to customers in New York State and Pennsylvania).

The Company utilizes a loan grading system which is applied to all commercial and commercial real estate loans. Loan grades are utilized to differentiate risk within the portfolio and consider the expectations of default for each loan. Commercial loans and commercial real estate loans with a lower expectation of default are assigned one of ten possible "pass" loan grades and are generally ascribed lower loss factors when determining the allowance for credit losses. Loans with an elevated level of credit risk are classified as "criticized" and are ascribed a higher loss factor when determining the allowance for credit losses. Criticized loans may be classified as "nonaccrual" if the Company no longer expects to collect all amounts according to the contractual terms of the loan agreement or the loan is delinquent 90 days or more. Criticized commercial loans and commercial real estate loans were \$1.8 billion at each of December 31, 2014 and 2013. Loan officers with the support of loan review personnel in different geographic locations are responsible to continuously review and reassign loan grades to pass and criticized loans based on their detailed knowledge of individual borrowers and their judgment of the impact on such borrowers resulting from changing conditions in their respective geographic regions. On a quarterly basis, the Company's centralized loan review department reviews all criticized commercial and commercial real estate loans greater than \$1 million to determine the appropriateness of the assigned loan grade, including whether the loan should be reported as accruing or nonaccruing. For criticized nonaccrual loans, additional meetings are held with loan officers and their managers, workout specialists and senior management to discuss each of the relationships. In analyzing criticized loans, borrower-specific information is reviewed, including operating results, future cash flows, recent developments and the borrower's outlook, and other pertinent data. The timing and extent of potential losses, considering collateral valuation and other factors, and the Company's potential

**Table of Contents**

courses of action are reviewed. To the extent that these loans are collateral-dependent, they are evaluated based on the fair value of the loan's collateral as estimated at or near the financial statement date. As the quality of a loan deteriorates to the point of classifying the loan as criticized, the process of obtaining updated collateral valuation information is usually initiated, unless it is not considered warranted given factors such as the relative size of the loan, the characteristics of the collateral or the age of the last valuation. In those cases where current appraisals may not yet be available, prior appraisals are utilized with adjustments, as deemed necessary, for estimates of subsequent declines in value as determined by line of business and/or loan workout personnel in the respective geographic regions. Those adjustments are reviewed and assessed for reasonableness by the Company's loan review department. Accordingly, for real estate collateral securing larger commercial and commercial real estate loans, estimated collateral values are based on current appraisals and estimates of value. For non-real estate loans, collateral is assigned a discounted estimated liquidation value and, depending on the nature of the collateral, is verified through field exams or other procedures. In assessing collateral, real estate and non-real estate values are reduced by an estimate of selling costs. With regard to residential real estate loans, the Company's loss identification and estimation techniques make reference to loan performance and house price data in specific areas of the country where collateral that was securing the Company's residential real estate loans was located. For residential real estate-related loans, including home equity loans and lines of credit, the excess of the loan balance over the net realizable value of the property collateralizing the loan is charged-off when the loan becomes 150 days delinquent. That charge-off is based on recent indications of value from external parties that are generally obtained shortly after a loan becomes nonaccrual. At December 31, 2014, approximately 55% of the Company's home equity portfolio consisted of first lien loans and lines of credit. Of the remaining junior lien loans in the portfolio, approximately 73% (or approximately 32% of the aggregate home equity portfolio) consisted of junior lien loans that were behind a first lien mortgage loan that was not owned or serviced by the Company. To the extent known by the Company, if a senior lien loan would be on nonaccrual status because of payment delinquency, even if such senior lien loan was not owned by the Company, the junior lien loan or line that is owned by the Company is placed on nonaccrual status. At December 31, 2014, the balance of junior lien loans and lines that were in nonaccrual status solely as a result of first lien loan performance was \$24 million, compared with \$30 million at December 31, 2013. In monitoring the credit quality of its home equity portfolio for purposes of determining the allowance for credit losses, the Company reviews delinquency and nonaccrual information and considers recent charge-off experience. Additionally, the Company generally evaluates home equity loans and lines of credit that are more than 150 days past due for collectibility on a loan-by-loan basis and the excess of the loan balance over the net realizable value of the property collateralizing the loan is charged-off at that time. In determining the amount of such charge-offs, if the Company does not know the amount of the remaining first lien mortgage loan (typically because the Company does not own or service the first lien loan), the Company assumes that the first lien mortgage loan has had no principal amortization since the origination of the junior lien loan. Similarly, data used in estimating incurred losses for purposes of determining the allowance for credit losses also assumes no reductions in outstanding principal of first lien loans since the origination of the junior lien loan. Home equity line of credit terms vary but such lines are generally originated with an open draw period of ten years followed by an amortization period of up to twenty years. At December 31, 2014, approximately 92% of all outstanding balances of home equity lines of credit related to lines that were still in the draw period, the weighted-average remaining draw periods were approximately five years, and approximately 17% were making contractually allowed payments that do not include any repayment of principal.

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

In determining the allowance for credit losses, the Company estimates losses attributable to specific troubled credits identified through both normal and detailed or intensified credit review processes and also estimates losses inherent in other loans and leases. In quantifying incurred losses, the Company considers the factors and uses the techniques described herein and in note 5 of Notes to Financial Statements. For purposes of determining the level of the allowance for credit losses, the Company segments its loan and lease

---

**Table of Contents**

portfolio by loan type. The amount of specific loss components in the Company's loan and lease portfolios is determined through a loan-by-loan analysis of commercial loans and commercial real estate loans in nonaccrual status. Measurement of the specific loss components is typically based on expected future cash flows, collateral values or other factors that may impact the borrower's ability to pay. Losses associated with residential real estate loans and consumer loans are generally determined by reference to recent charge-off history and are evaluated (and adjusted if deemed appropriate) through consideration of other factors including near-term forecasted loss estimates developed by the Company's credit department. These forecasts give consideration to overall borrower repayment performance and current geographic region changes in collateral values using third party published historical price indices or automated valuation methodologies. With regard to collateral values, the realizability of such values by the Company contemplates repayment of any first lien position prior to recovering amounts on a junior lien position. Approximately 45% of the Company's home equity portfolio consists of junior lien loans and lines of credit. Except for consumer loans and residential real estate loans that are considered smaller balance homogeneous loans and are evaluated collectively and loans obtained in acquisition transactions, the Company considers a loan to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts according to the contractual terms of the loan agreement or the loan is delinquent 90 days or more and has been placed in nonaccrual status. Those impaired loans are evaluated for specific loss components. Modified loans, including smaller balance homogeneous loans, that are considered to be troubled debt restructurings are evaluated for impairment giving consideration to the impact of the modified loan terms on the present value of the loan's expected cash flows. Loans less than 90 days delinquent are deemed to have a minimal delay in payment and are generally not considered to be impaired. Loans acquired in connection with acquisition transactions subsequent to 2008 were recorded at fair value with no carry-over of any previously recorded allowance for credit losses. Determining the fair value of the acquired loans required estimating cash flows expected to be collected on the loans and discounting those cash flows at then-current interest rates. The impact of estimated future credit losses represents the predominant difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition. Subsequent decreases to those expected cash flows require the Company to evaluate the need for an additional allowance for credit losses and could lead to charge-offs of acquired loan balances.

The inherent base level loss components of the Company's allowance for credit losses are generally determined by applying loss factors to specific loan balances based on loan type and management's classification of such loans under the Company's loan grading system. The Company utilizes a loan grading system which is applied to all commercial loans and commercial real estate loans. As previously described, loan officers are responsible for continually assigning grades to these loans based on standards outlined in the Company's Credit Policy. Internal loan grades are also extensively monitored by the Company's loan review department to ensure consistency and strict adherence to the prescribed standards. Loan balances utilized in the inherent base level loss component computations exclude loans and leases for which specific allocations are maintained. Loan grades are assigned loss component factors that reflect the Company's loss estimate for each group of loans and leases. Factors considered in assigning loan grades and loss component factors include borrower-specific information related to expected future cash flows and operating results, collateral values, financial condition, payment status, and other information; levels of and trends in portfolio charge-offs and recoveries; levels of and trends in portfolio delinquencies and impaired loans; changes in the risk profile of specific portfolios; trends in volume and terms of loans; effects of changes in credit concentrations; and observed trends and practices in the banking industry. In determining the allowance for credit losses, management also gives consideration to such factors as customer, industry and geographic concentrations, as well as national and local economic conditions, including: (i) the comparatively poorer economic conditions and unfavorable business climate in many market regions served by the Company, including upstate New York and central Pennsylvania, that result in such regions generally experiencing significantly poorer economic growth and vitality as compared with much of the rest of the country; (ii) portfolio concentrations regarding loan type, collateral type and geographic location, in particular the large concentrations of commercial real estate loans secured by properties in the New York City metropolitan area and other areas of New York State; and (iii) risk associated with the Company's portfolio of consumer loans, in particular automobile loans and leases, which generally have higher rates of loss than other types of collateralized loans.

The inherent base level loss components related to residential real estate loans and consumer loans are generally determined by applying loss factors to portfolio balances after consideration of payment performance and recent loss experience and trends, which are mainly driven by current collateral values in

---

**Table of Contents**

the market place as well as the amount of loan defaults. Loss rates for loans secured by residential real estate, including home equity loans and lines of credit, are determined by reference to recent charge-off history and are evaluated (and adjusted if deemed appropriate) through consideration of other factors as previously described.

In evaluating collateral, the Company relies on internally and externally prepared valuations. Residential real estate valuations are usually based on sales of comparable properties in the respective location. Commercial real estate valuations also refer to sales of comparable properties but oftentimes are based on calculations that utilize many assumptions and, as a result, can be highly subjective. Specifically, commercial real estate values can be significantly affected over relatively short periods of time by changes in business climate, economic conditions and interest rates, and, in many cases, the results of operations of businesses and other occupants of the real property. Additionally, management is aware that there is oftentimes a delay in the recognition of credit quality changes in loans and, as a result, in changes to assigned loan grades due to time delays in the manifestation and reporting of underlying events that impact credit quality. Accordingly, loss estimates derived from the inherent base level loss component computation are adjusted for current national and local economic conditions and trends. The Federal Reserve stated in January 2015 that economic activity is expanding at a solid pace with strong job gains and a lower unemployment rate. Economic indicators in the most significant market regions served by the Company continued to improve in 2014. For example, during 2014, private sector employment in most market areas served by the Company rose by 1.1%, but trailed the 2.2% U.S. average. Private sector employment in 2014 increased 0.6% in upstate New York, 0.7% in areas of Pennsylvania served by the Company, 0.8% in Maryland, 0.6% in Greater Washington D.C. and 2.7% in the State of Delaware. In New York City, private sector employment increased by 2.6% in 2014, however, unemployment rates there remain elevated and are expected to continue at above historical levels during 2015. The Federal Reserve continues to monitor inflation developments closely, and has hinted at wariness regarding slow global growth, a strong U.S. dollar and international market turbulence.

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

A comparative allocation of the allowance for credit losses for each of the past five year-ends is presented in table 15. Amounts were allocated to specific loan categories based on information available to management at the time of each year-end assessment and using the methodology described herein. Variations in the allocation of the allowance by loan category as a percentage of those loans reflect changes in management's estimate of specific loss components and inherent base level loss components, including the impact of delinquencies and nonaccrual loans. As described in note 5 of Notes to Financial Statements, loans considered impaired were \$762 million and \$889 million at December 31, 2014 and December 31, 2013, respectively. The allocated portion of the allowance for credit losses related to impaired loans totaled \$83 million at December 31, 2014 and \$93 million at December 31, 2013. The unallocated portion of the allowance for credit losses was equal to .11% and .12% of gross loans outstanding at December 31, 2014 and 2013, respectively. Considering the inherent imprecision in the many estimates used in the determination of the allocated portion of the allowance, management deliberately remained cautious and conservative in establishing the overall allowance for credit losses. Given the Company's high concentration of real estate loans and considering the other factors already discussed herein, management considers the allocated and unallocated portions of the allowance for credit losses to be prudent and reasonable. Furthermore, the Company's allowance is general in nature and is available to absorb losses from any loan or lease category. Additional information about the allowance for credit losses is included in note 5 of Notes to Financial Statements.

**Table of Contents****Table 15****ALLOCATION OF THE ALLOWANCE FOR CREDIT LOSSES TO LOAN CATEGORIES**

| December 31                          | 2014                   | 2013              | 2012              | 2011              | 2010              |
|--------------------------------------|------------------------|-------------------|-------------------|-------------------|-------------------|
|                                      | (Dollars in thousands) |                   |                   |                   |                   |
| Commercial, financial, leasing, etc. | \$ 288,038             | \$ 273,383        | \$ 246,759        | \$ 234,022        | \$ 212,579        |
| Real estate                          | 369,837                | 403,634           | 425,908           | 459,552           | 486,913           |
| Consumer                             | 186,033                | 164,644           | 179,418           | 143,121           | 133,067           |
| Unallocated                          | 75,654                 | 75,015            | 73,775            | 71,595            | 70,382            |
| <b>Total</b>                         | <b>\$ 919,562</b>      | <b>\$ 916,676</b> | <b>\$ 925,860</b> | <b>\$ 908,290</b> | <b>\$ 902,941</b> |

**As a Percentage of Gross Loans****and Leases Outstanding**

|                                      |       |       |       |       |       |
|--------------------------------------|-------|-------|-------|-------|-------|
| Commercial, financial, leasing, etc. | 1.47% | 1.45% | 1.37% | 1.47% | 1.56% |
| Real estate                          | 1.02  | 1.15  | 1.14  | 1.42  | 1.79  |
| Consumer                             | 1.70  | 1.60  | 1.55  | 1.19  | 1.16  |

Management believes that the allowance for credit losses at December 31, 2014 appropriately reflected credit losses inherent in the portfolio as of that date. The allowance for credit losses was \$920 million or 1.38% of total loans and leases at December 31, 2014, compared with \$917 million or 1.43% at December 31, 2013 and \$926 million or 1.39% at December 31, 2012. The ratio of the allowance to total loans and leases at each respective year-end reflects the impact of loans obtained in acquisition transactions subsequent to 2008 that have been recorded at estimated fair value based on estimated future cash flows expected to be received on those loans. Those cash flows reflect the impact of expected defaults on customer repayment performance. As noted earlier, GAAP prohibits any carry-over of an allowance for credit losses for acquired loans recorded at fair value. The decline in the ratio of the allowance to total loans and leases from December 31, 2013 to the 2014 year-end reflects the impact of improvement in the levels of criticized and nonaccrual loans, net charge-offs and overall repayment performance by customers. During 2013, the allowance for credit losses was reduced by \$11 million as a result of the \$1.4 billion automobile loan securitization previously noted. The increase in the ratio of the allowance to total loans and leases from the 2012 year-end to December 31, 2013 was largely due to the automobile loan securitization and the securitization of \$1.3 billion of FHA guaranteed residential real estate loans. The level of the allowance reflects management's evaluation of the loan and lease portfolio using the methodology and considering the factors as described herein. Should the various credit factors considered by management in establishing the allowance for credit losses change and should management's assessment of losses inherent in the loan portfolios also change, the level of the allowance as a percentage of loans could increase or decrease in future periods. The ratio of the allowance to nonaccrual loans at the end of 2014, 2013 and 2012 was 115%, 105% and 91%, respectively. Given the Company's position as a secured lender and its practice of charging-off loan balances when collection is deemed doubtful, that ratio and changes in that ratio are generally not an indicative measure of the adequacy of the Company's allowance for credit losses, nor does management rely upon that ratio in assessing the adequacy of the allowance. The level of the allowance reflects management's evaluation of the loan and lease portfolio as of each respective date.

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

For consumer loans and leases considered smaller balance homogenous loans and evaluated collectively, a 50 basis point increase in loss factors;

For residential real estate loans and home equity loans and lines of credit, also considered smaller balance homogenous loans and evaluated collectively, a 25% increase in estimated inherent losses; and

For commercial loans and commercial real estate loans, a migration of loans to lower-ranked risk grades resulting in a 25% increase in the balance of classified credits in each risk grade.

**Table of Contents**

For possible improvement in credit quality factors, the scenarios assumed were:

For consumer loans and leases, a 20 basis point decrease in loss factors;

For residential real estate loans and home equity loans and lines of credit, a 10% decrease in estimated inherent losses; and

For commercial loans and commercial real estate loans, a migration of loans to higher-ranked risk grades resulting in a 5% decrease in the balance of classified credits in each risk grade.

The scenario analyses resulted in an additional \$72 million that could be identifiable under the assumptions for credit deterioration, whereas under the assumptions for credit improvement a \$24 million reduction could occur. These examples are only a few of numerous reasonably possible scenarios that could be utilized in assessing the sensitivity of the allowance for credit losses based on changes in assumptions and other factors.

The Company had no concentrations of credit extended to any specific industry that exceeded 10% of total loans at December 31, 2014.

Outstanding loans to foreign borrowers were \$213 million at December 31, 2014, or .3% of total loans and leases.

**Other Income**

Other income totaled \$1.78 billion and \$1.87 billion in 2014 and 2013, respectively. Reflected in such income in 2013 were net gains on investment securities (including other-than-temporary impairment losses) of \$47 million. There were no gains or losses on investment securities in 2014. Also reflected in noninterest income in 2013 were gains from securitization activities of \$63 million. Excluding the specific items mentioned above, noninterest income in 2014 was up \$24 million from \$1.76 billion in 2013. Higher residential mortgage banking revenues and trust income in 2014 were partially offset by lower service charges on deposit accounts and trading account and foreign exchange gains.

Other income in 2013 was 12% higher than the \$1.67 billion earned in 2012. As noted above, reflected in other income in 2013 were net gains on bank investment securities of \$47 million, compared with net losses of \$48 million in 2012. Excluding the impact of securities gains and losses from both years and the \$63 million of gains from securitization activities in 2013, other income in 2013 was up \$40 million from \$1.72 billion in 2012. Higher levels of trust, brokerage services and credit card interchange income in 2013 were partially offset by lower mortgage banking revenues.

Mortgage banking revenues totaled \$363 million in 2014, \$331 million in 2013 and \$349 million in 2012. Mortgage banking revenues are comprised of both residential and commercial mortgage banking activities. The Company's involvement in commercial mortgage banking activities includes the origination, sales and servicing of loans under the multifamily loan programs of Fannie Mae, Freddie Mac and the U.S. Department of Housing and Urban Development.

Residential mortgage banking revenues, consisting of realized gains from sales of residential real estate loans and loan servicing rights, unrealized gains and losses on residential real estate loans held for sale and related commitments, residential real estate loan servicing fees, and other residential real estate loan-related fees and income, were \$287 million in 2014, \$251 million in 2013 and \$264 million in 2012. The increase in residential mortgage banking revenues from 2013 to 2014 reflected a significant increase in revenues from servicing residential real estate loans for others, partially offset by lower gains from origination activities due to decreased volumes of loans originated for sale. The decline in revenue from 2012 to 2013 was due to narrower margins on loans originated for sale.

New commitments to originate residential real estate loans to be sold totaled approximately \$3.2 billion in 2014, compared with \$5.6 billion in 2013 and \$5.1 billion in 2012. Included in those commitments to originate residential real estate loans to be sold were commitments of approximately \$337 million in 2014, \$1.1 billion in 2013 and \$1.8 billion in 2012 related to the U.S. government's Home Affordable Refinance Program (HARP 2.0), which began in December 2011 and allows homeowners to refinance their Fannie Mae or Freddie Mac mortgages when the value of their home has fallen such that they have little or no equity. The HARP 2.0 program was set to expire December 31, 2013, but was extended and will now be available to borrowers through December 31, 2015. Nevertheless, volumes associated with that program have declined since mid-2013. Realized gains from sales of residential real estate loans and loan servicing rights (net of the impact of costs associated with obligations to repurchase real estate loans originated for sale) and recognized net unrealized gains or losses attributable to residential real estate loans held for sale, commitments to originate loans for sale and commitments to sell loans totaled to a gain of \$75 million in 2014, compared with gains of \$123 million in 2013 and \$157 million in 2012.

## Table of Contents

The Company is contractually obligated to repurchase previously sold loans that do not ultimately meet investor sale criteria related to underwriting procedures or loan documentation. When required to do so, the Company may reimburse loan purchasers for losses incurred or may repurchase certain loans. The Company reduces residential mortgage banking revenues for losses related to its obligations to loan purchasers. The amount of those charges varies based on the volume of loans sold, the level of reimbursement requests received from loan purchasers and estimates of losses that may be associated with previously sold loans. Residential mortgage banking revenues during 2014, 2013 and 2012 were reduced by approximately \$4 million, \$17 million and \$28 million, respectively, related to the actual or anticipated settlement of repurchase obligations.

Loans held for sale that are secured by residential real estate totaled \$435 million and \$401 million at December 31, 2014 and 2013, respectively. Commitments to sell residential real estate loans and commitments to originate residential real estate loans for sale at pre-determined rates were \$717 million and \$432 million, respectively, at December 31, 2014, \$725 million and \$470 million, respectively, at December 31, 2013 and \$2.3 billion and \$1.6 billion, respectively, at December 31, 2012. Net recognized unrealized gains on residential real estate loans held for sale, commitments to sell loans and commitments to originate loans for sale were \$19 million and \$20 million at December 31, 2014 and 2013, respectively, and \$83 million at December 31, 2012. Changes in such net unrealized gains and losses are recorded in mortgage banking revenues and resulted in net decreases in revenue of \$1 million and \$63 million in 2014 and 2013, respectively, and a net increase in revenue of \$77 million in 2012.

Revenues from servicing residential real estate loans for others rose to \$212 million in 2014, up from \$128 million in 2013 and \$107 million in 2012. Residential real estate loans serviced for others totaled \$67.2 billion at December 31, 2014, \$72.4 billion a year earlier and \$35.9 billion at December 31, 2012 and included certain small-balance commercial real estate loans. Reflected in residential real estate loans serviced for others were loans sub-serviced for others of \$42.1 billion, \$46.6 billion and \$12.5 billion at December 31, 2014, 2013 and 2012, respectively. Revenues earned for sub-servicing loans were \$116 million in 2014, \$35 million in 2013 and \$12 million in 2012. The contractual servicing rights associated with loans sub-serviced by the Company were predominantly held by affiliates of Bayview Lending Group LLC ( BLG ). During the third quarter of 2013, the Company added approximately \$38 billion of residential real estate loans to its portfolio of loans sub-serviced for affiliates of BLG. Capitalized residential mortgage servicing assets, net of any applicable valuation allowance for possible impairment, totaled \$111 million at December 31, 2014, compared with \$129 million and \$108 million at December 31, 2013 and 2012, respectively. Included in capitalized residential mortgage servicing assets noted above were purchased servicing rights associated with the small-balance commercial real estate loans. Additional information about the Company's capitalized residential mortgage servicing assets, including information about the calculation of estimated fair value, is presented in note 7 of Notes to Financial Statements.

Commercial mortgage banking revenues were \$76 million in 2014, \$80 million in 2013 and \$85 million in 2012. Included in such amounts were revenues from loan origination and sales activities of \$41 million in 2014, \$48 million in 2013 and \$59 million in 2012. Commercial real estate loans originated for sale to other investors totaled approximately \$1.5 billion in 2014, compared with \$1.9 billion in 2013 and \$2.5 billion in 2012. Loan servicing revenues totaled \$35 million in 2014, \$32 million in 2013 and \$26 million in 2012. Capitalized commercial mortgage servicing assets aggregated \$73 million at December 31, 2014, \$72 million at December 31, 2013 and \$60 million at December 31, 2012. Commercial real estate loans serviced for other investors totaled \$11.3 billion at December 31, 2014, \$11.4 billion at December 31, 2013 and \$10.6 billion at December 31, 2012, and included \$2.4 billion, \$2.3 billion and \$2.0 billion, respectively, of loan balances for which investors had recourse to the Company if such balances are ultimately uncollectible. Commitments to sell commercial real estate loans and commitments to originate commercial real estate loans for sale were \$520 million and \$212 million, respectively, at December 31, 2014, \$130 million and \$62 million, respectively, at December 31, 2013 and \$340 million and \$140 million, respectively, at December 31, 2012. Commercial real estate loans held for sale totaled \$308 million, \$68 million and \$200 million at December 31, 2014, 2013 and 2012, respectively.

Service charges on deposit accounts were \$428 million in 2014, compared with \$447 million in each of 2013 and 2012. The decline from 2013 to 2014 resulted from lower consumer service charges, largely overdraft fees and ATM interchange fees.

Trust income includes fees related to two significant businesses. The Institutional Client Services ( ICS ) business provides a variety of trustee, agency, investment management and administrative services for corporations and institutions, investment bankers, corporate tax, finance and legal executives, and other

**Table of Contents**

institutional clients who: (i) use capital markets financing structures; (ii) use independent trustees to hold retirement plan and other assets; and (iii) need investment and cash management services. The Wealth Advisory Services ( WAS ) business helps high net worth clients grow their wealth, protect it, and transfer it to their heirs. A comprehensive array of wealth management services are offered, including asset management, fiduciary services and family office services. Trust income increased to \$508 million in 2014 from \$496 million in 2013 and \$472 million in 2012. Revenues attributable to the ICS business were approximately \$244 million in 2014 and \$234 million in 2013. Revenues attributable to WAS were approximately \$224 million and \$214 million in 2014 and 2013, respectively. Prior to 2013, certain other trust operations of the Company were not combined with the respective ICS and WAS activities. Revenues associated with the ICS and WAS businesses in 2012 were \$193 million and \$153 million, respectively. Total trust assets, which include assets under management and assets under administration, aggregated \$287.9 billion at December 31, 2014, compared with \$266.1 billion at December 31, 2013. Trust assets under management were \$68.2 billion and \$65.1 billion at December 31, 2014 and 2013, respectively. The Company's proprietary mutual funds had assets of \$13.3 billion and \$12.7 billion at December 31, 2014 and 2013, respectively. The Company has agreed to sell in 2015 the trade processing business of a subsidiary of Wilmington Trust, N.A. Revenues related to that business reflected in trust income (in the ICS business) during 2014, 2013 and 2012 were approximately \$40 million, \$45 million and \$52 million, respectively. After considering related expenses, including the portion of those revenues paid to sub-advisors, net income attributable to the business being sold during those years was not material to the consolidated results of operations of the Company. The Company expects to realize a gain from the sale.

Brokerage services income, which includes revenues from the sale of mutual funds and annuities and securities brokerage fees, totaled \$67 million in 2014, \$66 million in 2013 and \$59 million in 2012. The increase over the past two years reflects higher sales of annuity products. Trading account and foreign exchange activity resulted in gains of \$30 million in 2014, \$41 million in 2013 and \$36 million in 2012. The variation in such gains from 2012 through 2014 largely reflects changes in the interest rate swap transactions executed on behalf of commercial customers. The decline in those gains in 2014 was also due to decreased market values of trading account assets held in connection with deferred compensation arrangements. The Company enters into interest rate and foreign exchange contracts with customers who need such services and concomitantly enters into offsetting trading positions with third parties to minimize the risks involved with these types of transactions. Information about the notional amount of interest rate, foreign exchange and other contracts entered into by the Company for trading account purposes is included in note 18 of Notes to Financial Statements and herein under the heading Liquidity, Market Risk, and Interest Rate Sensitivity.

Including other-than-temporary impairment losses, the Company recognized net gains on investment securities of \$47 million during 2013, compared with net losses of \$48 million in 2012. There were no gains or losses on investment securities in 2014. During 2013, the Company sold its holdings of Visa Class B shares for a gain of approximately \$90 million and its holdings of MasterCard Class B shares for a gain of \$13 million. The shares of Visa and MasterCard were sold as a result of favorable market conditions and to enhance the Company's capital and liquidity. In addition, the Company sold substantially all of its privately issued mortgage-backed securities held in the available-for-sale investment securities portfolio. In total, \$1.0 billion of such securities were sold for a net loss of approximately \$46 million. The mortgage-backed securities were sold to reduce the Company's exposure to such relatively higher risk securities in favor of lower risk Ginnie Mae securities in response to changing regulatory capital and liquidity standards. Realized gains and losses from sales of investment securities were not significant in 2012. Other-than-temporary impairment losses of \$10 million and \$48 million were recorded in 2013 and 2012, respectively. Those losses related to a subset of the privately issued mortgage-backed securities that were sold in 2013. There were no other-than-temporary impairment losses in 2014. Each reporting period the Company reviews its investment securities for other-than-temporary impairment. For equity securities, the Company considers various factors to determine if the decline in value is other than temporary, including the duration and extent of the decline in value, the factors contributing to the decline in fair value, including the financial condition of the issuer as well as the conditions of the industry in which it operates, and the prospects for a recovery in fair value of the equity security. For debt securities, the Company analyzes the creditworthiness of the issuer or reviews the credit performance of the underlying collateral supporting the bond. For debt securities backed by pools of loans, such as privately issued mortgage-backed securities, the Company estimates the cash flows of the underlying loan collateral using forward-looking assumptions for default rates, loss severities and prepayment speeds. Estimated collateral cash flows are then utilized to estimate

## **Table of Contents**

bond-specific cash flows to determine the ultimate collectibility of the bond. If the present value of the cash flows indicates that the Company should not expect to recover the entire amortized cost basis of a bond or if the Company intends to sell the bond or it more likely than not will be required to sell the bond before recovery of its amortized cost basis, an other-than-temporary impairment loss is recognized. If an other-than-temporary impairment loss is deemed to have occurred, the investment security's cost basis is adjusted, as appropriate for the circumstances. Additional information about other-than-temporary impairment losses is included herein under the heading "Capital."

M&T's share of the operating losses of BLG was \$17 million in 2014, compared with \$16 million and \$22 million in 2013 and 2012, respectively. The operating losses of BLG in the respective years reflect provisions for losses associated with securitized loans and other loans held by BLG and loan servicing and other administrative costs. Under GAAP, such losses are required to be recognized by BLG despite the fact that many of the securitized loan losses will ultimately be borne by the underlying third party bond holders. As these loan losses are realized through later foreclosure and still later sale of real estate collateral, the underlying bonds will be charged-down leading to BLG's future recognition of debt extinguishment gains. The timing of such debt extinguishment is difficult to predict and given ongoing loan loss provisioning, it is not possible to project when BLG will return to profitability. As a result of credit and liquidity disruptions, BLG ceased its originations of small-balance commercial real estate loans in 2008. However, as a result of past securitization activities, BLG is entitled to cash flows from mortgage assets that it owns or that are owned by its affiliates and is also entitled to receive distributions from affiliates that provide asset management and other services. Accordingly, the Company believes that BLG is capable of realizing positive cash flows that could be available for distribution to its owners, including M&T, despite a lack of positive GAAP-earnings from its core mortgage activities. To this point, BLG's affiliates have largely reinvested their earnings to generate additional servicing and asset management activities, further contributing to the value of those affiliates. Information about the Company's relationship with BLG and its affiliates is included in note 24 of Notes to Financial Statements.

Other revenues from operations totaled \$400 million in 2014, compared with \$454 million in 2013 and \$374 million in 2012. Reflected in such revenues in 2013 were gains from securitization transactions of \$63 million. During 2013, the Company securitized approximately \$1.3 billion of one-to-four family residential real estate loans held in the Company's loan portfolio in guaranteed mortgage securitizations with Ginnie Mae and recognized gains of \$42 million. In addition, during the third quarter of 2013 the Company securitized and sold approximately \$1.4 billion of automobile loans held in its loan portfolio, resulting in a gain of \$21 million. The Company securitized those loans to improve its regulatory capital ratios and strengthen its liquidity and risk profile as a result of changing regulatory requirements. Loan servicing fees associated with the mortgage loan securitizations are included in mortgage banking revenues, but servicing fees associated with the automobile loan securitization are included in other revenues from operations. Reflecting a full year of activity in 2014, those latter fees increased \$7 million from 2013.

Included in other revenues from operations were the following significant components. Letter of credit and other credit-related fees were \$129 million, \$132 million and \$127 million in 2014, 2013 and 2012, respectively. Tax-exempt income earned from bank owned life insurance totaled \$50 million in 2014, compared with \$56 million in 2013 and \$51 million in 2012. Such income includes increases in cash surrender value of life insurance policies and benefits received. Revenues from merchant discount and credit card fees were \$96 million in 2014, \$84 million in 2013 and \$77 million in 2012. The continued trend of higher revenues in 2014 and 2013 was largely attributable to increased transaction volumes related to merchant activity and usage of the Company's credit card products. Insurance-related sales commissions and other revenues totaled \$42 million in each of 2014 and 2013, compared with \$44 million in 2012. Automated teller machine usage fees aggregated \$15 million, \$17 million and \$19 million in 2014, 2013 and 2012, respectively.

### **Other Expense**

Other expense totaled \$2.74 billion in 2014, compared with \$2.64 billion in 2013 and \$2.51 billion in 2012. Included in such amounts are expenses considered to be nonoperating in nature consisting of amortization of core deposit and other intangible assets of \$34 million, \$47 million and \$61 million in 2014, 2013 and 2012, respectively, and merger-related expenses of \$12 million in 2013 and \$10 million in 2012. Exclusive of those nonoperating expenses, noninterest operating expenses aggregated \$2.71 billion in 2014, \$2.58 billion in 2013 and \$2.44 billion in 2012. The increase in such expenses in 2014 as compared with 2013 was largely attributable to higher costs for professional services and salaries associated with BSA/AML activities, compliance, capital planning and stress-testing, and risk management initiatives, partially offset by lower FDIC assessments. The rise in noninterest operating expenses in 2013 as compared with 2012 was also largely attributable to higher costs for professional services and salaries, partially offset by lower FDIC

**Table of Contents**

assessments and the reversal in 2013 of a \$26 million accrual for a contingent compensation obligation assumed in the May 2011 acquisition of Wilmington Trust that expired. In addition, the Company reached a legal settlement of a lawsuit related to issues that were alleged to occur at Wilmington Trust prior to its acquisition by M&T that led to a \$40 million litigation-related accrual as of December 31, 2013.

Salaries and employee benefits expense in 2014 aggregated \$1.40 billion, compared with \$1.36 billion and \$1.31 billion in 2013 and 2012, respectively. The increase in such expenses in 2014 as compared with 2013 was primarily due to costs involving the Company's initiatives related to BSA/AML activities, compliance, capital planning and stress testing, and risk management. The rise in salaries and employee benefits expense in 2013 from 2012 was predominantly due to higher salaries expenses that reflected an increase in the Company's loan servicing capacity to accommodate sub-servicing arrangements entered into during 2013 and costs related to the operational initiatives noted above. The higher expenses in 2014 and 2013 were partially offset by lower pension-related costs. Stock-based compensation totaled \$65 million in 2014, \$55 million in 2013 and \$57 million in 2012. The number of full-time equivalent employees was 15,312 at December 31, 2014, compared with 15,368 and 14,404 at December 31, 2013 and 2012, respectively.

The Company provides pension and other postretirement benefits (including a retirement savings plan) for its employees. Expenses related to such benefits totaled \$63 million in 2014, \$87 million in 2013 and \$105 million in 2012. The Company sponsors both defined benefit and defined contribution pension plans. Pension benefit expense for those plans was \$28 million in 2014, \$53 million in 2013 and \$69 million in 2012. Included in those amounts are \$22 million in 2014, \$21 million in 2013 and \$17 million in 2012 for a defined contribution pension plan that the Company began on January 1, 2006. The decline in pension and other postretirement benefits expense in 2014 as compared with 2013 was largely reflective of a \$27 million decrease in amortization of actuarial losses accumulated in the defined benefit pension plans. The decline in pension and other postretirement benefits expense in 2013 as compared with 2012 reflects the impact on the qualified defined benefit pension plan of favorable investment returns and higher balances of invested assets. The Company made a \$200 million contribution to that plan in the third quarter of 2012. No contributions were required or made to the qualified defined benefit pension plan in 2014 or 2013. The determination of pension expense and the recognition of net pension assets and liabilities for defined benefit pension plans requires management to make various assumptions that can significantly impact the actuarial calculations related thereto. Those assumptions include the expected long-term rate of return on plan assets, the rate of increase in future compensation levels and the discount rate. Changes in any of those assumptions will impact the Company's pension expense. The expected long-term rate of return assumption is determined by taking into consideration asset allocations, historical returns on the types of assets held and current economic factors. Returns on invested assets are periodically compared with target market indices for each asset type to aid management in evaluating such returns. The discount rate used by the Company to determine the present value of the Company's future benefit obligations reflects specific market yields for a hypothetical portfolio of highly rated corporate bonds that would produce cash flows similar to the Company's benefit plan obligations and the level of market interest rates in general as of the year-end. In addition, in 2014 the Society of Actuaries released new mortality tables that were used in the determination of the benefit obligation as of December 31, 2014. The impact of that revision was to increase the benefit obligations of the qualified and non-qualified defined benefit pension plans by approximately \$122 million and \$10 million, respectively. Other factors used to estimate the projected benefit obligations include actuarial assumptions for turnover rate, retirement age and disability rate. Those other factors do not tend to change significantly over time. The Company reviews its pension plan assumptions annually to ensure that such assumptions are reasonable and adjusts those assumptions, as necessary, to reflect changes in future expectations. The Company utilizes actuaries and others to aid in that assessment.

The Company's 2014 pension expense for its defined benefit plans was determined using the following assumptions: a long-term rate of return on assets of 6.50%; a rate of future compensation increase of 4.42%; and a discount rate of 4.75%. To demonstrate the sensitivity of pension expense to changes in the Company's pension plan assumptions, 25 basis point increases in: the rate of return on plan assets would have resulted in a decrease in pension expense of \$4 million; the rate of increase in compensation would have resulted in an increase in pension expense of \$300,000; and the discount rate would have resulted in a decrease in pension expense of \$6 million. Decreases of 25 basis points in those assumptions would have resulted in similar changes in amount, but in the opposite direction from the changes presented in the preceding sentence. The accounting guidance for defined benefit pension plans reflects the long-term nature of benefit obligations and the investment horizon of plan assets, and has the effect of reducing expense

---

**Table of Contents**

volatility related to short-term changes in interest rates and market valuations. Actuarial gains and losses include the impact of plan amendments, in addition to various gains and losses resulting from changes in assumptions and investment returns which are different from that which was assumed. As of December 31, 2014, the Company had cumulative unrecognized actuarial losses of approximately \$512 million that could result in an increase in the Company's future pension expense depending on several factors, including whether such losses at each measurement date exceed ten percent of the greater of the projected benefit obligation or the market-related value of plan assets. In accordance with GAAP, net unrecognized gains or losses that exceed that threshold are required to be amortized over the expected service period of active employees, and are included as a component of net pension cost. Amortization of those net unrealized losses had the effect of increasing the Company's pension expense by approximately \$14 million in 2014, \$41 million in 2013 and \$37 million in 2012. The increase in the cumulative unrecognized actuarial losses from \$191 million at December 31, 2013 is predominantly attributable to a 75 basis point reduction in the discount rate and the revised mortality tables used to determine the benefit obligation as of December 31, 2014.

GAAP requires an employer to recognize in its balance sheet as an asset or liability the overfunded or underfunded status of a defined benefit postretirement plan, measured as the difference between the fair value of plan assets and the benefit obligation. For a pension plan, the benefit obligation is the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation is the accumulated postretirement benefit obligation. Gains or losses and prior service costs or credits that arise during the period, but are not included as components of net periodic benefit cost, are to be recognized as a component of other comprehensive income. As of December 31, 2014, the combined benefit obligations of the Company's defined benefit postretirement plans exceeded the fair value of the assets of such plans by approximately \$375 million. Of that amount, \$203 million was related to the non-qualified pension and other postretirement benefit plans that are generally not funded until benefits are paid. In the Company's qualified defined benefit pension plan, the projected benefit obligation exceeded the fair value of assets by approximately \$172 million as of December 31, 2014. At the prior year-end, the fair value of that plan's assets exceeded the projected benefit obligation by approximately \$140 million. Relative to that plan, the main factors contributing to the change in the funded status were the decrease in the discount rate used to measure the projected benefit obligations to 4.00% at December 31, 2014 from 4.75% at December 31, 2013 and the use of the newly updated actuarial mortality tables issued by the Society of Actuaries reflecting longer life expectancy of the plan's participants. The Company was required to have a net pension and postretirement benefit liability for the pension and other postretirement benefit plans that was equal to \$375 million at December 31, 2014. Accordingly, as of December 31, 2014 the Company recorded an additional postretirement benefit adjustment of \$503 million. After applicable tax effect, that adjustment reduced accumulated other comprehensive income (and thereby shareholders' equity) by \$306 million. The result of this was a year-over-year increase of \$341 million to the additional minimum postretirement benefit liability from the \$162 million recorded at December 31, 2013. After applicable tax effect, the \$341 million increase in the additional required liability adjustment decreased other comprehensive income in 2014 by \$207 million from the prior year-end amount of \$98 million. As previously noted, the decrease in the discount rate and the use of the newly updated mortality tables reflecting longer life expectancy of the plan's participants were the predominant factors leading to the change in the minimum liability from December 31, 2013. In determining the benefit obligation for defined benefit postretirement plans the Company used a discount rate of 4.00% at December 31, 2014 and 4.75% at December 31, 2013. A 25 basis point decrease in the assumed discount rate as of December 31, 2014 to 3.75% would have resulted in increases in the combined benefit obligations of all defined benefit postretirement plans (including pension and other plans) of \$73 million. Under that scenario, the minimum postretirement liability adjustment at December 31, 2014 would have been \$576 million, rather than the \$503 million that was actually recorded, and the corresponding after tax-effect charge to accumulated other comprehensive income at December 31, 2014 would have been \$350 million, rather than the \$306 million that was actually recorded. A 25 basis point increase in the assumed discount rate to 4.25% would have decreased the combined benefit obligations of all defined benefit postretirement plans by \$69 million. Under this latter scenario, the aggregate minimum liability adjustment at December 31, 2014 would have been \$434 million rather than the \$503 million actually recorded and the corresponding after tax-effect charge to accumulated other comprehensive income would have been \$264 million rather than \$306 million. Information about the Company's pension plans, including significant assumptions utilized in completing actuarial calculations for the plans, is included in note 12 of Notes to Financial Statements.

---

**Table of Contents**

The Company also provides a retirement savings plan ( RSP ) that is a defined contribution plan in which eligible employees of the Company may defer up to 50% of qualified compensation via contributions to the plan. The Company makes an employer matching contribution in an amount equal to 75% of an employee's contribution, up to 4.5% of the employee's qualified compensation. RSP expense totaled \$32 million in each of 2014 and 2013, and \$31 million in 2012.

Expenses associated with the defined benefit and defined contribution pension plans and the RSP totaled \$60 million in 2014, \$85 million in 2013 and \$100 million in 2012. Expenses associated with providing medical and other postretirement benefits were \$2 million in each of 2014 and 2013, and \$5 million in 2012.

Excluding the nonoperating expense items already noted, nonpersonnel operating expenses totaled \$1.30 billion in 2014, compared with \$1.22 billion in 2013. The higher level of such expenses was predominantly the result of increased costs for professional services, reflecting the Company's investments in BSA/AML activities, compliance, capital planning and stress testing, risk management, and other operational initiatives. Those higher expenses were partially offset by lower FDIC assessments. Nonpersonnel operating expenses were \$1.13 billion in 2012. Higher expenses in 2013 were largely associated with the initiatives noted above and the previously noted \$40 million increase in the litigation-related accrual, partially offset by lower FDIC assessments and the reversal of the contingent compensation accrual related to Wilmington Trust.

**Income Taxes**

The provision for income taxes was \$523 million in each of 2014 and 2012 and \$579 million in 2013. The effective tax rates were 32.9% in 2014 and 33.7% in each of 2013 and 2012. During the second quarter of 2014, the Company resolved with tax authorities previously uncertain tax positions associated with pre-acquisition activities of M&T's Wilmington Trust entities, resulting in a reduction of the provision for income taxes of \$8 million. Excluding that reduction of income tax expense, the effective tax rate for 2014 would have been 33.4%. The effective tax rate is affected by the level of income earned that is exempt from tax relative to the overall level of pre-tax income, the level of income allocated to the various state and local jurisdictions where the Company operates, because tax rates differ among such jurisdictions, and the impact of any large but infrequently occurring items.

The Company's effective tax rate in future periods will be affected by the results of operations allocated to the various tax jurisdictions within which the Company operates, any change in income tax laws or regulations within those jurisdictions, and interpretations of income tax regulations that differ from the Company's interpretations by any of various tax authorities that may examine tax returns filed by M&T or any of its subsidiaries. Information about amounts accrued for uncertain tax positions and a reconciliation of income tax expense to the amount computed by applying the statutory federal income tax rate to pre-tax income is provided in note 13 of Notes to Financial Statements.

