M&T BANK CORP
Form 10-Q
August 07, 2014
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# FORM 10-Q

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

**For the quarterly period ended June 30, 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** | **16-0968385** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **One M & T Plaza Buffalo, New York** | **14203** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**(716) 842-5445**

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

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

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

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

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

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

Number of shares of the registrant s Common Stock, $0.50 par value, outstanding as of the close of business on July 31, 2014: 131,965,978 shares.

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M&T BANK CORPORATION

FORM 10-Q

For the Quarterly Period Ended June 30, 2014


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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (Unaudited)

| *Dollars in thousands, except per share* | | June 30, 2014 | December 31, 2013 |
|---|---|---|---|
| Assets | Cash and due from banks | $ 1,827,197 | 1,573,361 |
| | Interest-bearing deposits at banks | 3,032,530 | 1,651,138 |
| | Federal funds sold | 90,239 | 99,573 |
| | Trading account | 313,325 | 376,131 |
| | Investment securities (includes pledged securities that can be sold or repledged of $1,620,148 at June 30, 2014; $1,696,438 at December 31, 2013) | | |
| | Available for sale (cost: $7,753,752 at June 30, 2014; $4,444,365 at December 31, 2013) | 8,008,779 | 4,531,786 |
| | Held to maturity (fair value: $3,765,849 at June 30, 2014; $3,860,127 at December 31, 2013) | 3,760,665 | 3,966,130 |
| | Other (fair value: $350,751 at June 30, 2014; $298,581 at December 31, 2013) | 350,751 | 298,581 |
| | Total investment securities | 12,120,195 | 8,796,497 |
| | Loans and leases | 64,980,824 | 64,325,783 |
| | Unearned discount | (233,131) | (252,624) |
| | Loans and leases, net of unearned discount | 64,747,693 | 64,073,159 |
| | Allowance for credit losses | (917,666) | (916,676) |
| | Loans and leases, net | 63,830,027 | 63,156,483 |
| | Premises and equipment | 625,006 | 633,520 |
| | Goodwill | 3,524,625 | 3,524,625 |
| | Core deposit and other intangible assets | 49,555 | 68,851 |
| | Accrued interest and other assets | 5,422,303 | 5,282,212 |
| | Total assets | $ 90,835,002 | 85,162,391 |
| Liabilities | Noninterest-bearing deposits | $ 26,088,763 | 24,661,007 |
| | NOW accounts | 2,007,336 | 1,989,441 |
| | Savings deposits | 38,209,271 | 36,621,580 |
| | Time deposits | 3,285,995 | 3,523,838 |

| | | | |
|---|---|---|---|
| | Deposits at Cayman Islands office | 237,890 | 322,746 |
| | Total deposits | 69,829,255 | 67,118,612 |
| | Federal funds purchased and agreements to repurchase securities | 161,631 | 260,455 |
| | Accrued interest and other liabilities | 1,283,430 | 1,368,922 |
| | Long-term borrowings | 7,391,931 | 5,108,870 |
| | Total liabilities | 78,666,247 | 73,856,859 |
| Shareholders equity | Preferred stock, $1.00 par, 1,000,000 shares authorized; Issued and outstanding: Liquidation preference of $1,000 per share: 731,500 shares at June 30, 2014; 381,500 shares at December 31, 2013; Liquidation preference of $10,000 per share: 50,000 shares at June 30, 2014 and December 31, 2013 | 1,231,500 | 881,500 |
| | Common stock, $.50 par, 250,000,000 shares authorized, 131,911,359 shares issued at June 30, 2014; 130,516,364 shares issued at December 31, 2013 | 65,956 | 65,258 |
| | Common stock issuable, 41,635 shares at June 30, 2014; 47,231 shares at December 31, 2013 | 2,600 | 2,915 |
| | Additional paid-in capital | 3,347,314 | 3,232,014 |
| | Retained earnings | 7,481,077 | 7,188,004 |
| | Accumulated other comprehensive income (loss), net | 40,308 | (64,159) |
| | Total shareholders equity | 12,168,755 | 11,305,532 |
| | Total liabilities and shareholders equity | $ 90,835,002 | 85,162,391 |

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M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

| *In thousands, except per share* | | Three months ended June 30 2014 | 2013 | Six months ended June 30 2014 | 2013 |
|---|---|---|---|---|---|
| Interest income | Loans and leases, including fees | $ 645,029 | 705,395 | $ 1,290,251 | 1,387,850 |
| | Investment securities | | | | |
| | Fully taxable | 85,210 | 41,293 | 159,109 | 86,053 |
| | Exempt from federal taxes | 1,293 | 1,777 | 2,797 | 3,606 |
| | Deposits at banks | 2,535 | 1,455 | 4,419 | 1,722 |
| | Other | 223 | 287 | 666 | 951 |
| | Total interest income | 734,290 | 750,207 | 1,457,242 | 1,480,182 |
| Interest expense | NOW accounts | 330 | 321 | 627 | 643 |
| | Savings deposits | 11,181 | 13,790 | 22,782 | 27,827 |
| | Time deposits | 3,855 | 7,484 | 7,795 | 15,680 |
| | Deposits at Cayman Islands office | 181 | 200 | 389 | 588 |
| | Short-term borrowings | 25 | 96 | 57 | 327 |
| | Long-term borrowings | 49,604 | 50,729 | 100,045 | 101,480 |
| | Total interest expense | 65,176 | 72,620 | 131,695 | 146,545 |
| | *Net interest income* | 669,114 | 677,587 | 1,325,547 | 1,333,637 |
| | Provision for credit losses | 30,000 | 57,000 | 62,000 | 95,000 |
| | Net interest income after provision for credit losses | 639,114 | 620,587 | 1,263,547 | 1,238,637 |
| Other income | Mortgage banking revenues | 95,656 | 91,262 | 175,705 | 184,365 |
| | Service charges on deposit accounts | 107,368 | 111,717 | 211,566 | 222,666 |
| | Trust income | 129,893 | 124,728 | 251,145 | 246,331 |
| | Brokerage services income | 17,487 | 17,258 | 33,987 | 32,969 |
| | Trading account and foreign exchange gains | 8,042 | 9,224 | 14,489 | 18,151 |
| | Gain on bank investment securities | | 56,457 | | 56,457 |
| | Total other-than-temporary impairment ( OTTI ) losses | | | | (1,884) |
| | Portion of OTTI losses recognized in other comprehensive income (before taxes) | | | | (7,916) |
| | Net OTTI losses recognized in earnings | | | | (9,800) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Equity in earnings of Bayview Lending Group LLC | | (4,055) | (2,453) | | (8,509) | (6,109) |
| | Other revenues from operations | | 102,021 | 100,496 | | 198,136 | 196,541 |
| | Total other income | | 456,412 | 508,689 | | 876,519 | 941,571 |
| Other expense | Salaries and employee benefits | | 339,713 | 323,136 | | 711,039 | 679,687 |
| | Equipment and net occupancy | | 68,084 | 64,278 | | 139,251 | 129,437 |
| | Printing, postage and supplies | | 9,180 | 10,298 | | 20,136 | 20,997 |
| | Amortization of core deposit and other intangible assets | | 9,234 | 12,502 | | 19,296 | 25,845 |
| | FDIC assessments | | 15,155 | 17,695 | | 30,643 | 37,133 |
| | Other costs of operations | | 239,828 | 170,682 | | 463,100 | 341,088 |
| | Total other expense | | 681,194 | 598,591 | | 1,383,465 | 1,234,187 |
| | Income before taxes | | 414,332 | 530,685 | | 756,601 | 946,021 |
| | Income taxes | | 129,996 | 182,219 | | 243,248 | 323,442 |
| | *Net income* | $ | 284,336 | 348,466 | $ | 513,353 | 622,579 |
| | Net income available to common shareholders | | | | | | |
| | Basic | $ | 260,680 | 328,538 | $ | 472,404 | 583,597 |
| | Diluted | | 260,695 | 328,557 | | 472,429 | 583,633 |
| | Net income per common share | | | | | | |
| | Basic | $ | 1.99 | 2.56 | $ | 3.62 | 4.56 |
| | Diluted | | 1.98 | 2.55 | | 3.59 | 4.53 |
| | Cash dividends per common share | $ | .70 | .70 | $ | 1.40 | 1.40 |
| | Average common shares outstanding | | | | | | |
| | Basic | | 130,856 | 128,252 | | 130,536 | 127,962 |
| | Diluted | | 131,828 | 129,017 | | 131,479 | 128,828 |

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M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| *In thousands* | 2014 | 2013 | 2014 | 2013 |
| Net income | $ 284,336 | 348,466 | $ 513,353 | 622,579 |
| Other comprehensive income (loss), net of tax and reclassification adjustments: | | | | |
| Net unrealized gains (losses) on investment securities | 64,652 | (6,722) | 102,866 | 3,357 |
| Unrealized losses on cash flow hedges | (711) | | (711) | |
| Foreign currency translation adjustment | 449 | (114) | 313 | (1,046) |
| Defined benefit plans liability adjustment | 1,179 | 5,018 | 1,999 | 10,182 |
| *Total other comprehensive income (loss)* | 65,569 | (1,818) | 104,467 | 12,493 |
| *Total comprehensive income* | $ 349,905 | 346,648 | $ 617,820 | 635,072 |

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M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

| *In thousands* | | Six months ended June 30 2014 | 2013 |
|---|---|---|---|
| Cash flows from operating activities | Net income | $ 513,353 | 622,579 |
| | Adjustments to reconcile net income to net cash provided by operating activities | | |
| | Provision for credit losses | 62,000 | 95,000 |
| | Depreciation and amortization of premises and equipment | 49,133 | 43,354 |
| | Amortization of capitalized servicing rights | 34,868 | 30,653 |
| | Amortization of core deposit and other intangible assets | 19,296 | 25,845 |
| | Provision for deferred income taxes | 40,964 | 30,373 |
| | Asset write-downs | 2,015 | 15,043 |
| | Net gain on sales of assets | (1,991) | (59,134) |
| | Net change in accrued interest receivable, payable | 10,036 | (1,131) |
| | Net change in other accrued income and expense | (82,817) | 20,336 |
| | Net change in loans originated for sale | (192,521) | (220,784) |
| | Net change in trading account assets and liabilities | 15,168 | 14,362 |
| | Net cash provided by operating activities | 469,504 | 616,496 |
| Cash flows from investing activities | Proceeds from sales of investment securities | | |
| | Available for sale | 16 | 1,081,496 |
| | Other | 734 | 5,439 |
| | Proceeds from maturities of investment securities | | |
| | Available for sale | 375,372 | 652,074 |
| | Held to maturity | 211,005 | 141,255 |
| | Purchases of investment securities | | |
| | Available for sale | (3,609,758) | (39,411) |
| | Held to maturity | (10,745) | (11,252) |
| | Other | (52,904) | (8,540) |
| | Net increase in loans and leases | (566,803) | (228,853) |
| | Net increase in interest-bearing deposits at banks | (1,381,392) | (2,425,409) |
| | Capital expenditures, net | (37,747) | (43,663) |
| | Net (increase) decrease in loan servicing advances | (257,704) | 47,290 |
| | Other, net | 16,990 | 38,072 |
| | Net cash used by investing activities | (5,312,936) | (791,502) |
| Cash flows from financing activities | Net increase in deposits | 2,712,470 | 54,101 |
| | Net decrease in short-term borrowings | (98,824) | (766,742) |

| | | | |
|---|---|---|---|
| | Proceeds from long-term borrowings | 2,647,688 | 799,760 |
| | Payments on long-term borrowings | (360,345) | (257,178) |
| | Proceeds from issuance of preferred stock | 346,500 | |
| | Dividends paid common | (185,134) | (181,842) |
| | Dividends paid preferred | (29,348) | (26,725) |
| | Other, net | 54,927 | 41,519 |
| | Net cash provided (used) by financing activities | 5,087,934 | (337,107) |
| | Net increase (decrease) in cash and cash equivalents | 244,502 | (512,113) |
| | Cash and cash equivalents at beginning of period | 1,672,934 | 1,986,615 |
| | Cash and cash equivalents at end of period | $ 1,917,436 | 1,474,502 |
| Supplemental disclosure of cash flow information | Interest received during the period | $ 1,420,720 | 1,459,142 |
| | Interest paid during the period | 120,109 | 151,737 |
| | Income taxes paid during the period | 198,028 | 226,406 |
| Supplemental schedule of noncash investing and financing activities | Securitization of residential mortgage loans allocated to | | |
| | Available-for-sale investment securities | $ 76,097 | |
| | Held to maturity investment securities | | 917,045 |
| | Capitalized servicing rights | 976 | 8,907 |
| | Real estate acquired in settlement of loans | 18,677 | 15,502 |

