M&T BANK CORP
Form 10-Q
November 04, 2016

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, 2016

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

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

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

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 28, 2016: 155,048,618 shares.

M&T BANK CORPORATION

FORM 10-Q

For the Quarterly Period Ended September 30, 2016

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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, 2016	December 31, 2015
Assets	Cash and due from banks	$ 1,332,202	1,368,040
	Interest-bearing deposits at banks	10,777,636	7,594,350
	Trading account	488,588	273,783
	Investment securities (includes pledged securities that can be sold or repledged of $1,856,326 at September 30, 2016; $2,136,712 at December 31, 2015)		
	Available for sale (cost: $11,551,614 at September 30, 2016; $12,138,636 at December 31, 2015)	11,862,567	12,242,671
	Held to maturity (fair value: $2,456,097 at September 30, 2016; $2,864,147 at December 31, 2015)	2,409,950	2,859,709
	Other (fair value: $461,057 at September 30, 2016; $554,059 at December 31, 2015)	461,057	554,059
	Total investment securities	14,733,574	15,656,439
	Loans and leases	89,887,257	87,719,234
	Unearned discount	(240,765)	(229,735)
	Loans and leases, net of unearned discount	89,646,492	87,489,499
	Allowance for credit losses	(976,121)	(955,992)
	Loans and leases, net	88,670,371	86,533,507
	Premises and equipment	660,381	666,682
	Goodwill	4,593,112	4,593,112
	Core deposit and other intangible assets	106,744	140,268
	Accrued interest and other assets	5,478,420	5,961,703
	Total assets	$ 126,841,028	122,787,884
Liabilities	Noninterest-bearing deposits	$ 33,127,627	29,110,635
	Interest-checking deposits	2,554,507	2,939,274
	Savings deposits	50,510,523	46,627,370
	Time deposits	11,721,005	13,110,392
	Deposits at Cayman Islands office	223,183	170,170
	Total deposits	98,136,845	91,957,841
	Federal funds purchased and agreements to repurchase securities	213,846	150,546

	Other short-term borrowings	—	1,981,636
	Accrued interest and other liabilities	1,938,201	1,870,714
	Long-term borrowings	10,211,160	10,653,858
	Total liabilities	110,500,052	106,614,595
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, 2016 and December 31, 2015; Liquidation preference of $10,000 per share: 50,000 shares at September 30, 2016 and December 31, 2015	1,231,500	1,231,500
	Common stock, $.50 par, 250,000,000 shares authorized, 159,950,278 shares issued at September 30, 2016; 159,563,512 shares issued at December 31, 2015	79,975	79,782
	Common stock issuable, 33,748 shares at September 30, 2016; 36,644 shares at December 31, 2015	2,224	2,364
	Additional paid-in capital	6,689,812	6,680,768
	Retained earnings	9,021,965	8,430,502
	Accumulated other comprehensive income (loss), net	(114,559)	(251,627)
	Treasury stock - common, at cost - 4,997,089 shares at September 30, 2016	(569,941)	—
	Total shareholders' equity	16,340,976	16,173,289
	Total liabilities and shareholders' equity	$126,841,028	122,787,884

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

In thousands, except per share		Three months ended September 30 2016	2015	Nine months ended September 30 2016	2015
Interest income	Loans and leases, including fees	$871,345	672,092	$2,602,208	1,981,904
	Investment securities				
	Fully taxable	84,893	93,062	274,092	272,163
	Exempt from federal taxes	623	950	2,081	3,330
	Deposits at banks	12,354	3,852	33,684	10,321
	Other	300	70	905	749
	Total interest income	969,515	770,026	2,912,970	2,268,467
Interest expense	Interest-checking deposits	378	360	1,192	1,020
	Savings deposits	23,689	10,937	59,714	31,517
	Time deposits	27,886	3,643	79,075	11,073
	Deposits at Cayman Islands office	204	151	578	448
	Short-term borrowings	169	32	3,474	102
	Long-term borrowings	58,849	62,076	174,814	188,764
	Total interest expense	111,175	77,199	318,847	232,924
	Net interest income	858,340	692,827	2,594,123	2,035,543
	Provision for credit losses	47,000	44,000	128,000	112,000
	Net interest income after provision for credit losses	811,340	648,827	2,466,123	1,923,543
Other income	Mortgage banking revenues	103,747	84,035	275,193	288,238
	Service charges on deposit accounts	107,935	107,259	314,212	314,860
	Trust income	118,654	113,744	350,181	356,076
	Brokerage services income	15,914	16,902	48,190	49,224
	Trading account and foreign exchange gains	12,754	8,362	33,434	20,639
	Gain (loss) on bank investment securities	28,480	—	28,748	(108)
	Other revenues from operations	103,866	109,397	310,579	348,000
	Total other income	491,350	439,699	1,360,537	1,376,929
Other expense	Salaries and employee benefits	399,786	363,567	1,230,246	1,115,117
	Equipment and net occupancy	75,263	68,470	225,165	201,792
	Printing, postage and supplies	8,972	8,691	30,865	27,586
	Amortization of core deposit and other intangible assets	9,787	4,090	33,524	16,848
	FDIC assessments	28,459	11,090	76,054	32,551
	Other costs of operations	230,125	197,908	682,528	642,925
	Total other expense	752,392	653,816	2,278,382	2,036,819
	Income before taxes	550,298	434,710	1,548,278	1,263,653
	Income taxes	200,314	154,309	563,735	454,951
	Net income	$349,984	280,401	$984,543	808,702
	Net income available to common shareholders				
	Basic	$326,992	257,337	$915,670	739,627
	Diluted	326,998	257,346	915,686	739,656
	Net income per common share				