**International Activities**

The Company's net investment in international assets totaled \$232 million at December 31, 2014 and \$226 million at December 31, 2013. Such assets included \$213 million and \$192 million, respectively, of loans to foreign borrowers. Deposits in the Company's office in the Cayman Islands totaled \$177 million at December 31, 2014 and \$323 million at December 31, 2013. The Company uses such deposits to facilitate customer demand and as an alternative to short-term borrowings when the costs of such deposits seem reasonable. Loans and deposits at M&T Bank's commercial branch in Ontario, Canada as of December 31, 2014 were \$93 million and \$41 million, respectively, compared with \$94 million and \$25 million, respectively, at December 31, 2013. The Company also offers trust-related services in Europe and the Cayman Islands. Revenues from providing such services during 2014, 2013 and 2012 were approximately \$31 million, \$26 million and \$24 million, respectively.

**Liquidity, Market Risk, and Interest Rate Sensitivity**

As a financial intermediary, the Company is exposed to various risks, including liquidity and market risk. Liquidity refers to the Company's ability to ensure that sufficient cash flow and liquid assets are available to satisfy current and future obligations, including demands for loans and deposit withdrawals, funding operating costs, and other corporate purposes. Liquidity risk arises whenever the maturities of financial instruments included in assets and liabilities differ.

---

**Table of Contents**

The most significant source of funding for the Company is core deposits, which are generated from a large base of consumer, corporate and institutional customers. That customer base has, over the past several years, become more geographically diverse as a result of acquisitions and expansion of the Company's businesses. Nevertheless, the Company faces competition in offering products and services from a large array of financial market participants, including banks, thrifts, mutual funds, securities dealers and others. Core deposits financed 83% of the Company's earning assets at December 31, 2014, compared with 88% and 86% at December 31, 2013 and 2012, respectively.

The Company supplements funding provided through core deposits with various short-term and long-term wholesale borrowings, including federal funds purchased and securities sold under agreements to repurchase, brokered deposits, Cayman Islands office deposits and longer-term borrowings. At December 31, 2014, M&T Bank had short-term and long-term credit facilities with the FHLBs aggregating \$8.1 billion. Outstanding borrowings under FHLB credit facilities totaled \$1.2 billion and \$29 million at December 31, 2014 and 2013, respectively. Such borrowings were secured by loans and investment securities. During the second quarter of 2014, M&T Bank borrowed approximately \$1.1 billion from the FHLB of New York. Those borrowings were split between three-year and five-year terms at fixed rates of interest. M&T Bank and Wilmington Trust, N.A. had available lines of credit with the Federal Reserve Bank of New York that aggregated approximately \$13.1 billion at December 31, 2014. The amounts of those lines are dependent upon the balances of loans and securities pledged as collateral. There were no borrowings outstanding under such lines of credit at December 31, 2014 or December 31, 2013. During the first quarter of 2013, M&T Bank instituted a Bank Note Program whereby M&T Bank may issue unsecured senior and subordinated notes. Notes issued under that program aggregated \$4.0 billion and \$800 million at December 31, 2014 and 2013, respectively. In addition, in February 2015 M&T Bank issued an additional \$1.5 billion of fixed rate senior notes, of which \$750 million mature in 2020 and \$750 million mature in 2025.

From time to time, the Company has issued subordinated capital notes and junior subordinated debentures associated with trust preferred securities to provide liquidity and enhance regulatory capital ratios. Such notes generally qualify under the Federal Reserve Board's current risk-based capital guidelines for inclusion in the Company's capital. However, pursuant to the Dodd-Frank Act, the Company's junior subordinated debentures associated with trust preferred securities will be phased-out of the definition of Tier 1 capital. Effective January 1, 2015, 75% of such securities are excluded from the Company's Tier 1 capital, and beginning January 1, 2016, 100% will be excluded. The amounts excluded from Tier 1 capital are includable in total capital. Information about the Company's borrowings is included in note 9 of Notes to Financial Statements. In February 2014, the Company redeemed \$350 million of 8.50% junior subordinated debentures associated with trust preferred securities and issued \$350 million of preferred stock that qualifies as regulatory capital.

The Company has informal and sometimes reciprocal sources of funding available through various arrangements for unsecured short-term borrowings from a wide group of banks and other financial institutions. Short-term federal funds borrowings were \$135 million and \$169 million at December 31, 2014 and 2013, respectively. In general, those borrowings were unsecured and matured on the next business day. In addition to satisfying customer demand, Cayman Islands office deposits may be used by the Company as an alternative to short-term borrowings. Cayman Islands office deposits totaled \$177 million and \$323 million at December 31, 2014 and 2013, respectively. The Company has brokered NOW and brokered money-market deposit accounts which totaled \$1.1 billion and \$1.0 billion at December 31, 2014 and 2013, respectively. Brokered time deposits were not a significant source of funding as of those dates.

The Company's ability to obtain funding from these or other sources could be negatively impacted should the Company experience a substantial deterioration in its financial condition or its debt ratings, or should the availability of short-term funding become restricted due to a disruption in the financial markets. The Company attempts to quantify such credit-event risk by modeling scenarios that estimate the liquidity impact resulting from a short-term ratings downgrade over various grading levels. Such impact is estimated by attempting to measure the effect on available unsecured lines of credit, available capacity from secured borrowing sources and securitizable assets. Information about the credit ratings of M&T and M&T Bank is presented in table 16. Additional information regarding the terms and maturities of all of the Company's short-term and long-term borrowings is provided in note 9 of Notes to Financial Statements. In addition to deposits and borrowings, other sources of liquidity include maturities of investment securities and other earning assets, repayments of loans and investment securities, and cash generated from operations, such as fees collected for services.

**Table of Contents****Table 16****DEBT RATINGS**

|                      | Moody's | Standard and Poor's | Fitch |
|----------------------|---------|---------------------|-------|
| M&T Bank Corporation |         |                     |       |
| Senior debt          | A3      | A                   | A     |
| Subordinated debt    | Baa1    | BBB+                | BBB+  |
| M&T Bank             |         |                     |       |
| Short-term deposits  | Prime-1 | A-1                 | F1    |
| Long-term deposits   | A2      | A                   | A     |
| Senior debt          | A2      | A                   | A     |
| Subordinated debt    | A3      | A                   | BBB+  |

Certain customers of the Company obtain financing through the issuance of variable rate demand bonds ( VRDBs ). The VRDBs are generally enhanced by letters of credit provided by M&T Bank. M&T Bank oftentimes acts as remarketing agent for the VRDBs and, at its discretion, may from time-to-time own some of the VRDBs while such instruments are remarketed. When this occurs, the VRDBs are classified as trading account assets in the Company's consolidated balance sheet. Nevertheless, M&T Bank is not contractually obligated to purchase the VRDBs. There were no VRDBs in the Company's trading account at December 31, 2014, while the value of VRDBs in the Company's trading account at December 31, 2013 totaled \$25 million. The total amount of VRDBs outstanding backed by M&T Bank letters of credit was \$2.0 billion and \$1.7 billion at December 31, 2014 and 2013, respectively. M&T Bank also serves as remarketing agent for most of those bonds.

**Table 17****MATURITY DISTRIBUTION OF SELECTED LOANS(a)**

| December 31, 2014                     | Demand              | 2015                | 2016-2019           | After 2019          |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                       |                     | (In thousands)      |                     |                     |
| Commercial, financial, etc.           | \$ 6,811,488        | \$ 2,876,207        | \$ 7,528,436        | \$ 890,316          |
| Real estate construction              | 337,772             | 2,132,485           | 2,180,564           | 311,342             |
| <b>Total</b>                          | <b>\$ 7,149,260</b> | <b>\$ 5,008,692</b> | <b>\$ 9,709,000</b> | <b>\$ 1,201,658</b> |
| Floating or adjustable interest rates |                     |                     | \$ 8,166,968        | \$ 853,349          |
| Fixed or predetermined interest rates |                     |                     | 1,542,032           | 348,309             |
| <b>Total</b>                          |                     |                     | <b>\$ 9,709,000</b> | <b>\$ 1,201,658</b> |

(a) The data do not include nonaccrual loans.

The Company enters into contractual obligations in the normal course of business which require future cash payments. The contractual amounts and timing of those payments as of December 31, 2014 are summarized in table 18. Off-balance sheet commitments to customers may impact liquidity, including commitments to extend credit, standby letters of credit, commercial letters of credit, financial guarantees and indemnification contracts, and commitments to sell real estate loans. Because many of these commitments or contracts expire without being funded in whole or in part, the contract amounts are not necessarily indicative of future cash flows. Further discussion of these commitments is provided in note 21 of Notes to Financial Statements. Table 18 summarizes the Company's other commitments as of December 31, 2014 and the timing of the expiration of such commitments.



**Table of Contents****Table 18****CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS**

| December 31, 2014  | Less Than One<br>Year | One to Three<br>Years | Three to Five<br>Years<br>(In thousands) | Over Five<br>Years  | Total                |
|--|-----------------------|-----------------------|--|---------------------|----------------------|
| <b>Payments due for contractual obligations</b>                    |                       |                       |  |                     |                      |
| Time deposits  | \$ 2,111,652          | \$ 590,235            | \$ 355,277                               | \$ 6,809            | \$ 3,063,973         |
| Deposits at Cayman Islands office                                  | 176,582               |                       |  |                     | 176,582              |
| Federal funds purchased and<br>agreements to repurchase securities | 192,676               |                       |  |                     | 192,676              |
| Long-term borrowings   | 6,444                 | 4,513,326             | 2,695,358                                | 1,791,831           | 9,006,959            |
| Operating leases   | 87,063                | 153,423               | 101,103                                  | 113,390             | 454,979              |
| Other  | 47,050                | 38,737                | 14,336                                   | 49,637              | 149,760              |
| <b>Total</b>   | <b>\$ 2,621,467</b>   | <b>\$ 5,295,721</b>   | <b>\$ 3,166,074</b>                      | <b>\$ 1,961,667</b> | <b>\$ 13,044,929</b> |
| <b>Other commitments</b>   |                       |                       |  |                     |                      |
| Commitments to extend credit                                       | \$ 9,428,384          | \$ 5,767,919          | \$ 4,574,826                             | \$ 3,507,950        | \$ 23,279,079        |
| Standby letters of credit  | 1,811,047             | 1,162,503             | 594,375                                  | 138,963             | 3,706,888            |
| Commercial letters of credit                                       | 12,812                | 152                   | 34,001                                   |                     | 46,965               |
| Financial guarantees and indemnification contracts                 | 113,729               | 249,776               | 502,491                                  | 1,624,054           | 2,490,050            |
| Commitments to sell real estate loans                              | 1,221,590             | 15,704                |  |                     | 1,237,294            |
| <b>Total</b>   | <b>\$ 12,587,562</b>  | <b>\$ 7,196,054</b>   | <b>\$ 5,705,693</b>                      | <b>\$ 5,270,967</b> | <b>\$ 30,760,276</b> |

M&T's primary source of funds to pay for operating expenses, shareholder dividends and treasury stock repurchases has historically been the receipt of dividends from its banking subsidiaries, which are subject to various regulatory limitations. Dividends from any banking subsidiary to M&T are limited by the amount of earnings of the banking subsidiary in the current year and the two preceding years. For purposes of that test, at December 31, 2014 approximately \$1.5 billion was available for payment of dividends to M&T from banking subsidiaries. These historic sources of cash flow have been augmented in the past by the issuance of trust preferred securities and senior notes payable. Information regarding trust preferred securities and the related junior subordinated debentures is included in note 9 of Notes to Financial Statements.

**Table of Contents****Table 19****MATURITY AND TAXABLE-EQUIVALENT YIELD OF INVESTMENT SECURITIES**

| December 31, 2014                                  | One Year<br>or Less    | One to Five<br>Years | Five to Ten<br>Years | Over Ten<br>Years | Total         |
|--|------------------------|----------------------|----------------------|-------------------|---------------|
|  | (Dollars in thousands) |                      |                      |                   |               |
| <i>Investment securities available for sale(a)</i> |                        |                      |                      |                   |               |
| U.S. Treasury and federal agencies                 |                        |                      |                      |                   |               |
| Carrying value                                     | \$ 4,887               | \$ 157,060           | \$                   | \$                | \$ 161,947    |
| Yield  | 1.34%                  | 1.20%                |                      |                   | 1.20%         |
| Obligations of states and political subdivisions   |                        |                      |                      |                   |               |
| Carrying value                                     | 366                    | 2,932                | 2,392                | 2,508             | 8,198         |
| Yield  | 7.03%                  | 7.09%                | 2.49%                | 3.95%             | 4.78%         |
| Mortgage-backed securities(b)                      |                        |                      |                      |                   |               |
| Government issued or guaranteed                    |                        |                      |                      |                   |               |
| Carrying value                                     | 414,495                | 1,764,450            | 2,466,132            | 4,086,046         | 8,731,123     |
| Yield  | 2.75%                  | 2.75%                | 2.75%                | 2.73%             | 2.74%         |
| Privately issued                                   |                        |                      |                      |                   |               |
| Carrying value                                     | 34                     | 69                   |                      |                   | 103           |
| Yield  | 3.12%                  | 4.44%                |                      |                   | 4.00%         |
| Other debt securities                              |                        |                      |                      |                   |               |
| Carrying value                                     | 2,215                  | 5,348                | 1,185                | 163,056           | 171,804       |
| Yield  | 1.92%                  | 3.52%                | 4.28%                | 7.12%             | 6.92%         |
| Equity securities                                  |                        |                      |                      |                   |               |
| Carrying value                                     |                        |                      |                      |                   | 83,757        |
| Yield  |                        |                      |                      |                   | .45%          |
| Total investment securities available for sale     |                        |                      |                      |                   |               |
| Carrying value                                     | 421,997                | 1,929,859            | 2,469,709            | 4,251,610         | 9,156,932     |
| Yield  | 2.73%                  | 2.63%                | 2.75%                | 2.90%             | 2.77%         |
| <i>Investment securities held to maturity</i>      |                        |                      |                      |                   |               |
| Obligations of states and political subdivisions   |                        |                      |                      |                   |               |
| Carrying value                                     | 23,107                 | 84,112               | 41,742               |                   | 148,961       |
| Yield  | 3.71%                  | 5.15%                | 5.88%                |                   | 5.13%         |
| Mortgage-backed securities(b)                      |                        |                      |                      |                   |               |
| Government issued or guaranteed                    |                        |                      |                      |                   |               |
| Carrying value                                     | 99,700                 | 437,594              | 626,878              | 1,985,148         | 3,149,320     |
| Yield  | 2.79%                  | 2.79%                | 2.80%                | 2.77%             | 2.78%         |
| Privately issued                                   |                        |                      |                      |                   |               |
| Carrying value                                     | 6,710                  | 27,575               | 36,531               | 130,917           | 201,733       |
| Yield  | 2.46%                  | 2.48%                | 2.52%                | 2.72%             | 2.64%         |
| Other debt securities                              |                        |                      |                      |                   |               |
| Carrying value                                     |                        |                      |                      | 7,854             | 7,854         |
| Yield  |                        |                      |                      | 4.52%             | 4.52%         |
| Total investment securities held to maturity       |                        |                      |                      |                   |               |
| Carrying value                                     | 129,517                | 549,281              | 705,151              | 2,123,919         | 3,507,868     |
| Yield  | 2.94%                  | 3.14%                | 2.96%                | 2.77%             | 2.87%         |
| <i>Other investment securities</i>                 |                        |                      |                      |                   |               |
|  |                        |                      |                      |                   | 328,742       |
| Total investment securities                        |                        |                      |                      |                   |               |
| Carrying value                                     | \$ 551,514             | \$ 2,479,140         | \$ 3,174,860         | \$ 6,375,529      | \$ 12,993,542 |
| Yield  | 2.78%                  | 2.74%                | 2.80%                | 2.86%             | 2.73%         |

- (a) *Investment securities available for sale are presented at estimated fair value. Yields on such securities are based on amortized cost.*
  
- (b) *Maturities are reflected based upon contractual payments due. Actual maturities are expected to be significantly shorter as a result of loan repayments in the underlying mortgage pools.*

**Table of Contents****Table 20**

**MATURITY OF DOMESTIC CERTIFICATES OF DEPOSIT AND TIME DEPOSITS**  
**WITH BALANCES OF \$100,000 OR MORE**

|                | <b>December 31, 2014</b><br><b>(In thousands)</b> |
|----------------|---|
| Under 3 months | \$ 188,870  |
| 3 to 6 months  | 157,895   |
| 6 to 12 months | 184,801   |
| Over 12 months | 346,844   |
| <b>Total</b>   | <b>\$ 878,410</b>                                 |

Management closely monitors the Company's liquidity position on an ongoing basis for compliance with internal policies and believes that available sources of liquidity are adequate to meet funding needs anticipated in the normal course of business. Management does not anticipate engaging in any activities, either currently or in the long-term, for which adequate funding would not be available and would therefore result in a significant strain on liquidity at either M&T or its subsidiary banks. Banking regulators have finalized rules requiring a banking company to maintain a minimum amount of liquid assets to withstand a standardized supervisory liquidation stress scenario. The effective date for those rules for the Company is January 1, 2016, subject to a two-year phase-in period. The Company has taken steps as noted herein to enhance its liquidity and will take further action, as necessary, to comply with the regulations when they take effect.

Market risk is the risk of loss from adverse changes in the market prices and/or interest rates of the Company's financial instruments. The primary market risk the Company is exposed to is interest rate risk. Interest rate risk arises from the Company's core banking activities of lending and deposit-taking, because assets and liabilities reprice at different times and by different amounts as interest rates change. As a result, net interest income earned by the Company is subject to the effects of changing interest rates. The Company measures interest rate risk by calculating the variability of net interest income in future periods under various interest rate scenarios using projected balances for earning assets, interest-bearing liabilities and derivatives used to hedge interest rate risk. Management's philosophy toward interest rate risk management is to limit the variability of net interest income. The balances of financial instruments used in the projections are based on expected growth from forecasted business opportunities, anticipated prepayments of loans and investment securities, and expected maturities of investment securities, loans and deposits. Management uses a value of equity model to supplement the modeling technique described above. Those supplemental analyses are based on discounted cash flows associated with on- and off-balance sheet financial instruments. Such analyses are modeled to reflect changes in interest rates and provide management with a long-term interest rate risk metric. The Company has entered into interest rate swap agreements to help manage exposure to interest rate risk. At December 31, 2014, the aggregate notional amount of interest rate swap agreements entered into for interest rate risk management purposes was \$1.4 billion. Information about interest rate swap agreements entered into for interest rate risk management purposes is included herein under the heading "Net Interest Income/Lending and Funding Activities" and in note 18 of Notes to Financial Statements.

The Company's Asset-Liability Committee, which includes members of senior management, monitors the sensitivity of the Company's net interest income to changes in interest rates with the aid of a computer model that forecasts net interest income under different interest rate scenarios. In modeling changing interest rates, the Company considers different yield curve shapes that consider both parallel (that is, simultaneous changes in interest rates at each point on the yield curve) and non-parallel (that is, allowing interest rates at points on the yield curve to vary by different amounts) shifts in the yield curve. In utilizing the model, projections of net interest income calculated under the varying interest rate scenarios are compared to a base interest rate scenario that is reflective of current interest rates. The model considers the impact of ongoing lending and deposit-gathering activities, as well as interrelationships in the magnitude and timing of the repricing of financial instruments, including the effect of changing interest rates on expected prepayments and maturities. When deemed prudent, management has taken actions to mitigate exposure to interest rate risk through the use of on- or off-balance sheet financial instruments and intends

**Table of Contents**

to do so in the future. Possible actions include, but are not limited to, changes in the pricing of loan and deposit products, modifying the composition of earning assets and interest-bearing liabilities, and adding to, modifying or terminating existing interest rate swap agreements or other financial instruments used for interest rate risk management purposes.

Table 21 displays as of December 31, 2014 and 2013 the estimated impact on net interest income from non-trading financial instruments in the base scenario resulting from parallel changes in interest rates across repricing categories during the first modeling year.

**Table 21****SENSITIVITY OF NET INTEREST INCOME TO CHANGES IN INTEREST RATES**

| Changes in Interest Rates | Calculated Increase<br>(Decrease) in Projected<br>Net Interest Income<br>December 31 |            |
|---------------------------|--|------------|
|                           | 2014   | 2013       |
|                           | (In thousands)   |            |
| + 200 basis points        | \$ 246,028   | \$ 245,089 |
| + 100 basis points        | 134,393  | 134,188    |
| 100 basis points          | (74,634)   | (72,755)   |
| 200 basis points          | (109,261)  | (100,543)  |

The Company utilized many assumptions to calculate the impact that changes in interest rates may have on net interest income. The more significant of those assumptions included the rate of prepayments of mortgage-related assets, cash flows from derivative and other financial instruments held for non-trading purposes, loan and deposit volumes and pricing, and deposit maturities. In the scenarios presented, the Company also assumed gradual changes in rates during a twelve-month period of 100 and 200 basis points, as compared with the assumed base scenario. In the event that a 100 or 200 basis point rate change cannot be achieved, the applicable rate changes are limited to lesser amounts such that interest rates cannot be less than zero. The assumptions used in interest rate sensitivity modeling are inherently uncertain and, as a result, the Company cannot precisely predict the impact of changes in interest rates on net interest income. Actual results may differ significantly from those presented due to the timing, magnitude and frequency of changes in interest rates and changes in market conditions and interest rate differentials (spreads) between maturity/repricing categories, as well as any actions, such as those previously described, which management may take to counter such changes.

Table 22 presents cumulative totals of net assets (liabilities) repricing on a contractual basis within the specified time frames, as adjusted for the impact of interest rate swap agreements entered into for interest rate risk management purposes. Management believes that this measure does not appropriately depict interest rate risk since changes in interest rates do not necessarily affect all categories of earning assets and interest-bearing liabilities equally nor, as assumed in the table, on the contractual maturity or repricing date. Furthermore, this static presentation of interest rate risk fails to consider the effect of ongoing lending and deposit gathering activities, projected changes in balance sheet composition or any subsequent interest rate risk management activities the Company is likely to implement.

**Table of Contents****Table 22****CONTRACTUAL REPRICING DATA**

| December 31, 2014                             | Three<br>Months<br>or Less | Four to Twelve<br>Months | One to<br>Five Years<br>(Dollars in thousands) | After<br>Five Years | Total         |
|---|----------------------------|--------------------------|--|---------------------|---------------|
| Loans and leases, net                         | \$ 42,431,506              | \$ 4,090,188             | \$ 10,705,851                                  | \$ 9,441,411        | \$ 66,668,956 |
| Investment securities                         | 498,480                    | 428,676                  | 2,666,209                                      | 9,400,177           | 12,993,542    |
| Other earning assets                          | 6,615,008                  | 700                      |  |                     | 6,615,708     |
| <i>Total earning assets</i>                   | 49,544,994                 | 4,519,564                | 13,372,060                                     | 18,841,588          | 86,278,206    |
| NOW accounts                                  | 2,307,815                  |                          |  |                     | 2,307,815     |
| Savings deposits                              | 41,085,803                 |                          |  |                     | 41,085,803    |
| Time deposits                                 | 668,735                    | 1,442,917                | 945,512  | 6,809               | 3,063,973     |
| Deposits at Cayman Islands office             | 167,510                    | 9,072                    |  |                     | 176,582       |
| <i>Total interest-bearing deposits</i>        | 44,229,863                 | 1,451,989                | 945,512  | 6,809               | 46,634,173    |
| Short-term borrowings                         | 192,676                    |                          |  |                     | 192,676       |
| Long-term borrowings                          | 1,404,831                  | 405,402                  | 6,323,819                                      | 872,907             | 9,006,959     |
| <i>Total interest-bearing liabilities</i>     | 45,827,370                 | 1,857,391                | 7,269,331                                      | 879,716             | 55,833,808    |
| Interest rate swap agreements                 | (1,400,000)                |                          | 1,400,000                                      |                     |               |
| Periodic gap                                  | \$ 2,317,624               | \$ 2,662,173             | \$ 7,502,729                                   | \$ 17,961,872       |               |
| Cumulative gap                                | 2,317,624                  | 4,979,797                | 12,482,526                                     | 30,444,398          |               |
| Cumulative gap as a % of total earning assets | 2.7%                       | 5.8%                     | 14.5%  | 35.3%               |               |

Changes in fair value of the Company's financial instruments can also result from a lack of trading activity for similar instruments in the financial markets. That impact is most notable on the values assigned to some of the Company's investment securities. Information about the fair valuation of investment securities is presented herein under the heading "Capital" and in notes 3 and 20 of Notes to Financial Statements.

The Company engages in trading account activities to meet the financial needs of customers and to fund the Company's obligations under certain deferred compensation plans. Financial instruments utilized in trading account activities consist predominantly of interest rate contracts, such as swap agreements, and forward and futures contracts related to foreign currencies. The Company generally mitigates the foreign currency and interest rate risk associated with trading account activities by entering into offsetting trading positions that are also included in the trading account. The fair values of the offsetting positions associated with interest rate contracts and foreign currency and other option and futures contracts are presented in note 18 of Notes to Financial Statements. The amounts of gross and net positions, as well as the type of trading account activities conducted by the Company, are subject to a well-defined series of potential loss exposure limits established by management and approved by M&T's Board of Directors. However, as with any non-government guaranteed financial instrument, the Company is exposed to credit risk associated with counterparties to the Company's trading account activities.

The notional amounts of interest rate contracts entered into for trading account purposes totaled \$17.6 billion at December 31, 2014 and \$17.4 billion at December 31, 2013. The notional amounts of foreign currency and other option and futures contracts entered into for trading account purposes were \$1.3 billion and \$1.4 billion at December 31, 2014 and 2013, respectively. Although the notional amounts of these contracts are not recorded in the consolidated balance sheet, the fair values of all financial instruments used for trading account activities are recorded in the consolidated balance sheet. The fair values of all trading account assets and liabilities were \$308 million and \$203 million, respectively, at December 31, 2014 and



**Table of Contents**

\$376 million and \$250 million, respectively, at December 31, 2013. Included in trading account assets at December 31, 2014 and 2013 were \$27 million and \$29 million, respectively, of assets related to deferred compensation plans. Changes in the fair value of such assets are recorded as trading account and foreign exchange gains in the consolidated statement of income. Included in other liabilities in the consolidated balance sheet at December 31, 2014 and 2013 were \$30 million and \$31 million, respectively, of liabilities related to deferred compensation plans. Changes in the balances of such liabilities due to the valuation of allocated investment options to which the liabilities are indexed are recorded in other costs of operations in the consolidated statement of income.

Given the Company's policies, limits and positions, management believes that the potential loss exposure to the Company resulting from market risk associated with trading account activities was not material, however, as previously noted, the Company is exposed to credit risk associated with counterparties to transactions related to the Company's trading account activities. Additional information about the Company's use of derivative financial instruments in its trading account activities is included in note 18 of Notes to Financial Statements.

**Capital**

Shareholders' equity was \$12.3 billion at December 31, 2014 and represented 12.76% of total assets, compared with \$11.3 billion or 13.28% at December 31, 2013 and \$10.2 billion or 12.29% at December 31, 2012.

Included in shareholders' equity was preferred stock with financial statement carrying values of \$1.2 billion at December 31, 2014 and \$882 million at December 31, 2013. On February 11, 2014, M&T issued 350,000 shares of Series E Perpetual Fixed-to-Floating Rate Non-cumulative Preferred Stock, par value \$1.00 per share and liquidation preference of \$1,000 per share. Dividends, if declared, will be 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 London Interbank Offered Rate 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 regulatory capital, M&T may redeem all of the shares within 90 days following that occurrence. Further information concerning M&T's preferred stock can be found in note 10 of Notes to Financial Statements.

Common shareholders' equity was \$11.1 billion, or \$83.88 per share, at December 31, 2014, compared with \$10.4 billion, or \$79.81 per share, at December 31, 2013 and \$9.3 billion, or \$72.73 per share, at December 31, 2012. Tangible equity per common share, which excludes goodwill and core deposit and other intangible assets and applicable deferred tax balances, was \$57.06 at December 31, 2014, compared with \$52.45 and \$44.61 at December 31, 2013 and 2012, respectively. The Company's ratio of tangible common equity to tangible assets was 8.11% at December 31, 2014, compared with 8.39% and 7.20% at December 31, 2013 and 2012, respectively. Reconciliations of total common shareholders' equity and tangible common equity and total assets and tangible assets as of December 31, 2014, 2013 and 2012 are presented in table 2. During 2014, 2013 and 2012, the ratio of average total shareholders' equity to average total assets was 13.13%, 12.82% and 12.13%, respectively. The ratio of average common shareholders' equity to average total assets was 11.83%, 11.77% and 11.04% in 2014, 2013 and 2012, respectively.

Shareholders' equity reflects accumulated other comprehensive income or loss, which includes the net after-tax impact of unrealized gains or losses on investment securities classified as available for sale, unrealized losses on held-to-maturity securities for which an other-than-temporary impairment charge has been recognized, gains or losses associated with interest rate swap agreements designated as cash flow hedges, foreign currency translation adjustments and adjustments to reflect the funded status of defined benefit pension and other postretirement plans. Net unrealized gains on investment securities, net of applicable tax effect, were \$127 million or \$.96 per common share at December 31, 2014, compared with \$34 million or \$.26 per common share at December 31, 2013 and \$37 million or \$.29 per common share at December 31, 2012. Information about unrealized gains and losses as of December 31, 2014 and 2013 is included in note 3 of Notes to Financial Statements.

Reflected in net unrealized gains at December 31, 2014 were pre-tax effect unrealized losses of \$21 million on available-for-sale investment securities with an amortized cost of \$191 million and pre-tax effect unrealized gains of \$259 million on securities with an amortized cost of \$8.7 billion. The pre-tax effect unrealized losses reflect \$19 million of losses on trust preferred securities issued by financial institutions having an amortized cost of \$125 million and an estimated fair value of \$106 million (generally considered Level 2 valuations). Further information concerning the Company's valuations of available-for-sale investment securities is provided in note 20 of Notes to Financial Statements.

---

**Table of Contents**

In the second quarter of 2013, the Company sold substantially all of its privately issued residential mortgage-backed securities that were classified as available for sale and recorded a pre-tax loss of \$46 million. Those privately issued mortgage-backed securities previously held by the Company were generally collateralized by prime and Alt-A residential mortgage loans. The sales, which were in response to changing regulatory capital and liquidity standards, resulted in improved liquidity and regulatory capital ratios for the Company. Further information on the sales is provided in note 3 of Notes to Financial Statements.

The Company assesses impairment losses on privately issued mortgage-backed securities in the held-to-maturity portfolio by performing internal modeling to estimate bond-specific cash flows considering recent performance of the mortgage loan collateral and utilizing assumptions about future defaults and loss severity. These bond specific cash flows also reflect the placement of the bond in the overall securitization structure and the remaining subordination levels. In total, at December 31, 2014 and 2013, the Company had in its held-to-maturity portfolio privately issued mortgage-backed securities with an amortized cost basis of \$202 million and \$220 million, respectively, and a fair value of \$158 million and \$159 million, respectively. At December 31, 2014, 87% of the mortgage-backed securities were in the most senior tranche of the securitization structure with 31% being independently rated as investment grade. The mortgage-backed securities are generally collateralized by residential and small-balance commercial real estate loans originated between 2004 and 2008 and had a weighted-average credit enhancement of 17% at December 31, 2014, calculated by dividing the remaining unpaid principal balance of bonds subordinate to the bonds owned by the Company plus any overcollateralization remaining in the securitization structure by the remaining unpaid principal balance of all bonds in the securitization structure. All mortgage-backed securities in the held-to-maturity portfolio had a current payment status as of December 31, 2014. The weighted-average default percentage and loss severity assumptions utilized in the Company's internal modeling were 34% and 74%, respectively. The Company has concluded that as of December 31, 2014, its privately issued mortgage-backed securities were not other-than-temporarily impaired. Nevertheless, it is possible that adverse changes in the future performance of mortgage loan collateral underlying such securities could impact the Company's conclusions.

During the first quarter of 2013, the Company recognized \$10 million (pre-tax) of other-than-temporary impairment losses related to privately issued mortgage-backed securities held in the available-for-sale portfolio. In assessing impairment losses for debt securities, the Company performed internal modeling to estimate bond-specific cash flows, which considered the placement of the bond in the overall securitization structure and the remaining levels of subordination. During 2012, the Company recognized \$48 million (pre-tax), of other-than-temporary losses related to privately issued mortgage-backed securities.

As of December 31, 2014, based on a review of each of the remaining securities in the investment securities portfolio, the Company concluded that the declines in the values of any securities containing an unrealized loss were temporary and that any additional other-than-temporary impairment charges were not appropriate. It is likely that the Company will be required to sell certain of its collateralized debt obligations backed by trust preferred securities held in the available-for-sale portfolio to comply with the provisions of the Volcker Rule. However, the amortized cost and fair value of those collateralized debt obligations were \$25 million and \$32 million, respectively, at December 31, 2014 and the Company did not expect that it would realize any material losses if it ultimately was required to sell such securities. As of that date, the Company did not intend to sell nor is it anticipated that it would be required to sell any of its other impaired securities, that is, where fair value is less than the cost basis of the security. The Company intends to continue to closely monitor the performance of its securities because changes in their underlying credit performance or other events could cause the cost basis of those securities to become other-than-temporarily impaired. However, because the unrealized losses on available-for-sale investment securities have generally already been reflected in the financial statement values for investment securities and shareholders' equity, any recognition of an other-than-temporary decline in value of those investment securities would not have a material effect on the Company's consolidated financial condition. Any other-than-temporary impairment charge related to held-to-maturity securities would result in reductions in the financial statement values for investment securities and shareholders' equity. Additional information concerning fair value measurements and the Company's approach to the classification of such measurements is included in note 20 of the Notes to Financial Statements.

Adjustments to reflect the funded status of defined benefit pension and other postretirement plans, net of applicable tax effect, reduced accumulated other comprehensive income by \$306 million, or \$2.31 per common share, at December 31, 2014, \$98 million, or \$.75 per common share, at December 31, 2013, and \$277 million, or \$2.16 per common share, at December 31, 2012. The increase in such adjustment at

**Table of Contents**

December 31, 2014 as compared with December 31, 2013 was the result of two main factors: a 75 basis point decrease in the discount rate used to measure the benefit obligations of the defined benefit plans at December 31, 2014 as compared with a year earlier and the use of updated mortality tables for the U.S. published in 2014 by the Society of Actuaries. The decrease in the adjustment at December 31, 2013 as compared with December 31, 2012 was predominantly the result of a 100 basis point increase in the discount rate used to measure the benefit obligations of the defined benefit plans at December 31, 2013 as compared with a year earlier and actual investment returns in the qualified defined benefit pension plan that were higher than expected returns. Information about the funded status of the Company's pension and other postretirement benefit plans is included in note 12 of Notes to Financial Statements.

Cash dividends declared on M&T's common stock totaled \$371 million in 2014, compared with \$365 million and \$358 million in 2013 and 2012, respectively. Dividends per common share totaled \$2.80 in each of 2014, 2013 and 2012. Dividends of \$76 million in 2014 and \$53 million in each of 2013 and 2012 were declared on preferred stock in accordance with the terms of each series. The Company did not repurchase any shares of its common stock in 2014, 2013 or 2012.

The regulatory capital requirements applicable to M&T and its bank subsidiaries as of December 31, 2014 are presented in note 23 of Notes to Financial Statements. At December 31, 2014, Tier 1 capital, as defined in the regulations, included trust preferred securities of approximately \$800 million as described in note 9 of Notes to Financial Statements and total capital further included subordinated capital notes of \$1.2 billion. Pursuant to the Dodd-Frank Act, trust preferred securities will be phased-out of the definition of Tier 1 capital of bank holding companies, such that 25% of the securities will be includable in Tier 1 capital in 2015 and, beginning in 2016, no amount of the securities will be includable. On February 27, 2014, M&T redeemed \$350 million of Enhanced Trust Preferred Securities and the associated junior subordinated debentures. In addition, on November 1, 2014 M&T Bank redeemed \$50 million of 9.50% subordinated notes that were due to mature in 2018. The capital ratios of the Company and its banking subsidiaries as of December 31, 2014 and 2013 are presented in note 23 of Notes to Financial Statements.

Effective January 1, 2015, new regulatory capital rules became effective. The new rules substantially revise the risk-based capital requirements applicable to bank holding companies and banks. M&T and its subsidiary banks expect to be able to comply with the revised capital adequacy requirements. A detailed discussion of the new regulatory capital rules is included in Part I, Item 1 of this Form 10-K under the heading "Capital Requirements."

**Fourth Quarter Results**

Net income during the fourth quarter of 2014 was \$278 million, up from \$221 million in the year-earlier quarter. Diluted and basic earnings per common share were \$1.92 and \$1.93, respectively, in the final quarter of 2014, compared with \$1.56 and \$1.57 of diluted and basic earnings per common share, respectively, in the similar quarter of 2013. The annualized rates of return on average assets and average common shareholders equity for the final 2014 quarter were 1.12% and 9.10%, respectively, compared with 1.03% and 7.99%, respectively, in the year-earlier quarter.

Net operating income totaled \$282 million in the fourth quarter of 2014, compared with \$228 million in 2013's final quarter. Diluted net operating earnings per common share were \$1.95 and \$1.61 in the fourth quarters of 2014 and 2013, respectively. The annualized net operating returns on average tangible assets and average tangible common equity in the fourth quarter of 2014 were 1.18% and 13.55%, respectively, compared with 1.11% and 12.67%, respectively, in the corresponding quarter of 2013. Core deposit and other intangible asset amortization, after tax effect, totaled \$4 million and \$6 million in the final quarters of 2014 and 2013 (\$.03 and \$.05 per diluted common share), respectively. Reconciliations of GAAP results with non-GAAP results for the quarterly periods of 2014 and 2013 are provided in table 24.

Net interest income on a taxable-equivalent basis totaled \$688 million in the final 2014 quarter, up 2% from \$673 million in the year-earlier quarter. Growth in average earning assets of \$12.9 billion was partially offset by a 46 basis point narrowing of the net interest margin to 3.10% in the recent quarter from 3.56% in 2013's fourth quarter. The rise in average earning assets was attributable to a \$6.1 billion increase in average interest-bearing deposits held at the Federal Reserve Bank of New York, higher average investment securities balances of \$4.6 billion, and a \$2.2 billion increase in average loans and leases. The increase in the investment securities portfolio from the year-earlier quarter reflects the impact of purchases of Fannie Mae and Ginnie Mae residential mortgage-backed securities, partially offset by maturities and paydowns of mortgage-backed securities. Average commercial loan and lease balances were \$19.1 billion in the recent quarter, up \$1.0 billion or 6% from \$18.1 billion in the final quarter of 2013. Commercial real

**Table of Contents**

estate loans averaged \$27.1 billion in the fourth quarter of 2014, up \$833 million or 3% from \$26.2 billion in the year-earlier quarter. The growth in commercial loans and commercial real estate loans reflects higher loan demand by customers. Average residential real estate loans outstanding declined \$336 million to \$8.7 billion in the recent quarter from \$9.0 billion in the fourth quarter of 2013. Included in the residential real estate loan portfolio were average balances of loans held for sale, which totaled \$435 million in the recent quarter, compared with \$463 million in the fourth quarter of 2013. Consumer loans averaged \$10.9 billion in the recent quarter, up \$700 million from \$10.2 billion in the fourth quarter of 2013. That increase was largely due to higher average balances of automobile loans. Total loans at December 31, 2014 increased \$1.1 billion to \$66.7 billion from \$65.6 billion at September 30, 2014. That growth was predominantly attributable to increases in commercial real estate loans and in commercial loans, due largely to seasonally-higher automobile dealer floor plan balances. The decline in the net interest margin from the final 2013 quarter reflects a 16 basis point decrease in the yield on loans, a 50 basis point decline in the yield on investment securities and the impact of higher balances of interest-bearing deposits at the Federal Reserve Bank of New York and investment securities which have lower yields than loans. The yield on earning assets in the fourth quarter of 2014 was 3.44%, a 48 basis point decline from the year-earlier quarter. The rate paid on interest-bearing liabilities declined 4 basis points to .52% in the recent quarter from .56% in the fourth quarter of 2013. The resulting net interest spread was 2.92% in the final quarter of 2014, 44 basis points lower than 3.36% in the year-earlier quarter. That compression was largely due to the changed mix in earning assets already noted and the 16 basis point decline in loan yields. The contribution of net interest-free funds to the Company's net interest margin was .18% in the recent quarter, compared with .20% in the year-earlier quarter. As a result, the Company's net interest margin narrowed to 3.10% in the fourth quarter of 2014 from 3.56% in the similar 2013 period.

The provision for credit losses was \$33 million during the final 2014 quarter, compared with \$42 million in the year-earlier period. Net charge-offs of loans totaled \$32 million in the fourth quarter of 2014, representing an annualized .19% of average loans and leases outstanding, compared with \$42 million or .26% during the fourth quarter of 2013. Net charge-offs included: commercial loans of \$9 million and \$21 million in 2014 and 2013, respectively; commercial real estate loans of less than \$1 million in 2014, compared with \$8 million a year earlier; residential real estate loans of \$3 million in each of the fourth quarters of 2014 and 2013; and consumer loans of \$19 million in the recent quarter, compared with \$10 million in the 2013's fourth quarter. Reflected in net charge-offs of consumer loans for the fourth quarter of 2013 were recoveries of previously charged-off home equity line of credit balances of \$9 million related to a portfolio acquired in 2007.

Other income totaled \$452 million in the recent quarter, up from \$446 million in the final quarter of 2013. That improvement resulted from higher residential mortgage banking revenues associated with loan servicing activities, partially offset by declines in trading account and foreign exchange gains and service charges on deposit accounts.

Other expense in the fourth quarter of 2014 aggregated \$680 million, compared with \$743 million in the year-earlier quarter. Included in such amounts are expenses considered to be nonoperating in nature consisting of amortization of core deposit and other intangible assets of \$7 million and \$10 million in the fourth quarters of 2014 and 2013, respectively. Exclusive of those nonoperating expenses, noninterest operating expenses were \$673 million in the fourth quarter of 2014, down from \$733 million in the similar quarter of 2013. The lower operating expenses in the recently completed quarter reflect a decline in professional services costs and a \$40 million litigation-related accrual in the fourth quarter of 2013. The Company's efficiency ratio during the fourth quarters of 2014 and 2013 was 59.1% and 65.5%, respectively. Table 24 includes a reconciliation of other expense to noninterest operating expense and the calculation of the efficiency ratio for each of the quarters of 2014 and 2013.

**Segment Information**

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

The financial information of the Company's segments was compiled utilizing the accounting policies described in note 22 of Notes to Financial Statements. The management accounting policies and processes

**Table of Contents**

utilized in compiling segment financial information are highly subjective and, unlike financial accounting, are not based on authoritative guidance similar to GAAP. As a result, reported segments and the financial information of the reported segments are not necessarily comparable with similar information reported by other financial institutions. Furthermore, changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial data. Financial information about the Company's segments is presented in note 22 of Notes to Financial Statements.

The Business Banking segment provides a wide range of services to small businesses and professionals within markets served by the Company through the Company's branch network, business banking centers and other delivery channels such as telephone banking, Internet banking and automated teller machines. Services and products offered by this segment include various business loans and leases, including loans guaranteed by the Small Business Administration, business credit cards, deposit products, and financial services such as cash management, payroll and direct deposit, merchant credit card and letters of credit. The Business Banking segment recorded net income of \$120 million in 2014, up 8% from \$111 million in 2013. That improvement reflects: an \$8 million decrease in the provision for credit losses, due to lower net charge offs; higher merchant and credit card fees of \$4 million; a lower FDIC assessment of \$3 million; and other decreased operating costs. Those favorable items were partially offset by lower net interest income of \$8 million, reflecting a 23 basis point narrowing of the net interest margin on deposits offset, in part, by increases in average outstanding deposit (predominantly noninterest-bearing) and loan balances of \$381 million and \$200 million, respectively. Net income contributed by the Business Banking segment totaled \$147 million in 2012. The 24% decrease in net income in 2013 as compared with 2012 reflected: lower net interest income of \$22 million; increased costs associated with the allocation of operating expenses related to BSA/AML compliance, risk management and other operational initiatives across the Company; a \$6 million increase in personnel costs; and a \$4 million increase in the provision for credit losses. The lower net interest income reflected a 43 basis point decline in the net interest margin on deposits, partially offset by a \$418 million increase in average deposit balances (predominantly noninterest-bearing).