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M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

| *In thousands, except per share* | Preferred stock | Common stock | Common stock issuable | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income (loss), net | Total |
|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | |
| Balance January 1, 2013 | $ 872,500 | 64,088 | 3,473 | 3,025,520 | 6,477,276 | (240,264) | 10,202,593 |
| Total comprehensive income | | | | | 622,579 | 12,493 | 635,072 |
| Preferred stock cash dividends | | | | | (26,725) | | (26,725) |
| Amortization of preferred stock discount | 4,296 | | | | (4,296) | | |
| Exercise of 407,542 Series C stock warrants into 186,589 shares of common stock | | 93 | | (93) | | | |
| Stock-based compensation plans: | | | | | | | |
| Compensation expense, net | | 153 | | 21,056 | | | 21,209 |
| Exercises of stock options, net | | 366 | | 63,505 | | | 63,871 |
| Directors stock plan | | 4 | | 793 | | | 797 |
| Deferred compensation plans, net, including dividend equivalents | | 5 | (613) | 564 | (66) | | (110) |
| Other | | | | 1,321 | | | 1,321 |
| Common stock cash dividends $1.40 per share | | | | | (181,698) | | (181,698) |
| Balance June 30, 2013 | $ 876,796 | 64,709 | 2,860 | 3,112,666 | 6,887,070 | (227,771) | 10,716,330 |
| **2014** | | | | | | | |
| Balance January 1, 2014 | $ 881,500 | 65,258 | 2,915 | 3,232,014 | 7,188,004 | (64,159) | 11,305,532 |
| Total comprehensive income | | | | | 513,353 | 104,467 | 617,820 |
| Preferred stock cash dividends | | | | | (35,117) | | (35,117) |
| Issuance of Series E preferred stock | 350,000 | | | (3,500) | | | 346,500 |
| Exercise of 379,376 Series A stock warrants into 149,834 shares of common stock | | 75 | | (75) | | | |
| Stock-based compensation plans: | | | | | | | |
| Compensation expense, net | | 131 | | 23,250 | | | 23,381 |
| Exercises of stock options, net | | 442 | | 84,002 | | | 84,444 |
| Stock purchase plan | | 43 | | 9,545 | | | 9,588 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Directors stock plan | | 4 | | 875 | | | 879 |
| Deferred compensation plans, net, including dividend equivalents | | 3 | (315) | 309 | (58) | | (61) |
| Other | | | | 894 | | | 894 |
| Common stock cash dividends $1.40 per share | | | | | (185,105) | | (185,105) |
| Balance June 30, 2014 | $ 1,231,500 | 65,956 | 2,600 | 3,347,314 | 7,481,077 | 40,308 | 12,168,755 |

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NOTES TO FINANCIAL STATEMENTS

**1. Significant accounting policies**

The consolidated financial statements of M&T Bank Corporation ( M&T ) and subsidiaries ( the Company ) were compiled in accordance with generally accepted accounting principles ( GAAP ) using the accounting policies set forth in note 1 of Notes to Financial Statements included in the 2013 Annual Report. In the opinion of management, all adjustments necessary for a fair presentation have been made and were all of a normal recurring nature.

**2. 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 June 30, 2014, total consideration to be paid was valued at approximately $5.4 billion.

At June 30, 2014, Hudson City had $37.7 billion of assets, including $23.3 billion of loans and $8.2 billion of investment securities, and $32.9 billion of liabilities, including $20.5 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 ( 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 has 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 extended the date after which either party may elect to terminate the merger agreement if the merger has not yet been completed to December 31, 2014. Nevertheless, there can be no assurances that the merger will be completed by that date.

In connection with the pending acquisition, the Company incurred merger-related expenses related to preparing for 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 planning for the conversion of systems and/or integration of operations; initial marketing and promotion expenses designed to introduce M&T Bank to its new customers; travel costs; and printing, postage, supplies and other costs of planning for the transaction and commencing operations in new markets and offices.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**2. Acquisitions, continued**

A summary of merger-related expenses incurred in 2013 associated with the pending Hudson City acquisition included in the consolidated statement of income is presented below. There were no merger-related expenses during the three months or six months ended June 30, 2014.

| | Three months ended June 30, 2013 | Six months ended June 30, 2013 |
|---|---|---|
| | (in thousands) | |
| Salaries and employee benefits | $ 300 | $ 836 |
| Equipment and net occupancy | 489 | 690 |
| Printing, postage and supplies | 998 | 1,825 |
| Other costs of operations | 5,845 | 9,013 |
| | $ 7,632 | $ 12,364 |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**3. Investment securities**

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

| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
|---|---|---|---|---|
| | | (in thousands) | | |
| June 30, 2014 | | | | |
| Investment securities available for sale: | | | | |
| U.S. Treasury and federal agencies | $ 42,600 | 324 | 3 | $ 42,921 |
| Obligations of states and political subdivisions | 9,999 | 302 | 59 | 10,242 |
| Mortgage-backed securities: | | | | |
| Government issued or guaranteed | 7,426,259 | 191,716 | 348 | 7,617,627 |
| Privately issued | 119 | 4 | 4 | 119 |
| Collateralized debt obligations | 32,548 | 24,100 | 448 | 56,200 |
| Other debt securities | 138,362 | 2,185 | 15,784 | 124,763 |
| Equity securities | 103,865 | 54,119 | 1,077 | 156,907 |
| | 7,753,752 | 272,750 | 17,723 | 8,008,779 |
| Investment securities held to maturity: | | | | |
| Obligations of states and political subdivisions | 154,733 | 3,289 | 88 | 157,934 |
| Mortgage-backed securities: | | | | |
| Government issued or guaranteed | 3,387,213 | 67,816 | 14,881 | 3,440,148 |
| Privately issued | 210,388 | | 50,952 | 159,436 |
| Other debt securities | 8,331 | | | 8,331 |
| | 3,760,665 | 71,105 | 65,921 | 3,765,849 |
| Other securities | 350,751 | | | 350,751 |
| Total | $ 11,865,168 | 343,855 | 83,644 | $ 12,125,379 |
| December 31, 2013 | | | | |
| 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 |
| | 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 |

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**3. Investment securities, continued**

There were no gross realized gains or losses from the sale of investment securities for the three-month and six-month periods ended June 30, 2014. Gross realized gains on investment securities were $116 million for the three-month and six-month periods ended June 30, 2013. During the second quarter of 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. Gross realized losses on investment securities were $60 million for the three-month and six-month periods ended June 30, 2013. During the second quarter of 2013, the Company sold substantially all of its privately issued mortgage-backed securities that had been 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.

There were $10 million of pre-tax other-than-temporary impairment ( OTTI ) losses recognized during the first quarter of 2013 related to privately issued mortgage-backed securities. 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 OTTI 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. The Company did not recognize any OTTI losses during the first or second quarters of 2014 or the second quarter of 2013.

Changes in credit losses associated with debt securities for which OTTI losses had been recognized in earnings for the three months and six months ended June 30, 2013 follow:

| | Three months ended June 30, 2013 | Six months ended June 30, 2013 |
|---|---|---|
| | (in thousands) | |
| Beginning balance | $ 187,114 | 197,809 |
| Additions for credit losses not previously recognized | | 9,800 |
| Reductions for realized losses | (186,320) | (206,815) |
| Ending balance | $ 794 | 794 |

There were no significant credit losses associated with debt securities held by the Company as of June 30, 2014 or December 31, 2013.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**3. Investment securities, continued**

At June 30, 2014, the amortized cost and estimated fair value of debt securities by contractual maturity were as follows:

| | Amortized cost | Estimated fair value |
|---|---|---|
| | (in thousands) | |
| Debt securities available for sale: | | |
| Due in one year or less | $ 7,513 | 7,592 |
| Due after one year through five years | 46,209 | 46,952 |
| Due after five years through ten years | 5,009 | 5,145 |
| Due after ten years | 164,778 | 174,437 |
| | 223,509 | 234,126 |
| Mortgage-backed securities available for sale | 7,426,378 | 7,617,746 |
| | $ 7,649,887 | 7,851,872 |
| Debt securities held to maturity: | | |
| Due in one year or less | $ 21,159 | 21,326 |
| Due after one year through five years | 78,588 | 80,389 |
| Due after five years through ten years | 54,986 | 56,219 |
| Due after ten years | 8,331 | 8,331 |
| | 163,064 | 166,265 |
| Mortgage-backed securities held to maturity | 3,597,601 | 3,599,584 |
| | $ 3,760,665 | 3,765,849 |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**3. Investment securities, continued**

A summary of investment securities that as of June 30, 2014 and December 31, 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) | | | |
| June 30, 2014 | | | | |
| Investment securities available for sale: | | | | |
| U.S. Treasury and federal agencies | $ 5,865 | (3) | | |
| Obligations of states and political subdivisions | 1,832 | (55) | 437 | (4) |
| Mortgage-backed securities: | | | | |
| Government issued or guaranteed | 42,896 | (158) | 8,254 | (190) |
| Privately issued | | | 77 | (4) |
| Collateralized debt obligations | 2,633 | (114) | 5,557 | (334) |
| Other debt securities | 157 | (10) | 99,118 | (15,774) |
| Equity securities | 3,240 | (1,077) | | |
| | 56,623 | (1,417) | 113,443 | (16,306) |
| Investment securities held to maturity: | | | | |
| Obligations of states and political subdivisions | 8,329 | (34) | 3,753 | (54) |
| Mortgage-backed securities: | | | | |
| Government issued or guaranteed | 140,724 | (878) | 730,795 | (14,003) |
| Privately issued | | | 159,436 | (50,952) |
| | 149,053 | (912) | 893,984 | (65,009) |
| Total | $ 205,676 | (2,329) | 1,007,427 | (81,315) |
| December 31, 2013 | | | | |
| 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) |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**3. Investment securities, continued**

The Company owned 289 individual investment securities with aggregate gross unrealized losses of $84 million at June 30, 2014. Based on a review of each of the securities in the investment securities portfolio at June 30, 2014, the Company concluded that it expected to recover the amortized cost basis of its investment. As of June 30, 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 June 30, 2014, the Company has not identified events or changes in circumstances which may have a significant adverse effect on the fair value of the $351 million of cost method investment securities.

