M&T BANK CORP
Form 10-Q
November 05, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

or

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

M&T BANK CORPORATION

(Exact name of registrant as specified in its charter)

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

(716) 635-4000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

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

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

Number of shares of the registrant's Common Stock, $0.50 par value, outstanding as of the close of business on October 31, 2018: 140,357,696, shares.

M&T BANK CORPORATION

FORM 10-Q

For the Quarterly Period Ended September 30, 2018

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (Unaudited)

Dollars in thousands, except per share		September 30, 2018	December 31, 2017
Assets	Cash and due from banks	$ 1,311,611	$ 1,420,888
	Interest-bearing deposits at banks	6,523,746	5,078,903
	Trading account	125,038	132,909
	Investment securities (includes pledged securities that can be sold or repledged of $477,609 at September 30, 2018; $487,151 at December 31, 2017)		
	Available for sale (cost: $9,449,975 at September 30, 2018; $10,938,796 at December 31, 2017)	9,154,515	10,896,284
	Held to maturity (fair value: $3,313,270 at September 30, 2018; $3,341,762 at December 31, 2017)	3,418,719	3,353,213
	Equity and other securities (cost: $488,389 at September 30, 2018; $415,028 at December 31, 2017)	500,647	415,028
	Total investment securities	13,073,881	14,664,525
	Loans and leases	86,942,468	88,242,886
	Unearned discount	(261,983)	(253,903)
	Loans and leases, net of unearned discount	86,680,485	87,988,983
	Allowance for credit losses	(1,019,488)	(1,017,198)
	Loans and leases, net	85,660,997	86,971,785
	Premises and equipment	634,424	646,451
	Goodwill	4,593,112	4,593,112
	Core deposit and other intangible assets	52,426	71,589
	Accrued interest and other assets	4,852,402	5,013,325
	Total assets	$ 116,827,637	$ 118,593,487
Liabilities	Noninterest-bearing deposits	$ 31,773,560	$ 33,975,180
	Savings and interest-checking deposits	51,108,962	51,698,008
	Time deposits	5,810,587	6,580,962
	Deposits at Cayman Islands office	447,287	177,996
	Total deposits	89,140,396	92,432,146
	Short-term borrowings	1,310,110	175,099
	Accrued interest and other liabilities	1,800,778	1,593,993
	Long-term borrowings	9,140,268	8,141,430

	Total liabilities	101,391,552	102,342,668
Shareholders' equity	Preferred stock, $1.00 par, 1,000,000 shares authorized; Issued and outstanding: Liquidation preference of $1,000 per share: 731,500 shares at September 30, 2018 and December 31, 2017; Liquidation preference of $10,000 per share: 50,000 shares at September 30, 2018 and December 31, 2017	1,231,500	1,231,500
	Common stock, $.50 par, 250,000,000 shares authorized, 159,765,948 shares issued at September 30, 2018; 159,817,518 shares issued at December 31, 2017	79,883	79,909
	Common stock issuable, 24,595 shares at September 30, 2018; 27,138 shares at December 31, 2017	1,716	1,847
	Additional paid-in capital	6,585,447	6,590,855
	Retained earnings	11,128,343	10,164,804
	Accumulated other comprehensive income (loss), net	(542,399)	(363,814)
	Treasury stock — common, at cost — 18,312,024 shares at September 30, 2018; 9,733,115 shares at December 31, 2017	(3,048,405)	(1,454,282)
	Total shareholders’ equity	15,436,085	16,250,819
	Total liabilities and shareholders’ equity	$116,827,637	$118,593,487

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

In thousands, except per share		Three Months Ended September 30 2018	2017	Nine Months Ended September 30 2018	2017
Interest income	Loans and leases, including fees	$1,060,832	953,662	$3,065,272	2,776,340
	Investment securities				
	Fully taxable	80,118	87,937	244,989	276,057
	Exempt from federal taxes	153	345	573	1,154
	Deposits at banks	26,000	14,970	66,546	39,345
	Other	272	296	1,050	760
	Total interest income	1,167,375	1,057,210	3,378,430	3,093,656
Interest expense	Savings and interest-checking deposits	56,156	37,714	145,421	93,891
	Time deposits	12,976	13,992	35,274	49,293
	Deposits at Cayman Islands office	1,556	310	2,479	856
	Short-term borrowings	1,600	554	3,866	1,148
	Long-term borrowings	66,049	47,506	178,048	138,874
	Total interest expense	138,337	100,076	365,088	284,062
	Net interest income	1,029,038	957,134	3,013,342	2,809,594
	Provision for credit losses	16,000	30,000	94,000	137,000
	Net interest income after provision for credit losses	1,013,038	927,134	2,919,342	2,672,594
Other income	Mortgage banking revenues	88,408	96,737	268,213	267,592
	Service charges on deposit accounts	108,647	109,356	320,546	319,589
	Trust income	133,545	124,900	402,561	371,712
	Brokerage services income	12,267	14,676	38,288	48,677
	Trading account and foreign exchange gains	6,073	7,058	15,965	24,833
	Loss on bank investment securities	(3,415)	—	(10,520)	(17)
	Other revenues from operations	113,769	106,702	340,351	334,704
	Total other income	459,294	459,429	1,375,404	1,367,090
Other expense	Salaries and employee benefits	431,371	398,605	1,313,336	1,246,400
	Equipment and net occupancy	77,481	75,558	225,309	223,721
	Outside data processing and software	50,678	45,761	148,819	134,637
	FDIC assessments	18,849	23,969	58,689	78,149
	Advertising and marketing	21,784	17,403	59,800	49,837
	Printing, postage and supplies	8,843	8,732	26,881	27,397
	Amortization of core deposit and other intangible assets	6,143	7,808	19,163	24,341
	Other costs of operations	160,830	228,189	633,903	560,030
	Total other expense	775,979	806,025	2,485,900	2,344,512
	Income before taxes	696,353	580,538	1,808,846	1,695,172
	Income taxes	170,262	224,615	436,985	609,269
	Net income	$526,091	355,923	$1,371,861	1,085,903
	Net income available to common shareholders				

Basic	$505,363	335,801	$1,310,697	1,025,011
Diluted	505,365	335,804	1,310,703	1,025,023
Net income per common share				
Basic	$3.54	2.22	$9.01	6.71
Diluted	3.53	2.21	9.00	6.69
Cash dividends per common share	$1.00	.75	$2.55	2.25
Average common shares outstanding				
Basic	142,822	151,347	145,424	152,866
Diluted	142,976	151,691	145,605	153,293

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M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

In thousands	Three Months Ended September 30 2018	2017	Nine Months Ended September 30 2018	2017
Net income	$526,091	355,923	$1,371,861	1,085,903
Other comprehensive income, net of tax and reclassification adjustments:				
Net unrealized gains (losses) on investment securities	(30,381)	18,258	(167,798)	33,834
Cash flow hedges adjustments	(961)	(1,120)	(13,972)	(2,098)
Foreign currency translation adjustment	(265)	863	(1,409)	2,489
Defined benefit plans liability adjustments	7,149	4,165	21,447	12,496
Total other comprehensive income (loss)	(24,458)	22,166	(161,732)	46,721
Total comprehensive income	$501,633	378,089	$1,210,129	1,132,624

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

In thousands		Nine Months Ended September 30 2018	2017
Cash flows from operating activities	Net income	$1,371,861	$1,085,903
	Adjustments to reconcile net income to net cash provided by operating activities		
	Provision for credit losses	94,000	137,000
	Depreciation and amortization of premises and equipment	80,186	84,631
	Amortization of capitalized servicing rights	36,567	41,475
	Amortization of core deposit and other intangible assets	19,163	24,341
	Provision for deferred income taxes	(73,410)	9,926
	Asset write-downs	7,398	10,878
	Net gain on sales of assets	(17,681)	(27,967)
	Net change in accrued interest receivable, payable	(30,178)	(23,059)
	Net change in other accrued income and expense	125,478	110,138
	Net change in loans originated for sale	(252,981)	523,895
	Net change in trading account assets and liabilities	179,214	88,705
	Net cash provided by operating activities	1,539,617	2,065,866
Cash flows from investing activities	Proceeds from sales of investment securities		
	Available for sale	418	512,143
	Equity and other securities	649,204	178,244
	Proceeds from maturities of investment securities		
	Available for sale	1,415,214	1,650,258
	Held to maturity	374,718	390,278
	Purchases of investment securities		
	Available for sale	(9,197)	(248,705)
	Held to maturity	(444,703)	(1,175,608)
	Equity and other securities	(644,404)	(132,104)
	Net decrease in loans and leases	1,443,623	2,259,049
	Net increase in interest-bearing deposits at banks	(1,444,843)	(1,305,846)
	Capital expenditures, net	(59,302)	(62,515)
	Net decrease in loan servicing advances	267,074	47,786
	Other, net	(11,072)	66,357
	Net cash provided by investing activities	1,536,730	2,179,337
Cash flows from financing activities	Net decrease in deposits	(3,289,371)	(1,976,237)
	Net increase in short-term borrowings	1,135,011	37,326
	Proceeds from long-term borrowings	1,773,189	2,145,950
	Payments on long-term borrowings	(707,594)	(3,029,320)

