

M&T BANK CORP
Form 10-Q
November 06, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

or

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

Commission File Number 1-9861

M&T BANK CORPORATION
(Exact name of registrant as specified in its charter)

New York
(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)
(716) 635-4000

14203
(Zip Code)

(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 checkmark 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, 2014: 132,111,892 shares.

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M&T BANK CORPORATION

FORM 10-Q

For the Quarterly Period Ended September 30, 2014

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (Unaudited)

<i>Dollars in thousands, except per share</i>	September 30, 2014	December 31, 2013
Assets		
Cash and due from banks	\$ 1,445,877	1,573,361
Interest-bearing deposits at banks	7,676,064	1,651,138
Federal funds sold	77,766	99,573
Trading account	296,913	376,131
Investment securities (includes pledged securities that can be sold or repledged of \$1,634,682 at September 30, 2014; \$1,696,438 at December 31, 2013)		
Available for sale (cost: \$9,175,295 at September 30, 2014; \$4,444,365 at December 31, 2013)	9,384,017	4,531,786
Held to maturity (fair value: \$3,621,391 at September 30, 2014; \$3,860,127 at December 31, 2013)	3,635,815	3,966,130
Other (fair value: \$328,536 at September 30, 2014; \$298,581 at December 31, 2013)	328,536	298,581
Total investment securities	13,348,368	8,796,497
Loans and leases	65,800,972	64,325,783
Unearned discount	(228,613)	(252,624)
Loans and leases, net of unearned discount	65,572,359	64,073,159
Allowance for credit losses	(918,633)	(916,676)
Loans and leases, net	64,653,726	63,156,483
Premises and equipment	612,076	633,520
Goodwill	3,524,625	3,524,625
Core deposit and other intangible assets	42,197	68,851
Accrued interest and other assets	5,550,730	5,282,212

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Total assets		\$ 97,228,342	85,162,391
Liabilities			
Noninterest-bearing deposits		\$ 27,440,524	24,661,007
NOW accounts		2,098,577	1,989,441
Savings deposits		41,389,867	36,621,580
Time deposits		3,170,998	3,523,838
Deposits at Cayman Islands office		241,536	322,746
Total deposits		74,341,502	67,118,612
Federal funds purchased and agreements to repurchase securities		164,609	260,455
Accrued interest and other liabilities		1,327,524	1,368,922
Long-term borrowings		9,061,391	5,108,870
Total liabilities		84,895,026	73,856,859
Shareholders equity	Preferred stock, \$1.00 par, 1,000,000 shares authorized; Issued and outstanding: Liquidation preference of \$1,000 per share: 731,500 shares at September 30, 2014; 381,500 shares at December 31, 2013; Liquidation preference of \$10,000 per share: 50,000 shares at September 30, 2014 and December 31, 2013	1,231,500	881,500
	Common stock, \$.50 par, 250,000,000 shares authorized, 132,100,384 shares issued at September 30, 2014; 130,516,364 shares issued at December 31, 2013	66,050	65,258
	Common stock issuable, 41,261 shares at September 30, 2014; 47,231 shares at December 31, 2013	2,590	2,915
	Additional paid-in capital	3,377,714	3,232,014
	Retained earnings	7,642,995	7,188,004
	Accumulated other comprehensive income (loss), net	12,467	(64,159)
Total shareholders equity		12,333,316	11,305,532
Total liabilities and shareholders equity		\$ 97,228,342	85,162,391

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M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