The Commercial Banking segment provides a wide range of credit products and banking services for middle-market and large commercial customers, mainly within the markets served by the Company. Services provided by this segment include commercial lending and leasing, letters of credit, deposit products, and cash management services. Net income for the Commercial Banking segment increased 5% to \$411 million in 2014 from \$391 million in 2013. The improved results were largely due to a \$44 million decrease in the provision for credit losses, reflecting lower net charge-offs, and a lower FDIC assessment of \$14 million. The significant decline in net charge-offs was predominantly the result of \$49 million of loans charged-off in 2013 for a relationship with a motor vehicle-related parts wholesaler. Those favorable items were offset, in part, by a \$13 million decline in net interest income resulting from a narrowing of the net interest margin on deposits of 27 basis points and on loans of 8 basis points, partially offset by higher average outstanding balances of loans and deposits of \$1.2 billion and \$884 million, respectively. Net income for the Commercial Banking segment in 2012 was \$431 million. The 9% decline in net income in 2013 as compared with 2012 was largely due to a \$61 million increase in the provision for credit losses, the result of higher net charge-offs in 2013 predominantly related to the relationship with the motor vehicle-related parts wholesaler noted above.

The Commercial Real Estate segment provides credit and deposit services to its customers. Real estate securing loans in this segment is generally located in the New York City metropolitan area, upstate New York, Pennsylvania, Maryland, the District of Columbia, Delaware, Virginia, West Virginia, and the northwestern portion of the United States. Commercial real estate loans may be secured by apartment/multifamily buildings; office, retail and industrial space; or other types of collateral. Activities of this segment also include the origination, sales and servicing of commercial real estate loans through the Fannie Mae DUS program and other programs. The Commercial Real Estate segment contributed net income of \$316 million in 2014, 2% below the \$322 million recorded in 2013. That modest decline was attributable to the following factors: lower net interest income of \$31 million, resulting from the narrowing of the net interest margin on loans and deposits of 13 basis points and 31 basis points, respectively, offset, in part, by a \$14 million decrease in the provision for credit losses and a lower FDIC assessment. Net income for the Commercial Real Estate segment in 2012 was \$309 million. The improved results in 2013 as compared to 2012 were largely attributable to a \$39 million increase in net interest income, resulting from growth in average loan and deposit balances of \$694 million and \$466 million, respectively, and a 17 basis point widening of the net interest margin on loans, partially offset by a 31 basis point narrowing of the net interest margin on deposits. The higher net interest income was offset, in part, by: a \$3 million increase in the

**Table of Contents**

provision for credit losses; a \$3 million decrease in mortgage banking revenues; and increased other operating expenses that reflect costs associated with the allocation of operating expenses relating to BSA/AML compliance, risk management, and other operational initiatives across the Company.

The Discretionary Portfolio segment includes investment and trading account securities, residential real estate loans and other assets; short-term and long-term borrowed funds; brokered deposits; and Cayman Islands office deposits. This segment also provides foreign exchange services to customers. Included in the assets of the Discretionary Portfolio segment are the Company's portfolio of Alt-A mortgage loans and, prior to the second quarter of 2013, were most of the investment securities for which the Company had recognized other-than-temporary impairment charges. The Discretionary Portfolio segment recorded net income of \$48 million in 2014 and \$30 million in 2013, compared with a net loss of \$33 million in 2012. Included in this segment's results for 2013 were net pre-tax losses of \$46 million associated with the sale of approximately \$1.0 billion of privately issued mortgage-backed securities that had been held in the available-for-sale investment securities portfolio. Also reflected in securities gains or losses were other-than-temporary impairment charges, predominantly related to certain privately issued mortgage-backed securities, of \$10 million in 2013 and \$48 million in 2012. There were no securities gains or losses in 2014. Excluding securities gains and losses, net income for the Discretionary Portfolio segment was \$63 million in 2013, compared with a net loss of \$5 million in 2012. On that basis, the decline in net income in 2014 as compared with 2013 was largely due to \$42 million of gains recorded in 2013 from securitization transactions associated with one-to-four family residential real estate loans previously held in the Company's loan portfolio. Partially offsetting that impact was an \$8 million increase in net interest income that was attributable to a \$4.9 billion increase in average balances of investment securities and a 16 basis point widening of the net interest margin on loans, partially offset by a \$639 million decrease in average outstanding loan balances. Excluding the impact of securities gains and losses, the most significant contributors to the favorable performance in 2013 as compared with 2012 included: the \$42 million of gains from the securitization transactions; a \$28 million decline in the provision for credit losses, predominantly the result of lower net charge-offs; and a \$31 million decrease in intersegment charges due to a lower proportion of residential real estate loans being retained for portfolio rather than being sold.

The Residential Mortgage Banking segment originates and services residential mortgage loans and sells substantially all of those loans in the secondary market to investors or to the Discretionary Portfolio segment. This segment had also originated and serviced loans to builders and developers of residential real estate properties, although that origination activity has been significantly curtailed. In addition to the geographic regions served by or contiguous with the Company's branch network, the Company maintains mortgage loan origination offices in several states throughout the western United States. The Company periodically purchases the rights to service mortgage loans and also sub-services residential real estate loans for others. Residential real estate loans held for sale are included in this segment. The Residential Mortgage Banking segment's net income declined 4% to \$95 million in 2014 from \$99 million in 2013. That decline was due to the following factors: a \$71 million decrease in loan origination and sales revenues (including intersegment revenues) due to lower volumes of loans originated for sale; a \$9 million increase in the provision for credit losses, as 2013 included \$12 million of net recoveries of previously charged-off loans to residential real estate builders and developers; and an \$8 million decline in net interest income. The lower net interest income was attributable to a \$582 million decrease in average loan balances and a 25 basis point narrowing of the net interest margin on deposits. Largely offsetting those unfavorable factors was an \$80 million rise in revenues from servicing residential real estate loans (including intersegment revenues), predominantly the result of sub-servicing activities. Net income for this segment aggregated \$135 million in 2012. The decrease in net income in 2013 as compared to 2012 was largely due to a \$97 million decline in revenues from residential mortgage origination and sales activities (including intersegment revenues), due to lower origination volumes, and increased personnel and professional services costs associated with expanded residential mortgage loan sub-servicing activities. Those unfavorable factors were offset, in part, by: a \$29 million decline in the provision for credit losses reflecting net recoveries in 2013 of previously charged-off loans to real estate builders and developers of \$12 million; a \$20 million rise in net interest income, the result of a \$139 million increase in average outstanding loan balances and a 63 basis point widening of the net interest margin on loans due to higher loan yields; and a \$16 million rise in revenues from servicing residential real estate loans (including intersegment revenues).

The Retail Banking segment offers a variety of services to consumers through several delivery channels which include branch offices, automated teller machines, telephone banking and Internet banking. The Company has branch offices in New York State, Pennsylvania, Maryland, Virginia, the District of

## **Table of Contents**

Columbia, West Virginia, and Delaware. Credit services offered by this segment include consumer installment loans, automobile loans (originated both directly and indirectly through dealers), home equity loans and lines of credit and credit cards. The segment also offers to its customers deposit products, including demand, savings and time accounts; investment products, including mutual funds and annuities; and other services. Net income for the Retail Banking segment was \$120 million in 2014, down 34% from \$182 million in 2013. That decline was attributable to the following significant factors: a \$69 million decrease in net interest income, largely due to a 20 basis point narrowing of the net interest margin on deposits and a decrease in average outstanding loans of \$537 million; a \$21 million gain recognized in 2013 on the securitization and sale of approximately \$1.4 billion of automobile loans previously held in the Company's loan portfolio; a \$17 million decline in service charges on deposit accounts; and a \$5 million increase in the provision for credit losses, due to higher net charge-offs. This segment's net income declined 17% in 2013 from \$221 million in 2012. The primary contributor to that decline was a \$93 million decrease in net interest income, largely due to a 33 basis point narrowing of the net interest margin on deposits and a decrease in average outstanding loans of \$682 million, partially offset by a 16 basis point widening of the net interest margin on loans and a \$720 million increase in average outstanding deposit balances. Also contributing to the lower net income in 2013 were higher noninterest operating expenses, including costs related to BSA/AML compliance, risk management, and other operational initiatives. Those unfavorable factors were offset, in part, by the \$21 million gain on the securitization and sale of automobile loans and a \$23 million decline in the provision for credit losses, largely due to lower net charge-offs.

The All Other category reflects other activities of the Company that are not directly attributable to the reported segments. Reflected in this category are the amortization of core deposit and other intangible assets resulting from the acquisitions of financial institutions, M&T's share of the operating losses of BLG, merger-related gains and expenses resulting from acquisitions and the net impact of the Company's allocation methodologies for internal transfers for funding charges and credits associated with the earning assets and interest-bearing liabilities of the Company's reportable segments and the provision for credit losses. The All Other category also includes the trust income of the Company that reflects the ICS and WAS business activities. The various components of the All Other category resulted in net losses of \$44 million and \$181 million in 2014 and 2012, respectively, compared with net income of \$3 million in 2013. Results for the 2013 period included realized gains on the sale of the Company's holdings of Visa and MasterCard shares totaling \$103 million and the reversal of an accrual for a contingent compensation obligation of \$26 million assumed in the May 2011 acquisition of Wilmington Trust that expired. Partially offsetting those factors were higher litigation-related charges in 2013 that reflected a \$40 million litigation-related accrual in the fourth quarter of 2013. Also contributing to the unfavorable performance in 2014 as compared to 2013 were increases in personnel-related and professional service costs related to BSA/AML and other company-wide initiatives offset, in part, by higher trust income of \$12 million and the favorable impact from the Company's allocation methodologies for internal transfers for funding and other charges of the Company's reportable segments and the provision for credit losses. The improved performance in 2013 as compared with 2012, in addition to those items noted above that were recorded in 2013, was due to higher trust income of \$24 million and the favorable impact from the Company's allocation methodologies for internal transfers for funding and other charges of the Company's reportable segments and the provision for credit losses.

## **Recent Accounting Developments**

In August 2014, the Financial Accounting Standards Board (FASB) issued amended accounting guidance for the classification of certain government-guaranteed mortgage loans upon foreclosure. This guidance requires that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure; (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based upon the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. This guidance should be applied using a prospective transition method or a modified retrospective transition method. The Company expects that the adoption of this guidance in 2015 will not have a significant effect on the Company's financial position or results of operations.

---

**Table of Contents**

In June 2014, the FASB issued amended accounting guidance for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The amended guidance requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. This guidance is effective for annual periods and interim periods within those annual periods beginning after December 31, 2015, with earlier adoption permitted. The Company does not expect the amended guidance published by the FASB to have a material impact on its financial position or results of operations.

In June 2014, the FASB issued amended accounting guidance for repurchase-to-maturity transactions and repurchase financings. The amended accounting guidance changes the accounting for repurchase-to-maturity transactions to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. Further, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The amendments require new disclosures on transfers accounted for as sales in transactions that are economically similar to repurchase agreements and about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The accounting changes in this guidance are effective for the first interim or annual period beginning after December 15, 2014. Changes in accounting for transactions outstanding on the effective date should be presented as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The disclosure guidance for certain transactions accounted for as a sale is required to be presented for interim and annual periods beginning after December 15, 2014, and the disclosure guidance for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The Company does not currently have repurchase-to-maturity transactions or transfers of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. The Company will make the required disclosures when the guidance becomes effective.

In May 2014, the FASB issued amended accounting and disclosure guidance for revenue from contracts with customers. The core principle of the accounting guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; (5) recognize revenue when (or as) the entity satisfies a performance obligation. The guidance also specifies the accounting for some costs to obtain or fulfill a contract with a customer. The amended disclosure guidance requires sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The amended guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The guidance should be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this guidance recognized at the date of initial application. The Company is still evaluating the impact the guidance could have on its consolidated financial statements.

In January 2014, the FASB issued amended accounting and disclosure guidance for reclassification of residential real estate collateralized consumer mortgage loans upon foreclosure. The amended guidance clarifies that an in-substance repossession or foreclosure occurs and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan

**Table of Contents**

upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The amended guidance also requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate that are in the process of foreclosure according to local requirements of the applicable jurisdiction. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. This guidance should be applied using a prospective transition method or a modified retrospective transition method. The Company expects that the adoption of this guidance in 2015 will not have a significant effect on the Company's financial position or results of operations.

In January 2014, the FASB issued amended accounting guidance permitting an accounting policy election to account for investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. The decision to apply the proportional amortization method of accounting is an accounting policy election that should be applied consistently to all qualifying affordable housing project investments. This guidance is effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014. This guidance should be applied retrospectively to all periods presented. The Company expects that the adoption of this guidance in 2015 will not have a significant effect on the Company's financial position or results of operations, but will result in the restatement of consolidated financial statements for 2014 and earlier years to remove losses associated with qualified affordable housing projects from other costs of operations and include the amortization of the initial cost of the investment in income tax expense. Those restatements are not expected to have a material impact on the Company's previously reported net income for 2014 and earlier years.

**Forward-Looking Statements**

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

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

**Table of Contents**

and investment activities compared with M&T's initial expectations, including the full realization of anticipated cost savings and revenue enhancements.

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

**Table of Contents****Table 23****QUARTERLY TRENDS**

| Earnings and dividends   | 2014 Quarters |            |            |            | 2013 Quarters |            |            |            |
|--|---------------|------------|------------|------------|---------------|------------|------------|------------|
|  | Fourth        | Third      | Second     | First      | Fourth        | Third      | Second     | First      |
| <i>Amounts in thousands, except per share</i>                            |               |            |            |            |               |            |            |            |
| Interest income (taxable-equivalent basis)                               | \$ 762,619    | \$ 748,864 | \$ 740,139 | \$ 728,897 | \$ 740,665    | \$ 748,791 | \$ 756,424 | \$ 736,425 |
| Interest expense   | 74,772        | 73,964     | 65,176     | 66,519     | 67,982        | 69,578     | 72,620     | 73,925     |
| Net interest income  | 687,847       | 674,900    | 674,963    | 662,378    | 672,683       | 679,213    | 683,804    | 662,500    |
| Less: provision for credit losses  | 33,000        | 29,000     | 30,000     | 32,000     | 42,000        | 48,000     | 57,000     | 38,000     |
| Other income   | 451,643       | 451,111    | 456,412    | 420,107    | 446,246       | 477,388    | 508,689    | 432,882    |
| Less: other expense  | 680,108       | 679,284    | 681,194    | 702,271    | 743,072       | 658,626    | 598,591    | 635,596    |
| Income before income taxes   | 426,382       | 417,727    | 420,181    | 348,214    | 333,857       | 449,975    | 536,902    | 421,786    |
| Applicable income taxes  | 142,826       | 136,542    | 129,996    | 113,252    | 106,236       | 149,391    | 182,219    | 141,223    |
| Taxable-equivalent adjustment  | 6,007         | 5,841      | 5,849      | 5,945      | 6,199         | 6,105      | 6,217      | 6,450      |
| Net income   | \$ 277,549    | \$ 275,344 | \$ 284,336 | \$ 229,017 | \$ 221,422    | \$ 294,479 | \$ 348,466 | \$ 274,113 |
| Net income available to common shareholders-diluted                      | \$ 254,239    | \$ 251,917 | \$ 260,695 | \$ 211,731 | \$ 203,451    | \$ 275,356 | \$ 328,557 | \$ 255,096 |
| Per common share data  |               |            |            |            |               |            |            |            |
| Basic earnings   | \$ 1.93       | \$ 1.92    | \$ 1.99    | \$ 1.63    | \$ 1.57       | \$ 2.13    | \$ 2.56    | \$ 2.00    |
| Diluted earnings   | 1.92          | 1.91       | 1.98       | 1.61       | 1.56          | 2.11       | 2.55       | 1.98       |
| Cash dividends   | \$ .70        | \$ .70     | \$ .70     | \$ .70     | \$ .70        | \$ .70     | \$ .70     | \$ .70     |
| Average common shares outstanding  |               |            |            |            |               |            |            |            |
| Basic  | 131,450       | 131,265    | 130,856    | 130,212    | 129,497       | 129,171    | 128,252    | 127,669    |
| Diluted  | 132,278       | 132,128    | 131,828    | 131,126    | 130,464       | 130,265    | 129,017    | 128,636    |
| <b>Performance ratios, annualized</b>                                    |               |            |            |            |               |            |            |            |
| Return on  |               |            |            |            |               |            |            |            |
| Average assets   | 1.12%         | 1.17%      | 1.27%      | 1.07%      | 1.03%         | 1.39%      | 1.68%      | 1.36%      |
| Average common shareholders equity                                       | 9.10%         | 9.18%      | 9.79%      | 8.22%      | 7.99%         | 11.06%     | 13.78%     | 11.10%     |
| Net interest margin on average earning assets (taxable-equivalent basis) | 3.10%         | 3.23%      | 3.40%      | 3.52%      | 3.56%         | 3.61%      | 3.71%      | 3.71%      |
| Nonaccrual loans to total loans and leases, net of unearned discount     | 1.20%         | 1.29%      | 1.36%      | 1.39%      | 1.36%         | 1.44%      | 1.46%      | 1.60%      |
| <b>Net operating (tangible) results(a)</b>                               |               |            |            |            |               |            |            |            |
| Net operating income (in thousands)                                      | \$ 281,929    | \$ 279,838 | \$ 289,974 | \$ 235,162 | \$ 227,797    | \$ 300,968 | \$ 360,734 | \$ 285,136 |
| Diluted net operating income per common share                            | 1.95          | 1.94       | 2.02       | 1.66       | 1.61          | 2.16       | 2.65       | 2.06       |
| Annualized return on   |               |            |            |            |               |            |            |            |
| Average tangible assets  | 1.18%         | 1.24%      | 1.35%      | 1.15%      | 1.11%         | 1.48%      | 1.81%      | 1.48%      |
| Average tangible common shareholders equity                              | 13.55%        | 13.80%     | 14.92%     | 12.76%     | 12.67%        | 17.64%     | 22.72%     | 18.71%     |
| Efficiency ratio(b)  | 59.06%        | 59.67%     | 59.39%     | 63.95%     | 65.48%        | 56.03%     | 50.92%     | 55.88%     |
| <b>Balance sheet data</b>  |               |            |            |            |               |            |            |            |
| <i>In millions, except per share</i>                                     |               |            |            |            |               |            |            |            |
| Average balances   |               |            |            |            |               |            |            |            |
| Total assets(c)  | \$ 98,644     | \$ 93,245  | \$ 89,873  | \$ 86,665  | \$ 85,330     | \$ 84,011  | \$ 83,352  | \$ 81,913  |
| Total tangible assets(c)   | 95,093        | 89,689     | 86,311     | 83,096     | 81,754        | 80,427     | 79,760     | 78,311     |
| Earning assets   | 87,965        | 82,776     | 79,556     | 76,288     | 75,049        | 74,667     | 73,960     | 72,339     |
| Investment securities  | 12,978        | 12,780     | 10,959     | 9,265      | 8,354         | 6,979      | 5,293      | 5,803      |
| Loans and leases, net of unearned discount                               | 65,767        | 64,763     | 64,343     | 63,763     | 63,550        | 64,858     | 65,979     | 65,852     |
| Deposits   | 75,515        | 70,772     | 69,659     | 67,327     | 67,212        | 66,232     | 65,680     | 64,540     |
| Common shareholders equity(c)  | 11,211        | 11,015     | 10,808     | 10,576     | 10,228        | 10,003     | 9,687      | 9,448      |
| Tangible common shareholders equity(c)                                   | 7,660         | 7,459      | 7,246      | 7,007      | 6,652         | 6,419      | 6,095      | 5,846      |
| At end of quarter  |               |            |            |            |               |            |            |            |
| Total assets(c)  | \$ 96,686     | \$ 97,228  | \$ 90,835  | \$ 88,530  | \$ 85,162     | \$ 84,427  | \$ 83,229  | \$ 82,812  |
| Total tangible assets(c)   | 93,137        | 93,674     | 87,276     | 84,965     | 81,589        | 80,847     | 79,641     | 79,215     |
| Earning assets   | 86,278        | 86,751     | 80,062     | 77,950     | 74,706        | 74,085     | 73,927     | 73,543     |

## Edgar Filing: M&T BANK CORP - Form 10-K

|  |           |           |           |           |           |           |           |           |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Investment securities  | 12,994    | 13,348    | 12,120    | 10,364    | 8,796     | 8,310     | 5,211     | 5,661     |
| Loans and leases, net of unearned discount                                       | 66,669    | 65,572    | 64,748    | 64,135    | 64,073    | 63,659    | 65,972    | 65,924    |
| Deposits   | 73,582    | 74,342    | 69,829    | 68,699    | 67,119    | 66,552    | 65,661    | 65,090    |
| Common shareholders' equity, net of undeclared cumulative preferred dividends(c) | 11,102    | 11,099    | 10,934    | 10,652    | 10,421    | 10,133    | 9,836     | 9,545     |
| Tangible common shareholders' equity(c)  | 7,553     | 7,545     | 7,375     | 7,087     | 6,848     | 6,553     | 6,248     | 5,948     |
| Equity per common share  | 83.88     | 83.99     | 82.86     | 81.05     | 79.81     | 77.81     | 75.98     | 73.99     |
| Tangible equity per common share   | 57.06     | 57.10     | 55.89     | 53.92     | 52.45     | 50.32     | 48.26     | 46.11     |
| <b>Market price per common share</b>   |           |           |           |           |           |           |           |           |
| High   | \$ 128.96 | \$ 128.69 | \$ 125.90 | \$ 123.04 | \$ 117.29 | \$ 119.54 | \$ 112.01 | \$ 105.90 |
| Low  | 112.42    | 118.51    | 116.10    | 109.16    | 109.23    | 109.47    | 95.68     | 99.59     |
| Closing  | 125.62    | 123.29    | 124.05    | 121.30    | 116.42    | 111.92    | 111.75    | 103.16    |

- (a) Excludes amortization and balances related to goodwill and core deposit and other intangible assets and merger-related expenses which, except in the calculation of the efficiency ratio, are net of applicable income tax effects. A reconciliation of net income and net operating income appears in Table 24.
- (b) Excludes impact of merger-related expenses and net securities gains or losses.
- (c) The difference between total assets and total tangible assets, and common shareholders' equity and tangible common shareholders' equity, represents goodwill, core deposit and other intangible assets, net of applicable deferred tax balances. A reconciliation of such balances appears in Table 24.

**Table of Contents****Table 24****RECONCILIATION OF QUARTERLY GAAP TO NON-GAAP MEASURES**

|   | 2014 Quarters |              |              |              | 2013 Quarters |              |              |              |
|---|---------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|
|   | Fourth        | Third        | Second       | First        | Fourth        | Third        | Second       | First        |
| <b>Income statement data</b>                                |               |              |              |              |               |              |              |              |
| <i>In thousands, except per share</i>                       |               |              |              |              |               |              |              |              |
| <b>Net income</b>   |               |              |              |              |               |              |              |              |
| Net income  | \$ 277,549    | \$ 275,344   | \$ 284,336   | \$ 229,017   | \$ 221,422    | \$ 294,479   | \$ 348,466   | \$ 274,113   |
| Amortization of core deposit and other intangible assets(a) | 4,380         | 4,494        | 5,638        | 6,145        | 6,375         | 6,489        | 7,632        | 8,148        |
| Merger-related expenses(a)                                  |               |              |              |              |               |              | 4,636        | 2,875        |
| Net operating income  | \$ 281,929    | \$ 279,838   | \$ 289,974   | \$ 235,162   | \$ 227,797    | \$ 300,968   | \$ 360,734   | \$ 285,136   |
| <b>Earnings per common share</b>                            |               |              |              |              |               |              |              |              |
| Diluted earnings per common share                           | \$ 1.92       | \$ 1.91      | \$ 1.98      | \$ 1.61      | \$ 1.56       | \$ 2.11      | \$ 2.55      | \$ 1.98      |
| Amortization of core deposit and other intangible assets(a) | .03           | .03          | .04          | .05          | .05           | .05          | .06          | .06          |
| Merger-related expenses(a)                                  |               |              |              |              |               |              | .04          | .02          |
| Diluted net operating earnings per common share             | \$ 1.95       | \$ 1.94      | \$ 2.02      | \$ 1.66      | \$ 1.61       | \$ 2.16      | \$ 2.65      | \$ 2.06      |
| <b>Other expense</b>  |               |              |              |              |               |              |              |              |
| Other expense   | \$ 680,108    | \$ 679,284   | \$ 681,194   | \$ 702,271   | \$ 743,072    | \$ 658,626   | \$ 598,591   | \$ 635,596   |
| Amortization of core deposit and other intangible assets    | (7,170)       | (7,358)      | (9,234)      | (10,062)     | (10,439)      | (10,628)     | (12,502)     | (13,343)     |
| Merger-related expenses                                     |               |              |              |              |               |              | (7,632)      | (4,732)      |
| Noninterest operating expense                               | \$ 672,938    | \$ 671,926   | \$ 671,960   | \$ 692,209   | \$ 732,633    | \$ 647,998   | \$ 578,457   | \$ 617,521   |
| <b>Merger-related expenses</b>                              |               |              |              |              |               |              |              |              |
| Salaries and employee benefits                              | \$            | \$           | \$           | \$           | \$            | \$           | \$ 300       | \$ 536       |
| Equipment and net occupancy                                 |               |              |              |              |               |              | 489          | 201          |
| Printing, postage and supplies                              |               |              |              |              |               |              | 998          | 827          |
| Other costs of operations                                   |               |              |              |              |               |              | 5,845        | 3,168        |
| Total   | \$            | \$           | \$           | \$           | \$            | \$           | \$ 7,632     | \$ 4,732     |
| <b>Efficiency ratio</b>                                     |               |              |              |              |               |              |              |              |
| Noninterest operating expense (numerator)                   | \$ 672,938    | \$ 671,926   | \$ 671,960   | \$ 692,209   | \$ 732,633    | \$ 647,998   | \$ 578,457   | \$ 617,521   |
| Taxable-equivalent net interest income                      | 687,847       | 674,900      | 674,963      | 662,378      | 672,683       | 679,213      | 683,804      | 662,500      |
| Other income  | 451,643       | 451,111      | 456,412      | 420,107      | 446,246       | 477,388      | 508,689      | 432,882      |
| Less: Gain on bank investment securities                    |               |              |              |              |               |              | 56,457       |              |
| Net OTTI losses recognized in earnings                      |               |              |              |              |               |              |              | (9,800)      |
| Denominator   | \$ 1,139,490  | \$ 1,126,011 | \$ 1,131,375 | \$ 1,082,485 | \$ 1,118,929  | \$ 1,156,601 | \$ 1,136,036 | \$ 1,105,182 |
| Efficiency ratio  | 59.06%        | 59.67%       | 59.39%       | 63.95%       | 65.48%        | 56.03%       | 50.92%       | 55.88%       |

Edgar Filing: M&T BANK CORP - Form 10-K

**Balance sheet data**

*In millions*

**Average assets**

|  |                  |                  |                  |                  |                  |                  |                  |                  |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Average assets                           | \$ 98,644        | \$ 93,245        | \$ 89,873        | \$ 86,665        | \$ 85,330        | \$ 84,011        | \$ 83,352        | \$ 81,913        |
| Goodwill                                 | (3,525)          | (3,525)          | (3,525)          | (3,525)          | (3,525)          | (3,525)          | (3,525)          | (3,525)          |
| Core deposit and other intangible assets | (38)             | (45)             | (53)             | (64)             | (74)             | (84)             | (95)             | (109)            |
| Deferred taxes                           | 12               | 14               | 16               | 20               | 23               | 25               | 28               | 32               |
| <b>Average tangible assets</b>           | <b>\$ 95,093</b> | <b>\$ 89,689</b> | <b>\$ 86,311</b> | <b>\$ 83,096</b> | <b>\$ 81,754</b> | <b>\$ 80,427</b> | <b>\$ 79,760</b> | <b>\$ 78,311</b> |

**Average common equity**

|  |                 |                 |                 |                 |                 |                 |                 |                 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Average total equity                     | \$ 12,442       | \$ 12,247       | \$ 12,039       | \$ 11,648       | \$ 11,109       | \$ 10,881       | \$ 10,563       | \$ 10,322       |
| Preferred stock                          | (1,231)         | (1,232)         | (1,231)         | (1,072)         | (881)           | (878)           | (876)           | (874)           |
| Average common equity                    | 11,211          | 11,015          | 10,808          | 10,576          | 10,228          | 10,003          | 9,687           | 9,448           |
| Goodwill                                 | (3,525)         | (3,525)         | (3,525)         | (3,525)         | (3,525)         | (3,525)         | (3,525)         | (3,525)         |
| Core deposit and other intangible assets | (38)            | (45)            | (53)            | (64)            | (74)            | (84)            | (95)            | (109)           |
| Deferred taxes                           | 12              | 14              | 16              | 20              | 23              | 25              | 28              | 32              |
| <b>Average tangible common equity</b>    | <b>\$ 7,660</b> | <b>\$ 7,459</b> | <b>\$ 7,246</b> | <b>\$ 7,007</b> | <b>\$ 6,652</b> | <b>\$ 6,419</b> | <b>\$ 6,095</b> | <b>\$ 5,846</b> |

**At end of quarter**

**Total assets**

|  |                  |                  |                  |                  |                  |                  |                  |                  |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Total assets                             | \$ 96,686        | \$ 97,228        | \$ 90,835        | \$ 88,530        | \$ 85,162        | \$ 84,427        | \$ 83,229        | \$ 82,812        |
| Goodwill                                 | (3,525)          | (3,525)          | (3,525)          | (3,525)          | (3,525)          | (3,525)          | (3,525)          | (3,525)          |
| Core deposit and other intangible assets | (35)             | (42)             | (49)             | (59)             | (69)             | (79)             | (90)             | (102)            |
| Deferred taxes                           | 11               | 13               | 15               | 19               | 21               | 24               | 27               | 30               |
| <b>Total tangible assets</b>             | <b>\$ 93,137</b> | <b>\$ 93,674</b> | <b>\$ 87,276</b> | <b>\$ 84,965</b> | <b>\$ 81,589</b> | <b>\$ 80,847</b> | <b>\$ 79,641</b> | <b>\$ 79,215</b> |

**Total common equity**

|   |                 |                 |                 |                 |                 |                 |                 |                 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Total equity  | \$ 12,336       | \$ 12,333       | \$ 12,169       | \$ 11,887       | \$ 11,306       | \$ 11,016       | \$ 10,716       | \$ 10,423       |
| Preferred stock   | (1,231)         | (1,232)         | (1,232)         | (1,232)         | (882)           | (879)           | (877)           | (875)           |
| Undeclared dividends-cumulative preferred stock                 | (3)             | (2)             | (3)             | (3)             | (3)             | (4)             | (3)             | (3)             |
| Common equity, net of undeclared cumulative preferred dividends | 11,102          | 11,099          | 10,934          | 10,652          | 10,421          | 10,133          | 9,836           | 9,545           |
| Goodwill  | (3,525)         | (3,525)         | (3,525)         | (3,525)         | (3,525)         | (3,525)         | (3,525)         | (3,525)         |
| Core deposit and other intangible assets                        | (35)            | (42)            | (49)            | (59)            | (69)            | (79)            | (90)            | (102)           |
| Deferred taxes  | 11              | 13              | 15              | 19              | 21              | 24              | 27              | 30              |
| <b>Total tangible common equity</b>                             | <b>\$ 7,553</b> | <b>\$ 7,545</b> | <b>\$ 7,375</b> | <b>\$ 7,087</b> | <b>\$ 6,848</b> | <b>\$ 6,553</b> | <b>\$ 6,248</b> | <b>\$ 5,948</b> |

(a) After any related tax effect.

---

**Table of Contents**

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

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

**Item 8. *Financial Statements and Supplementary Data.***

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

**Index to Financial Statements and Financial Statement Schedules**

|   |     |
|---|-----|
| <u>Report on Internal Control Over Financial Reporting</u>  | 96  |
| <u>Report of Independent Registered Public Accounting Firm</u>  | 97  |
| <u>Consolidated Balance Sheet – December 31, 2014 and 2013</u>  | 98  |
| <u>Consolidated Statement of Income – Years ended December 31, 2014, 2013 and 2012</u>                          | 99  |
| <u>Consolidated Statement of Comprehensive Income – Years ended December 31, 2014, 2013 and 2012</u>            | 100 |
| <u>Consolidated Statement of Cash Flows – Years ended December 31, 2014, 2013 and 2012</u>                      | 101 |
| <u>Consolidated Statement of Changes in Shareholders’ Equity – Years ended December 31, 2014, 2013 and 2012</u> | 102 |
| <u>Notes to Financial Statements</u>  | 103 |

**Table of Contents**

**Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting at M&T Bank Corporation and subsidiaries ( the Company ). Management has assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2014 based on criteria described in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2014.

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

M&T BANK CORPORATION

ROBERT G. WILMERS

*Chairman of the Board and Chief Executive Officer*

RENÉ F. JONES

*Executive Vice President and Chief Financial Officer*

---

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of

M&T Bank Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity present fairly, in all material respects, the financial position of M&T Bank Corporation and its subsidiaries (the Company) at December 31, 2014 and December 31, 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

Buffalo, New York

February 20, 2015

**Table of Contents****M&T BANK CORPORATION AND SUBSIDIARIES****Consolidated Balance Sheet**

(Dollars in thousands, except per share)

|  | December 31   |               |
|--|---------------|---------------|
|  | 2014          | 2013          |
| <b>Assets</b>  |               |               |
| Cash and due from banks  | \$ 1,289,965  | \$ 1,573,361  |
| Interest-bearing deposits at banks   | 6,470,867     | 1,651,138     |
| Federal funds sold   | 83,392        | 99,573        |
| Trading account  | 308,175       | 376,131       |
| Investment securities (includes pledged securities that can be sold or repledged of \$1,631,267 at December 31, 2014; \$1,696,438 at December 31, 2013)  |               |               |
| Available for sale (cost: \$8,919,324 at December 31, 2014; \$4,444,365 at December 31, 2013)  | 9,156,932     | 4,531,786     |
| Held to maturity (fair value: \$3,538,282 at December 31, 2014; \$3,860,127 at December 31, 2013)  | 3,507,868     | 3,966,130     |
| Other (fair value: \$328,742 at December 31, 2014; \$298,581 at December 31, 2013)   | 328,742       | 298,581       |
| Total investment securities  | 12,993,542    | 8,796,497     |
| Loans and leases   | 66,899,369    | 64,325,783    |
| Unearned discount  | (230,413)     | (252,624)     |
| Loans and leases, net of unearned discount   | 66,668,956    | 64,073,159    |
| Allowance for credit losses  | (919,562)     | (916,676)     |
| Loans and leases, net  | 65,749,394    | 63,156,483    |
| Premises and equipment   | 612,984       | 633,520       |
| Goodwill   | 3,524,625     | 3,524,625     |
| Core deposit and other intangible assets   | 35,027        | 68,851        |
| Accrued interest and other assets  | 5,617,564     | 5,282,212     |
| Total assets   | \$ 96,685,535 | \$ 85,162,391 |
| <b>Liabilities</b>   |               |               |
| Noninterest-bearing deposits   | \$ 26,947,880 | \$ 24,661,007 |
| NOW accounts   | 2,307,815     | 1,989,441     |
| Savings deposits   | 41,085,803    | 36,621,580    |
| Time deposits  | 3,063,973     | 3,523,838     |
| Deposits at Cayman Islands office  | 176,582       | 322,746       |
| Total deposits   | 73,582,053    | 67,118,612    |
| Federal funds purchased and agreements to repurchase securities  | 192,676       | 260,455       |
| Accrued interest and other liabilities   | 1,567,951     | 1,368,922     |
| Long-term borrowings   | 9,006,959     | 5,108,870     |
| Total liabilities  | 84,349,639    | 73,856,859    |
| <b>Shareholders equity</b>   |               |               |
| Preferred stock, \$1.00 par, 1,000,000 shares authorized; Issued and outstanding: Liquidation preference of \$1,000 per share: 731,500 shares at December 31, 2014; 381,500 shares at December 31, 2013; |               |               |
| Liquidation preference of \$10,000 per share: 50,000 shares at December 31, 2014 and December 31, 2013   | 1,231,500     | 881,500       |

## Edgar Filing: M&T BANK CORP - Form 10-K

|  |                      |                      |
|--|----------------------|----------------------|
| Common stock, \$.50 par, 250,000,000 shares authorized, 132,312,931 shares issued at December 31, 2014; 130,516,364 shares issued at December 31, 2013 | 66,157               | 65,258               |
| Common stock issuable, 41,330 shares at December 31, 2014; 47,231 shares at December 31, 2013  | 2,608                | 2,915                |
| Additional paid-in capital   | 3,409,506            | 3,232,014            |
| Retained earnings  | 7,807,119            | 7,188,004            |
| Accumulated other comprehensive income (loss), net   | (180,994)            | (64,159)             |
| <b>Total shareholders' equity</b>  | <b>12,335,896</b>    | <b>11,305,532</b>    |
| <b>Total liabilities and shareholders' equity</b>  | <b>\$ 96,685,535</b> | <b>\$ 85,162,391</b> |

*See accompanying notes to financial statements.*

**Table of Contents****M&T BANK CORPORATION AND SUBSIDIARIES****Consolidated Statement of Income**

| (In thousands, except per share)   | Year Ended December 31 |              |              |
|--|------------------------|--------------|--------------|
|  | 2014                   | 2013         | 2012         |
| <b>Interest income</b>   |                        |              |              |
| Loans and leases, including fees   | \$ 2,596,586           | \$ 2,734,708 | \$ 2,704,156 |
| Deposits at banks  | 13,361                 | 5,201        | 1,221        |
| Federal funds sold   | 64                     | 104          | 21           |
| Agreements to resell securities  |                        | 10           |              |
| Trading account  | 1,119                  | 1,265        | 1,126        |
| Investment securities  |                        |              |              |
| Fully taxable  | 340,391                | 209,244      | 227,116      |
| Exempt from federal taxes  | 5,356                  | 6,802        | 8,045        |
| Total interest income  | 2,956,877              | 2,957,334    | 2,941,685    |
| <b>Interest expense</b>  |                        |              |              |
| NOW accounts   | 1,404                  | 1,287        | 1,343        |
| Savings deposits   | 45,465                 | 54,948       | 68,011       |
| Time deposits  | 15,515                 | 26,439       | 46,102       |
| Deposits at Cayman Islands office  | 699                    | 1,018        | 1,130        |
| Short-term borrowings  | 101                    | 430          | 1,286        |
| Long-term borrowings   | 217,247                | 199,983      | 225,297      |
| Total interest expense   | 280,431                | 284,105      | 343,169      |
| <i>Net interest income</i>   | 2,676,446              | 2,673,229    | 2,598,516    |
| Provision for credit losses  | 124,000                | 185,000      | 204,000      |
| Net interest income after provision for credit losses                          | 2,552,446              | 2,488,229    | 2,394,516    |
| <b>Other income</b>  |                        |              |              |
| Mortgage banking revenues  | 362,912                | 331,265      | 349,064      |
| Service charges on deposit accounts  | 427,956                | 446,941      | 446,698      |
| Trust income   | 508,258                | 496,008      | 471,852      |
| Brokerage services income  | 67,212                 | 65,647       | 59,059       |
| Trading account and foreign exchange gains                                     | 29,874                 | 40,828       | 35,634       |
| Gain on bank investment securities   |                        | 56,457       | 9            |
| Total other-than-temporary impairment ( OTTI ) losses                          |                        | (1,884)      | (32,067)     |
| Portion of OTTI losses recognized in other comprehensive income (before taxes) |                        | (7,916)      | (15,755)     |
| Net OTTI losses recognized in earnings   |                        | (9,800)      | (47,822)     |
| Equity in earnings of Bayview Lending Group LLC                                | (16,672)               | (16,126)     | (21,511)     |
| Other revenues from operations   | 399,733                | 453,985      | 374,287      |
| Total other income   | 1,779,273              | 1,865,205    | 1,667,270    |
| <b>Other expense</b>   |                        |              |              |
| Salaries and employee benefits   | 1,404,950              | 1,355,178    | 1,314,540    |
| Equipment and net occupancy  | 269,299                | 264,327      | 257,551      |
| Printing, postage and supplies   | 38,201                 | 39,557       | 41,929       |
| Amortization of core deposit and other intangible assets                       | 33,824                 | 46,912       | 60,631       |

Edgar Filing: M&T BANK CORP - Form 10-K

|  |              |              |              |
|--|--------------|--------------|--------------|
| FDIC assessments                                   | 55,531       | 69,584       | 101,110      |
| Other costs of operations                          | 941,052      | 860,327      | 733,499      |
| Total other expense                                | 2,742,857    | 2,635,885    | 2,509,260    |
| Income before taxes                                | 1,588,862    | 1,717,549    | 1,552,526    |
| Income taxes                                       | 522,616      | 579,069      | 523,028      |
| <i>Net income</i>                                  | \$ 1,066,246 | \$ 1,138,480 | \$ 1,029,498 |
| <b>Net income available to common shareholders</b> |              |              |              |
| Basic  | \$ 978,531   | \$ 1,062,429 | \$ 953,390   |
| Diluted  | 978,581      | 1,062,496    | 953,429      |
| <b>Net income per common share</b>                 |              |              |              |
| Basic  | \$ 7.47      | \$ 8.26      | \$ 7.57      |
| Diluted  | 7.42         | 8.20         | 7.54         |

*See accompanying notes to financial statements.*

**Table of Contents****M&T BANK CORPORATION AND SUBSIDIARIES****Consolidated Statement of Comprehensive Income**

| (In thousands)   | Year Ended December 31 |              |              |
|--|------------------------|--------------|--------------|
|  | 2014                   | 2013         | 2012         |
| Net income   | \$ 1,066,246           | \$ 1,138,480 | \$ 1,029,498 |
| Other comprehensive income, net of tax and reclassification adjustments: |                        |              |              |
| Net unrealized gains (losses) on investment securities                   | 93,275                 | (2,865)      | 114,825      |
| Cash flow hedges adjustments   | (96)                   |              | (112)        |
| Foreign currency translation adjustment                                  | (2,607)                | 381          | 519          |
| Defined benefit plans liability adjustments                              | (207,407)              | 178,589      | 945          |
| Total other comprehensive income (loss)                                  | (116,835)              | 176,105      | 116,177      |
| Total comprehensive income   | \$ 949,411             | \$ 1,314,585 | \$ 1,145,675 |

*See accompanying notes to financial statements.*

**Table of Contents****M&T BANK CORPORATION AND SUBSIDIARIES****Consolidated Statement of Cash Flows**

| (In thousands)   | Year Ended December 31 |              |              |
|--|------------------------|--------------|--------------|
|  | 2014                   | 2013         | 2012         |
| <b>Cash flows from operating activities</b>                                      |                        |              |              |
| Net income   | \$ 1,066,246           | \$ 1,138,480 | \$ 1,029,498 |
| Adjustments to reconcile net income to net cash provided by operating activities |                        |              |              |
| Provision for credit losses  | 124,000                | 185,000      | 204,000      |
| Depreciation and amortization of premises and equipment                          | 96,496                 | 91,469       | 84,375       |
| Amortization of capitalized servicing rights                                     | 68,410                 | 65,354       | 59,555       |
| Amortization of core deposit and other intangible assets                         | 33,824                 | 46,912       | 60,631       |
| Provision for deferred income taxes  | 92,848                 | 139,785      | 131,858      |
| Asset write-downs  | 6,593                  | 17,918       | 63,790       |
| Net gain on sales of assets  | (6,859)                | (127,890)    | (6,868)      |
| Net change in accrued interest receivable, payable                               | 15,163                 | (10,523)     | (13,898)     |
| Net change in other accrued income and expense                                   | (68,722)               | 71,523       | (200,704)    |
| Net change in loans originated for sale  | (350,581)              | (674,062)    | (924,839)    |
| Net change in trading account assets and liabilities                             | 21,623                 | (11,642)     | 12,583       |
| Net cash provided by operating activities  | 1,099,041              | 932,324      | 499,981      |
| <b>Cash flows from investing activities</b>                                      |                        |              |              |
| Proceeds from sales of investment securities                                     |                        |              |              |
| Available for sale   | 16                     | 1,081,802    | 49,528       |
| Other  | 23,445                 | 13,172       | 78,071       |
| Proceeds from maturities of investment securities                                |                        |              |              |
| Available for sale   | 998,413                | 1,034,564    | 1,585,260    |
| Held to maturity   | 468,999                | 287,837      | 329,279      |
| Purchases of investment securities   |                        |              |              |
| Available for sale   | (5,347,145)            | (197,931)    | (28,161)     |
| Held to maturity   | (21,283)               | (1,977,064)  | (285,125)    |
| Other  | (53,606)               | (9,105)      | (13,833)     |
| Net (increase) decrease in loans and leases                                      | (2,421,162)            | 123,120      | (5,672,747)  |
| Net (increase) decrease in interest-bearing deposits at banks                    | (4,819,729)            | (1,521,193)  | 25,015       |
| Capital expenditures, net  | (73,161)               | (129,563)    | (91,519)     |
| Net increase in loan servicing advances  | (484,689)              | (1,004,923)  | (69,084)     |
| Other, net   | 19,531                 | 95,706       | 32,458       |
| Net cash used by investing activities  | (11,710,371)           | (2,203,578)  | (4,060,858)  |
| <b>Cash flows from financing activities</b>                                      |                        |              |              |
| Net increase in deposits   | 6,466,697              | 1,513,884    | 6,230,391    |
| Net increase (decrease) in short-term borrowings                                 | (67,779)               | (814,027)    | 292,422      |
| Proceeds from long-term borrowings   | 4,345,478              | 799,760      |              |
| Payments on long-term borrowings   | (426,275)              | (261,212)    | (2,080,167)  |
| Dividends paid common  | (371,199)              | (365,349)    | (357,717)    |
| Dividends paid preferred   | (70,234)               | (53,450)     | (53,450)     |
| Proceeds from issuance of preferred stock  | 346,500                |              |              |
| Other, net   | 88,565                 | 137,967      | 63,616       |
| Net cash provided by financing activities  | 10,311,753             | 957,573      | 4,095,095    |
| Net increase (decrease) in cash and cash equivalents                             | (299,577)              | (313,681)    | 534,218      |
| Cash and cash equivalents at beginning of year                                   | 1,672,934              | 1,986,615    | 1,452,397    |
| Cash and cash equivalents at end of year   | \$ 1,373,357           | \$ 1,672,934 | \$ 1,986,615 |