Basic	$2.10	1.94	$5.82	5.59
Diluted	2.10	1.93	5.80	5.56
Cash dividends per common share	$.70	.70	$2.10	2.10
Average common shares outstanding				
Basic	155,493	132,630	157,336	132,347
Diluted	156,026	133,376	157,843	133,089

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

	Three months ended September 30		Nine months ended September 30	
In thousands	2016	2015	2016	2015
Net income	$349,984	280,401	$984,543	808,702
Other comprehensive income (loss), net of tax and reclassification adjustments:				
Net unrealized gains (losses) on investment securities	(17,133)	48,332	127,331	1,053
Cash flow hedges adjustments	(23)	(24)	(70)	823
Foreign currency translation adjustment	(229)	(3)	(1,847)	(521)
Defined benefit plans liability adjustments	3,847	5,724	11,654	16,166
Total other comprehensive income (loss)	(13,538)	54,029	137,068	17,521
Total comprehensive income	$336,446	334,430	$1,121,611	826,223

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

In thousands		Nine months ended September 30 2016	2015
Cash flows from operating activities	Net income	$984,543	808,702
	Adjustments to reconcile net income to net cash provided by operating activities		
	Provision for credit losses	128,000	112,000
	Depreciation and amortization of premises and equipment	79,911	73,916
	Amortization of capitalized servicing rights	37,979	36,730
	Amortization of core deposit and other intangible assets	33,524	16,848
	Provision for deferred income taxes	109,274	20,141
	Asset write-downs	14,276	5,775
	Net gain on sales of assets	(46,732)	(61,969)
	Net change in accrued interest receivable, payable	(13,833)	(5,484)
	Net change in other accrued income and expense	113,809	11,200
	Net change in loans originated for sale	(285,824)	232,974
	Net change in trading account assets and liabilities	(82,837)	(2,993)
	Net cash provided by operating activities	1,072,090	1,247,840
Cash flows from investing activities	Proceeds from sales of investment securities		
	Available for sale	61,947	2,579
	Other	94,516	377
	Proceeds from maturities of investment securities		
	Available for sale	1,690,665	1,343,869
	Held to maturity	459,399	519,359
	Purchases of investment securities		
	Available for sale	(1,150,523)	(3,320,931)
	Held to maturity	(15,806)	(22,592)
	Other	(1,514)	(8,179)
	Net increase in loans and leases	(2,021,004)	(2,208,660)
	Net (increase) decrease in interest-bearing deposits at banks	(3,183,286)	1,757,601
	Capital expenditures, net	(65,277)	(42,744)
	Net decrease in loan servicing advances	121,226	461,700
	Other, net	11,459	(75,449)
	Net cash used by investing activities	(3,998,198)	(1,593,070)
Cash flows from financing activities	Net increase (decrease) in deposits	6,195,511	(636,144)
	Net decrease in short-term borrowings	(1,886,701)	(18,893)
	Proceeds from long-term borrowings	—	1,500,000
	Payments on long-term borrowings	(427,035)	(324,308)
	Purchases of treasury stock	(604,000)	—

	Dividends paid - common	(333,042)	(281,149)
	Dividends paid - preferred	(58,003)	(58,003)
	Other, net	3,540	40,074
	Net cash provided by financing activities	2,890,270	221,577
	Net decrease in cash and cash equivalents	(35,838)	(123,653)
	Cash and cash equivalents at beginning of period	1,368,040	1,373,357
	Cash and cash equivalents at end of period	$1,332,202	1,249,704
Supplemental disclosure of cash flow information	Interest received during the period	$2,923,278	2,234,476
	Interest paid during the period	387,695	234,989
	Income taxes paid during the period	138,375	373,016
Supplemental schedule of noncash investing and financing activities	Real estate acquired in settlement of loans	$100,106	35,018
	Securitization of residential mortgage loans allocated to		
	Available-for-sale investment securities	18,685	51,481
	Capitalized servicing rights	193	528

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)