	Purchases of treasury stock	(1,694,562)	(981,691)
	Dividends paid — common	(371,380)	(345,166)
	Dividends paid — preferred	(53,628)	(53,842)
	Other, net	22,711	5,480
	Net cash used by financing activities	(3,185,624)	(4,197,500)
	Net increase (decrease) in cash, cash equivalents and restricted cash	(109,277)	47,703
	Cash, cash equivalents and restricted cash at beginning of period	1,420,888	1,320,549
	Cash, cash equivalents and restricted cash at end of period	$1,311,611	$1,368,252
Supplemental disclosure of cash flow information	Interest received during the period	$3,360,710	$3,088,042
	Interest paid during the period	381,137	310,640
	Income taxes paid during the period	197,247	462,163
Supplemental schedule of noncash investing and financing activities	Real estate acquired in settlement of loans	$50,849	$88,551
	Securitization of residential mortgage loans allocated to		
	Available-for-sale investment securities	17,606	22,527
	Capitalized servicing rights	275	262

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)

Dollars in thousands, except per share	Preferred Stock	Common Stock	Common Stock Issuable	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net	Treasury Stock	Total
2017								
Balance — January 1, 2017	$1,231,500	79,973	2,145	6,676,948	9,222,488	(294,636)	(431,796)	16,486,622
Total comprehensive income	—	—	—	—	1,085,903	46,721	—	1,132,624
Preferred stock cash dividends	—	—	—	—	(54,604)	—	—	(54,604)
Exercise of 304,436 Series A stock warrants into 165,498 shares of common stock	—	—	—	(22,992)	—	—	22,992	—
Purchases of treasury stock	—	—	—	—	—	—	(981,691)	(981,691)
Stock-based compensation plans:								
Compensation expense, net	—	(63)	—	(51,606)	—	—	57,685	6,016
Exercises of stock options, net	—	—	—	(6,722)	—	—	68,014	61,292
Stock purchase plan	—	—	—	2,563	—	—	8,268	10,831
Directors' stock plan	—	—	—	225	—	—	1,201	1,426
Deferred compensation plans, net,	—	—	(318)	(368)	(65)	—	594	(157)

including dividend equivalents								
Common stock cash dividends — $2.25 per share	—	—	—	—	(344,307)	—	—	(344,307)
Balance — September 30, 2017	$1,231,500	79,910	1,827	6,598,048	9,909,415	(247,915)	(1,254,733)	16,318,052
2018								
Balance — January 1, 2018	$1,231,500	79,909	1,847	6,590,855	10,164,804	(363,814)	(1,454,282)	16,250,819
Cumulative effect of change in accounting principle — equity securities	—	—	—	—	16,853	(16,853)	—	—
Total comprehensive income	—	—	—	—	1,371,861	(161,732)	—	1,210,129
Preferred stock cash dividends	—	—	—	—	(54,390)	—	—	(54,390)
Exercise of 76,517 Series A stock warrants into 45,426 shares of common stock	—	—	—	(7,240)	—	—	7,240	—
Purchases of treasury stock	—	—	—	—	—	—	(1,694,562)	(1,694,562)
Stock-based compensation plans:								
Compensation expense, net	—	(26)	—	2,836	—	—	22,338	25,148
Exercises of stock options, net	—	—	—	(3,282)	—	—	60,075	56,793
Stock purchase plan	—	—	—	2,358	—	—	8,766	11,124
Directors' stock plan	—	—	—	168	—	—	1,628	1,796
Deferred compensation	—	—	(131)	(248)	(62)	—	392	(49)

plans, net, including dividend equivalents								
Common stock cash dividends — $2.55 per share	—	—	—	—	(370,723)	—	—	(370,723)
Balance — September 30, 2018	$1,231,500	79,883	1,716	6,585,447	11,128,343	(542,399)	(3,048,405)	15,436,085

NOTES TO FINANCIAL STATEMENTS

1. Significant accounting policies

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

2. Investment securities

On January 1, 2018, the Company adopted amended guidance requiring equity investments with readily determinable fair values to be measured at fair value with changes in fair value recognized in the consolidated statement of income. This amended guidance excludes equity method investments, investments in consolidated subsidiaries, exchange membership ownership interests, and Federal Home Loan Bank of New York and Federal Reserve Bank of New York capital stock. Upon adoption the Company reclassified $17 million, after-tax effect, from accumulated other comprehensive income to retained earnings, representing the difference between fair value and the cost basis of equity investments with readily determinable fair values at January 1, 2018. Net unrealized losses recorded as loss on bank investment securities in the consolidated statement of income during the three months and nine months ended September 30, 2018 were $3 million and $11 million, respectively. The amortized cost and estimated fair value of investment securities were as follows:

	Amortized Cost (In thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2018				
Investment securities available for sale:				
U.S. Treasury and federal agencies	$1,623,860	8	15,196	$1,608,672
Obligations of states and political subdivisions	1,792	9	5	1,796
Mortgage-backed securities:				
Government issued or guaranteed	7,686,746	9,610	283,660	7,412,696
Privately issued	25	—	2	23
Other debt securities	137,552	1,911	8,135	131,328
	9,449,975	11,538	306,998	9,154,515
Investment securities held to maturity:				
U.S. Treasury and federal agencies	445,199	—	412	444,787
Obligations of states and political subdivisions	8,752	32	18	8,766
Mortgage-backed securities:				
Government issued or guaranteed	2,842,807	1,912	94,241	2,750,478
Privately issued	117,996	11,025	23,747	105,274

Other debt securities	3,965	—	—	3,965
	3,418,719	12,969	118,418	3,313,270
Total debt securities	$12,868,694	24,507	425,416	$12,467,785
Equity and other securities:				
Readily marketable equity — at fair value	$77,871	13,253	995	$90,129
Other — at cost	410,518	—	—	410,518
Total equity and other securities	$488,389	13,253	995	$500,647

NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. Investment securities, continued

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

There were no significant gross realized gains or losses from sales of investment securities for the three-month and nine-month periods ended September 30, 2018 and 2017, respectively.

At September 30, 2018, the amortized cost and estimated fair value of debt securities by contractual maturity were as follows:

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Debt securities available for sale:		
Due in one year or less	$1,269,955	1,261,175

Due after one year through five years	361,249	354,788
Due after five years through ten years	101,971	101,055
Due after ten years	30,029	24,778
	1,763,204	1,741,796
Mortgage-backed securities available for sale	7,686,771	7,412,719
	$9,449,975	9,154,515
Debt securities held to maturity:		
Due in one year or less	$448,774	448,366
Due after one year through five years	5,177	5,187
Due after ten years	3,965	3,965
	457,916	457,518
Mortgage-backed securities held to maturity	2,960,803	2,855,752
	$3,418,719	3,313,270

NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. Investment securities, continued

A summary of investment securities that as of September 30, 2018 and December 31, 2017 had been in a continuous unrealized loss position for less than twelve months and those that had been in a continuous unrealized loss position for twelve months or longer follows:

	Less Than 12 Months		12 Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)			
September 30, 2018				
Investment securities available for sale:				
U.S. Treasury and federal agencies	$9,221	(79)	1,601,806	(15,117)
Obligations of states and political subdivisions	702	(4)	375	(1)
Mortgage-backed securities:				
Government issued or guaranteed	2,973,861	(80,037)	3,628,562	(203,623)
Privately issued	7	(2)	—	—
Other debt securities	15,409	(127)	63,639	(8,008)
	2,999,200	(80,249)	5,294,382	(226,749)
Investment securities held to maturity:				
U.S. Treasury and federal agencies	444,787	(412)	—	—
Obligations of states and political subdivisions	514	(1)	3,436	(17)
Mortgage-backed securities:				
Government issued or guaranteed	1,762,808	(52,208)	800,906	(42,033)
Privately issued	—	—	52,180	(23,747)
	2,208,109	(52,621)	856,522	(65,797)
Total	$5,207,309	(132,870)	6,150,904	(292,546)
December 31, 2017				
Investment securities available for sale:				
U.S. Treasury and federal agencies	$278,132	(1,761)	1,669,355	(16,417)
Obligations of states and political subdivisions	—	—	474	(2)
Mortgage-backed securities:				
Government issued or guaranteed	2,106,142	(13,695)	3,138,841	(84,892)
Other debt securities	3,067	(26)	61,159	(10,449)
Equity securities (a)	—	—	18,162	(424)
	2,387,341	(15,482)	4,887,991	(112,184)
Investment securities held to maturity:				
Obligations of states and political subdivisions	2,954	(4)	6,110	(45)
Mortgage-backed securities:				