## Edgar Filing: M&T BANK CORP - Form 10-K

### Supplemental disclosure of cash flow information

|                                   |              |              |              |
|-----------------------------------|--------------|--------------|--------------|
| Interest received during the year | \$ 2,893,153 | \$ 2,894,699 | \$ 2,931,409 |
| Interest paid during the year     | 257,553      | 301,734      | 371,887      |
| Income taxes paid during the year | 411,912      | 389,008      | 405,598      |

### Supplemental schedule of noncash investing and financing activities

|   |            |              |        |
|---|------------|--------------|--------|
| Securitization of residential mortgage loans allocated to |            |              |        |
| Available-for-sale investment securities                  | \$ 134,698 | \$ 1,690,490 | \$     |
| Held-to-maturity investment securities                    |            | 1,245,444    |        |
| Capitalized servicing rights                              | 1,760      | 30,879       |        |
| Real estate acquired in settlement of loans               | 43,821     | 44,804       | 48,932 |

*See accompanying notes to financial statements.*

**Table of Contents****M&T BANK CORPORATION AND SUBSIDIARIES****Consolidated Statement of Changes in Shareholders' Equity**

| (In thousands, except per share)  | Preferred Stock | Common Stock | Common Stock Issuable | Additional Paid-in Capital | Retained Earnings | Accumulated                            | Total      |
|---|-----------------|--------------|-----------------------|----------------------------|-------------------|--|------------|
|   |                 |              |                       |                            |                   | Other Comprehensive Income (Loss), Net |            |
| <b>2012</b>   |                 |              |                       |                            |                   |  |            |
| Balance January 1, 2012   | \$ 864,585      | 62,842       | 4,072                 | 2,828,986                  | 5,867,165         | (356,441)                              | 9,271,209  |
| Total comprehensive income  |                 |              |                       |                            | 1,029,498         | 116,177                                | 1,145,675  |
| Preferred stock cash dividends  |                 |              |                       |                            | (53,450)          |  | (53,450)   |
| Amortization of preferred stock discount  | 7,915           |              |                       |                            | (7,915)           |  |            |
| Stock-based compensation plans:   |                 |              |                       |                            |                   |  |            |
| Compensation expense, net   |                 | 229          |                       | 47,937                     |                   |  | 48,166     |
| Exercises of stock options, net   |                 | 928          |                       | 135,017                    |                   |  | 135,945    |
| Stock purchase plan   |                 | 75           |                       | 10,042                     |                   |  | 10,117     |
| Directors' stock plan   |                 | 9            |                       | 1,471                      |                   |  | 1,480      |
| Deferred compensation plans, net, including dividend equivalents                |                 | 5            | (599)                 | 593                        | (160)             |  | (161)      |
| Other   |                 |              |                       | 1,474                      |                   |  | 1,474      |
| Common stock cash dividends \$2.80 per share                                    |                 |              |                       |                            | (357,862)         |  | (357,862)  |
| Balance December 31, 2012   | \$ 872,500      | 64,088       | 3,473                 | 3,025,520                  | 6,477,276         | (240,264)                              | 10,202,593 |
| <b>2013</b>   |                 |              |                       |                            |                   |  |            |
| Total comprehensive income  |                 |              |                       |                            | 1,138,480         | 176,105                                | 1,314,585  |
| Preferred stock cash dividends  |                 |              |                       |                            | (53,450)          |  | (53,450)   |
| Amortization of preferred stock discount  | 9,000           |              |                       |                            | (9,000)           |  |            |
| Exercise of 407,542 Series C stock warrants into 186,589 shares of common stock |                 | 93           |                       | (93)                       |                   |  |            |
| Exercise of 69,127 Series A stock warrants into 25,427 shares of common stock   |                 | 13           |                       | (13)                       |                   |  |            |
| Stock-based compensation plans:   |                 |              |                       |                            |                   |  |            |
| Compensation expense, net   |                 | 137          |                       | 37,890                     |                   |  | 38,027     |
| Exercises of stock options, net   |                 | 914          |                       | 163,891                    |                   |  | 164,805    |
| Directors' stock plan   |                 | 8            |                       | 1,636                      |                   |  | 1,644      |
| Deferred compensation plans, net, including dividend equivalents                |                 | 5            | (558)                 | 575                        | (131)             |  | (109)      |
| Other   |                 |              |                       | 2,608                      |                   |  | 2,608      |
| Common stock cash dividends \$2.80 per share                                    |                 |              |                       |                            | (365,171)         |  | (365,171)  |
| Balance December 31, 2013   | \$ 881,500      | 65,258       | 2,915                 | 3,232,014                  | 7,188,004         | (64,159)                               | 11,305,532 |
| <b>2014</b>   |                 |              |                       |                            |                   |  |            |
| Total comprehensive income  |                 |              |                       |                            | 1,066,246         | (116,835)                              | 949,411    |
| Preferred stock cash dividends  |                 |              |                       |                            | (75,878)          |  | (75,878)   |
| Issuance of Series E preferred stock  | 350,000         |              |                       | (3,500)                    |                   |  | 346,500    |
| Exercise of 427,905 Series A stock warrants into 169,543 shares of common stock |                 | 85           |                       | (85)                       |                   |  |            |
| Stock-based compensation plans:   |                 |              |                       |                            |                   |  |            |
| Compensation expense, net   |                 | 128          |                       | 45,306                     |                   |  | 45,434     |
| Exercises of stock options, net   |                 | 633          |                       | 122,476                    |                   |  | 123,109    |
| Stock purchase plan   |                 | 43           |                       | 9,545                      |                   |  | 9,588      |
| Directors' stock plan   |                 | 7            |                       | 1,658                      |                   |  | 1,665      |
| Deferred compensation plans, net, including dividend equivalents                |                 | 3            | (307)                 | 345                        | (116)             |  | (75)       |
| Other   |                 |              |                       | 1,747                      |                   |  | 1,747      |
| Common stock cash dividends \$2.80 per share                                    |                 |              |                       |                            | (371,137)         |  | (371,137)  |

Edgar Filing: M&T BANK CORP - Form 10-K

|         |                   |              |        |       |           |           |           |            |
|---------|-------------------|--------------|--------|-------|-----------|-----------|-----------|------------|
| Balance | December 31, 2014 | \$ 1,231,500 | 66,157 | 2,608 | 3,409,506 | 7,807,119 | (180,994) | 12,335,896 |
|---------|-------------------|--------------|--------|-------|-----------|-----------|-----------|------------|

*See accompanying notes to financial statements.*

---

**Table of Contents**

**M&T BANK CORPORATION AND SUBSIDIARIES**

**Notes to Financial Statements**

**1. Significant accounting policies**

M&T Bank Corporation ( M&T ) is a bank holding company headquartered in Buffalo, New York. Through subsidiaries, M&T provides individuals, corporations and other businesses, and institutions with commercial and retail banking services, including loans and deposits, trust, mortgage banking, asset management, insurance and other financial services. Banking activities are largely focused on consumers residing in New York State, Pennsylvania, Maryland, Delaware, Virginia and the District of Columbia and on small and medium-size businesses based in those areas. Banking services are also provided in West Virginia and New Jersey, while certain subsidiaries also conduct activities in other areas.

The accounting and reporting policies of M&T and subsidiaries ( the Company ) conform to generally accepted accounting principles ( GAAP ) and to general practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The more significant accounting policies are as follows:

***Consolidation***

The consolidated financial statements include M&T and all of its subsidiaries. All significant intercompany accounts and transactions of consolidated subsidiaries have been eliminated in consolidation. The financial statements of M&T included in note 25 report investments in subsidiaries under the equity method. Information about some limited purpose entities that are affiliates of the Company but are not included in the consolidated financial statements appears in note 19.

***Consolidated Statement of Cash Flows***

For purposes of this statement, cash and due from banks and federal funds sold are considered cash and cash equivalents.

***Securities purchased under agreements to resell and securities sold under agreements to repurchase***

Securities purchased under agreements to resell and securities sold under agreements to repurchase are treated as collateralized financing transactions and are recorded at amounts equal to the cash or other consideration exchanged. It is generally the Company's policy to take possession of collateral pledged to secure agreements to resell.

***Trading account***

Financial instruments used for trading purposes are stated at fair value. Realized gains and losses and unrealized changes in fair value of financial instruments utilized in trading activities are included in trading account and foreign exchange gains in the consolidated statement of income.

***Investment securities***

Investments in debt securities are classified as held to maturity and stated at amortized cost when management has the positive intent and ability to hold such securities to maturity. Investments in other debt securities and equity securities having readily determinable fair values are classified as available for sale and stated at estimated fair value. Amortization of premiums and accretion of discounts for investment securities available for sale and held to maturity are included in interest income.

Other securities are stated at cost and include stock of the Federal Reserve Bank of New York and the Federal Home Loan Bank ( FHLB ) of New York.

The cost basis of individual securities is written down through a charge to earnings when declines in value below amortized cost are considered to be other than temporary. In cases where fair value is less than amortized cost and the Company intends to sell a debt security, it is more likely than not to be required to sell a debt security before recovery of its amortized cost basis, or the Company does not expect to recover the entire amortized cost basis of a debt security, an other-than-temporary impairment is considered to have occurred. If the Company intends to sell the

debt security or more likely than not will be required to sell the

**Table of Contents**

security before recovery of its amortized cost basis, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the debt security's amortized cost basis and its fair value. If the Company does not expect to recover the entire amortized cost basis of the security, the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the other-than-temporary impairment is separated into (a) the amount representing the credit loss and (b) the amount related to all other factors. The amount of the other-than-temporary impairment related to the credit loss is recognized in earnings while the amount related to other factors is recognized in other comprehensive income, net of applicable taxes. Subsequently, the Company accounts for the other-than-temporarily impaired debt security as if the security had been purchased on the measurement date of the other-than-temporary impairment at an amortized cost basis equal to the previous amortized cost basis less the other-than-temporary impairment recognized in earnings. The cost basis of individual equity securities is written down to estimated fair value through a charge to earnings when declines in value below cost are considered to be other than temporary. Realized gains and losses on the sales of investment securities are determined using the specific identification method.

***Loans and leases***

The Company's accounting methods for loans depends on whether the loans were originated by the Company or were acquired in a business combination.

**Originated loans and leases**

Interest income on loans is accrued on a level yield method. Loans are placed on nonaccrual status and previously accrued interest thereon is charged against income when principal or interest is delinquent 90 days, unless management determines that the loan status clearly warrants other treatment. Nonaccrual commercial loans and commercial real estate loans are returned to accrual status when borrowers have demonstrated an ability to repay their loans and there are no delinquent principal and interest payments. Consumer loans not secured by residential real estate are returned to accrual status when all past due principal and interest payments have been paid by the borrower. Loans secured by residential real estate are returned to accrual status when they are deemed to have an insignificant delay in payments of 90 days or less. Loan balances are charged off when it becomes evident that such balances are not fully collectible. For commercial loans and commercial real estate loans, charge-offs are recognized after an assessment by credit personnel of the capacity and willingness of the borrower to repay, the estimated value of any collateral, and any other potential sources of repayment. A charge-off is recognized when, after such assessment, it becomes evident that the loan balance is not fully collectible. For loans secured by residential real estate, the excess of the loan balances over the net realizable value of the property collateralizing the loan is charged-off when the loan becomes 150 days delinquent. Consumer loans are generally charged-off when the loans are 91 to 180 days past due, depending on whether the loan is collateralized and the status of repossession activities with respect to such collateral. Loan fees and certain direct loan origination costs are deferred and recognized as an interest yield adjustment over the life of the loan. Net deferred fees have been included in unearned discount as a reduction of loans outstanding. Commitments to sell real estate loans are utilized by the Company 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 recorded in the consolidated balance sheet includes changes in estimated fair market value during the hedge period, typically from the date of close through the sale date. Valuation adjustments made on these loans and commitments are included in mortgage banking revenues.

Except for consumer and residential mortgage loans that are considered smaller balance homogenous loans and are evaluated collectively, the Company considers a loan to be impaired for purposes of applying GAAP when, based on current information and events, it is probable that the Company will be unable to collect all amounts according to the contractual terms of the loan agreement or the loan is delinquent 90 days. Regardless of loan type, the Company considers a loan to be impaired if it qualifies as a troubled debt restructuring. Impaired loans are classified as either nonaccrual or as loans renegotiated at below market rates which continue to accrue interest, provided that a credit assessment of the borrower's financial condition results in an expectation of full repayment under the modified contractual terms. Certain loans greater than 90 days delinquent are not considered impaired if they are well-secured and in the process of collection. Loans less than 90 days delinquent are deemed to have an insignificant delay in payment and are generally not considered impaired. Impairment of a loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of

---

**Table of Contents**

collateral if the loan is collateral-dependent. Interest received on impaired loans placed on nonaccrual status is generally applied to reduce the carrying value of the loan or, if principal is considered fully collectible, recognized as interest income.

Residual value estimates for commercial leases are generally determined through internal or external reviews of the leased property. The Company reviews commercial lease residual values at least annually and recognizes residual value impairments deemed to be other than temporary.

**Loans and leases acquired in a business combination**

Loans acquired in a business combination subsequent to December 31, 2008 are recorded at fair value with no carry-over of an acquired entity's previously established allowance for credit losses. The excess of cash flows expected at acquisition over the estimated fair value of acquired loans is recognized as interest income over the remaining lives of the loans. Subsequent decreases in the expected principal cash flows require the Company to evaluate the need for additions to the Company's allowance for credit losses. Subsequent improvements in expected cash flows result first in the recovery of any related allowance for credit losses and then in recognition of additional interest income over the then-remaining lives of the loans.

Purchased impaired loans represent specifically identified loans with evidence of credit deterioration for which it was probable at acquisition that the Company would be unable to collect all contractual principal and interest payments.

***Allowance for credit losses***

The allowance for credit losses represents, in management's judgment, the amount of losses inherent in the loan and lease portfolio as of the balance sheet date. The allowance is determined by management's evaluation of the loan and lease portfolio based on such factors as the differing economic risks associated with each loan category, the current financial condition of specific borrowers, the economic environment in which borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications. The effects of probable decreases in expected principal cash flows on acquired loans are also considered in the establishment of the allowance for credit losses.

***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 included in other assets in the consolidated balance sheet. Upon acquisition of assets taken in satisfaction of a defaulted loan, the excess of the remaining loan balance over the asset's estimated fair value less costs to sell is charged-off against the allowance for credit losses. Subsequent declines in value of the assets are recognized as other costs of operations in the consolidated statement of income.

***Premises and equipment***

Premises and equipment are stated at cost less accumulated depreciation. Depreciation expense is computed principally using the straight-line method over the estimated useful lives of the assets.

***Capitalized servicing rights***

Capitalized servicing assets are included in other assets in the consolidated balance sheet. Separately recognized servicing assets are initially measured at fair value. The Company uses the amortization method to subsequently measure servicing assets. Under that method, capitalized servicing assets are charged to expense in proportion to and over the period of estimated net servicing income.

To estimate the fair value of servicing rights, the Company considers market prices for similar assets and the present value of expected future cash flows associated with the servicing rights calculated using assumptions that market participants would use in estimating future servicing income and expense. Such assumptions include estimates of the cost of servicing loans, loan default rates, an appropriate discount rate, and prepayment speeds. For purposes of evaluating and measuring impairment of capitalized servicing rights, the Company stratifies such assets based on the predominant risk characteristics of the underlying financial instruments that are expected to have the most impact on projected prepayments, cost of servicing and other factors affecting future cash flows associated with the servicing rights. Such factors may include financial asset or loan type, note rate and term. The amount of impairment recognized is the amount by which the carrying value of the capitalized servicing rights for a stratum exceeds estimated fair value. Impairment is recognized through a valuation allowance.



---

**Table of Contents*****Sales and securitizations of financial assets***

Transfers of financial assets for which the Company has surrendered control of the financial assets are accounted for as sales. Interests in a sale of financial assets that continue to be held by the Company, including servicing rights, are measured at fair value. The fair values of retained debt securities are generally determined through reference to independent pricing information. The fair values of retained servicing rights and any other retained interests are determined based on the present value of expected future cash flows associated with those interests and by reference to market prices for similar assets.

Securitization structures typically require the use of special-purpose trusts that are considered variable interest entities. A variable interest entity is included in the consolidated financial statements if the Company has the power to direct the activities that most significantly impact the variable interest entity's economic performance and has the obligation to absorb losses or the right to receive benefits of the variable interest entity that could potentially be significant to that entity.

***Goodwill and core deposit and other intangible assets***

Goodwill represents the excess of the cost of an acquired entity over the fair value of the identifiable net assets acquired. Goodwill is not amortized, but rather is tested for impairment at least annually at the reporting unit level, which is either at the same level or one level below an operating segment. Other acquired intangible assets with finite lives, such as core deposit intangibles, are initially recorded at estimated fair value and are amortized over their estimated lives. Core deposit and other intangible assets are generally amortized using accelerated methods over estimated useful lives of five to ten years. The Company periodically assesses whether events or changes in circumstances indicate that the carrying amounts of core deposit and other intangible assets may be impaired.

***Derivative financial instruments***

The Company accounts for derivative financial instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign currency denominated forecasted transaction.

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. For such agreements, amounts receivable or payable are recognized as accrued under the terms of the agreement and the net differential is recorded as an adjustment to interest income or expense of the related asset or liability. Interest rate swap agreements may be designated as either fair value hedges or cash flow hedges. In a fair value hedge, the fair values of the interest rate swap agreements and changes in the fair values of the hedged items are recorded in the Company's consolidated balance sheet with the corresponding gain or loss recognized in current earnings. The difference between changes in the fair values of interest rate swap agreements and the hedged items represents hedge ineffectiveness and is recorded in other revenues from operations in the consolidated statement of income. In a cash flow hedge, the effective portion of the derivative's unrealized gain or loss is initially recorded as a component of other comprehensive income and subsequently reclassified into earnings when the forecasted transaction affects earnings. The ineffective portion of the unrealized gain or loss is reported in other revenues from operations immediately.

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

Derivative instruments not related to mortgage banking activities, including financial futures commitments and interest rate swap agreements, that do not satisfy the hedge accounting requirements are recorded at fair value and are generally classified as trading account assets or liabilities with resultant changes in fair value being recognized in trading account and foreign exchange gains in the consolidated statement of income.

---

## **Table of Contents**

### ***Stock-based compensation***

Stock-based compensation expense is recognized over the vesting period of the stock-based grant based on the estimated grant date value of the stock-based compensation that is expected to vest, except that the recognition of compensation costs is accelerated for stock-based awards granted to retirement-eligible employees and employees who will become retirement-eligible prior to full vesting of the award because the Company's incentive compensation plan allows for vesting at the time an employee retires.

### ***Income taxes***

Deferred tax assets and liabilities are recognized for the future tax effects attributable to differences between the financial statement value of existing assets and liabilities and their respective tax bases and carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates and laws.

The Company evaluates uncertain tax positions using the two-step process required by GAAP. The first step requires a determination of whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Under the second step, a tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement.

### ***Earnings per common share***

Basic earnings per common share exclude dilution and are computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding (exclusive of shares represented by the unvested portion of restricted stock and restricted stock unit grants) and common shares issuable under deferred compensation arrangements during the period. Diluted earnings per common share reflect shares represented by the unvested portion of restricted stock and restricted stock unit grants and the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in earnings. Proceeds assumed to have been received on such exercise or conversion are assumed to be used to purchase shares of M&T common stock at the average market price during the period, as required by the treasury stock method of accounting.

GAAP requires that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) shall be considered participating securities and 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 that contain such rights and, accordingly, the Company's earnings per common share are calculated using the two-class method.

### ***Treasury stock***

Repurchases of shares of M&T common stock are recorded at cost as a reduction of shareholders' equity. Reissuances of shares of treasury stock are recorded at average cost.

## **2. Acquisitions**

On August 27, 2012, M&T announced that it had entered into a definitive agreement with Hudson City Bancorp, Inc. ( Hudson City ), headquartered in Paramus, New Jersey, under which Hudson City would be acquired by M&T. Pursuant to the terms of the agreement, Hudson City shareholders will receive consideration for each common share of Hudson City in an amount valued at .08403 of an M&T share in the form of either M&T common stock or cash, based on the election of each Hudson City shareholder, subject to proration as specified in the merger agreement (which provides for an aggregate split of total consideration of 60% common stock of M&T and 40% cash). As of December 31, 2014 total consideration to be paid was valued at approximately \$5.4 billion.

At December 31, 2014, Hudson City had \$36.6 billion of assets, including \$21.7 billion of loans and \$7.9 billion of investment securities, and \$31.8 billion of liabilities, including \$19.4 billion of deposits. The merger has received the approval of the common shareholders of M&T and Hudson City. However, the merger is subject to a number of other conditions, including regulatory approvals.

On June 17, 2013, M&T and Manufacturers and Traders Trust Company ( M&T Bank ), M&T's principal banking subsidiary, entered into a written agreement with the Federal Reserve Bank of New York



**Table of Contents**

( Federal Reserve Bank ). Under the terms of the agreement, M&T and M&T Bank are required to submit to the Federal Reserve Bank a revised compliance risk management program designed to ensure compliance with the Bank Secrecy Act and anti-money-laundering laws and regulations and to take certain other steps to enhance their compliance practices. The Company commenced a major initiative, including the hiring of outside consulting firms, intended to fully address the Federal Reserve Bank's concerns. In view of the timeframe required to implement this initiative, demonstrate its efficacy to the satisfaction of the Federal Reserve Bank and otherwise meet any other regulatory requirements that may be imposed in connection with these matters, M&T and Hudson City have extended the date after which either party may elect to terminate the merger agreement if the merger has not yet been completed to April 30, 2015. Nevertheless, there can be no assurances that the merger will be completed by that date.

The Company incurred merger-related expenses in 2013 associated with the pending Hudson City acquisition and in 2012 associated with the May 16, 2011 acquisition of Wilmington Trust Corporation ( Wilmington Trust ) related to actual or planned systems conversions and other costs of integrating and conforming acquired operations with and into the Company. Those expenses consisted largely of professional services and other temporary help fees associated with the actual or planned conversion of systems and/or integration of operations; costs related to branch and office consolidations; costs related to termination of existing contractual arrangements for various services; initial marketing and promotion expenses designed to introduce M&T Bank to its new customers; severance (for former employees of Wilmington Trust) and incentive compensation costs; travel costs; and printing, postage, supplies and other costs of planning for or completing the transactions and commencing operations in new markets and offices.

There were no merger-related expenses during 2014. A summary of merger-related expenses included in the consolidated statement of income for the years ended December 31, 2013 and 2012 follows:

|                                | 2013           | 2012     |
|--------------------------------|----------------|----------|
|                                | (In thousands) |          |
| Salaries and employee benefits | \$ 836         | \$ 4,997 |
| Equipment and net occupancy    | 690            | 15       |
| Printing, postage and supplies | 1,825          |          |
| Other costs of operations      | 9,013          | 4,867    |
|                                | \$ 12,364      | \$ 9,879 |

**Table of Contents****3. Investment securities**

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

|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
|--|-------------------|------------------------------|-------------------------------|-------------------------|
|  | (In thousands)    |                              |                               |                         |
| <b>December 31, 2014</b>                         |                   |                              |                               |                         |
| Investment securities available for sale:        |                   |                              |                               |                         |
| U.S. Treasury and federal agencies               | \$ 161,408        | \$ 544                       | \$ 5                          | \$ 161,947              |
| Obligations of states and political subdivisions | 8,027             | 224                          | 53                            | 8,198                   |
| Mortgage-backed securities:                      |                   |                              |                               |                         |
| Government issued or guaranteed                  | 8,507,571         | 223,889                      | 337                           | 8,731,123               |
| Privately issued                                 | 104               | 2                            | 3                             | 103                     |
| Collateralized debt obligations                  | 30,073            | 21,276                       | 1,033                         | 50,316                  |
| Other debt securities                            | 138,240           | 1,896                        | 18,648                        | 121,488                 |
| Equity securities                                | 73,901            | 11,020                       | 1,164                         | 83,757                  |
|  | 8,919,324         | 258,851                      | 21,243                        | 9,156,932               |
| Investment securities held to maturity:          |                   |                              |                               |                         |
| Obligations of states and political subdivisions | 148,961           | 2,551                        | 189                           | 151,323                 |
| Mortgage-backed securities:                      |                   |                              |                               |                         |
| Government issued or guaranteed                  | 3,149,320         | 78,485                       | 7,000                         | 3,220,805               |
| Privately issued                                 | 201,733           | 1,143                        | 44,576                        | 158,300                 |
| Other debt securities                            | 7,854             |                              |                               | 7,854                   |
|  | 3,507,868         | 82,179                       | 51,765                        | 3,538,282               |
| Other securities                                 | 328,742           |                              |                               | 328,742                 |
| Total  | \$ 12,755,934     | \$ 341,030                   | \$ 73,008                     | \$ 13,023,956           |
| <b>December 31, 2013</b>                         |                   |                              |                               |                         |
| Investment securities available for sale:        |                   |                              |                               |                         |
| U.S. Treasury and federal agencies               | \$ 37,396         | \$ 382                       | \$ 2                          | \$ 37,776               |
| Obligations of states and political subdivisions | 10,484            | 333                          | 6                             | 10,811                  |
| Mortgage-backed securities:                      |                   |                              |                               |                         |
| Government issued or guaranteed                  | 4,123,435         | 61,001                       | 19,350                        | 4,165,086               |
| Privately issued                                 | 1,468             | 387                          | 5                             | 1,850                   |
| Collateralized debt obligations                  | 42,274            | 21,666                       | 857                           | 63,083                  |
| Other debt securities                            | 137,828           | 1,722                        | 19,465                        | 120,085                 |
| Equity securities                                | 91,480            | 41,842                       | 227                           | 133,095                 |
|  | 4,444,365         | 127,333                      | 39,912                        | 4,531,786               |
| Investment securities held to maturity:          |                   |                              |                               |                         |
| Obligations of states and political subdivisions | 169,684           | 3,744                        | 135                           | 173,293                 |
| Mortgage-backed securities:                      |                   |                              |                               |                         |
| Government issued or guaranteed                  | 3,567,905         | 16,160                       | 65,149                        | 3,518,916               |
| Privately issued                                 | 219,628           |                              | 60,623                        | 159,005                 |
| Other debt securities                            | 8,913             |                              |                               | 8,913                   |

Edgar Filing: M&T BANK CORP - Form 10-K

|                  |              |            |            |              |
|------------------|--------------|------------|------------|--------------|
|                  | 3,966,130    | 19,904     | 125,907    | 3,860,127    |
| Other securities | 298,581      |            |            | 298,581      |
| Total            | \$ 8,709,076 | \$ 147,237 | \$ 165,819 | \$ 8,690,494 |

109

**Table of Contents**

No investment in securities of a single non-U.S. Government or government agency issuer exceeded ten percent of shareholders' equity at December 31, 2014.

As of December 31, 2014, the latest available investment ratings of all obligations of states and political subdivisions, privately issued mortgage-backed securities, collateralized debt obligations and other debt securities were:

|  | Amortized<br>Cost | Estimated<br>Fair<br>Value | Average Credit Rating of Fair Value Amount |                  |                  |                   |                  |
|--|-------------------|----------------------------|--|------------------|------------------|-------------------|------------------|
|  |                   |                            | A or Better                                | BBB              | BB               | B or Less         | Not Rated        |
|  |                   |                            | (In thousands)                             |                  |                  |                   |                  |
| Obligations of states and political subdivisions | \$ 156,988        | \$ 159,521                 | \$ 137,606                                 | \$               | \$               | \$                | \$ 21,915        |
| Privately issued mortgage-backed securities      | 201,837           | 158,403                    | 48,368                                     | 19               |                  | 109,949           | 67               |
| Collateralized debt obligations                  | 30,073            | 50,316                     | 6,629                                      | 5,488            | 1,273            | 36,926            |                  |
| Other debt securities                            | 146,094           | 129,342                    | 12,352                                     | 58,481           | 29,028           | 20,400            | 9,081            |
| <b>Total</b>                                     | <b>\$ 534,992</b> | <b>\$ 497,582</b>          | <b>\$ 204,955</b>                          | <b>\$ 63,988</b> | <b>\$ 30,301</b> | <b>\$ 167,275</b> | <b>\$ 31,063</b> |

The amortized cost and estimated fair value of collateralized mortgage obligations included in mortgage-backed securities were as follows:

|   | December 31    |            |
|---|----------------|------------|
|   | 2014           | 2013       |
|   | (In thousands) |            |
| <b>Collateralized mortgage obligations:</b> |                |            |
| Amortized cost                              | \$ 209,107     | \$ 231,040 |
| Estimated fair value                        | 165,860        | 171,100    |

Gross realized gains from sales of investment securities were \$116,490,000 in 2013. During 2013, the Company sold its holdings of Visa Class B shares for a gain of \$89,545,000 and its holdings of MasterCard Class B shares for a gain of \$13,208,000. Gross realized losses on investment securities were \$60,033,000 in 2013. The Company sold substantially all of its privately issued mortgage-backed securities held in the available-for-sale investment securities portfolio during 2013. In total, \$1.0 billion of such securities were sold for a net loss of approximately \$46,302,000. Gross realized gains and losses from sales of investment securities were not significant in 2014 or 2012.

The Company recognized \$10 million and \$48 million of pre-tax other-than-temporary impairment losses related to privately issued mortgage-backed securities in 2013 and 2012, respectively. The impairment charges were recognized in light of deterioration of real estate values and a rise in delinquencies and charge-offs of underlying mortgage loans collateralizing those securities. The other-than-temporary impairment losses represented management's estimate of credit losses inherent in the debt securities considering projected cash flows using assumptions for delinquency rates, loss severities, and other estimates of future collateral performance. There were no other-than-temporary impairment losses in 2014.

**Table of Contents**

At December 31, 2014, the amortized cost and estimated fair value of debt securities by contractual maturity were as follows:

|   | Amortized<br>Cost | Estimated<br>Fair Value |
|---|-------------------|-------------------------|
|   | (In thousands)    |                         |
| Debt securities available for sale:           |                   |                         |
| Due in one year or less                       | \$ 7,412          | \$ 7,468                |
| Due after one year through five years         | 164,412           | 165,340                 |
| Due after five years through ten years        | 3,524             | 3,577                   |
| Due after ten years                           | 162,400           | 165,564                 |
|   | 337,748           | 341,949                 |
| Mortgage-backed securities available for sale | 8,507,675         | 8,731,226               |
|   | \$ 8,845,423      | \$ 9,073,175            |
| Debt securities held to maturity:             |                   |                         |
| Due in one year or less                       | \$ 23,107         | \$ 23,254               |
| Due after one year through five years         | 84,112            | 85,457                  |
| Due after five years through ten years        | 41,742            | 42,612                  |
| Due after ten years                           | 7,854             | 7,854                   |
|   | 156,815           | 159,177                 |
| Mortgage-backed securities held to maturity   | 3,351,053         | 3,379,105               |
|   | \$ 3,507,868      | \$ 3,538,282            |

**Table of Contents**

A summary of investment securities that as of December 31, 2014 and 2013 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)      |                   |                   |                   |
| <b>December 31, 2014</b>                         |                     |                   |                   |                   |
| Investment securities available for sale:        |                     |                   |                   |                   |
| U.S. Treasury and federal agencies               | \$ 6,505            | \$ (5)            | \$                | \$                |
| Obligations of states and political subdivisions | 1,785               | (52)              | 121               | (1)               |
| Mortgage-backed securities:                      |                     |                   |                   |                   |
| Government issued or guaranteed                  | 39,001              | (186)             | 5,555             | (151)             |
| Privately issued                                 |                     |                   | 65                | (3)               |
| Collateralized debt obligations                  | 2,108               | (696)             | 5,512             | (337)             |
| Other debt securities                            | 14,017              | (556)             | 92,661            | (18,092)          |
| Equity securities                                | 2,138               | (1,164)           |                   |                   |
|  | 65,554              | (2,659)           | 103,914           | (18,584)          |
| Investment securities held to maturity:          |                     |                   |                   |                   |
| Obligations of states and political subdivisions | 29,886              | (184)             | 268               | (5)               |
| Mortgage-backed securities:                      |                     |                   |                   |                   |
| Government issued or guaranteed                  | 137,413             | (361)             | 446,780           | (6,639)           |
| Privately issued                                 |                     |                   | 127,512           | (44,576)          |
|  | 167,299             | (545)             | 574,560           | (51,220)          |
| Total  | \$ 232,853          | \$ (3,204)        | \$ 678,474        | \$ (69,804)       |
| <b>December 31, 2013</b>                         |                     |                   |                   |                   |
| Investment securities available for sale:        |                     |                   |                   |                   |
| U.S. Treasury and federal agencies               | \$ 745              | \$ (2)            | \$                | \$                |
| Obligations of states and political subdivisions |                     |                   | 558               | (6)               |
| Mortgage-backed securities:                      |                     |                   |                   |                   |
| Government issued or guaranteed                  | 1,697,094           | (19,225)          | 5,815             | (125)             |
| Privately issued                                 |                     |                   | 98                | (5)               |
| Collateralized debt obligations                  |                     |                   | 6,257             | (857)             |
| Other debt securities                            | 1,428               | (4)               | 103,602           | (19,461)          |
| Equity securities                                | 159                 | (227)             |                   |                   |
|  | 1,699,426           | (19,458)          | 116,330           | (20,454)          |
| Investment securities held to maturity:          |                     |                   |                   |                   |
| Obligations of states and political subdivisions | 13,517              | (120)             | 1,558             | (15)              |
| Mortgage-backed securities:                      |                     |                   |                   |                   |
| Government issued or guaranteed                  | 2,629,950           | (65,149)          |                   |                   |
| Privately issued                                 |                     |                   | 159,005           | (60,623)          |
|  | 2,643,467           | (65,269)          | 160,563           | (60,638)          |
| Total  | \$ 4,342,893        | \$ (84,727)       | \$ 276,893        | \$ (81,092)       |

## Edgar Filing: M&T BANK CORP - Form 10-K

The Company owned 296 individual investment securities with aggregate gross unrealized losses of \$73 million at December 31, 2014. Based on a review of each of the securities in the investment securities portfolio at December 31, 2014, the Company concluded that it expected to recover the amortized cost basis

112

**Table of Contents**

of its investment. As of December 31, 2014, 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 December 31, 2014, the Company has not identified events or changes in circumstances which may have a significant adverse effect on the fair value of the \$329 million of cost method investment securities.

At December 31, 2014, investment securities with a carrying value of \$3,825,003,000, including \$2,905,457,000 of investment securities available for sale, were pledged to secure borrowings from various FHLBs, repurchase agreements, governmental deposits, interest rate swap agreements and available lines of credit as described in note 9.

Investment securities pledged by the Company to secure obligations whereby the secured party is permitted by contract or custom to sell or repledge such collateral totaled \$1,631,267,000 at December 31, 2014. The pledged securities included securities of the U.S. Treasury and federal agencies and mortgage-backed securities.

**4. Loans and leases**

Total loans and leases outstanding were comprised of the following:

|  | December 31    |               |
|--|----------------|---------------|
|  | 2014           | 2013          |
|  | (In thousands) |               |
| Loans  |                |               |
| Commercial, financial, etc.                      | \$ 18,280,049  | \$ 17,477,238 |
| Real estate:                                     |                |               |
| Residential                                      | 8,636,794      | 8,911,554     |
| Commercial                                       | 22,614,174     | 21,799,886    |
| Construction                                     | 5,061,269      | 4,457,650     |
| Consumer   | 10,969,879     | 10,280,527    |
| Total loans                                      | 65,562,165     | 62,926,855    |
| Leases   |                |               |
| Commercial                                       | 1,337,204      | 1,398,928     |
| Total loans and leases                           | 66,899,369     | 64,325,783    |
| Less: unearned discount                          | (230,413)      | (252,624)     |
| Total loans and leases, net of unearned discount | \$ 66,668,956  | \$ 64,073,159 |

One-to-four family residential mortgage loans held for sale were \$435 million at December 31, 2014 and \$401 million at December 31, 2013. Commercial real estate loans held for sale were \$308 million at December 31, 2014 and \$68 million at December 31, 2013.

During 2013, the Company securitized approximately \$1.3 billion of one-to-four family residential real estate loans previously held in the Company's loan portfolio into guaranteed mortgage-backed securities with the Government National Mortgage Association (Ginnie Mae) and recognized gains of \$42,382,000. In addition, the Company securitized and sold in 2013 approximately \$1.4 billion of automobile loans held in its loan portfolio, resulting in a gain of \$20,683,000.

As of December 31, 2014, approximately \$2.4 billion of commercial real estate loan balances serviced for others had been sold with recourse in conjunction with the Company's participation in the Fannie Mae Delegated Underwriting and Servicing (DUS) program. At December 31, 2014, the Company estimated that the recourse obligations described above were not material to the Company's consolidated financial position. There have been no material losses incurred as a result of those credit recourse arrangements.

In addition to recourse obligations, as described in note 21, the Company is contractually obligated to repurchase previously sold residential real estate loans that do not ultimately meet investor sale criteria related to underwriting procedures or loan documentation. When required to do so, the Company may reimburse loan purchasers for losses incurred or may repurchase certain loans. Charges incurred for such obligation, which are recorded as a reduction of mortgage banking revenues, were \$4 million, \$17 million and \$28 million in 2014, 2013 and 2012, respectively.



**Table of Contents**

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

|                                      | December 31    |              |
|--------------------------------------|----------------|--------------|
|                                      | 2014           | 2013         |
|                                      | (In thousands) |              |
| Outstanding principal balance        | \$ 3,070,268   | \$ 4,656,811 |
| Carrying amount:                     |                |              |
| Commercial, financial, leasing, etc. | 247,820        | 580,685      |
| Commercial real estate               | 961,828        | 1,541,368    |
| Residential real estate              | 453,360        | 576,473      |
| Consumer                             | 933,537        | 1,308,926    |
|                                      | \$ 2,596,545   | \$ 4,007,452 |

Purchased impaired loans included in the table above totaled \$198 million at December 31, 2014 and \$331 million at December 31, 2013, representing less than 1% of the Company's assets as of each date. A summary of changes in the accretable yield for acquired loans for the years ended December 31, 2014, 2013 and 2012 follows:

| For Year Ended December 31,                       | 2014               |                | 2013               |                | 2012               |                |
|---|--------------------|----------------|--------------------|----------------|--------------------|----------------|
|   | Purchased Impaired | Other Acquired | Purchased Impaired | Other Acquired | Purchased Impaired | Other Acquired |
|   | (In thousands)     |                |                    |                |                    |                |
| Balance at beginning of period                    | \$ 37,230          | \$ 538,633     | \$ 42,252          | \$ 638,272     | \$ 30,805          | \$ 807,960     |
| Interest income                                   | (21,263)           | (178,670)      | (36,727)           | (247,295)      | (40,551)           | (295,654)      |
| Reclassifications from nonaccretable balance, net | 60,551             | 24,907         | 31,705             | 149,595        | 51,998             | 148,490        |
| Other(a)  |                    | 12,509         |                    | (1,939)        |                    | (22,524)       |
| Balance at end of period                          | \$ 76,518          | \$ 397,379     | \$ 37,230          | \$ 538,633     | \$ 42,252          | \$ 638,272     |

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

**Table of Contents**

A summary of current, past due and nonaccrual loans as of December 31, 2014 and 2013 follows:

|                                      | Current              | 30-89 Days<br>Past Due | 90 Days or More Past<br>Due and Accruing<br>Non-<br>acquired | Acquired(a)<br>(In thousands) | Purchased<br>Impaired(b) | Nonaccrual        | Total                |
|--------------------------------------|----------------------|------------------------|--|-------------------------------|--------------------------|-------------------|----------------------|
| <b>December 31, 2014</b>             |                      |                        |  |                               |                          |                   |                      |
| Commercial, financial, leasing, etc. | \$ 19,228,265        | \$ 37,246              | \$ 1,805   | \$ 6,231                      | \$ 10,300                | \$ 177,445        | \$ 19,461,292        |
| Real estate:                         |                      |                        |  |                               |                          |                   |                      |
| Commercial                           | 22,208,491           | 118,704                | 22,170   | 14,662                        | 51,312                   | 141,600           | 22,556,939           |
| Residential builder and developer    | 1,273,607            | 11,827                 | 492  | 9,350                         | 98,347                   | 71,517            | 1,465,140            |
| Other commercial construction        | 3,484,932            | 17,678                 |  |                               | 17,181                   | 25,699            | 3,545,490            |
| Residential                          | 7,640,368            | 226,932                | 216,489  | 35,726                        | 18,223                   | 180,275           | 8,318,013            |
| Residential Alt-A                    | 249,810              | 11,774                 |  |                               |                          | 77,704            | 339,288              |
| Consumer:                            |                      |                        |  |                               |                          |                   |                      |
| Home equity lines and loans          | 5,859,378            | 42,945                 |  | 27,896                        | 2,374                    | 89,291            | 6,021,884            |
| Automobile                           | 1,931,138            | 30,500                 |  | 133                           |                          | 17,578            | 1,979,349            |
| Other                                | 2,909,791            | 33,295                 | 4,064  | 16,369                        |                          | 18,042            | 2,981,561            |
| <b>Total</b>                         | <b>\$ 64,785,780</b> | <b>\$ 530,901</b>      | <b>\$ 245,020</b>  | <b>\$ 110,367</b>             | <b>\$ 197,737</b>        | <b>\$ 799,151</b> | <b>\$ 66,668,956</b> |
| <b>December 31, 2013</b>             |                      |                        |  |                               |                          |                   |                      |
| Commercial, financial, leasing, etc. | \$ 18,489,474        | \$ 77,538              | \$ 4,981   | \$ 6,778                      | \$ 15,706                | \$ 110,739        | \$ 18,705,216        |
| Real estate:                         |                      |                        |  |                               |                          |                   |                      |
| Commercial                           | 21,236,071           | 145,749                | 63,353   | 35,603                        | 88,034                   | 173,048           | 21,741,858           |
| Residential builder and developer    | 1,025,984            | 8,486                  | 141  | 7,930                         | 137,544                  | 96,427            | 1,276,512            |
| Other commercial construction        | 2,986,598            | 42,234                 |  | 8,031                         | 57,707                   | 35,268            | 3,129,838            |
| Residential                          | 7,630,368            | 295,131                | 294,649  | 43,700                        | 29,184                   | 252,805           | 8,545,837            |
| Residential Alt-A                    | 283,253              | 18,009                 |  |                               |                          | 81,122            | 382,384              |
| Consumer:                            |                      |                        |  |                               |                          |                   |                      |
| Home equity lines and loans          | 5,972,365            | 40,537                 |  | 27,754                        | 2,617                    | 78,516            | 6,121,789            |
| Automobile                           | 1,314,246            | 29,144                 |  | 366                           |                          | 21,144            | 1,364,900            |
| Other                                | 2,726,522            | 47,830                 | 5,386  |                               |                          | 25,087            | 2,804,825            |
| <b>Total</b>                         | <b>\$ 61,664,881</b> | <b>\$ 704,658</b>      | <b>\$ 368,510</b>  | <b>\$ 130,162</b>             | <b>\$ 330,792</b>        | <b>\$ 874,156</b> | <b>\$ 64,073,159</b> |

(a) *Acquired loans that were recorded at fair value at acquisition date. This category does not include purchased impaired loans that are presented separately.*

(b) *Accruing loans that were impaired at acquisition date and were recorded at fair value.*

If nonaccrual and renegotiated loans had been accruing interest at their originally contracted terms, interest income on such loans would have amounted to \$58,314,000 in 2014, \$62,010,000 in 2013 and \$69,054,000 in 2012. The actual amounts included in interest income during 2014, 2013 and 2012 on such loans were \$28,492,000, \$31,987,000 and \$30,484,000, respectively.

