

M&T BANK CORP
Form 10-Q
August 09, 2012

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 June 30, 2012

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)

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

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) 842-5445
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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 July 31, 2012: 126,686,762 shares.

M&T BANK CORPORATION

FORM 10-Q

For the Quarterly Period Ended June 30, 2012

Table of Contents of Information Required in Report		Page
Part I. FINANCIAL INFORMATION		
Item 1.	Financial Statements.	
	<u>CONSOLIDATED BALANCE SHEET - June 30, 2012 and December 31, 2011</u>	3
	<u>CONSOLIDATED STATEMENT OF INCOME - Three and six months ended June 30, 2012 and 2011</u>	4
	<u>CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME - Three and six months ended June 30, 2012 and 2011</u>	5
	<u>CONSOLIDATED STATEMENT OF CASH FLOWS - Six months ended June 30, 2012 and 2011</u>	6
	<u>CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY - Six months ended June 30, 2012 and 2011</u>	7
	<u>NOTES TO FINANCIAL STATEMENTS</u>	8
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	57
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk.</u>	106
Item 4.	<u>Controls and Procedures.</u>	106
Part II. OTHER INFORMATION		
Item 1.	<u>Legal Proceedings.</u>	106
Item 1A.	<u>Risk Factors.</u>	106
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>	107
Item 3.	<u>Defaults Upon Senior Securities.</u>	107
Item 4.	<u>Mine Safety Disclosures.</u>	107
Item 5.	<u>Other Information.</u>	107
Item 6.	<u>Exhibits.</u>	108
	<u>SIGNATURES</u>	108
	<u>EXHIBIT INDEX</u>	109

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

CONSOLIDATED BALANCE SHEET (Unaudited)

<i>Dollars in thousands, except per share</i>	June 30, 2012	December 31, 2011
Assets		
Cash and due from banks	\$ 1,421,831	1,449,547
Interest-bearing deposits at banks	1,069,717	154,960
Federal funds sold	1,000	2,850
Trading account	544,938	561,834
Investment securities (includes pledged securities that can be sold or repledged of \$1,839,246 at June 30, 2012; \$1,826,011 at December 31, 2011)		
Available for sale (cost: \$5,510,097 at June 30, 2012; \$6,312,423 at December 31, 2011)	5,534,054	6,228,560
Held to maturity (fair value: \$1,131,836 at June 30, 2012; \$1,012,562 at December 31, 2011)	1,188,465	1,077,708
Other (fair value: \$334,781 at June 30, 2012; \$366,886 at December 31, 2011)	334,781	366,886
Total investment securities	7,057,300	7,673,154
Loans and leases	63,095,796	60,377,875
Unearned discount	(244,524)	(281,870)
Loans and leases, net of unearned discount	62,851,272	60,096,005
Allowance for credit losses	(917,028)	(908,290)
Loans and leases, net	61,934,244	59,187,715
Premises and equipment	592,498	581,435
Goodwill	3,524,625	3,524,625
Core deposit and other intangible assets	143,713	176,394
Accrued interest and other assets	4,517,712	4,611,773
Total assets	\$ 80,807,578	77,924,287
Liabilities		
Noninterest-bearing deposits	\$ 22,854,794	20,017,883
NOW accounts	1,705,198	1,912,226
Savings deposits	32,292,412	31,001,083

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

Time deposits	5,330,239	6,107,530
Deposits at Cayman Islands office	366,164	355,927
Total deposits	62,548,807	59,394,649
Federal funds purchased and agreements to repurchase securities	975,575	732,059
Other short-term borrowings		50,023
Accrued interest and other liabilities	1,965,421	1,790,121
Long-term borrowings	5,687,868	6,686,226
Total liabilities	71,177,671	68,653,078
Shareholders equity		
Preferred stock, \$1.00 par, 1,000,000 shares authorized; Issued and outstanding: Liquidation preference of \$1,000 per share: 381,500 shares at June 30, 2012 and December 31, 2011; Liquidation preference of \$10,000 per share: 50,000 shares at June 30, 2012 and December 31, 2011	868,433	864,585
Common stock, \$.50 par, 250,000,000 shares authorized, 126,587,931 shares issued at June 30, 2012; 125,683,398 shares issued at December 31, 2011	63,294	62,842
Common stock issuable, 57,231 shares at June 30, 2012; 68,220 shares at December 31, 2011	3,429	4,072
Additional paid-in capital	2,874,516	2,828,986
Retained earnings	6,098,084	5,867,165
Accumulated other comprehensive income (loss), net	(277,849)	(356,441)
Total shareholders equity	9,629,907	9,271,209
Total liabilities and shareholders equity	\$ 80,807,578	77,924,287

