M&T BANK CORP
Form 10-Q
November 09, 2011
**Table of Contents**

# 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, 2011**

**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** | **16-0968385** |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **One M & T Plaza** | |
| **Buffalo, New York** | **14203** |
| **(Address of principal executive offices)** | **(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. x 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). x 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 | x | 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 x No

Number of shares of the registrant s Common Stock, $0.50 par value, outstanding as of the close of business on October 31, 2011: 125,626,022 shares.

**Table of Contents**

M&T BANK CORPORATION

FORM 10-Q

For the Quarterly Period Ended September 30, 2011


| Table of Contents of Information Required in Report | | Page |
|---|---|---|
| Part I. FINANCIAL INFORMATION | | |
| Item 1. | Financial Statements. | |
| | CONSOLIDATED BALANCE SHEET - September 30, 2011 and December 31, 2010 | 3 |
| | CONSOLIDATED STATEMENT OF INCOME - Three and nine months ended September 30, 2011 and 2010 | 4 |
| | CONSOLIDATED STATEMENT OF CASH FLOWS - Nine months ended September 30, 2011 and 2010 | 5 |
| | CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY - Nine months ended September 30, 2011 and 2010 | 6 |
| | NOTES TO FINANCIAL STATEMENTS | 7 |
| Item 2. | Management s Discussion and Analysis of Financial Condition and Results of Operations. | 56 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk. | 108 |
| Item 4. | Controls and Procedures. | 108 |
| Part II. OTHER INFORMATION | | |
| Item 1. | Legal Proceedings. | 108 |
| Item 1A. | Risk Factors. | 108 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds. | 109 |
| Item 3. | Defaults Upon Senior Securities. | 109 |
| Item 4. | (Removed and Reserved). | 109 |
| Item 5. | Other Information. | 109 |
| Item 6. | Exhibits. | 110 |
| SIGNATURES | | 110 |
| EXHIBIT INDEX | | 111 |

**Table of Contents**

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (Unaudited)

| *Dollars in thousands, except per share* | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Assets | | |
| Cash and due from banks | $ 1,349,057 | 908,755 |
| Interest-bearing deposits at banks | 2,226,779 | 101,222 |
| Federal funds sold | 5,000 | 25,000 |
| Trading account | 605,557 | 523,834 |
| Investment securities (includes pledged securities that can be sold or repledged of $1,876,435 at September 30, 2011; $1,937,817 at December 31, 2010) | | |
| Available for sale (cost: $5,717,180 at September 30, 2011; $5,494,377 at December 31, 2010) | 5,635,878 | 5,413,492 |
| Held to maturity (fair value: $1,097,215 at September 30, 2011; $1,225,253 at December 31, 2010) | 1,161,837 | 1,324,339 |
| Other (fair value: $376,082 at September 30, 2011; $412,709 at December 31, 2010) | 376,082 | 412,709 |
| Total investment securities | 7,173,797 | 7,150,540 |
| Loans and leases | 58,694,038 | 52,315,942 |
| Unearned discount | (292,774) | (325,560) |
| Loans and leases, net of unearned discount | 58,401,264 | 51,990,382 |
| Allowance for credit losses | (908,525) | (902,941) |
| Loans and leases, net | 57,492,739 | 51,087,441 |
| Premises and equipment | 569,495 | 435,837 |
| Goodwill | 3,524,625 | 3,524,625 |
| Core deposit and other intangible assets | 257,656 | 125,917 |
| Accrued interest and other assets | 4,659,186 | 4,138,092 |
| Total assets | $ 77,863,891 | 68,021,263 |
| Liabilities | | |
| Noninterest-bearing deposits | $ 19,637,491 | 14,557,568 |
| NOW accounts | 1,754,873 | 1,393,349 |
| Savings deposits | 30,797,655 | 26,431,281 |
| Time deposits | 6,777,499 | 5,817,170 |
| Deposits at Cayman Islands office | 514,871 | 1,605,916 |
| Total deposits | 59,482,389 | 49,805,284 |
| Federal funds purchased and agreements to repurchase securities | 551,471 | 866,555 |
| Other short-term borrowings | 142,927 | 80,877 |
| Accrued interest and other liabilities | 1,563,121 | 1,070,701 |
| Long-term borrowings | 6,748,857 | 7,840,151 |
| Total liabilities | 68,488,765 | 59,663,568 |
| Shareholders equity | | |
| Preferred stock, $1.00 par, 1,000,000 shares authorized; | 862,717 | 740,657 |
| Issued and outstanding: Liquidation preference of $1,000 per share: 381,500 shares at September 30, 2011 and 778,000 shares at December 31, 2010; Liquidation preference of $10,000 per share: 50,000 | | |

| | | |
|---|---|---|
| shares at September 30, 2011 and none at December 31, 2010 | | |
| Common stock, $.50 par, 250,000,000 shares authorized, 125,610,181 shares issued at September 30, 2011; 120,396,611 shares issued at December 31, 2010 | 62,805 | 60,198 |
| Common stock issuable, 68,107 shares at September 30, 2011; 71,345 shares at December 31, 2010 | 4,066 | 4,189 |
| Additional paid-in capital | 2,814,143 | 2,398,615 |
| Retained earnings | 5,823,928 | 5,426,701 |
| Accumulated other comprehensive income (loss), net | (192,533) | (205,220) |
| Treasury stock - common, at cost - none at September 30, 2011; 693,974 shares at December 31, 2010 | | (67,445) |
| Total shareholders equity | 9,375,126 | 8,357,695 |
| Total liabilities and shareholders equity | $ 77,863,891 | 68,021,263 |

**Table of Contents**

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

| | | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|---|
| *In thousands, except per share* | | 2011 | 2010 | 2011 | 2010 |
| Interest income | Loans and leases, including fees | $ 655,581 | 603,199 | $ 1,873,860 | 1,788,245 |
| | Deposits at banks | 1,164 | 34 | 1,679 | 45 |
| | Federal funds sold | 23 | 9 | 51 | 29 |
| | Agreements to resell securities | 4 | 32 | 132 | 36 |
| | Trading account | 312 | 94 | 982 | 287 |
| | Investment securities | | | | |
| | Fully taxable | 60,880 | 80,043 | 192,369 | 250,922 |
| | Exempt from federal taxes | 2,387 | 2,489 | 7,014 | 7,506 |
| | Total interest income | 720,351 | 685,900 | 2,076,087 | 2,047,070 |
| Interest expense | NOW accounts | 354 | 219 | 830 | 638 |
| | Savings deposits | 22,664 | 21,453 | 62,660 | 63,366 |
| | Time deposits | 17,684 | 23,309 | 56,065 | 79,009 |
| | Deposits at Cayman Islands office | 188 | 315 | 775 | 1,016 |
| | Short-term borrowings | 222 | 760 | 861 | 2,373 |
| | Long-term borrowings | 62,520 | 69,976 | 183,171 | 207,239 |
| | Total interest expense | 103,632 | 116,032 | 304,362 | 353,641 |
| | *Net interest income* | 616,719 | 569,868 | 1,771,725 | 1,693,429 |
| | Provision for credit losses | 58,000 | 93,000 | 196,000 | 283,000 |
| | Net interest income after provision for credit losses | 558,719 | 476,868 | 1,575,725 | 1,410,429 |
| Other income | Mortgage banking revenues | 38,141 | 61,052 | 125,448 | 149,612 |
| | Service charges on deposit accounts | 121,577 | 117,733 | 351,024 | 367,004 |
| | Trust income | 113,652 | 30,485 | 218,565 | 91,582 |
| | Brokerage services income | 13,907 | 12,127 | 43,129 | 38,021 |
| | Trading account and foreign exchange gains | 4,176 | 6,035 | 19,253 | 14,531 |
| | Gain on bank investment securities | 89 | 1,440 | 150,186 | 1,909 |
| | Total other-than-temporary impairment ( OTTI ) losses | (7,649) | (16,486) | (50,374) | (67,052) |
| | Portion of OTTI losses recognized in other comprehensive income (before taxes) | (1,993) | 6,954 | (1,839) | 8,338 |
| | Net OTTI losses recognized in earnings | (9,642) | (9,532) | (52,213) | (58,714) |
| | Equity in earnings of Bayview Lending Group LLC | (6,911) | (6,460) | (18,812) | (18,353) |
| | Other revenues from operations | 93,393 | 77,019 | 347,878 | 235,570 |
| | Total other income | 368,382 | 289,899 | 1,184,458 | 821,162 |
| Other expense | Salaries and employee benefits | 325,197 | 246,389 | 891,465 | 756,296 |
| | Equipment and net occupancy | 68,101 | 54,353 | 184,434 | 165,185 |
| | Printing, postage and supplies | 10,593 | 7,820 | 29,518 | 25,412 |
| | Amortization of core deposit and other intangible assets | 17,401 | 13,526 | 44,455 | 44,834 |
| | FDIC assessments | 26,701 | 18,039 | 72,404 | 60,995 |
| | Other costs of operations | 214,026 | 140,006 | 516,209 | 392,841 |
| | Total other expense | 662,019 | 480,133 | 1,738,485 | 1,445,563 |
| | Income before taxes | 265,082 | 286,634 | 1,021,698 | 786,028 |
| | Income taxes | 81,974 | 94,619 | 309,959 | 254,309 |
| | *Net income* | $ 183,108 | 192,015 | $ 711,739 | 531,719 |
| | Net income available to common shareholders | | | | |
| | Basic | $164,668 | 176,780 | $651,941 | 486,811 |