**Table of Contents**

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

The table below summarizes the Company's loan modification activities that were considered troubled debt restructurings for the year ended December 31, 2014:

|                                      | Number | Recorded Investment |                   | Financial Effects of Modification |              |
|--------------------------------------|--------|---------------------|-------------------|-----------------------------------|--------------|
|                                      |        | Pre-modification    | Post-modification | Recorded Investment (a)           | Interest (b) |
| (Dollars in thousands)               |        |                     |                   |                                   |              |
| Commercial, financial, leasing, etc. |        |                     |                   |                                   |              |
| Principal deferral                   | 95     | \$ 29,035           | \$ 23,628         | \$ (5,407)                        | \$           |
| Other                                | 3      | 29,912              | 31,604            | 1,692                             |              |
| Combination of concession types      | 7      | 19,167              | 19,030            | (137)                             | (20)         |
| Real estate:                         |        |                     |                   |                                   |              |
| Commercial                           |        |                     |                   |                                   |              |
| Principal deferral                   | 39     | 19,077              | 18,997            | (80)                              |              |
| Interest rate reduction              | 1      | 255                 | 252               | (3)                               | (48)         |
| Other                                | 1      | 650                 |                   | (650)                             |              |
| Combination of concession types      | 7      | 1,152               | 1,198             | 46                                | (264)        |
| Residential builder and developer    |        |                     |                   |                                   |              |
| Principal deferral                   | 2      | 1,639               | 1,639             |                                   |              |
| Other commercial construction        |        |                     |                   |                                   |              |
| Principal deferral                   | 4      | 6,703               | 6,611             | (92)                              |              |
| Residential                          |        |                     |                   |                                   |              |
| Principal deferral                   | 28     | 2,710               | 2,905             | 195                               |              |
| Interest rate reduction              | 11     | 1,146               | 1,222             | 76                                | (152)        |
| Other                                | 1      | 188                 | 188               |                                   |              |
| Combination of concession types      | 30     | 4,211               | 4,287             | 76                                | (483)        |
| Residential Alt-A                    |        |                     |                   |                                   |              |
| Principal deferral                   | 6      | 880                 | 963               | 83                                |              |
| Combination of concession types      | 21     | 3,806               | 3,846             | 40                                | (386)        |
| Consumer:                            |        |                     |                   |                                   |              |
| Home equity lines and loans          |        |                     |                   |                                   |              |
| Principal deferral                   | 3      | 280                 | 280               |                                   |              |
| Interest rate reduction              | 6      | 535                 | 535               |                                   | (120)        |
| Combination of concession types      | 47     | 5,031               | 5,031             |                                   | (560)        |
| Automobile                           |        |                     |                   |                                   |              |
| Principal deferral                   | 208    | 3,293               | 3,293             |                                   |              |
| Interest rate reduction              | 9      | 152                 | 152               |                                   | (12)         |
| Other                                | 42     | 255                 | 255               |                                   |              |
| Combination of concession types      | 81     | 1,189               | 1,189             |                                   | (100)        |
| Other                                |        |                     |                   |                                   |              |
| Principal deferral                   | 33     | 245                 | 245               |                                   |              |
| Interest rate reduction              | 4      | 293                 | 293               |                                   | (63)         |
| Other                                | 1      | 45                  | 45                |                                   |              |
| Combination of concession types      | 70     | 2,502               | 2,502             |                                   | (761)        |
| Total                                | 760    | \$ 134,351          | \$ 130,190        | \$ (4,161)                        | \$ (2,969)   |

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

116

**Table of Contents**

The table below summarizes the Company's loan modification activities that were considered troubled debt restructurings for the year ended December 31, 2013:

|                                      | Number | Recorded Investment |                   | Financial Effects of Modification |              |
|--------------------------------------|--------|---------------------|-------------------|-----------------------------------|--------------|
|                                      |        | Pre-modification    | Post-modification | Recorded Investment (a)           | Interest (b) |
| (Dollars in thousands)               |        |                     |                   |                                   |              |
| Commercial, financial, leasing, etc. |        |                     |                   |                                   |              |
| Principal deferral                   | 79     | \$ 16,389           | \$ 16,002         | \$ (387)                          | \$           |
| Interest rate reduction              | 1      | 104                 | 335               | 231                               | (54)         |
| Other                                | 4      | 50,433              | 50,924            | 491                               |              |
| Combination of concession types      | 11     | 6,229               | 5,578             | (651)                             | (458)        |
| Real estate:                         |        |                     |                   |                                   |              |
| Commercial                           |        |                     |                   |                                   |              |
| Principal deferral                   | 27     | 40,639              | 40,464            | (175)                             |              |
| Other                                | 2      | 449                 | 475               | 26                                |              |
| Combination of concession types      | 9      | 2,649               | 3,040             | 391                               | (250)        |
| Residential builder and developer    |        |                     |                   |                                   |              |
| Principal deferral                   | 18     | 21,423              | 20,577            | (846)                             |              |
| Other                                | 1      | 4,039               | 3,888             | (151)                             |              |
| Combination of concession types      | 3      | 15,580              | 15,514            | (66)                              | (535)        |
| Other commercial construction        |        |                     |                   |                                   |              |
| Principal deferral                   | 3      | 590                 | 521               | (69)                              |              |
| Residential                          |        |                     |                   |                                   |              |
| Principal deferral                   | 32     | 3,556               | 3,821             | 265                               |              |
| Other                                | 1      | 195                 | 195               |                                   |              |
| Combination of concession types      | 61     | 73,940              | 70,854            | (3,086)                           | (924)        |
| Residential Alt-A                    |        |                     |                   |                                   |              |
| Principal deferral                   | 10     | 1,900               | 1,880             | (20)                              |              |
| Combination of concession types      | 19     | 2,826               | 3,148             | 322                               | (790)        |
| Consumer:                            |        |                     |                   |                                   |              |
| Home equity lines and loans          |        |                     |                   |                                   |              |
| Principal deferral                   | 10     | 859                 | 861               | 2                                 |              |
| Interest rate reduction              | 1      | 99                  | 99                |                                   | (8)          |
| Other                                | 1      | 106                 | 106               |                                   |              |
| Combination of concession types      | 28     | 2,190               | 2,190             |                                   | (270)        |
| Automobile                           |        |                     |                   |                                   |              |
| Principal deferral                   | 460    | 6,148               | 6,148             |                                   |              |
| Interest rate reduction              | 15     | 235                 | 235               |                                   | (22)         |
| Other                                | 78     | 339                 | 339               |                                   |              |
| Combination of concession types      | 225    | 2,552               | 2,552             |                                   | (191)        |
| Other                                |        |                     |                   |                                   |              |
| Principal deferral                   | 36     | 332                 | 332               |                                   |              |
| Interest rate reduction              | 1      | 12                  | 12                |                                   | (2)          |
| Other                                | 2      | 14                  | 14                |                                   |              |
| Combination of concession types      | 120    | 4,248               | 4,248             |                                   | (1,187)      |
| Total                                | 1,258  | \$ 258,075          | \$ 254,352        | \$ (3,723)                        | \$ (4,691)   |

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

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

**Table of Contents**

The table below summarizes the Company's loan modification activities that were considered troubled debt restructurings for the year ended December 31, 2012:

|                                      | Number       | Recorded Investment |                   | Financial Effects of Modification |                   |
|--------------------------------------|--------------|---------------------|-------------------|-----------------------------------|-------------------|
|                                      |              | Pre-modification    | Post-modification | Recorded Investment (a)           | Interest (b)      |
| (Dollars in thousands)               |              |                     |                   |                                   |                   |
| Commercial, financial, leasing, etc. |              |                     |                   |                                   |                   |
| Principal deferral                   | 61           | \$ 23,888           | \$ 22,456         | \$ (1,432)                        | \$                |
| Other                                | 3            | 2,967               | 3,052             | 85                                |                   |
| Combination of concession types      | 5            | 628                 | 740               | 112                               | (102)             |
| Real estate:                         |              |                     |                   |                                   |                   |
| Commercial                           |              |                     |                   |                                   |                   |
| Principal deferral                   | 24           | 22,855              | 23,059            | 204                               |                   |
| Interest rate reduction              | 2            | 665                 | 708               | 43                                | (129)             |
| Combination of concession types      | 7            | 1,637               | 1,656             | 19                                | (351)             |
| Residential builder and developer    |              |                     |                   |                                   |                   |
| Principal deferral                   | 23           | 36,868              | 34,740            | (2,128)                           |                   |
| Combination of concession types      | 7            | 37,602              | 36,148            | (1,454)                           |                   |
| Other commercial construction        |              |                     |                   |                                   |                   |
| Principal deferral                   | 6            | 81,062              | 79,312            | (1,750)                           |                   |
| Residential                          |              |                     |                   |                                   |                   |
| Principal deferral                   | 36           | 4,643               | 4,808             | 165                               |                   |
| Interest rate reduction              | 1            | 109                 | 109               |                                   | (20)              |
| Combination of concession types      | 62           | 12,886              | 13,146            | 260                               | (657)             |
| Residential Alt-A                    |              |                     |                   |                                   |                   |
| Principal deferral                   | 7            | 968                 | 989               | 21                                |                   |
| Combination of concession types      | 38           | 8,525               | 8,717             | 192                               | (159)             |
| Consumer:                            |              |                     |                   |                                   |                   |
| Home equity lines and loans          |              |                     |                   |                                   |                   |
| Principal deferral                   | 15           | 1,285               | 1,285             |                                   |                   |
| Interest rate reduction              | 1            | 144                 | 144               |                                   | (6)               |
| Combination of concession types      | 29           | 2,332               | 2,332             |                                   | (368)             |
| Automobile                           |              |                     |                   |                                   |                   |
| Principal deferral                   | 618          | 8,347               | 8,347             |                                   |                   |
| Interest rate reduction              | 22           | 328                 | 328               |                                   | (24)              |
| Other                                | 67           | 300                 | 300               |                                   |                   |
| Combination of concession types      | 375          | 5,857               | 5,857             |                                   | (684)             |
| Other                                |              |                     |                   |                                   |                   |
| Principal deferral                   | 80           | 1,201               | 1,201             |                                   |                   |
| Interest rate reduction              | 22           | 515                 | 515               |                                   | (85)              |
| Other                                | 13           | 54                  | 54                |                                   |                   |
| Combination of concession types      | 84           | 1,015               | 1,015             |                                   | (268)             |
| <b>Total</b>                         | <b>1,608</b> | <b>\$ 256,681</b>   | <b>\$ 251,018</b> | <b>\$ (5,663)</b>                 | <b>\$ (2,853)</b> |

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

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

## Edgar Filing: M&T BANK CORP - Form 10-K

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

118

**Table of Contents**

troubled debt restructurings that have subsequently defaulted. Loans that were modified as troubled debt restructurings during the twelve months ended December 31, 2014, 2013 and 2012 and for which there was a subsequent payment default during the respective period were not material.

Borrowings by directors and certain officers of M&T and its banking subsidiaries, and by associates of such persons, exclusive of loans aggregating less than \$120,000, amounted to \$49,799,000 and \$135,512,000 at December 31, 2014 and 2013, respectively. During 2014, new borrowings by such persons amounted to \$12,327,000 (including any borrowings of new directors or officers that were outstanding at the time of their election) and repayments and other reductions (including reductions resulting from retirements) were \$98,040,000.

At December 31, 2014, approximately \$10.4 billion of commercial loans and leases, \$9.7 billion of commercial real estate loans, \$5.3 billion of one-to-four family residential real estate loans, \$4.3 billion of home equity loans and lines of credit and \$2.9 billion of other consumer loans were pledged to secure outstanding borrowings from the FHLB of New York and available lines of credit as described in note 9.

The Company's loan and lease portfolio includes commercial lease financing receivables consisting of direct financing and leveraged leases for machinery and equipment, railroad equipment, commercial trucks and trailers, and aircraft. A summary of lease financing receivables follows:

|   | <b>December 31</b>    |              |
|---|-----------------------|--------------|
|   | <b>2014</b>           | <b>2013</b>  |
|   | <b>(In thousands)</b> |              |
| <b>Commercial leases:</b>                 |                       |              |
| <b>Direct financings:</b>                 |                       |              |
| Lease payments receivable                 | \$ 1,022,133          | \$ 1,052,214 |
| Estimated residual value of leased assets | 79,525                | 85,595       |
| Unearned income                           | (103,777)             | (114,101)    |
| Investment in direct financings           | 997,881               | 1,023,708    |
| <b>Leveraged leases:</b>                  |                       |              |
| Lease payments receivable                 | 102,457               | 127,821      |
| Estimated residual value of leased assets | 133,089               | 133,298      |
| Unearned income                           | (44,288)              | (47,188)     |
| Investment in leveraged leases            | 191,258               | 213,931      |
| Total investment in leases.               | \$ 1,189,139          | \$ 1,237,639 |

Deferred taxes payable arising from leveraged leases \$ 169,101 \$ 172,296  
 Included within the estimated residual value of leased assets at December 31, 2014 and 2013 were \$48 million and \$54 million, respectively, in residual value associated with direct financing leases that are guaranteed by the lessees or others.

At December 31, 2014, the minimum future lease payments to be received from lease financings were as follows:

|                                 | <b>(In thousands)</b> |
|---------------------------------|-----------------------|
| <b>Year ending December 31:</b> |                       |
| 2015                            | \$ 268,086            |
| 2016                            | 242,248               |
| 2017                            | 177,539               |
| 2018                            | 127,985               |
| 2019                            | 92,205                |
| Later years                     | 216,527               |
|                                 | \$ 1,124,590          |



**Table of Contents****5. Allowance for credit losses**

Changes in the allowance for credit losses for the years ended December 31, 2014, 2013 and 2012 were as follows:

| 2014   | Commercial,<br>Financial,<br>Leasing,<br>etc. | Real Estate |             |            | Unallocated | Total      |
|--|---|-------------|-------------|------------|-------------|------------|
|  |   | Commercial  | Residential | Consumer   |             |            |
| (In thousands)                                 |   |             |             |            |             |            |
| Beginning balance                              | \$ 273,383                                    | \$ 324,978  | \$ 78,656   | \$ 164,644 | \$ 75,015   | \$ 916,676 |
| Provision for credit losses                    | 51,410  | (13,779)    | (3,974)     | 89,704     | 639         | 124,000    |
| Net charge-offs                                |   |             |             |            |             |            |
| Charge-offs                                    | (58,943)                                      | (14,058)    | (21,351)    | (84,390)   |             | (178,742)  |
| Recoveries                                     | 22,188  | 10,786      | 8,579       | 16,075     |             | 57,628     |
| Net charge-offs                                | (36,755)                                      | (3,272)     | (12,772)    | (68,315)   |             | (121,114)  |
| Ending balance                                 | \$ 288,038                                    | \$ 307,927  | \$ 61,910   | \$ 186,033 | \$ 75,654   | \$ 919,562 |
| <b>2013</b>                                    |   |             |             |            |             |            |
| Beginning balance                              | \$ 246,759                                    | \$ 337,101  | \$ 88,807   | \$ 179,418 | \$ 73,775   | \$ 925,860 |
| Provision for credit losses                    | 124,180                                       | 275         | 3,149       | 56,156     | 1,240       | 185,000    |
| Allowance related to loans sold or securitized |   |             |             | (11,000)   |             | (11,000)   |
| Net charge-offs                                |   |             |             |            |             |            |
| Charge-offs                                    | (109,329)                                     | (34,595)    | (23,621)    | (85,965)   |             | (253,510)  |
| Recoveries                                     | 11,773  | 22,197      | 10,321      | 26,035     |             | 70,326     |
| Net charge-offs                                | (97,556)                                      | (12,398)    | (13,300)    | (59,930)   |             | (183,184)  |
| Ending balance                                 | \$ 273,383                                    | \$ 324,978  | \$ 78,656   | \$ 164,644 | \$ 75,015   | \$ 916,676 |
| <b>2012</b>                                    |   |             |             |            |             |            |
| Beginning balance                              | \$ 234,022                                    | \$ 367,637  | \$ 91,915   | \$ 143,121 | \$ 71,595   | \$ 908,290 |
| Provision for credit losses                    | 42,510  | 5,211       | 34,864      | 119,235    | 2,180       | 204,000    |
| Net charge-offs                                |   |             |             |            |             |            |
| Charge-offs                                    | (41,148)                                      | (41,945)    | (44,314)    | (103,348)  |             | (230,755)  |
| Recoveries                                     | 11,375  | 6,198       | 6,342       | 20,410     |             | 44,325     |
| Net charge-offs                                | (29,773)                                      | (35,747)    | (37,972)    | (82,938)   |             | (186,430)  |
| Ending balance                                 | \$ 246,759                                    | \$ 337,101  | \$ 88,807   | \$ 179,418 | \$ 73,775   | \$ 925,860 |

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

In establishing the allowance for credit losses, the Company estimates losses attributable to specific troubled credits identified through both normal and detailed or intensified credit review processes and also estimates losses inherent in other loans and leases on a collective basis. For purposes of determining the level of the allowance for credit losses, the Company evaluates its loan and lease portfolio by loan type. The amounts of loss components in the Company's loan and lease portfolios are determined through a loan by loan analysis of larger balance commercial and commercial real estate loans that are in nonaccrual status and by applying loss factors to groups of loan balances based on loan type and management's classification of such loans under the Company's loan grading system. Measurement of the specific loss components is typically based on expected future cash flows, collateral values and other factors that may impact the borrower's ability to pay. In determining the allowance for credit losses, the Company utilizes a loan grading system which is applied to commercial and commercial real estate credits on an individual loan basis. Loan officers are responsible for continually assigning grades to these loans based on standards outlined in the Company's

## Edgar Filing: M&T BANK CORP - Form 10-K

Credit Policy. Internal loan grades are also monitored by the Company's loan review department to ensure consistency and strict adherence to the prescribed standards. Loan grades are assigned

120

**Table of Contents**

loss component factors that reflect the Company's loss estimate for each group of loans and leases. Factors considered in assigning loan grades and loss component factors include borrower-specific information related to expected future cash flows and operating results, collateral values, geographic location, financial condition and performance, payment status, and other information; levels of and trends in portfolio charge-offs and recoveries; levels of and trends in portfolio delinquencies and impaired loans; changes in the risk profile of specific portfolios; trends in volume and terms of loans; effects of changes in credit concentrations; and observed trends and practices in the banking industry. As updated appraisals are obtained on individual loans or other events in the market place indicate that collateral values have significantly changed, individual loan grades are adjusted as appropriate. Changes in other factors cited may also lead to loan grade changes at any time. Except for consumer and residential real estate loans that are considered smaller balance homogenous loans and acquired loans that are evaluated on an aggregated basis, the Company considers a loan to be impaired for purposes of applying GAAP when, based on current information and events, it is probable that the Company will be unable to collect all amounts according to the contractual terms of the loan agreement or the loan is delinquent 90 days. Regardless of loan type, the Company considers a loan to be impaired if it qualifies as a troubled debt restructuring. Modified loans, including smaller balance homogenous loans, that are considered to be troubled debt restructurings are evaluated for impairment giving consideration to the impact of the modified loan terms on the present value of the loan's expected cash flows.

**Table of Contents**

The following tables provide information with respect to loans and leases that were considered impaired as of December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012.

|                                      | December 31, 2014      |                                |                      | December 31, 2013                            |                                |                      |
|--------------------------------------|------------------------|--------------------------------|----------------------|--|--------------------------------|----------------------|
|                                      | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Recorded<br>Investment<br><br>(In thousands) | Unpaid<br>Principal<br>Balance | Related<br>Allowance |
| With an allowance recorded:          |                        |                                |                      |  |                                |                      |
| Commercial, financial, leasing, etc. | \$ 132,340             | \$ 165,146                     | \$ 31,779            | \$ 90,293                                    | \$ 112,092                     | \$ 24,614            |
| Real estate:                         |                        |                                |                      |  |                                |                      |
| Commercial                           | 83,955                 | 96,209                         | 14,121               | 113,570                                      | 132,325                        | 19,520               |
| Residential builder and developer    | 17,632                 | 22,044                         | 805                  | 33,311                                       | 55,122                         | 4,379                |
| Other commercial construction        | 5,480                  | 6,484                          | 900                  | 86,260                                       | 90,515                         | 4,022                |
| Residential                          | 88,970                 | 107,343                        | 4,296                | 96,508                                       | 114,521                        | 7,146                |
| Residential Alt-A                    | 101,137                | 114,565                        | 11,000               | 111,911                                      | 124,528                        | 14,000               |
| Consumer:                            |                        |                                |                      |  |                                |                      |
| Home equity lines and loans          | 19,771                 | 20,806                         | 6,213                | 13,672                                       | 14,796                         | 3,312                |
| Automobile                           | 30,317                 | 30,317                         | 8,070                | 40,441                                       | 40,441                         | 11,074               |
| Other                                | 18,973                 | 18,973                         | 5,459                | 17,660                                       | 17,660                         | 4,541                |
|                                      | 498,575                | 581,887                        | 82,643               | 603,626                                      | 702,000                        | 92,608               |
| With no related allowance recorded:  |                        |                                |                      |  |                                |                      |
| Commercial, financial, leasing, etc. | 73,978                 | 81,493                         |                      | 28,093                                       | 33,095                         |                      |
| Real estate:                         |                        |                                |                      |  |                                |                      |
| Commercial                           | 66,777                 | 78,943                         |                      | 65,271                                       | 84,333                         |                      |
| Residential builder and developer    | 58,820                 | 96,722                         |                      | 72,366                                       | 104,768                        |                      |
| Other commercial construction        | 20,738                 | 41,035                         |                      | 7,369  | 11,493                         |                      |
| Residential                          | 16,815                 | 26,750                         |                      | 84,144                                       | 95,358                         |                      |
| Residential Alt-A                    | 26,752                 | 46,964                         |                      | 28,357                                       | 52,211                         |                      |
|                                      | 263,880                | 371,907                        |                      | 285,600                                      | 381,258                        |                      |
| Total:                               |                        |                                |                      |  |                                |                      |
| Commercial, financial, leasing, etc. | 206,318                | 246,639                        | 31,779               | 118,386                                      | 145,187                        | 24,614               |
| Real estate:                         |                        |                                |                      |  |                                |                      |
| Commercial                           | 150,732                | 175,152                        | 14,121               | 178,841                                      | 216,658                        | 19,520               |
| Residential builder and developer    | 76,452                 | 118,766                        | 805                  | 105,677                                      | 159,890                        | 4,379                |
| Other commercial construction        | 26,218                 | 47,519                         | 900                  | 93,629                                       | 102,008                        | 4,022                |
| Residential                          | 105,785                | 134,093                        | 4,296                | 180,652                                      | 209,879                        | 7,146                |
| Residential Alt-A                    | 127,889                | 161,529                        | 11,000               | 140,268                                      | 176,739                        | 14,000               |
| Consumer:                            |                        |                                |                      |  |                                |                      |
| Home equity lines and loans          | 19,771                 | 20,806                         | 6,213                | 13,672                                       | 14,796                         | 3,312                |
| Automobile                           | 30,317                 | 30,317                         | 8,070                | 40,441                                       | 40,441                         | 11,074               |
| Other                                | 18,973                 | 18,973                         | 5,459                | 17,660                                       | 17,660                         | 4,541                |
| Total                                | \$ 762,455             | \$ 953,794                     | \$ 82,643            | \$ 889,226                                   | \$ 1,083,258                   | \$ 92,608            |

**Table of Contents**

|                                      | Year Ended<br>December 31, 2014   |                               |               | Year Ended<br>December 31, 2013   |                               |               |
|--------------------------------------|-----------------------------------|-------------------------------|---------------|-----------------------------------|-------------------------------|---------------|
|                                      | Average<br>Recorded<br>Investment | Interest Income<br>Recognized |               | Average<br>Recorded<br>Investment | Interest Income<br>Recognized |               |
|                                      |                                   | Total                         | Cash<br>Basis |                                   | Total                         | Cash<br>Basis |
| (In thousands)                       |                                   |                               |               |                                   |                               |               |
| Commercial, financial, leasing, etc. | \$ 181,932                        | \$ 2,251                      | \$ 2,251      | \$ 155,188                        | \$ 7,197                      | \$ 7,197      |
| Real estate:                         |                                   |                               |               |                                   |                               |               |
| Commercial                           | 184,773                           | 4,029                         | 4,029         | 197,533                           | 4,852                         | 4,852         |
| Residential builder and developer    | 91,149                            | 142                           | 142           | 147,288                           | 1,043                         | 796           |
| Other commercial construction        | 62,734                            | 1,893                         | 1,893         | 96,475                            | 5,248                         | 5,248         |
| Residential                          | 126,005                           | 9,180                         | 6,978         | 183,059                           | 6,203                         | 4,111         |
| Residential Alt-A                    | 133,800                           | 6,613                         | 2,546         | 149,461                           | 6,784                         | 2,341         |
| Consumer:                            |                                   |                               |               |                                   |                               |               |
| Home equity lines and loans          | 18,083                            | 750                           | 248           | 12,811                            | 683                           | 183           |
| Automobile                           | 35,173                            | 2,251                         | 295           | 44,116                            | 2,916                         | 515           |
| Other                                | 18,378                            | 690                           | 191           | 15,710                            | 634                           | 208           |
| Total                                | \$ 852,027                        | \$ 27,799                     | \$ 18,573     | \$ 1,001,641                      | \$ 35,560                     | \$ 25,451     |

|                                      | Year Ended<br>December 31, 2012   |                               |               |
|--------------------------------------|-----------------------------------|-------------------------------|---------------|
|                                      | Average<br>Recorded<br>Investment | Interest Income<br>Recognized |               |
|                                      |                                   | Total                         | Cash<br>Basis |
| (In thousands)                       |                                   |                               |               |
| Commercial, financial, leasing, etc. | \$ 151,314                        | \$ 2,938                      | \$ 2,938      |
| Real estate:                         |                                   |                               |               |
| Commercial                           | 185,171                           | 2,834                         | 2,834         |
| Residential builder and developer    | 249,191                           | 1,563                         | 1,102         |
| Other commercial construction        | 99,672                            | 5,020                         | 5,020         |
| Residential                          | 132,888                           | 5,284                         | 3,300         |
| Residential Alt-A                    | 171,546                           | 7,175                         | 2,226         |
| Consumer:                            |                                   |                               |               |
| Home equity lines and loans          | 11,322                            | 663                           | 179           |
| Automobile                           | 51,650                            | 3,470                         | 724           |
| Other                                | 11,028                            | 472                           | 197           |
| Total                                | \$ 1,063,782                      | \$ 29,419                     | \$ 18,520     |

In accordance with the previously described policies, the Company utilizes a loan grading system that is applied to all commercial loans and commercial real estate loans. Loan grades are utilized to differentiate risk within the portfolio and consider the expectations of default for each loan. Commercial loans and commercial real estate loans with a lower expectation of default are assigned one of ten possible pass loan grades and are generally ascribed lower loss factors when determining the allowance for credit losses. Loans with an elevated level of credit risk are classified as criticized and are ascribed a higher loss factor when determining the allowance for credit losses. Criticized loans may be classified as nonaccrual if the Company no longer expects to collect all amounts according to the contractual terms of the loan agreement or the loan is delinquent 90 days or more. All larger balance criticized commercial loans and commercial

**Table of Contents**

real estate loans are individually reviewed by centralized loan review personnel each quarter to determine the appropriateness of the assigned loan grade, including whether the loan should be reported as accruing or nonaccruing. Smaller balance criticized loans are analyzed by business line risk management areas to ensure proper loan grade classification. Furthermore, criticized nonaccrual commercial loans and commercial real estate loans are considered impaired and, as a result, specific loss allowances on such loans are established within the allowance for credit losses to the extent appropriate in each individual instance. The following table summarizes the loan grades applied to the various classes of the Company's commercial loans and commercial real estate loans.

|                       | Commercial,<br>Financial,<br>Leasing, etc | Commercial<br>(In thousands) | Real Estate<br>Residential<br>Builder and<br>Developer | Other<br>Commercial<br>Construction |
|-----------------------|---|------------------------------|--|-------------------------------------|
| December 31, 2014     |   |                              |  |                                     |
| Pass                  | \$ 18,695,440                             | \$ 21,837,022                | \$ 1,347,778   | \$ 3,347,522                        |
| Criticized accrual    | 588,407                                   | 578,317                      | 45,845   | 172,269                             |
| Criticized nonaccrual | 177,445                                   | 141,600                      | 71,517   | 25,699                              |
| <b>Total</b>          | <b>\$ 19,461,292</b>                      | <b>\$ 22,556,939</b>         | <b>\$ 1,465,140</b>                                    | <b>\$ 3,545,490</b>                 |
| December 31, 2013     |   |                              |  |                                     |
| Pass                  | \$ 17,894,592                             | \$ 20,972,257                | \$ 1,107,144   | \$ 3,040,106                        |
| Criticized accrual    | 699,885                                   | 596,553                      | 72,941   | 54,464                              |
| Criticized nonaccrual | 110,739                                   | 173,048                      | 96,427   | 35,268                              |
| <b>Total</b>          | <b>\$ 18,705,216</b>                      | <b>\$ 21,741,858</b>         | <b>\$ 1,276,512</b>                                    | <b>\$ 3,129,838</b>                 |

In determining the allowance for credit losses, residential real estate loans and consumer loans are generally evaluated collectively after considering such factors as payment performance and recent loss experience and trends, which are mainly driven by current collateral values in the market place as well as the amount of loan defaults. Loss rates on such loans are determined by reference to recent charge-off history and are evaluated (and adjusted if deemed appropriate) through consideration of other factors including near-term forecasted loss estimates developed by the Company's Credit Department. In arriving at such forecasts, the Company considers the current estimated fair value of its collateral based on geographical adjustments for home price depreciation/appreciation and overall borrower repayment performance. With regard to collateral values, the realizability of such values by the Company contemplates repayment of any first lien position prior to recovering amounts on a second lien position. However, residential real estate loans and outstanding balances of home equity loans and lines of credit that are more than 150 days past due are generally evaluated for collectibility on a loan-by-loan basis giving consideration to estimated collateral values. The carrying value of residential real estate loans and home equity loans and lines of credit for which a partial charge-off has been recognized aggregated \$63 million and \$18 million, respectively, at December 31, 2014 and \$58 million and \$18 million, respectively, at December 31, 2013. Residential real estate loans and home equity loans and lines of credit that were more than 150 days past due but did not require a partial charge-off because the net realizable value of the collateral exceeded the outstanding customer balance totaled \$27 million and \$28 million, respectively, at December 31, 2014 and \$26 million and \$21 million, respectively, at December 31, 2013.

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.

**Table of Contents**

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.

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

|                                       | Commercial,<br>Financial,<br>Leasing,<br>etc. | Real Estate |                               | Consumer   | Total      |
|---------------------------------------|---|-------------|-------------------------------|------------|------------|
|                                       |   | Commercial  | Residential<br>(In thousands) |            |            |
| December 31, 2014                     |   |             |                               |            |            |
| Individually evaluated for impairment | \$ 31,779                                     | \$ 15,490   | \$ 14,703                     | \$ 19,742  | \$ 81,714  |
| Collectively evaluated for impairment | 251,607                                       | 291,244     | 45,061                        | 165,140    | 753,052    |
| Purchased impaired                    | 4,652   | 1,193       | 2,146                         | 1,151      | 9,142      |
| Allocated                             | \$ 288,038                                    | \$ 307,927  | \$ 61,910                     | \$ 186,033 | 843,908    |
| Unallocated                           |   |             |                               |            | 75,654     |
| Total                                 |   |             |                               |            | \$ 919,562 |
| December 31, 2013                     |   |             |                               |            |            |
| Individually evaluated for impairment | \$ 24,614                                     | \$ 27,563   | \$ 21,127                     | \$ 18,927  | \$ 92,231  |
| Collectively evaluated for impairment | 246,096                                       | 296,781     | 55,864                        | 144,210    | 742,951    |
| Purchased impaired                    | 2,673   | 634         | 1,665                         | 1,507      | 6,479      |
| Allocated                             | \$ 273,383                                    | \$ 324,978  | \$ 78,656                     | \$ 164,644 | 841,661    |
| Unallocated                           |   |             |                               |            | 75,015     |
| Total                                 |   |             |                               |            | \$ 916,676 |

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

|                                       | Commercial,<br>Financial,<br>Leasing, etc. | Real Estate   |                               | Consumer      | Total         |
|---------------------------------------|--|---------------|-------------------------------|---------------|---------------|
|                                       |  | Commercial    | Residential<br>(In thousands) |               |               |
| December 31, 2014                     |  |               |                               |               |               |
| Individually evaluated for impairment | \$ 206,318                                 | \$ 252,347    | \$ 232,398                    | \$ 69,061     | \$ 760,124    |
| Collectively evaluated for impairment | 19,244,674                                 | 27,148,382    | 8,406,680                     | 10,911,359    | 65,711,095    |
| Purchased impaired                    | 10,300                                     | 166,840       | 18,223                        | 2,374         | 197,737       |
| Total                                 | \$ 19,461,292                              | \$ 27,567,569 | \$ 8,657,301                  | \$ 10,982,794 | \$ 66,668,956 |
| December 31, 2013                     |  |               |                               |               |               |
| Individually evaluated for impairment | \$ 118,386                                 | \$ 376,339    | \$ 320,360                    | \$ 71,773     | \$ 886,858    |
| Collectively evaluated for impairment | 18,571,124                                 | 25,488,584    | 8,578,677                     | 10,217,124    | 62,855,509    |
| Purchased impaired                    | 15,706                                     | 283,285       | 29,184                        | 2,617         | 330,792       |

Edgar Filing: M&T BANK CORP - Form 10-K

|       |               |               |              |               |               |
|-------|---------------|---------------|--------------|---------------|---------------|
| Total | \$ 18,705,216 | \$ 26,148,208 | \$ 8,928,221 | \$ 10,291,514 | \$ 64,073,159 |
|-------|---------------|---------------|--------------|---------------|---------------|

125

**Table of Contents****6. Premises and equipment**

The detail of premises and equipment was as follows:

|   | December 31    | 2013       |
|---|----------------|------------|
|   | 2014           | 2013       |
|   | (In thousands) |            |
| Land  | \$ 82,335      | \$ 84,220  |
| Buildings owned                                 | 406,522        | 402,065    |
| Buildings capital leases                        | 1,131          | 1,131      |
| Leasehold improvements                          | 219,152        | 208,947    |
| Furniture and equipment owned                   | 586,429        | 547,824    |
| Furniture and equipment capital leases          | 18,853         | 17,703     |
|   | 1,314,422      | 1,261,890  |
| Less: accumulated depreciation and amortization |                |            |
| Owned assets                                    | 686,372        | 617,228    |
| Capital leases                                  | 15,066         | 11,142     |
|   | 701,438        | 628,370    |
| Premises and equipment, net                     | \$ 612,984     | \$ 633,520 |

Net lease expense for all operating leases totaled \$104,297,000 in 2014, \$103,297,000 in 2013 and \$102,924,000 in 2012. Minimum lease payments under noncancelable operating leases are presented in note 21. Minimum lease payments required under capital leases are not material.

**7. Capitalized servicing assets**

Changes in capitalized servicing assets were as follows:

| For Year Ended December 31,                    | Residential Mortgage Loans |            |            | Commercial Mortgage Loans |           |           |
|--|----------------------------|------------|------------|---------------------------|-----------|-----------|
|  | 2014                       | 2013       | 2012       | 2014                      | 2013      | 2012      |
|  | (In thousands)             |            |            |                           |           |           |
| Beginning balance                              | \$ 126,377                 | \$ 104,855 | \$ 131,264 | \$ 72,499                 | \$ 59,978 | \$ 51,250 |
| Originations                                   | 28,285                     | 52,375     | 14,577     | 15,922                    | 26,754    | 19,653    |
| Purchases                                      | 289                        | 272        | 109        | 730                       |           |           |
| Recognized in loan securitization transactions |                            | 13,696     |            |                           |           |           |
| Amortization                                   | (45,080)                   | (44,821)   | (41,095)   | (16,212)                  | (14,233)  | (10,925)  |
|  | 109,871                    | 126,377    | 104,855    | 72,939                    | 72,499    | 59,978    |
| Valuation allowance                            |                            | (300)      | (4,500)    |                           |           |           |
| Ending balance, net                            | \$ 109,871                 | \$ 126,077 | \$ 100,355 | \$ 72,939                 | \$ 72,499 | \$ 59,978 |

  

| For Year Ended December 31,                    | 2014           | Other    | 2012      | 2014       | Total      | 2012       |
|--|----------------|----------|-----------|------------|------------|------------|
|  |                | 2013     |           |            | 2013       |            |
|  | (In thousands) |          |           |            |            |            |
| Beginning balance                              | \$ 11,225      | \$ 8,143 | \$ 15,678 | \$ 210,101 | \$ 172,976 | \$ 198,192 |
| Originations                                   |                |          |           | 44,207     | 79,129     | 34,230     |
| Purchases                                      |                |          |           | 1,019      | 272        | 109        |
| Recognized in loan securitization transactions |                | 9,382    |           |            | 23,078     |            |

Edgar Filing: M&T BANK CORP - Form 10-K

|                     |          |           |          |            |            |            |
|---------------------|----------|-----------|----------|------------|------------|------------|
| Amortization        | (7,118)  | (6,300)   | (7,535)  | (68,410)   | (65,354)   | (59,555)   |
|                     | 4,107    | 11,225    | 8,143    | 186,917    | 210,101    | 172,976    |
| Valuation allowance |          |           |          |            | (300)      | (4,500)    |
| Ending balance, net | \$ 4,107 | \$ 11,225 | \$ 8,143 | \$ 186,917 | \$ 209,801 | \$ 168,476 |

**Table of Contents**

Residential mortgage loans serviced for others were \$64.4 billion at December 31, 2014, \$69.1 billion at December 31, 2013 and \$32.1 billion at December 31, 2012. Reflected in residential mortgage loans serviced for others were loans sub-serviced for others of \$42.1 billion, \$46.6 billion and \$12.5 billion at December 31, 2014, 2013, and 2012, respectively. Commercial mortgage loans serviced for others were \$11.3 billion at December 31, 2014, \$11.4 billion at December 31, 2013 and \$10.6 billion at December 31, 2012. Other loans serviced for others include small-balance commercial mortgage loans and automobile loans totaling \$3.5 billion, \$4.4 billion and \$3.8 billion at December 31, 2014, 2013 and 2012, respectively.

Changes in the valuation allowance for capitalized residential mortgage servicing assets were not significant in 2014, 2013 or 2012. The estimated fair value of capitalized residential mortgage loan servicing assets was approximately \$228 million at December 31, 2014 and \$266 million at December 31, 2013. The fair value of capitalized residential mortgage loan servicing assets was estimated using weighted-average discount rates of 11.9% and 9.3% at December 31, 2014 and 2013, respectively, and contemporaneous prepayment assumptions that vary by loan type. At December 31, 2014 and 2013, the discount rate represented a weighted-average option-adjusted spread ( OAS ) of 1065 basis points (hundredths of one percent) and 770 basis points, respectively, over market implied forward London Interbank Offered Rates ( LIBOR ). The estimated fair value of capitalized residential mortgage loan servicing rights may vary significantly in subsequent periods due to changing interest rates and the effect thereof on prepayment speeds. The estimated fair value of capitalized commercial mortgage loan servicing assets was approximately \$87 million and \$85 million at December 31, 2014 and 2013, respectively. An 18% discount rate was used to estimate the fair value of capitalized commercial mortgage loan servicing rights at December 31, 2014 and 2013 with no prepayment assumptions because, in general, the servicing agreements allow the Company to share in customer loan prepayment fees and thereby recover the remaining carrying value of the capitalized servicing rights associated with such loan. The Company's ability to realize the carrying value of capitalized commercial mortgage servicing rights is more dependent on the borrowers' abilities to repay the underlying loans than on prepayments or changes in interest rates.

The key economic assumptions used to determine the fair value of significant portfolios of capitalized servicing rights at December 31, 2014 and the sensitivity of such value to changes in those assumptions are summarized in the table that follows. Those calculated sensitivities are hypothetical and actual changes in the fair value of capitalized servicing rights may differ significantly from the amounts presented herein. The effect of a variation in a particular assumption on the fair value of the servicing rights is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another which may magnify or counteract the sensitivities. The changes in assumptions are presumed to be instantaneous.

|  | <b>Residential</b> | <b>Commercial</b> |
|--|--------------------|-------------------|
| Weighted-average prepayment speeds         | 11.22%             |                   |
| Impact on fair value of 10% adverse change | \$ (8,001,000)     |                   |
| Impact on fair value of 20% adverse change | (15,364,000)       |                   |
| Weighted-average OAS                       | 10.65%             |                   |
| Impact on fair value of 10% adverse change | \$ (6,959,000)     |                   |
| Impact on fair value of 20% adverse change | (13,492,000)       |                   |
| Weighted-average discount rate             |                    | 18.00%            |
| Impact on fair value of 10% adverse change |                    | \$ (3,671,000)    |
| Impact on fair value of 20% adverse change |                    | (7,092,000)       |

As described in note 19, during 2013 the Company securitized approximately \$1.3 billion of one-to-four family residential mortgage loans formerly held in the Company's loan portfolio in guaranteed mortgage securitizations with Ginnie Mae and securitized and sold approximately \$1.4 billion of automobile loans. In conjunction with these transactions, the Company retained the servicing rights to the loans.

**Table of Contents****8. Goodwill and other intangible assets**

In accordance with GAAP, the Company does not amortize goodwill, however, core deposit and other intangible assets are amortized over the estimated life of each respective asset. Total amortizing intangible assets were comprised of the following:

|                   | Gross Carrying<br>Amount | Accumulated<br>Amortization<br>(In thousands) | Net Carrying<br>Amount |
|-------------------|--------------------------|---|------------------------|
| December 31, 2014 |                          |   |                        |
| Core deposit      | \$ 755,794               | \$ 730,188                                    | \$ 25,606              |
| Other             | 177,268                  | 167,847                                       | 9,421                  |
| Total             | \$ 933,062               | \$ 898,035                                    | \$ 35,027              |
| December 31, 2013 |                          |   |                        |
| Core deposit      | \$ 755,794               | \$ 705,518                                    | \$ 50,276              |
| Other             | 177,268                  | 158,693                                       | 18,575                 |
| Total             | \$ 933,062               | \$ 864,211                                    | \$ 68,851              |

Amortization of core deposit and other intangible assets was generally computed using accelerated methods over original amortization periods of five to ten years. The weighted-average original amortization period was approximately eight years. The remaining weighted-average amortization period as of December 31, 2014 was approximately two years. Amortization expense for core deposit and other intangible assets was \$33,824,000, \$46,912,000 and \$60,631,000 for the years ended December 31, 2014, 2013 and 2012, respectively. Estimated amortization expense in future years for such intangible assets is as follows:

|                          | (In thousands) |
|--------------------------|----------------|
| Year ending December 31: |                |
| 2015                     | \$ 20,938      |
| 2016                     | 10,052         |
| 2017                     | 3,303          |
| 2018                     | 734            |
|                          | \$ 35,027      |

In accordance with GAAP, the Company completed annual goodwill impairment tests as of October 1, 2014, 2013 and 2012. For purposes of testing for impairment, the Company assigned all recorded goodwill to the reporting units originally intended to benefit from past business combinations, which has historically been the Company's core relationship business reporting units. Goodwill was generally assigned based on the implied fair value of the acquired goodwill applicable to the benefited reporting units at the time of each respective acquisition. The implied fair value of the goodwill was determined as the difference between the estimated incremental overall fair value of the reporting unit and the estimated fair value of the net assets assigned to the reporting unit as of each respective acquisition date. To test for goodwill impairment at each evaluation date, the Company compared the estimated fair value of each of its reporting units to their respective carrying amounts and certain other assets and liabilities assigned to the reporting unit, including goodwill and core deposit and other intangible assets. The methodologies used to estimate fair values of reporting units as of the acquisition dates and as of the evaluation dates were similar. For the Company's core customer relationship business reporting units, fair value was estimated as the present value of the expected future cash flows of the reporting unit. Based on the results of the goodwill impairment tests, the Company concluded that the amount of recorded goodwill was not impaired at the respective testing dates.