<i>In thousands, except per share</i>		Three months ended September 30, 2014		Three months ended September 30, 2013	
		2014	2013	2014	2013
Interest income	Loans and leases, including fees	\$ 647,280	683,482	\$ 1,937,531	2,071,332
	Investment securities				
	Fully taxable	91,036	55,746	250,145	141,799
	Exempt from federal taxes	1,271	1,617	4,068	5,223
	Deposits at banks	3,198	1,650	7,617	3,372
	Other	238	191	904	1,142
	Total interest income	743,023	742,686	2,200,265	2,222,868
Interest expense	NOW accounts	394	333	1,021	976
	Savings deposits	11,532	13,733	34,314	41,560
	Time deposits	3,805	6,129	11,600	21,809
	Deposits at Cayman Islands office	161	213	550	801
	Short-term borrowings	19	58	76	385
	Long-term borrowings	58,053	49,112	158,098	150,592
	Total interest expense	73,964	69,578	205,659	216,123
	<i>Net interest income</i>	669,059	673,108	1,994,606	2,006,745
	Provision for credit losses	29,000	48,000	91,000	143,000
	Net interest income after provision for credit losses	640,059	625,108	1,903,606	1,863,745
Other income	Mortgage banking revenues	93,532	64,731	269,237	249,096
	Service charges on deposit accounts	110,071	113,839	321,637	336,505
	Trust income	128,671	123,801	379,816	370,132
	Brokerage services income	17,416	16,871	51,403	49,840
	Trading account and foreign exchange gains	6,988	8,987	21,477	27,138
	Gain on bank investment securities				56,457
	Total other-than-temporary impairment (OTTI) losses				(1,884)
	Portion of OTTI losses recognized in other comprehensive income (before taxes)				(7,916)

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	Net OTTI losses recognized in earnings				(9,800)
	Equity in earnings of Bayview Lending Group LLC	(4,114)	(3,881)	(12,623)	(9,990)
	Other revenues from operations	98,547	153,040	296,683	349,581
	Total other income	451,111	477,388	1,327,630	1,418,959
Other expense	Salaries and employee benefits	348,776	339,332	1,059,815	1,019,019
	Equipment and net occupancy	67,713	66,220	206,964	195,657
	Printing, postage and supplies	9,184	9,752	29,320	30,749
	Amortization of core deposit and other intangible assets	7,358	10,628	26,654	36,473
	FDIC assessments	13,193	14,877	43,836	52,010
	Other costs of operations	233,060	217,817	696,160	558,905
	Total other expense	679,284	658,626	2,062,749	1,892,813
	Income before taxes	411,886	443,870	1,168,487	1,389,891
	Income taxes	136,542	149,391	379,790	472,833
	Net income	\$ 275,344	294,479	\$ 788,697	917,058
	Net income available to common shareholders				
	Basic	\$ 251,905	275,336	\$ 724,307	858,944
	Diluted	251,917	275,356	724,344	859,000
	Net income per common share				
	Basic	\$ 1.92	2.13	\$ 5.54	6.69
	Diluted	1.91	2.11	5.50	6.64
	Cash dividends per common share	\$.70	.70	\$ 2.10	2.10
	Average common shares outstanding				
	Basic	131,265	129,171	130,782	128,369
	Diluted	132,128	130,265	131,698	129,312

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M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

<i>In thousands</i>	Three months ended September 30		One months ended September 30	
	2014	2013	2014	2013
Net income	\$ 275,344	294,479	\$ 788,697	917,058
Other comprehensive income (loss), net of tax and reclassification adjustments:				
Net unrealized gains (losses) on investment securities	(27,637)	23,367	75,229	26,724
Reclassification to income for amortization of gains on terminated cash flow hedges	613		(98)	
Foreign currency translation adjustment	(1,817)	1,251	(1,504)	205
Defined benefit plans liability adjustment	1,000	5,091	2,999	15,273
<i>Total other comprehensive income (loss)</i>	<i>(27,841)</i>	<i>29,709</i>	<i>76,626</i>	<i>42,202</i>
<i>Total comprehensive income</i>	<i>\$ 247,503</i>	<i>324,188</i>	<i>\$ 865,323</i>	<i>959,260</i>

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M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