| | | | | |
|---|---|---|---|---|
| Diluted | 164,671 | 176,789 | 651,966 | 486,831 |
| Net income per common share | | | | |
| Basic | $1.32 | 1.49 | $5.34 | 4.12 |
| Diluted | 1.32 | 1.48 | 5.32 | 4.10 |
| Cash dividends per common share | $ .70 | .70 | $ 2.10 | 2.10 |
| Average common shares outstanding | | | | |
| Basic | 124,575 | 118,320 | 122,005 | 118,048 |
| Diluted | 124,860 | 119,155 | 122,521 | 118,766 |

**Table of Contents**

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

| *In thousands* | | Nine months ended September 30 2011 | 2010 |
|---|---|---|---|
| Cash flows from operating activities | Net income | $ 711,739 | 531,719 |
| | Adjustments to reconcile net income to net cash provided by operating activities | | |
| | Provision for credit losses | 196,000 | 283,000 |
| | Depreciation and amortization of premises and equipment | 60,220 | 51,216 |
| | Amortization of capitalized servicing rights | 39,895 | 42,917 |
| | Amortization of core deposit and other intangible assets | 44,455 | 44,834 |
| | Provision for deferred income taxes | 14,530 | 49,111 |
| | Asset write-downs | 64,153 | 68,430 |
| | Net gain on sales of assets | (183,861) | (3,006) |
| | Net change in accrued interest receivable, payable | (6,206) | 4,764 |
| | Net change in other accrued income and expense | (21,427) | 119,728 |
| | Net change in loans originated for sale | 316,623 | 67,172 |
| | Net change in trading account assets and liabilities | 49,376 | (10,482) |
| | Net cash provided by operating activities | 1,285,497 | 1,249,403 |
| Cash flows from investing activities | Proceeds from sales of investment securities | | |
| | Available for sale | 1,909,427 | 21,220 |
| | Other | 106,925 | 62,331 |
| | Proceeds from maturities of investment securities | | |
| | Available for sale | 1,007,612 | 1,097,531 |
| | Held to maturity | 180,475 | 139,555 |
| | Purchases of investment securities | | |
| | Available for sale | (2,569,168) | (414,992) |
| | Held to maturity | (19,386) | (993,162) |
| | Other | (30,438) | (7,209) |
| | Net (increase) decrease in loans and leases | (522,571) | 1,087,784 |
| | Net (increase) decrease in interest-bearing deposits at banks | 480,708 | (268,289) |
| | Net (increase) decrease in agreements to resell securities | 15,000 | (425,000) |
| | Other investments, net | (9,856) | (41,093) |
| | Capital expenditures, net | (38,030) | (39,380) |
| | 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 | 181,310 | 62,609 |
| | Other, net | 73,739 | (28,198) |
| | Net cash provided by investing activities | 614,687 | 253,707 |
| Cash flows from financing activities | Net increase in deposits | 825,434 | 1,217,511 |
| | Net decrease in short-term borrowings | (400,752) | (1,230,890) |
| | Payments on long-term borrowings | (1,750,195) | (1,399,101) |
| | Proceeds from issuance of preferred stock | 495,000 | |
| | Redemption of preferred stock | (370,000) | |
| | Dividends paid - common | (261,589) | (251,125) |
| | Dividends paid - preferred | (24,815) | (30,169) |

| | | | |
|---|---|---|---|
| | Other, net | 7,035 | 33,647 |
| | Net cash used by financing activities | (1,479,882) | (1,660,127) |
| | Net increase (decrease) in cash and cash equivalents | 420,302 | (157,017) |
| | Cash and cash equivalents at beginning of period | 933,755 | 1,246,342 |
| | Cash and cash equivalents at end of period | $ 1,354,057 | 1,089,325 |
| Supplemental disclosure of cash flow information | Interest received during the period | $ 2,087,083 | 2,072,464 |
| | Interest paid during the period | 320,758 | 360,289 |
| | Income taxes paid during the period | 308,057 | 214,903 |
| Supplemental schedule of noncash investing and financing activities | Real estate acquired in settlement of loans | $ 51,046 | 165,933 |
| | 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 | |
| | Increase (decrease) from consolidation of securitization trusts: | | |
| | Loans | | 423,865 |
| | Investment securities - available for sale | | (360,471) |
| | Long-term borrowings | | 65,419 |
| | Accrued interest and other | | 2,025 |

Table of Contents

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

| *In thousands, except per share* | Preferred stock | Common stock | Common stock issuable | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income (loss), net | Treasury stock | Total |
|---|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | | |
| Balance - January 1, 2010 | $ 730,235 | 60,198 | 4,342 | 2,442,947 | 5,076,884 | (335,997) | (225,702) | 7,752,907 |
| Comprehensive income: | | | | | | | | |
| Net income | | | | | 531,719 | | | 531,719 |
| Other comprehensive income, net of tax and reclassification adjustments: | | | | | | | | |
| Unrealized gains on investment securities | | | | | | 140,392 | | 140,392 |
| Defined benefit plans liability adjustment | | | | | | 3,262 | | 3,262 |
| Unrealized gain on terminated cash flow hedge | | | | | | (211) | | (211) |
| | | | | | | | | 675,162 |
| Preferred stock cash dividends | | | | | (30,169) | | | (30,169) |
| Amortization of preferred stock discount | 7,744 | | | | (7,744) | | | |
| Repayment of management stock ownership program receivable | | | | 2,686 | | | | 2,686 |
| Stock-based compensation plans: | | | | | | | | |
| Compensation expense, net | | | | (3,545) | | | 41,672 | 38,127 |
| Exercises of stock options, net | | | | (25,639) | | | 58,892 | 33,253 |
| Stock purchase plan | | | | (8,482) | | | 17,480 | 8,998 |
| Directors stock plan | | | | (289) | | | 1,116 | 827 |
| Deferred compensation plans, net, including dividend equivalents | | | (196) | (295) | (147) | | 611 | (27) |
| Other | | | | 1,354 | | | | 1,354 |
| Common stock cash dividends - $2.10 per share | | | | | (251,345) | | | (251,345) |
| Balance - September 30, 2010 | $ 737,979 | 60,198 | 4,146 | 2,408,737 | 5,319,198 | (192,554) | (105,931) | 8,231,773 |
| **2011** | | | | | | | | |
| Balance - January 1, 2011 | $ 740,657 | 60,198 | 4,189 | 2,398,615 | 5,426,701 | (205,220) | (67,445) | 8,357,695 |
| Comprehensive income: | | | | | | | | |
| Net income | | | | | 711,739 | | | 711,739 |
| Other comprehensive income, net of tax and reclassification adjustments: | | | | | | | | |
| | | | | | | 6,970 | | 6,970 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Unrealized gains on investment securities | | | | | | | | |
| Defined benefit plans liability adjustment | | | | | | 6,431 | | 6,431 |
| Unrealized gain on terminated cash flow hedge | | | | | | (211) | | (211) |
| Foreign currency translation adjustment | | | | | | (503) | | (503) |
| | | | | | | | | 724,426 |
| 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 | | | | | (34,125) | | | (34,125) |
| Amortization of preferred stock discount | 18,560 | | | | (18,560) | | | |
| Stock-based compensation plans: | | | | | | | | |
| Compensation expense, net | | 36 | | 650 | | | 31,666 | 32,352 |
| Exercises of stock options, net | | 29 | | (6,691) | | | 30,106 | 23,444 |
| Directors stock plan | | 2 | | 414 | | | 612 | 1,028 |
| Deferred compensation plans, net, including dividend equivalents | | | (123) | (203) | (141) | | 507 | 40 |
| Other | | | | 1,395 | | | | 1,395 |
| Common stock cash dividends - $2.10 per share | | | | | (261,686) | | | (261,686) |
| Balance - September 30, 2011 | $ 862,717 | 62,805 | 4,066 | 2,814,143 | 5,823,928 | (192,533) | | 9,375,126 |

Table of Contents

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 2010 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 $176 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 the leading deposit market share in Delaware.