**Table of Contents**

A summary of goodwill assigned to each of the Company's reportable segments as of December 31, 2014 and 2013 for purposes of testing for impairment is as follows.

|                              | (In thousands) |
|------------------------------|----------------|
| Business Banking             | \$ 748,907     |
| Commercial Banking           | 907,524        |
| Commercial Real Estate       | 349,197        |
| Discretionary Portfolio      |                |
| Residential Mortgage Banking |                |
| Retail Banking               | 1,144,404      |
| All Other                    | 374,593        |
| Total                        | \$ 3,524,625   |

**9. Borrowings**

The amounts and interest rates of short-term borrowings were as follows:

|                                      | Federal Funds<br>Purchased<br>and<br>Repurchase<br>Agreements | Other<br>Short-term<br>Borrowings<br>(Dollars in thousands) | Total        |
|--------------------------------------|---|---|--------------|
| At December 31, 2014                 |   |   |              |
| Amount outstanding                   | \$ 192,676  |   | \$ 192,676   |
| Weighted-average interest rate       | 0.07%   |   | 0.07%        |
| For the year ended December 31, 2014 |   |   |              |
| Highest amount at a month-end        | \$ 280,350  |   |              |
| Daily-average amount outstanding     | 214,736   |   | \$ 214,736   |
| Weighted-average interest rate       | 0.05%   |   | 0.05%        |
| At December 31, 2013                 |   |   |              |
| Amount outstanding                   | \$ 260,455  |   | \$ 260,455   |
| Weighted-average interest rate       | 0.04%   |   | 0.04%        |
| For the year ended December 31, 2013 |   |   |              |
| Highest amount at a month-end        | \$ 563,879  |   |              |
| Daily-average amount outstanding     | 390,034   |   | \$ 390,034   |
| Weighted-average interest rate       | 0.11%   |   | 0.11%        |
| At December 31, 2012                 |   |   |              |
| Amount outstanding                   | \$ 1,074,482  |   | \$ 1,074,482 |
| Weighted-average interest rate       | 0.11%   |   | 0.11%        |
| For the year ended December 31, 2012 |   |   |              |
| Highest amount at a month-end        | \$ 1,224,194  | \$ 50,016   |              |
| Daily-average amount outstanding     | 822,859   | 16,043  | \$ 838,902   |
| Weighted-average interest rate       | 0.15%   | 0.57%   | 0.15%        |

Short-term borrowings have a stated maturity of one year or less at the date the Company enters into the obligation. In general, federal funds purchased and short-term repurchase agreements outstanding at December 31, 2014 matured on the next business day following year-end.

**Table of Contents**

At December 31, 2014, the Company had lines of credit under formal agreements as follows:

|                        | M&T Bank       | Wilmington<br>Trust, N.A. |
|------------------------|----------------|---------------------------|
|                        | (In thousands) |                           |
| Outstanding borrowings | \$ 1,161,475   | \$                        |
| Unused                 | 19,825,036     | 275,414                   |

At December 31, 2014, M&T Bank had borrowing facilities available with the FHLBs whereby M&T Bank could borrow up to approximately \$8.1 billion. Additionally, M&T Bank and Wilmington Trust, National Association ( Wilmington Trust, N.A. ), a wholly owned subsidiary of M&T, had available lines of credit with the Federal Reserve Bank of New York totaling approximately \$13.1 billion at December 31, 2014. M&T Bank and Wilmington Trust, N.A. are required to pledge loans and investment securities as collateral for these borrowing facilities.

Long-term borrowings were as follows:

|   | December 31,   |            |
|---|----------------|------------|
|   | 2014           | 2013       |
|   | (In thousands) |            |
| Senior notes of M&T Bank:   |                |            |
| Variable rate due 2016  | \$ 300,000     | \$ 300,000 |
| Variable rate due 2017  | 550,000        |            |
| 1.25% due 2017  | 499,969        |            |
| 1.40% due 2017  | 749,756        |            |
| 1.45% due 2018  | 503,118        | 502,479    |
| 2.25% due 2019  | 648,243        |            |
| 2.30% due 2019  | 748,965        |            |
| Advances from FHLB:   |                |            |
| Fixed rates   | 1,161,514      | 29,079     |
| Agreements to repurchase securities   | 1,400,000      | 1,400,000  |
| Subordinated notes of Wilmington Trust Corporation<br>(a wholly owned subsidiary of M&T): |                |            |
| 8.50% due 2018  | 218,883        | 224,067    |
| Subordinated notes of M&T Bank:   |                |            |
| 6.625% due 2017   | 428,627        | 437,582    |
| 9.50% due 2018  |                | 50,000     |
| 5.585% due 2020, variable rate commencing 2015  | 400,846        | 392,964    |
| 5.629% due 2021, variable rate commencing 2016  | 538,961        | 559,378    |
| Junior subordinated debentures of M&T associated with preferred capital securities:       |                |            |
| Fixed rates:  |                |            |
| M&T Capital Trust I 8.234%, due 2027  | 154,640        | 154,640    |
| M&T Capital Trust II 8.277%, due 2027   | 103,093        | 103,093    |
| M&T Capital Trust III 9.25%, due 2027   | 65,784         | 66,109     |
| BSB Capital Trust I 8.125%, due 2028  | 15,612         | 15,589     |
| Provident Trust I 8.29%, due 2028   | 25,405         | 25,051     |
| Southern Financial Statutory Trust I 10.60%, due 2030                                     | 6,550          | 6,521      |
| M&T Capital Trust IV 8.50%, due 2068  |                | 350,010    |
| Variable rates:   |                |            |
| First Maryland Capital I due 2027   | 145,179        | 144,641    |
| First Maryland Capital II due 2027  | 146,627        | 145,964    |
| Allfirst Asset Trust due 2029   | 96,204         | 96,059     |
| BSB Capital Trust III due 2033  | 15,464         | 15,464     |
| Provident Trust III due 2033  | 52,692         | 52,176     |
| Southern Financial Capital Trust III due 2033   | 7,816          | 7,747      |
| Other   | 23,011         | 30,257     |

\$ 9,006,959    \$ 5,108,870

---

**Table of Contents**

During the first quarter of 2013, M&T Bank instituted a Bank Note Program pursuant to which it has issued senior notes in 2014 and 2013. The floating rate notes pay interest quarterly at rates that are indexed to the three-month LIBOR. The contractual interest rates for the floating rate senior notes ranged from 0.54% to 0.61% at December 31, 2014 and were 0.54% at December 31, 2013. The weighted-average contractual interest rate payable was 0.56% at December 31, 2014.

Long-term fixed rate advances from the FHLB had contractual interest rates ranging from 1.17% to 7.32% at December 31, 2014 and from 3.48% to 7.32% at December 31, 2013. The weighted-average contractual interest rates payable were 1.68% at December 31, 2014 and 4.60% at December 31, 2013. Advances from the FHLB mature at various dates through 2035 and are secured by residential real estate loans, commercial real estate loans and investment securities.

Long-term agreements to repurchase securities had contractual interest rates that ranged from 3.61% to 4.30% at each of December 31, 2014 and 2013 with a weighted-average contractual interest rate of 3.90%. The agreements reflect various repurchase dates through 2017, 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 of \$1.5 billion and \$1.6 billion at December 31, 2014 and 2013, respectively.

The subordinated notes of M&T Bank and Wilmington Trust Corporation are unsecured and are subordinate to the claims of other creditors of those entities.

The fixed and floating rate junior subordinated deferrable interest debentures of M&T ( Junior Subordinated Debentures ) are held by various trusts and 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 current risk-based capital guidelines, the Capital Securities were includable in M&T's Tier 1 capital through December 31, 2014. In 2015, only 25% of then-outstanding securities are included in Tier 1 capital and beginning in 2016 none of the securities will be included in Tier 1 capital. The variable rate Junior Subordinated Debentures pay interest quarterly at rates that are indexed to the three-month LIBOR. Those rates ranged from 1.08% to 3.58% at December 31, 2014 and from 1.09% to 3.59% at December 31, 2013. The weighted-average variable rates payable on those Junior Subordinated Debentures were 1.66% at December 31, 2014 and 1.67% at December 31, 2013.

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 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. In February 2014, M&T redeemed all of the issued and outstanding 8.5% \$350 million trust preferred securities issued by M&T Capital Trust IV and the related Junior Subordinated Debentures held by M&T Capital Trust IV.

**Table of Contents**

Long-term borrowings at December 31, 2014 mature as follows:

|                          | (In thousands) |
|--------------------------|----------------|
| Year ending December 31: |                |
| 2015                     | \$ 6,444       |
| 2016                     | 1,105,540      |
| 2017                     | 3,407,786      |
| 2018                     | 723,516        |
| 2019                     | 1,971,842      |
| Later years              | 1,791,831      |
|                          | \$ 9,006,959   |

**10. 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 is presented below:

|   | December 31, 2014                   |   | December 31, 2013                   |                   |
|---|-------------------------------------|---|-------------------------------------|-------------------|
|   | Shares<br>Issued and<br>Outstanding | Carrying<br>Value<br>(Dollars in thousands) | Shares<br>Issued and<br>Outstanding | Carrying<br>Value |
| Series A(a)   |                                     |   |                                     |                   |
| Fixed Rate Cumulative Perpetual Preferred Stock, Series A, \$1,000 liquidation preference per share                 | 230,000                             | \$ 230,000                                  | 230,000                             | \$ 230,000        |
| Series C(a)   |                                     |   |                                     |                   |
| Fixed Rate Cumulative Perpetual Preferred Stock, Series C, \$1,000 liquidation preference per share                 | 151,500                             | 151,500                                     | 151,500                             | 151,500           |
| Series D(b)   |                                     |   |                                     |                   |
| Fixed Rate Non-cumulative Perpetual Preferred Stock, Series D, \$10,000 liquidation preference per share            | 50,000                              | 500,000                                     | 50,000                              | 500,000           |
| Series E(c)   |                                     |   |                                     |                   |
| Fixed-to-Floating Rate Non-cumulative Perpetual Preferred Stock, Series E, \$1,000 liquidation preference per share | 350,000                             | 350,000                                     |                                     |                   |

(a) Dividends, if declared, were paid quarterly at a rate of 5% per year through November 14, 2013 and are paid at 6.375% thereafter. Warrants to purchase M&T common stock were issued in connection with the Series A and C preferred stock (Series A 1,218,522 common shares at \$73.86 per share; Series C 407,542 common shares at \$55.76 per share). In March 2013, the Series C warrant were exercised in a cashless exercise, resulting in the issuance of 186,589 common shares. During 2014 and 2013, 427,905 and 69,127, respectively, of the Series A warrants were exercised in cashless exercises, resulting in the issuance of 169,543 and 25,427 common shares. Remaining outstanding Series A warrants were 721,490 at December 31, 2014.

(b) Dividends, if declared, will be paid semi-annually at a rate of 6.875% per year. The shares are redeemable in whole or in part on or after June 15, 2016. Notwithstanding M&T's option to redeem the shares, if an event occurs such that the shares no longer qualify as Tier 1 capital, M&T may redeem all of the shares within 90 days following that occurrence.

## Edgar Filing: M&T BANK CORP - Form 10-K

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

**Table of Contents**

In addition to the Series A and Series C warrants mentioned in (a) above, a ten-year warrant to purchase 95,383 shares of M&T common stock at \$518.96 per share was outstanding at each of December 31, 2014 and 2013. The obligation under that warrant was assumed by M&T in an acquisition.

**11. Stock-based compensation plans**

Stock-based compensation expense was \$65 million in 2014, \$55 million in 2013 and \$57 million in 2012. The Company recognized income tax benefits related to stock-based compensation of \$31 million in 2014, \$29 million in 2013 and \$30 million in 2012.

The Company's equity incentive compensation plan allows for the issuance of various forms of stock-based compensation, including stock options, restricted stock, restricted stock units and performance-based awards. At December 31, 2014 and 2013, respectively, there were 4,398,496 and 4,874,542 shares available for future grant under the Company's equity incentive compensation plan.

**Restricted stock awards**

Restricted stock awards are comprised of restricted stock and restricted stock units. Restricted stock awards granted in 2014 vest over three years. Restricted stock awards granted prior to 2014 generally vest over four years. A portion of restricted stock awards granted in 2014 require a performance condition to be met before such awards vest. Unrecognized compensation expense associated with restricted stock was \$19 million as of December 31, 2014 and is expected to be recognized over a weighted-average period of approximately one year. The Company may issue restricted shares from treasury stock to the extent available or issue new shares. The number of restricted shares issued was 221,822 in 2014, 269,755 in 2013 and 453,908 in 2012, with a weighted-average grant date fair value of \$24,765,000 in 2014, \$27,716,000 in 2013 and \$36,969,000 in 2012. Unrecognized compensation expense associated with restricted stock units was \$7 million as of December 31, 2014 and is expected to be recognized over a weighted-average period of approximately one year. During 2014, 2013 and 2012 the number of restricted stock units issued was 299,525, 315,316 and 278,505, respectively, with a weighted-average grant date fair value of \$33,406,000, \$32,380,000 and \$22,139,000, respectively.

A summary of restricted stock and restricted stock unit activity follows:

|                               | Restricted<br>Stock Units<br>Outstanding | Weighted-<br>Average<br>Grant Price | Restricted<br>Stock<br>Outstanding | Weighted-<br>Average<br>Grant Price |
|-------------------------------|--|-------------------------------------|------------------------------------|-------------------------------------|
| Unvested at January 1, 2014   | 770,830                                  | \$ 89.58                            | 862,695                            | \$ 87.29                            |
| Granted                       | 299,525                                  | 111.53                              | 221,822                            | 111.64                              |
| Vested                        | (279,747)                                | 84.95                               | (295,438)                          | 81.32                               |
| Cancelled                     | (1,197)                                  | 103.25                              | (27,434)                           | 96.70                               |
| Unvested at December 31, 2014 | 789,411                                  | \$ 99.53                            | 761,645                            | \$ 96.36                            |

**Stock option awards**

Stock options issued generally vest over four years and are exercisable over terms not exceeding ten years and one day. The Company used an option pricing model to estimate the grant date present value of stock options granted. Stock options granted in 2014, 2013 and 2012 were not significant.

A summary of stock option activity follows:

|                                | Stock<br>Options<br>Outstanding | Weighted-Average<br>Exercise<br>Price | Aggregate<br>Life<br>(In Years) | Aggregate<br>Intrinsic Value<br>(In thousands) |
|--------------------------------|---------------------------------|---------------------------------------|---------------------------------|--|
| Outstanding at January 1, 2014 | 4,880,761                       | \$ 105.48                             |                                 |  |
| Granted                        | 200                             | 111.51                                |                                 |  |

Edgar Filing: M&T BANK CORP - Form 10-K

|                                  |             |           |     |    |        |
|----------------------------------|-------------|-----------|-----|----|--------|
| Exercised                        | (1,372,113) | 101.55    |     |    |        |
| Expired                          | (75,978)    | 184.15    |     |    |        |
| Outstanding at December 31, 2014 | 3,432,870   | \$ 105.31 | 2.1 | \$ | 71,418 |
| Exercisable at December 31, 2014 | 3,432,470   | \$ 105.31 | 2.1 | \$ | 71,408 |

**Table of Contents**

For 2014, 2013 and 2012, M&T received \$127 million, \$172 million and \$153 million, respectively, in cash and realized tax benefits from the exercise of stock options of \$9 million, \$12 million and \$8 million, respectively. The intrinsic value of stock options exercised during those periods was \$26 million, \$34 million and \$21 million, respectively. As of December 31, 2014, the amount of unrecognized compensation cost related to non-vested stock options was not significant. The total grant date fair value of stock options vested during 2014 and 2013 was not significant, and for 2012 was \$17 million. Upon the exercise of stock options, the Company may issue shares from treasury stock to the extent available or issue new shares.

**Stock purchase plan**

The stock purchase plan provides eligible employees of the Company with the right to purchase shares of M&T common stock at a discount through accumulated payroll deductions. In connection with the employee stock purchase plan, 2,500,000 shares of M&T common stock were authorized for issuance under a plan adopted in 2013. There were 85,761 shares issued in 2014, no shares issued in 2013 and 151,014 shares issued in 2012 under a previous plan. For 2014 and 2012, M&T received \$8,607,000 and \$10,117,000, respectively, in cash for shares purchased through the employee stock purchase plan. Compensation expense recognized for the stock purchase plan was not significant in 2014, 2013 or 2012.

**Deferred bonus plan**

The Company provided a deferred bonus plan pursuant to which eligible employees could elect to defer all or a portion of their annual incentive compensation awards and allocate such awards to several investment options, including M&T common stock. Participants could elect the timing of distributions from the plan. Such distributions are payable in cash with the exception of balances allocated to M&T common stock which are distributable in the form of M&T common stock. Shares of M&T common stock distributable pursuant to the terms of the deferred bonus plan were 29,297 and 33,046 at December 31, 2014 and 2013, respectively. The obligation to issue shares is included in common stock issuable in the consolidated balance sheet.

**Directors' stock plan**

The Company maintains a compensation plan for non-employee members of the Company's boards of directors and directors advisory councils that allows such members to receive all or a portion of their compensation in shares of M&T common stock. Through December 31, 2014, 211,655 shares had been issued in connection with the directors' stock plan.

Through acquisitions, the Company assumed obligations to issue shares of M&T common stock related to deferred directors compensation plans. Shares of common stock issuable under such plans were 12,033 and 14,185 at December 31, 2014 and 2013, respectively. The obligation to issue shares is included in common stock issuable in the consolidated balance sheet.

**12. 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. The Company uses a December 31 measurement date for all of its plans.

Net periodic pension expense for defined benefit plans consisted of the following:

|                                      | Year Ended December 31 |           |           |
|--------------------------------------|------------------------|-----------|-----------|
|                                      | 2014                   | 2013      | 2012      |
|                                      | (In thousands)         |           |           |
| Service cost                         | \$ 20,520              | \$ 24,360 | \$ 29,549 |
| Interest cost on benefit obligation  | 69,162                 | 60,130    | 62,037    |
| Expected return on plan assets       | (91,568)               | (87,353)  | (70,511)  |
| Amortization of prior service credit | (6,552)                | (6,556)   | (6,559)   |
| Recognized net actuarial loss        | 14,494                 | 41,076    | 37,386    |
| Net periodic pension expense         | \$ 6,056               | \$ 31,657 | \$ 51,902 |



**Table of Contents**

Net other postretirement benefits expense for defined benefit plans consisted of the following:

|  | Year Ended December 31 |                 |                 |
|--|------------------------|-----------------|-----------------|
|  | 2014                   | 2013            | 2012            |
|  | (In thousands)         |                 |                 |
| Service cost                                     | \$ 605                 | \$ 742          | \$ 668          |
| Interest cost on benefit obligation              | 2,778                  | 2,691           | 3,737           |
| Amortization of prior service cost (credit)      | (1,359)                | (1,359)         | 21              |
| Recognized net actuarial loss                    |                        | 360             | 530             |
| <b>Net other postretirement benefits expense</b> | <b>\$ 2,024</b>        | <b>\$ 2,434</b> | <b>\$ 4,956</b> |

Data relating to the funding position of the defined benefit plans were as follows:

|   | Pension Benefits    |                  | Other Postretirement Benefits |                    |
|---|---------------------|------------------|-------------------------------|--------------------|
|   | 2014                | 2013             | 2014                          | 2013               |
|   | (In thousands)      |                  |                               |                    |
| <b>Change in benefit obligation:</b>  |                     |                  |                               |                    |
| Benefit obligation at beginning of year                                     | \$ 1,484,193        | \$ 1,644,567     | \$ 60,592                     | \$ 74,966          |
| Service cost  | 20,520              | 24,360           | 605                           | 742                |
| Interest cost   | 69,162              | 60,130           | 2,778                         | 2,691              |
| Plan participants contributions   |                     |                  | 3,498                         | 3,069              |
| Amendments  | 4,619               |                  |                               |                    |
| Actuarial (gain) loss   | 300,444             | (184,181)        | 7,793                         | (12,830)           |
| Medicare Part D reimbursement   |                     |                  | 495                           | 509                |
| Benefits paid   | (65,529)            | (60,683)         | (8,259)                       | (8,555)            |
| <b>Benefit obligation at end of year</b>                                    | <b>1,813,409</b>    | <b>1,484,193</b> | <b>67,502</b>                 | <b>60,592</b>      |
| <b>Change in plan assets:</b>   |                     |                  |                               |                    |
| Fair value of plan assets at beginning of year                              | 1,506,684           | 1,408,771        |                               |                    |
| Actual return on plan assets  | 56,430              | 150,795          |                               |                    |
| Employer contributions  | 8,076               | 7,801            | 4,266                         | 4,977              |
| Plan participants contributions   |                     |                  | 3,498                         | 3,069              |
| Medicare Part D reimbursement   |                     |                  | 495                           | 509                |
| Benefits and other payments   | (65,529)            | (60,683)         | (8,259)                       | (8,555)            |
| <b>Fair value of plan assets at end of year</b>                             | <b>1,505,661</b>    | <b>1,506,684</b> |                               |                    |
| <b>Funded status</b>  | <b>\$ (307,748)</b> | <b>\$ 22,491</b> | <b>\$ (67,502)</b>            | <b>\$ (60,592)</b> |
| Assets and liabilities recognized in the consolidated balance sheet were:   |                     |                  |                               |                    |
| Net prepaid asset   | \$                  | \$ 139,576       | \$                            | \$                 |
| Accrued liabilities   | (307,748)           | (117,085)        | (67,502)                      | (60,592)           |
| Amounts recognized in accumulated other comprehensive income ( AOCI ) were: |                     |                  |                               |                    |
| Net loss (gain)   | \$ 512,473          | \$ 191,386       | \$ 6,737                      | \$ (1,056)         |
| Net prior service cost  | (5,728)             | (16,899)         | (10,455)                      | (11,814)           |
| <b>Pre-tax adjustment to AOCI</b>   | <b>506,745</b>      | <b>174,487</b>   | <b>(3,718)</b>                | <b>(12,870)</b>    |

Edgar Filing: M&T BANK CORP - Form 10-K

|                         |            |            |            |            |
|-------------------------|------------|------------|------------|------------|
| Taxes.                  | (198,897)  | (68,486)   | 1,459      | 5,051      |
| Net adjustment to AOCI. | \$ 307,848 | \$ 106,001 | \$ (2,259) | \$ (7,819) |

**Table of Contents**

The Company has an unfunded supplemental pension plan for certain key executives and others. The projected benefit obligation and accumulated benefit obligation included in the preceding data related to such plan were \$135,891,000 as of December 31, 2014 and \$117,085,000 as of December 31, 2013.

The accumulated benefit obligation for all defined benefit pension plans was \$1,782,387,000 and \$1,460,498,000 at December 31, 2014 and 2013, respectively.

GAAP requires an employer to recognize in its balance sheet as an asset or liability the overfunded or underfunded status of a defined benefit postretirement plan, measured as the difference between the fair value of plan assets and the benefit obligation. For a pension plan, the benefit obligation is the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation is the accumulated postretirement benefit obligation. Gains or losses and prior service costs or credits that arise during the period, but are not included as components of net periodic benefit expense, are recognized as a component of other comprehensive income. As indicated in the preceding table, as of December 31, 2014 the Company recorded a minimum liability adjustment of \$503,027,000 (\$506,745,000 related to pension plans and \$(3,718,000) related to other postretirement benefits) with a corresponding reduction of shareholders' equity, net of applicable deferred taxes, of \$305,589,000. In aggregate, the benefit plans realized a net loss during 2014 that resulted from actual experience differing from the plan assumptions utilized and from changes in actuarial assumptions. The main factors contributing to that loss were a decrease in the discount rate used in the measurement of the benefit obligations to 4.00% at December 31, 2014 from 4.75% at December 31, 2013 and the migration to updated actuarial mortality tables issued by the Society of Actuaries reflecting longer life expectancy of the plan's participants. As a result, the Company increased its minimum liability adjustment from that which was recorded at December 31, 2013 by \$341,410,000 with a corresponding decrease to shareholders' equity that, net of applicable deferred taxes, was \$207,407,000. The table below reflects the changes in plan assets and benefit obligations recognized in other comprehensive income related to the Company's postretirement benefit plans.

|   | Pension Plans | Other<br>Postretirement<br>Benefit Plans<br>(In thousands) | Total        |
|---|---------------|--|--------------|
| <b>2014</b>   |               |  |              |
| Net loss  | \$ 335,581    | \$ 7,793   | \$ 343,374   |
| Prior service cost                                      | 4,619         |  | 4,619        |
| Amortization of prior service credit                    | 6,552         | 1,359  | 7,911        |
| Amortization of loss                                    | (14,494)      |  | (14,494)     |
| Total recognized in other comprehensive income, pre-tax | \$ 332,258    | \$ 9,152   | \$ 341,410   |
| <b>2013</b>   |               |  |              |
| Net gain  | \$ (247,622)  | \$ (12,830)  | \$ (260,452) |
| Amortization of prior service credit                    | 6,556         | 1,359  | 7,915        |
| Amortization of loss                                    | (41,076)      | (360)  | (41,436)     |
| Total recognized in other comprehensive income, pre-tax | \$ (282,142)  | \$ (11,831)  | \$ (293,973) |

The following table reflects the amortization of amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit expense during 2015:

|  | Pension Plans | Other<br>Postretirement<br>Benefit Plans<br>(In thousands) |
|--|---------------|--|
| Amortization of net prior service credit | \$ (6,005)    | \$ (1,359)   |
| Amortization of net loss                 | 44,653        | 91   |

The Company also provides a qualified defined contribution pension plan to eligible employees who were not participants in the defined benefit pension plan as of December 31, 2005 and to other employees who have elected to participate in the defined contribution plan. The Company makes contributions to the



**Table of Contents**

defined contribution plan each year in an amount that is based on an individual participant's total compensation (generally defined as total wages, incentive compensation, commissions and bonuses) and years of service. Participants do not contribute to the defined contribution pension plan. Pension expense recorded in 2014, 2013 and 2012 associated with the defined contribution pension plan was approximately \$22 million, \$21 million and \$17 million, respectively.

**Assumptions**

The assumed weighted-average rates used to determine benefit obligations at December 31 were:

|  | Pension Benefits |       | Other Postretirement Benefits |       |
|--|------------------|-------|-------------------------------|-------|
|  | 2014             | 2013  | 2014                          | 2013  |
| Discount rate                                  | 4.00%            | 4.75% | 4.00%                         | 4.75% |
| Rate of increase in future compensation levels | 4.39%            | 4.42% |                               |       |

The assumed weighted-average rates used to determine net benefit expense for the years ended December 31 were:

|  | Pension Benefits |       |       | Other Postretirement Benefits |       |       |
|--|------------------|-------|-------|-------------------------------|-------|-------|
|  | 2014             | 2013  | 2012  | 2014                          | 2013  | 2012  |
| Discount rate                                  | 4.75%            | 3.75% | 4.25% | 4.75%                         | 3.75% | 4.25% |
| Long-term rate of return on plan assets        | 6.50%            | 6.50% | 6.50% |                               |       |       |
| Rate of increase in future compensation levels | 4.42%            | 4.50% | 4.50% |                               |       |       |

The expected long-term rate of return assumption as of each measurement date was developed through analysis of historical market returns, current market conditions, anticipated future asset allocations, the funds' past experience, and expectations on potential future market returns. The expected rate of return assumption represents a long-term average view of the performance of the plan assets, a return that may or may not be achieved during any one calendar year.

For measurement of other postretirement benefits, a 7.00% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2015. The rate was assumed to decrease to 5.00% over 28 years. A one-percentage point change in assumed health care cost trend rates would have had the following effects:

|   | +1%            | -1%     |
|---|----------------|---------|
|   | (In thousands) |         |
| Increase (decrease) in:                       |                |         |
| Service and interest cost                     | \$ 97          | \$ (88) |
| Accumulated postretirement benefit obligation | 3,005          | (2,678) |

**Plan Assets**

The Company's policy is to invest the pension plan assets in a prudent manner for the purpose of providing benefit payments to participants and mitigating reasonable expenses of administration. The Company's investment strategy is designed to provide a total return that, over the long-term, places a strong emphasis on the preservation of capital. The strategy attempts to maximize investment returns on assets at a level of risk deemed appropriate by the Company while complying with applicable regulations and laws. The investment strategy utilizes asset diversification as a principal determinant for establishing an appropriate risk profile while emphasizing total return realized from capital appreciation, dividends and interest income. The target allocations for plan assets are generally 45 to 80 percent equity securities, 5 to 40 percent debt securities, and 5 to 30 percent money-market funds/cash equivalents and other investments, although holdings could be more or less than these general guidelines based on market conditions at the time and actions taken or recommended by the investment managers providing advice to the Company. Equity securities include investments in large-cap and mid-cap companies located in the United States and equity mutual funds with domestic and international investments, and, to a lesser extent, direct investments in



**Table of Contents**

foreign-based companies. Debt securities include corporate bonds of companies from diversified industries, mortgage-backed securities guaranteed by government agencies, U.S. Treasury securities, and mutual funds that invest in debt securities. Additionally, the Company's defined benefit pension plan held \$172,026,000 (11.4% of total assets) of real estate, private equity and other investments at December 31, 2014. Returns on invested assets are periodically compared with target market indices for each asset type to aid management in evaluating such returns. Furthermore, management regularly reviews the investment policy and may, if deemed appropriate, make changes to the target allocations noted above.

The fair values of the Company's pension plan assets at December 31, 2014, by asset category, were as follows:

|                           | <b>Fair Value Measurement of Plan Assets At December 31, 2014</b> |   |  |  |
|---------------------------|---|---|--|--|
|                           | <b>Total</b>  | <b>Quoted Prices<br/>in Active<br/>Markets<br/>for Identical Assets<br/>(Level 1)</b> | <b>Significant<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
|                           | (In thousands)  |   |  |  |
| <b>Asset category:</b>    |   |   |  |  |
| Money-market funds        | \$ 29,458   | \$ 29,458   | \$   | \$   |
| <b>Equity securities:</b> |   |   |  |  |
| M&T                       | 154,252   | 154,252   |  |  |
| Domestic(a)               | 214,127   | 214,127   |  |  |
| International(b)          | 16,170  | 16,170  |  |  |
| <b>Mutual funds:</b>      |   |   |  |  |
| Domestic(a)               | 305,817   | 305,817   |  |  |
| International(b)          | 381,101   | 381,101   |  |  |
|                           | 1,071,467   | 1,071,467   |  |  |
| <b>Debt securities:</b>   |   |   |  |  |
| Corporate(c)              | 102,848   |   | 102,848  |  |
| Government                | 92,772  |   | 92,772   |  |
| International             | 7,196   |   | 7,196  |  |
| <b>Mutual funds:</b>      |   |   |  |  |
| Domestic(d)               | 27,847  | 27,847  |  |  |
|                           | 230,663   | 27,847  | 202,816  |  |
| <b>Other:</b>             |   |   |  |  |
| Diversified mutual fund   | 96,936  | 96,936  |  |  |
| Private real estate       | 2,162   |   |  | 2,162  |
| Private equity            | 6,234   |   |  | 6,234  |
| Hedge funds               | 66,694  | 42,430  |  | 24,264   |
|                           | 172,026   | 139,366   |  | 32,660   |
| <b>Total(e)</b>           | <b>\$ 1,503,614</b>   | <b>\$ 1,268,138</b>   | <b>\$ 202,816</b>  | <b>\$ 32,660</b>   |

**Table of Contents**

The fair values of the Company's pension plan assets at December 31, 2013, by asset category, were as follows:

|                         | Fair Value Measurement of Plan Assets At December 31, 2013 |  |  |  |
|-------------------------|--|--|--|--|
|                         | Total  | Quoted Prices<br>in Active<br>Markets<br>for Identical Assets<br>(Level 1)<br>(In thousands) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Asset category:         |  |  |  |  |
| Money-market funds      | \$ 37,952  | \$ 37,952  | \$   | \$   |
| Equity securities:      |  |  |  |  |
| M&T                     | 142,955  | 142,955  |  |  |
| Domestic(a)             | 271,203  | 271,203  |  |  |
| International(b)        | 24,053   | 24,053   |  |  |
| Mutual funds:           |  |  |  |  |
| Domestic(a)             | 194,099  | 194,099  |  |  |
| International(b)        | 413,685  | 413,685  |  |  |
|                         | 1,045,995  | 1,045,995  |  |  |
| Debt securities:        |  |  |  |  |
| Corporate(c)            | 63,196   |  | 63,196   |  |
| Government              | 75,043   |  | 75,043   |  |
| International           | 2,443  |  | 2,443  |  |
| Mutual funds:           |  |  |  |  |
| Domestic(d)             | 68,280   | 68,280   |  |  |
| International           | 43,742   | 43,742   |  |  |
|                         | 252,704  | 112,022  | 140,682  |  |
| Other:                  |  |  |  |  |
| Diversified mutual fund | 93,055   | 93,055   |  |  |
| Private real estate     | 3,123  |  |  | 3,123  |
| Private equity          | 6,199  |  |  | 6,199  |
| Hedge funds             | 65,663   | 41,489   |  | 24,174   |
|                         | 168,040  | 134,544  |  | 33,496   |
| Total(e)                | \$ 1,504,691   | \$ 1,330,513   | \$ 140,682                                       | \$ 33,496  |

(a) This category is comprised of equities of companies primarily within the mid-cap and large-cap sectors of the U.S. economy and range across diverse industries.

(b) This category is comprised of equities in companies primarily within the mid-cap and large-cap sectors of international markets mainly in developed markets in Europe and the Pacific Rim.

## Edgar Filing: M&T BANK CORP - Form 10-K

- (c) *This category represents investment grade bonds of U.S. issuers from diverse industries.*
- (d) *Approximately 55% of the mutual funds were invested in investment grade bonds of U.S. issuers and 45% in high-yielding bonds at December 31, 2014. Approximately 35% of the mutual funds were invested in investment grade bonds of U.S. issuers and 65% in high-yielding bonds at December 31, 2013. The holdings within the funds were spread across diverse industries.*
- (e) *Excludes dividends and interest receivable totaling \$2,047,000 and \$1,993,000 at December 31, 2014 and 2013, respectively. Pension plan assets included common stock of M&T with a fair value of \$154,252,000 (10.2% of total plan assets) at December 31, 2014 and \$142,955,000 (9.5% of total plan assets) at December 31, 2013. No*

**Table of Contents**

other investment in securities of a non-U.S. Government or government agency issuer exceeded ten percent of plan assets at December 31, 2014. Assets subject to Level 3 valuations did not constitute a significant portion of plan assets at December 31, 2014 or December 31, 2013.

The changes in Level 3 pension plan assets measured at estimated fair value on a recurring basis during the year ended December 31, 2014 were as follows:

|                     | Balance<br>January 1,<br>2014 | Sales             | Total<br>Realized/<br>Unrealized<br>Gains | Balance<br>December 31,<br>2014 |
|---------------------|-------------------------------|-------------------|---|---------------------------------|
|                     | (In thousands)                |                   |   |                                 |
| <b>Other</b>        |                               |                   |   |                                 |
| Private real estate | \$ 3,123                      | \$ (1,167)        | \$ 206                                    | \$ 2,162                        |
| Private equity      | 6,199                         | (905)             | 940                                       | 6,234                           |
| Hedge funds         | 24,174                        | (513)             | 603                                       | 24,264                          |
| <b>Total</b>        | <b>\$ 33,496</b>              | <b>\$ (2,585)</b> | <b>\$ 1,749</b>                           | <b>\$ 32,660</b>                |

The Company makes contributions to its funded qualified defined benefit pension plan as required by government regulation or as deemed appropriate by management after considering factors such as the fair value of plan assets, expected returns on such assets, and the present value of benefit obligations of the plan. Subject to the impact of actual events and circumstances that may occur in 2015, the Company may make contributions to the qualified defined benefit pension plan in 2015, but the amount of any such contribution has not yet been determined. The Company did not make any contributions to the plan in 2014 or 2013. The Company regularly funds the payment of benefit obligations for the supplemental defined benefit pension and postretirement benefit plans because such plans do not hold assets for investment. Payments made by the Company for supplemental pension benefits were \$8,076,000 and \$7,801,000 in 2014 and 2013, respectively. Payments made by the Company for postretirement benefits were \$4,266,000 and \$4,977,000 in 2014 and 2013, respectively. Payments for supplemental pension and other postretirement benefits for 2015 are not expected to differ from those made in 2014 by an amount that will be material to the Company's consolidated financial position.

Estimated benefits expected to be paid in future years related to the Company's defined benefit pension and other postretirement benefits plans are as follows:

|                                 | Pension<br>Benefits | Other<br>Postretirement<br>Benefits |
|---------------------------------|---------------------|-------------------------------------|
|                                 | (In thousands)      |                                     |
| <b>Year ending December 31:</b> |                     |                                     |
| 2015                            | \$ 70,107           | \$ 5,830                            |
| 2016                            | 73,169              | 5,719                               |
| 2017                            | 77,294              | 5,554                               |
| 2018                            | 81,231              | 5,412                               |
| 2019                            | 87,027              | 5,281                               |
| 2020 through 2024               | 497,177             | 24,190                              |

The Company has a retirement savings plan (RSP) that is a defined contribution plan in which eligible employees of the Company may defer up to 50% of qualified compensation via contributions to the plan. The Company makes an employer matching contribution in an amount equal to 75% of an employee's contribution, up to 4.5% of the employee's qualified compensation. Employees' accounts, including employee contributions, employer matching contributions and accumulated earnings thereon, are at all times fully vested and nonforfeitable. Employee benefits expense resulting from the Company's contributions to the RSP totaled \$32,466,000, \$31,797,000 and \$31,305,000 in 2014, 2013 and 2012, respectively.

**Table of Contents****13. Income taxes**

The components of income tax expense were as follows:

|  | Year Ended December 31 |                   |                   |
|--|------------------------|-------------------|-------------------|
|  | 2014                   | 2013              | 2012              |
|  | (In thousands)         |                   |                   |
| <b>Current</b>   |                        |                   |                   |
| Federal  | \$ 378,978             | \$ 371,249        | \$ 309,156        |
| State and city   | 50,790                 | 68,035            | 82,014            |
| Total current  | 429,768                | 439,284           | 391,170           |
| <b>Deferred</b>  |                        |                   |                   |
| Federal  | 65,503                 | 106,537           | 117,229           |
| State and city   | 27,345                 | 33,248            | 14,629            |
| Total deferred   | 92,848                 | 139,785           | 131,858           |
| <b>Total income taxes applicable to pre-tax income</b> | <b>\$ 522,616</b>      | <b>\$ 579,069</b> | <b>\$ 523,028</b> |

The Company files a consolidated federal income tax return reflecting taxable income earned by all domestic subsidiaries. In prior years, applicable federal tax law allowed certain financial institutions the option of deducting as bad debt expense for tax purposes amounts in excess of actual losses. In accordance with GAAP, such financial institutions were not required to provide deferred income taxes on such excess. Recapture of the excess tax bad debt reserve established under the previously allowed method will result in taxable income if M&T Bank fails to maintain bank status as defined in the Internal Revenue Code or charges are made to the reserve for other than bad debt losses. At December 31, 2014, M&T Bank's tax bad debt reserve for which no federal income taxes have been provided was \$79,121,000. No actions are planned that would cause this reserve to become wholly or partially taxable.

Income taxes attributable to gains or losses on bank investment securities were an expense of \$18,313,000 in 2013 and a benefit of \$18,766,000 in 2012. There were no gains or losses on bank investment securities in 2014. No alternative minimum tax expense was recognized in 2014, 2013 or 2012.

Total income taxes differed from the amount computed by applying the statutory federal income tax rate to pre-tax income as follows:

|   | Year Ended December 31 |            |            |
|---|------------------------|------------|------------|
|   | 2014                   | 2013       | 2012       |
|   | (In thousands)         |            |            |
| Income taxes at statutory federal income tax rate             | \$ 556,102             | \$ 601,142 | \$ 543,384 |
| Increase (decrease) in taxes:                                 |                        |            |            |
| Tax-exempt income   | (31,752)               | (34,747)   | (33,890)   |
| State and city income taxes, net of federal income tax effect | 50,788                 | 65,834     | 62,818     |
| Low income housing and other credits                          | (49,526)               | (49,206)   | (42,074)   |
| Other   | (2,996)                | (3,954)    | (7,210)    |
|   | \$ 522,616             | \$ 579,069 | \$ 523,028 |

**Table of Contents**

Deferred tax assets (liabilities) were comprised of the following at December 31:

|  | <b>2014</b>       | <b>2013</b><br><b>(In thousands)</b> | <b>2012</b>       |
|--|-------------------|--------------------------------------|-------------------|
| Losses on loans and other assets           | \$ 605,273        | \$ 645,713                           | \$ 809,033        |
| Postretirement and other employee benefits | 34,052            | 30,023                               | 34,517            |
| Incentive compensation plans               | 36,450            | 37,772                               | 50,067            |
| Interest on loans                          | 79,147            | 100,725                              | 72,278            |
| Retirement benefits                        | 120,222           |                                      | 91,980            |
| Stock-based compensation                   | 64,017            | 63,101                               | 69,874            |
| Depreciation and amortization              | 3,527             | 1,404                                | 12,130            |
| Other                                      | 100,999           | 121,561                              | 103,027           |
| <b>Gross deferred tax assets</b>           | <b>1,043,687</b>  | <b>1,000,299</b>                     | <b>1,242,906</b>  |
| Leasing transactions                       | (280,596)         | (284,370)                            | (291,524)         |
| Unrealized investment gains                | (82,065)          | (21,779)                             | (23,574)          |
| Capitalized servicing rights               | (46,393)          | (46,041)                             | (20,348)          |
| Interest on subordinated note exchange     | (3,125)           | (6,075)                              | (8,794)           |
| Retirement benefits                        |                   | (9,397)                              |                   |
| Other                                      | (63,814)          | (49,450)                             | (61,410)          |
| <b>Gross deferred tax liabilities</b>      | <b>(475,993)</b>  | <b>(417,112)</b>                     | <b>(405,650)</b>  |
| <b>Net deferred tax asset</b>              | <b>\$ 567,694</b> | <b>\$ 583,187</b>                    | <b>\$ 837,256</b> |

The Company believes that it is more likely than not that the deferred tax assets will be realized through taxable earnings or alternative tax strategies.

The income tax credits shown in the statement of income of M&T in note 25 arise principally from operating losses before dividends from subsidiaries.

**Table of Contents**

A reconciliation of the beginning and ending amount of unrecognized tax benefits follows:

|  | <b>Federal,<br/>State and<br/>Local Tax</b> | <b>Accrued<br/>Interest<br/>(In thousands)</b> | <b>Unrecognized<br/>Income Tax<br/>Benefits</b> |
|--|---|--|---|
| Gross unrecognized tax benefits at January 1, 2012   | \$ 18,333                                   | \$ 9,277                                       | \$ 27,610                                       |
| Increases in unrecognized tax benefits as a result of tax positions taken during 2012                              | 860   |  | 860   |
| Increases in unrecognized tax benefits as a result of tax positions taken in prior years                           |   | 4,514  | 4,514   |
| Decreases in unrecognized tax benefits as a result of settlements with taxing authorities                          | (1,002)                                     |  | (1,002)   |
| Decreases in unrecognized tax benefits because applicable returns are no longer subject to examination             | (1,643)                                     | (1,412)  | (3,055)   |
| Gross unrecognized tax benefits at December 31, 2012   | 16,548                                      | 12,379   | 28,927  |
| Increases in unrecognized tax benefits as a result of tax positions taken during 2013                              | 2,267                                       |  | 2,267   |
| Increases in unrecognized tax benefits as a result of tax positions taken in prior years                           |   | 4,429  | 4,429   |
| Decreases in unrecognized tax benefits as a result of settlements with taxing authorities                          | (1,854)                                     | (487)  | (2,341)   |
| Decreases in unrecognized tax benefits because applicable returns are no longer subject to examination             | (2,350)                                     | (1,625)  | (3,975)   |
| Gross unrecognized tax benefits at December 31, 2013   | 14,611                                      | 14,696   | 29,307  |
| Increases in unrecognized tax benefits as a result of tax positions taken during 2014                              | 769   |  | 769   |
| Increases in unrecognized tax benefits as a result of tax positions taken in prior years                           |   | 453  | 453   |
| Decreases in unrecognized tax benefits as a result of settlements with taxing authorities                          | (4,668)                                     | (11,280)                                       | (15,948)  |
| Gross unrecognized tax benefits at December 31, 2014   | \$ 10,712                                   | \$ 3,869                                       | 14,581  |
| Less: Federal, state and local income tax benefits   |   |  | (5,103)   |
| Net unrecognized tax benefits at December 31, 2014 that, if recognized, would impact the effective income tax rate |   |  | \$ 9,478  |

The Company's policy is to recognize interest and penalties, if any, related to unrecognized tax benefits in income taxes in the consolidated statement of income. The balance of accrued interest at December 31, 2014 is included in the table above. The Company's federal, state and local income tax returns are routinely subject to examinations from various governmental taxing authorities. Such examinations may result in challenges to the tax return treatment applied by the Company to specific transactions. Management believes that the assumptions and judgment used to record tax-related assets or liabilities have been appropriate. Should determinations rendered by tax authorities ultimately indicate that management's assumptions were inappropriate, the result and adjustments required could have a material effect on the Company's results of operations. Under statute, the Company's federal income tax returns for the years 2010 through 2013 could be adjusted by the Internal Revenue Service, although examinations for those tax years have been largely concluded. The Company also files income tax returns in over forty states and numerous local jurisdictions. Substantially all material state and local matters have been concluded for years through 2010. It is not reasonably possible to estimate when examinations for any subsequent years will be completed.

