M&T BANK CORP
Form 10-Q
May 04, 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 March 31, 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 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," "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	(Do not check if a smaller reporting company)	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 April 30, 2018: 145,235,614 shares.

M&T BANK CORPORATION

FORM 10-Q

For the Quarterly Period Ended March 31, 2018

Table of Contents of Information Required in Report

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (Unaudited)

Dollars in thousands, except per share		March 31, 2018	December 31, 2017
Assets	Cash and due from banks	$1,291,664	$1,420,888
	Interest-bearing deposits at banks	6,135,434	5,078,903
	Federal funds sold	1,000	—
	Trading account	141,134	132,909
	Investment securities (includes pledged securities that can be sold or repledged of $470,906 at March 31, 2018; $487,151 at December 31, 2017)		
	Available for sale (cost: $10,508,620 at March 31, 2018; $10,938,796 at December 31, 2017)	10,297,856	10,896,284
	Held to maturity (fair value: $3,160,215 at March 31, 2018; $3,341,762 at December 31, 2017)	3,228,756	3,353,213
	Equity and other securities (cost: $526,593 at March 31, 2018; $415,028 at December 31, 2017)	539,952	415,028
	Total investment securities	14,066,564	14,664,525
	Loans and leases	87,967,757	88,242,886
	Unearned discount	(257,008)	(253,903)
	Loans and leases, net of unearned discount	87,710,749	87,988,983
	Allowance for credit losses	(1,019,671)	(1,017,198)
	Loans and leases, net	86,691,078	86,971,785
	Premises and equipment	628,706	646,451
	Goodwill	4,593,112	4,593,112
	Core deposit and other intangible assets	64,957	71,589
	Accrued interest and other assets	5,009,175	5,013,325
	Total assets	$118,622,824	$118,593,487
Liabilities	Noninterest-bearing deposits	$31,817,516	$33,975,180
	Savings and interest-checking deposits	52,724,608	51,698,008
	Time deposits	6,126,442	6,580,962
	Deposits at Cayman Islands office	278,064	177,996
	Total deposits	90,946,630	92,432,146
	Short-term borrowings	1,626,129	175,099
	Accrued interest and other liabilities	1,749,320	1,593,993
	Long-term borrowings	8,591,051	8,141,430
	Total liabilities	102,913,130	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 March 31, 2018 and December 31, 2017; Liquidation preference of $10,000 per share: 50,000 shares at March 31, 2018 and December 31, 2017	1,231,500	1,231,500
	Common stock, $.50 par, 250,000,000 shares authorized, 159,768,397 shares issued at March 31, 2018; 159,817,518 shares issued at December 31, 2017	79,884	79,909
	Common stock issuable, 24,371 shares at March 31, 2018; 27,138 shares at December 31, 2017	1,675	1,847
	Additional paid-in capital	6,572,281	6,590,855
	Retained earnings	10,404,458	10,164,804
	Accumulated other comprehensive income (loss), net	(483,243)	(363,814)
	Treasury stock — common, at cost — 12,993,850 shares at March 31, 2018; 9,733,115 shares at December 31, 2017	(2,096,861)	(1,454,282)
	Total shareholders' equity	15,709,694	16,250,819
	Total liabilities and shareholders' equity	$118,622,824	$118,593,487

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

In thousands, except per share		Three Months Ended March 31 2018	2017
Interest income	Loans and leases, including fees	$979,969	898,038
	Investment securities		
	Fully taxable	82,852	95,124
	Exempt from federal taxes	248	430
	Deposits at banks	18,677	12,162
	Other	404	279
	Total interest income	1,082,150	1,006,033
Interest expense	Savings and interest-checking deposits	40,527	25,634
	Time deposits	10,936	18,998
	Deposits at Cayman Islands office	381	265
	Short-term borrowings	883	216
	Long-term borrowings	53,906	46,660
	Total interest expense	106,633	91,773
	Net interest income	975,517	914,260
	Provision for credit losses	43,000	55,000
	Net interest income after provision for credit losses	932,517	859,260
Other income	Mortgage banking revenues	87,306	84,692
	Service charges on deposit accounts	105,115	104,176
	Trust income	131,375	120,015
	Brokerage services income	13,392	17,384
	Trading account and foreign exchange gains	4,637	9,691
	Gain (loss) on bank investment securities	(9,431)	—
	Other revenues from operations	126,302	110,887
	Total other income	458,696	446,845
Other expense	Salaries and employee benefits	463,428	449,741
	Equipment and net occupancy	74,797	74,366
	Outside data processing and software	48,429	44,301
	FDIC assessments	20,280	28,827
	Advertising and marketing	16,248	16,110
	Printing, postage and supplies	9,319	9,708
	Amortization of core deposit and other intangible assets	6,632	8,420
	Other costs of operations	294,211	156,379
	Total other expense	933,344	787,852
	Income before taxes	457,869	518,253
	Income taxes	105,259	169,326
	Net income	$352,610	348,927
	Net income available to common shareholders		
	Basic	$332,748	328,562
	Diluted	332,749	328,567
	Net income per common share		
	Basic	$2.24	2.13