In thousands, except per share	Preferred stock	Common stock	Common stock issuable	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss), net	Treasury stock	Total
2015								
Balance - January 1, 2015	$1,231,500	66,157	2,608	3,409,506	7,807,119	(180,994)	—	12,335,896
Total comprehensive income	—	—	—	—	808,702	17,521	—	826,223
Preferred stock cash dividends	—	—	—	—	(60,953)	—	—	(60,953)
Exercise of 2,315 Series A stock warrants into 904 shares of common stock	—	1	—	(1)	—	—	—	—
Stock-based compensation plans:								
Compensation expense, net	—	143	—	31,416	—	—	—	31,559
Exercises of stock options, net	—	285	—	57,133	—	—	—	57,418
Stock purchase plan	—	45	—	10,301	—	—	—	10,346
Directors' stock plan	—	4	—	1,346	—	—	—	1,350
Deferred compensation plans, net, including dividend equivalents	—	2	(267)	290	(76)	—	—	(51)
Other	—	—	—	1,191	—	—	—	1,191
Common stock cash dividends - $2.10 per share	—	—	—	—	(281,045)	—	—	(281,045)
Balance - September 30, 2015	$1,231,500	66,637	2,341	3,511,182	8,273,747	(163,473)	—	12,921,934
2016								
Balance - January 1, 2016	$1,231,500	79,782	2,364	6,680,768	8,430,502	(251,627)	—	16,173,289

Total comprehensive income	—	—	—	—	984,543	137,068	—	1,121,611
Preferred stock cash dividends	—	—	—	—	(60,953)	—	—	(60,953)
Exercise of 5,320 Series A stock warrants into 1,983 shares of common stock	—	—	—	(223)	—	—	223	—
Purchases of treasury stock	—	—	—	—	—	—	(604,000)	(604,000)
Stock-based compensation plans:								
Compensation expense, net	—	171	—	7,315	—	—	10,890	18,376
Exercises of stock options, net	—	18	—	(183)	—	—	11,576	11,411
Stock purchase plan	—	—	—	275	—	—	10,319	10,594
Directors' stock plan	—	2	—	526	—	—	1,047	1,575
Deferred compensation plans, net, including dividend equivalents	—	2	(140)	232	(70)	—	4	28
Other	—	—	—	1,102	—	—	—	1,102
Common stock cash dividends - $2.10 per share	—	—	—	—	(332,057)	—	—	(332,057)
Balance - September 30, 2016	$1,231,500	79,975	2,224	6,689,812	9,021,965	(114,559)	(569,941)	16,340,976

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, 2015 (“2015 Annual Report”). In the opinion of management, all adjustments necessary for a fair presentation have been made and were all of a normal recurring nature.

2. Acquisitions

On November 1, 2015, M&T completed the acquisition of Hudson City Bancorp, Inc. (“Hudson City”), headquartered in Paramus, New Jersey. On that date, Hudson City Savings Bank, the banking subsidiary of Hudson City, was merged into M&T Bank, a wholly owned banking subsidiary of M&T. Hudson City Savings Bank operated 135 banking offices in New Jersey, Connecticut and New York at the date of acquisition. The results of operations acquired in the Hudson City transaction have been included in the Company’s financial results since November 1, 2015. After application of the election, allocation and proration procedures contained in the merger agreement with Hudson City, M&T paid $2.1 billion in cash and issued 25,953,950 shares of M&T common stock in exchange for Hudson City shares outstanding at the time of the acquisition. The purchase price was approximately $5.2 billion based on the cash paid to Hudson City shareholders, the fair value of M&T stock exchanged and the estimated fair value of Hudson City stock awards converted into M&T stock awards. The acquisition of Hudson City expanded the Company’s presence in New Jersey, Connecticut and New York, and management expects that the Company will benefit from greater geographic diversity and the advantages of scale associated with a larger company.

The Hudson City transaction has been accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair value on the acquisition date. The consideration paid for Hudson City’s common equity and the amounts of identifiable assets acquired and liabilities assumed as of the acquisition date were as follows:

	(in thousands)
Identifiable assets:	
Cash and due from banks	$131,688
Interest-bearing deposits at banks	7,568,934
Investment securities	7,929,014
Loans	19,015,013
Goodwill	1,079,787
Core deposit intangible	131,665
Other assets	843,219
Total identifiable assets	36,699,320
Liabilities:	
Deposits	17,879,589

Borrowings	13,211,598
Other liabilities	405,025
Total liabilities	31,496,212
Total consideration	$5,203,108
Cash paid	$2,064,284
Common stock issued (25,953,950 shares)	3,110,581
Common stock awards converted	28,243
Total consideration	$5,203,108

In early November 2015, the Company sold $5.8 billion of investment securities obtained in the acquisition and repaid $10.6 billion of borrowings assumed in the transaction. In connection with the acquisition, the Company recorded approximately $1.1 billion of goodwill and $132 million of core deposit intangible. The core deposit intangible asset is being amortized over a period of 7 years using an accelerated method.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. Acquisitions, continued

The following table presents certain pro forma information as if Hudson City had been included in the Company's results of operations in the three-month and nine-month periods ended September 30, 2015. These results combine the historical results of Hudson City into the Company's consolidated statement of income and, while certain adjustments were made for the estimated impact of certain fair valuation adjustments and other acquisition-related activity, they are not indicative of what would have occurred had the acquisition taken place as indicated. In particular, no adjustments have been made to eliminate the impact of gains on securities transactions of $23 million during the three months ended September 30, 2015 and $97 million during the nine months ended September 30, 2015 that may not have been recognized had the investment securities been recorded at fair value. Additionally, the Company expects to achieve operating cost savings and other business synergies as a result of the acquisition which are not reflected in the pro forma amounts that follow.

