COMPANY PROFILE

M&T Bank Corporation

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COMPANY OVERVIEW

M&T Bank Corporation (M&T) is a bank-holding company that offers banking, mortgages and loans, investments and insurance, and business solutions through its subsidiaries. Banking offers accounts, cards, financing, deposit solutions, and investment banking. Mortgage and loans include refinancing, financing solutions, and loan sweep services. Investment and insurance offers life and non-life insurance, and retirement planning and solutions. Business solutions include business succession, custody, and employee benefits. The company operates through a network of branch offices, ATMs, and online portals and caters to individual, corporate, high net worth individuals, and wealthy family clients. It operates in Maryland, New York, Pennsylvania, New Jersey, Connecticut, Delaware, West Virginia, Virginia, and the District of Columbia. M&T is headquartered in New York, the US.

The bank reported interest income of (US Dollars) US$4,167.8 million for the fiscal year ended December 2017 (FY2017), an increase of 7% over FY2016. The net interest income after loan loss provision of the bank was US$3,613 million in FY2017, compared to an operating profit of US$3,279.9 million in FY2016. In FY2017, the bank recorded a net margin of 33.8%, compared to a net margin of 33.8% in FY2016.

KEY FACTS

Head Office	M&T Bank Corporation One M&T Plaza Buffalo New York Buffalo New York USA
Phone	1 716 6354000
Fax	
Web Address	www.mtb.com
Revenue / turnover (USD Mn)	6,018.9
Financial Year End	December
Employees	15,913
New York Stock Exchange Ticker	MTB

SWOT ANALYSIS

M&T Bank Corporation (M&T) is a bank holding company. Improved net interest margin, cost efficiency, non-interest income, asset quality, and sound capital adequacy are a few of its key strengths, even as its litigation charges could be an area for improvement. Stiff competition, prolonged low interest rate environment, and requirement of additional capital may affect the company's growth. However, emergence of fintech, corporate expansion, corporate tax cuts, and growing cards and payment channel in the US may offer significant growth opportunities.

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Strength

Net Interest Margin

M&T reported improvement in its net interest margin (NIM) in FY2017, which enhanced its net interest income. During the year, the NIM improved to 3.47%, as compared to 3.11% in the previous year. It was also better than the US banking sector average of 3.25% in FY2017. NIM improved due to higher yields on loans due to the higher interest rate environment in FY2017. Consequently, its net interest spread expanded to 3.27% from 2.93% in the previous year due to growth in yield on average interest-earning assets and decline in the cost of interest-bearing liabilities. M&T’s yield on average earning assets grew to 3.82% from 3.49% in FY2016; whereas cost of interest-bearing liabilities declined to 0.55% from 0.56% in the previous year.

Cost Efficiency

Improvement in the cost efficiency of the company in FY2017, enhanced its profitability. During the year, its cost efficiency ratio stood at 55.07%, as compared to 56.1% in the previous year. The ratio was better the US industry average of 57.94%.It showcases non-interest operating expenses as a percentage of taxable equivalent net revenue. In FY2017, the company’s non-interest operating expenses increased by

4.7% to US$3,108.9 million from US$2,969.1 million in the previous year. The rise was primarily due to growth in salaries and employee benefits, outside data processing and software, and other cost of operations. M&T's taxable equivalent net interest income improved by 9.1% to US$3,815.6 million from US$3,496.8 million and other income grew by 1.4%.

Asset Quality

M&T reported high quality of assets in FY2017, which ensured interest income from outstanding loans and leases. During the year, the company's non-performing assets (NPA) amounted to US$994.5 million from US$1,059.2 million, reflecting a decline of 6.1%. NPA as a percentage of total assets stood at 0.83%, as compared to 0.85% in the previous year. The ratio was worse than the industry average of 0.72%. Its non-accrual loans decreased by 4.1% to US$882.6 million from US$920 million. Non-accrual loans as a percentage of total loans remained almost unchanged at 1%, as compared to 1.01% in the previous year. The ratio was better than the industry average of 1.2%. Net charge-offs to average loans were 0.16%, as compared to 0.18% in the previous year. Allowance for loan losses as a percentage of non-accrual loans stood at 115.25%, as compared to 107.5% in the previous year. The ratio was above the sector average of 106.32%.

Non-interest Income

Improvement in the non-interest income in FY2017, enhanced the revenue of the company. During the year, NII improved by 1.4% to US$1,851.1 million from US$1,825.9 million. NII is a key source of revenue for entities offering banking and financial solutions. NII as a percentage of revenue stood at 30.76%, as compared to 34.38% in the previous year. NII improved due to rise in service charges on deposits accounts by 2%, trust income by 6.2%, and other revenue from operations by 3.4%.

Capital Adequacy

M&T has sound capital base ensuring capital adequacy to support its organic and in-organic growth with the secured and unsecured nature of its lending. Sound capital management and moderate risk weighted asset growth have enabled the company to strengthen its capital base. In FY2017, the company reported common equity tier-1 capital ratio, tier 1 capital ratio, total capital ratio, and leverage ratio of 10.99%, 12.26%, 14.75%, and 10.31% respectively; as compared to 10.7%, 11.92%, 14.09%, and 9.99% respectively in FY2016. The ratios were well above the minimum requirement of 4.5%, 6%, 8%, and 4%respectively, as set by the financial authorities of the country. The common equity tier 1 ratio, tier 1 capital ratio was worse than the industry average of 13.11% and 13.19% respectively. The total capital ratio and leverage ratio were better than the industry average of 14.57% and 9.62% respectively.