**Table of Contents****14. Earnings per common share**

The computations of basic earnings per common share follow:

|  | Year Ended December 31 |                     |                   |
|--|------------------------|---------------------|-------------------|
|  | 2014                   | 2013                | 2012              |
| (In thousands, except per share)   |                        |                     |                   |
| <b>Income available to common shareholders:</b>  |                        |                     |                   |
| Net income   | \$ 1,066,246           | \$ 1,138,480        | \$ 1,029,498      |
| Less: Preferred stock dividends(a)   | (75,878)               | (54,120)            | (53,450)          |
| Amortization of preferred stock discount(a)  |                        | (7,942)             | (8,026)           |
| <b>Net income available to common equity</b>   | <b>990,368</b>         | <b>1,076,418</b>    | <b>968,022</b>    |
| Less: Income attributable to unvested stock-based compensation awards                                    | (11,837)               | (13,989)            | (14,632)          |
| <b>Net income available to common shareholders</b>   | <b>\$ 978,531</b>      | <b>\$ 1,062,429</b> | <b>\$ 953,390</b> |
| <b>Weighted-average shares outstanding:</b>  |                        |                     |                   |
| Common shares outstanding (including common stock issuable) and unvested stock-based compensation awards | 132,532                | 130,354             | 127,793           |
| Less: Unvested stock-based compensation awards   | (1,582)                | (1,700)             | (1,929)           |
| <b>Weighted-average shares outstanding</b>   | <b>130,950</b>         | <b>128,654</b>      | <b>125,864</b>    |
| <b>Basic earnings per common share</b>   | <b>\$ 7.47</b>         | <b>\$ 8.26</b>      | <b>\$ 7.57</b>    |

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

The computations of diluted earnings per common share follow:

|   | Year Ended December 31 |                     |                   |
|---|------------------------|---------------------|-------------------|
|   | 2014                   | 2013                | 2012              |
| (In thousands, except per share)  |                        |                     |                   |
| Net income available to common equity   | \$ 990,368             | \$ 1,076,418        | \$ 968,022        |
| Less: Income attributable to unvested stock-based compensation awards   | (11,787)               | (13,922)            | (14,593)          |
| <b>Net income available to common shareholders</b>  | <b>\$ 978,581</b>      | <b>\$ 1,062,496</b> | <b>\$ 953,429</b> |
| <b>Adjusted weighted-average shares outstanding:</b>  |                        |                     |                   |
| Common and unvested stock-based compensation awards   | 132,532                | 130,354             | 127,793           |
| Less: Unvested stock-based compensation awards  | (1,582)                | (1,700)             | (1,929)           |
| Plus: Incremental shares from assumed conversion of stock-based compensation awards and warrants to purchase common stock | 894                    | 949                 | 541               |
| <b>Adjusted weighted-average shares outstanding</b>   | <b>131,844</b>         | <b>129,603</b>      | <b>126,405</b>    |
| <b>Diluted earnings per common share</b>  | <b>\$ 7.42</b>         | <b>\$ 8.20</b>      | <b>\$ 7.54</b>    |

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.

## Edgar Filing: M&T BANK CORP - Form 10-K

Stock-based compensation awards and warrants to purchase common stock of M&T representing approximately 2,017,000, 3,847,000 and 8,905,000 common shares during 2014, 2013 and 2012, respectively, were not included in the computations of diluted earnings per common share because the effect on those years would have been antidilutive.

**Table of Contents****15. 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<br>With<br>OTTI | All<br>Other | Defined<br>Benefit<br>Plans | Other<br><br>(In thousands) | Total<br>Amount<br>Before Tax | Income<br>Tax | Net          |
|---|---------------------------------------|--------------|-----------------------------|-----------------------------|-------------------------------|---------------|--------------|
| Balance January 1, 2014   | \$ 37,255                             | 18,450       | (161,617)                   | 115                         | (105,797)                     | 41,638        | \$ (64,159)  |
| Other comprehensive income before reclassifications:  |                                       |              |                             |                             |                               |               |              |
| Unrealized holding gains (losses), net  | (29,818)                              | 180,005      |                             |                             | 150,187                       | (58,962)      | 91,225       |
| Foreign currency translation adjustment   |                                       |              |                             | (4,039)                     | (4,039)                       | 1,432         | (2,607)      |
| Unrealized losses on cash flow hedges   |                                       |              |                             | (165)                       | (165)                         | 65            | (100)        |
| Current year benefit plans losses   |                                       |              | (347,993)                   |                             | (347,993)                     | 136,587       | (211,406)    |
| Total other comprehensive income (loss) before reclassifications                                      | (29,818)                              | 180,005      | (347,993)                   | (4,204)                     | (202,010)                     | 79,122        | (122,888)    |
| Amounts reclassified from accumulated other comprehensive income that (increase) decrease net income: |                                       |              |                             |                             |                               |               |              |
| Accretion of unrealized holding losses on held-to-maturity ( HTM ) securities                         | 1                                     | 3,373        |                             |                             | 3,374(a)                      | (1,324)       | 2,050        |
| Accretion of losses on terminated cash flow hedges  |                                       |              |                             | 7                           | 7(d)                          | (3)           | 4            |
| Amortization of prior service credit  |                                       |              | (7,911)                     |                             | (7,911)(e)                    | 3,105         | (4,806)      |
| Amortization of actuarial losses  |                                       |              | 14,494                      |                             | 14,494(e)                     | (5,689)       | 8,805        |
| Total reclassifications   | 1                                     | 3,373        | 6,583                       | 7                           | 9,964                         | (3,911)       | 6,053        |
| Total gain (loss) during the period   | (29,817)                              | 183,378      | (341,410)                   | (4,197)                     | (192,046)                     | 75,211        | (116,835)    |
| Balance December 31, 2014   | \$ 7,438                              | 201,828      | (503,027)                   | (4,082)                     | (297,843)                     | 116,849       | \$ (180,994) |

**Table of Contents**

|   | Investment Securities<br>With<br>OTTI | All<br>Other | Defined<br>Benefit<br>Plans | Other<br>(In thousands) | Total<br>Amount<br>Before Tax | Income<br>Tax | Net          |
|---|---------------------------------------|--------------|-----------------------------|-------------------------|-------------------------------|---------------|--------------|
| Balance January 1, 2013   | \$ (91,835)                           | 152,199      | (455,590)                   | (431)                   | (395,657)                     | 155,393       | \$ (240,264) |
| Other comprehensive income before reclassifications:  |                                       |              |                             |                         |                               |               |              |
| Unrealized holding gains (losses), net  | 77,794                                | (129,628)    |                             |                         | (51,834)                      | 20,311        | (31,523)     |
| Foreign currency translation adjustment   |                                       |              |                             | 546                     | 546                           | (165)         | 381          |
| Current year benefit plans gains  |                                       |              | 260,452                     |                         | 260,452                       | (102,227)     | 158,225      |
| Total other comprehensive income (loss) before reclassifications                                      | 77,794                                | (129,628)    | 260,452                     | 546                     | 209,164                       | (82,081)      | 127,083      |
| Amounts reclassified from accumulated other comprehensive income that (increase) decrease net income: |                                       |              |                             |                         |                               |               |              |
| Accretion of unrealized holding losses on HTM securities  | 279                                   | 4,008        |                             |                         | 4,287(a)                      | (1,683)       | 2,604        |
| OTTI charges recognized in net income   | 9,800                                 |              |                             |                         | 9,800(b)                      | (3,847)       | 5,953        |
| Losses (gains) realized in net income   | 41,217                                | (8,129)      |                             |                         | 33,088(c)                     | (12,987)      | 20,101       |
| Amortization of prior service credit  |                                       |              | (7,915)                     |                         | (7,915)(e)                    | 3,107         | (4,808)      |
| Amortization of actuarial losses  |                                       |              | 41,436                      |                         | 41,436(e)                     | (16,264)      | 25,172       |
| Total reclassifications   | 51,296                                | (4,121)      | 33,521                      |                         | 80,696                        | (31,674)      | 49,022       |
| Total gain (loss) during the period   | 129,090                               | (133,749)    | 293,973                     | 546                     | 289,860                       | (113,755)     | 176,105      |
| Balance December 31, 2013   | \$ 37,255                             | 18,450       | (161,617)                   | 115                     | (105,797)                     | 41,638        | \$ (64,159)  |

**Table of Contents**

|   | Investment Securities<br>With<br>OTTI | All<br>Other | Defined<br>Benefit<br>Plans | Other<br>(In thousands) | Total<br>Amount<br>Before Tax | Income<br>Tax | Net          |
|---|---------------------------------------|--------------|-----------------------------|-------------------------|-------------------------------|---------------|--------------|
| Balance January 1, 2012   | \$ (138,319)                          | 9,757        | (457,145)                   | (1,062)                 | (586,769)                     | 230,328       | \$ (356,441) |
| Other comprehensive income before reclassifications:  |                                       |              |                             |                         |                               |               |              |
| Unrealized holding gains (losses), net  | (2,998)                               | 137,921      |                             |                         | 134,923                       | (52,905)      | 82,018       |
| Foreign currency translation adjustment   |                                       |              |                             | 809                     | 809                           | (290)         | 519          |
| Current year benefit plans losses   |                                       |              | (29,823)                    |                         | (29,823)                      | 11,705        | (18,118)     |
| Total other comprehensive income (loss) before reclassifications                                      | (2,998)                               | 137,921      | (29,823)                    | 809                     | 105,909                       | (41,490)      | 64,419       |
| Amounts reclassified from accumulated other comprehensive income that (increase) decrease net income: |                                       |              |                             |                         |                               |               |              |
| Accretion of unrealized holding losses on HTM securities  | 1,660                                 | 4,530        |                             |                         | 6,190(a)                      | (2,430)       | 3,760        |
| OTTI charges recognized in net income   | 47,822                                |              |                             |                         | 47,822(b)                     | (18,770)      | 29,052       |
| Gains realized in net income  |                                       | (9)          |                             |                         | (9)(c)                        | 4             | (5)          |
| Amortization of gains on terminated cash flow hedges  |                                       |              |                             | (178)                   | (178)(d)                      | 66            | (112)        |
| Amortization of prior service credit  |                                       |              | (6,538)                     |                         | (6,538)(e)                    | 2,566         | (3,972)      |
| Amortization of actuarial losses  |                                       |              | 37,916                      |                         | 37,916(e)                     | (14,881)      | 23,035       |
| Total reclassifications   | 49,482                                | 4,521        | 31,378                      | (178)                   | 85,203                        | (33,445)      | 51,758       |
| Total gain during the period  | 46,484                                | 142,442      | 1,555                       | 631                     | 191,112                       | (74,935)      | 116,177      |
| Balance December 31, 2012   | \$ (91,835)                           | 152,199      | (455,590)                   | (431)                   | (395,657)                     | 155,393       | \$ (240,264) |

(a) Included in interest income.

(b) Included in OTTI losses recognized in earnings.

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

(d) Included in interest expense.

(e) Included in salaries and employee benefits expense.

**Table of Contents**

Accumulated other comprehensive income (loss), net consisted of unrealized gains (losses) as follows:

|                              | Investment Securities |            | Defined Benefit Plans | Other      | Total        |
|------------------------------|-----------------------|------------|-----------------------|------------|--------------|
|                              | With OTTI             | All Other  | (In thousands)        |            |              |
| Balance at January 1, 2012   | \$ (84,029)           | \$ 5,995   | \$ (277,716)          | \$ (691)   | \$ (356,441) |
| Net gain (loss) during 2012  | 28,239                | 86,586     | 945                   | 407        | 116,177      |
| Balance at December 31, 2012 | (55,790)              | 92,581     | (276,771)             | (284)      | (240,264)    |
| Net gain (loss) during 2013  | 78,422                | (81,287)   | 178,589               | 381        | 176,105      |
| Balance at December 31, 2013 | 22,632                | 11,294     | (98,182)              | 97         | (64,159)     |
| Net gain (loss) during 2014  | (18,114)              | 111,389    | (207,407)             | (2,703)    | (116,835)    |
| Balance at December 31, 2014 | \$ 4,518              | \$ 122,683 | \$ (305,589)          | \$ (2,606) | \$ (180,994) |

**16. Other income and other expense**

The following items, which exceeded 1% of total interest income and other income in the respective period, were included in either other revenues from operations or other costs of operations in the consolidated statement of income:

|  | Year Ended December 31 |           |           |
|--|------------------------|-----------|-----------|
|  | 2014                   | 2013      | 2012      |
|  | (In thousands)         |           |           |
| Other income:                                |                        |           |           |
| Bank owned life insurance                    | \$ 50,004              | \$ 56,120 | \$ 51,199 |
| Credit-related fee income                    | 72,454                 | 72,271    | 68,596    |
| Letter of credit fees                        | 56,708                 | 59,889    | 58,496    |
| Gains from loan securitization transactions  |                        | 63,066    |           |
| Other expense:                               |                        |           |           |
| Professional services                        | 401,946                | 335,794   | 248,544   |
| Amortization of capitalized servicing rights | 68,410                 | 65,354    | 59,555    |
| Advertising and promotion                    |                        | 56,597    | 52,388    |

**17. International activities**

The Company engages in limited international activities including certain trust-related services in Europe and the Cayman Islands, collecting Eurodollar deposits, engaging in foreign currency trading on behalf of customers, providing credit to support the international activities of domestic companies and holding certain loans to foreign borrowers. Revenues from providing international trust-related services were approximately \$31 million in 2014, \$26 million in 2013 and \$24 million in 2012. Net assets identified with international activities amounted to \$232 million and \$226 million at December 31, 2014 and 2013, respectively. Such assets included \$213 million and \$192 million, respectively, of loans to foreign borrowers. Deposits at M&T Bank's Cayman Islands office were \$177 million and \$323 million at December 31, 2014 and 2013, respectively. The Company uses such deposits to facilitate customer demand and as an alternative to short-term borrowings when the costs of such deposits seem reasonable.

**18. Derivative financial instruments**

As part of managing interest rate risk, the Company enters into interest rate swap agreements to modify the repricing characteristics of certain portions of the Company's portfolios of earning assets and interest-bearing liabilities. The Company designates interest rate swap agreements utilized in the management of interest rate risk as either fair value hedges or cash flow hedges. Interest rate swap agreements are generally entered into with counterparties that meet established credit standards and most contain master netting and collateral provisions protecting the at-risk party. Based on adherence to the Company's credit standards and the presence of the netting and collateral provisions, the Company

believes that the credit risk inherent in these contracts was not significant as of December 31, 2014.

**Table of Contents**

The net effect of interest rate swap agreements was to increase net interest income by \$45 million in 2014, \$41 million in 2013 and \$36 million in 2012. The average notional amounts of interest rate swap agreements impacting net interest income that were entered into for interest rate risk management purposes were \$1.4 billion in 2014, \$1.2 billion in 2013 and \$900 million in 2012.

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

|                                    | Notional<br>Amount<br>(In thousands) | Average<br>Maturity<br>(In years) | Weighted-Average<br>Rate |          | Estimated Fair<br>Value Gain<br>(In thousands) |
|------------------------------------|--------------------------------------|-----------------------------------|--------------------------|----------|--|
|                                    |                                      |                                   | Fixed                    | Variable |  |
| December 31, 2014                  |                                      |                                   |                          |          |  |
| Fair value hedges:                 |                                      |                                   |                          |          |  |
| Fixed rate long-term borrowings(a) | \$ 1,400,000                         | 2.7                               | 4.42%                    | 1.19%    | \$ 73,251                                      |
| December 31, 2013                  |                                      |                                   |                          |          |  |
| Fair value hedges:                 |                                      |                                   |                          |          |  |
| Fixed rate long-term borrowings(a) | \$ 1,400,000                         | 3.7                               | 4.42%                    | 1.20%    | \$ 102,875                                     |

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

The notional amount of interest rate swap agreements entered into for risk management purposes that were outstanding at December 31, 2014 mature as follows:

|                          | (In thousands) |
|--------------------------|----------------|
| Year ending December 31: |                |
| 2016                     | \$ 500,000     |
| 2017                     | 400,000        |
| 2018                     | 500,000        |
|                          | \$ 1,400,000   |

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 \$17.6 billion and \$17.4 billion at December 31, 2014 and 2013, respectively. The notional amounts of foreign currency and other option and futures contracts entered into for trading account purposes aggregated \$1.3 billion and \$1.4 billion at December 31, 2014 and 2013, respectively.

**Table of Contents**

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

|   | Asset Derivatives<br>Fair Value<br>December 31 |                   | Liability Derivatives<br>Fair Value<br>December 31 |                   |
|---|--|-------------------|--|-------------------|
|   | 2014   | 2013              | 2014   | 2013              |
| (In thousands)  |  |                   |  |                   |
| <b>Derivatives designated and qualifying as hedging instruments</b>     |  |                   |  |                   |
| Fair value hedges:  |  |                   |  |                   |
| Interest rate swap agreements(a)  | \$ 73,251                                      | \$ 102,875        | \$   | \$                |
| Commitments to sell real estate loans(a)                                | 728  | 6,957             | 4,217  | 487               |
|   | 73,979   | 109,832           | 4,217  | 487               |
| <b>Derivatives not designated and qualifying as hedging instruments</b> |  |                   |  |                   |
| Mortgage-related commitments to originate real estate loans for sale(a) | 17,396   | 7,616             | 49   | 3,675             |
| Commitments to sell real estate loans(a)                                | 754  | 6,120             | 4,330  | 230               |
| Trading:  |  |                   |  |                   |
| Interest rate contracts(b)  | 215,614  | 274,864           | 173,513  | 234,455           |
| Foreign exchange and other option and futures contracts(b)              | 31,112   | 15,831            | 29,950   | 15,342            |
|   | 264,876  | 304,431           | 207,842  | 253,702           |
| <b>Total derivatives</b>  | <b>\$ 338,855</b>                              | <b>\$ 414,263</b> | <b>\$ 212,059</b>                                  | <b>\$ 254,189</b> |

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

(b) Asset derivatives are reported in trading account assets and liability derivatives are reported in other liabilities.

|  | Amount of Unrealized Gain (Loss) Recognized |             |                                 |             |                                 |             |
|--|---|-------------|---------------------------------|-------------|---------------------------------|-------------|
|  | Year Ended<br>December 31, 2014             |             | Year Ended<br>December 31, 2013 |             | Year Ended<br>December 31, 2012 |             |
|  | Derivative                                  | Hedged Item | Derivative                      | Hedged Item | Derivative                      | Hedged Item |
| (In thousands)   |   |             |                                 |             |                                 |             |
| <b>Derivatives in fair value hedging relationships</b>     |   |             |                                 |             |                                 |             |
| Interest rate swap agreements:                             |   |             |                                 |             |                                 |             |
| Fixed rate long-term borrowings(a)                         | \$ (29,624)                                 | \$ 28,870   | \$ (40,304)                     | \$ 38,986   | \$ (4,123)                      | \$ 3,724    |
| <b>Derivatives not designated as hedging instruments</b>   |   |             |                                 |             |                                 |             |
| Trading:   |   |             |                                 |             |                                 |             |
| Interest rate contracts(b)                                 | \$ 3,398                                    |             | \$ 9,824                        |             | \$ 8,004                        |             |
| Foreign exchange and other option and futures contracts(b) | (6,719)                                     |             | (3,369)                         |             | (3,970)                         |             |
| <b>Total</b>   | <b>\$ (3,321)</b>                           |             | <b>\$ 6,455</b>                 |             | <b>\$ 4,034</b>                 |             |

(a) *Reported as other revenues from operations.*

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

In addition, 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

**Table of Contents**

were approximately \$28 million and \$23 million at December 31, 2014 and 2013, respectively. Changes in unrealized gains and losses are included in mortgage banking revenues and, in general, are realized in subsequent periods as the related loans are sold and commitments satisfied.

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

The aggregate fair value of derivative financial instruments in a liability position, which are subject to enforceable master netting arrangements, was \$161 million and \$194 million at December 31, 2014 and 2013, respectively. After consideration of such netting arrangements, the net liability positions with counterparties aggregated \$103 million and \$107 million at December 31, 2014 and 2013, respectively. The Company was required to post collateral relating to those positions of \$90 million and \$95 million at December 31, 2014 and 2013, 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 to the derivative financial instruments could demand immediate incremental collateralization on those instruments in a net liability position. The aggregate fair value of all derivative financial instruments with such credit risk-related contingent features in a net liability position on December 31, 2014 was \$22 million, for which the Company had posted collateral of \$14 million in the normal course of business. If the credit risk-related contingent features had been triggered on December 31, 2014, the maximum amount of additional collateral the Company would have been required to post with counterparties was \$8 million.

The aggregate fair value of derivative financial instruments in an asset position, which are subject to enforceable master netting arrangements, was \$104 million and \$183 million at December 31, 2014 and 2013, respectively. After consideration of such netting arrangements, the net asset positions with counterparties aggregated \$46 million and \$95 million at December 31, 2014 and 2013, respectively. Counterparties posted collateral relating to those positions of \$46 million and \$93 million at December 31, 2014 and 2013, respectively. Trading account interest rate swap agreements entered into with customers are subject to the Company's credit risk standards and often contain collateral provisions.

In addition to the derivative contracts noted above, the Company clears certain derivative transactions through a clearinghouse, rather than directly with counterparties. Those transactions cleared through a clearinghouse require initial margin collateral and additional collateral for contracts in a net liability position. The net fair values of derivative instruments cleared through clearinghouses at December 31, 2014 was a net liability position of \$35 million and at December 31, 2013 was a net asset position of \$5 million. Collateral posted with clearinghouses was \$61 million and \$14 million at December 31, 2014 and December 31, 2013, respectively.

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

During 2013, the Company securitized approximately \$3.0 billion of one-to-four family residential mortgage loans in guaranteed mortgage securitizations with Ginnie Mae. Approximately \$1.3 billion of such loans were formerly held in the Company's loan portfolio, whereas the remaining loans were newly originated. The Company recognized pre-tax gains of \$42 million related to loans previously held for investment, which were recorded in other revenues from operations, and pre-tax gains of \$28 million on newly originated loans, which were reflected in mortgage banking revenues. As a result of the securitization structure, the Company does not have effective control over the underlying loans and expects no material credit-related losses on the retained securities as a result of the guarantees by Ginnie Mae. In similar transactions during 2014, the Company securitized \$133 million of one-to-four family residential real estate loans that had been originated for sale in guaranteed mortgage securitizations with Ginnie Mae and retained the resulting securities in its investment securities portfolio. Pre-tax gains on such transactions were not material. Additionally, in 2013 the Company securitized and sold approximately \$1.4 billion of automobile loans that had been held in its loan portfolio. The Company recognized a gain of \$21 million related to the sale, which was recorded in other revenues from operations. The Company continues to service the automobile loans, but has no other financial interest in the securitization trust that the loans were sold into. The Company has securitized loans to improve its regulatory capital ratios and strengthen its liquidity and risk profile as a result of changing regulatory liquidity and capital requirements.

## Table of Contents

In accordance with GAAP, the Company determined that it was the primary beneficiary of a residential mortgage loan securitization trust considering its role as servicer and its retained subordinated interests in the trust. As a result, the Company has included the one-to-four family residential mortgage loans that were included in the trust in its consolidated financial statements. At December 31, 2014 and 2013, the carrying values of the loans in the securitization trust were \$98 million and \$121 million, respectively. The outstanding principal amount of mortgage-backed securities issued by the qualified special purpose trust that was held by parties unrelated to M&T at December 31, 2014 and 2013 was \$15 million and \$18 million, respectively. Because the transaction was non-recourse, the Company's maximum exposure to loss as a result of its association with the trust at December 31, 2014 is limited to realizing the carrying value of the loans less the amount of the mortgage-backed securities held by third parties.

As described in note 9, 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 December 31, 2014 and 2013, the Company included the junior subordinated debentures as long-term borrowings in its consolidated balance sheet. The Company has recognized \$34 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 9.

The Company has invested as a limited partner in various partnerships that collectively had total assets of approximately \$1.2 billion at December 31, 2014 and \$1.3 billion at December 31, 2013. 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 \$243 million, including \$56 million of unfunded commitments, at December 31, 2014 and \$236 million, including \$45 million of unfunded commitments, at December 31, 2013. 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.

## **20. 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 December 31, 2014.

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

**Table of Contents**

that is considered significant to the overall valuation. The following is a description of the valuation methodologies used for the Company's assets and liabilities that are measured on a recurring basis at estimated fair value.

***Trading account assets and liabilities***

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

***Investment securities available for sale***

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

As discussed in note 3, the Company sold substantially all of its privately issued mortgage-backed securities classified as available for sale during the second quarter of 2013. In prior periods, the Company generally used model-based techniques to value such securities because the Company was significantly restricted in the level of market observable assumptions that could be relied upon. Specifically, market assumptions regarding credit adjusted cash flows and liquidity influences on discount rates were difficult to observe at the individual bond level. Because of the inactivity in the markets and the lack of observable valuation inputs, the Company classified the valuation of privately issued mortgage-backed securities as Level 3.

Included in collateralized debt obligations are securities backed by trust preferred securities issued by financial institutions and other entities. The Company could not obtain pricing indications for many of these securities from its two primary independent pricing sources. The Company, therefore, performed internal modeling to estimate the cash flows and fair value of its portfolio of securities backed by trust preferred securities at December 31, 2014 and 2013. The modeling techniques included estimating cash flows using bond-specific assumptions about future collateral defaults and related loss severities. The resulting cash flows were then discounted by reference to market yields observed in the single-name trust preferred securities market. In determining a market yield applicable to the estimated cash flows, a margin over LIBOR, ranging from 5% to 10% with a weighted-average of 8% was used. Significant unobservable inputs used in the determination of estimated fair value of collateralized debt obligations are included in the accompanying table of significant unobservable inputs to Level 3 measurements. At December 31, 2014, the total amortized cost and fair value of securities backed by trust preferred securities issued by financial institutions and other entities were \$30 million and \$50 million, respectively, and at December 31, 2013 were \$42 million and \$63 million, respectively. Privately issued mortgage-backed securities and securities backed by trust preferred securities issued by financial institutions and other entities constituted all of the available-for-sale investment securities classified as Level 3 valuations.

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

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

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

**Table of Contents*****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.

The following tables present assets and liabilities at December 31, 2014 and 2013 measured at estimated fair value on a recurring basis:

|  | <b>Fair Value<br/>Measurements at<br/>December 31,</b> |                   |                   |                |
|--|--|-------------------|-------------------|----------------|
|  | <b>2014</b>  | <b>Level 1(a)</b> | <b>Level 2(a)</b> | <b>Level 3</b> |
|  | <b>(In thousands)</b>                                  |                   |                   |                |
| Trading account assets                           | \$ 308,175   | 51,416            | 256,759           |                |
| Investment securities available for sale:        |  |                   |                   |                |
| U.S. Treasury and federal agencies               | 161,947  |                   | 161,947           |                |
| Obligations of states and political subdivisions | 8,198  |                   | 8,198             |                |
| Mortgage-backed securities:                      |  |                   |                   |                |
| Government issued or guaranteed                  | 8,731,123  |                   | 8,731,123         |                |
| Privately issued                                 | 103  |                   |                   | 103            |
| Collateralized debt obligations                  | 50,316   |                   |                   | 50,316         |
| Other debt securities                            | 121,488  |                   | 121,488           |                |
| Equity securities                                | 83,757   | 64,841            | 18,916            |                |
|  | 9,156,932  | 64,841            | 9,041,672         | 50,419         |
| Real estate loans held for sale                  | 742,249  |                   | 742,249           |                |
| Other assets(b)                                  | 92,129   |                   | 74,733            | 17,396         |
| Total assets                                     | \$ 10,299,485  | 116,257           | 10,115,413        | 67,815         |
| Trading account liabilities                      | \$ 203,464   |                   | 203,464           |                |
| Other liabilities(b)                             | 8,596  |                   | 8,547             | 49             |
| Total liabilities                                | \$ 212,060   |                   | 212,011           | 49             |

**Table of Contents**

|  | <b>Fair Value<br/>Measurements<br/>at<br/>December 31,<br/>2013</b> |                   |                |        |
|--|---|-------------------|----------------|--------|
|  | <b>Level 1(a)</b>   | <b>Level 2(a)</b> | <b>Level 3</b> |        |
|  | <b>(In thousands)</b>   |                   |                |        |
| Trading account assets                           | \$ 376,131  | 51,386            | 324,745        |        |
| Investment securities available for sale:        |   |                   |                |        |
| U.S. Treasury and federal agencies               | 37,776  |                   | 37,776         |        |
| Obligations of states and political subdivisions | 10,811  |                   | 10,811         |        |
| Mortgage-backed securities:                      |   |                   |                |        |
| Government issued or guaranteed                  | 4,165,086   |                   | 4,165,086      |        |
| Privately issued                                 | 1,850   |                   |                | 1,850  |
| Collateralized debt obligations                  | 63,083  |                   |                | 63,083 |
| Other debt securities                            | 120,085   |                   | 120,085        |        |
| Equity securities                                | 133,095   | 82,450            | 50,645         |        |
|  | 4,531,786   | 82,450            | 4,384,403      | 64,933 |
| Real estate loans held for sale                  | 468,650   |                   | 468,650        |        |
| Other assets(b)                                  | 123,568   |                   | 115,952        | 7,616  |
| Total assets                                     | \$ 5,500,135  | 133,836           | 5,293,750      | 72,549 |
| Trading account liabilities                      | \$ 249,797  |                   | 249,797        |        |
| Other liabilities(b)                             | 4,392   |                   | 717            | 3,675  |
| Total liabilities                                | \$ 254,189  |                   | 250,514        | 3,675  |

(a) There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy during the years ended December 31, 2014 and 2013.

(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).

The changes in Level 3 assets and liabilities measured at estimated fair value on a recurring basis during the year ended December 31, 2014 were as follows:

|                                  | <b>Investment Securities<br/>Available for Sale</b>                 |   |   |
|----------------------------------|---|---|---|
|                                  | <b>Privately<br/>Issued<br/>Mortgage-<br/>backed<br/>Securities</b> | <b>Collateralized<br/>Debt<br/>Obligations<br/>(In thousands)</b> | <b>Other<br/>Assets<br/>and<br/>Other<br/>Liabilities</b> |
| Balance January 1, 2014          | \$ 1,850  | \$ 63,083   | \$ 3,941  |
| Total gains realized/unrealized: |   |   |   |

Edgar Filing: M&T BANK CORP - Form 10-K

|  |                   |          |                     |
|--|-------------------|----------|---------------------|
| Included in earnings   |                   |          | 83,417(b)           |
| Included in other comprehensive income   | 271(e)            | 8,209(e) |                     |
| Settlements  | (2,018)           | (20,976) |                     |
| Transfers in and/or out of Level 3(c)  |                   |          | (70,011)(d)         |
| Balance  | December 31, 2014 | \$ 103   | \$ 50,316 \$ 17,347 |
| Changes in unrealized gains included in earnings related to assets still held at December 31, 2014 |                   | \$       | \$ 18,196(b)        |

155

**Table of Contents**

The changes in Level 3 assets and liabilities measured at estimated fair value on a recurring basis during the year ended December 31, 2013 were as follows:

|  |                   | <b>Investment Securities Available for Sale</b>                     |   |   |
|--|-------------------|---|---|---|
|  |                   | <b>Privately<br/>Issued<br/>Mortgage-<br/>backed<br/>Securities</b> | <b>Collateralized<br/>Debt<br/>Obligations<br/>(In thousands)</b> | <b>Other<br/>Assets and<br/>Other<br/>Liabilities</b> |
| Balance  | January 1, 2013   | \$ 1,023,886  | \$ 61,869   | \$ 47,859   |
| Total gains (losses) realized/unrealized:  |                   |   |   |   |
| Included in earnings   |                   | (56,102)(a)   |   | 97,845(b)   |
| Included in other comprehensive income   |                   | 116,359(e)  | 4,508(e)  |   |
| Sales  |                   | (978,608)   |   |   |
| Settlements  |                   | (103,685)   | (3,294)   |   |
| Transfers in and/or out of Level 3(c)  |                   |   |   | (141,763)(d)  |
| Balance  | December 31, 2013 | \$ 1,850  | \$ 63,083   | \$ 3,941  |
| Changes in unrealized gains included in earnings related to assets still held at December 31, 2013 |                   | \$  | \$  | \$ 3,431(b)   |

The changes in Level 3 assets and liabilities measured at estimated fair value on a recurring basis during the year ended December 31, 2012 were as follows:

|   |                   | <b>Investment Securities Available for Sale</b>                     |   |   |
|---|-------------------|---|---|---|
|   |                   | <b>Privately<br/>Issued<br/>Mortgage-<br/>backed<br/>Securities</b> | <b>Collateralized<br/>Debt<br/>Obligations<br/>(In thousands)</b> | <b>Other Assets<br/>and Other<br/>Liabilities</b> |
| Balance   | January 1, 2012   | \$ 1,151,285  | \$ 52,500   | \$ 6,923  |
| Total gains (losses) realized/unrealized:   |                   |   |   |   |
| Included in earnings  |                   | (42,467)(a)   |   | 212,281(b)  |
| Included in other comprehensive income  |                   | 114,592(e)  | 12,214(e)   |   |
| Settlements   |                   | (199,524)   | (2,845)   |   |
| Transfers in and/or out of Level 3(c)   |                   |   |   | (171,345)(d)                                      |
| Balance   | December 31, 2012 | \$ 1,023,886  | \$ 61,869   | \$ 47,859   |
| Changes in unrealized gains (losses) included in earnings related to assets still held at December 31, 2012 |                   | \$ (42,467)(a)  | \$  | \$ 47,859(b)                                      |

## Edgar Filing: M&T BANK CORP - Form 10-K

- (a) *Reported as an OTTI impairment loss or as gain (loss) on bank investment securities in the consolidated statement of income.*
- (b) *Reported as mortgage banking revenues in the consolidated statement of income and includes the fair value of commitment issuances and expirations.*
- (c) *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.*
- (d) *Transfers out of Level 3 consist of interest rate locks transferred to closed loans.*
- (e) *Reported as net unrealized gains on investment securities in the consolidated statement of comprehensive income.*

156

---

**Table of Contents**

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.

***Investment securities held to maturity***

During 2012, other-than-temporary losses of \$5 million were recorded related to certain mortgage-backed securities. In accordance with GAAP, the carrying value of such securities was reduced to fair value, with estimated credit losses recognized in earnings and any remaining unrealized loss recognized in accumulated other comprehensive income. The determination of fair value included use of external and internal valuation sources that were weighted and averaged when estimating fair value. Due to the presence of significant unobservable inputs those valuations were classified as Level 3. The amortized cost, fair value and impact on the Company's financial statements of the modeling described herein were not material. No such other-than-temporary losses were recorded in 2013 or 2014.

***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 December 31, 2014. As these discounts are not readily observable and are considered significant, the valuations have been classified as Level 3. Loans subject to nonrecurring fair value measurement were \$173 million at December 31, 2014, (\$94 million and \$79 million of which were classified as Level 2 and Level 3, respectively), \$222 million at December 31, 2013 (\$173 million and \$49 million of which were classified as Level 2 and Level 3, respectively), and \$335 million at December 31, 2012 (\$207 million and \$128 million of which were classified as Level 2 and Level 3, respectively). Changes in fair value recognized during the years ended December 31, 2014, 2013 and 2012 for partial charge-offs of loans and loan impairment reserves on loans held by the Company at the end of each of those years were decreases of \$55 million, \$58 million and \$67 million, 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 \$29 million at December 31, 2014 and December 31, 2013, respectively. Changes in fair value recognized for those foreclosed assets held by the Company were not material during each of 2014, 2013 and 2012.

**Table of Contents****Significant unobservable inputs to level 3 measurements**

The following tables present quantitative information about significant unobservable inputs used in the fair value measurements for Level 3 assets and liabilities at December 31, 2014 and 2013:

|   | Fair Value at<br>December<br>31,<br>2014<br>(In thousands) | Valuation<br>Technique         | Unobservable<br>Input/Assumptions       | Range<br>(Weighted-<br>Average) |
|---|--|--------------------------------|---|---------------------------------|
| Recurring fair value measurements:          |  |                                |   |                                 |
| Privately issued mortgage backed securities | \$ 103   | Two independent pricing quotes |   |                                 |
| Collateralized debt obligations             | 50,316   | Discounted cash flow           | Probability of default<br>Loss severity | 12%-57% (36%)<br>100%           |
| Net other assets (liabilities)(a)           | 17,347   | Discounted cash flow           | Commitment expirations                  | 0%-96% (17%)                    |

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

|   | Fair Value at<br>December 31,<br>2013<br>(In thousands) | Valuation<br>Technique         | Unobservable<br>Input/Assumptions       | Range<br>(Weighted-<br>Average) |
|---|---|--------------------------------|---|---------------------------------|
| Recurring fair value measurements:          |   |                                |   |                                 |
| Privately issued mortgage backed securities | \$ 1,850  | Two independent pricing quotes |   |                                 |
| Collateralized debt obligations             | 63,083  | Discounted cash flow           | Probability of default<br>Loss severity | 17%-55% (39%)<br>100%           |
| Net other assets (liabilities)(a)           | 3,941   | Discounted cash flow           | Commitment expirations                  | 0%-90% (20%)                    |

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

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

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

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

**Table of Contents***Disclosures of fair value of financial instruments*

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

|  | Carrying<br>Amount | Estimated<br>Fair Value | December 31, 2014         |                 |            |
|--|--------------------|-------------------------|---------------------------|-----------------|------------|
|  |                    |                         | Level 1<br>(In thousands) | Level 2         | Level 3    |
| <b>Financial assets:</b>   |                    |                         |                           |                 |            |
| Cash and cash equivalents  | \$ 1,373,357       | \$ 1,373,357            | \$ 1,296,923              | \$ 76,434       | \$         |
| Interest-bearing deposits at banks                                   | 6,470,867          | 6,470,867               |                           | 6,470,867       |            |
| Trading account assets   | 308,175            | 308,175                 | 51,416                    | 256,759         |            |
| Investment securities  | 12,993,542         | 13,023,956              | 64,841                    | 12,750,396      | 208,719    |
| <b>Loans and leases:</b>   |                    |                         |                           |                 |            |
| Commercial loans and leases  | 19,461,292         | 19,188,574              |                           |                 | 19,188,574 |
| Commercial real estate loans   | 27,567,569         | 27,487,818              |                           | 307,667         | 27,180,151 |
| Residential real estate loans  | 8,657,301          | 8,729,056               |                           | 5,189,086       | 3,539,970  |
| Consumer loans   | 10,982,794         | 10,909,623              |                           |                 | 10,909,623 |
| Allowance for credit losses  | (919,562)          |                         |                           |                 |            |
| Loans and leases, net  | 65,749,394         | 66,315,071              |                           | 5,496,753       | 60,818,318 |
| Accrued interest receivable  | 227,348            | 227,348                 |                           | 227,348         |            |
| <b>Financial liabilities:</b>  |                    |                         |                           |                 |            |
| Noninterest-bearing deposits   | \$ (26,947,880)    | \$ (26,947,880)         |                           | \$ (26,947,880) |            |
| Savings deposits and NOW accounts                                    | (43,393,618)       | (43,393,618)            |                           | (43,393,618)    |            |
| Time deposits  | (3,063,973)        | (3,086,126)             |                           | (3,086,126)     |            |
| Deposits at Cayman Islands office                                    | (176,582)          | (176,582)               |                           | (176,582)       |            |
| Short-term borrowings  | (192,676)          | (192,676)               |                           | (192,676)       |            |
| Long-term borrowings   | (9,006,959)        | (9,139,789)             |                           | (9,139,789)     |            |
| Accrued interest payable   | (63,372)           | (63,372)                |                           | (63,372)        |            |
| Trading account liabilities  | (203,464)          | (203,464)               |                           | (203,464)       |            |
| <b>Other financial instruments:</b>                                  |                    |                         |                           |                 |            |
| Commitments to originate real estate loans for sale                  | \$ 17,347          | \$ 17,347               |                           | \$              | \$ 17,347  |
| Commitments to sell real estate loans                                | (7,065)            | (7,065)                 |                           | (7,065)         |            |
| Other credit-related commitments                                     | (119,079)          | (119,079)               |                           |                 | (119,079)  |
| Interest rate swap agreements used for interest rate risk management | 73,251             | 73,251                  |                           | 73,251          |            |

**Table of Contents**

|  | Carrying<br>Amount | Estimated<br>Fair Value | December 31, 2013         |                 |            |
|--|--------------------|-------------------------|---------------------------|-----------------|------------|
|  |                    |                         | Level 1<br>(In thousands) | Level 2         | Level 3    |
| <b>Financial assets:</b>   |                    |                         |                           |                 |            |
| Cash and cash equivalents  | \$ 1,672,934       | \$ 1,672,934            | \$ 1,596,877              | \$ 76,057       | \$         |
| Interest-bearing deposits at banks                                   | 1,651,138          | 1,651,138               |                           | 1,651,138       |            |
| Trading account assets   | 376,131            | 376,131                 | 51,386                    | 324,745         |            |
| Investment securities  | 8,796,497          | 8,690,494               | 82,450                    | 8,384,106       | 223,938    |
| <b>Loans and leases:</b>   |                    |                         |                           |                 |            |
| Commercial loans and leases  | 18,705,216         | 18,457,288              |                           |                 | 18,457,288 |
| Commercial real estate loans   | 26,148,208         | 26,018,195              |                           | 67,505          | 25,950,690 |
| Residential real estate loans  | 8,928,221          | 8,867,872               |                           | 5,432,207       | 3,435,665  |
| Consumer loans   | 10,291,514         | 10,201,087              |                           |                 | 10,201,087 |
| Allowance for credit losses  | (916,676)          |                         |                           |                 |            |
| Loans and leases, net  | 63,156,483         | 63,544,442              |                           | 5,499,712       | 58,044,730 |
| Accrued interest receivable  | 222,558            | 222,558                 |                           | 222,558         |            |
| <b>Financial liabilities:</b>  |                    |                         |                           |                 |            |
| Noninterest-bearing deposits   | \$ (24,661,007)    | \$ (24,661,007)         |                           | \$ (24,661,007) |            |
| Savings deposits and NOW accounts                                    | (38,611,021)       | (38,611,021)            |                           | (38,611,021)    |            |
| Time deposits  | (3,523,838)        | (3,542,789)             |                           | (3,542,789)     |            |
| Deposits at Cayman Islands office                                    | (322,746)          | (322,746)               |                           | (322,746)       |            |
| Short-term borrowings  | (260,455)          | (260,455)               |                           | (260,455)       |            |
| Long-term borrowings   | (5,108,870)        | (5,244,902)             |                           | (5,244,902)     |            |
| Accrued interest payable   | (43,419)           | (43,419)                |                           | (43,419)        |            |
| Trading account liabilities  | (249,797)          | (249,797)               |                           | (249,797)       |            |
| <b>Other financial instruments:</b>                                  |                    |                         |                           |                 |            |
| Commitments to originate real estate loans for sale                  | \$ 3,941           | \$ 3,941                |                           | \$              | \$ 3,941   |
| Commitments to sell real estate loans                                | 12,360             | 12,360                  |                           | 12,360          |            |
| Other credit-related commitments                                     | (118,886)          | (118,886)               |                           |                 | (118,886)  |
| Interest rate swap agreements used for interest rate risk management | 102,875            | 102,875                 |                           | 102,875         |            |

With the exception of marketable securities, certain off-balance sheet financial instruments and one-to-four family residential mortgage loans originated for sale, the Company's financial instruments are not readily marketable and market prices do not exist. The Company, in attempting to comply with the provisions of GAAP that require disclosures of fair value of financial instruments, has not attempted to market its financial instruments to potential buyers, if any exist. Since negotiated prices in illiquid markets depend greatly upon the then present motivations of the buyer and seller, it is reasonable to assume that actual sales prices could vary widely from any estimate of fair value made without the benefit of negotiations. Additionally, changes in market interest rates can dramatically impact the value of financial instruments in a short period of time. The following assumptions, methods and calculations were used in determining the estimated fair value of financial instruments not measured at fair value in the consolidated balance sheet.

---

## **Table of Contents**

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

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

### ***Investment securities***

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

### ***Loans and leases***

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

### ***Deposits***

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

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

### ***Long-term borrowings***

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

### ***Other commitments and contingencies***

As described in note 21, in the normal course of business, various commitments and contingent liabilities are outstanding, such as loan commitments, credit guarantees and letters of credit. The Company's pricing of such financial instruments is based largely on credit quality and relationship, probability of funding and other requirements. Loan commitments often have fixed expiration dates and contain termination and other clauses which provide for relief from funding in the event of significant deterioration in the credit quality of the customer. The rates and terms of the Company's loan commitments, credit guarantees and letters of credit are competitive with other financial institutions operating in markets served by the Company. The Company believes that the carrying amounts, which are included in other liabilities, are reasonable estimates of the fair value of these financial instruments.