In many cases, determining the fair value of the acquired assets and assumed liabilities required the Company to estimate cash flows expected to result from those assets and liabilities and to discount those cash flows at appropriate rates of interest. The most significant of these determinations related to the fair valuation of acquired loans. For such loans, the excess of cash flows expected at acquisition over the estimated fair value is recognized as interest income over the remaining lives of the loans. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition reflects the impact of estimated credit losses and other factors, such as prepayments. In accordance with GAAP, there was no carry-over of Wilmington Trust s previously established allowance for credit losses. Subsequent decreases in the expected cash flows require the Company to evaluate the need for additions to the Company s allowance for credit losses. Subsequent improvements in expected cash flows generally result in the recognition of additional interest income over the then remaining lives of the loans.

**Table of Contents**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**2. Acquisitions, continued**

In conjunction with the Wilmington Trust acquisition, the acquired loan portfolio was accounted for at fair value as follows:

| | May 16, 2011 (in thousands) |
|---|---|
| Contractually required principal and interest at acquisition | $ 8,336,755 |
| Contractual cash flows not expected to be collected | (1,209,749) |
| Expected cash flows at acquisition | 7,127,006 |
| Interest component of expected cash flows | (716,576) |
| Basis in acquired loans at acquisition estimated fair value | $ 6,410,430 |

Included in the above table is information related to loans for which there was specific evidence of credit deterioration at the acquisition date and for which it was deemed probable that the Company would be unable to collect all contractually required principal and interest payments ( purchased impaired loans ). Contractually required principal and interest, cash flows expected to be collected and estimated fair value of purchased impaired loans were $1,419,672,000, $747,265,000 and $707,907,000, respectively.

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 | 176,194 |
| Other assets | 905,006 |
| 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 |

**2. Acquisitions, continued**

The following table discloses the impact of Wilmington Trust (excluding the impact of the merger-related gain and expenses) since the acquisition on May 16, 2011 through the end of the third quarter of 2011. The table also presents certain pro forma information as if Wilmington Trust had been acquired on January 1, 2010. 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 on the indicated date. In particular, no adjustments have been made to eliminate the amount of Wilmington Trust s provision for credit losses of $42 million in 2011 and $564 million in 2010 or the impact of other-than-temporary impairment losses recognized by Wilmington Trust of $5 million in 2011 and $30 million in 2010 that may not have been necessary had the acquired loans and investment securities been recorded at fair value as of the beginning of 2010. Furthermore, expenses related to systems conversions and other costs of integration of $67 million and the $65 million gain recorded in connection with the acquisition are included in the 2011 periods in which such costs were incurred and gain recognized. Additionally, the Company expects to achieve further operating cost savings and other business synergies as a result of the acquisition which are not reflected in the pro forma amounts that follow.

| | Actual since acquisition | Pro forma | |
|---|---|---|---|
| | | Nine months ended September 30 | |
| | through September 30, 2011 | 2011 | 2010 |
| | | (in thousands) | |
| Total revenues (a) | $ 229,842 | 3,190,437 | 3,036,507 |
| Net income | 9,315 | 663,048 | 13,535 |

*(a) Represents net interest income plus other income.*

- 9 -

**Table of Contents**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**2. Acquisitions, continued**

On November 5, 2010, M&T Bank, M&T s principal banking subsidiary, entered into a purchase and assumption agreement with the Federal Deposit Insurance Corporation ( FDIC ) to assume all of the deposits, except certain brokered deposits, and acquire certain assets of K Bank, based in Randallstown, Maryland. As part of the transaction, M&T Bank entered into a loss-share arrangement with the FDIC whereby M&T Bank will be reimbursed by the FDIC for most losses it incurs on the acquired loan portfolio. The transaction was accounted for using the acquisition method of accounting and, accordingly, assets acquired and liabilities assumed were recorded at estimated fair value on the acquisition date. Assets acquired in the transaction totaled approximately $556 million, including $154 million of loans and $186 million in cash, and liabilities assumed aggregated $528 million, including $491 million of deposits. In accordance with GAAP, M&T Bank recorded an after-tax gain on the transaction of $17 million ($28 million before taxes). The gain reflected the amount of financial support and indemnification against loan losses that M&T Bank obtained from the FDIC. There was no goodwill or other intangible assets recorded in connection with this transaction. The operations obtained in the K Bank acquisition transaction did not have a material impact on the Company s consolidated financial position or results of operations.

In connection with the Wilmington Trust and K Bank acquisitions, 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 the conversion of systems 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; travel costs; and printing, postage, supplies and other costs of completing the transactions and commencing operations in new markets and offices. There were no merger-related expenses during the three months or nine months ended September 30, 2010. The Company expects to incur additional merger-related expenses during the remainder of 2011. As of September 30, 2011, the remaining unpaid portion of incurred merger-related expenses was $17 million. A summary of merger-related expenses included in the consolidated statement of income follows.

| | Three months ended September 30, 2011 | Nine months ended September 30, 2011 |
|---|---|---|
| | (in thousands) | |
| Salaries and employee benefits | $ 285 | $ 15,597 |
| Equipment and net occupancy | 119 | 223 |
| Printing, postage and supplies | 723 | 1,188 |
| Other costs of operations | 24,876 | 50,286 |
| | $ 26,003 | $ 67,294 |

**Table of Contents**

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 | Gross unrealized losses | Estimated fair value |
|---|---|---|---|---|
| | | (in thousands) | | |
| September 30, 2011 | | | | |
| Investment securities available for sale: | | | | |
| U.S. Treasury and federal agencies | $ 69,668 | 1,360 | | $ 71,028 |
| Obligations of states and political subdivisions | 45,805 | 1,029 | 42 | 46,792 |
| Mortgage-backed securities: | | | | |
| Government issued or guaranteed | 3,708,714 | 168,551 | 227 | 3,877,038 |
| Privately issued residential | 1,441,491 | 7,136 | 233,549 | 1,215,078 |
| Privately issued commercial | 19,446 | | 2,617 | 16,829 |
| Collateralized debt obligations | 44,064 | 10,141 | 2,851 | 51,354 |
| Other debt securities | 216,635 | 4,164 | 39,946 | 180,853 |
| Equity securities | 171,357 | 8,530 | 2,981 | 176,906 |
| | 5,717,180 | 200,911 | 282,213 | 5,635,878 |
| Investment securities held to maturity: | | | | |
| Obligations of states and political subdivisions | 184,472 | 6,942 | 19 | 191,395 |
| Mortgage-backed securities: | | | | |
| Government issued or guaranteed | 686,908 | 28,507 | | 715,415 |
| Privately issued | 278,433 | | 100,052 | 178,381 |
| Other debt securities | 12,024 | | | 12,024 |
| | 1,161,837 | 35,449 | 100,071 | 1,097,215 |
| Other securities | 376,082 | | | 376,082 |
| Total | $ 7,255,099 | 236,360 | 382,284 | $ 7,109,175 |
| December 31, 2010 | | | | |
| Investment securities available for sale: | | | | |
| U.S. Treasury and federal agencies | $ 61,772 | 1,680 | 18 | $ 63,434 |
| Obligations of states and political subdivisions | 59,921 | 561 | 57 | 60,425 |
| Mortgage-backed securities: | | | | |
| Government issued or guaranteed | 3,146,054 | 161,298 | 1,111 | 3,306,241 |
| Privately issued residential | 1,677,064 | 10,578 | 252,081 | 1,435,561 |
| Privately issued commercial | 25,357 | | 2,950 | 22,407 |
| Collateralized debt obligations | 95,080 | 24,754 | 9,078 | 110,756 |
| Other debt securities | 310,017 | 26,883 | 38,000 | 298,900 |
| Equity securities | 119,112 | 5,098 | 8,442 | 115,768 |
| | 5,494,377 | 230,852 | 311,737 | 5,413,492 |
| Investment securities held to maturity: | | | | |

| | | | | |
|---|---|---|---|---|
| Obligations of states and political subdivisions | 191,119 | 1,944 | 694 | 192,369 |
| Mortgage-backed securities: | | | | |
| Government issued or guaranteed | 808,108 | 14,061 | | 822,169 |
| Privately issued | 312,537 | | 114,397 | 198,140 |
| Other debt securities | 12,575 | | | 12,575 |
| | 1,324,339 | 16,005 | 115,091 | 1,225,253 |
| Other securities | 412,709 | | | 412,709 |
| Total | $ 7,231,425 | 246,857 | 426,828 | $ 7,051,454 |