Weakness

Litigation

Involvement in legal issues could render the company incur additional costs and affects its brand image. In FY2017, the company was sued by The US Equal Employment Opportunity Corporation (EEOC) for disability discrimination by its subsidiary Hudson City Savings Bank. The company was charged with many violations of federal disability discrimination law. The violations are committed by Hudson City Savings Bank in 2015, wherein the bank's branch failed to accommodate an employee who notified the bank of a disability. The Title I of the Americans with Disabilities Act, states that employers offer adequate accommodation to qualified individuals with disabilities, and prohibits employers against discrimination.

Opportunity

Growing Cards and Payments Channel: The US

The growing cards and payments channel in the US may provide growth opportunities for the company. According to in-house report, the number of cards in circulation in the country is projected to reach 1,622.8 million in 2021, including debit cards to 857.3 million, credit cards to 736.8 million, and charge cards to 28.7 million. The transaction value of the channel is forecasted to grow to US$8,771.5 billion in 2021, including debit cards to US$4,253.3 billion, credit cards to US$4,085.1 billion, and charge cards to US$433.1 billion. The growth could be driven by increasing mobile payments, rise in e-commerce, increase in penetration of contactless terminals, and migration to Europay, Mastercard and Visa standards.

Corporate Tax Cuts in the US

Corporations across the US would benefit from the reduced corporate tax cut bill, which was signed into law in December 2017. Among them, financial services firms are expected to be among the biggest gainers as they pay some of the highest effective tax rates in the country. Companies could benefit from increase in borrowing by businesses. Along with increase in borrowing, higher interest rates will further boost company's' profit margins. Companies with overseas businesses would become more competitive, relative to their international counterparts in countries with lower corporate tax rates. The bill includes provisions related to repatriation of overseas cash, which could boost the US mergers and acquisitions that in turn would spur investment banking. The wealth management firms are also likely to witness substantial growth in their asset under management as the bill reduces tax rates for the wealthy. Most of the corporate America is likely to increase dividends and share buybacks that would further boost the US equity markets, in turn increasing the value of investments held by asset managers.

Emergence of FinTech

The company could benefit from venturing into FinTech arena as it is fast changing the way banking is done and challenging the regulatory structure. FinTech innovations such as crowd-funding, mobile payments, distributed ledgers, peer-to-peer lending, and online marketplace lending are cost effective and giving tough competition to banking institutions. In response, companies are increasingly pursuing opportunities to establish FinTech capabilities through partnerships or strategic collaborations, venture funding, developing in-house capabilities, setting up business accelerators, and/or acquisitions. One of the prime examples, illustrating the FinTech focus, is the collective initiative of the world's leading 22 companies in developing blockchain-based international payments system in 2017. FinTech offers cost savings for companies facing margin pressures from low interest rates. They also have the potential to expand intermediation services to the underserved.

Corporate Expansion

Strategic corporate expansion enables the company to grow organically and enhance its customer base. In this direction, in September 2017, the company set-up a branch in Paterson. This enhanced the company's branch network and its retail and small business client base. Previously, in May 2017, it opened a branch office in Bronx, New York. This supported the company to improve its SME client base and enhance its presence in New York. Earlier in February 2017, it set-up a branch in Ellicottville. It enabled M&T to enhance its presence in western New York and strengthen its retail banking clients.

Threat

Additional Capital Requirements

The challenge on bank solvency, as a result of highly leveraged balance sheets, prompted a regulatory response, which recommended an increase in capital. Basel III norms by Basel Committee on Banking Supervision are intended to protect the global banking industry from financial meltdowns. The new norms require banks to hold more and better quality capital, carry more liquid assets, and limit leverage. The norms will not only ensure banks to hold more capital on hand, which will limit the amount of money they can lend, but also reduce the risk of insolvency given many loan defaults.

Basel III increases the minimum Tier 1 common equity ratio to 4.5%, net of regulatory deductions, and introduces a multi-year phase-in capital conservation buffer of an additional 2.5% of common equity to risk-weighted assets. The capital conservation buffer, once fully phased-in, increases the target minimum Tier 1 common equity ratio to 7%, minimum Tier 1 capital ratio from 6% to 8.5% and the minimum total capital ratio from 8% to 10.5%. The buffer requirement began in January 2016 and the banks are required to fully phase-in the buffer by January 2019 to avoid limitations on capital distributions and certain discretionary incentive compensation payments. In addition, Basel III introduces a counter cyclical capital buffer of up to 2.5% of common equity or other fully loss absorbing capital for periods of excess credit growth. Basel III also introduces a non-risk adjusted Tier 1 leverage ratio of 3%, based on a measure of total exposure rather than total assets, and new liquidity standards. Such regulations would render financial services companies to incur high costs, and exert increased pressure on banks, which are already in the process of improving their own governance processes.

Prolonged Low-Interest-Rate Environment

Prolonged low-interest-rate environment could pose significant challenges to a banking institution. According to an IMF research, lower interest rates may boost banks' earnings in the short-term. However, they adversely affect profitability in the steady state once they fall below a particular positive threshold. With flattened yield curves, if bank deposit rates cannot fall below zero, the profitability would be contracted further. In such a scenario, regional and deposit-funded banks are likely to be most adversely impacted. In order to enhance yield, larger banks would increase their risk exposures in other countries that offer higher returns and rely more on wholesale funding, whereas their smaller counterparts would take more interest rate risk by increasing the duration of bond portfolios. Prolonged challenging interest rate environment would result in consolidation of smaller banks.

Competition

The company operates in a highly competitive financial market of the US. It faces stiff competition from domestic and foreign brokerage firms, fintech companies, local, regional, and national banks, internet banks, savings and loan associations, finance companies, and credit unions operating in the US. A few of its key peers include Citizens Financial Group, Inc., F.N.B. Corporation, Lakeland Bancorp, Inc., New York Community Bancorp Inc., and TD Bank NA. It competes based on factors such as distribution network, fees charged, market knowledge, and service quality.