	Pro forma Three months ended September 30, 2015	Pro forma Nine months ended September 30, 2015
	(in thousands)	
Total revenues (a)	$1,255,165	3,879,204
Net income	296,335	939,226

(a) Represents net interest income plus other income.

In connection with the Hudson City acquisition, the Company incurred merger-related expenses related to systems conversions and other costs of integrating and conforming acquired operations with and into the Company. Those expenses consisted largely of professional services and other temporary help fees associated with preparing for systems conversions and/or integration of operations; costs related to termination of existing contractual arrangements for various services; initial marketing and promotion expenses designed to introduce M&T Bank to its new customers; severance (for former Hudson City employees); travel costs; and other costs of completing the transaction and commencing operations in new markets and offices. The Company does not expect additional merger-related expenses in 2016.

A summary of merger-related expenses included in the consolidated statement of income follows:

	Nine months ended September 30, 2016
	(in thousands)
Salaries and employee benefits	$ 5,334
Equipment and net occupancy	1,278

Printing, postage and supplies	1,482
Other cost of operations	27,661
Total	$ 35,755

There were no merger-related expenses during the three-month period ended September 30, 2016 or during the three-month and nine-month periods ended September 30, 2015.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. Investment securities

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, 2016				
Investment securities available for sale:				
U.S. Treasury and federal agencies	$724,540	1,864	3	$726,401
Obligations of states and political subdivisions	4,912	108	5	5,015
Mortgage-backed securities:				
Government issued or guaranteed	10,617,605	314,088	1,031	10,930,662
Privately issued	52	—	1	51
Other debt securities	134,393	1,802	17,969	118,226
Equity securities	70,112	12,363	263	82,212
	11,551,614	330,225	19,272	11,862,567
Investment securities held to maturity:				
Obligations of states and political subdivisions	72,258	458	220	72,496
Mortgage-backed securities:				
Government issued or guaranteed	2,168,460	83,630	215	2,251,875
Privately issued	163,489	1,616	39,122	125,983
Other debt securities	5,743	—	—	5,743
	2,409,950	85,704	39,557	2,456,097
Other securities	461,057	—	—	461,057
Total	$14,422,621	415,929	58,829	$14,779,721

December 31, 2015				
Investment securities available for sale:				
U.S. Treasury and federal agencies	$299,890	294	187	$299,997
Obligations of states and political subdivisions	5,924	146	42	6,028
Mortgage-backed securities:				
Government issued or guaranteed	11,592,959	142,370	48,701	11,686,628
Privately issued	74	2	2	74
Collateralized debt obligations	28,438	20,143	1,188	47,393
Other debt securities	137,556	1,514	20,190	118,880
Equity securities	73,795	10,230	354	83,671
	12,138,636	174,699	70,664	12,242,671
Investment securities held to maturity:				
Obligations of states and political subdivisions	118,431	1,003	421	119,013
Mortgage-backed securities:				

Government issued or guaranteed	2,553,612	50,936	7,817	2,596,731
Privately issued	181,091	2,104	41,367	141,828
Other debt securities	6,575	—	—	6,575
	2,859,709	54,043	49,605	2,864,147
Other securities	554,059	—	—	554,059
Total	$15,552,404	228,742	120,269	$15,660,877

3. Investment securities, continued

During the three months ended September 30, 2016, the Company sold substantially all of its collateralized debt obligations held in the available-for-sale investment securities portfolio for a gain of $28 million. There were no other significant gross realized gains or losses from sales of investment securities for the three-month and nine-month periods ended September 30, 2016 and 2015.

At September 30, 2016, 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	$105,225	105,679
Due after one year through five years	625,911	627,585
Due after five years through ten years	3,968	4,538
Due after ten years	128,741	111,840
	863,845	849,642
Mortgage-backed securities available for sale	10,617,657	10,930,713
	$11,481,502	11,780,355
Debt securities held to maturity:		
Due in one year or less	$25,141	25,301
Due after one year through five years	43,474	43,474
Due after five years through ten years	3,643	3,721
Due after ten years	5,743	5,743
	78,001	78,239
Mortgage-backed securities held to maturity	2,331,949	2,377,858
	$2,409,950	2,456,097

NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. Investment securities, continued