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

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

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| | (in thousands) | |
| Outstanding principal balance | $ 3,828,214 | 4,656,811 |
| Carrying amount: | | |
| Commercial, financial, leasing, etc. | 396,166 | 580,685 |
| Commercial real estate | 1,285,386 | 1,541,368 |
| Residential real estate | 515,791 | 576,473 |
| Consumer | 1,051,728 | 1,308,926 |
| | $ 3,249,071 | 4,007,452 |

Purchased impaired loans included in the table above totaled $283 million at June 30, 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 three months and six months ended June 30, 2014 and 2013 follows:

| | Three months ended June 30 | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| | Purchased impaired | Other acquired | Purchased impaired | Other acquired |
| | (in thousands) | | | |
| Balance at beginning of period | $ 30,939 | 485,162 | $ 33,728 | 577,609 |
| Interest income | (5,106) | (43,452) | (9,747) | (67,539) |
| Reclassifications from nonaccretable balance, net | 249 | 774 | 31,168 | 111,702 |

| | | | | |
|---|---|---|---|---|
| Other (a) | | 8,486 | | 321 |
| Balance at end of period | $ 26,082 | 450,970 | $ 55,149 | 622,093 |

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

| | Six months ended June 30 | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| | Purchased impaired | Other acquired | Purchased impaired | Other acquired |
| | (in thousands) | | | |
| Balance at beginning of period | $ 37,230 | 538,633 | $ 42,252 | 638,272 |
| Interest income | (11,434) | (96,085) | (18,451) | (129,286) |
| Reclassifications from nonaccretable balance, net | 286 | 774 | 31,348 | 122,519 |
| Other (a) | | 7,648 | | (9,412) |
| Balance at end of period | $ 26,082 | 450,970 | $ 55,149 | 622,093 |

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

A summary of current, past due and nonaccrual loans as of June 30, 2014 and December 31, 2013 follows:

| | Current | 30-89 Days past due | 90 Days or more past due and accruing Non-acquired | 90 Days or more past due and accruing Acquired (a) | Purchased impaired (b) | Nonaccrual | Total |
|---|---|---|---|---|---|---|---|
| | (in thousands) | | | | | | |
| June 30, 2014 | | | | | | | |
| Commercial, financial, leasing, etc. | $ 18,831,026 | 56,292 | 3,910 | 5,769 | 16,702 | 192,193 | $ 19,105,892 |
| Real estate: | | | | | | | |
| Commercial | 21,335,953 | 142,904 | 9,862 | 36,554 | 82,554 | 188,951 | 21,796,778 |
| Residential builder and developer | 1,203,959 | 10,417 | | 9,505 | 111,937 | 83,624 | 1,419,442 |
| Other commercial construction | 3,075,240 | 11,764 | | 4,018 | 43,511 | 23,521 | 3,158,054 |
| Residential | 7,499,250 | 261,083 | 270,492 | 42,245 | 25,231 | 198,816 | 8,297,117 |
| Residential Alt-A | 258,899 | 22,064 | | | | 78,686 | 359,649 |
| Consumer: | | | | | | | |
| Home equity lines and loans | 5,917,670 | 34,440 | | 25,577 | 2,582 | 83,991 | 6,064,260 |
| Automobile | 1,621,311 | 23,629 | | 218 | | 16,075 | 1,661,233 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Other | 2,821,175 | 34,370 | 4,752 | 10,694 | | 14,277 | 2,885,268 |
| Total | $ 62,564,483 | 596,963 | 289,016 | 134,580 | 282,517 | 880,134 | $ 64,747,693 |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

| | Current | 30-89 Days past due | 90 Days or more past due and accruing Non-acquired | Acquired (a) | Purchased impaired (b) | Nonaccrual | Total |
|---|---|---|---|---|---|---|---|
| | | | (in thousands) | | | | |
| December 31, 2013 | | | | | | | |
| 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 |
| Total | $ 61,664,881 | 704,658 | 368,510 | 130,162 | 330,792 | 874,156 | $ 64,073,159 |

*(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.*

One-to-four family residential mortgage loans originated for sale were $419 million and $401 million at June 30, 2014 and December 31, 2013, respectively. Commercial mortgage loans held for sale were $205 million at June 30, 2014 and $68 million at December 31, 2013.

Changes in the allowance for credit losses for the three months ended June 30, 2014 were as follows:

| | Commercial, Financial, | Real Estate |
|---|---|---|

| | Leasing, etc. | Commercial | Residential | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| Beginning balance | $ 276,835 | 324,805 | 77,062 | 162,134 | 75,932 | $ 916,768 |
| Provision for credit losses | 25,556 | (12,229) | (1,957) | 18,676 | (46) | 30,000 |
| Net charge-offs | | | | | | |
| Charge-offs | (14,142) | (2,814) | (5,478) | (19,404) | | (41,838) |
| Recoveries | 4,002 | 1,492 | 2,777 | 4,465 | | 12,736 |
| Net charge-offs | (10,140) | (1,322) | (2,701) | (14,939) | | (29,102) |
| Ending balance | $ 292,251 | 311,254 | 72,404 | 165,871 | 75,886 | $ 917,666 |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Changes in the allowance for credit losses for the three months ended June 30, 2013 were as follows:

| | Commercial, Financial, Leasing, etc. | Real Estate | | | | |
|---|---|---|---|---|---|---|
| | | Commercial | Residential | Consumer | Unallocated | Total |
| | | | (in thousands) | | | |
| Beginning balance | $ 257,851 | 328,016 | 90,122 | 176,793 | 74,335 | $ 927,117 |
| Provision for credit losses | 55,647 | (10,913) | (1,438) | 13,707 | (3) | 57,000 |
| Net charge-offs | | | | | | |
| Charge-offs | (46,312) | (4,204) | (5,092) | (21,018) | | (76,626) |
| Recoveries | 1,681 | 11,365 | 1,719 | 4,809 | | 19,574 |
| Net charge-offs | (44,631) | 7,161 | (3,373) | (16,209) | | (57,052) |
| Ending balance | $ 268,867 | 324,264 | 85,311 | 174,291 | 74,332 | $ 927,065 |

Changes in the allowance for credit losses for the six months ended June 30, 2014 were as follows:

| | Commercial, Financial, Leasing, etc. | Real Estate | | | | |
|---|---|---|---|---|---|---|
| | | Commercial | Residential | Consumer | Unallocated | Total |
| | | | (in thousands) | | | |
| Beginning balance | $ 273,383 | 324,978 | 78,656 | 164,644 | 75,015 | $ 916,676 |
| Provision for credit losses | 38,154 | (12,113) | 2,271 | 32,817 | 871 | 62,000 |
| Net charge-offs | | | | | | |
| Charge-offs | (28,951) | (6,300) | (12,931) | (41,095) | | (89,277) |
| Recoveries | 9,665 | 4,689 | 4,408 | 9,505 | | 28,267 |
| Net charge-offs | (19,286) | (1,611) | (8,523) | (31,590) | | (61,010) |
| Ending balance | $ 292,251 | 311,254 | 72,404 | 165,871 | 75,886 | $ 917,666 |

Changes in the allowance for credit losses for the six months ended June 30, 2013 were as follows:

| | Commercial, Financial, Leasing, etc. | Real Estate | | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|
| | | Commercial | Residential | | | |
| | | | (in thousands) | | | |
| Beginning balance | $ 246,759 | 337,101 | 88,807 | 179,418 | 73,775 | $ 925,860 |
| Provision for credit losses | 73,527 | (11,225) | 3,598 | 28,543 | 557 | 95,000 |
| Net charge-offs | | | | | | |
| Charge-offs | (55,856) | (13,792) | (13,263) | (42,663) | | (125,574) |
| Recoveries | 4,437 | 12,180 | 6,169 | 8,993 | | 31,779 |
| Net charge-offs | (51,419) | (1,612) | (7,094) | (33,670) | | (93,795) |
| Ending balance | $ 268,867 | 324,264 | 85,311 | 174,291 | 74,332 | $ 927,065 |

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.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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 Credit Policy. Internal loan grades are also monitored by the Company s loan review department to ensure consistency and strict adherence to the prescribed standards. Loan grades are assigned loss component factors that reflect the Company s loss estimate for each group of loans and leases. Factors considered in assigning loan grades and loss component factors include borrower-specific information related to expected future cash flows and operating results, collateral values, geographic location, financial condition and performance, payment status, and other information; levels of and trends in portfolio charge-offs and recoveries; levels of and trends in portfolio delinquencies and impaired loans; changes in the risk profile of specific portfolios; trends in volume and terms of loans; effects of changes in credit concentrations; and observed trends and practices in the banking industry. As updated appraisals are obtained on individual loans or other events in the market place indicate that collateral values have significantly changed, individual loan grades are adjusted as appropriate. Changes in other factors cited may also lead to loan grade changes at any time. Except for consumer and residential mortgage 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.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The following tables provide information with respect to loans and leases that were considered impaired as of June 30, 2014 and December 31, 2013 and for the three months and six months ended June 30, 2014 and June 30, 2013:

| | June 30, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| | Recorded investment | Unpaid principal balance | Related allowance | Recorded investment | Unpaid principal balance | Related allowance |
| | | | (in thousands) | | | |
| With an allowance recorded: | | | | | | |
| Commercial, financial, leasing, etc. | $ 165,446 | 189,110 | 39,874 | 90,293 | 112,092 | 24,614 |
| Real estate: | | | | | | |
| Commercial | 95,543 | 112,623 | 16,330 | 113,570 | 132,325 | 19,520 |
| Residential builder and developer | 28,048 | 36,634 | 1,694 | 33,311 | 55,122 | 4,379 |
| Other commercial construction | 71,379 | 74,401 | 4,883 | 86,260 | 90,515 | 4,022 |
| Residential | 90,895 | 109,723 | 4,103 | 96,508 | 114,521 | 7,146 |
| Residential Alt-A | 108,426 | 123,349 | 12,000 | 111,911 | 124,528 | 14,000 |
| Consumer: | | | | | | |
| Home equity lines and loans | 19,358 | 20,424 | 5,877 | 13,672 | 14,796 | 3,312 |
| Automobile | 35,426 | 35,426 | 9,248 | 40,441 | 40,441 | 11,074 |
| Other | 18,561 | 18,561 | 4,831 | 17,660 | 17,660 | 4,541 |
| | 633,082 | 720,251 | 98,840 | 603,626 | 702,000 | 92,608 |
| With no related allowance recorded: | | | | | | |
| Commercial, financial, leasing, etc. | 52,913 | 55,167 | | 28,093 | 33,095 | |
| Real estate: | | | | | | |
| Commercial | 102,890 | 124,701 | | 65,271 | 84,333 | |
| Residential builder and developer | 66,149 | 99,746 | | 72,366 | 104,768 | |
| Other commercial construction | 9,453 | 14,306 | | 7,369 | 11,493 | |
| Residential | 19,681 | 29,512 | | 84,144 | 95,358 | |
| Residential Alt-A | 24,523 | 44,784 | | 28,357 | 52,211 | |
| | 275,609 | 368,216 | | 285,600 | 381,258 | |
| Total: | | | | | | |
| Commercial, financial, leasing, etc. | 218,359 | 244,277 | 39,874 | 118,386 | 145,187 | 24,614 |
| Real estate: | | | | | | |
| Commercial | 198,433 | 237,324 | 16,330 | 178,841 | 216,658 | 19,520 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Residential builder and developer | 94,197 | 136,380 | 1,694 | 105,677 | 159,890 | 4,379 |
| Other commercial construction | 80,832 | 88,707 | 4,883 | 93,629 | 102,008 | 4,022 |
| Residential | 110,576 | 139,235 | 4,103 | 180,652 | 209,879 | 7,146 |
| Residential Alt-A | 132,949 | 168,133 | 12,000 | 140,268 | 176,739 | 14,000 |
| Consumer: | | | | | | |
| Home equity lines and loans | 19,358 | 20,424 | 5,877 | 13,672 | 14,796 | 3,312 |
| Automobile | 35,426 | 35,426 | 9,248 | 40,441 | 40,441 | 11,074 |
| Other | 18,561 | 18,561 | 4,831 | 17,660 | 17,660 | 4,541 |
| Total | $ 908,691 | 1,088,467 | 98,840 | 889,226 | 1,083,258 | 92,608 |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

| | Three months ended June 30, 2014 | | | Three months ended June 30, 2013 | | |
|---|---|---|---|---|---|---|
| | | Interest income recognized | | | Interest income recognized | |
| | Average recorded investment | Total | Cash basis | Average recorded investment | Total | Cash basis |
| | | | (in thousands) | | | |
| Commercial, financial, leasing, etc. | $ 150,625 | 220 | 220 | 183,544 | 3,408 | 3,408 |
| Real estate: | | | | | | |
| Commercial | 207,633 | 869 | 869 | 201,236 | 409 | 409 |
| Residential builder and developer | 91,614 | 39 | 39 | 162,567 | 518 | 384 |
| Other commercial construction | 77,801 | 356 | 356 | 97,975 | 2,479 | 2,479 |
| Residential | 119,133 | 5,056 | 4,468 | 185,751 | 1,934 | 1,401 |
| Residential Alt-A | 134,895 | 1,733 | 660 | 151,977 | 1,670 | 516 |
| Consumer: | | | | | | |
| Home equity lines and loans | 18,762 | 200 | 72 | 12,619 | 165 | 39 |
| Automobile | 36,631 | 589 | 74 | 44,641 | 740 | 131 |
| Other | 18,309 | 166 | 49 | 15,564 | 156 | 49 |
| Total | $ 855,403 | 9,228 | 6,807 | 1,055,874 | 11,479 | 8,816 |

| | Six months ended June 30, 2014 | | | Six months ended June 30, 2013 | | |
|---|---|---|---|---|---|---|
| | | Interest income recognized | | | Interest income recognized | |
| | Average recorded investment | Total | Cash basis | Average recorded investment | Total | Cash basis |
| | | | (in thousands) | | | |
| Commercial, financial, leasing, etc. | $ 142,466 | 768 | 768 | 172,637 | 5,842 | 5,842 |
| Real estate: | | | | | | |
| Commercial | 196,529 | 1,795 | 1,795 | 197,546 | 712 | 712 |
| Residential builder and developer | 96,434 | 113 | 113 | 173,535 | 658 | 449 |
| Other commercial construction | 82,546 | 1,443 | 1,443 | 98,160 | 3,114 | 3,114 |
| Residential | 146,651 | 6,456 | 5,370 | 186,582 | 3,404 | 2,323 |
| Residential Alt-A | 137,273 | 3,359 | 1,219 | 154,461 | 3,410 | 1,107 |
| Consumer: | | | | | | |
| Home equity lines and loans | 17,219 | 321 | 101 | 12,544 | 332 | 78 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Automobile | 38,007 | 1,214 | 161 | 46,134 | 1,516 | 277 |
| Other | 18,005 | 340 | 101 | 15,261 | 307 | 103 |
| Total | $ 875,130 | 15,809 | 11,071 | 1,056,860 | 19,295 | 14,005 |