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**3. Investment securities, continued**

Gross realized gains on investment securities were $90 thousand and $150 million for the three-month and nine-month periods ended September 30, 2011, respectively. Gross realized losses were not significant in 2011. Gross realized gains and losses on investment securities were not significant during the three-month and nine-month periods ended September 30, 2010. During the second quarter of 2011, the Company sold residential mortgage-backed securities guaranteed by the Federal National Mortgage Association ( Fannie Mae ) and Federal Home Loan Mortgage Corporation ( Freddie Mac ) having an aggregate amortized cost of approximately $1.0 billion which resulted in a gain of $66 million (pre-tax). The Company also sold trust preferred securities and collateralized debt obligations during the second quarter of 2011 having an aggregate amortized cost of $136 million and $100 million, respectively, which resulted in gains of $25 million (pre-tax) and $20 million (pre-tax), respectively. During the first quarter of 2011, the Company sold residential mortgage-backed securities guaranteed by Fannie Mae and Freddie Mac having an aggregate amortized cost of approximately $484 million which resulted in a gain of $39 million (pre-tax).

The Company recognized $10 million and $52 million of pre-tax other-than-temporary impairment losses during the three- and nine-month periods ended September 30, 2011, respectively, related to privately issued mortgage-backed securities. The impairment charges were recognized in light of deterioration of real estate values and continued high levels of delinquencies and charge-offs of underlying mortgage loans collateralizing those securities. Other-than-temporary impairment losses on investment securities of $10 million and $59 million (pre-tax) were recognized by the Company for the three- and nine-month periods ended September 30, 2010. Approximately $12 million of the losses recognized in the second quarter of 2010 related to American Depositary Shares of Allied Irish Banks, p.l.c. ( AIB ADSs ) which were obtained in M&T s acquisition of a subsidiary of AIB in 2003. The remaining losses in 2010 related to certain privately issued residential mortgage-backed securities and collateralized debt obligations backed by pooled trust preferred securities. The impairment charges related to the AIB ADSs were recognized due to mounting credit and other losses incurred by AIB and significant dilution of AIB common shareholders based on the Irish government s significant ownership position. The impairment charges related to the privately issued residential mortgage-backed securities were recognized in light of deterioration of housing values in the residential real estate market and a rise in delinquencies and charge-offs of underlying mortgage loans collateralizing those securities. The other-than-temporary impairment losses on debt securities represent management s estimate of credit losses inherent in the securities considering projected cash flows using assumptions of delinquency rates, loss severities, and other estimates of future collateral performance. The following table displays changes in credit losses for debt securities recognized in earnings for the three months and nine months ended September 30, 2011 and 2010.

**Table of Contents**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**3. Investment securities, continued**

| | Three months ended September 30 | |
|---|---|---|
| | 2011 | 2010 |
| | (in thousands) | |
| Beginning balance | $ 298,141 | 314,263 |
| Additions for credit losses not previously recognized | 9,642 | 9,532 |
| Reductions for increases in cash flows | (90) | (108) |
| Reductions for bond charge-offs | (23,127) | (11,812) |
| Ending balance | $ 284,566 | 311,875 |

| | Nine months ended September 30 | |
|---|---|---|
| | 2011 | 2010 |
| | (in thousands) | |
| Beginning balance | $ 327,912 | 284,513 |
| Additions for credit losses not previously recognized | 52,213 | 46,721 |
| Reductions for increases in cash flows | (5,110) | (450) |
| Reductions for bond charge-offs | (90,449) | (18,909) |
| Ending balance | $ 284,566 | 311,875 |

At September 30, 2011, 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 | $ 23,908 | 23,994 |
| Due after one year through five years | 77,765 | 79,896 |
| Due after five years through ten years | 15,648 | 16,947 |
| Due after ten years | 258,851 | 229,190 |
| | 376,172 | 350,027 |
| Mortgage-backed securities available for sale | 5,169,651 | 5,108,945 |
| | $ 5,545,823 | 5,458,972 |
| Debt securities held to maturity: | | |
| Due in one year or less | $ 23,957 | 24,144 |
| Due after one year through five years | 21,814 | 22,731 |

| | | |
|---|---|---|
| Due after five years through ten years | 134,730 | 140,377 |
| Due after ten years | 15,995 | 16,167 |
| | 196,496 | 203,419 |
| Mortgage-backed securities held to maturity | 965,341 | 893,796 |
| | $ 1,161,837 | 1,097,215 |

- 13 -

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**3. Investment securities, continued**

A summary of investment securities that as of September 30, 2011 and December 31, 2010 had been in a continuous unrealized loss position for less than twelve months and those that had been in a continuous unrealized loss position for twelve months or longer follows:

| | Less than 12 months | | 12 months or more | |
|---|---|---|---|---|
| | Fair value | Unrealized losses | Fair value | Unrealized losses |
| | (in thousands) | | | |
| September 30, 2011 | | | | |
| Investment securities available for sale: | | | | |
| Obligations of states and political subdivisions | $ 656 | (5) | 2,389 | (37) |
| Mortgage-backed securities: | | | | |
| Government issued or guaranteed | 46,184 | (167) | 3,523 | (60) |
| Privately issued residential | 295,370 | (8,164) | 803,491 | (225,385) |
| Privately issued commercial | | | 16,829 | (2,617) |
| Collateralized debt obligations | 2,549 | (531) | 4,684 | (2,320) |
| Other debt securities | 77,028 | (5,252) | 72,961 | (34,694) |
| Equity securities | 9,189 | (2,981) | | |
| | 430,976 | (17,100) | 903,877 | (265,113) |
| Investment securities held to maturity: | | | | |
| Obligations of states and political subdivisions | 1,542 | (11) | 184 | (8) |
| Privately issued mortgage-backed securities | 2,791 | (1,116) | 175,590 | (98,936) |
| | 4,333 | (1,127) | 175,774 | (98,944) |
| Total | $ 435,309 | (18,227) | 1,079,651 | (364,057) |

| | Less than 12 months | | 12 months or more | |
|---|---|---|---|---|
| | Fair value | Unrealized losses | Fair value | Unrealized losses |
| | (in thousands) | | | |
| December 31, 2010 | | | | |
| Investment securities available for sale: | | | | |
| U.S. Treasury and federal agencies | $ 27,289 | (18) | | |
| Obligations of states and political subdivisions | 3,712 | (18) | 2,062 | (39) |
| Mortgage-backed securities: | | | | |
| Government issued or guaranteed | 68,507 | (1,079) | 2,965 | (32) |
| Privately issued residential | 61,192 | (1,054) | 1,057,315 | (251,027) |
| Privately issued commercial | | | 22,407 | (2,950) |
| Collateralized debt obligations | 12,462 | (6,959) | 6,004 | (2,119) |
| Other debt securities | 2,134 | (10) | 88,969 | (37,990) |

| | | | | |
|---|---|---|---|---|
| Equity securities | 5,326 | (3,721) | 673 | (4,721) |
| | 180,622 | (12,859) | 1,180,395 | (298,878) |
| Investment securities held to maturity: | | | | |
| Obligations of states and political subdivisions | 76,318 | (638) | 467 | (56) |
| Privately issued mortgage-backed securities | | | 198,140 | (114,397) |
| | 76,318 | (638) | 198,607 | (114,453) |
| Total | $ 256,940 | (13,497) | 1,379,002 | (413,331) |

**Table of Contents**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**3. Investment securities, continued**

The Company owned 317 individual investment securities with aggregate gross unrealized losses of $382 million at September 30, 2011. Approximately $234 million of the unrealized losses pertained to available-for-sale privately issued residential mortgage-backed securities with a cost basis of $1.3 billion. The Company also had $43 million of unrealized losses on available-for-sale trust preferred securities issued by financial institutions and securities backed by trust preferred securities having a cost basis of $200 million. Based on a review of each of the securities in the investment securities portfolio at September 30, 2011, with the exception of the aforementioned securities for which other-than-temporary impairment losses were recognized, the Company concluded that it expected to recover the amortized cost basis of its investment. As of September 30, 2011, 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 September 30, 2011, the Company has not identified events or changes in circumstances which may have a significant adverse effect on the fair value of the $376 million of cost method investment securities.