<i>In thousands</i>		Nine months ended September 30	
		2014	2013
Cash flows from operating activities	Net income	\$ 788,697	917,058
	Adjustments to reconcile net income to net cash provided by operating activities		
	Provision for credit losses	91,000	143,000
	Depreciation and amortization of premises and equipment	74,516	66,547
	Amortization of capitalized servicing rights	51,572	46,966
	Amortization of core deposit and other intangible assets	26,654	36,473
	Provision for deferred income taxes	33,777	93,229
	Asset write-downs	5,114	16,204
	Net gain on sales of assets	(3,771)	(124,375)
	Net change in accrued interest receivable, payable	9,638	(2,819)
	Net change in other accrued income and expense	(89,425)	115,400
	Net change in loans originated for sale	(224,425)	(808,778)
	Net change in trading account assets and liabilities	11,163	4,772
	Net cash provided by operating activities	774,510	503,677
Cash flows from investing activities	Proceeds from sales of investment securities		
	Available for sale	16	1,081,747
	Other	23,309	12,994
	Proceeds from maturities of investment securities		
	Available for sale	686,183	887,092
	Held to maturity	337,677	216,627
	Purchases of investment securities		
	Available for sale	(5,310,246)	(41,358)
	Held to maturity	(15,202)	(1,586,425)
	Other	(53,264)	(8,825)
	Net (increase) decrease in loans and leases	(1,420,572)	905,491
	Net increase in interest-bearing deposits at banks	(6,024,926)	(1,795,866)
	Capital expenditures, net	(50,400)	(85,964)
Net increase in loan servicing advances	(340,750)	(185,507)	
Other, net	38,707	37,860	

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	Net cash used by investing activities	(12,129,468)	(562,134)
Cash flows from financing activities			
	Net increase in deposits	7,225,487	604,311
	Net decrease in short-term borrowings	(95,846)	(828,463)
	Proceeds from long-term borrowings	4,345,478	799,760
	Payments on long-term borrowings	(373,642)	(258,937)
	Proceeds from issuance of preferred stock	346,500	
	Dividends paid - common	(278,118)	(273,518)
	Dividends paid - preferred	(46,966)	(31,494)
	Other, net	82,774	119,936
	Net cash provided by financing activities	11,205,667	131,595
	Net increase (decrease) in cash and cash equivalents	(149,291)	73,138
	Cash and cash equivalents at beginning of period	1,672,934	1,986,615
	Cash and cash equivalents at end of period	\$ 1,523,643	2,059,753
Supplemental disclosure of cash flow information			
	Interest received during the period	\$ 2,147,236	2,184,128
	Interest paid during the period	185,377	226,335
	Income taxes paid during the period	329,621	331,117
Supplemental schedule of noncash investing and financing activities			
	Securitization of residential mortgage loans allocated to		
	Available for sale investment securities	\$ 110,971	1,807,180
	Held to maturity investment securities		917,045
	Capitalized servicing rights	1,429	29,264
	Real estate acquired in settlement of loans	35,422	35,865

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M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

<i>In thousands, except per share</i>	Preferred stock	Common stock	Common stock issuable	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss), net	Total
2013							
Balance - January 1, 2013	\$ 872,500	64,088	3,473	3,025,520	6,477,276	(240,264)	10,202,593
Total comprehensive income					917,058	42,202	959,260
Preferred stock cash dividends					(40,088)		(40,088)
Amortization of preferred stock discount	6,510				(6,510)		
Exercise of 407,542 Series C stock warrants into 186,589 shares of common stock		93		(93)			
Exercise of 57,327 Series A stock warrants into 21,130 shares of common stock		11		(11)			
Stock-based compensation plans:							
Compensation expense, net		147		29,826			29,973
Exercises of stock options, net		747		133,981			134,728
Directors' stock plan		6		1,223			1,229
Deferred compensation plans, net, including dividend equivalents		5	(584)	568	(98)		(109)
Other				1,967			1,967
Common stock cash dividends - \$2.10 per share					(273,351)		(273,351)
Balance - September 30, 2013	\$ 879,010	65,097	2,889	3,192,981	7,074,287	(198,062)	11,016,202
2014							
Balance - January 1, 2014	\$ 881,500	65,258	2,915	3,232,014	7,188,004	(64,159)	11,305,532
Total comprehensive income					788,697	76,626	865,323
Preferred stock cash dividends					(55,560)		(55,560)
Issuance of Series E preferred stock	350,000			(3,500)			346,500
		78		(78)			