A summary of investment securities that as of September 30, 2016 and December 31, 2015 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, 2016				
Investment securities available for sale:				
U.S. Treasury and federal agencies	$3,355	(3)	—	—
Obligations of states and political subdivisions	—	—	472	(5)
Mortgage-backed securities:				
Government issued or guaranteed	224,128	(904)	7,294	(127)
Privately issued	—	—	34	(1)
Other debt securities	—	—	106,876	(17,969)
Equity securities	767	(101)	138	(162)
	228,250	(1,008)	114,814	(18,264)
Investment securities held to maturity:				
Obligations of states and political subdivisions	19,557	(113)	11,050	(107)
Mortgage-backed securities:				
Government issued or guaranteed	74,629	(46)	19,256	(169)
Privately issued	17,542	(2,371)	91,127	(36,751)
	111,728	(2,530)	121,433	(37,027)
Total	$339,978	(3,538)	236,247	(55,291)
December 31, 2015				
Investment securities available for sale:				
U.S. Treasury and federal agencies	$147,508	(187)	—	—
Obligations of states and political subdivisions	865	(2)	1,335	(40)
Mortgage-backed securities:				
Government issued or guaranteed	4,061,899	(48,534)	7,216	(167)
Privately issued	—	—	43	(2)
Collateralized debt obligations	5,711	(335)	2,063	(853)
Other debt securities	12,935	(462)	93,344	(19,728)
Equity securities	18,073	(207)	153	(147)
	4,246,991	(49,727)	104,154	(20,937)
Investment securities held to maturity:				
Obligations of states and political subdivisions	42,913	(335)	5,853	(86)
Mortgage-backed securities:				

Government issued or guaranteed	459,983	(1,801)	228,867	(6,016)
Privately issued	—	—	112,155	(41,367)
	502,896	(2,136)	346,875	(47,469)
Total	$4,749,887	(51,863)	451,029	(68,406)

The Company owned 504 individual investment securities with aggregate gross unrealized losses of $59 million at September 30, 2016. Based on a review of each of the securities in the investment securities portfolio at September 30, 2016, the Company concluded that it expected to recover the amortized cost basis of its investment. As of September 30, 2016, 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, 2016, the Company has not identified events or changes in circumstances which may have a significant adverse effect on the fair value of the $461 million of cost method investment securities.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

4. Loans and leases and the allowance for credit losses

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, 2016	December 31, 2015
	(in thousands)	
Outstanding principal balance	$2,556,085	3,122,935
Carrying amount:		
Commercial, financial, leasing, etc.	62,244	78,847
Commercial real estate	504,406	644,284
Residential real estate	845,976	1,016,129
Consumer	609,400	725,807
	$2,022,026	2,465,067

Purchased impaired loans included in the table above totaled $617 million at September 30, 2016 and $768 million at December 31, 2015, 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, 2016 and 2015 follows:

	Three months ended September 30			
	2016		2015	
	Purchased impaired	Other acquired	Purchased impaired	Other acquired
	(in thousands)			
Balance at beginning of period	$162,023	245,195	$77,624	344,989
Interest income	(12,784)	(26,540)	(5,865)	(37,396)
Reclassifications from nonaccretable balance	2,256	12,050	47	769
Other (a)	—	(818)	—	4,697
Balance at end of period	$151,495	229,887	$71,806	313,059

	Nine months ended September 30			
	2016		2015	
	Purchased impaired	Other acquired	Purchased impaired	Other acquired
	(in thousands)			
Balance at beginning of period	$184,618	296,434	$76,518	397,379
Interest income	(40,906)	(97,300)	(16,843)	(118,697)
Reclassifications from nonaccretable balance	7,783	20,647	12,131	27,792
Other (a)	—	10,106	—	6,585

Balance at end of period	$151,495	229,887	$71,806	313,059

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

A summary of current, past due and nonaccrual loans as of September 30, 2016 and December 31, 2015 follows:

September 30, 2016	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
Commercial, financial, leasing, etc.	$21,601,646	70,597	10,831	1,893	795	231,401	$21,917,163
Real estate:							
Commercial	24,283,146	116,651	15,926	13,292	32,775	157,527	24,619,317
Residential builder and developer	1,814,299	16,993	4,476	3,262	18,096	20,118	1,877,244
Other commercial construction	5,525,684	20,238	—	198	15,412	20,669	5,582,201
Residential	18,438,396	494,767	281,023	12,510	401,551	213,896	19,842,143
Residential-limited documentation	3,400,578	105,621	—	—	146,722	89,356	3,742,277
Consumer:							
Home equity lines and loans	5,586,704	40,406	—	13,014	1,640	79,623	5,721,387
Automobile	2,805,779	46,347	—	4	—	14,453	2,866,583
Other	3,410,790	31,033	5,026	21,009	—	10,319	3,478,177
Total	$86,867,022	942,653	317,282	65,182	616,991	837,362	$89,646,492
December 31, 2015							
Commercial, financial, leasing, etc.	$20,122,648	52,868	2,310	693	1,902	241,917	$20,422,338
Real estate:							
Commercial (d)	23,111,673	172,439	12,963	8,790	46,790	179,606	23,532,261
Residential builder and developer	1,507,856	7,969	5,760	6,925	28,734	28,429	1,585,673

Other commercial construction (d)	3,962,620	65,932	7,936	2,001	24,525	16,363	4,079,377
Residential	20,507,551	560,312	284,451	16,079	488,599	153,281	22,010,273
Residential-limited documentation	3,885,073	137,289	—	—	175,518	61,950	4,259,830
Consumer:							
Home equity lines and loans	5,805,222	45,604	—	15,222	2,261	84,467	5,952,776
Automobile	2,446,473	56,181	—	6	—	16,597	2,519,257
Other	3,051,435	36,702	4,021	18,757	—	16,799	3,127,714
Total	$84,400,551	1,135,296	317,441	68,473	768,329	799,409	$87,489,499

(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.