**4. Loans and leases and the allowance for credit losses**

Interest income on acquired loans that were recorded at fair value at the acquisition date for the three months and nine months ended September 30, 2011 was approximately $97 million and $207 million, respectively, and for the three months and nine months ended September 30, 2010 was approximately $46 million and $132 million, respectively. The outstanding principal balance and the carrying amount of such loans that is included in the consolidated balance sheet were as follows:

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| | (in thousands) | |
| Outstanding principal balance | $ 9,843,549 | 3,681,488 |
| Carrying amount: | | |
| Commercial, financial, leasing, etc. | 1,341,567 | 337,969 |
| Commercial real estate | 4,267,754 | 1,420,239 |
| Residential real estate | 959,714 | 348,225 |
| Consumer | 2,130,840 | 1,231,292 |
| | $ 8,699,875 | 3,337,725 |

Purchased impaired loans totaled $704 million at September 30, 2011, representing less than 1% of the Company s assets and $97 million at December 31, 2010, representing less than .2% of the Company s assets. Interest income earned on purchased impaired loans was $11 million and $18 million during the three- and nine-month periods ended September 30, 2011, respectively, and $2 million and $4 million during the three- and nine-month periods ended September 30, 2010, respectively.

**Table of Contents**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

A summary of current, past due and nonaccrual loans as of September 30, 2011 and December 31, 2010 were as follows:

| | Current | 30-89 Days past due | 90 Days or more past due and accruing | Purchased impaired (a) | Other acquired impaired (b) | Nonaccrual | Total |
|---|---|---|---|---|---|---|---|
| | | | (in thousands) | | | | |
| September 30, 2011 | | | | | | | |
| Commercial, financial, leasing, etc. | $ 14,943,399 | 45,226 | 31,459 | 25,792 | 21,924 | 150,702 | 15,218,502 |
| Real estate: | | | | | | | |
| Commercial | 18,746,145 | 197,412 | 19,207 | 207,523 | 82,815 | 182,953 | 19,436,055 |
| Residential builder and developer | 813,855 | 116,705 | 32,767 | 338,182 | 49,483 | 318,957 | 1,669,949 |
| Other commercial construction | 2,600,321 | 57,034 | 1,972 | 67,045 | 24,035 | 104,895 | 2,855,302 |
| Residential | 5,787,582 | 261,641 | 218,434 | 59,120 | 25,724 | 165,058 | 6,517,559 |
| Residential Alt-A | 415,267 | 23,832 | | | | 108,793 | 547,892 |
| Consumer: | | | | | | | |
| Home equity lines and loans | 6,671,948 | 45,028 | | 4,794 | 12,607 | 41,593 | 6,775,970 |
| Automobile | 2,691,109 | 49,756 | | | 777 | 27,032 | 2,768,674 |
| Other | 2,531,909 | 57,950 | 6,127 | 1,176 | 394 | 13,805 | 2,611,361 |
| Total | $ 55,201,535 | 854,584 | 309,966 | 703,632 | 217,759 | 1,113,788 | 58,401,264 |

| | Current | 30-89 Days past due | 90 Days or more past due and accruing | Purchased impaired (a) | Other acquired impaired (b) | Nonaccrual | Total |
|---|---|---|---|---|---|---|---|
| | | | (in thousands) | | | | |
| December 31, 2010 | | | | | | | |
| Commercial, financial, leasing, etc. | $ 13,088,887 | 96,087 | 16,647 | 2,250 | 13,374 | 173,365 | 13,390,610 |
| Real estate: | | | | | | | |
| Commercial | 16,589,240 | 89,906 | 35,338 | 8,275 | 24,670 | 184,361 | 16,931,790 |
| Residential builder and developer | 891,764 | 30,805 | 9,763 | 72,710 | 29,637 | 316,811 | 1,351,490 |
| Other commercial construction | 2,723,399 | 36,420 | 11,323 | 2,098 | 10,376 | 116,265 | 2,899,881 |
| Residential | 4,699,711 | 229,641 | 192,276 | 9,320 | 10,728 | 162,001 | 5,303,677 |
| Residential Alt-A | 475,236 | 42,674 | | | | 106,469 | 624,379 |
| Consumer: | | | | | | | |
| Home equity lines and loans | 6,472,563 | 38,367 | | 2,366 | 9,692 | 33,363 | 6,556,351 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Automobile | 2,608,230 | 44,604 | | | 26 | 31,866 | 2,684,726 |
| Other | 2,190,353 | 36,689 | 4,246 | | 951 | 15,239 | 2,247,478 |
| Total | $ 49,739,383 | 645,193 | 269,593 | 97,019 | 99,454 | 1,139,740 | 51,990,382 |

*(a) Accruing loans that were specifically identified as impaired at acquisition date and recorded at fair value.*

*(b) Acquired loans that ceased performing in accordance with their contractual terms subsequent to the acquisition date, but are included in accounting pools that continue to accrue interest.*

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Changes in the allowance for credit losses for the three months ended September 30, 2011 were as follows:

| | Commercial, Financial, Leasing, etc. | Real Estate Commercial | Real Estate Residential | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|
| | (in thousands) | | | | | |
| Beginning balance | $ 209,879 | 401,111 | 87,341 | 137,309 | 71,949 | 907,589 |
| Provision for credit losses | 23,145 | (545) | 8,264 | 27,231 | (95) | 58,000 |
| Net charge-offs | | | | | | |
| Charge-offs | (12,073) | (13,712) | (12,135) | (28,576) | | (66,496) |
| Recoveries | 2,613 | 839 | 1,750 | 4,230 | | 9,432 |
| Net charge-offs | (9,460) | (12,873) | (10,385) | (24,346) | | (57,064) |
| Ending balance | $ 223,564 | 387,693 | 85,220 | 140,194 | 71,854 | 908,525 |

Changes in the allowance for credit losses for the nine months ended September 30, 2011 were as follows:

| | Commercial, Financial, Leasing, etc. | Real Estate Commercial | Real Estate Residential | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|
| | (in thousands) | | | | | |
| Beginning balance | $ 212,579 | 400,562 | 86,351 | 133,067 | 70,382 | 902,941 |
| Provision for credit losses | 44,957 | 36,965 | 37,759 | 74,847 | 1,472 | 196,000 |
| Net charge-offs | | | | | | |
| Charge-offs | (41,023) | (54,206) | (44,174) | (81,837) | | (221,240) |
| Recoveries | 7,051 | 4,372 | 5,284 | 14,117 | | 30,824 |
| Net charge-offs | (33,972) | (49,834) | (38,890) | (67,720) | | (190,416) |
| Ending balance | $ 223,564 | 387,693 | 85,220 | 140,194 | 71,854 | 908,525 |

Despite the above allocation, the allowance for credit losses is general in nature and is available to absorb losses from any portfolio segment. Changes in the allowance for credit losses for the three months and nine months ended September 30, 2010 were as follows:

| | Three months ended September 30, 2010 | Nine months ended September 30, 2010 |
|---|---|---|
| | (in thousands) | |
| Beginning balance | $ 894,667 | $ 878,022 |
| Provision for credit losses | 93,000 | 283,000 |
| Consolidation of loan securitization trusts | | 2,752 |
| Net charge-offs | | |
| Charge-offs | (101,782) | (313,167) |
| Recoveries | 8,835 | 44,113 |
| Net charge-offs | (92,947) | (269,054) |
| Ending balance | $ 894,720 | $ 894,720 |

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

In establishing the allowance for credit losses, the Company estimates losses attributable to specific troubled credits identified through both normal and detailed or intensified credit review processes and also estimates losses inherent in other loans and leases on a collective basis. For purposes of determining the level of the allowance for credit losses, the Company evaluates its loan and lease portfolio by loan type. The amounts of loss components in the Company s loan and lease portfolios are determined through a loan by loan analysis of larger balance commercial 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 all commercial and commercial real estate credits. Loan officers are responsible for continually assigning grades to these loans based on standards outlined in the Company s Credit Policy. Internal loan grades are also monitored by the Company s loan review department to ensure consistency and strict adherence to the prescribed standards. Loan grades are assigned loss component factors that reflect the Company s loss estimate for each group of loans and leases. Factors considered in assigning loan grades and loss component factors include borrower-specific information related to expected future cash flows and operating results, collateral values, financial condition, 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. Except for consumer and residential mortgage loans that are considered smaller balance homogenous loans and are evaluated collectively and purchased-impaired and other acquired impaired loans, the Company considers a loan to be impaired for purposes of applying GAAP when, based on current information and events, it is probable that the Company will be unable to collect all amounts according to the contractual terms of the loan agreement or the loan is delinquent 90 days. Purchased-impaired loans are considered impaired under GAAP 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. Regardless of loan type, the Company considers a loan to be impaired if it qualifies as a troubled debt restructuring. Modified loans, including smaller balance homogenous loans, that are considered to be troubled debt restructurings are evaluated for impairment giving consideration to the impact of the modified loan terms on the present value of the loan s expected cash flows. Other acquired impaired loans were not specifically identified as impaired as of the acquisition date, but ceased performing in accordance with their contractual terms subsequent to their respective acquisition date. In accordance with GAAP, such loans are not considered impaired in the aggregate because they are included in accounting pools that continue to accrue interest. Impairment of expected cash flows for acquired loans is evaluated at the pool level. The following tables provide information with respect to loans and leases that were considered impaired as of September 30, 2011 and December 31, 2010 and for the three months and nine months ended September 30, 2011 and September 30, 2010.