Government issued or guaranteed	1,331,759	(7,036)	265,695	(6,710)
Privately issued	5,061	(1,216)	55,255	(26,359)
	1,339,774	(8,256)	327,060	(33,114)
Total	$3,727,115	(23,738)	5,215,051	(145,298)

(a) Beginning January 1, 2018, equity securities with readily determinable fair values are required to be measured at fair value with changes in fair value recognized in the consolidated statement of income. As a result, subsequent to December 31, 2017 disclosing the time period for which these equity securities had been in a continuous unrealized loss position is no longer relevant.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. Investment securities, continued

The Company owned 1,503 individual debt securities with aggregate gross unrealized losses of $425 million at September 30, 2018. Based on a review of each of the securities in the investment securities portfolio at September 30, 2018, the Company concluded that it expected to recover the amortized cost basis of its investment. As of September 30, 2018, the Company does not intend to sell nor is it anticipated that it would be required to sell any of its impaired investment securities at a loss. At September 30, 2018, the Company has not identified events or changes in circumstances which may have a significant adverse effect on the fair value of the $411 million of cost method equity securities.

3. Loans and leases and the allowance for credit losses

A summary of current, past due and nonaccrual loans as of September 30, 2018 and December 31, 2017 follows:

	Current (In thousands)	30-89 Days Past Due	Accruing Loans Past Due 90 Days or More (a)	Accruing Loans Acquired at a Discount Past Due 90 days or More (b)	Purchased Impaired (c)	Nonaccrual	Total
September 30, 2018							
Commercial, financial, leasing, etc.	$21,317,925	81,323	1,390	100	—	234,656	$21,635,394
Real estate:							
Commercial	24,650,660	97,630	52,436	4,277	9,948	207,584	25,022,535
Residential builder and developer	1,631,501	7,354	1,656	114	—	2,786	1,643,411
Other commercial construction	6,792,917	39,598	440	16	571	18,887	6,852,429
Residential	13,989,937	437,170	193,604	7,065	224,618	227,619	15,080,013
Residential — limited documentation	2,373,778	93,582	729	—	90,843	82,454	2,641,386
Consumer:							
	4,850,989	35,212	—	4,694	—	66,303	4,957,198

Home equity lines and loans							
Automobile	3,527,867	71,184	—	—	—	20,949	3,620,000
Other	5,144,471	41,992	4,105	27,957	—	9,594	5,228,119
Total	$84,280,045	905,045	254,360	44,223	325,980	870,832	$86,680,485
December 31, 2017							
Commercial, financial, leasing, etc.	$21,332,234	167,756	1,322	327	21	240,991	$21,742,651
Real estate:							
Commercial	24,910,381	166,305	4,444	6,016	16,815	184,982	25,288,943
Residential builder and developer	1,618,973	5,159	—	—	1,135	6,451	1,631,718
Other commercial construction	6,407,451	23,467	—	—	4,706	10,088	6,445,712
Residential	15,376,759	474,372	233,437	7,582	282,102	235,834	16,610,086
Residential — limited documentation	2,718,019	83,898	—	—	105,236	96,105	3,003,258
Consumer:							
Home equity lines and loans	5,171,345	38,546	—	9,391	—	74,500	5,293,782
Automobile	3,441,371	78,511	—	—	—	23,781	3,543,663
Other	4,349,071	40,929	5,202	24,102	—	9,866	4,429,170
Total	$85,325,604	1,078,943	244,405	47,418	410,015	882,598	$87,988,983

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

One-to-four family residential mortgage loans held for sale were $258 million and $356 million at September 30, 2018 and December 31, 2017, respectively. Commercial real estate loans held for sale were $381 million at September 30, 2018 and $22 million at December 31, 2017.

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

	September 30, 2018	December 31, 2017
	(In thousands)	
Outstanding principal balance	$1,124,232	1,394,188
Carrying amount:		
Commercial, financial, leasing, etc.	26,473	31,105
Commercial real estate	165,431	228,054
Residential real estate	507,475	620,827
Consumer	97,125	123,413
	$796,504	1,003,399

Purchased impaired loans included in the table above totaled $326 million at September 30, 2018 and $410 million at December 31, 2017, representing less than 1% of the Company's assets as of each date. A summary of changes in the accretable yield for loans acquired at a discount for the three months and nine months ended September 30, 2018 and 2017 follows:

	Three Months Ended September 30			
	2018		2017	
	Purchased Impaired	Other Acquired	Purchased Impaired	Other Acquired
	(In thousands)			
Balance at beginning of period	$149,388	$117,715	$133,532	$163,099
Interest income	(8,105)	(18,001)	(10,815)	(20,064)
Reclassifications from nonaccretable balance	8,445	25	30,799	6,041
Other (a)	—	2,001	—	1,545
Balance at end of period	$149,728	101,740	$153,516	$150,621

	Nine Months Ended September 30			
	2018		2017	
	Purchased	Other	Purchased	Other

	Impaired	Acquired	Impaired	Acquired
	(In thousands)			
Balance at beginning of period	$157,918	$133,162	$154,233	$201,153
Interest income	(25,893)	(48,507)	(32,546)	(66,505)
Reclassifications from nonaccretable balance	17,703	11,230	31,829	11,076
Other (a)	—	5,855	—	4,897
Balance at end of period	$149,728	$101,740	$153,516	150,621

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Changes in the allowance for credit losses for the three months ended September 30, 2018 were as follows:

	Commercial, Financial, Leasing, etc.	Real Estate Commercial	Residential	Consumer	Unallocated	Total
	(In thousands)					
Beginning balance	$328,830	353,761	76,123	182,987	77,547	$1,019,248
Provision for credit losses	(6,972)	(11,394)	741	32,887	738	16,000
Net charge-offs						
Charge-offs	(11,792)	(1,941)	(3,338)	(34,995)	—	(52,066)
Recoveries	7,123	14,577	1,655	12,951	—	36,306
Net (charge-offs) recoveries	(4,669)	12,636	(1,683)	(22,044)	—	(15,760)
Ending balance	$317,189	355,003	75,181	193,830	78,285	$1,019,488

Changes in the allowance for credit losses for the three months ended September 30, 2017 were as follows:

	Commercial, Financial, Leasing, etc.	Real Estate Commercial	Residential	Consumer	Unallocated	Total
	(In thousands)					
Beginning balance	$339,314	$366,229	66,006	158,559	78,117	$1,008,225
Provision for credit losses	2,451	(7,699)	1,267	33,886	95	30,000
Net charge-offs						
Charge-offs	(9,714)	(258)	(4,206)	(32,874)	—	(47,052)
Recoveries	4,423	5,895	2,028	9,807	—	22,153
Net (charge-offs) recoveries	(5,291)	5,637	(2,178)	(23,067)	—	(24,899)
Ending balance	$336,474	$364,167	65,095	169,378	78,212	$1,013,326

Changes in the allowance for credit losses for the nine months ended September 30, 2018 were as follows:

	Commercial, Financial,	Real Estate

	Leasing, etc.	Commercial	Residential	Consumer	Unallocated	Total
	(In thousands)					
Beginning balance	$328,599	374,085	65,405	170,809	78,300	$1,017,198
Provision for credit losses	11,508	(27,464)	16,469	93,502	(15)	94,000
Net charge-offs						
Charge-offs	(41,273)	(7,855)	(11,658)	(105,479)	—	(166,265)
Recoveries	18,355	16,237	4,965	34,998	—	74,555
Net (charge-offs) recoveries	(22,918)	8,382	(6,693)	(70,481)	—	(91,710)
Ending balance	$317,189	355,003	75,181	193,830	78,285	$1,019,488

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Changes in the allowance for credit losses for the nine months ended September 30, 2017 were as follows:

	Commercial, Financial, Leasing, etc.	Real Estate Commercial	Real Estate Residential	Consumer	Unallocated	Total
	(In thousands)					
Beginning balance	$330,833	362,719	61,127	156,288	78,030	$988,997
Provision for credit losses	44,642	1,201	14,067	76,908	182	137,000
Net charge-offs						
Charge-offs	(51,318)	(7,556)	(16,364)	(96,060)	—	(171,298)
Recoveries	12,317	7,803	6,265	32,242	—	58,627
Net (charge-offs) recoveries	(39,001)	247	(10,099)	(63,818)	—	(112,671)
Ending balance	$336,474	364,167	65,095	169,378	78,212	$1,013,326

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

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Information with respect to loans and leases that were considered impaired as of September 30, 2018 and December 31, 2017 and for the three-month and nine-month periods ended September 30, 2018 and 2017 follows.