Diluted	2.23	2.12
Cash dividends per common share	$.75	.75
Average common shares outstanding		
Basic	148,688	154,427
Diluted	148,905	154,949

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

In thousands	Three Months Ended March 31 2018	2017
Net income	$352,610	348,927
Other comprehensive income, net of tax and reclassification adjustments:		
Net unrealized gains (losses) on investment securities	(100,684)	(1,356)
Cash flow hedges adjustments	(10,442)	(23)
Foreign currency translation adjustment	1,290	476
Defined benefit plans liability adjustments	7,260	3,972
Total other comprehensive income (loss)	(102,576)	3,069
Total comprehensive income	$250,034	351,996

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

In thousands		Three Months Ended March 31 2018	2017
Cash flows from operating activities	Net income	$352,610	348,927
	Adjustments to reconcile net income to net cash provided by operating activities		
	Provision for credit losses	43,000	55,000
	Depreciation and amortization of premises and equipment	27,281	27,429
	Amortization of capitalized servicing rights	11,656	13,543
	Amortization of core deposit and other intangible assets	6,632	8,420
	Provision for deferred income taxes	(124,772)	36,731
	Asset write-downs	3,192	5,118
	Net gain on sales of assets	(4,547)	(11,647)
	Net change in accrued interest receivable, payable	(14,803)	(23,782)
	Net change in other accrued income and expense	165,114	(209)
	Net change in loans originated for sale	(72,403)	712,954
	Net change in trading account assets and liabilities	91,219	113,332
	Net cash provided by operating activities	484,179	1,285,816
Cash flows from investing activities	Proceeds from sales of investment securities		
	Available for sale	100	—
	Other	254,860	100
	Proceeds from maturities of investment securities		
	Available for sale	349,294	697,756
	Held to maturity	123,923	121,455
	Purchases of investment securities		
	Available for sale	(100)	(5,143)
	Held to maturity	—	(539,516)
	Other	(288,259)	(278)
	Net decrease in loans and leases	303,886	797,351
	Net increase in interest-bearing deposits at banks	(1,056,531)	(1,944,511)
	Capital expenditures, net	(9,544)	(21,521)
	Net decrease in loan servicing advances	115,163	56,437
	Other, net	(41,322)	11,863
	Net cash used by investing activities	(248,530)	(826,007)
Cash flows from financing activities	Net increase (decrease) in deposits	(1,484,629)	1,550,297
	Net increase in short-term borrowings	1,451,030	21,660
	Proceeds from long-term borrowings	999,594	—
	Payments on long-term borrowings	(504,192)	(1,401,410)

	Purchases of treasury stock	(720,966)	(532,073)
	Dividends paid — common	(112,318)	(116,566)
	Dividends paid — preferred	(17,368)	(17,368)
	Other, net	24,976	2,064
	Net cash used by financing activities	(363,873)	(493,396)
	Net decrease in cash, cash equivalents and restricted cash	(128,224)	(33,587)
	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	$1,292,664	1,286,962
Supplemental disclosure of cash flow information	Interest received during the period	$1,077,676	1,001,129
	Interest paid during the period	118,342	116,183
	Income taxes paid during the period	37,999	29,272
Supplemental schedule of noncash investing and financing activities	Real estate acquired in settlement of loans	$15,410	23,607
	Securitization of residential mortgage loans allocated to		
	Available-for-sale investment securities	5,128	3,684
	Capitalized servicing rights	64	36