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

| | Commercial, Financial, Leasing, etc. | Commercial | Real Estate Residential Builder and Developer | Other Commercial Construction |
|---|---|---|---|---|
| | | (in thousands) | | |
| June 30, 2014 | | | | |
| Pass | $ 18,287,252 | 21,012,039 | 1,277,387 | 3,079,596 |
| Criticized accrual | 626,447 | 595,788 | 58,431 | 54,937 |
| Criticized nonaccrual | 192,193 | 188,951 | 83,624 | 23,521 |
| Total | $ 19,105,892 | 21,796,778 | 1,419,442 | 3,158,054 |
| 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 |
| Total | $ 18,705,216 | 21,741,858 | 1,276,512 | 3,129,838 |

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 the original balance 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.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

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

| | Commercial, Financial, Leasing, etc. | Real Estate Commercial | Real Estate Residential | Consumer | Total |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| June 30, 2014 | | | | | |
| Individually evaluated for impairment | $ 39,874 | 22,576 | 16,084 | 19,956 | $ 98,490 |
| Collectively evaluated for impairment | 247,542 | 287,975 | 54,604 | 145,199 | 735,320 |
| Purchased impaired | 4,835 | 703 | 1,716 | 716 | 7,970 |
| Allocated | $ 292,251 | 311,254 | 72,404 | 165,871 | 841,780 |
| Unallocated | | | | | 75,886 |
| Total | | | | | $ 917,666 |
| 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 |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

| | Commercial, Financial, Leasing, etc. | Real Estate Commercial | Real Estate Residential | Consumer | Total |
|---|---|---|---|---|---|
| | | (in thousands) | | | |
| June 30, 2014 | | | | | |
| Individually evaluated for impairment | $ 218,359 | 371,950 | 242,967 | 73,345 | $ 906,621 |
| Collectively evaluated for impairment | 18,870,831 | 25,764,322 | 8,388,568 | 10,534,834 | 63,558,555 |
| Purchased impaired | 16,702 | 238,002 | 25,231 | 2,582 | 282,517 |
| Total | $ 19,105,892 | 26,374,274 | 8,656,766 | 10,610,761 | $ 64,747,693 |
| 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 |
| Total | $ 18,705,216 | 26,148,208 | 8,928,221 | 10,291,514 | $ 64,073,159 |

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The tables below summarize the Company s loan modification activities that were considered troubled debt restructurings for the three months ended June 30, 2014 and 2013:

| Three months ended June 30, 2014 | Number | Recorded investment Pre-modification | Recorded investment Post-modification | Financial effects of modification Recorded investment (a) | Financial effects of modification Interest (b) |
|---|---|---|---|---|---|
| | | (dollars in thousands) | | | |
| Commercial, financial, leasing, etc. | | | | | |
| Principal deferral | 21 | $ 4,414 | $ 4,351 | $ (63) | $ |
| Other | 1 | 19,593 | 19,593 | | |
| Combination of concession types | 3 | 9,795 | 9,727 | (68) | (10) |
| Real estate: | | | | | |
| Commercial | | | | | |
| Principal deferral | 11 | 8,327 | 8,314 | (13) | |
| Interest rate reduction | 1 | 255 | 252 | (3) | (48) |
| Combination of concession types | 1 | 63 | 61 | (2) | (9) |
| Residential builder and developer | | | | | |
| Principal deferral | 1 | 1,398 | 1,398 | | |
| Other commercial construction | | | | | |
| Principal deferral | 2 | 6,407 | 6,318 | (89) | |
| Residential | | | | | |
| Principal deferral | 3 | 142 | 166 | 24 | |
| Combination of concession types | 8 | 923 | 991 | 68 | (66) |
| Residential Alt-A | | | | | |
| Principal deferral | 3 | 662 | 698 | 36 | |
| Combination of concession types | 6 | 1,006 | 1,029 | 23 | (220) |
| Consumer: | | | | | |
| Home equity lines and loans | | | | | |
| Interest rate reduction | 5 | 341 | 341 | | (76) |
| Combination of concession types | 21 | 1,772 | 1,772 | | (204) |
| Automobile | | | | | |
| Principal deferral | 43 | 603 | 603 | | |
| Interest rate reduction | 3 | 60 | 60 | | (3) |
| Other | 8 | 47 | 47 | | |
| Combination of concession types | 23 | 341 | 341 | | (36) |
| Other | | | | | |
| Principal deferral | 7 | 38 | 38 | | |

| | | | | | |
|---|---|---|---|---|---|
| Interest rate reduction | 3 | 291 | 291 | | (63) |
| Combination of concession types | 19 | 906 | 906 | | (276) |
| Total | 193 | $ 57,384 | $ 57,297 | $ (87) | $ (1,011) |

(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.*

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

| | | Recorded investment | | Financial effects of modification | |
|---|---|---|---|---|---|
| Three months ended June 30, 2013 | Number | Pre-modification | Post-modification | Recorded investment (a) | Interest (b) |
| | | (dollars in thousands) | | | |
| Commercial, financial, leasing, etc. | | | | | |
| Principal deferral | 15 | $ 4,870 | $ 4,822 | $ (48) | $ |
| Other | 1 | 1,460 | 1,657 | 197 | |
| Combination of concession types | 2 | 1,490 | 980 | (510) | |
| Real estate: | | | | | |
| Commercial | | | | | |
| Principal deferral | 5 | 15,549 | 15,530 | (19) | |
| Residential builder and developer | | | | | |
| Principal deferral | 7 | 17,496 | 16,722 | (774) | |
| Other | 1 | 4,039 | 3,888 | (151) | |
| Combination of concession types | 2 | 13,879 | 13,823 | (56) | (535) |
| Other commercial construction | | | | | |
| Principal deferral | 2 | 364 | 363 | (1) | |
| Residential | | | | | |
| Principal deferral | 8 | 1,216 | 1,358 | 142 | |
| Combination of concession types | 18 | 69,210 | 65,890 | (3,320) | (186) |
| Residential Alt-A | | | | | |
| Principal deferral | 1 | 99 | 102 | 3 | |
| Combination of concession types | 8 | 1,187 | 1,294 | 107 | (278) |
| Consumer: | | | | | |
| Home equity lines and loans | | | | | |
| Principal deferral | 2 | 101 | 103 | 2 | |
| Interest rate reduction | 1 | 99 | 99 | | (8) |
| Other | 1 | 106 | 106 | | |
| Combination of concession types | 8 | 406 | 406 | | (64) |
| Automobile | | | | | |
| Principal deferral | 117 | 1,629 | 1,629 | | |
| Interest rate reduction | 7 | 104 | 104 | | (10) |
| Other | 28 | 73 | 73 | | |
| Combination of concession types | 62 | 1,044 | 1,044 | | (87) |
| Other | | | | | |
| Principal deferral | 14 | 185 | 185 | | |
| Interest rate reduction | 1 | 12 | 12 | | (2) |
| Combination of concession types | 30 | 707 | 707 | | (234) |

| | | | | | |
|---|---|---|---|---|---|
| Total | 341 | $ 135,325 | $ 130,897 | $ (4,428) | $ (1,404) |

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

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The tables below summarize the Company s loan modification activities that were considered troubled debt restructurings for the six months ended June 30, 2014 and 2013:

| | | Recorded investment | | Financial effects of modification | |
|---|---|---|---|---|---|
| Six months ended June 30, 2014 | Number | Pre-modification | Post-modification | Recorded investment (a) | Interest (b) |
| | | (dollars in thousands) | | | |
| Commercial, financial, leasing, etc. | | | | | |
| Principal deferral | 51 | $ 19,368 | $ 19,199 | $ (169) | $ |
| Other | 1 | 19,593 | 19,593 | | |
| Combination of concession types | 5 | 9,836 | 9,766 | (70) | (14) |
| Real estate: | | | | | |
| Commercial | | | | | |
| Principal deferral | 24 | 15,371 | 15,316 | (55) | |
| Interest rate reduction | 1 | 255 | 252 | (3) | (48) |
| Combination of concession types | 2 | 409 | 462 | 53 | (113) |
| Residential builder and developer | | | | | |
| Principal deferral | 1 | 1,398 | 1,398 | | |
| Other commercial construction | | | | | |
| Principal deferral | 3 | 6,558 | 6,469 | (89) | |
| Residential | | | | | |
| Principal deferral | 16 | 1,744 | 1,829 | 85 | |
| Interest rate reduction | 1 | 98 | 104 | 6 | (32) |
| Other | 1 | 188 | 188 | | |
| Combination of concession types | 22 | 3,111 | 3,151 | 40 | (348) |
| Residential Alt-A | | | | | |
| Principal deferral | 5 | 828 | 900 | 72 | |
| Combination of concession types | 16 | 2,752 | 2,765 | 13 | (281) |
| Consumer: | | | | | |
| Home equity lines and loans | | | | | |
| Principal deferral | 3 | 280 | 280 | | |
| Interest rate reduction | 5 | 341 | 341 | | (76) |
| Combination of concession types | 36 | 3,628 | 3,628 | | (376) |
| Automobile | | | | | |
| Principal deferral | 123 | 1,596 | 1,596 | | |
| Interest rate reduction | 3 | 60 | 60 | | (3) |
| Other | 19 | 108 | 108 | | |

| | | | | | |
|---|---|---|---|---|---|
| Combination of concession types | 46 | 591 | 591 | | (62) |
| Other | | | | | |
| Principal deferral | 15 | 93 | 93 | | |
| Interest rate reduction | 3 | 291 | 291 | | (63) |
| Other | 1 | 45 | 45 | | |
| Combination of concession types | 33 | 1,372 | 1,372 | | (464) |
| Total | 436 | $ 89,914 | $ 89,797 | $ (117) | $ (1,880) |