	September 30, 2018			December 31, 2017		
		Unpaid			Unpaid	
	Recorded	Principal	Related	Recorded	Principal	Related
	Investment	Balance	Allowance	Investment	Balance	Allowance
	(In thousands)					
With an allowance recorded:						
Commercial, financial, leasing, etc.	$171,272	193,161	46,554	177,250	194,257	45,488
Real estate:						
Commercial	123,451	135,167	11,851	67,199	75,084	9,140
Residential builder and developer	6,248	6,782	352	5,320	5,641	308
Other commercial construction	11,287	11,650	878	4,817	20,357	647
Residential	122,627	145,231	5,695	101,724	122,602	4,000
Residential — limited documentation	75,183	91,149	4,000	77,277	92,439	3,900
Consumer:						
Home equity lines and loans	48,711	53,869	9,269	48,847	53,914	8,812
Automobile	3,445	4,118	705	13,498	15,737	2,811
Other	11,536	17,010	2,365	3,220	5,872	656
	573,760	658,137	81,669	499,152	585,903	75,762
With no related allowance recorded:						
Commercial, financial, leasing, etc.	84,235	115,654	—	89,126	115,327	—
Real estate:						
Commercial	104,753	114,998	—	138,356	149,716	—
Residential builder and developer	1,174	1,174	—	5,057	5,296	—
Other commercial construction	7,698	11,428	—	5,456	9,130	—
Residential	14,651	19,742	—	13,574	18,980	—
Residential — limited documentation	5,873	10,190	—	9,588	16,138	—
	218,384	273,186	—	261,157	314,587	—
Total:						
Commercial, financial, leasing, etc.	255,507	308,815	46,554	266,376	309,584	45,488
Real estate:						
Commercial	228,204	250,165	11,851	205,555	224,800	9,140
Residential builder and developer	7,422	7,956	352	10,377	10,937	308
Other commercial construction	18,985	23,078	878	10,273	29,487	647
Residential	137,278	164,973	5,695	115,298	141,582	4,000
Residential — limited documentation	81,056	101,339	4,000	86,865	108,577	3,900
Consumer:						
Home equity lines and loans	48,711	53,869	9,269	48,847	53,914	8,812
Automobile	3,445	4,118	705	13,498	15,737	2,811

Other	11,536	17,010	2,365	3,220	5,872	656
Total	$792,144	931,323	81,669	760,309	900,490	75,762

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

	Three Months Ended September 30, 2018			Three Months Ended September 30, 2017		
		Interest Income Recognized			Interest Income Recognized	
	Average Recorded Investment	Total	Cash Basis	Average Recorded Investment	Total	Cash Basis
	(In thousands)					
Commercial, financial, leasing, etc.	$256,196	1,985	1,985	$224,526	391	391
Real estate:						
Commercial	204,315	1,489	1,489	233,572	1,425	1,425
Residential builder and developer	9,000	—	—	8,550	895	895
Other commercial construction	9,623	3,379	3,379	16,578	25	25
Residential	133,337	1,959	773	113,892	1,903	905
Residential — limited documentation	81,729	1,607	481	91,974	1,624	569
Consumer:						
Home equity lines and loans	48,542	421	62	47,831	419	99
Automobile	7,805	181	20	14,588	251	22
Other	7,450	126	6	3,269	80	2
Total	$757,997	11,147	8,195	754,780	7,013	4,333

	Nine Months Ended September 30, 2018			Nine Months Ended September 30, 2017		
		Interest Income Recognized			Interest Income Recognized	
	Average Recorded Investment	Total	Cash Basis	Average Recorded Investment	Total	Cash Basis
	(In thousands)					
Commercial, financial, leasing, etc.	$266,594	4,101	4,101	242,410	1,674	1,674
Real estate:						

Commercial	184,795	8,447	8,447	205,814	3,213	3,213
Residential builder and developer	9,111	1,682	1,682	14,551	1,791	1,791
Other commercial construction	9,056	3,438	3,438	15,474	958	958
Residential	126,910	6,190	2,612	108,741	5,004	2,285
Residential — limited documentation	83,700	4,763	1,494	94,680	4,573	1,292
Consumer:						
Home equity lines and loans	48,661	1,268	220	46,829	1,240	290
Automobile	11,189	630	49	15,483	788	62
Other	4,545	299	12	3,430	227	8
Total	$744,561	30,818	22,055	747,412	19,468	11,573

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

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

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

	Commercial, Financial, Leasing, etc.	Real Estate Commercial	Residential Builder and Developer	Other Commercial Construction
	(In thousands)			
September 30, 2018				
Pass	$20,498,610	24,190,472	1,499,791	6,709,973
Criticized accrual	902,128	624,479	140,834	123,569
Criticized nonaccrual	234,656	207,584	2,786	18,887
Total	$21,635,394	25,022,535	1,643,411	6,852,429
December 31, 2017				
Pass	$20,490,486	24,380,184	1,485,148	6,270,812
Criticized accrual	1,011,174	723,777	140,119	164,812
Criticized nonaccrual	240,991	184,982	6,451	10,088
Total	$21,742,651	25,288,943	1,631,718	6,445,712

In determining the allowance for credit losses, residential real estate loans and consumer loans are generally evaluated collectively after considering such factors as payment performance and recent loss experience and trends, which are mainly driven by current collateral values in the market place as well as the amount of loan defaults. Loss rates on such loans are determined by reference to recent charge-off history and are evaluated (and adjusted if deemed appropriate) through consideration of other factors including near-term forecasted loss estimates developed by the Company's credit department. In arriving at such forecasts, the Company considers the current estimated fair value of its collateral based on geographical adjustments for home price depreciation/appreciation and overall borrower repayment performance. With regard to collateral values, the realizability of such values by the Company contemplates repayment of any first lien position prior to recovering amounts on a second lien position. However, residential real estate loans and outstanding balances of home equity loans and lines of credit that are more than 150 days past due are generally evaluated for collectibility on a loan-by-loan basis giving consideration to estimated collateral values. The carrying value of residential real estate loans and home equity loans and lines of credit for which a partial charge-off has been recognized totaled $29 million and $23 million, respectively, at September 30, 2018 and $34 million and $25 million, respectively, at December 31, 2017. Residential real estate loans and home equity loans and lines of credit that were more than 150 days past due but did not require a partial charge-off because the net realizable value of the collateral exceeded the outstanding customer balance were $18 million and $29 million, respectively, at September 30, 2018 and $20 million and $32 million, respectively, at December 31, 2017.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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	Residential	Consumer	Total
	(In thousands)				
September 30, 2018					
Individually evaluated for impairment	$46,554	13,081	9,695	12,339	$81,669
Collectively evaluated for impairment	270,635	341,922	50,576	181,491	844,624
Purchased impaired	—	—	14,910	—	14,910
Allocated	$317,189	355,003	75,181	193,830	$941,203
Unallocated					78,285
Total					$1,019,488
December 31, 2017					
Individually evaluated for impairment	$45,488	10,095	7,900	12,279	$75,762
Collectively evaluated for impairment	283,111	363,990	47,645	158,530	853,276
Purchased impaired	—	—	9,860	—	9,860
Allocated	$328,599	374,085	65,405	170,809	938,898
Unallocated					78,300
Total					$1,017,198

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

	Commercial, Financial, Leasing, etc.	Real Estate Commercial	Residential	Consumer	Total
	(In thousands)				
September 30, 2018					
Individually evaluated for impairment	$255,507	254,611	218,334	63,692	$792,144
Collectively evaluated for impairment	21,379,887	33,253,245	17,187,604	13,741,625	85,562,361
Purchased impaired	—	10,519	315,461	—	325,980
Total	$21,635,394	33,518,375	17,721,399	13,805,317	$86,680,485

December 31, 2017					
Individually evaluated for impairment	$266,376	226,205	202,163	65,565	$760,309
Collectively evaluated for impairment	21,476,254	33,117,512	19,023,843	13,201,050	86,818,659
Purchased impaired	21	22,656	387,338	—	410,015
Total	$21,742,651	33,366,373	19,613,344	13,266,615	$87,988,983

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The table that follows summarizes the Company's loan modification activities that were considered troubled debt restructurings for the three-month and nine-month periods ended September 30, 2018 and 2017:

			Post-modification (a)				
	Number	Pre-modification Recorded Investment	Principal Deferral	Interest Rate Reduction	Other	Combination of Concession Types	Total
Three Months Ended September 30, 2018	(Dollars in thousands)						
Commercial, financial, leasing, etc.	47	$ 6,837	$1,683	$ 5	$—	$ 5,018	$6,706
Real estate:							
Commercial	18	11,581	1,493	—	3,475	6,297	11,265
Residential	34	8,182	6,026	—	—	3,002	9,028
Residential — limited documentation	3	716	—	—	—	847	847
Consumer:							
Home equity lines and loans	17	1,651	220	—	—	1,450	1,670
Automobile	30	526	526	—	—	—	526
Other	2	44	44	—	—	—	44
Total	151	$ 29,537	$9,992	$ 5	$3,475	$ 16,614	$30,086
Three Months Ended September 30, 2017							
Commercial, financial, leasing, etc.	49	$ 15,812	$5,888	$ —	$97	$ 9,251	$15,236
Real estate:							
Commercial	17	5,861	1,420	—	868	3,450	5,738
Residential	34	5,123	3,033	—	—	2,716	5,749
Residential — limited documentation	4	515	383	—	—	167	550
Consumer:							
Home equity lines and loans	25	2,154	461	—	—	1,776	2,237
Automobile	17	342	326	—	—	16	342
Other	1	5	5	—	—	—	5
Total	147	$ 29,812	$11,516	$ —	$965	$ 17,376	$29,857

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

			Post-modification (a)				
Nine Months Ended September 30, 2018	Number	Pre-modification Recorded Investment	Principal Deferral	Interest Rate Reduction	Other	Combination of Concession Types	Total
	(Dollars in thousands)						
Commercial, financial, leasing, etc.	150	$ 96,221	$47,029	$ 658	$6,111	$ 43,086	$96,884
Real estate:							
Commercial	66	25,561	14,693	175	3,869	7,224	25,961
Other commercial construction	1	752	746	—	—	—	746
Residential	111	28,769	15,785	—	—	15,670	31,455
Residential — limited documentation	8	1,595	467	—	—	1,423	1,890
Consumer:							
Home equity lines and loans	41	3,554	224	—	—	3,357	3,581
Automobile	57	1,007	995	—	—	12	1,007
Other	4	93	93	—	—	—	93
Total	438	$ 157,552	$80,032	$ 833	$9,980	$ 70,772	$161,617
Nine Months Ended September 30, 2017							
Commercial, financial, leasing, etc.	162	$ 93,346	$18,449	$ —	$6,459	$ 47,211	$72,119
Real estate:							
Commercial	67	38,608	16,193	—	868	21,332	38,393
Residential builder and developer	3	12,291	—	—	—	10,879	10,879
Other commercial construction	2	168	168	—	—	—	168
Residential	105	22,459	11,608	—	—	12,557	24,165
Residential — limited documentation	17	3,724	618	—	—	3,352	3,970
Consumer:							
Home equity lines and loans	85	7,885	1,040	—	491	6,442	7,973
Automobile	59	1,160	1,089	—	—	71	1,160
Other	6	85	85	—	—	—	85
Total	506	$ 179,726	$49,250	$ —	$7,818	$ 101,844	$158,912

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

Troubled debt restructurings are considered to be impaired loans and for purposes of establishing the allowance for credit losses are evaluated for impairment giving consideration to the impact of the modified loan terms on the present value of the loan's expected cash flows. Impairment of troubled debt restructurings that have subsequently defaulted may also be measured based on the loan's observable market price or the fair value of collateral if the loan is collateral-dependent. Charge-offs may also be recognized on troubled debt restructurings that have subsequently defaulted. Loans that were modified as troubled debt restructurings during the twelve months ended September 30, 2018 and 2017 and for which there was a subsequent payment default during the nine-month periods ended September 30, 2018 and 2017, respectively, were not material.

The amount of foreclosed residential real estate property held by the Company was $85 million and $108 million at September 30, 2018 and December 31, 2017, respectively. There were $404 million and $497 million at September 30, 2018 and December 31, 2017, respectively, in loans secured by residential real estate that were in the process of foreclosure. Of all loans in the process of foreclosure at September 30, 2018, approximately 40% were classified as purchased impaired and 20% were government guaranteed.

4. Borrowings

During January 2018, M&T Bank, the principal subsidiary of M&T, issued $1.0 billion of senior notes that mature in January 2021 pursuant to a Bank Note Program, of which $650 million have a 2.625% fixed interest rate and $350 million have a variable rate paid quarterly at rates that are indexed to the three-month London Interbank Offered Rate (“LIBOR”). In July 2018, M&T issued $750 million of senior notes that mature in July 2023, of which $500 million have a 3.55% fixed interest rate and $250 million have a variable rate paid quarterly at rates that are indexed to the three-month LIBOR.

M&T had $521 million of fixed and variable rate junior subordinated deferrable interest debentures ("Junior Subordinated Debentures") outstanding at September 30, 2018 that are held by various trusts that were issued in connection with the issuance by those trusts of preferred capital securities ("Capital Securities") and common securities ("Common Securities"). The proceeds from the issuances of the Capital Securities and the Common Securities were used by the trusts to purchase the Junior Subordinated Debentures. The Common Securities of each of those trusts are wholly owned by M&T and are the only class of each trust's securities possessing general voting powers. The Capital Securities represent preferred undivided interests in the assets of the corresponding trust. Under the Federal Reserve Board’s risk-based capital guidelines, the securities are includable in M&T’s Tier 2 regulatory capital.

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

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

Also included in long-term borrowings are agreements to repurchase securities of $412 million and $422 million at September 30, 2018 and December 31, 2017, respectively. The agreements reflect various repurchase dates through 2020, however, the contractual maturities of the underlying investment securities extend beyond such repurchase dates. The agreements are subject to legally enforceable master netting arrangements, however, the Company has not offset any amounts related to these agreements in its consolidated financial statements. The Company posted collateral consisting primarily of government guaranteed mortgage-backed securities of $429 million and $442 million at September 30, 2018 and December 31, 2017, respectively.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

5. Shareholders' equity

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

Issued and outstanding preferred stock of M&T as of September 30, 2018 and December 31, 2017 is presented below:

	Shares Issued and Outstanding	Carrying Value
	(Dollars in thousands)	
Series A (a)		
Fixed Rate Cumulative Perpetual Preferred Stock,		
$1,000 liquidation preference per share	230,000	$230,000
Series C (a)		
Fixed Rate Cumulative Perpetual Preferred Stock,		
$1,000 liquidation preference per share	151,500	$151,500
Series E (b)		
Fixed-to-Floating Rate Non-cumulative Perpetual Preferred Stock,		
$1,000 liquidation preference per share	350,000	$350,000
Series F (c)		
Fixed-to-Floating Rate Non-cumulative Perpetual Preferred Stock,		
$10,000 liquidation preference per share	50,000	$500,000

(a) Dividends, if declared, are paid at 6.375%. Warrants to purchase M&T common stock at $73.58 per share issued in connection with the Series A preferred stock expire on December 23, 2018 and totaled 180,491 at September 30, 2018.

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

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

In addition to the Series A warrants mentioned in (a) above, a warrant to purchase 95,743 shares of M&T common stock at $517.01 per share was outstanding at September 30, 2018. The obligation under that warrant was assumed by M&T in an acquisition and expires on December 12, 2018.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

6. Pension plans and other postretirement benefits

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

	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended September 30			
	2018	2017	2018	2017
	(In thousands)			
Service cost	$5,086	5,048	234	293
Interest cost on projected benefit obligation	18,676	19,818	573	929
Expected return on plan assets	(30,781)	(27,131)	—	—
Amortization of prior service cost (credit)	139	139	(1,182)	(340)
Amortization of net actuarial loss (gain)	10,948	7,316	(206)	(247)
Net periodic benefit cost	$4,068	5,190	(581)	635

	Pension Benefits		Other Postretirement Benefits	
	Nine Months Ended September 30			
	2018	2017	2018	2017
	(In thousands)			
Service cost	$15,258	15,145	703	878
Interest cost on projected benefit obligation	56,029	59,452	1,719	2,787
Expected return on plan assets	(92,344)	(81,393)	—	—
Amortization of prior service cost (credit)	417	418	(3,546)	(1,019)
Amortization of net actuarial loss (gain)	32,844	21,947	(619)	(741)
Net periodic benefit cost	$12,204	15,569	(1,743)	1,905

Service cost is reflected in salaries and employee benefits expense. The other components of net periodic benefit cost are reflected in other costs of operations. Expenses incurred in connection with the Company's defined contribution pension and retirement savings plans totaled $16,907,000 and $16,085,000 for the three months ended September 30, 2018 and 2017, respectively, and $55,375,000 and $53,127,000 for the nine months ended September 30, 2018 and 2017, respectively, and are included in salaries and employee benefits expense.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

7. Earnings per common share

The computations of basic earnings per common share follow:

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
	(In thousands, except per share)			
Income available to common shareholders:				
Net income	$526,091	355,923	1,371,861	1,085,903
Less: Preferred stock dividends (a)	(18,130)	(18,130)	(54,390)	(54,604)
Net income available to common equity	507,961	337,793	1,317,471	1,031,299
Less: Income attributable to unvested stock-based compensation awards	(2,598)	(1,992)	(6,774)	(6,288)
Net income available to common shareholders	$505,363	335,801	1,310,697	1,025,011
Weighted-average shares outstanding:				
Common shares outstanding (including common stock issuable) and unvested stock-based compensation awards	143,556	152,245	146,177	153,814
Less: Unvested stock-based compensation awards	(734)	(898)	(753)	(948)
Weighted-average shares outstanding	142,822	151,347	145,424	152,866
Basic earnings per common share	$3.54	2.22	9.01	6.71

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

The computations of diluted earnings per common share follow:

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
	(In thousands, except per share)			
Net income available to common equity	$507,961	337,793	1,317,471	1,031,299
Less: Income attributable to unvested stock-based compensation awards	(2,596)	(1,989)	(6,768)	(6,276)
Net income available to common shareholders	$505,365	335,804	1,310,703	1,025,023
Adjusted weighted-average shares outstanding:				
Common and unvested stock-based compensation awards	143,556	152,245	146,177	153,814
Less: Unvested stock-based compensation awards	(734)	(898)	(753)	(948)
Plus: Incremental shares from assumed conversion of stock-based compensation awards and warrants to	154	344	181	427

purchase common stock				
Adjusted weighted-average shares outstanding	142,976	151,691	145,605	153,293
Diluted earnings per common share	$3.53	2.21	9.00	6.69

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 212,407 and 408,657 common shares during the three-month periods ended September 30, 2018 and 2017, respectively, and 220,653 and 404,487 common shares during the nine-month periods ended September 30, 2018 and 2017, respectively, were not included in the computations of diluted earnings per common share because the effect on those periods would have been antidilutive.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

8. Comprehensive income

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

	Investment Securities (a)	Defined Benefit Plans	Other	Total Amount Before Tax		Income Tax	Net
	(In thousands)						
Balance — January 1, 2018	$(59,957)	(413,168)	(20,165)	$(493,290)		129,476	$(363,814)
Cumulative effect of change in accounting principle — equity securities	(22,795)	—	—	(22,795)		5,942	(16,853)
Other comprehensive income before reclassifications:							
Unrealized holding losses, net	(230,135)	—	—	(230,135)		60,494	(169,641)
Foreign currency translation adjustment	—	—	(1,783)	(1,783)		374	(1,409)
Unrealized losses on cash flow hedges	—	—	(26,522)	(26,522)		6,972	(19,550)
Total other comprehensive income (loss) before reclassifications	(230,135)	—	(28,305)	(258,440)		67,840	(190,600)
Amounts reclassified from accumulated other comprehensive income that (increase) decrease net income:							
Amortization of unrealized holding losses on held-to-maturity (“HTM”) securities	2,519	—	—	2,519	(c)	(662)	1,857
Gains realized in net income	(18)	—	—	(18)	(d)	4	(14)
Accretion of net gain on terminated cash flow hedges	—	—	(83)	(83)	(e)	22	(61)
Net yield adjustment from cash flow hedges currently in effect	—	—	7,650	7,650	(e)	(2,011)	5,639
Amortization of prior service credit	—	(3,129)	—	(3,129)	(f)	823	(2,306)
Amortization of actuarial losses	—	32,225	—	32,225	(f)	(8,472)	23,753
Total other comprehensive income (loss)	(227,634)	29,096	(20,738)	(219,276)		57,544	(161,732)

Balance — September 30, 2018		$(310,386)	(384,072)	(40,903)	$(735,361)		192,962	$(542,399)

	Investment Securities With OTTI(b)	All Other	Defined Benefit Plans	Other	Total Amount Before Tax		Income Tax	Net
	(In thousands)							
Balance — January 1, 2017	$46,725	(73,785)	(449,917)	(8,268)	$(485,245)		190,609	$(294,636)
Other comprehensive income before reclassifications:								
Unrealized holding gains (losses), net	(7,365)	60,586	—	—	53,221		(20,934)	32,287
Foreign currency translation adjustment	—	—	—	3,829	3,829		(1,340)	2,489
Unrealized losses on cash flow hedges	—	—	—	(1,076)	(1,076)		424	(652)
Total other comprehensive income (loss) before reclassifications	(7,365)	60,586	—	2,753	55,974		(21,850)	34,124
Amounts reclassified from accumulated other comprehensive income that (increase) decrease net income:								
Amortization of unrealized holding losses on HTM securities	—	2,535	—	—	2,535	(c)	(998)	1,537
(Gains) losses realized in net income	(50)	67	—	—	17	(d)	(7)	10
Accretion of net gain on terminated cash flow hedges	—	—	—	(109)	(109)	(e)	43	(66)
Net yield adjustment from cash flow hedges currently in effect	—	—	—	(2,275)	(2,275)	(e)	895	(1,380)
Amortization of prior service credit	—	—	(601)	—	(601)	(f)	236	(365)
Amortization of actuarial losses	—	—	21,206	—	21,206	(f)	(8,345)	12,861
Total other comprehensive income (loss)	(7,415)	63,188	20,605	369	76,747		(30,026)	46,721
Balance — September 30, 2017	$39,310	(10,597)	(429,312)	(7,899)	$(408,498)		160,583	$(247,915)

(a) Beginning January 1, 2018, equity securities with readily determinable fair values are required to be measured at fair value with changes in fair value recognized in the income statement. Separate presentation of investment securities with an other-than-temporary impairment charge is no longer required.
(b) Other-than-temporary impairment
(c) Included in interest income
(d) Included in gain (loss) on bank investment securities
(e) Included in interest expense
(f) Included in other costs of operations

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8. Comprehensive income, continued

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

	Investment Securities	Defined Benefit Plans	Other	Total
	(In thousands)			
Balance — December 31, 2017	$(44,150)	(304,546)	(15,118)	$(363,814)
Cumulative effect of change in accounting principle — equity securities	(16,853)	—	—	(16,853)
Net gain (loss) during period	(167,798)	21,447	(15,381)	(161,732)
Balance — September 30, 2018	$(228,801)	(283,099)	(30,499)	$(542,399)

9. Derivative financial instruments

As part of managing interest rate risk, the Company enters into interest rate swap agreements to modify the repricing characteristics of certain portions of the Company's portfolios of earning assets and interest-bearing liabilities. The Company designates interest rate swap agreements utilized in the management of interest rate risk as either fair value hedges or cash flow hedges. Interest rate swap agreements are generally entered into with counterparties that meet established credit standards and most contain master netting, collateral and/or settlement provisions protecting the at-risk party. Based on adherence to the Company's credit standards and the presence of the netting, collateral or settlement provisions, the Company believes that the credit risk inherent in these contracts was not significant as of September 30, 2018.

The net effect of interest rate swap agreements was to decrease net interest income by $8 million and $12 million for the three-month and nine-month periods ended September 30, 2018, respectively, compared with increases of $7 million and $18 million for the three-month and nine-month periods ended September 30, 2017, respectively.

9. Derivative financial instruments, continued

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

	Notional Amount (In thousands)	Average Maturity (In years)	Weighted- Average Rate Fixed	Variable	Estimated Fair Value Gain (a) (In thousands)
September 30, 2018					
Fair value hedges:					
Fixed rate long-term borrowings (b)	$5,200,000	2.7	2.45%	2.76%	$ 1,458
Cash flow hedges:					
Interest payments on variable rate commercial real estate loans (b)(c)	10,550,000	1.4	1.52%	2.11%	988
Total	$15,750,000	1.8			$ 2,446
December 31, 2017					
Fair value hedges:					
Fixed rate long-term borrowings (b)	$4,550,000	2.9	2.27%	2.09%	$ 573
Cash flow hedges:					
Interest payments on variable rate commercial real estate loans (b)(d)	4,850,000	2.0	1.52%	1.36%	66
Total	$9,400,000	2.5			$ 639

(a) Certain clearinghouse exchanges consider payments by counterparties for variation margin on derivative instruments to be settlements of those positions. The impact of such treatment at September 30, 2018 and December 31, 2017 was a reduction of the estimated fair value losses on interest rate swap agreements designated as fair value hedges of $110.3 million and $41.1 million, respectively, and on interest rate swap agreements designated as cash flow hedges of $36.1 million and $16.3 million, respectively.
(b) Under the terms of these agreements, the Company receives settlement amounts at a fixed rate and pays at a variable rate.
(c) Includes notional amount and terms of $7.7 billion of forward-starting interest rate swap agreements that will become effective in 2019 and 2020 upon maturity of a like amount of other swap agreements.
(d) Includes notional amount and terms of $2.0 billion of forward-starting interest rate swap agreements that will become effective in 2019 upon maturity of a like amount of other swap agreements.