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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	—	—	—	—	348,927	3,069	—	351,996
Preferred stock cash dividends	—	—	—	—	(18,237)	—	—	(18,237)
Exercise of 87,515 Series A stock warrants into 47,954 shares of common stock	—	—	—	(5,934)	—	—	5,934	—
Purchases of treasury stock	—	—	—	—	—	—	(532,073)	(532,073)
Stock-based compensation plans:								
Compensation expense, net	—	(60)	—	(67,016)	—	—	55,667	(11,409)
Exercises of stock options, net	—	—	—	(3,127)	—	—	43,789	40,662
Stock purchase plan	—	—	—	2,563	—	—	8,268	10,831
Directors' stock plan	—	—	—	126	—	—	347	473
Deferred compensation plans, net, including dividend	—	—	(224)	(205)	(21)	—	396	(54)

equivalents								
Common stock cash dividends — $.75 per share	—	—	—	—	(115,707)	—	—	(115,707)
Balance — March 31, 2017	$1,231,500	79,913	1,921	6,603,355	9,437,450	(291,567)	(849,468)	16,213,104
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	—	—	—	—	352,610	(102,576)	—	250,034
Preferred stock cash dividends	—	—	—	—	(18,130)	—	—	(18,130)
Exercise of 36,974 Series A stock warrants into 22,553 shares of common stock	—	—	—	(3,455)	—	—	3,455	—
Purchases of treasury stock	—	—	—	—	—	—	(720,966)	(720,966)
Stock-based compensation plans:								
Compensation expense, net	—	(25)	—	(15,362)	—	—	21,220	5,833
Exercises of stock options, net	—	—	—	(1,945)	—	—	44,045	42,100
Stock purchase plan	—	—	—	2,358	—	—	8,766	11,124
Directors' stock plan	—	—	—	74	—	—	515	589
Deferred compensation plans, net, including dividend	—	—	(172)	(244)	(18)	—	386	(48)

equivalents								
Common stock cash dividends — $.75 per share	—	—	—	—	(111,661)	—	—	(111,661)
Balance — March 31, 2018	$1,231,500	79,884	1,675	6,572,281	10,404,458	(483,243)	(2,096,861)	15,709,694

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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 gain (loss) on bank investment securities in the consolidated statement of income during the three months ended March 31, 2018 were $9 million. The amortized cost and estimated fair value of investment securities were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
March 31, 2018				
Investment securities available for sale:				
U.S. Treasury and federal agencies	$1,962,160	—	20,682	$1,941,478
Obligations of states and political subdivisions	1,986	16	2	2,000
Mortgage-backed securities:				
Government issued or guaranteed	8,407,476	21,318	206,665	8,222,129
Privately issued	27	—	—	27
Other debt securities	136,971	2,457	7,206	132,222
	10,508,620	23,791	234,555	10,297,856
Investment securities held to maturity:				
Obligations of states and political subdivisions	20,209	75	36	20,248
Mortgage-backed securities:				

Government issued or guaranteed	3,074,830	6,153	58,581	3,022,402
Privately issued	128,997	7,932	24,084	112,845
Other debt securities	4,720	—	—	4,720
	3,228,756	14,160	82,701	3,160,215
Total debt securities	$13,737,376	37,951	317,256	$13,458,071
Equity and other securities:				
Readily marketable equity — at fair value	48,358	14,075	716	61,717
Other — at cost	478,235	—	—	478,235
Total equity and other securities	$526,593	14,075	716	$539,952

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 quarters ended March 31, 2018 and 2017.

At March 31, 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	$817,981	813,574

Due after one year through five years	1,151,292	1,134,986
Due after five years through ten years	82,301	82,049
Due after ten years	49,543	45,091
	2,101,117	2,075,700
Mortgage-backed securities available for sale	8,407,503	8,222,156
	$10,508,620	10,297,856
Debt securities held to maturity:		
Due in one year or less	$11,410	11,432
Due after one year through five years	8,703	8,716
Due after five years through ten years	96	100
Due after ten years	4,720	4,720
	24,929	24,968
Mortgage-backed securities held to maturity	3,203,827	3,135,247
	$3,228,756	3,160,215

NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. Investment securities, continued