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

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

| Six months ended June 30, 2013 | Number | Recorded investment Pre-modification | Recorded investment Post-modification | Financial effects of modification Recorded investment (a) | Financial effects of modification Interest (b) |
|---|---|---|---|---|---|
| | | (dollars in thousands) | | | |
| Commercial, financial, leasing, etc. | | | | | |
| Principal deferral | 39 | $ 6,876 | $ 6,804 | $ (72) | $ |
| Other | 2 | 48,660 | 48,857 | 197 | |
| Combination of concession types | 3 | 1,832 | 1,322 | (510) | |
| Real estate: | | | | | |
| Commercial | | | | | |
| Principal deferral | 13 | 34,027 | 33,893 | (134) | |
| Combination of concession types | 2 | 582 | 581 | (1) | (56) |
| Residential builder and developer | | | | | |
| Principal deferral | 15 | 18,853 | 18,062 | (791) | |
| Other | 1 | 4,039 | 3,888 | (151) | |
| Combination of concession types | 3 | 15,580 | 15,514 | (66) | (535) |
| Other commercial construction | | | | | |
| Principal deferral | 2 | 364 | 363 | (1) | |
| Residential | | | | | |
| Principal deferral | 15 | 1,782 | 1,965 | 183 | |
| Other | 1 | 195 | 195 | | |
| Combination of concession types | 38 | 71,659 | 68,426 | (3,233) | (557) |
| Residential Alt-A | | | | | |
| Principal deferral | 1 | 99 | 102 | 3 | |
| Combination of concession types | 13 | 2,094 | 2,219 | 125 | (388) |
| Consumer: | | | | | |
| Home equity lines and loans | | | | | |
| Principal deferral | 4 | 180 | 182 | 2 | |
| Interest rate reduction | 1 | 99 | 99 | | (8) |
| Other | 1 | 106 | 106 | | |
| Combination of concession types | 10 | 617 | 617 | | (97) |
| Automobile | | | | | |
| Principal deferral | 238 | 3,215 | 3,215 | | |
| Interest rate reduction | 9 | 140 | 140 | | (15) |
| Other | 45 | 232 | 232 | | |
| Combination of concession types | 123 | 1,597 | 1,597 | | (129) |
| Other | | | | | |
| Principal deferral | 20 | 230 | 230 | | |
| Interest rate reduction | 1 | 12 | 12 | | (2) |

| | | | | | |
|---|---|---|---|---|---|
| Other | 1 | 12 | 12 | | |
| Combination of concession types | 72 | 1,924 | 1,924 | | (501) |
| Total | 673 | $ 215,006 | $ 210,557 | $ (4,449) | $ (2,288) |

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

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

Troubled debt restructurings are considered to be impaired loans and for purposes of establishing the allowance for credit losses are evaluated for impairment giving consideration to the impact of the modified loan terms on the present value of the loan s expected cash flows. Impairment of troubled debt restructurings that have subsequently defaulted may also be measured based on the loan s observable market price or the fair value of collateral if the loan is collateral-dependent. Charge-offs may also be recognized on troubled debt restructurings that have subsequently defaulted. Loans that were modified as troubled debt restructurings during the twelve months ended June 30, 2014 and 2013 and for which there was a subsequent payment default during the six-month periods ended June 30, 2014 and 2013, were not material.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**5. Borrowings**

M&T had $834 million of fixed and floating rate junior subordinated deferrable interest debentures ( Junior Subordinated Debentures ) outstanding at June 30, 2014 which are held by various trusts that were issued in connection with the issuance by those trusts of preferred capital securities ( Capital Securities ) and common securities ( Common Securities ). The proceeds from the issuances of the Capital Securities and the Common Securities were used by the trusts to purchase the Junior Subordinated Debentures. The Common Securities of each of those trusts are wholly owned by M&T and are the only class of each trust s securities possessing general voting powers. The Capital Securities represent preferred undivided interests in the assets of the corresponding trust.

Under the Federal Reserve Board s current risk-based capital guidelines, the Capital Securities are includable in M&T s Tier 1 capital. However, in July 2013, the Federal Reserve Board, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation issued a final rule to comprehensively revise the capital framework for the U.S. banking sector. Under that rule, trust preferred capital securities will be phased out from inclusion in Tier 1 capital such that in 2015 only 25% of then-outstanding securities will be included in Tier 1 capital and beginning in 2016 none of the securities will be included in Tier 1 capital.

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

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

On February 27, 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.

Also included in long-term borrowings are agreements to repurchase securities of $1.4 billion at each of June 30, 2014 and December 31, 2013. 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 at June 30, 2014 and $1.6 billion at December 31, 2013.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**6. Shareholders equity**

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

Issued and outstanding preferred stock of M&T is presented below:

| | Shares issued and outstanding | Carrying value June 30, 2014 | Carrying value December 31, 2013 |
|---|---|---|---|
| | | (dollars in thousands) | |
| Series A (a) | | | |
| Fixed Rate Cumulative Perpetual Preferred Stock, Series A, $1,000 liquidation preference per share | 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 |
| Series D (b) | | | |
| Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series D, $10,000 liquidation preference per share | 50,000 | 500,000 | 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. M&T has agreed to not redeem the preferred shares until on or after November 15, 2018. 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 warrants were exercised in a cashless exercise, resulting in the issuance of 186,589 common shares. During the six months ended June 30, 2014, 379,376 of the Series A warrants were exercised in cashless exercises, resulting in the issuance of 149,834 common shares. Remaining outstanding Series A warrants were 770,019 at June 30, 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.*

(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 London Interbank Offered Rate 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*

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**6. Shareholders equity, continued**

*shares, if an event occurs such that the shares no longer qualify as Tier 1 capital, M&T may redeem all of the shares within 90 days following that occurrence.*

In addition to the Series A and Series C warrants mentioned in (a) above, a warrant to purchase 95,383 shares of M&T common stock at $518.96 per share was outstanding at June 30, 2014 and December 31, 2013. The obligation under that warrant was assumed by M&T in an acquisition.

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

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

| | Pension benefits | | Other postretirement benefits | |
|---|---|---|---|---|
| | Three months ended June 30 | | | |
| | 2014 | 2013 | 2014 | 2013 |
| | (in thousands) | | | |
| Service cost | $ 5,160 | 6,130 | 152 | 171 |
| Interest cost on projected benefit obligation | 17,331 | 14,939 | 714 | 670 |
| Expected return on plan assets | (22,859) | (21,802) | | |
| Amortization of prior service cost | (1,626) | (1,628) | (329) | (329) |
| Amortization of net actuarial loss | 3,897 | 10,138 | | 80 |
| Net periodic benefit cost | $ 1,903 | 7,777 | 537 | 592 |

| | Pension benefits | | Other postretirement benefits | |
|---|---|---|---|---|
| | Six months ended June 30 | | | |
| | 2014 | 2013 | 2014 | 2013 |
| | (in thousands) | | | |
| Service cost | $ 10,260 | 12,180 | 302 | 371 |
| Interest cost on projected benefit obligation | 34,581 | 30,065 | 1,389 | 1,345 |
| Expected return on plan assets | (45,784) | (43,677) | | |
| Amortization of prior service cost | (3,276) | (3,278) | (679) | (679) |
| Amortization of net actuarial loss | 7,247 | 20,538 | | 180 |

| | | | | |
|---|---|---|---|---|
| Net periodic benefit cost | $ 3,028 | 15,828 | 1,012 | 1,217 |

Expense incurred in connection with the Company s defined contribution pension and retirement savings plans totaled $12,673,000 and $12,563,000 for the three months ended June 30, 2014 and 2013, respectively, and $28,405,000 and $28,318,000 for the six months ended June 30, 2014 and 2013, respectively.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**8. Earnings per common share**

The computations of basic earnings per common share follow:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (in thousands, except per share) | | | |
| Income available to common shareholders: | | | | |
| Net income | $ 284,336 | 348,466 | $ 513,353 | 622,579 |
| Less: Preferred stock dividends (a) | (20,443) | (13,362) | (35,117) | (26,725) |
| Amortization of preferred stock discount (a) | | (2,193) | | (4,340) |
| Net income available to common equity | 263,893 | 332,911 | 478,236 | 591,514 |
| Less: Income attributable to unvested stock-based compensation awards | (3,213) | (4,373) | (5,832) | (7,917) |
| Net income available to common shareholders | $ 260,680 | 328,538 | $ 472,404 | 583,597 |
| Weighted-average shares outstanding: | | | | |
| Common shares outstanding (including common stock issuable) and unvested stock-based compensation awards | 132,473 | 129,964 | 132,139 | 129,708 |
| Less: Unvested stock-based compensation awards | (1,617) | (1,712) | (1,603) | (1,746) |
| Weighted-average shares outstanding | 130,856 | 128,252 | 130,536 | 127,962 |
| Basic earnings per common share | $ 1.99 | 2.56 | $ 3.62 | 4.56 |

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The computations of diluted earnings per common share follow:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (in thousands, except per share) | | | |
| Net income available to common equity | $ 263,893 | 332,911 | $ 478,236 | 591,514 |
| Less: Income attributable to unvested stock-based compensation awards | (3,198) | (4,354) | (5,807) | (7,881) |
| Net income available to common shareholders | $ 260,695 | 328,557 | $ 472,429 | 583,633 |
| Adjusted weighted-average shares outstanding: | | | | |
| Common and unvested stock-based compensation awards | 132,473 | 129,964 | 132,139 | 129,708 |
| Less: Unvested stock-based compensation awards | (1,617) | (1,712) | (1,603) | (1,746) |
| Plus: Incremental shares from assumed conversion of stock-based compensation awards and warrants to purchase common stock | 972 | 765 | 943 | 866 |
| Adjusted weighted-average shares outstanding | 131,828 | 129,017 | 131,479 | 128,828 |
| Diluted earnings per common share | $ 1.98 | 2.55 | $ 3.59 | 4.53 |

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

Stock-based compensation awards and warrants to purchase common stock of M&T representing approximately 1.7 million and 4.5 million common shares during the three-month periods ended June 30, 2014 and 2013, respectively, and 2.4 million and 4.6 million common shares during the six-month periods ended June 30, 2014 and 2013, respectively, were not included in the computations of diluted earnings per common share because the effect on those periods would have been antidilutive.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**9. Comprehensive income**

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

| | Investment Securities With OTTI | Investment Securities All other | Defined benefit plans | Other | Total amount before tax | Income tax | Net |
|---|---|---|---|---|---|---|---|
| | | | | (in thousands) | | | |
| 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, net | 10,842 | 156,764 | | | 167,606 | (65,774) | 101,832 |
| Foreign currency translation adjustment | | | | 479 | 479 | (166) | 313 |
| Unrealized losses on cash flow hedges | | | | (1,170) | (1,170) | 459 | (711) |
| Total other comprehensive income before reclassifications | 10,842 | 156,764 | | (691) | 166,915 | (65,481) | 101,434 |
| Amounts reclassified from accumulated other comprehensive income that (increase) decrease net income: | | | | | | | |
| Accretion of unrealized holding losses on held-to-maturity ( HTM ) securities | 1 | 1,702 | | | 1,703(a) | (669) | 1,034 |
| Amortization of prior service credit | | | (3,955) | | (3,955)(d) | 1,552 | (2,403) |
| Amortization of actuarial losses | | | 7,247 | | 7,247(d) | (2,845) | 4,402 |
| Total reclassifications | 1 | 1,702 | 3,292 | | 4,995 | (1,962) | 3,033 |
| | 10,843 | 158,466 | 3,292 | (691) | 171,910 | (67,443) | 104,467 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Total gain (loss) during the period | | | | | | | | | | |
| Balance June 30, 2014 | $ | 48,098 | 176,916 | (158,325) | (576) | $ | 66,113 | (25,805) | $ | 40,308 |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**9. Comprehensive income, continued**

| | Investment Securities With OTTI | Investment Securities All other | Defined benefit plans | Other | Total amount before tax | Income tax | Net |
|---|---|---|---|---|---|---|---|
| | | | | (in thousands) | | | |
| 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 | 55,473 | (95,167) | | | (39,694) | 15,557 | (24,137) |
| Foreign currency translation adjustment | | | | (1,644) | (1,644) | 598 | (1,046) |
| Total other comprehensive income before reclassifications | 55,473 | (95,167) | | (1,644) | (41,338) | 16,155 | (25,183) |
| Amounts reclassified from accumulated other comprehensive income that (increase) decrease net income: | | | | | | | |
| Accretion of unrealized holding losses on HTM securities | 109 | 2,262 | | | 2,371(a) | (931) | 1,440 |
| 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 | | | (3,957) | | (3,957)(d) | 1,553 | (2,404) |
| Amortization of actuarial losses | | | 20,718 | | 20,718(d) | (8,132) | 12,586 |
| Total reclassifications | 51,126 | (5,867) | 16,761 | | 62,020 | (24,344) | 37,676 |
| Total gain (loss) during the period | 106,599 | (101,034) | 16,761 | (1,644) | 20,682 | (8,189) | 12,493 |
| Balance June 30, 2013 | $ 14,764 | 51,165 | (438,829) | (2,075) | $ (374,975) | 147,204 | $ (227,771) |

*(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 salaries and employee benefits expense*

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

| | Investment securities | | Defined benefit | | |
|---|---|---|---|---|---|
| | With OTTI | All other | plans | Other | Total |
| Balance December 31, 2013 | $ 22,632 | 11,294 | (98,182) | 97 | $ (64,159) |
| Net gain (loss) during period | 6,587 | 96,279 | 1,999 | (398) | 104,467 |
| Balance June 30, 2014 | $ 29,219 | 107,573 | (96,183) | (301) | $ 40,308 |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**10. Derivative financial instruments**

As part of managing interest rate risk, the Company enters into interest rate swap agreements to modify the repricing characteristics of certain portions of the Company s portfolios of earning assets and interest-bearing liabilities. The Company designates interest rate swap agreements utilized in the management of interest rate risk as either fair value hedges or cash flow hedges. Interest rate swap agreements are generally entered into with counterparties that meet established credit standards and most contain master netting and collateral provisions protecting the at-risk party. Based on adherence to the Company s credit standards and the presence of the netting and collateral provisions, the Company believes that the credit risk inherent in these contracts is not significant as of June 30, 2014.