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

Derivative financial instruments used for trading account purposes included interest rate contracts, foreign exchange and other option contracts, foreign exchange forward and spot contracts, and financial futures. Interest rate contracts entered into for trading account purposes had notional values of $40.3 billion and $29.9 billion at September 30, 2018 and December 31, 2017, respectively. The notional amounts of foreign currency and other option and futures contracts entered into for trading account purposes aggregated $869 million and $530 million at September 30, 2018 and December 31, 2017, respectively.

9. Derivative financial instruments, continued

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

	Asset Derivatives Fair Value		Liability Derivatives Fair Value	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
	(In thousands)			
Derivatives designated and qualifying as hedging instruments				
Interest rate swap agreements (a)	$2,446	$ 639	$—	$ —
Commitments to sell real estate loans (a)	5,832	734	546	283
	8,278	1,373	546	283
Derivatives not designated and qualifying as hedging instruments				
Mortgage-related commitments to originate real estate loans for sale (a)	5,625	8,797	1,439	494
Commitments to sell real estate loans (a)	5,795	2,526	250	1,019
Trading:				
Interest rate contracts (b)	62,472	74,164	299,791	132,104
Foreign exchange and other option and futures contracts (b)	9,270	5,657	8,942	5,286
	83,162	91,144	310,422	138,903
Total derivatives	$91,440	$ 92,517	$310,968	$ 139,186

(a) Asset derivatives are reported in other assets and liability derivatives are reported in other liabilities.
(b) Asset derivatives are reported in trading account assets and liability derivatives are reported in other liabilities. The impact of variation margin payments at September 30, 2018 and December 31, 2017 was a reduction of the estimated fair value of interest rate contracts in the trading account in an asset position of $302.4 million and $136.2 million, respectively, and in a liability position of $2.7 million and $12.2 million, respectively.

	Amount of Gain (Loss) Recognized			
	Three Months Ended September 30, 2018		Three Months Ended September 30, 2017	
	Derivative	Hedged Item	Derivative	Hedged Item
	(In thousands)			
Derivatives in fair value hedging relationships				
Interest rate swap agreements:				
Fixed rate long-term borrowings (a)	$(12,568)	12,607	$(13,509)	14,026
Derivatives not designated as hedging instruments				
Trading:				

Interest rate contracts (b)	$(1,348)	$(418)
Foreign exchange and other option and futures contracts (b)	782	1,362
Total	$(566)	$944

NOTES TO FINANCIAL STATEMENTS, CONTINUED

9. Derivative financial instruments, continued

	Amount of Gain (Loss) Recognized			
	Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	Derivative	Hedged Item	Derivative	Hedged Item
	(In thousands)			
Derivatives in fair value hedging relationships				
Interest rate swap agreements:				
Fixed rate long-term borrowings (a)	$(68,315)	68,861	$(23,423)	23,049
Derivatives not designated as hedging instruments				
Trading:				
Interest rate contracts (b)	$(5,639)		$2,363	
Foreign exchange and other option and futures contracts (b)	5,778		4,766	
Total	$139		$7,129	

(a) Effective January 1, 2018, reported as an adjustment to interest expense. Prior to 2018, reported as other revenues from operations.

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

	Carrying Amount of the Hedged Item		Cumulative Amount of Fair Value Hedging Adjustment Increasing (Decreasing) the Carrying Amount of the Hedged Item	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
	(In thousands)			
Location in the Consolidated Balance Sheet of the Hedged Items in Fair Value Hedges				
Long-term debt	$5,085,610	$4,504,029	$(108,994)	$(40,133)

The amount of gain (loss) resulting from hedge ineffectiveness recognized in the consolidated statement of income associated with derivatives designated as cash flow hedges was not material during the three months and nine months ended September 30, 2018 and 2017.

The Company also has commitments to sell and commitments to originate residential and commercial real estate loans that are considered derivatives. The Company designates certain of the commitments to sell real estate loans as fair value hedges of real estate loans held for sale. The Company also utilizes commitments to sell real estate loans to offset the exposure to changes in the fair value of certain commitments to originate real estate loans for sale. As a result of these activities, net unrealized pre-tax gains related to hedged loans held for sale, commitments to originate loans for sale and commitments to sell loans were approximately $18 million and $16 million at September 30, 2018 and December 31, 2017, respectively. Changes in unrealized gains and losses are included in mortgage banking revenues and, in general, are realized in subsequent periods as the related loans are sold and commitments satisfied.

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

9. Derivative financial instruments, continued

The aggregate fair value of derivative financial instruments in a liability position and the net liability positions with counterparties, which are subject to enforceable master netting arrangements, was $3 million and $13 million at September 30, 2018 and December 31, 2017, respectively. The Company was required to post collateral relating to those positions of $3 million and $12 million at September 30, 2018 and December 31, 2017, respectively. Certain of the Company's derivative financial instruments contain provisions that require the Company to maintain specific credit ratings from credit rating agencies to avoid higher collateral posting requirements. If the Company's debt rating were to fall below specified ratings, the counterparties of the derivative financial instruments could demand immediate incremental collateralization on those instruments in a net liability position. The aggregate fair value of all derivative financial instruments with such credit risk-related contingent features in a net liability position on September 30, 2018 was not significant. If the credit risk-related contingent features had been triggered on September 30, 2018, the Company would not have been required to post any additional collateral to counterparties.

The aggregate fair value of derivative financial instruments in an asset position and the net asset positions with counterparties, which are subject to enforceable master netting arrangements, was $49 million and $13 million at September 30, 2018 and December 31, 2017, respectively. Counterparties posted collateral relating to those positions of $46 million and $12 million at September 30, 2018 and December 31, 2017, respectively. Trading account interest rate swap agreements entered into with customers are subject to the Company's credit risk standards and often contain collateral provisions.

In addition to the derivative contracts noted above, the Company clears certain derivative transactions through a clearinghouse, rather than directly with counterparties. Those transactions cleared through a clearinghouse require initial margin collateral and variation margin payments depending on the contracts being in a net asset or liability position. The amount of initial margin collateral posted by the Company was $48 million and $52 million at September 30, 2018 and December 31, 2017, respectively. The fair value asset and liability amounts of derivative contracts at September 30, 2018 have been reduced by variation margin payments treated as settlements of $302 million and $149 million, respectively. Variation margin on derivative contracts not treated as settlements continues to represent collateral posted or received by the Company.

10. Variable interest entities and asset securitizations

The Company's securitization activity has consisted of securitizing loans originated for sale into government issued or guaranteed mortgage-backed securities. The amounts of those securitizations during the nine-month periods ended September 30, 2018 and 2017 are presented in the Company's consolidated statement of cash flows. The Company has not recognized any losses as a result of having securitized assets.

As described in note 4, M&T has issued junior subordinated debentures payable to various trusts that have issued Capital Securities. M&T owns the common securities of those trust entities. The Company is not considered to be the primary beneficiary of those entities and, accordingly, the trusts are not included in the Company's consolidated financial statements. At each of September 30, 2018 and December 31, 2017, the Company included the junior subordinated debentures as "long-term borrowings" in its consolidated balance sheet and recognized $23 million in other assets for its "investment" in the common securities of the trusts that will be concomitantly repaid to M&T by the respective trust from the proceeds of M&T's repayment of the junior subordinated debentures associated with preferred capital securities described in note 4.

The Company has invested as a limited partner in various partnerships that collectively had total assets of approximately $1.0 billion at each of September 30, 2018 and December 31, 2017. Those partnerships generally construct or acquire properties for which the investing partners are eligible to receive certain federal income tax credits in accordance with government guidelines. Such investments may also provide tax deductible losses to the partners. The partnership investments also assist the Company in achieving its community reinvestment initiatives. As a limited partner, there is no recourse to the Company by creditors of the partnerships. However, the tax credits

10. Variable interest entities and asset securitizations, continued

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 $457 million, including $215 million of unfunded commitments, at September 30, 2018 and $420 million, including $201 million of unfunded commitments, at December 31, 2017. Contingent commitments to provide additional capital contributions to these partnerships were not material at September 30, 2018. The Company has not provided financial or other support to the partnerships that was not contractually required. Management currently estimates that no material losses are probable as a result of the Company's involvement with such entities. The Company, in its position as limited partner, does not direct the activities that most significantly impact the economic performance of the partnerships and, therefore, in accordance with the accounting provisions for variable interest entities, the partnership entities are not included in the Company's consolidated financial statements. The Company's investment cost is amortized to income taxes in the consolidated statement of income as tax credits and other tax benefits resulting from deductible losses associated with the projects are received. The Company amortized $13 million and $39 million of its investments in qualified affordable housing projects to income tax expense during the three-month and nine-month periods ended September 30, 2018, respectively, and recognized $15 million and $47 million of tax credits and other tax benefits during each of those respective periods. Similarly, for the three-month and nine-month periods ended September 30, 2017, the Company amortized $11 million and $35 million, respectively, of its investments in qualified affordable housing projects to income tax expense and recognized $16 million and $47 million of tax credits and other tax benefits during those respective periods.