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

Many of the estimates presented herein are based upon the use of highly subjective information and assumptions and, accordingly, the results may not be precise. Management believes that fair value estimates



**Table of Contents**

may not be comparable between financial institutions due to the wide range of permitted valuation techniques and numerous estimates which must be made. Furthermore, because the disclosed fair value amounts were estimated as of the balance sheet date, the amounts actually realized or paid upon maturity or settlement of the various financial instruments could be significantly different.

**21. Commitments and contingencies**

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

|  | December 31    |              |
|--|----------------|--------------|
|  | 2014           | 2013         |
|  | (In thousands) |              |
| Commitments to extend credit                       |                |              |
| Home equity lines of credit                        | \$ 6,194,516   | \$ 6,218,823 |
| Commercial real estate loans to be sold            | 212,257        | 62,386       |
| Other commercial real estate and construction      | 4,834,699      | 3,919,545    |
| Residential real estate loans to be sold           | 432,352        | 469,869      |
| Other residential real estate                      | 524,399        | 384,617      |
| Commercial and other                               | 11,080,856     | 10,419,545   |
| Standby letters of credit                          | 3,706,888      | 3,600,528    |
| Commercial letters of credit                       | 46,965         | 53,284       |
| Financial guarantees and indemnification contracts | 2,490,050      | 2,457,633    |
| Commitments to sell real estate loans              | 1,237,294      | 854,656      |

Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Standby and commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party, whereas commercial letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and a third party. The credit risk associated with commitments to extend credit and standby and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

Financial guarantees and indemnification contracts are oftentimes similar to standby letters of credit and include mandatory purchase agreements issued to ensure that customer obligations are fulfilled, recourse obligations associated with sold loans, and other guarantees of customer performance or compliance with designated rules and regulations. Included in financial guarantees and indemnification contracts are loan principal amounts sold with recourse in conjunction with the Company's involvement in the Fannie Mae DUS program. The Company's maximum credit risk for recourse associated with loans sold under this program totaled approximately \$2.4 billion and \$2.3 billion at December 31, 2014 and 2013, respectively.

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

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

**Table of Contents**

The Company occupies certain banking offices and uses certain equipment under noncancelable operating lease agreements expiring at various dates over the next 24 years. Minimum lease payments under noncancelable operating leases are summarized in the following table:

|                          | (In thousands) |
|--------------------------|----------------|
| Year ending December 31: |                |
| 2015                     | \$ 87,063      |
| 2016                     | 83,315         |
| 2017                     | 70,108         |
| 2018                     | 56,024         |
| 2019                     | 45,079         |
| Later years              | 113,390        |
|                          | \$ 454,979     |

The Company is contractually obligated to repurchase previously sold residential real estate loans that do not ultimately meet investor sale criteria related to underwriting procedures or loan documentation. When required to do so, the Company may reimburse loan purchasers for losses incurred or may repurchase certain loans. The Company reduces residential mortgage banking revenues by an estimate for losses related to its obligations to loan purchasers. The amount of those charges is based on the volume of loans sold, the level of reimbursement requests received from loan purchasers and estimates of losses that may be associated with previously sold loans. At December 31, 2014, management believes that any further liability arising out of the Company's obligation to loan purchasers is not material to the Company's consolidated financial position.

M&T and its subsidiaries are subject in the normal course of business to various pending and threatened legal proceedings in which claims for monetary damages are asserted. On an on-going basis management, after consultation with legal counsel, assesses the Company's liabilities and contingencies in connection with such legal proceedings. For those matters where it is probable that the Company will incur losses and the amounts of the losses can be reasonably estimated, the Company records an expense and corresponding liability in its consolidated financial statements. To the extent the pending or threatened litigation could result in exposure in excess of that liability, the amount of such excess is not currently estimable. Although not considered probable, the range of reasonably possible losses for such matters in the aggregate, beyond the existing recorded liability, was between \$0 and \$40 million. Although the Company does not believe that the outcome of pending litigations will be material to the Company's consolidated financial position, it cannot rule out the possibility that such outcomes will be material to the consolidated results of operations for a particular reporting period in the future.

**22. Segment information**

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

The financial information of the Company's segments has been compiled utilizing the accounting policies described in note 1 with certain exceptions. The more significant of these exceptions are described herein. The Company allocates interest income or interest expense using a methodology that charges users of funds (assets) interest expense and credits providers of funds (liabilities) with income based on the maturity, prepayment and/or repricing characteristics of the assets and liabilities. The net effect of this allocation is recorded in the All Other category. A provision for credit losses is allocated to segments in an amount based largely on actual net charge-offs incurred by the segment during the period plus or minus an amount necessary to adjust the segment's allowance for credit losses due to changes in loan balances. In contrast, the level of the consolidated provision for credit losses is determined using the methodologies described in notes 1 and 5. Indirect fixed and variable expenses incurred by certain centralized support areas are allocated to segments based on actual usage (for example, volume measurements) and other criteria.

**Table of Contents**

Certain types of administrative expenses and bankwide expense accruals (including amortization of core deposit and other intangible assets associated with acquisitions of financial institutions) are generally not allocated to segments. Income taxes are allocated to segments based on the Company's marginal statutory tax rate adjusted for any tax-exempt income or non-deductible expenses. Equity is allocated to the segments based on regulatory capital requirements and in proportion to an assessment of the inherent risks associated with the business of the segment (including interest, credit and operating risk).

The management accounting policies and processes utilized in compiling segment financial information are highly subjective and, unlike financial accounting, are not based on authoritative guidance similar to GAAP. As a result, reported segment results are not necessarily comparable with similar information reported by other financial institutions. Furthermore, changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial data. Information about the Company's segments is presented in the accompanying table. Income statement amounts are in thousands of dollars. Balance sheet amounts are in millions of dollars.

|  | For the Years Ended December 31, 2014, 2013 and 2012 |            |            |                    |            |            |                        |            |            |                         |           |             |
|--|--|------------|------------|--------------------|------------|------------|------------------------|------------|------------|-------------------------|-----------|-------------|
|  | Business Banking                                     |            |            | Commercial Banking |            |            | Commercial Real Estate |            |            | Discretionary Portfolio |           |             |
|  | 2014   | 2013       | 2012       | 2014               | 2013       | 2012       | 2014                   | 2013       | 2012       | 2014                    | 2013      | 2012        |
| Net interest income(a)                                   | \$ 317,356   | \$ 325,521 | \$ 347,067 | \$ 745,218         | \$ 758,231 | \$ 753,678 | \$ 539,600             | \$ 570,786 | \$ 531,398 | \$ 74,204               | \$ 66,157 | \$ 66,303   |
| Noninterest income                                       | 105,370  | 102,945    | 103,283    | 259,832            | 263,766    | 253,808    | 127,445                | 130,895    | 133,120    | 27,464                  | (2,126)   | (76,113)    |
|  | 422,726  | 428,466    | 450,350    | 1,005,050          | 1,021,997  | 1,007,486  | 667,045                | 701,681    | 664,518    | 101,668                 | 64,031    | (9,810)     |
| Provision for credit losses                              | 18,885   | 26,450     | 22,245     | 33,197             | 76,818     | 15,781     | (6,476)                | 7,365      | 4,238      | 16,547                  | 16,670    | 44,305      |
| Amortization of core deposit and other intangible assets |  |            |            |                    |            |            |                        |            |            |                         |           |             |
| Depreciation and other amortization                      | 405  | 198        | 122        | 588                | 564        | 567        | 16,278                 | 14,296     | 11,004     | 891                     | 1,330     | 2,065       |
| Other noninterest expense                                | 200,802  | 214,043    | 179,428    | 274,697            | 288,842    | 262,820    | 207,757                | 214,246    | 190,879    | 33,934                  | 30,431    | 31,006      |
| Income (loss) before taxes                               | 202,634  | 187,775    | 248,555    | 696,568            | 655,773    | 728,318    | 449,486                | 465,774    | 458,397    | 50,296                  | 15,600    | (87,186)    |
| Income tax expense (benefit)                             | 82,825   | 76,735     | 101,484    | 285,429            | 264,433    | 296,894    | 133,357                | 143,981    | 149,321    | 2,198                   | (14,368)  | (54,071)    |
| Net income (loss)  | \$ 119,809   | \$ 111,040 | \$ 147,071 | \$ 411,139         | \$ 391,340 | \$ 431,424 | \$ 316,129             | \$ 321,793 | \$ 309,076 | \$ 48,098               | \$ 29,968 | \$ (33,115) |
| Average total assets (in millions)                       | \$ 5,281   | \$ 5,080   | \$ 4,909   | \$ 22,892          | \$ 21,655  | \$ 19,946  | \$ 17,113              | \$ 17,150  | \$ 16,437  | \$ 20,798               | \$ 16,480 | \$ 16,583   |
| Capital expenditures (in millions)                       | \$ 2   | \$ 1       | \$         | \$                 | \$         | \$         | \$                     | \$         | \$         | \$                      | \$        | \$          |

**For the Years Ended December 31, 2014, 2013 and 2012**
**Residential Mortgage Banking**
**Retail Banking**
**All Other**
**Total**

## Edgar Filing: M&amp;T BANK CORP - Form 10-K

|  | 2014      | 2013      | 2012       | 2014       | 2013       | 2012       | 2014        | 2013      | 2012         | 2014         | 2013         | 2012         |
|--|-----------|-----------|------------|------------|------------|------------|-------------|-----------|--------------|--------------|--------------|--------------|
| Net interest income(a)                                   | \$ 90,123 | \$ 98,496 | \$ 78,058  | \$ 741,109 | \$ 810,134 | \$ 902,906 | \$ 168,836  | \$ 43,904 | \$ (80,894)  | \$ 2,676,446 | \$ 2,673,229 | \$ 2,598,516 |
| Noninterest income                                       | 331,391   | 325,474   | 402,211    | 335,501    | 373,362    | 349,571    | 592,270     | 670,889   | 501,390      | 1,779,273    | 1,865,205    | 1,667,270    |
|  | 421,514   | 423,970   | 480,269    | 1,076,610  | 1,183,496  | 1,252,477  | 761,106     | 714,793   | 420,496      | 4,455,719    | 4,538,434    | 4,265,786    |
| Provision for credit losses                              | (2,357)   | (11,711)  | 17,169     | 77,158     | 72,502     | 95,345     | (12,954)    | (3,094)   | 4,917        | 124,000      | 185,000      | 204,000      |
| Amortization of core deposit and other intangible assets |           |           |            |            |            |            | 33,824      | 46,912    | 60,631       | 33,824       | 46,912       | 60,631       |
| Depreciation and other amortization                      | 47,108    | 48,716    | 46,902     | 37,788     | 34,599     | 32,734     | 61,848      | 57,120    | 50,536       | 164,906      | 156,823      | 143,930      |
| Other noninterest expense                                | 222,396   | 225,794   | 195,604    | 759,569    | 768,644    | 751,916    | 844,972     | 690,150   | 693,046      | 2,544,127    | 2,432,150    | 2,304,699    |
| Income (loss) before taxes                               | 154,367   | 161,171   | 220,594    | 202,095    | 307,751    | 372,482    | (166,584)   | (76,295)  | (388,634)    | 1,588,862    | 1,717,549    | 1,552,526    |
| Income tax expense (benefit)                             | 59,361    | 61,779    | 85,671     | 82,179     | 125,350    | 151,616    | (122,733)   | (78,841)  | (207,887)    | 522,616      | 579,069      | 523,028      |
| Net income (loss)  | \$ 95,006 | \$ 99,392 | \$ 134,923 | \$ 119,916 | \$ 182,401 | \$ 220,866 | \$ (43,851) | \$ 2,546  | \$ (180,747) | \$ 1,066,246 | \$ 1,138,480 | \$ 1,029,498 |
| Average total assets (in millions)                       | \$ 3,333  | \$ 2,858  | \$ 2,451   | \$ 10,449  | \$ 10,997  | \$ 11,705  | \$ 12,277   | \$ 9,442  | \$ 7,952     | \$ 92,143    | \$ 83,662    | \$ 79,983    |
| Capital expenditures (in millions)                       | \$        | \$        | \$ 1       | \$ 14      | \$ 40      | \$ 15      | \$ 57       | \$ 89     | \$ 76        | \$ 73        | \$ 130       | \$ 92        |

- (a) *Net interest income is the difference between actual taxable-equivalent interest earned on assets and interest paid on liabilities by a segment and a funding charge (credit) based on the Company's internal funds transfer pricing methodology. Segments are charged a cost to fund any assets (e.g. loans) and are paid a funding credit for any funds provided (e.g. deposits). The taxable-equivalent adjustment aggregated \$23,642,000 in 2014, \$24,971,000 in 2013 and \$26,391,000 in 2012 and is eliminated in All Other net interest income and income tax expense (benefit).*

**Table of Contents**

The Business Banking segment provides deposit, lending, cash management and other financial services to small businesses and professionals through the Company's banking office network and several other delivery channels, including business banking centers, telephone banking, Internet banking and automated teller machines. The Commercial Banking segment provides a wide range of credit products and banking services to middle-market and large commercial customers, mainly within the markets the Company serves. Among the services provided by this segment are commercial lending and leasing, letters of credit, deposit products and cash management services. The Commercial Real Estate segment provides credit services which are secured by various types of multifamily residential and commercial real estate and deposit services to its customers. Activities of this segment include the origination, sales and servicing of commercial real estate loans. The Discretionary Portfolio segment includes securities, residential mortgage loans and other assets; short-term and long-term borrowed funds; brokered deposits; and Cayman Islands branch deposits. This segment also provides foreign exchange services to customers. The Residential Mortgage Banking segment originates and services residential real estate loans for consumers and sells substantially all of those loans in the secondary market to investors or to the Discretionary Portfolio segment. The segment periodically purchases servicing rights to loans that have been originated by other entities. Residential real estate loans held for sale are included in the Residential Mortgage Banking segment. The Retail Banking segment offers a variety of services to consumers through several delivery channels that include banking offices, automated teller machines, telephone banking and Internet banking. The All Other category includes other operating activities of the Company that are not directly attributable to the reported segments; the difference between the provision for credit losses and the calculated provision allocated to the reportable segments; goodwill and core deposit and other intangible assets resulting from acquisitions of financial institutions; merger-related gains and expenses resulting from acquisitions; the net impact of the Company's internal funds transfer pricing methodology; eliminations of transactions between reportable segments; certain nonrecurring transactions; the residual effects of unallocated support systems and general and administrative expenses; and the impact of interest rate risk management strategies. The amount of intersegment activity eliminated in arriving at consolidated totals was included in the All Other category as follows:

|                        | Year Ended December 31 |             |             |
|------------------------|------------------------|-------------|-------------|
|                        | 2014                   | 2013        | 2012        |
|                        | (In thousands)         |             |             |
| Revenues               | \$ (49,800)            | \$ (50,128) | \$ (71,452) |
| Expenses               | (12,014)               | (16,235)    | (17,313)    |
| Income taxes (benefit) | (15,375)               | (13,791)    | (22,029)    |
| Net income (loss)      | (22,411)               | (20,102)    | (32,110)    |

The Company conducts substantially all of its operations in the United States. There are no transactions with a single customer that in the aggregate result in revenues that exceed ten percent of consolidated total revenues.

**23. Regulatory matters**

Payment of dividends by M&T's banking subsidiaries is restricted by various legal and regulatory limitations. Dividends from any banking subsidiary to M&T are limited by the amount of earnings of the banking subsidiary in the current year and the preceding two years. For purposes of this test, at December 31, 2014, approximately \$1.5 billion was available for payment of dividends to M&T from banking subsidiaries. Additionally, the Federal Reserve Board requires bank holding companies with \$50 billion or more of total consolidated assets to submit annual capital plans. Such bank holding companies may pay dividends and repurchase stock only in accordance with a capital plan which the Federal Reserve Board has not objected to.

Banking regulations prohibit extensions of credit by the subsidiary banks to M&T unless appropriately secured by assets. Securities of affiliates are not eligible as collateral for this purpose.

The bank subsidiaries are required to maintain reserves against certain deposit liabilities. During the maintenance periods that included December 31, 2014 and 2013, cash and due from banks and interest-earning deposits at banks included a daily average of \$555,575,000 and \$595,593,000, respectively, for such purpose.

**Table of Contents**

Federal regulators have adopted capital adequacy guidelines for bank holding companies and banks. Failure to meet minimum capital requirements can result in certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a material effect on the Company's financial statements. Under the capital adequacy guidelines in effect through December 31, 2014, the so-called Tier 1 capital and Total capital as a percentage of risk-weighted assets and certain off-balance sheet financial instruments were required to be at least 4% and 8%, respectively. In addition to these risk-based measures, regulators also required banking institutions that met certain qualitative criteria to maintain a minimum leverage ratio of Tier 1 capital to average total assets, adjusted for goodwill and certain other items. As of December 31, 2014, M&T and each of its banking subsidiaries exceeded all applicable capital adequacy requirements. To be considered well capitalized under that regulatory framework, a banking institution had to maintain Tier 1 risk-based capital, total risk-based capital and leverage ratios of at least 6%, 10% and 5%, respectively.

The capital ratios and amounts of the Company and its banking subsidiaries as of December 31, 2014 and 2013 are presented below:

|                            | <b>M&amp;T<br/>(Consolidated)</b> | <b>M&amp;T Bank<br/>(Dollars in thousands)</b> | <b>Wilmington<br/>Trust, N.A.</b> |
|----------------------------|-----------------------------------|--|-----------------------------------|
| <b>December 31, 2014:</b>  |                                   |  |                                   |
| <b>Tier 1 capital</b>      |                                   |  |                                   |
| Amount                     | \$ 9,644,765                      | \$ 8,043,185                                   | \$ 435,558                        |
| Ratio(a)                   | 12.47%                            | 10.46%   | 57.22%                            |
| Minimum required amount(b) | 3,093,874                         | 3,077,101                                      | 30,447                            |
| <b>Total capital</b>       |                                   |  |                                   |
| Amount                     | 11,767,308                        | 10,048,277                                     | 439,867                           |
| Ratio(a)                   | 15.21%                            | 13.06%   | 57.79%                            |
| Minimum required amount(b) | 6,187,747                         | 6,154,201                                      | 60,893                            |
| <b>Leverage</b>            |                                   |  |                                   |
| Amount                     | 9,644,765                         | 8,043,185                                      | 435,558                           |
| Ratio(c)                   | 10.17%                            | 8.56%  | 9.98%                             |
| Minimum required amount(b) | 3,793,836                         | 3,760,364                                      | 174,613                           |
| <b>December 31, 2013:</b>  |                                   |  |                                   |
| <b>Tier 1 capital</b>      |                                   |  |                                   |
| Amount                     | \$ 8,792,035                      | \$ 7,341,506                                   | \$ 420,330                        |
| Ratio(a)                   | 12.00%                            | 10.08%   | 73.79%                            |
| Minimum required amount(b) | 2,930,925                         | 2,914,246                                      | 22,786                            |
| <b>Total capital</b>       |                                   |  |                                   |
| Amount                     | 11,045,589                        | 9,445,770                                      | 424,975                           |
| Ratio(a)                   | 15.07%                            | 12.96%   | 74.60%                            |
| Minimum required amount(b) | 5,861,849                         | 5,828,491                                      | 45,573                            |
| <b>Leverage</b>            |                                   |  |                                   |
| Amount                     | 8,792,035                         | 7,341,506                                      | 420,330                           |
| Ratio(c)                   | 10.78%                            | 9.09%  | 19.80%                            |
| Minimum required amount(b) | 2,446,476                         | 2,422,096                                      | 63,678                            |

(a) The ratio of capital to risk-weighted assets, as defined by regulation.

(b) Minimum amount of capital to be considered adequately capitalized, as defined by regulation.

(c) The ratio of capital to average assets, as defined by regulation.

Beginning in 2015, new regulatory capital rules became effective. The new rules substantially revise the risk-based capital requirements applicable to bank holding companies and banks. M&T and its subsidiary banks expect to be able to comply with the revised capital adequacy requirements.



---

**Table of Contents**
**24. Relationship with Bayview Lending Group LLC and Bayview Financial Holdings, L.P.**

M&T holds a 20% minority interest in Bayview Lending Group LLC ( BLG ), a privately-held commercial mortgage company. M&T recognizes income or loss from BLG using the equity method of accounting. The carrying value of that investment was \$47 million at December 31, 2014.

Bayview Financial Holdings, L.P. (together with its affiliates, Bayview Financial ), a privately-held specialty mortgage finance company, is BLG's majority investor. In addition to their common investment in BLG, the Company and Bayview Financial conduct other business activities with each other. The Company has obtained loan servicing rights for mortgage loans from BLG and Bayview Financial having outstanding principal balances of \$4.8 billion and \$5.5 billion at December 31, 2014 and 2013, respectively. Revenues from those servicing rights were \$26 million, \$31 million and \$35 million during 2014, 2013 and 2012, respectively. The Company sub-services residential real estate loans for Bayview Financial having outstanding principal balances totaling \$41.3 billion and \$45.6 billion at December 31, 2014 and 2013, respectively. Revenues earned for sub-servicing loans for Bayview Financial were \$115 million in 2014, \$33 million in 2013 and \$10 million in 2012. In addition, the Company held \$202 million and \$220 million of mortgage-backed securities in its held-to-maturity portfolio at December 31, 2014 and 2013, respectively, that were securitized by Bayview Financial.

**25. Parent company financial statements****Condensed Balance Sheet**

|  | 2014           | December 31<br>2013 |
|--|----------------|---------------------|
|  | (In thousands) |                     |
| <b>Assets</b>  |                |                     |
| Cash in subsidiary bank                              | \$ 11,306      | \$ 10,729           |
| Due from consolidated bank subsidiaries              |                |                     |
| Money-market savings                                 | 1,096,533      | 968,274             |
| Current income tax receivable                        |                | 1,914               |
| Other  | 12             | 1,894               |
| Total due from consolidated bank subsidiaries        | 1,096,545      | 972,082             |
| Investments in consolidated subsidiaries             |                |                     |
| Banks and bank holding company                       | 11,945,516     | 11,364,657          |
| Other  | 16,217         | 16,212              |
| Investments in unconsolidated subsidiaries (note 19) | 33,578         | 33,751              |
| Investment in Bayview Lending Group LLC              | 46,716         | 73,883              |
| Other assets   | 81,034         | 80,098              |
| Total assets   | \$ 13,230,912  | \$ 12,551,412       |
| <b>Liabilities</b>                                   |                |                     |
| Accrued expenses and other liabilities               | \$ 59,950      | \$ 62,817           |
| Long-term borrowings                                 | 835,066        | 1,183,063           |
| Total liabilities                                    | 895,016        | 1,245,880           |
| <b>Shareholders' equity</b>                          | 12,335,896     | 11,305,532          |
| Total liabilities and shareholders' equity           | \$ 13,230,912  | \$ 12,551,412       |

**Table of Contents****Condensed Statement of Income**

|   | Year Ended December 31           |                     |                     |
|---|----------------------------------|---------------------|---------------------|
|   | 2014                             | 2013                | 2012                |
|   | (In thousands, except per share) |                     |                     |
| <b>Income</b>   |                                  |                     |                     |
| Dividends from consolidated bank subsidiaries                                 | \$ 480,000                       | \$ 700,000          | \$ 700,000          |
| Equity in earnings of Bayview Lending Group LLC                               | (16,672)                         | (16,126)            | (21,511)            |
| Other income  | 7,755                            | 9,992               | 8,755               |
| <b>Total income</b>   | <b>471,083</b>                   | <b>693,866</b>      | <b>687,244</b>      |
| <b>Expense</b>  |                                  |                     |                     |
| Interest on long-term borrowings  | 47,700                           | 73,115              | 82,286              |
| Other expense   | 15,107                           | 15,994              | 19,226              |
| <b>Total expense</b>  | <b>62,807</b>                    | <b>89,109</b>       | <b>101,512</b>      |
| Income before income taxes and equity in undistributed income of subsidiaries | 408,276                          | 604,757             | 585,732             |
| Income tax credits  | 27,284                           | 35,986              | 43,149              |
| <i>Income before equity in undistributed income of subsidiaries</i>           | <i>435,560</i>                   | <i>640,743</i>      | <i>628,881</i>      |
| <b>Equity in undistributed income of subsidiaries</b>                         |                                  |                     |                     |
| Net income of subsidiaries  | 1,110,686                        | 1,197,737           | 1,100,617           |
| Less: dividends received  | (480,000)                        | (700,000)           | (700,000)           |
| Equity in undistributed income of subsidiaries                                | 630,686                          | 497,737             | 400,617             |
| <b>Net income</b>   | <b>\$ 1,066,246</b>              | <b>\$ 1,138,480</b> | <b>\$ 1,029,498</b> |
| <b>Net income per common share</b>  |                                  |                     |                     |
| Basic   | \$ 7.47                          | \$ 8.26             | \$ 7.57             |
| Diluted   | 7.42                             | 8.20                | 7.54                |

**Table of Contents****Condensed Statement of Cash Flows**

|  | 2014         | Year Ended December 31<br>2013<br>(In thousands) | 2012         |
|--|--------------|--|--------------|
| <b>Cash flows from operating activities</b>                                      |              |  |              |
| Net income   | \$ 1,066,246 | \$ 1,138,480                                     | \$ 1,029,498 |
| Adjustments to reconcile net income to net cash provided by operating activities |              |  |              |
| Equity in undistributed income of subsidiaries                                   | (630,686)    | (497,737)  | (400,617)    |
| Provision for deferred income taxes  | (6,522)      | 1,535  | 1,724        |
| Net change in accrued income and expense   | 23,419       | 31,979   | 6,798        |
| Net cash provided by operating activities  | 452,457      | 674,257  | 637,403      |
| <b>Cash flows from investing activities</b>                                      |              |  |              |
| Proceeds from sales of investment securities                                     |              |  | 411          |
| Investment in subsidiary   |              | (140,000)  |              |
| Other, net   | 10,721       | 3,295  | 324          |
| Net cash provided (used) by investing activities                                 | 10,721       | (136,705)  | 735          |
| <b>Cash flows from financing activities</b>                                      |              |  |              |
| Payments on long-term borrowings   | (350,010)    |  | (300,000)    |
| Dividends paid — common  | (371,199)    | (365,349)  | (357,717)    |
| Dividends paid — preferred   | (70,234)     | (53,450)   | (53,450)     |
| Proceeds from issuance of preferred stock  | 346,500      |  |              |
| Other, net   | 110,601      | 140,799  | 143,352      |
| Net cash used by financing activities  | (334,342)    | (278,000)  | (567,815)    |
| Net increase in cash and cash equivalents  | 128,836      | 259,552  | 70,323       |
| Cash and cash equivalents at beginning of year                                   | 979,003      | 719,451  | 649,128      |
| Cash and cash equivalents at end of year   | \$ 1,107,839 | \$ 979,003                                       | \$ 719,451   |
| <b>Supplemental disclosure of cash flow information</b>                          |              |  |              |
| Interest received during the year  | \$ 2,094     | \$ 2,224   | \$ 1,970     |
| Interest paid during the year  | 47,003       | 71,090   | 80,090       |
| Income taxes received during the year  | 24,588       | 45,237   | 21,878       |

**Table of Contents**

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

(a) Evaluation of disclosure controls and procedures. Based upon their evaluation of the effectiveness of M&T's disclosure controls and procedures (as defined in Exchange Act rules 13a-15(e) and 15d-15(e)), Robert G. Wilmers, Chairman of the Board and Chief Executive Officer, and René F. Jones, Executive Vice President and Chief Financial Officer, concluded that M&T's disclosure controls and procedures were effective as of December 31, 2014.

(b) Management's annual report on internal control over financial reporting. Included under the heading Report on Internal Control Over Financial Reporting at Item 8 of this Annual Report on Form 10-K.

(c) Attestation report of the registered public accounting firm. Included under the heading Report of Independent Registered Public Accounting Firm at Item 8 of this Annual Report on Form 10-K.

(d) Changes in internal control over financial reporting. M&T regularly assesses the adequacy of its internal control over financial reporting and enhances its controls in response to internal control assessments and internal and external audit and regulatory recommendations. No changes in internal control over financial reporting have been identified in connection with the evaluation of disclosure controls and procedures during the quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, M&T's internal control over financial reporting.

**Item 9B. Other Information.**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

The identification of the Registrant's directors is incorporated by reference to the caption NOMINEES FOR DIRECTOR contained in the Registrant's definitive Proxy Statement for its 2015 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission on or about March 5, 2015.

The identification of the Registrant's executive officers is presented under the caption Executive Officers of the Registrant contained in Part I of this Annual Report on Form 10-K.

Disclosure of compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, by the Registrant's directors and executive officers, and persons who are the beneficial owners of more than 10% of the Registrant's common stock, is incorporated by reference to the caption Section 16(a) Beneficial Ownership Reporting Compliance contained in the Registrant's definitive Proxy Statement for its 2015 Annual Meeting of Shareholders which will be filed with the Securities and Exchange Commission on or about March 5, 2015.

The other information required by Item 10 is incorporated by reference to the captions CORPORATE GOVERNANCE OF M&T BANK CORPORATION and STOCK OWNERSHIP INFORMATION contained in the Registrant's definitive Proxy Statement for its 2015 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission on or about March 5, 2015.

**Item 11. Executive Compensation.**

Incorporated by reference to the captions DIRECTOR COMPENSATION, NOMINATION, COMPENSATION AND GOVERNANCE COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION, NOMINATION, COMPENSATION AND GOVERNANCE COMMITTEE

Edgar Filing: M&T BANK CORP - Form 10-K

REPORT AND EXECUTIVE COMPENSATION contained in the Registrant's definitive Proxy Statement for its 2015 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission on or about March 5, 2015.

170

**Table of Contents**

**Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

Incorporated by reference to the caption "STOCK OWNERSHIP INFORMATION" contained in the Registrant's definitive Proxy Statement for its 2015 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission on or about March 5, 2015.

The information required by this item concerning Equity Compensation Plan information is filed as part of this Annual Report on Form 10-K. See Part II, Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

**Item 13. *Certain Relationships and Related Transactions, and Director Independence.***

Incorporated by reference to the captions "TRANSACTIONS WITH DIRECTORS AND EXECUTIVE OFFICERS" and "CORPORATE GOVERNANCE OF M&T BANK CORPORATION" contained in the Registrant's definitive Proxy Statement for its 2015 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission on or about March 5, 2015.

**Item 14. *Principal Accountant Fees and Services.***

Incorporated by reference to the caption "PROPOSAL TO RATIFY THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM OF M&T BANK CORPORATION" contained in the Registrant's definitive Proxy Statement for its 2015 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission on or about March 5, 2015.

**PART IV**

**Item 15. *Exhibits and Financial Statement Schedules.***

(a) Financial statements and financial statement schedules filed as part of this Annual Report on Form 10-K. See Part II, Item 8. Financial Statements and Supplementary Data. Financial statement schedules are not required or are inapplicable, and therefore have been omitted.

(b) Exhibits required by Item 601 of Regulation S-K. The exhibits listed on the Exhibit Index of this Annual Report on Form 10-K have been previously filed, are filed herewith or are incorporated herein by reference to other filings.

(c) Additional financial statement schedules. None.

Table of Contents

**Signatures**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 20th day of February, 2015.

M&T BANK CORPORATION

By: /s/ ROBERT G. WILMERS  
Robert G. Wilmers

*Chairman of the Board and*

*Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| <b>Signature</b>                      | <b>Title</b>                | <b>Date</b>       |
|---------------------------------------|-----------------------------|-------------------|
| Principal Executive Officer:          |                             |                   |
| /s/ ROBERT G. WILMERS                 | Chairman of the Board       | February 20, 2015 |
| Robert G. Wilmers                     | and Chief Executive Officer |                   |
| Principal Financial Officer:          |                             |                   |
| /s/ RENÉ F. JONES                     | Executive Vice President    | February 20, 2015 |
| René F. Jones                         | and Chief Financial Officer |                   |
| Principal Accounting Officer:         |                             |                   |
| /s/ MICHAEL R. SPYCHALA               | Senior Vice President and   | February 20, 2015 |
| Michael R. Spychala                   | Controller                  |                   |
| A majority of the board of directors: |                             |                   |
| /s/ BRENT D. BAIRD                    |                             | February 20, 2015 |
| Brent D. Baird                        |                             |                   |
| /s/ C. ANGELA BONTEMPO                |                             | February 20, 2015 |
| C. Angela Bontempo                    |                             |                   |
| Robert T. Brady                       |                             |                   |
| /s/ T. JEFFERSON CUNNINGHAM III       |                             | February 20, 2015 |
| T. Jefferson Cunningham III           |                             |                   |

Edgar Filing: M&T BANK CORP - Form 10-K

/s/ MARK J. CZARNECKI

February 20, 2015

Mark J. Czarnecki

/s/ GARY N. GEISEL

February 20, 2015

Gary N. Geisel

/s/ JOHN D. HAWKE, JR.

February 20, 2015

John D. Hawke, Jr.

/s/ PATRICK W.E. HODGSON

February 20, 2015

Patrick W.E. Hodgson

**Table of Contents**

|                           |                   |
|---------------------------|-------------------|
| /s/ RICHARD G. KING       | February 20, 2015 |
| Richard G. King           |                   |
| Jorge G. Pereira          |                   |
| /s/ MELINDA R. RICH       | February 20, 2015 |
| Melinda R. Rich           |                   |
| /s/ ROBERT E. SADLER, JR. | February 20, 2015 |
| Robert E. Sadler, Jr.     |                   |
| /s/ HERBERT L. WASHINGTON | February 20, 2015 |
| Herbert L. Washington     |                   |
| /s/ ROBERT G. WILMERS     | February 20, 2015 |
| Robert G. Wilmers         |                   |

**Table of Contents**

**EXHIBIT INDEX**

- 2.1 Agreement and Plan of Merger, dated as of August 27, 2012, by and among M&T Bank Corporation, Hudson City Bancorp, Inc. and Wilmington Trust Corporation. Incorporated by reference to Exhibit 2.1 to the Form 8-K dated August 31, 2012 (File No. 1-9861).
- 2.2 Amendment No. 1, dated as of April 13, 2013, to the Agreement and Plan of Merger, dated as of August 27, 2012, by and among M&T Bank Corporation, Hudson City Bancorp, Inc. and Wilmington Trust Corporation. Incorporated by reference to Exhibit 2.1 to the Form 8-K dated April 13, 2013 (File No. 1-9861).
- 2.3 Amendment No. 2, dated as of December 16, 2013, to the Agreement and Plan of Merger, dated as of August 27, 2012, by and among M&T Bank Corporation, Hudson City Bancorp, Inc. and Wilmington Trust Corporation. Incorporated by reference to Exhibit 2.1 to the Form 8-K dated December 17, 2013 (File No. 1-9861).
- 2.4 Amendment No. 3, dated as of December 8, 2014, to the Agreement and Plan of Merger, dated as of August 27, 2012, by and among M&T Bank Corporation, Hudson City Bancorp, Inc. and Wilmington Trust Corporation. Incorporated by reference to Exhibit 2.1 to the Form 8-K dated December 8, 2014 (File No. 1-9861).
- 3.1 Restated Certificate of Incorporation of M&T Bank Corporation dated November 18, 2010. Incorporated by reference to Exhibit 3.1 to the Form 8-K dated November 19, 2010 (File No. 1-9861).
- 3.2 Amended and Restated Bylaws of M&T Bank Corporation, effective November 16, 2010. Incorporated by reference to Exhibit 3.2 to the Form 8-K dated November 19, 2010 (File No. 1-9861).
- 3.3 Certificate of Amendment to Certificate of Incorporation with respect to Perpetual 6.875% Non-Cumulative Preferred Stock, Series D, dated May 26, 2011. Incorporated by reference to Exhibit 3.1 of M&T Bank Corporation s Form 8-K dated May 26, 2011 (File No. 1-9861).
- 3.4 Certificate of Amendment to Restated Certificate of Incorporation of M&T Bank Corporation, dated April 19, 2013. Incorporated by reference to Exhibit 3.1 to the Form 8-K dated April 22, 2013 (File No. 1-9861).
- 3.5 Certificate of Amendment to Restated Certificate of Incorporation of M&T Bank Corporation, dated February 11, 2014. Incorporated by reference to Exhibit 3.1 to the Form 8-K dated February 11, 2014 (File No. 1-9861).
- 4.1 There are no instruments with respect to long-term debt of M&T Bank Corporation and its subsidiaries that involve securities authorized under the instrument in an amount exceeding 10 percent of the total assets of M&T Bank Corporation and its subsidiaries on a consolidated basis. M&T Bank Corporation agrees to provide the SEC with a copy of instruments defining the rights of holders of long-term debt of M&T Bank Corporation and its subsidiaries on request.
- 4.2 Warrant to purchase shares of M&T Bank Corporation Common Stock dated as of March 26, 2010. Incorporated by reference to Exhibit 4.2 to the Form 10-K for the year ended December 31, 2012 (File No. 1-9861).
- 4.3 Warrant to purchase shares of M&T Bank Corporation Common Stock effective May 16, 2011. Incorporated by reference to Exhibit 4.1 to the Form 8-K dated May 19, 2011 (File No. 1-9861).
- 4.4 Warrant Agreement (including Form of Warrant), dated as of December 11, 2012, between M&T Bank Corporation and Registrar and Transfer Company. Incorporated by reference to Exhibit 4.1 to the Form 8-A 12B dated December 12, 2012 (File No. 1-9861).
- 10.1 M&T Bank Corporation 2001 Stock Option Plan. Incorporated by reference to Appendix A to the definitive Proxy Statement of M&T Bank Corporation dated March 6, 2001 (File No. 1-9861).\*
- 10.2 M&T Bank Corporation Annual Executive Incentive Plan. Incorporated by reference to Exhibit No. 10.3 to the Form 10-Q for the quarter ended June 30, 1998 (File No. 1-9861).\*
- 10.3 Supplemental Deferred Compensation Agreement between Manufacturers and Traders Trust Company and Brian E. Hickey dated as of July 21, 1994. Incorporated by reference to Exhibit 10.8 to the Form 10-K for the year ended December 31, 1995 (File No. 1-9861).\*

**Table of Contents**

10.4 First amendment, dated as of August 1, 2006, to the Supplemental Deferred Compensation Agreement between Manufacturers and Traders Trust Company and Brian E. Hickey dated as of July 21, 1994. Incorporated by reference to Exhibit 10.2 to the Form 10-Q for the quarter ended September 30, 2006 (File No. 1-9861).\*

10.5 Consulting Agreement, dated as of June 16, 2014, between M&T Bank Corporation and Robert E. Sadler, Jr. Incorporated by reference to Exhibit 10.1 to the Form 10-Q for the quarter ended June 30, 2014 (File No. 1-9861).\*

10.6 M&T Bank Corporation Supplemental Pension Plan, as amended and restated. Incorporated by reference to Exhibit 10.1 to the Form 8-K dated November 22, 2005 (File No. 1-9861).\*

10.7 M&T Bank Corporation Supplemental Retirement Savings Plan. Incorporated by reference to Exhibit 10.2 to the Form 8-K dated November 22, 2005 (File No. 1-9861).\*

10.8 M&T Bank Corporation Deferred Bonus Plan, as amended and restated. Incorporated by reference to Exhibit 10.12 to the Form 10-K for the year ended December 31, 2004 (File No. 1-9861).\*

10.9 M&T Bank Corporation 2008 Directors Stock Plan. Incorporated by reference to Exhibit 4.1 to the Form S-8 dated April 7, 2008 (File No. 333-150122).\*

10.10 M&T Bank Corporation 2008 Directors Stock Plan, as amended. Incorporated by reference to Exhibit 4.1 to the Form S-8 dated October 19, 2012 (File No. 333-184504).\*

10.11 Keystone Financial, Inc. 1992 Director Fee Plan. Incorporated by reference to Exhibit 10.11 to the Form 10-K of Keystone Financial, Inc. for the year ended December 31, 1999 (File No. 000-11460).\*

10.12 M&T Bank Corporation Employee Stock Purchase Plan. Incorporated by reference to Exhibit 10.22 to the Form 10-K for the year ended December 31, 2012 (File No. 1-9861).\*

10.13 M&T Bank Corporation 2005 Incentive Compensation Plan. Incorporated by reference to Appendix A to the definitive Proxy Statement of M&T Bank Corporation dated March 4, 2005 (File No. 1-9861).\*

10.14 M&T Bank Corporation 2009 Equity Incentive Compensation Plan. Incorporated by reference to Appendix A to the Proxy Statement of M&T Bank Corporation dated March 6, 2009 (File No. 1-9861).\*

10.15 M&T Bank Corporation Form of Restricted Stock Award Agreement. Incorporated by reference to Exhibit 10.25 to the Form 10-K for the year ended December 31, 2013 (File No. 1-9861).\*

10.16 M&T Bank Corporation Form of Restricted Stock Unit Award Agreement. Incorporated by reference to Exhibit 10.26 to the Form 10-K for the year ended December 31, 2013 (File No. 1-9861).\*

10.17 M&T Bank Corporation Form of Performance-Vested Restricted Stock Unit Award Agreement. Incorporated by reference to Exhibit 10.27 to the Form 10-K for the year ended December 31, 2013 (File No. 1-9861).\*

10.18 M&T Bank Corporation Form of Performance-Vested Restricted Stock Unit Award Agreement (for named executive officers ( NEOs ) subject to Section 162 (m) of the Internal Revenue Code of 1986, as amended from time to time). Incorporated by reference to Exhibit 10.1 to the Form 10-Q for the quarter ended March 31, 2014 (File No. 1-9861).\*

10.19 M&T Bank Corporation Employee Severance Plan. Incorporated by reference to Exhibit 10.2 to the Form 10-Q for the quarter ended March 31, 2005 (File No. 1-9861).\*

10.20 Provident Bankshares Corporation Amended and Restated Stock Option Plan. Incorporated by reference to Exhibit 4.1 to M&T Bank Corporation s Registration Statement on Form S-8 dated June 5, 2009 (File No. 333-159795).\*

10.21 Provident Bankshares Corporation 2004 Equity Compensation Plan. Incorporated by reference to Exhibit 4.2 to M&T Bank Corporation s Registration Statement on Form S-8 dated June 5, 2009 (File No. 333-159795).\*

10.22 Wilmington Trust Corporation Amended and Restated 2002 Long-Term Incentive Plan. Incorporated by reference to Exhibit 10.64 to the Form 10-Q of Wilmington Trust Corporation filed on November 9, 2004 (File No. 1-14659).\*

10.23 Wilmington Trust Corporation Amended and Restated 2005 Long-Term Incentive Plan. Incorporated by reference to Exhibit 10.21 to the Form 10-K of Wilmington Trust Corporation filed on February 29, 2008 (File No. 1-14659).\*

**Table of Contents**

|         |   |
|---------|---|
| 10.24   | Wilmington Trust Corporation 2009 Long-Term Incentive Plan. Incorporated by reference to Exhibit D to the definitive Proxy Statement of Wilmington Trust Corporation filed on March 16, 2009 (File No. 1-14659).*   |
| 11.1    | Statement re: Computation of Earnings Per Common Share. Incorporated by reference to note 14 of Notes to Financial Statements filed herewith in Part II, Item 8, Financial Statements and Supplementary Data.   |
| 12.1    | Ratio of Earnings to Fixed Charges. Filed herewith.   |
| 14.1    | M&T Bank Corporation Code of Ethics for CEO and Senior Financial Officers. Incorporated by reference to Exhibit 14.1 to the Form 10-K for the year ended December 31, 2003 (File No. 1-9861).   |
| 21.1    | Subsidiaries of the Registrant. Incorporated by reference to the caption Subsidiaries contained in Part I, Item 1 hereof.   |
| 23.1    | Consent of PricewaterhouseCoopers LLP re: Registration Statement Nos. 333-63660, 333-43175, 33-32044, 333-16077, 333-84384, 333-127406, 333-150122, 333-164015, 333-163992, 333-160769, 333-159795, 333-170740, 333-182348, 333-189099, 333-40640, 333-184504 and 333-189097. Filed herewith. |
| 31.1    | Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.   |
| 31.2    | Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.   |
| 32.1    | Certification of Chief Executive Officer under 18 U.S.C. §1350 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.   |
| 32.2    | Certification of Chief Financial Officer under 18 U.S.C. §1350 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.   |
| 101.INS | XBRL Instance Document. Filed herewith.   |
| 101.SCH | XBRL Taxonomy Extension Schema. Filed herewith.   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase. Filed herewith.   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase. Filed herewith.   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase. Filed herewith.  |
| 101.DEF | XBRL Taxonomy Definition Linkbase. Filed herewith.  |

\* *Management contract or compensatory plan or arrangement.*