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

<i>In thousands, except per share</i>		Three months ended June 30		Six months ended June 30	
		2012	2011	2012	2011
Interest income	Loans and leases, including fees	\$ 674,549	624,247	\$ 1,323,063	1,218,279
	Deposits at banks	767	479	980	515
	Federal funds sold	8	10	11	28
	Agreements to resell securities		127		128
	Trading account	318	282	635	670
	Investment securities				
	Fully taxable	59,724	60,827	122,688	131,489
	Exempt from federal taxes	2,020	2,281	4,104	4,627
	Total interest income	737,386	688,253	1,451,481	1,355,736
Interest expense	NOW accounts	424	274	707	476
	Savings deposits	16,940	20,757	35,123	39,996
	Time deposits	12,354	19,310	25,863	38,381
	Deposits at Cayman Islands office	232	193	445	587
	Short-term borrowings	348	147	651	639
	Long-term borrowings	59,105	61,370	120,320	120,651
	Total interest expense	89,403	102,051	183,109	200,730
<i>Net interest income</i>		647,983	586,202	1,268,372	1,155,006
Provision for credit losses		60,000	63,000	109,000	138,000
Net interest income after provision for credit losses		587,983	523,202	1,159,372	1,017,006
Other income	Mortgage banking revenues	69,514	42,151	125,706	87,307
	Service charges on deposit accounts	110,982	119,716	219,871	229,447
	Trust income	122,275	75,592	239,228	104,913
	Brokerage services income	16,172	14,926	30,073	29,222
	Trading account and foreign exchange gains	6,238	6,798	16,809	15,077
	Gain (loss) on bank investment securities	(408)	110,744	(363)	150,097
	Total other-than-temporary impairment (OTTI) losses	(4,072)	(33,211)	(24,112)	(42,725)
	Portion of OTTI losses recognized in other comprehensive income (before taxes)	(12,101)	6,681	(3,547)	154
	Net OTTI losses recognized in earnings	(16,173)	(26,530)	(27,659)	(42,571)
	Equity in earnings of Bayview Lending Group LLC	(6,635)	(5,223)	(11,387)	(11,901)
Other revenues from operations	89,685	163,482	176,095	254,485	

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

	Total other income	391,650	501,656	768,373	816,076
Other expense	Salaries and employee benefits	323,686	300,178	669,784	566,268
	Equipment and net occupancy	65,376	59,670	130,419	116,333
	Printing, postage and supplies	11,368	9,723	23,240	18,925
	Amortization of core deposit and other intangible assets	15,907	14,740	32,681	27,054
	FDIC assessments	24,962	26,609	53,911	45,703
	Other costs of operations	186,093	165,975	357,052	302,183
	Total other expense	627,392	576,895	1,267,087	1,076,466
	Income before taxes	352,241	447,963	660,658	756,616
	Income taxes	118,861	125,605	220,815	227,985
	<i>Net income</i>	\$ 233,380	322,358	\$ 439,843	528,631
	Net income available to common shareholders				
	Basic	\$ 214,709	297,164	\$ 402,947	487,283
	Diluted	214,716	297,179	402,958	487,308
	Net income per common share				
	Basic	\$ 1.71	2.43	\$ 3.21	4.04
	Diluted	1.71	2.42	3.20	4.02
	Cash dividends per common share	\$.70	.70	\$ 1.40	1.40
	Average common shares outstanding				
	Basic	125,488	122,181	125,354	120,699
	Diluted	125,897	122,796	125,756	121,332

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

<i>In thousands</i>	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Net income	\$ 233,380	322,358	\$ 439,843	528,631
Other comprehensive income, net of tax and reclassification adjustments:				
Net unrealized gains (losses) on investment securities	49,289	(33,550)	69,371	(27,892)
Reclassification to income for amortization of gains on terminated cash flow hedges	(42)	(71)	(112)	(141)
Foreign currency translation adjustment	(533)	196	(131)	196
Defined benefit plans liability adjustment	4,695	2,177	9,464	4,288
<i>Total other comprehensive income</i>	53,409	(31,248)	78,592	(23,549)
<i>Total comprehensive income</i>	\$ 286,789	291,110	\$ 518,435	505,082