(d) The Company expanded its definition of construction loans in 2016 and, as a result, re-characterized certain commercial real estate loans as other commercial construction loans. The December 31, 2015 balances reflect such changes.

One-to-four family residential mortgage loans held for sale were $415 million and $353 million at September 30, 2016 and December 31, 2015, respectively. Commercial mortgage loans held for sale were $290 million at September 30, 2016 and $39 million at December 31, 2015.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Changes in the allowance for credit losses for the three months ended September 30, 2016 were as follows:

	Commercial, Financial, Leasing, etc.	Real Estate Commercial	Residential	Consumer	Unallocated	Total
	(in thousands)					
Beginning balance	$316,079	349,674	69,660	157,361	77,722	$970,496
Provision for credit losses	26,222	9,963	(6,232)	16,539	508	47,000
Net charge-offs						
Charge-offs	(21,075)	(1,564)	(6,754)	(29,882)	—	(59,275)
Recoveries	6,958	1,704	1,919	7,319	—	17,900
Net charge-offs	(14,117)	140	(4,835)	(22,563)	—	(41,375)
Ending balance	$328,184	359,777	58,593	151,337	78,230	$976,121

Changes in the allowance for credit losses for the three months ended September 30, 2015 were as follows:

	Commercial, Financial, Leasing, etc.	Real Estate Commercial	Residential	Consumer	Unallocated	Total
	(in thousands)					
Beginning balance	$286,750	311,294	60,294	194,238	77,411	$929,987
Provision for credit losses	21,507	1,879	(3,155)	24,448	(679)	44,000
Net charge-offs						
Charge-offs	(26,912)	(2,203)	(3,268)	(20,758)	—	(53,141)
Recoveries	5,322	2,119	1,125	4,386	—	12,952
Net charge-offs	(21,590)	(84)	(2,143)	(16,372)	—	(40,189)
Ending balance	$286,667	313,089	54,996	202,314	76,732	$933,798

Changes in the allowance for credit losses for the nine months ended September 30, 2016 were as follows:

	Commercial, Financial,	Real Estate Commercial	Residential	Consumer	Unallocated	Total

Leasing, etc. (in thousands)						
Beginning balance	$300,404	326,831	72,238	178,320	78,199	$955,992
Provision for credit losses	39,667	29,799	(610)	59,113	31	128,000
Net charge-offs						
Charge-offs	(34,711)	(3,569)	(18,816)	(107,761)	—	(164,857)
Recoveries	22,824	6,716	5,781	21,665	—	56,986
Net charge-offs	(11,887)	3,147	(13,035)	(86,096)	—	(107,871)
Ending balance	$328,184	359,777	58,593	151,337	78,230	$976,121

Changes in the allowance for credit losses for the nine months ended September 30, 2015 were as follows:

	Commercial, Financial, Leasing, etc. (in thousands)	Real Estate Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	$288,038	307,927	61,910	186,033	75,654	$919,562
Provision for credit losses	32,686	13,769	(571)	65,038	1,078	112,000
Net charge-offs						
Charge-offs	(46,990)	(12,352)	(9,695)	(64,542)	—	(133,579)
Recoveries	12,933	3,745	3,352	15,785	—	35,815
Net charge-offs	(34,057)	(8,607)	(6,343)	(48,757)	—	(97,764)
Ending balance	$286,667	313,089	54,996	202,314	76,732	$933,798

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

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

In establishing the allowance for credit losses, the Company estimates losses attributable to specific troubled credits identified through both normal and detailed or intensified credit review processes and also estimates losses inherent in other loans and leases on a collective basis. For purposes of determining the level of the allowance for credit losses, the Company evaluates its loan and lease portfolio by loan type. The amounts of loss components in the Company's loan and lease portfolios are determined through a loan-by-loan analysis of larger balance commercial 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 officers are responsible for continually assigning grades to these loans based on standards outlined in the Company's Credit Policy. Internal loan grades are also monitored by the Company's loan review department to ensure consistency and strict adherence to the prescribed standards. Loan grades are assigned loss component factors that reflect the Company's loss estimate for each group of loans and leases. Factors considered in assigning loan grades and loss component factors include borrower-specific information related to expected future cash flows and operating results, collateral values, geographic location, financial condition and performance, payment status, and other information; levels of and trends in portfolio charge-offs and recoveries; levels of and trends in portfolio delinquencies and impaired loans; changes in the risk profile of specific portfolios; trends in volume and terms of loans; effects of changes in credit concentrations; and observed trends and practices in the banking industry. As updated appraisals are obtained on individual loans or other events in the market place indicate that collateral values have significantly changed, individual loan grades are adjusted as appropriate. Changes in other factors cited may also lead to loan grade changes at any time. Except for consumer loans and residential real estate loans that are considered smaller balance homogenous loans and acquired loans that are evaluated on an aggregated basis, the Company considers a loan to be impaired for purposes of applying GAAP when, based on current information and events, it is probable that the Company will be unable to collect all amounts according to the contractual terms of the loan agreement or the loan is delinquent 90 days. Regardless of loan type, the Company considers a loan to be impaired if it qualifies as a troubled debt restructuring. Modified loans, including smaller balance homogenous loans, that are considered to be troubled debt restructurings are evaluated for impairment giving consideration to the impact of the modified loan terms on the present value of the loan's expected cash flows.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The following tables provide information with respect to loans and leases that were considered impaired as of September 30, 2016 and December 31, 2015 and for the three-month and nine-month periods ended September 30, 2016 and 2015.