The net effect of interest rate swap agreements was to increase net interest income by $12 million and $10 million for the three-month periods ended June 30, 2014 and 2013, respectively, and $23 million and $19 million for the six-month periods ended June 30, 2014 and 2013, respectively.

At June 30, 2014, interest rate swap agreements were used as fair value hedges for approximately $1.4 billion of outstanding fixed rate long-term borrowings. Also at June 30, 2014, the Company had entered into forward-starting interest rate swap agreements used to hedge the variability in the interest payments anticipated to be made upon the future issuance of $300 million of senior notes. These forward-starting interest rate swap agreements were terminated upon the issuance of such notes in July 2014. Information about interest rate swap agreements entered into for interest rate risk management purposes summarized by type of financial instrument the swap agreements were intended to hedge follows:

| | Notional amount (in thousands) | Average maturity (in years) | Weighted-average rate | |
|---|---|---|---|---|
| | | | Fixed | Variable |
| June 30, 2014 | | | | |
| Fair value hedges: | | | | |
| Fixed rate long-term borrowings (a) | $ 1,400,000 | 3.2 | 4.42% | 1.18% |
| Cash flow hedges: | | | | |
| Interest payments on forecasted issuance of long-term borrowings (b) | 300,000 | 5.1 | 1.82% | 0.23% |
| | $ 1,700,000 | 3.5 | 3.96% | 1.02% |
| December 31, 2013 | | | | |
| Fair value hedges: | | | | |
| Fixed rate long-term borrowings (a) | $ 1,400,000 | 3.7 | 4.42% | 1.20% |

*(a)*

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

(b) *Under the terms of this agreement, the Company was to receive settlement amounts at a variable rate and pay at a fixed rate.*

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

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**10. Derivative financial instruments, continued**

contracts entered into for trading purposes had notional values of $17.6 billion and $17.4 billion at June 30, 2014 and December 31, 2013, respectively. The notional amounts of foreign currency and other option and futures contracts entered into for trading purposes aggregated $866 million and $1.4 billion at June 30, 2014 and December 31, 2013, respectively.

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

| | Asset derivatives Fair value | | Liability derivatives Fair value | |
|---|---|---|---|---|
| | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| | (in thousands) | | | |
| **Derivatives designated and qualifying as hedging instruments** | | | | |
| Fair value hedges: | | | | |
| Interest rate swap agreements (a) | $ 93,040 | 102,875 | $ | |
| Commitments to sell real estate loans (a) | 1,032 | 6,957 | 6,412 | 487 |
| | 94,072 | 109,832 | 6,412 | 487 |
| Cash flow hedges: | | | | |
| Interest rate swap agreements (a) | | | 1,170 | |
| **Derivatives not designated and qualifying as hedging instruments** | | | | |
| Mortgage-related commitments to originate real estate loans for sale (a) | 22,215 | 7,616 | 192 | 3,675 |
| Commitments to sell real estate loans (a) | 1,431 | 6,120 | 6,883 | 230 |
| Trading: | | | | |
| Interest rate contracts (b) | 234,436 | 274,864 | 194,393 | 234,455 |
| Foreign exchange and other option and futures contracts (b) | 7,784 | 15,831 | 7,766 | 15,342 |
| | 265,866 | 304,431 | 209,234 | 253,702 |
| Total derivatives | $ 359,938 | 414,263 | $ 216,816 | 254,189 |

*(a) Asset derivatives are reported in other assets and liability derivatives are reported in other liabilities.*
*(b) Asset derivatives are reported in trading account assets and liability derivatives are reported in other liabilities.*

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**10. Derivative financial instruments, continued**

| | Amount of unrealized gain (loss) recognized | | | |
|---|---|---|---|---|
| | Three months ended June 30, 2014 | | Three months ended June 30, 2013 | |
| | Derivative | Hedged item | Derivative | Hedged item |
| | (in thousands) | | | |
| **Derivatives in fair value hedging relationships** | | | | |
| Interest rate swap agreements: | | | | |
| Fixed rate long-term borrowings (a) | $ (1,675) | 1,358 | $ (20,138) | 18,853 |
| **Derivatives not designated as hedging instruments** | | | | |
| Trading: | | | | |
| Interest rate contracts (b) | $ 1,384 | | $ 2,228 | |
| Foreign exchange and other option and futures contracts (b) | (786) | | (1,225) | |
| Total | $ 598 | | $ 1,003 | |

| | Amount of unrealized gain (loss) recognized | | | |
|---|---|---|---|---|
| | Six months ended June 30, 2014 | | Six months ended June 30, 2013 | |
| | Derivative | Hedged item | Derivative | Hedged item |
| | (in thousands) | | | |
| **Derivatives in fair value hedging relationships** | | | | |
| Interest rate swap agreements: | | | | |
| Fixed rate long-term borrowings (a) | $ (9,835) | 9,278 | $ (29,011) | 27,753 |
| **Derivatives not designated as hedging instruments** | | | | |
| Trading: | | | | |
| Interest rate contracts (b) | $ 1,082 | | $ 3,197 | |
| Foreign exchange and other option and futures contracts (b) | (5,816) | | (1,608) | |
| Total | $ (4,734) | | $ 1,589 | |

*(a) Reported as other revenues from operations.*
*(b) Reported as trading account and foreign exchange gains.*

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**10. Derivative financial instruments, continued**

In addition, the Company also has commitments to sell and commitments to originate residential and commercial real estate loans for sale that are considered derivatives. The Company designates certain of the commitments to sell real estate loans as fair value hedges of real estate loans held for sale. The Company also utilizes commitments to sell real estate loans to offset the exposure to changes in the fair value of certain commitments to originate real estate loans for sale. As a result of these activities, net unrealized pre-tax gains related to hedged loans held for sale, commitments to originate loans for sale and commitments to sell loans were approximately $31 million and $23 million at June 30, 2014 and December 31, 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 $177 million and $194 million at June 30, 2014 and December 31, 2013, respectively. After consideration of such netting arrangements, the net liability positions with counterparties aggregated $107 million at each of June 30, 2014 and December 31, 2013. The Company was required to post collateral relating to those positions of $92 million and $95 million at June 30, 2014 and December 31, 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 of the derivative financial instruments could demand immediate incremental collateralization on those instruments in a net liability position. The aggregate fair value of all derivative financial instruments with such credit risk-related contingent features in a net liability position on June 30, 2014 was $28 million for which the Company had posted collateral of $18 million in the normal course of business. If the credit risk-related contingent features had been triggered on June 30, 2014, the maximum amount of additional collateral the Company would have been required to post to counterparties was $10 million.

The aggregate fair value of derivative financial instruments in an asset position, which are subject to enforceable master netting arrangements, was $133 million and $183 million at June 30, 2014 and December 31, 2013, respectively. After consideration of such netting arrangements, the net asset positions with counterparties aggregated $63 million and $95 million at June 30, 2014 and December 31, 2013, respectively. Counterparties posted collateral relating to those positions of $63 million and $93 million at June 30, 2014 and December 31, 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.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

In the second quarter of 2013, the Company securitized approximately $923 million of one-to-four family residential mortgage loans in guaranteed mortgage securitizations with Ginnie Mae. Approximately $296 million of such loans were formerly held in the Company s loan portfolio, whereas the remaining $627 million of the loans were newly originated. The Company retained $917 million of the resulting securities and recognized gains of $7 million relating to loans previously held for investment, which have been recorded in other revenues from operations, and gains of $10 million on newly originated loans, which have been reflected in mortgage banking revenues. The Company expects no material credit-related losses on the retained securities as a result of the guarantees by Ginnie Mae. At June 30, 2013 the Company had $1.0 billion of loans in its loan portfolio guaranteed by the Federal Housing Administration that the Company securitized with Ginnie Mae in the third quarter of 2013. The Company retained the substantial majority of the resulting securities in its investment portfolio. In similar transactions for the six months ended June 30, 2014, the Company securitized $75 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 portfolio. Pre-tax gains on such transactions were not material.

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 June 30, 2014 and December 31, 2013, the carrying values of the loans in the securitization trust were $110 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 each of June 30, 2014 and December 31, 2013 was $18 million. Because the transaction was non-recourse, the Company s maximum exposure to loss as a result of its association with the trust at June 30, 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 5, M&T has issued junior subordinated debentures payable to various trusts that have issued Capital Securities. M&T owns the common securities of those trust entities. The Company is not considered to be the primary beneficiary of those entities and, accordingly, the trusts are not included in the Company s consolidated financial statements. At June 30, 2014 and December 31, 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 5.

The Company has invested as a limited partner in various partnerships that collectively had total assets of approximately $1.3 billion at June 30, 2014 and December 31, 2013, respectively. 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 $236 million, including $53 million of unfunded commitments, at June 30, 2014 and

$236 million, including $45 million of unfunded commitments,

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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.

**12. Fair value measurements**

GAAP permits an entity to choose to measure eligible financial instruments and other items at fair value. The Company has not made any fair value elections at June 30, 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 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 and 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.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

***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.

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 had 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 June 30, 2014 and December 31, 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 4% to 11%, 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 June 30, 2014, the total amortized cost and fair value of securities backed by trust preferred securities issued by financial institutions and other entities were $33 million and $56 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 originated for sale from the date of close through the sale date. The fair value of hedged real estate loans held for sale is generally calculated by reference to quoted prices in secondary markets for commitments to sell real estate loans with similar characteristics and, accordingly, such loans have been classified as a Level 2 valuation.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

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

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

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

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

The following tables present assets and liabilities at June 30, 2014 and December 31, 2013 measured at estimated fair value on a recurring basis:

| | Fair value measurements at June 30, 2014 | Level 1 (a) | Level 2 (a) | Level 3 |
|---|---|---|---|---|
| | | (in thousands) | | |
| Trading account assets | $ 313,325 | 50,813 | 262,512 | |
| Investment securities available for sale: | | | | |
| U.S. Treasury and federal agencies | 42,921 | | 42,921 | |
| Obligations of states and political subdivisions | 10,242 | | 10,242 | |
| Mortgage-backed securities: | | | | |
| Government issued or guaranteed | 7,617,627 | | 7,617,627 | |
| Privately issued | 119 | | | 119 |

| | | | | |
|---|---|---|---|---|
| Collateralized debt obligations | 56,200 | | | 56,200 |
| Other debt securities | 124,763 | | 124,763 | |
| Equity securities | 156,907 | 94,974 | 61,933 | |
| | 8,008,779 | 94,974 | 7,857,486 | 56,319 |
| Real estate loans held for sale | 623,380 | | 623,380 | |
| Other assets (b) | 117,718 | | 95,503 | 22,215 |
| Total assets | $ 9,063,202 | 145,787 | 8,838,881 | 78,534 |
| Trading account liabilities | $ 202,159 | | 202,159 | |
| Other liabilities (b) | 14,657 | | 14,465 | 192 |
| Total liabilities | $ 216,816 | | 216,624 | 192 |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

| | Fair value measurements at December 31, 2013 | Level 1 (a) | Level 2 (a) | Level 3 |
|---|---|---|---|---|
| | | (in thousands) | | |
| 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 three months and six months ended June 30, 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).*