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

<i>In thousands</i>		Six months ended June 30	
		2012	2011
Cash flows from operating activities	Net income	\$ 439,843	528,631
	Adjustments to reconcile net income to net cash provided by operating activities		
	Provision for credit losses	109,000	138,000
	Depreciation and amortization of premises and equipment	41,762	38,370
	Amortization of capitalized servicing rights	28,773	26,742
	Amortization of core deposit and other intangible assets	32,681	27,054
	Provision for deferred income taxes	12,064	(18,201)
	Asset write-downs	39,676	48,032
	Net gain on sales of assets	(3,786)	(181,318)
	Net change in accrued interest receivable, payable	1,731	4,035
	Net change in other accrued income and expense	(35,590)	23,766
	Net change in loans originated for sale	(33,964)	167,857
	Net change in trading account assets and liabilities	12,438	60,210
	Net cash provided by operating activities	644,628	863,178
Cash flows from investing activities	Proceeds from sales of investment securities		
	Available for sale	48,873	1,909,223
	Other	45,374	71,729
	Proceeds from maturities of investment securities		
	Available for sale	741,571	751,314
	Held to maturity	157,849	114,913
	Purchases of investment securities		
	Available for sale	(19,808)	(1,609,272)
	Held to maturity	(269,854)	(13,151)
	Other	(13,269)	(1,249)
	Net increase in loans and leases	(2,805,640)	(454,782)
	Net (increase) decrease in interest-bearing deposits at banks	(914,757)	432,037
	Net increase in agreements to resell securities		(365,000)
	Other investments, net	(5,436)	(10,249)
	Capital expenditures, net	(46,892)	(13,976)
	Acquisitions, net of cash acquired Banks and bank holding companies		178,940
	Purchase of Wilmington Trust Corporation preferred stock		(330,000)
	Proceeds from sales of real estate acquired in settlement of loans	64,735	161,514
	Other, net	(38,849)	18,322
	Net cash (used) provided by investing activities	(3,056,103)	840,313
Cash flows from financing activities	Net increase in deposits	3,162,352	566,316
	Net increase (decrease) in short-term borrowings	193,515	(528,035)
	Payments on long-term borrowings	(1,006,539)	(1,331,316)
	Proceeds from issuance of preferred stock		495,000

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

	Redemption of preferred stock		(370,000)
	Dividends paid - common	(179,446)	(173,135)
	Dividends paid - preferred	(26,725)	(20,046)
	Other, net	238,752	56,885
	Net cash provided (used) by financing activities	2,381,909	(1,304,331)
	Net increase (decrease) in cash and cash equivalents	(29,566)	399,160
	Cash and cash equivalents at beginning of period	1,452,397	933,755
	Cash and cash equivalents at end of period	\$ 1,422,831	1,332,915
Supplemental	Interest received during the period	\$ 1,457,310	1,366,981
disclosure of cash	Interest paid during the period	192,666	205,514
flow information	Income taxes paid during the period	204,249	266,240
Supplemental schedule of			
noncash investing and	Real estate acquired in settlement of loans	\$ 26,623	45,774
financing activities	Acquisitions:		
	Fair value of:		
	Assets acquired (noncash)		10,666,102
	Liabilities assumed		10,044,555
	Common stock issued		405,557
	Retirement of Wilmington Trust Corporation preferred stock		330,000

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

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	Treasury stock	Total
2011								
Balance - January 1, 2011	\$ 740,657	60,198	4,189	2,398,615	5,426,701	(205,220)	(67,445)	8,357,695
Total comprehensive income					528,631	(23,549)		505,082
Acquisition of Wilmington Trust Corporation - common stock issued		2,348		403,209				405,557
Partial redemption of Series A preferred stock	(370,000)							(370,000)
Conversion of Series B preferred stock into 433,144 shares of common stock	(26,500)	192		21,754			4,554	
Issuance of Series D preferred stock	500,000			(5,000)				495,000
Preferred stock cash dividends					(20,046)			(20,046)
Amortization of preferred stock discount	16,744				(16,744)			
Stock-based compensation plans:								
Compensation expense, net		27		(10,382)			31,666	21,311
Exercises of stock options, net		12		(8,948)			30,106	21,170
Directors stock plan				(49)			612	563
Deferred compensation plans, net, including dividend equivalents			(159)	(219)	(94)		507	35
Other				1,022				1,022
Common stock cash dividends - \$1.40 per share					(173,195)			(173,195)
Balance - June 30, 2011	\$ 860,901	62,777	4,030	2,800,002	5,745,253	(228,769)		9,244,194
2012								
Balance - January 1, 2012	\$ 864,585	62,842	4,072	2,828,986	5,867,165	(356,441)		9,271,209
Total comprehensive income					439,843	78,592		518,435
Preferred stock cash dividends					(26,725)			(26,725)
Amortization of preferred stock discount	3,848				(3,848)			
Stock-based compensation plans:								
Compensation expense, net		216		18,289				18,505
Exercises of stock options, net		227		24,912				25,139
Directors stock plan		4		764				768
Deferred compensation plans, net, including dividend equivalents		5	(643)	549	(80)			(169)
Other				1,016				1,016
Common stock cash dividends - \$1.40 per share					(178,271)			(178,271)