A summary of investment securities that as of March 31, 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)			
March 31, 2018				
Investment securities available for sale:				
U.S. Treasury and federal agencies	$241,594	(2,314)	1,699,784	(18,368)
Obligations of states and political subdivisions	1,020	(1)	376	(1)
Mortgage-backed securities:				
Government issued or guaranteed	3,825,869	(68,681)	3,023,992	(137,984)
Other debt securities	4,341	(90)	64,506	(7,116)
	4,072,824	(71,086)	4,788,658	(163,469)
Investment securities held to maturity:				
Obligations of states and political subdivisions	1,891	(4)	5,454	(32)
Mortgage-backed securities:				
Government issued or guaranteed	2,280,618	(46,285)	249,897	(12,296)
Privately issued	—	—	53,852	(24,084)
	2,282,509	(46,289)	309,203	(36,412)
Total	$6,355,333	(117,375)	5,097,861	(199,881)
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 and as of March 31, 2018, 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 1,442 individual debt securities with aggregate gross unrealized losses of $317 million at March 31, 2018. Based on a review of each of the securities in the investment securities portfolio at March 31, 2018, the Company concluded that it expected to recover the amortized cost basis of its investment. As of March 31, 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 March 31, 2018, the Company has not identified events or changes in circumstances which may have a significant adverse effect on the fair value of the $478 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 March 31, 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
March 31, 2018							
Commercial, financial, leasing, etc.	$21,377,917	51,438	5,547	26	2	262,592	$21,697,522
Real estate:							
Commercial	24,919,508	250,993	3,311	4,569	11,744	152,832	25,342,957
Residential builder and developer	1,641,644	1,974	—	—	357	4,519	1,648,494
Other commercial construction	6,680,584	71,115	—	—	1,194	9,162	6,762,055
Residential	14,942,659	407,773	221,666	8,416	263,939	234,309	16,078,762
Residential — limited documentation	2,599,705	82,738	—	—	100,764	98,977	2,882,184
Consumer:							
Home equity lines and loans	5,037,213	32,100	—	8,157	—	73,169	5,150,639

Automobile	3,468,893	64,995	—	—	—	20,613	3,554,501
Other	4,523,469	28,686	4,801	28,181	—	8,498	4,593,635
Total	$85,191,592	991,812	235,325	49,349	378,000	864,671	$87,710,749
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 $288 million and $356 million at March 31, 2018 and December 31, 2017, respectively. Commercial real estate loans held for sale were $167 million at March 31, 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:

	March 31, 2018	December 31, 2017
	(In thousands)	
Outstanding principal balance	$1,305,611	1,394,188
Carrying amount:		
Commercial, financial, leasing, etc.	28,637	31,105
Commercial real estate	200,932	228,054
Residential real estate	587,562	620,827
Consumer	122,073	123,413
	$939,204	1,003,399

Purchased impaired loans included in the table above totaled $378 million at March 31, 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-month periods ended March 31, 2018 and 2017 follows:

	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
	Purchased Impaired	Other Acquired	Purchased Impaired	Other Acquired
	(In thousands)			
Balance at beginning of period	$157,918	133,162	$154,233	201,153
Interest income	(9,819)	(15,112)	(10,925)	(25,518)
Reclassifications from nonaccretable balance	908	207	146	3,183
Other (a)	—	(73)	—	2,492
Balance at end of period	$149,007	118,184	$143,454	181,310

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

Changes in the allowance for credit losses for the three months ended March 31, 2018 were as follows:

	Commercial, Financial, Leasing, etc.	Real Estate Commercial	Real Estate 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	7,230	(5,225)	10,486	29,814	695	43,000
Net charge-offs						
Charge-offs	(14,581)	(1,366)	(4,354)	(36,451)	—	(56,752)
Recoveries	4,823	223	1,510	9,669	—	16,225
Net charge-offs	(9,758)	(1,143)	(2,844)	(26,782)	—	(40,527)
Ending balance	$326,071	367,717	73,047	173,841	78,995	$1,019,671

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 March 31, 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	28,823	1,262	5,637	18,832	446	55,000
Net charge-offs						
Charge-offs	(16,357)	(5,445)	(6,259)	(34,503)	—	(62,564)
Recoveries	4,461	1,474	1,507	12,555	—	19,997
Net (charge-offs) recoveries	(11,896)	(3,971)	(4,752)	(21,948)	—	(42,567)
Ending balance	$347,760	360,010	62,012	153,172	78,476	$1,001,430

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 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.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. 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 March 31, 2018 and December 31, 2017 and for the three-month periods ended March 31, 2018 and 2017.