	September 30, 2016			December 31, 2015		
	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Related allowance
	(in thousands)					
With an allowance recorded:						
Commercial, financial, leasing, etc.	$192,805	212,009	55,020	179,037	195,821	44,752
Real estate:						
Commercial	75,749	85,137	14,939	85,974	95,855	18,764
Residential builder and developer	8,142	8,923	714	3,316	5,101	196
Other commercial construction	2,729	3,092	1,103	3,548	3,843	348
Residential	79,036	97,466	3,144	79,558	96,751	4,727
Residential-limited documentation	83,296	97,984	6,200	90,356	104,251	8,000
Consumer:						
Home equity lines and loans	42,862	46,844	7,697	25,220	26,195	3,777
Automobile	18,033	19,218	3,737	22,525	22,525	4,709
Other	4,122	5,122	864	17,620	17,620	4,820
	506,774	575,795	93,418	507,154	567,962	90,093
With no related allowance recorded:						
Commercial, financial, leasing, etc.	72,429	80,757	—	93,190	110,735	—
Real estate:						
Commercial	90,425	104,508	—	101,340	116,230	—
Residential builder and developer	17,346	23,617	—	27,651	47,246	—
Other commercial construction	18,265	37,432	—	13,221	31,477	—
Residential	18,079	26,127	—	19,621	30,940	—
Residential-limited documentation	17,611	27,936	—	18,414	31,113	—
	234,155	300,377	—	273,437	367,741	—
Total:						
Commercial, financial, leasing, etc.	265,234	292,766	55,020	272,227	306,556	44,752
Real estate:						
Commercial	166,174	189,645	14,939	187,314	212,085	18,764
Residential builder and developer	25,488	32,540	714	30,967	52,347	196
Other commercial construction	20,994	40,524	1,103	16,769	35,320	348
Residential	97,115	123,593	3,144	99,179	127,691	4,727
Residential-limited documentation	100,907	125,920	6,200	108,770	135,364	8,000
Consumer:						
Home equity lines and loans	42,862	46,844	7,697	25,220	26,195	3,777

Automobile	18,033	19,218	3,737	22,525	22,525	4,709
Other	4,122	5,122	864	17,620	17,620	4,820
Total	$740,929	876,172	93,418	780,591	935,703	90,093

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

	Three months ended September 30, 2016			Three months ended September 30, 2015		
		Interest income recognized			Interest income recognized	
	Average recorded investment	Total	Cash basis	Average recorded investment	Total	Cash basis
	(in thousands)					
Commercial, financial, leasing, etc.	$262,796	744	744	242,157	1,017	1,017
Real estate:						
Commercial	175,256	1,806	1,806	179,327	2,327	2,327
Residential builder and developer	26,996	405	405	53,009	81	81
Other commercial construction	21,500	190	190	17,236	1,943	1,943
Residential	96,961	1,572	570	99,939	1,835	1,316
Residential-limited documentation	101,877	1,501	378	116,191	1,539	618
Consumer:						
Home equity lines and loans	41,740	368	112	21,952	231	66
Automobile	18,571	303	19	24,429	391	39
Other	4,077	72	11	19,238	188	23
Total	$749,774	6,961	4,235	773,478	9,552	7,430

	Nine months ended September 30, 2016			Nine months ended September 30, 2015		
		Interest income recognized			Interest income recognized	
	Average recorded investment	Total	Cash basis	Average recorded investment	Total	Cash basis
	(in thousands)					
Commercial, financial, leasing, etc.	$283,783	7,055	7,055	226,243	2,123	2,123
Real estate:						
Commercial	177,579	3,891	3,891	161,834	4,433	4,433
Residential builder and developer	30,832	488	488	64,165	275	275
Other commercial construction	19,774	563	563	22,130	2,166	2,166
Residential	97,229	4,778	2,591	101,997	4,639	3,011

Residential-limited documentation	104,382	4,580	1,648	120,710	4,799	1,962
Consumer:						
Home equity lines and loans	33,998	937	295	20,619	656	179
Automobile	20,358	964	83	26,521	1,257	136
Other	10,987	371	74	19,053	547	86
Total	$778,922	23,627	16,688	763,272	20,895	14,371