**Table of Contents**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

| | September 30, 2011 | | | December 31, 2010 | | |
|---|---|---|---|---|---|---|
| | Recorded investment | Unpaid principal balance | Related allowance | Recorded investment | Unpaid principal balance | Related allowance |
| | | | (in thousands) | | | |
| With an allowance recorded: | | | | | | |
| Commercial, financial, leasing, etc. | $ 104,806 | 124,624 | 41,474 | 121,744 | 170,888 | 40,909 |
| Real estate: | | | | | | |
| Commercial | 120,070 | 160,518 | 22,084 | 110,975 | 140,015 | 17,393 |
| Residential builder and developer | 189,304 | 242,088 | 81,048 | 263,545 | 295,031 | 78,597 |
| Other commercial construction | 86,961 | 91,053 | 13,182 | 80,934 | 85,432 | 22,067 |
| Residential | 93,210 | 113,852 | 2,247 | 73,006 | 85,279 | 3,375 |
| Residential Alt-A | 155,027 | 166,870 | 26,000 | 180,665 | 191,445 | 36,000 |
| Consumer: | | | | | | |
| Home equity lines and loans | 11,730 | 12,920 | 2,863 | 11,799 | 13,378 | 2,227 |
| Automobile | 54,748 | 54,748 | 11,513 | 58,858 | 58,858 | 12,597 |
| Other | 7,283 | 7,283 | 1,805 | 2,978 | 2,978 | 768 |
| | 823,139 | 973,956 | 202,216 | 904,504 | 1,043,304 | 213,933 |
| With no related allowance recorded: | | | | | | |
| Commercial, financial, leasing, etc. | 55,175 | 66,315 | | 52,453 | 66,692 | |
| Real estate: | | | | | | |
| Commercial | 66,572 | 71,403 | | 77,269 | 81,800 | |
| Residential builder and developer | 146,743 | 174,243 | | 71,162 | 86,039 | |
| Other commercial construction | 18,490 | 18,734 | | 36,280 | 37,107 | |
| Residential | 9,000 | 13,634 | | 5,035 | 7,723 | |
| Residential Alt-A | 34,437 | 59,606 | | 28,967 | 47,879 | |
| | 330,417 | 403,935 | | 271,166 | 327,240 | |
| Total: | | | | | | |
| Commercial, financial, leasing, etc. | 159,981 | 190,939 | 41,474 | 174,197 | 237,580 | 40,909 |
| Real estate: | | | | | | |
| Commercial | 186,642 | 231,921 | 22,084 | 188,244 | 221,815 | 17,393 |
| Residential builder and developer | 336,047 | 416,331 | 81,048 | 334,707 | 381,070 | 78,597 |
| Other commercial construction | 105,451 | 109,787 | 13,182 | 117,214 | 122,539 | 22,067 |
| Residential | 102,210 | 127,486 | 2,247 | 78,041 | 93,002 | 3,375 |
| Residential Alt-A | 189,464 | 226,476 | 26,000 | 209,632 | 239,324 | 36,000 |
| Consumer: | | | | | | |
| Home equity lines and loans | 11,730 | 12,920 | 2,863 | 11,799 | 13,378 | 2,227 |
| Automobile | 54,748 | 54,748 | 11,513 | 58,858 | 58,858 | 12,597 |
| Other | 7,283 | 7,283 | 1,805 | 2,978 | 2,978 | 768 |
| Total | $ 1,153,556 | 1,377,891 | 202,216 | 1,175,670 | 1,370,544 | 213,933 |

- 19 -

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

| | $1,148,537 | $1,148,537 | $1,148,537 | $1,148,537 | $1,148,537 | $1,148,537 |
|---|---|---|---|---|---|---|
| | Three months ended September 30, 2011 | | | Three months ended September 30, 2010 | | |
| | | Interest income recognized | | | Interest income recognized | |
| | Average recorded investment | Total | Cash basis | Average recorded investment | Total | Cash basis |
| | (in thousands) | | | | | |
| Commercial, financial, leasing, etc. | $ 152,368 | 1,172 | 1,166 | 219,225 | 334 | 326 |
| Real estate: | | | | | | |
| Commercial | 195,832 | 810 | 808 | 167,462 | 1,089 | 949 |
| Residential builder and developer | 338,897 | 422 | 98 | 268,579 | 352 | 72 |
| Other commercial construction | 96,482 | 62 | 51 | 26,550 | 79 | 65 |
| Residential | 98,885 | 1,183 | 630 | 70,418 | 774 | 477 |
| Residential Alt-A | 192,609 | 1,872 | 494 | 219,778 | 2,082 | 453 |
| Consumer: | | | | | | |
| Home equity lines and loans | 11,814 | 174 | 26 | 11,128 | 177 | 26 |
| Automobile | 56,071 | 957 | 262 | 55,871 | 951 | 293 |
| Other | 5,579 | 75 | 32 | 3,186 | 57 | 12 |
| Total | $ 1,148,537 | 6,727 | 3,567 | 1,042,197 | 5,895 | 2,673 |

| | $1,148,537 | $1,148,537 | $1,148,537 | $1,148,537 | $1,148,537 | $1,148,537 |
|---|---|---|---|---|---|---|
| | Nine months ended September 30, 2011 | | | Nine months ended September 30, 2010 | | |
| | | Interest income recognized | | | Interest income recognized | |
| | Average recorded investment | Total | Cash basis | Average recorded investment | Total | Cash basis |
| | (in thousands) | | | | | |
| Commercial, financial, leasing, etc. | $ 163,005 | 2,844 | 2,820 | 262,310 | 1,509 | 1,492 |
| Real estate: | | | | | | |
| Commercial | 191,818 | 1,705 | 1,630 | 219,816 | 1,585 | 1,426 |
| Residential builder and developer | 321,386 | 1,261 | 338 | 282,762 | 1,058 | 513 |
| Other commercial construction | 102,978 | 759 | 522 | 28,342 | 368 | 354 |
| Residential | 92,918 | 3,209 | 1,770 | 58,120 | 1,985 | 1,256 |
| Residential Alt-A | 199,066 | 5,858 | 1,455 | 223,328 | 6,410 | 1,338 |
| Consumer: | | | | | | |
| Home equity lines and loans | 11,989 | 523 | 74 | 11,809 | 536 | 88 |
| Automobile | 57,704 | 2,925 | 850 | 53,062 | 2,722 | 959 |
| Other | 4,124 | 187 | 51 | 3,211 | 186 | 42 |
| Total | $ 1,144,988 | 19,271 | 9,510 | 1,142,760 | 16,359 | 7,468 |

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The Company utilizes a loan grading system that is applied to all commercial loans and commercial real estate loans. Loan grades are utilized to differentiate risk within the portfolio and consider the expectations of default for each loan. Commercial loans and commercial real estate loans with a lower expectation of default are assigned one of ten possible pass loan grades and are generally ascribed lower loss factors when determining the allowance for credit losses. Loans with an elevated level of credit risk are classified as criticized and are ascribed a higher loss factor when determining the allowance for credit losses. Criticized loans may be classified as nonaccrual if the Company no longer expects to collect all amounts according to the contractual terms of the loan agreement or the loan is delinquent 90 days or more. All larger balance criticized commercial and commercial real estate loans are individually reviewed by centralized loan review personnel each quarter to determine the appropriateness of the assigned loan grade, including whether the loan should be reported as accruing or nonaccruing. Smaller balance criticized loans are analyzed by business line risk management areas to ensure proper loan grade classification. Furthermore, criticized nonaccrual commercial loans and commercial real estate loans are considered impaired and, as a result, specific loss allowances on such loans are established within the allowance for credit losses to the extent appropriate in each individual instance. The following table summarizes the loan grades applied to the various classes of the Company s commercial and commercial real estate loans as of September 30, 2011 and December 31, 2010.