Exercise of 395,905 Series A stock warrants into 156,521 shares of common stock							
Stock-based compensation plans:							
Compensation expense, net		128		34,117			34,245
Exercises of stock options, net		535		102,695			103,230
Stock purchase plan		43		9,545			9,588
Directors stock plan		5		1,266			1,271
Deferred compensation plans, net, including dividend equivalents							
		3	(325)	335	(87)		(74)
Other							
				1,320			1,320
Common stock cash dividends - \$2.10 per share							
					(278,059)		(278,059)
Balance - September 30, 2014	\$ 1,231,500	66,050	2,590	3,377,714	7,642,995	12,467	12,333,316

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NOTES TO FINANCIAL STATEMENTS

1. Significant accounting policies

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

2. Acquisitions

On August 27, 2012, M&T announced that it had entered into a definitive agreement with Hudson City Bancorp, Inc. (Hudson City), headquartered in Paramus, New Jersey, under which Hudson City would be acquired by M&T. Pursuant to the terms of the agreement, Hudson City shareholders will receive consideration for each common share of Hudson City in an amount valued at .08403 of an M&T share in the form of either M&T common stock or cash, based on the election of each Hudson City shareholder, subject to proration as specified in the merger agreement (which provides for an aggregate split of total consideration of 60% common stock of M&T and 40% cash). As of September 30, 2014, total consideration to be paid was valued at approximately \$5.4 billion.

At September 30, 2014, Hudson City had \$37.2 billion of assets, including \$22.4 billion of loans and \$8.4 billion of investment securities, and \$32.3 billion of liabilities, including \$20.0 billion of deposits. The merger has received the approval of the common shareholders of M&T and Hudson City. However, the merger is subject to a number of other conditions, including regulatory approvals.

On June 17, 2013, M&T and Manufacturers and Traders Trust Company (M&T Bank), M&T's principal banking subsidiary, entered into a written agreement with the Federal Reserve Bank of New York (Federal Reserve Bank). Under the terms of the agreement, M&T and M&T Bank are required to submit to the Federal Reserve Bank a revised compliance risk management program designed to ensure compliance with the Bank Secrecy Act and anti-money-laundering laws and regulations and to take certain other steps to enhance their compliance practices. The Company has commenced a major initiative, including the hiring of outside consulting firms, intended to fully address the Federal Reserve Bank's concerns. In view of the timeframe required to implement this initiative, demonstrate its efficacy to the satisfaction of the Federal Reserve Bank and otherwise meet any other regulatory requirements that may be imposed in connection with these matters, M&T and Hudson City extended the date after which either party may elect to terminate the merger agreement if the merger has not yet been completed to December 31, 2014. Nevertheless, there can be no assurances that the merger will be completed by that date.

In connection with the pending acquisition, the Company incurred merger-related expenses related to preparing for systems conversions and other costs of integrating and conforming acquired operations with and into the Company. Those expenses consisted largely of professional services and other temporary help fees associated with planning for the conversion of systems and/or integration of operations; initial marketing and promotion expenses designed to introduce M&T Bank to its new customers; travel costs; and printing, postage, supplies and other costs of planning for the transaction and commencing operations in new markets and offices.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. Acquisitions, continued

A summary of merger-related expenses in 2013 associated with the pending Hudson City acquisition included in the consolidated statement of income is presented below. There were no merger-related expenses during the three-month or nine-month periods ended September 30, 2014, or during the three-month period ended September 30, 2013.

	Nine months ended September 30, 2013 (in thousands)
Salaries and employee benefits	\$ 836
Equipment and net occupancy	690
Printing, postage and supplies	1,825
Other costs of operations	9,013
	\$ 12,364

3. Investment securities

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

	Amortized cost	Gross unrealized gains (in thousands)	Gross unrealized losses	Estimated fair value
September 30, 2014				
Investment securities available for sale:				
U.S. Treasury and federal agencies	\$ 166,092	206	111	\$ 166,187
Obligations of states and political subdivisions	9,174	270	53	9,391
Mortgage-backed securities:				
Government issued or guaranteed	8,751,108	145,708	2,765	8,894,051
Privately issued	112	4	4	112
Collateralized debt obligations	30,788	24,383	363	54,808
Other debt securities	138,278	2,304	15,183	125,399
Equity securities	79,743	54,732	406	134,069