In accordance with the previously described policies, the Company utilizes a loan grading system that is applied to all commercial loans and commercial real estate loans. Loan grades are utilized to differentiate risk within the portfolio and consider the expectations of default for each loan. Commercial loans and commercial real estate loans with a lower expectation of default are assigned one of ten possible "pass" loan grades and are generally ascribed lower loss factors when determining the allowance for credit losses. Loans with an elevated level of credit risk are classified as "criticized" and are ascribed a higher loss factor when determining the allowance for credit losses. Criticized loans may be classified as "nonaccrual" if the Company no longer expects to collect all amounts according to the contractual terms of the loan agreement or the loan is delinquent 90 days or more. All larger- balance criticized commercial loans and commercial real estate loans are individually reviewed by centralized loan review personnel each quarter to determine the appropriateness of the assigned loan grade, including whether the loan should be reported as accruing or nonaccruing. Smaller-balance criticized loans are analyzed by business line risk management areas to ensure proper loan grade classification. Furthermore, criticized nonaccrual commercial loans and commercial real estate loans are considered impaired and, as a result, specific loss allowances on such loans are established within the allowance for credit losses to the extent appropriate in each individual instance. The following table summarizes the loan grades applied to the various classes of the Company's commercial loans and commercial real estate loans.

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

	Commercial, Financial, Leasing, etc.	Real Estate Commercial	Residential Builder and Developer	Other Commercial Construction
	(in thousands)			
September 30, 2016				
Pass	$20,825,301	23,540,787	1,699,263	5,405,719
Criticized accrual	860,461	921,003	157,863	155,813
Criticized nonaccrual	231,401	157,527	20,118	20,669
Total	$21,917,163	24,619,317	1,877,244	5,582,201
December 31, 2015				
Pass	$19,442,183	22,697,398	1,497,465	3,834,137
Criticized accrual	738,238	655,257	59,779	228,877
Criticized nonaccrual	241,917	179,606	28,429	16,363
Total	$20,422,338	23,532,261	1,585,673	4,079,377

In determining the allowance for credit losses, residential real estate loans and consumer loans are generally evaluated collectively after considering such factors as payment performance and recent loss experience and trends, which are mainly driven by current collateral values in the market place as well as the amount of loan defaults. Loss rates on such loans are determined by reference to recent charge-off history and are evaluated (and adjusted if deemed appropriate) through consideration of other factors including near-term forecasted loss estimates developed by the Company's Credit Department. In arriving at such forecasts, the Company considers the current estimated fair value of its collateral based on geographical adjustments for home price depreciation/appreciation and overall borrower repayment performance. With regard to collateral values, the realizability of such values by the Company contemplates repayment of any first lien position prior to recovering amounts on a second lien position. However, residential real estate loans and outstanding balances of home equity loans and lines of credit that are more than 150 days past due are generally evaluated for collectibility on a loan-by-loan basis giving consideration to estimated collateral values. The carrying value of residential real estate loans and home equity loans and lines of credit for which a partial charge-off has been recognized aggregated $47 million and $33 million, respectively, at September 30, 2016 and $55 million and $21 million, respectively, at December 31, 2015. Residential real estate loans and home equity loans and lines of credit that were more than 150 days past due but did not require a partial charge-off because the net realizable value of the collateral exceeded the outstanding customer balance totaled $20 million and $38 million, respectively, at September 30, 2016 and $20 million and $28 million, respectively, at December 31, 2015.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

	Commercial, Financial, Leasing, etc.	Real Estate Commercial	Residential	Consumer	Total
	(in thousands)				
September 30, 2016					
Individually evaluated for impairment	$55,020	16,608	9,344	12,298	$93,270
Collectively evaluated for impairment	273,164	340,737	48,500	138,193	800,594
Purchased impaired	—	2,432	749	846	4,027
Allocated	$328,184	359,777	58,593	151,337	897,891
Unallocated					78,230
Total					$976,121
December 31, 2015					
Individually evaluated for impairment	$44,752	19,175	12,727	13,306	$89,960
Collectively evaluated for impairment	255,615	307,000	57,624	163,511	783,750
Purchased impaired	37	656	1,887	1,503	4,083
Allocated	$300,404	326,831	72,238	178,320	877,793
Unallocated					78,199
Total					$955,992

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, 2016					
Individually evaluated for impairment	$265,234	211,730	198,022	65,017	$740,003
Collectively evaluated for impairment	21,651,134	31,800,749	22,838,125	11,999,490	88,289,498
Purchased impaired	795	66,283	548,273	1,640	616,991
Total	$21,917,163	32,078,762	23,584,420	12,066,147	$89,646,492
December 31, 2015					
Individually evaluated for impairment	$272,227	234,132	207,949	65,365	$779,673
Collectively evaluated for impairment	20,148,209	28,863,130	25,398,037	11,532,121	85,941,497

Purchased impaired	1,902	100,049	664,117	2,261	768,329
Total	$20,422,338	29,197,311	26,270,103	11,599,747	$87,489,499

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

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

The tables that follow summarize the Company's loan modification activities that were considered troubled debt restructurings for the three months ended September 30, 2016 and 2015:

		Recorded investment		Financial effects of modification	
Three months ended September 30, 2016	Number	Pre-modification	Post-modification	Recorded investment (a)	Interest (b)
	(dollars in thousands)				