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

Balance - June 30, 2012	\$ 868,433	63,294	3,429	2,874,516	6,098,084	(277,849)	9,629,907
-------------------------	------------	--------	-------	-----------	-----------	-----------	-----------

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 2011 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 May 16, 2011, M&T acquired all of the outstanding common stock of Wilmington Trust Corporation (Wilmington Trust), headquartered in Wilmington, Delaware, in a stock-for-stock transaction. Wilmington Trust operated 55 banking offices in Delaware and Pennsylvania at the date of acquisition. The results of operations acquired in the Wilmington Trust transaction have been included in the Company s financial results since May 16, 2011. Wilmington Trust shareholders received .051372 shares of M&T common stock in exchange for each share of Wilmington Trust common stock, resulting in M&T issuing a total of 4,694,486 common shares with an acquisition date fair value of \$406 million.

The Wilmington Trust 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. Assets acquired totaled approximately \$10.8 billion, including \$6.4 billion of loans and leases (including approximately \$3.2 billion of commercial real estate loans, \$1.4 billion of commercial loans and leases, \$1.1 billion of consumer loans and \$680 million of residential real estate loans). Liabilities assumed aggregated \$10.0 billion, including \$8.9 billion of deposits. The common stock issued in the transaction added \$406 million to M&T s common shareholders equity. Immediately prior to the closing of the Wilmington Trust transaction, M&T redeemed the \$330 million of preferred stock issued by Wilmington Trust as part of the Troubled Asset Relief Program Capital Purchase Program of the U.S. Department of Treasury (U.S. Treasury). In connection with the acquisition, the Company recorded \$112 million of core deposit and other intangible assets. The core deposit and other intangible assets are generally being amortized over periods of 5 to 7 years using an accelerated method. There was no goodwill recorded as a result of the transaction, however, a non-taxable gain of \$65 million was realized, which represented the excess of the fair value of assets acquired less liabilities assumed over consideration exchanged. The acquisition of Wilmington Trust added to M&T s market-leading position in the Mid-Atlantic region by giving M&T a leading deposit market share in Delaware.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. Acquisitions, continued

The consideration paid for Wilmington Trust's common equity and the amounts of acquired identifiable assets and liabilities assumed as of the acquisition date were as follows:

	(in thousands)
Purchase price:	
Value of:	
Common shares issued (4,694,486 shares)	\$ 405,557
Preferred stock purchased from U.S. Treasury	330,000
Total purchase price	735,557
Identifiable assets:	
Cash and due from banks	178,940
Interest-bearing deposits at banks	2,606,265
Other short-term investments	57,817
Investment securities	510,390
Loans and leases	6,410,430
Core deposit and other intangibles	112,094
Other assets	969,106
Total identifiable assets	10,845,042
Liabilities:	
Deposits	8,864,161
Short-term borrowings	147,752
Long-term borrowings	600,830
Other liabilities	431,812
Total liabilities	10,044,555
Net gain resulting from acquisition	\$ 64,930

The following table presents certain pro forma information as if Wilmington Trust had been included in the Company's results of operations for the three months and six months ended June 30, 2011 rather than since the acquisition date on May 16, 2011. These results combine the historical results of Wilmington Trust 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 amount of Wilmington Trust's provision for credit losses of \$41 million or the impact of other-than-temporary impairment losses of \$5 million recognized by Wilmington Trust during the first quarter of 2011 that may not have been necessary had the acquired loans and investment securities been recorded at fair value as of the beginning of 2011. 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.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. Acquisitions, continued

	Pro forma Three months ended June 30, 2011	Pro forma Six months ended June 30, 2011
	(in thousands)	
Total revenues (a)	\$ 1,166,694	2,208,188
Net income	309,527	480,948

(a) Represents net interest income plus other income.

In connection with the 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 systems conversions and/or integration of operations; costs related to termination of existing contractual arrangements of Wilmington Trust to purchase various services; initial marketing and promotion expenses designed to introduce M&T Bank to its new customers; severance for former employees; travel costs; and printing, postage, supplies and other costs of completing the transaction and commencing operations in new markets and offices. The Company does not expect to incur any significant additional merger-related expenses during the remainder of 2012.

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

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(in thousands)			
Salaries and employee benefits	\$ 3,024	15,305	4,997	15,312
Equipment and net occupancy		25	15	104
Printing, postage and supplies		318		465
Other costs of operations	4,127	21,348	4,867	25,410
	\$ 7,151	36,996	9,879	41,291

NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. Investment securities

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

	Amortized cost	Gross unrealized gains (in thousands)	Gross unrealized losses	Estimated fair value
June 30, 2012				
Investment securities available for sale:				
U.S. Treasury and federal agencies	\$ 55,484	1,115		\$ 56,599