| | Commercial, Financial, Leasing, etc. | Commercial | Real Estate Residential Builder and Developer | Other Commercial Construction |
|---|---|---|---|---|
| | | (in thousands) | | |
| September 30, 2011 | | | | |
| Pass | $ 14,350,581 | 18,851,277 | 412,916 | 2,600,236 |
| Criticized accrual | 717,219 | 401,825 | 938,076 | 150,171 |
| Criticized nonaccrual | 150,702 | 182,953 | 318,957 | 104,895 |
| Total | $ 15,218,502 | 19,436,055 | 1,669,949 | 2,855,302 |
| December 31, 2010 | | | | |
| Pass | $ 12,384,512 | 15,855,774 | 722,747 | 2,263,965 |
| Criticized accrual | 832,733 | 891,655 | 311,932 | 519,651 |
| Criticized nonaccrual | 173,365 | 184,361 | 316,811 | 116,265 |
| Total | $ 13,390,610 | 16,931,790 | 1,351,490 | 2,899,881 |

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, recent loss experience and trends related thereto. 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 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. Given the 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

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

allocated portion of the allowance. The determination of the allocated portion of the allowance for credit losses is very subjective. Factors that influence the precision in developing loss estimates for the allocated allowance impact the level of the unallocated portion of the allowance. Such factors might 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.

At September 30, 2011 and December 31, 2010, 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 | | Consumer | Total |
|---|---|---|---|---|---|
| | | Commercial | Residential | | |
| | | | (in thousands) | | |
| September 30, 2011 | | | | | |
| Individually evaluated for impairment | $ 41,152 | 113,009 | 28,000 | 15,533 | $ 197,694 |
| Collectively evaluated for impairment | 182,090 | 271,379 | 56,973 | 124,013 | 634,455 |
| Purchased impaired | 322 | 3,305 | 247 | 648 | 4,522 |
| Allocated | $ 223,564 | 387,693 | 85,220 | 140,194 | 836,671 |
| Unallocated | | | | | 71,854 |
| Total | | | | | $ 908,525 |
| December 31, 2010 | | | | | |
| Individually evaluated for impairment | $ 40,459 | 114,082 | 39,000 | 15,492 | $ 209,033 |
| Collectively evaluated for impairment | 171,670 | 282,505 | 46,976 | 117,475 | 618,626 |
| Purchased impaired | 450 | 3,975 | 375 | 100 | 4,900 |
| Allocated | $ 212,579 | 400,562 | 86,351 | 133,067 | 832,559 |
| Unallocated | | | | | 70,382 |
| Total | | | | | $ 902,941 |

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The recorded investment in loans and leases summarized on the basis of the Company s impairment methodology as of September 30, 2011 and December 31, 2010 was as follows:

| | Commercial, Financial, Leasing, etc. | Real Estate Commercial | Real Estate Residential | Consumer | Total |
|---|---|---|---|---|---|
| | | (in thousands) | | | |
| September 30, 2011 | | | | | |
| Individually evaluated for impairment | $ 159,287 | 611,034 | 287,510 | 71,866 | $ 1,129,697 |
| Collectively evaluated for impairment | 15,033,423 | 22,737,522 | 6,718,821 | 12,078,169 | 56,567,935 |
| Purchased impaired | 25,792 | 612,750 | 59,120 | 5,970 | 703,632 |
| Total | $ 15,218,502 | 23,961,306 | 7,065,451 | 12,156,005 | $ 58,401,264 |
| December 31, 2010 | | | | | |
| Individually evaluated for impairment | $ 173,365 | 617,437 | 286,612 | 72,082 | $ 1,149,496 |
| Collectively evaluated for impairment | 13,214,995 | 20,482,641 | 5,632,124 | 11,414,107 | 50,743,867 |
| Purchased impaired | 2,250 | 83,083 | 9,320 | 2,366 | 97,019 |
| Total | $ 13,390,610 | 21,183,161 | 5,928,056 | 11,488,555 | $ 51,990,382 |

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. As a result of adopting amendments to the accounting guidance in the third quarter of 2011, the Company was required to reassess any loan modifications that occurred on or after January 1, 2011 to determine if they qualified as troubled debt restructurings. The impact of the retrospective evaluation of loan modifications was not significant.

**Table of Contents**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The table below summarizes the Company s loan modification activities that were considered troubled debt restructurings for the three months ended September 30, 2011:

| | | Recorded investment | | Financial effects of modification | |
|---|---|---|---|---|---|
| | | | | Recorded | |
| | Number | Pre-modification | Post-modification | investment (a) | Interest (b) |
| | | (Dollars in thousands) | | | |
| Commercial, financial, leasing, etc. | | | | | |
| Principal deferral | 13 | $ 1,021 | $ 1,115 | $ 94 | $ |
| Real estate: | | | | | |
| Commercial | | | | | |
| Principal deferral | 6 | 1,361 | 1,301 | (60) | |
| Residential builder and developer | | | | | |
| Other | 1 | 1,700 | 1,350 | (350) | |
| Other commercial construction | | | | | |
| Principal deferral | 2 | 6,161 | 6,284 | 123 | |
| Residential | | | | | |
| Principal deferral | 12 | 2,099 | 2,124 | 25 | |
| Interest rate reduction | 1 | 86 | 86 | | (7) |
| Combination of concession types | 22 | 2,972 | 3,044 | 72 | (51) |
| Residential Alt-A | | | | | |
| Principal deferral | 1 | 532 | 562 | 30 | |
| Combination of concession types | 8 | 1,393 | 1,446 | 53 | (341) |
| Consumer: | | | | | |
| Home equity lines and loans | | | | | |
| Principal deferral | 1 | 50 | 50 | | |
| Other | 1 | 43 | 43 | | |
| Combination of concession types | 9 | 696 | 697 | 1 | (157) |
| Automobile | | | | | |
| Principal deferral | 70 | 910 | 910 | | |
| Interest rate reduction | 1 | 11 | 11 | | |
| Combination of concession types | 84 | 924 | 924 | | (57) |
| Other | | | | | |
| Principal deferral | 123 | 1,291 | 1,291 | | |
| Interest rate reduction | 6 | 50 | 50 | | (5) |
| Combination of concession types | 43 | 388 | 388 | | (63) |
| Total | 404 | $ 21,688 | $ 21,676 | $ (12) | $ (681) |

(a)

Financial effects impacting the recorded investment included principal payments or advances, charge-offs and capitalized escrow arrearages.

(b) Represents the present value of interest rate concessions discounted at the effective rate of the original loan.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The table below summarizes the Company s loan modification activities that were considered troubled debt restructurings for the nine months ended September 30, 2011:

| | | Recorded investment | | Financial effects of modification | |
|---|---|---|---|---|---|
| | Number | Pre-modification | Post-modification | Recorded investment (a) | Interest (b) |
| | | (Dollars in thousands) | | | |
| Commercial, financial, leasing, etc. | | | | | |
| Principal deferral | 46 | $ 8,302 | $ 8,396 | $ 94 | $ |
| Combination of concession types | 1 | 1,945 | 1,945 | | (641) |
| Real estate: | | | | | |
| Commercial | | | | | |
| Principal deferral | 24 | 13,212 | 13,041 | (171) | |
| Residential builder and developer | | | | | |
| Principal deferral | 4 | 18,586 | 17,661 | (925) | |
| Other | 6 | 118,114 | 110,156 | (7,958) | |
| Combination of concession types | 1 | 798 | 790 | (8) | |
| Other commercial construction | | | | | |
| Principal deferral | 3 | 8,436 | 8,553 | 117 | |
| Residential | | | | | |
| Principal deferral | 24 | 2,869 | 2,884 | 15 | |
| Interest rate reduction | 12 | 1,764 | 1,804 | 40 | (70) |
| Combination of concession types | 81 | 16,066 | 16,385 | 319 | (864) |
| Residential Alt-A | | | | | |
| Principal deferral | 2 | 605 | 638 | 33 | |
| Combination of concession types | 23 | 4,255 | 4,362 | 107 | (572) |
| Consumer: | | | | | |
| Home equity lines and loans | | | | | |
| Principal deferral | 2 | 119 | 119 | | |
| Other | 1 | 43 | 43 | | |
| Combination of concession types | 19 | 1,484 | 1,486 | 2 | (272) |
| Automobile | | | | | |
| Principal deferral | 261 | 3,634 | 3,634 | | |
| Interest rate reduction | 3 | 49 | 49 | | (3) |
| Combination of concession types | 249 | 2,815 | 2,815 | | (205) |
| Other | | | | | |
| Principal deferral | 424 | 5,338 | 5,338 | | |
| Interest rate reduction | 15 | 143 | 143 | | (10) |
| Combination of concession types | 146 | 2,714 | 2,714 | | (426) |
| Total | 1,347 | $ 211,291 | $ 202,956 | $ (8,335) | $ (3,063) |

(a) Financial effects impacting the recorded investment included principal payments or advances, charge-offs and capitalized escrow arrearages.