	March 31, 2018			December 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In thousands)					
With an allowance recorded:						
Commercial, financial, leasing, etc.	$172,385	203,464	45,501	177,250	194,257	45,488
Real estate:						
Commercial	77,118	88,313	9,981	67,199	75,084	9,140
Residential builder and developer	5,536	5,828	187	5,320	5,641	308
Other commercial construction	3,893	19,598	456	4,817	20,357	647
Residential	112,068	134,431	4,048	101,724	122,602	4,000
Residential — limited documentation	76,984	92,586	4,000	77,277	92,439	3,900
Consumer:						
Home equity lines and loans	48,991	54,032	8,913	48,847	53,914	8,812
Automobile	12,797	15,461	2,694	13,498	15,737	2,811
Other	3,082	5,857	629	3,220	5,872	656
	512,854	619,570	76,409	499,152	585,903	75,762
With no related allowance recorded:						
Commercial, financial, leasing, etc.	115,336	145,450	—	89,126	115,327	—
Real estate:						
Commercial	96,267	104,911	—	138,356	149,716	—
Residential builder and developer	3,760	3,832	—	5,057	5,296	—
Other commercial construction	5,425	9,142	—	5,456	9,130	—
Residential	13,868	19,105	—	13,574	18,980	—
Residential — limited documentation	7,751	12,960	—	9,588	16,138	—
	242,407	295,400	—	261,157	314,587	—
Total:						
Commercial, financial, leasing, etc.	287,721	348,914	45,501	266,376	309,584	45,488
Real estate:						
Commercial	173,385	193,224	9,981	205,555	224,800	9,140
Residential builder and developer	9,296	9,660	187	10,377	10,937	308
Other commercial construction	9,318	28,740	456	10,273	29,487	647
Residential	125,936	153,536	4,048	115,298	141,582	4,000
Residential — limited documentation	84,735	105,546	4,000	86,865	108,577	3,900
Consumer:						
Home equity lines and loans	48,991	54,032	8,913	48,847	53,914	8,812
Automobile	12,797	15,461	2,694	13,498	15,737	2,811

Other	3,082	5,857	629	3,220	5,872	656
Total	$755,261	914,970	76,409	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 March 31, 2018			Three Months Ended March 31, 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.	$272,172	783	783	271,825	478	478
Real estate:						
Commercial	181,846	3,147	3,147	182,857	975	975
Residential builder and developer	9,840	1,682	1,682	20,051	429	429
Other commercial construction	10,102	6	6	16,328	847	847
Residential	121,209	1,902	902	103,875	1,636	774
Residential — limited documentation	85,595	1,728	696	97,121	1,500	384
Consumer:						
Home equity lines and loans	48,797	414	86	45,542	399	100
Automobile	13,125	224	15	16,504	275	19
Other	3,119	85	3	3,598	72	3
Total	$745,805	9,971	7,320	757,701	6,611	4,009

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.

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)			
March 31, 2018				
Pass	$20,484,737	24,525,402	1,505,502	6,654,458
Criticized accrual	950,193	664,723	138,473	98,435
Criticized nonaccrual	262,592	152,832	4,519	9,162
Total	$21,697,522	25,342,957	1,648,494	6,762,055
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

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

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 $33 million and $25 million, respectively, at March 31, 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 $19 million and $29 million, respectively, at March 31, 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 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

3. 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)				
March 31, 2018					
Individually evaluated for impairment	$45,501	10,624	8,048	12,236	$76,409
Collectively evaluated for impairment	280,570	357,093	51,093	161,605	850,361
Purchased impaired	—	—	13,906	—	13,906
Allocated	$326,071	367,717	73,047	173,841	940,676
Unallocated					78,995
Total					$1,019,671
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)				
March 31, 2018					
Individually evaluated for impairment	$287,721	191,999	210,671	64,870	$755,261
Collectively evaluated for impairment	21,409,799	33,548,212	18,385,572	13,233,905	86,577,488
Purchased impaired	2	13,295	364,703	—	378,000
Total	$21,697,522	33,753,506	18,960,946	13,298,775	$87,710,749
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 months ended March 31, 2018 and 2017:

			Post-modification (a)				
Three Months Ended March 31, 2018	Number	Pre-modification recorded investment	Principal Deferral	Interest Rate Reduction	Other	Combination of Concession Types	Total
	(Dollars in thousands)						
Commercial, financial, leasing, etc.	56	$ 47,994	$35,673	$ 624	$ —	$ 13,047	$49,344
Real estate:							
Commercial	20	6,780	5,824	—	—	927	6,751