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

11. Fair value measurements

GAAP permits an entity to choose to measure eligible financial instruments and other items at fair value. The Company has not made any fair value elections at September 30, 2018.

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

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

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

11. Fair value measurements, continued

Trading account assets and liabilities

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

Investment securities available for sale and equity securities

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

Real estate loans held for sale

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

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

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

Interest rate swap agreements used for interest rate risk management

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

11. Fair value measurements, continued

The following tables present assets and liabilities at September 30, 2018 and December 31, 2017 measured at estimated fair value on a recurring basis:

	Fair Value Measurements (In thousands)	Level 1 (a)	Level 2 (a)	Level 3
September 30, 2018				
Trading account assets	$125,038	$47,653	$77,385	$—
Investment securities available for sale:				
U.S. Treasury and federal agencies	1,608,672	—	1,608,672	—
Obligations of states and political subdivisions	1,796	—	1,796	—
Mortgage-backed securities:				
Government issued or guaranteed	7,412,696	—	7,412,696	—
Privately issued	23	—	—	23
Other debt securities	131,328	—	131,328	—
	9,154,515	—	9,154,492	23
Equity securities	90,129	72,651	17,478	—
Real estate loans held for sale	638,579	—	638,579	—
Other assets (b)	19,698	—	14,073	5,625
Total assets	$10,027,959	$120,304	$9,902,007	$5,648
Trading account liabilities	$308,733	$—	$308,733	$—
Other liabilities (b)	2,235	—	796	1,439
Total liabilities	$310,968	$—	$309,529	$1,439
December 31, 2017				
Trading account assets	$132,909	$47,873	$85,036	$—
Investment securities available for sale:				
U.S. Treasury and federal agencies	1,947,487	—	1,947,487	—
Obligations of states and political subdivisions	2,589	—	2,589	—
Mortgage-backed securities:				
Government issued or guaranteed	8,716,392	—	8,716,392	—
Privately issued	28	—	—	28
Other debt securities	128,832	—	128,832	—
Equity securities	100,956	73,232	27,724	—
	10,896,284	73,232	10,823,024	28
Real estate loans held for sale	378,047	—	378,047	—
Other assets (b)	12,696	—	3,899	8,797
Total assets	$11,419,936	$121,105	$11,290,006	$8,825
Trading account liabilities	$137,390	$—	$137,390	$—
Other liabilities (b)	1,796	—	1,302	494
Total liabilities	$139,186	$—	$138,692	$494

(a) There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy during the nine months ended September 30, 2017 and the year ended December 31, 2017.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

11. Fair value measurements, continued

The changes in Level 3 assets and liabilities measured at estimated fair value on a recurring basis during the three months ended September 30, 2018 were as follows:

	Investment Securities Available for Sale Privately Issued Mortgage-Backed Securities	Other Assets and Other Liabilities	
	(In thousands)		
Balance — June 30, 2018	$ 24	10,751	
Total gains (losses) realized/unrealized:			
Included in earnings	—	10,284	(b)
Settlements	(1)	—	
Transfers out of Level 3 (a)	—	(16,849)	(c)
Balance — September 30, 2018	$ 23	4,186	
Changes in unrealized gains included in earnings related to assets still held at September 30, 2018	$ —	4,508	(b)

The changes in Level 3 assets and liabilities measured at estimated fair value on a recurring basis during the three months ended September 30, 2017 were as follows:

	Investment Securities Available for Sale Privately Issued Mortgage-Backed Securities	Other Assets and Other Liabilities	
	(In thousands)		
Balance — June 30, 2017	$ 35	12,425	
Total gains (losses) realized/unrealized:			
Included in earnings	—	22,313	(b)
Settlements	(5)	—	

Transfers out of Level 3 (a)	—	(21,016	)(c)
Balance — September 30, 2017	$ 30	13,722	
Changes in unrealized gains included in earnings			
related to assets still held at September 30, 2017	$ —	12,659	(b)

NOTES TO FINANCIAL STATEMENTS, CONTINUED

11. Fair value measurements, continued

The changes in Level 3 assets and liabilities measured at estimated fair value on a recurring basis during the nine months ended September 30, 2018 were as follows:

	Investment securities available for sale Privately Issued Mortgage-Backed Securities	Other Assets and Other Liabilities	
	(In thousands)		
Balance — January 1, 2018	$ 28	8,303	
Total gains (losses) realized/unrealized:			
Included in earnings	—	38,691	(b)
Settlements	(5)	—	
Transfers out of Level 3 (a)	—	(42,808)	(c)
Balance — September 30, 2018	$ 23	4,186	
Changes in unrealized gains included in earnings related to assets still held at September 30, 2018	$ —	3,663	(b)

The changes in Level 3 assets and liabilities measured at estimated fair value on a recurring basis during the nine months ended September 30, 2017 were as follows:

	Investment securities available for sale Privately Issued Mortgage-Backed Securities	Other Assets and Other Liabilities
	(In thousands)	
Balance — January 1, 2017	$ 44	7,325
Total gains (losses) realized/unrealized:		

Included in earnings	—	65,824	(b)
Settlements	(14)	—	
Transfers out of Level 3 (a)	—	(59,427)	(c)
Balance — September 30, 2017	$ 30	13,722	
Changes in unrealized gains included in earnings related to assets still held at September 30, 2017	$ —	13,684	(b)

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

11. Fair value measurements, continued

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

Loans

Loans are generally not recorded at fair value on a recurring basis. Periodically, the Company records nonrecurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Nonrecurring adjustments also include certain impairment amounts for collateral-dependent loans when establishing the allowance for credit losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan and, as a result, the carrying value of the loan less the calculated valuation amount does not necessarily represent the fair value of the loan. Real estate collateral is typically valued using appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace and the related nonrecurring fair value measurement adjustments have generally been classified as Level 2, unless significant adjustments have been made to the valuation that are not readily observable by market participants. Non-real estate collateral supporting commercial loans generally consists of business assets such as receivables, inventory and equipment. Fair value estimations are typically determined by discounting recorded values of those assets to reflect estimated net realizable value considering specific borrower facts and circumstances and the experience of credit personnel in their dealings with similar borrower collateral liquidations. Such discounts were generally in the range of 15% to 90% at September 30, 2018. As these discounts are not readily observable and are considered significant, the valuations have been classified as Level 3. Automobile collateral is typically valued by reference to independent pricing sources based on recent sales transactions of similar vehicles, and the related nonrecurring fair value measurement adjustments have been classified as Level 2. Collateral values for other consumer installment loans are generally estimated based on historical recovery rates for similar types of loans. As these recovery rates are not readily observable by market participants, such valuation adjustments have been classified as Level 3. Loans subject to nonrecurring fair value measurement were $292 million at September 30, 2018 ($128 million and $164 million of which were classified as Level 2 and Level 3, respectively), $210 million at December 31, 2017 ($145 million and $65 million of which were classified as Level 2 and Level 3, respectively) and $184 million at September 30, 2017 ($105 million and $79 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 September 30, 2018 were decreases of $35 million and $69 million for the three-month and nine-month periods ended September 30, 2018, respectively. Changes in fair value recognized for partial charge-offs of loans and loan impairment reserves on loans held by the Company on September 30, 2017 were decreases of $16 million and $55 million for the three-month and nine-month periods ended September 30, 2017, respectively.

Assets taken in foreclosure of defaulted loans

Assets taken in foreclosure of defaulted loans are primarily comprised of commercial and residential real property and are generally measured at the lower of cost or fair value less costs to sell. The fair value of the real property is generally determined using appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace, and the related nonrecurring fair value measurement adjustments have generally been classified as Level 2. Assets taken in foreclosure of defaulted loans subject to nonrecurring fair value measurement were $32 million and $36 million at September 30, 2018 and 2017, respectively. Changes in fair value recognized for those foreclosed assets held by the Company were not material during the three-month and nine-month periods ended September 30, 2018 and 2017.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

11. Fair value measurements, continued

Significant unobservable inputs to Level 3 measurements

The following tables present quantitative information about significant unobservable inputs used in the fair value measurements for certain Level 3 assets and liabilities at September 30, 2018 and December 31, 2017:

	Fair Value (In thousands)	Valuation Technique	Unobservable Inputs/Assumptions	Range (Weighted-Average)
September 30, 2018				
Recurring fair value measurements				
Privately issued mortgage-backed securities	$ 23	Two independent pricing quotes	—	—
Net other assets (liabilities) (a)	4,186	Discounted cash flow		