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

The changes in Level 3 assets and liabilities measured at estimated fair value on a recurring basis during the three months ended June 30, 2014 were as follows:

| | Investment securities available for sale | | |
|---|---|---|---|
| | Privately issued mortgage-backed securities | Collateralized debt obligations (in thousands) | Other assets and other liabilities |
| Balance March 31, 2014 | $ 696 | $ 61,768 | $ 12,589 |
| Total gains realized/unrealized: | | | |
| Included in earnings | | | 31,517(b) |
| Included in other comprehensive income | 205(e) | 4,486(e) | |
| Sales | | | |
| Settlements | (782) | (10,054) | |
| Transfers in and/or out of Level 3 (c) | | | (22,083)(d) |
| Balance June 30, 2014 | $ 119 | $ 56,200 | $ 22,023 |
| Changes in unrealized gains included in earnings related to assets still held at June 30, 2014 | $ | $ | $ 20,215(b) |

The changes in Level 3 assets and liabilities measured at estimated fair value on a recurring basis during the three months ended June 30, 2013 were as follows:

| | Investment securities available for sale | | |
|---|---|---|---|
| | Privately issued mortgage-backed securities | Collateralized debt obligations (in thousands) | Other assets and other liabilities |
| Balance March 31, 2013 | $ 993,247 | $ 61,718 | $ 36,119 |
| Total gains (losses) realized/unrealized: | | | |
| Included in earnings | (46,302)(a) | | 15,500(b) |
| Included in other comprehensive income | 90,203(e) | (1,277)(e) | |

| | | | |
|---|---|---|---|
| Sales | (978,608) | | |
| Settlements | (53,268) | (525) | |
| Transfers in and/or out of Level 3 (c) | | | (44,211)(d) |
| Balance June 30, 2013 | $ 5,272 | $ 59,916 | $ 7,408 |
| Changes in unrealized gains included in earnings related to assets still held at June 30, 2013 | $ | $ | $ 4,123(b) |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

The changes in Level 3 assets and liabilities measured at estimated fair value on a recurring basis during the six months ended June 30, 2014 were as follows:

| | Investment securities available for sale | | |
|---|---|---|---|
| | Privately issued mortgage-backed securities | Collateralized debt obligations | Other assets and other liabilities |
| | | (in thousands) | |
| Balance January 1, 2014 | $ 1,850 | $ 63,083 | $ 3,941 |
| Total gains realized/unrealized: | | | |
| Included in earnings | | | 53,900(b) |
| Included in other comprehensive income | 272(e) | 9,132(e) | |
| Settlements | (2,003) | (16,015) | |
| Transfers in and/or out of Level 3 (c) | | | (35,818)(d) |
| Balance June 30, 2014 | $ 119 | $ 56,200 | $ 22,023 |
| Changes in unrealized gains included in earnings related to assets still held at June 30, 2014 | $ | $ | $ 24,099(b) |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

The changes in Level 3 assets and liabilities measured at estimated fair value on a recurring basis during the six months ended June 30, 2013 were as follows:

| | Investment securities available for sale | | |
|---|---|---|---|
| | Privately issued mortgage-backed securities | Collateralized debt obligations | Other assets and other liabilities |
| | | (in thousands) | |
| Balance January 1, 2013 | $ 1,023,886 | $ 61,869 | $ 47,859 |
| Total gains (losses) realized/unrealized: | | | |
| Included in earnings | (56,102)(a) | | 58,812(b) |
| Included in other comprehensive income | 116,584(e) | (537)(e) | |
| Sales | (978,608) | | |
| Settlements | (100,488) | (1,416) | |
| Transfers in and/or out of Level 3 (c) | | | (99,263)(d) |
| Balance June 30, 2013 | $ 5,272 | $ 59,916 | $ 7,408 |
| Changes in unrealized gains included in earnings related to assets still held at June 30, 2013 | $ | $ | $ 5,132(b) |

*(a) Reported as an OTTI 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 (losses) on investment securities in the consolidated statement of comprehensive income.*

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

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

***Loans***

Loans are generally not recorded at fair value on a recurring basis. Periodically, the Company records nonrecurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Nonrecurring adjustments also include certain impairment amounts for collateral-dependent loans when establishing the allowance for credit losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan and, as a result, the carrying value of the loan less the calculated valuation amount does not necessarily represent the fair value of the loan. Real estate collateral is typically valued using appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace and the related nonrecurring fair value measurement adjustments have generally been classified as Level 2, unless significant adjustments have been made to the valuation that are not readily observable by market participants. Non-real estate collateral supporting commercial loans generally consists of business assets such as receivables, inventory and equipment. Fair value estimations are typically determined by discounting recorded values of those assets to reflect estimated net realizable value considering specific borrower facts and circumstances and the experience of credit personnel in their dealings with similar borrower collateral liquidations. Such discounts were generally in the range of 5% to 80% at June 30, 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 $212 million at June 30, 2014 ($129 million and $83 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 $254 million at June 30, 2013 ($167 million and $87 million of which were classified as Level 2 and Level 3, respectively). Changes in fair value recognized for partial charge-offs of loans and loan impairment reserves on loans held by the Company on June 30, 2014 were decreases of $32 million and $47 million for the three- and six-month periods ended June 30, 2014, respectively. Changes in fair value recognized for partial charge-offs of loans and loan impairment reserves on loans held by the Company on June 30, 2013 were decreases of $34 million and $69 million for the three- and six-month periods ended June 30, 2013, 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 held by the company on June 30, 2014 subject to nonrecurring fair value measurement were $8 million and $15 million for the three-month and six-month periods ended June 30, 2014, respectively. Assets taken in foreclosure of defaulted loans subject to nonrecurring fair value measurement were $15 million at each of June 30, 2014 and 2013.

Changes in fair value recognized for those foreclosed assets held by the Company were not material during the three-month and six-month periods ended June 30, 2014 and 2013.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

***Significant unobservable inputs to Level 3 measurements***

The following tables present quantitative information about the significant unobservable inputs used in the fair value measurements for Level 3 assets and liabilities at June 30, 2014 and December 31, 2013:

| | Fair value at June 30, 2014 (in thousands) | Valuation technique | Unobservable input/assumptions | Range (weighted-average) |
|---|---|---|---|---|
| Recurring fair value measurements | | | | |
| Privately issued mortgage backed securities | $ 119 | Two independent pricing quotes | | |
| Collateralized debt obligations | 56,200 | Discounted cash flow | Probability of default | 15%-56% (37%) |
| | | | Loss severity | 100% |
| Net other assets (liabilities)(a) | 22,023 | Discounted cash flow | Commitment expirations | 0%-97% (18%) |

| | Fair value at December 31, 2013 (in thousands) | Valuation technique | Unobservable input/assumptions | Range (weighted-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 | 17%-55% (39%) |
| | | | Loss severity | 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 mortgage-backed securities and 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.

***Disclosures of fair value of financial instruments***

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

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. Additional information about the assumptions and calculations utilized follows.

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

| | June 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Carrying amount | Estimated fair value | Level 1 | Level 2 | Level 3 |
| | (in thousands) | | | | |
| Financial assets: | | | | | |
| Cash and cash equivalents | $ 1,917,436 | $ 1,917,436 | $ 1,835,382 | $ 82,054 | $ |
| Interest-bearing deposits at banks | 3,032,530 | 3,032,530 | | 3,032,530 | |
| Trading account assets | 313,325 | 313,325 | 50,813 | 262,512 | |
| Investment securities | 12,120,195 | 12,125,379 | 94,974 | 11,814,650 | 215,755 |
| Loans and leases: | | | | | |
| Commercial loans and leases | 19,105,892 | 18,753,794 | | | 18,753,794 |
| Commercial real estate loans | 26,374,274 | 26,311,756 | | 204,669 | 26,107,087 |
| Residential real estate loans | 8,656,766 | 8,712,237 | | 5,436,622 | 3,275,615 |
| Consumer loans | 10,610,761 | 10,524,381 | | | 10,524,381 |
| Allowance for credit losses | (917,666) | | | | |
| Loans and leases, net | 63,830,027 | 64,302,168 | | 5,641,291 | 58,660,877 |
| Accrued interest receivable | 223,497 | 223,497 | | 223,497 | |
| Financial liabilities: | | | | | |
| Noninterest-bearing deposits | $ (26,088,763) | $ (26,088,763) | $ | $ (26,088,763) | $ |
| Savings deposits and NOW accounts | (40,216,607) | (40,216,607) | | (40,216,607) | |
| Time deposits | (3,285,995) | (3,306,300) | | (3,306,300) | |
| Deposits at Cayman Islands office | (237,890) | (237,890) | | (237,890) | |
| Short-term borrowings | (161,631) | (161,631) | | (161,631) | |
| Long-term borrowings | (7,391,931) | (7,549,272) | | (7,549,272) | |
| Accrued interest payable | (54,394) | (54,394) | | (54,394) | |
| Trading account liabilities | (202,159) | (202,159) | | (202,159) | |

| | | | | | |
|---|---|---|---|---|---|
| Other financial instruments: | | | | | |
| Commitments to originate real estate loans for sale | $ 22,023 | $ 22,023 | $ | $ | $ 22,023 |
| Commitments to sell real estate loans | (10,832) | (10,832) | | (10,832) | |
| Other credit-related commitments | (117,940) | (117,940) | | | (117,940) |
| Interest rate swap agreements used for interest rate risk management | 91,870 | 91,870 | | 91,870 | |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Carrying amount | Estimated fair value | Level 1 | Level 2 | Level 3 |
| | (in thousands) | | | | |
| Financial assets: | | | | | |
| 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 |
| Loans and leases: | | | | | |
| 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 | |
| Financial liabilities: | | | | | |
| 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) | |
| Other financial instruments: | | | | | |
| 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 | |

The following assumptions, methods and calculations were used in determining the estimated fair value of financial instruments not measured at fair value in the consolidated balance sheet.

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

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

***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.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

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 customers ability to withdraw funds immediately. Time deposit accounts are required to be revalued based upon prevailing market interest rates for similar maturity instruments. As a result, amounts assigned to time deposits were based on discounted cash flow calculations using prevailing market interest rates based on the Company s pricing at the respective date for deposits with comparable remaining terms to maturity.

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

***Long-term borrowings***

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

***Other commitments and contingencies***

As described in note 13, in the normal course of business, various commitments and contingent liabilities are outstanding, such as loan commitments, credit guarantees and letters of credit. The Company s pricing of such financial instruments is based largely on credit quality and relationship, probability of funding and other requirements. Loan commitments often have fixed expiration dates and contain termination and other clauses which provide for relief from funding in the event of significant deterioration in the credit quality of the customer. The rates and terms of the Company s loan commitments, credit guarantees and letters of credit are competitive with other financial institutions operating in markets served by the Company. The Company believes that the carrying amounts, which are included in other liabilities, are reasonable estimates of the fair value of these financial instruments.

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

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**13. Commitments and contingencies**

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

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| | (in thousands) | |
| Commitments to extend credit | | |
| Home equity lines of credit | $ 6,246,501 | 6,218,823 |
| Commercial real estate loans to be sold | 250,725 | 62,386 |
| Other commercial real estate and construction | 4,482,869 | 3,919,545 |
| Residential real estate loans to be sold | 596,865 | 469,869 |
| Other residential real estate | 412,964 | 384,617 |
| Commercial and other | 10,560,928 | 10,419,545 |
| Standby letters of credit | 3,581,160 | 3,600,528 |
| Commercial letters of credit | 43,653 | 53,284 |
| Financial guarantees and indemnification contracts | 2,701,575 | 2,457,633 |
| Commitments to sell real estate loans | 1,254,309 | 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 Delegated Underwriting and Servicing program. The Company s maximum credit risk for recourse associated with loans sold under this program totaled approximately $2.3 billion at June 30, 2014 and December 31, 2013.

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.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**13. Commitments and contingencies, continued**

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 value.

The Company has commitments under long-term operating leases and an agreement with the Baltimore Ravens of the National Football League whereby the Company obtained the naming rights to a football stadium in Baltimore, Maryland through 2027.

The Company reinsures credit life and accident and health insurance purchased by consumer loan customers. The Company also enters into reinsurance contracts with third party insurance companies who insure against the risk of a mortgage borrower s payment default in connection with certain mortgage loans originated by the Company. When providing reinsurance coverage, the Company receives a premium in exchange for accepting a portion of the insurer s risk of loss. The outstanding loan principal balances reinsured by the Company were approximately $12 million at June 30, 2014. Management believes that any reinsurance losses that may be payable by the Company will not be material to the Company s consolidated financial position.

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 June 30, 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.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

### 14. Segment information

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

The financial information of the Company s segments was compiled utilizing the accounting policies described in note 22 to the Company s consolidated financial statements as of and for the year ended December 31, 2013. The management accounting policies and processes utilized in compiling segment financial information are highly subjective and, unlike financial accounting, are not based on authoritative guidance similar to GAAP. As a result, the financial information of the reported segments is not necessarily comparable with similar information reported by other financial institutions. As also described in note 22 to the Company s 2013 consolidated financial statements, neither goodwill nor core deposit and other intangible assets (and the amortization charges associated with such assets) resulting from acquisitions of financial institutions have been allocated to the Company s reportable segments, but are included in the All Other category. The Company does, however, assign such intangible assets to business units for purposes of testing for impairment.

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

| | Three months ended June 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| | Total revenues(a) | Inter-segment revenues | Net income (loss) | Total revenues(a) | Inter-segment revenues | Net income (loss) |
| | (in thousands) | | | | | |
| Business Banking | $ 104,688 | 1,220 | 27,760 | 106,486 | 1,319 | 30,562 |
| Commercial Banking | 252,496 | 1,356 | 105,358 | 252,907 | 1,315 | 87,220 |
| Commercial Real Estate | 164,912 | 525 | 77,526 | 187,773 | 554 | 89,868 |
| Discretionary Portfolio | 29,912 | (5,282) | 14,980 | (14,109) | (10,015) | (8,036) |
| Residential Mortgage Banking | 110,751 | 11,772 | 27,712 | 111,764 | 21,589 | 34,143 |
| Retail Banking | 268,494 | 3,897 | 32,034 | 292,837 | 3,598 | 51,500 |
| All Other | 194,273 | (13,488) | (1,034) | 248,618 | (18,360) | 63,209 |
| Total | $ 1,125,526 | | 284,336 | 1,186,276 | | 348,466 |

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**14. Segment information, continued**

| | Six months ended June 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| | Total revenues(a) | Inter-segment revenues | Net income (loss) | Total revenues(a) | Inter-segment revenues | Net income (loss) |
| | (in thousands) | | | | | |
| Business Banking | $ 206,987 | 2,277 | 56,358 | $ 211,904 | 2,513 | 63,123 |
| Commercial Banking | 501,082 | 2,553 | 205,123 | 502,757 | 2,665 | 194,607 |
| Commercial Real Estate | 323,272 | 873 | 152,087 | 353,066 | 2,106 | 166,376 |
| Discretionary Portfolio | 54,569 | (10,321) | 26,259 | (2,068) | (18,616) | (6,190) |
| Residential Mortgage Banking | 205,339 | 21,520 | 47,123 | 231,663 | 40,287 | 68,504 |
| Retail Banking | 530,382 | 7,402 | 61,745 | 584,022 | 6,855 | 103,850 |
| All Other | 380,435 | (24,304) | (35,342) | 393,864 | (35,810) | 32,309 |
| Total | $ 2,202,066 | | 513,353 | $ 2,275,208 | | 622,579 |

| | Average total assets | | |
|---|---|---|---|
| | Six months ended June 30 | | Year ended December 31 |
| | 2014 | 2013 | 2013 |
| | (in millions) | | |
| Business Banking | $ 5,286 | 5,010 | 5,080 |
| Commercial Banking | 22,742 | 21,446 | 21,655 |
| Commercial Real Estate | 16,878 | 17,122 | 17,150 |
| Discretionary Portfolio | 19,417 | 16,278 | 16,480 |
| Residential Mortgage Banking | 3,226 | 2,752 | 2,858 |
| Retail Banking | 10,229 | 11,357 | 10,997 |
| All Other | 10,500 | 8,672 | 9,442 |
| Total | $ 88,278 | 82,637 | 83,662 |

(a) *Total revenues are comprised of net interest income and other income. Net interest income is the difference between taxable-equivalent interest earned on assets and interest paid on liabilities owed by a segment and a funding charge (credit) based on the Company s internal funds transfer pricing and allocation methodology. Segments are charged a cost to fund any assets (e.g. loans) and are paid a funding credit for any funds provided* *(e.g. deposits). The taxable-equivalent adjustment aggregated $5,849,000 and $6,217,000 for the three-month periods ended June 30, 2014 and 2013, respectively, and $11,794,000 and $12,667,000 for the six-month periods ended June 30, 2014 and 2013, respectively, and is eliminated in All Other total revenues. Intersegment revenues are included in total revenues of the reportable segments. The elimination of intersegment revenues is included in the determination of All Other total revenues.*

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

M&T holds a 20% minority interest in Bayview Lending Group LLC ( BLG ), a privately-held commercial mortgage company. M&T recognizes income or loss from BLG using the equity method of accounting. The carrying value of that investment was $56 million at June 30, 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 $5.2 billion and $5.5 billion at June 30, 2014 and December 31, 2013, respectively. Revenues from those servicing rights were $7 million and $8 million during the three months ended June 30, 2014 and 2013, respectively, and $14 million and $16 million for the six months ended June 30, 2014 and June 30, 2013, respectively. The Company sub-services residential mortgage loans for Bayview Financial having outstanding principal balances totaling $44.6 billion and $45.6 billion at June 30, 2014 and December 31, 2013, respectively. Revenues earned for sub-servicing loans for Bayview Financial were $27 million and $2 million for the three-month periods ended June 30, 2014 and 2013, respectively, and $53 million and $4 million for the six-month periods ended June 30, 2014 and 2013, respectively. In addition, the Company held $210 million and $220 million of mortgage-backed securities in its held-to-maturity portfolio at June 30, 2014 and December 31, 2013, respectively, that were securitized by Bayview Financial.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

**Overview**

Net income for M&T Bank Corporation ( M&T ) in the second quarter of 2014 was $284 million or $1.98 of diluted earnings per common share, compared with $348 million or $2.55 of diluted earnings per common share in the year-earlier quarter. During the initial quarter of 2014, net income aggregated $229 million or $1.61 of diluted earnings per common share. Basic earnings per common share were $1.99 in the recent quarter, compared with $2.56 in the second quarter of 2013 and $1.63 in the first 2014 quarter. For the first half of 2014, net income totaled $513 million or $3.59 of diluted earnings per common share, compared with $623 million or $4.53 of diluted earnings per common share in the first six months of 2013. Basic earnings per common share for the six-month periods ended June 30, 2014 and 2013 were $3.62 and $4.56, respectively.

The annualized rate of return on average total assets for M&T and its consolidated subsidiaries ( the Company ) in the recent quarter was 1.27%, compared with 1.68% in the year-earlier quarter and 1.07% in the first quarter of 2014. The annualized rate of return on average common shareholders equity was 9.79% in the second quarter of 2014, compared with 13.78% and 8.22% in the three-month periods ended June 30, 2013 and March 31, 2014, respectively. During the six-month period ended June 30, 2014, the annualized rates of return on average assets and average common shareholders equity were 1.17% and 9.02%, respectively, compared with 1.52% and 12.47%, respectively, in the first half of 2013.

The recent quarter s results reflect two noteworthy, but largely offsetting, items. The resolution with tax authorities of previously uncertain tax positions required M&T to reduce its accrual for income taxes and increase net income by $8 million, while an increase in M&T s accrual for litigation-related costs of $12 million reduced net income by $7 million after applicable tax effect. Both accrual items were associated with pre-acquisition activities of M&T s Wilmington Trust entities.

Reflected in the results for the second quarter of 2013 were certain noteworthy items. 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. Finally, during that quarter the Company reversed 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 expense other costs of operations having an after-tax impact of $15 million, or $.12 of diluted earnings per common share. In the aggregate, those noteworthy items contributed net income of $49 million, or $.38 per diluted common share, in 2013 s second quarter.

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 $124.05 on June 30, 2014 was $5.4 billion.

As of June 30, 2014, Hudson City reported $37.7 billion of assets, including $23.3 billion of loans (predominantly residential real estate loans) and $8.2 billion of investment securities, and $32.9 billion of liabilities, including $20.5 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, the principal Bank subsidiary of M&T, 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 extended the date after which either party may elect to terminate the merger agreement if the merger has not yet been completed to December 31, 2014. 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 and Regulatory Developments**

As discussed in M&T s Form 10-K for the year ended December 31, 2013, 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, many of which are not yet completed or implemented. The Dodd-Frank Act could have a material adverse impact on the financial services industry as a whole, as well as on M&T s business, results of operations, financial condition and liquidity.

A discussion of the provisions of the Dodd-Frank Act is included in Part I, Item 1 of M&T s Form 10-K for the year ended December 31, 2013.

On July 31, 2013, the U.S. District Court for the District of Columbia issued an order granting summary judgment to the plaintiffs in a case challenging certain provisions of the Federal Reserve Board s rule concerning electronic debit card transaction fees and network exclusivity arrangements (the Current Rule ) that were adopted to implement Section 1075 of the Dodd-Frank Act the so-called Durbin Amendment. The Court held that, in adopting the Current Rule, the Federal Reserve Board violated the Durbin Amendment s provisions concerning which costs are allowed to be taken into account for purposes of setting fees that are reasonable and proportional to the costs incurred by the issuer and therefore the Current Rule s maximum permissible fees were too high. In addition, the Court held that the Current Rule s network non-exclusivity provisions concerning unaffiliated payment networks for debit cards also violated the Durbin Amendment. The Court vacated the Current Rule. The Court s judgment was stayed in September 2013 pending appeal by the Federal Reserve Board. In March 2014, a panel of the

United States Court of Appeals for the District of Columbia overturned the U.S. District Court s ruling almost in its entirety, remanding to the Federal Reserve Board for further consideration or explanation of the issue of its treatment of transactions-monitoring costs.

In July 2013, the Federal Reserve Board, 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. The New Capital Rules generally implement the Basel Committee on Banking Supervision s (the Basel Committee ) 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 and M&T Bank, as compared to the current U.S. general risk-based capital rules.

The New Capital Rules 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 M&T s Form 10-K for the year ended December 31, 2013 under the heading Capital Requirements.

Management believes that the Company will be able to comply with the revised capital adequacy requirements upon their implementation. 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 9.42% as of June 30, 2014, reflecting a good faith estimate of the computation of CET1 and the Company s risk-weighted assets under the methodologies set forth in the New Capital Rules.

On December 10, 2013, the Federal Reserve Board, 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 Dodd-Frank. 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. 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 significant effect on the Company s financial condition or its results of operations.

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Nevertheless, the Company may be required to divest certain investments subject to the Volcker Rule by mid-2015.

On October 24, 2013, the Federal Reserve Board and other banking regulators issued an interagency proposal for the U.S. version of the Basel Committee s Liquidity Coverage Ratio ( LCR ). The LCR requires a banking organization to maintain a minimum amount of liquid assets to withstand a standardized supervisory liquidity stress scenario. The proposed effective date is January 1, 2015, subject to a two-year phase-in period. The period for commenting on the interagency proposal closed on January 31, 2014. Although the proposed rules have not yet been finalized, the Company has added securities to its investment portfolio through purchase and securitization transactions in contemplation of the final LCR requirements.

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

M&T consistently provides supplemental reporting of its results on a net operating or tangible basis, from which M&T excludes the after-tax effect of amortization of core deposit and other intangible assets (and the related goodwill, core deposit intangible and other intangible asset balances, net of applicable deferred tax amounts) and gains and expenses associated with merging acquired operations into the Company, since such items are considered by management to be nonoperating in nature. 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 June 30, 2014, June 30, 2013 and December 31, 2013. 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, was $6 million during each of the two most recent quarters ($.04 per diluted common share in the recent quarter and $.05 per diluted common share in the initial quarter of 2014), compared with $8 million ($.06 per diluted common share) during the second quarter of 2013. For the six-month periods ended June 30, 2014 and 2013, amortization of core deposit and other intangible assets, after tax effect, totaled $12 million ($.09 per diluted common share) and $16 million ($.12 per diluted common share), respectively. The after-tax impact of merger-related expenses in the three-month and six-month periods ended June 30, 2013 was $5 million ($8 million pre-tax) and $8 million ($12 million pre-tax), respectively. There were no merger-related expenses in the first or second quarters of 2014. The merger-related expenses in 2013 were associated with M&T s pending acquisition of Hudson City. 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 $290 mi