(b) Represents the present value of interest rate concessions discounted at the effective rate of the original loan.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Troubled debt restructurings are considered to be impaired loans and for purposes of establishing the allowance for credit losses are evaluated for impairment giving consideration to the impact of the modified loan terms on the present value of the loan s expected cash flows. Impairment of troubled debt restructurings that have subsequently defaulted may also be measured based on the loan s observable market price or the fair value of collateral if the loan is collateral-dependent. Charge-offs may also be recognized on troubled debt restructurings that have subsequently defaulted. Loans that were modified as troubled debt restructurings during the twelve months ended September 30, 2011 for which there was a subsequent payment default during the three- and nine-month periods ended September 30, 2011 were not material.

**5. Borrowings**

M&T had $1.2 billion of fixed and floating rate junior subordinated deferrable interest debentures ( Junior Subordinated Debentures ) outstanding at September 30, 2011 which are held by various trusts that were issued in connection with the issuance by those trusts of preferred capital securities ( Capital Securities ) and common securities ( Common Securities ). The proceeds from the issuances of the Capital Securities and the Common Securities were used by the trusts to purchase the Junior Subordinated Debentures. The Common Securities of each of those trusts are wholly owned by M&T and are the only class of each trust s securities possessing general voting powers. The Capital Securities represent preferred undivided interests in the assets of the corresponding trust.

Under the Federal Reserve Board s current risk-based capital guidelines, the Capital Securities are includable in M&T s Tier 1 capital. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 was signed into law on July 21, 2010. One of its provisions is for a three-year phase-in related to the exclusion of trust preferred capital securities from Tier 1 capital for large financial institutions, including M&T. That phase-in period begins on January 1, 2013.

Holders of the Capital Securities receive preferential cumulative cash distributions unless M&T exercises its right to extend the payment of interest on the Junior Subordinated Debentures as allowed by the terms of each such debenture, in which case payment of distributions on the respective Capital Securities will be deferred for comparable periods. During an extended interest period, M&T may not pay dividends or distributions on, or repurchase, redeem or acquire any shares of its capital stock. In the event of an extended interest period exceeding twenty quarterly periods for $350 million of Junior Subordinated Debentures due January 31, 2068, M&T must fund the payment of accrued and unpaid interest through an alternative payment mechanism, which requires M&T to issue common stock, non-cumulative perpetual preferred stock or warrants to purchase common stock until M&T has raised an amount of eligible proceeds at least equal to the aggregate amount of accrued and unpaid deferred interest on the Junior Subordinated Debentures due January 31, 2068. In general, the agreements governing the Capital Securities, in the aggregate, provide a full, irrevocable and unconditional guarantee by M&T of the payment of distributions on, the redemption of, and any liquidation distribution with respect to the Capital Securities. The obligations under such guarantee and the Capital Securities are subordinate and junior in right of payment to all senior indebtedness of M&T.

The Capital Securities will remain outstanding until the Junior Subordinated Debentures are repaid at maturity, are redeemed prior to maturity or are distributed in liquidation to the Trusts. The Capital Securities are mandatorily redeemable in whole, but not in part, upon repayment at the stated maturity dates (ranging from 2027 to 2068) of the Junior Subordinated Debentures or the earlier redemption of the Junior Subordinated Debentures in whole upon the occurrence of one or more events set forth in the indentures relating to the Capital Securities, and in whole or in part at any time after an optional

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**5. Borrowings, continued**

redemption prior to contractual maturity contemporaneously with the optional redemption of the related Junior Subordinated Debentures in whole or in part, subject to possible regulatory approval. In connection with the issuance of 8.50% Enhanced Trust Preferred Securities associated with $350 million of Junior Subordinated Debentures maturing in 2068, M&T entered into a replacement capital covenant that provides that neither M&T nor any of its subsidiaries will repay, redeem or purchase any of the Junior Subordinated Debentures due January 31, 2068 or the 8.50% Enhanced Trust Preferred Securities prior to January 31, 2048, with certain limited exceptions, except to the extent that, during the 180 days prior to the date of that repayment, redemption or purchase, M&T and its subsidiaries have received proceeds from the sale of qualifying securities that (i) have equity-like characteristics that are the same as, or more equity-like than, the applicable characteristics of the 8.50% Enhanced Trust Preferred Securities or the Junior Subordinated Debentures due January 31, 2068, as applicable, at the time of repayment, redemption or purchase, and (ii) M&T has obtained the prior approval of the Federal Reserve Board, if required.

Including the unamortized portions of acquisition accounting adjustments to reflect estimated fair value at the acquisition dates of the Common Securities of various trusts, the Junior Subordinated Debentures associated with Capital Securities had financial statement carrying values of $1.2 billion at each of September 30, 2011 and December 31, 2010.

**Table of Contents**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**6. Shareholders equity**

M&T is authorized to issue 1,000,000 shares of preferred stock with a $1.00 par value per share. Preferred shares outstanding rank senior to common shares both as to dividends and liquidation preference, but have no general voting rights.

Issued and outstanding preferred stock of M&T is presented below:

| | Carrying value September 30, 2011 | Carrying value December 31, 2010 |
|---|---|---|
| | (dollars in thousands) | |
| Series A (a) (d) | | |
| Fixed Rate Cumulative Perpetual Preferred Stock, Series A, $1,000 liquidation preference per share, 230,000 shares issued and outstanding at September 30, 2011; 600,000 shares issued and outstanding at December 31, 2010 | $ 223,645 | $ 578,630 |
| Series B (b) | | |
| Series B Mandatory Convertible Non-cumulative Preferred Stock, $1,000 liquidation preference per share, 26,500 shares issued and outstanding at December 31, 2010 | | 26,500 |
| Series C (a) (c) | | |
| Fixed Rate Cumulative Perpetual Preferred Stock, Series C, $1,000 liquidation preference per share, 151,500 shares issued and outstanding at September 30, 2011 and December 31, 2010 | 139,072 | 135,527 |
| Series D (e) | | |
| Fixed Rate Non-cumulative Perpetual Preferred Stock, Series D, $10,000 liquidation preference per share, 50,000 shares issued and outstanding at September 30, 2011 | 500,000 | |

*(a) Shares were issued as part of the Troubled Asset Relief Program Capital Purchase Program of the U.S. Treasury. Cash proceeds were allocated between the preferred stock and a ten-year warrant to purchase M&T common stock (Series A 1,218,522 common shares at $73.86 per share, Series C 407,542 common shares at $55.76 per share). Dividends, if declared, will accrue and be paid quarterly at a rate of 5% per year for the first five years following the original 2008 issuance dates and thereafter at a rate of 9% per year. The agreement with the U.S. Treasury contains limitations on certain actions of M&T, including the payment of quarterly cash dividends on M&T s common stock in excess of $.70 per share, the repurchase of its common stock during the first three years of the agreement, and the amount and nature of compensation arrangements for certain of the Company s officers.*

- 28 -

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**6. Shareholders equity, continued**

(b) *Shares were assumed in an acquisition and a new Series B Preferred Stock was designated. Pursuant to their terms, the shares of Series B Preferred Stock were converted into 433,144 shares of M&T common stock on April 1, 2011. The preferred stock had a stated dividend rate of 10% per year.*

(c) *Shares were assumed in an acquisition and a new Series C Preferred Stock was designated.*

(d) *On May 18, 2011, M&T redeemed and retired 370,000 shares of the Series A Preferred Stock. Accelerated amortization of preferred stock discount associated with the redemption was $11.2 million.*

(e) *Shares were issued on May 31, 2011. Dividends, if declared, will be paid semi-annually at a rate of 6.875% per year. The shares are redeemable in whole or in part on or after June 15, 2016. Notwithstanding M&T s option to redeem the shares, if an event occurs such that the shares no longer qualify as Tier 1 Capital, M&T may redeem all of the shares within 90 days following that occurrence.*

**7. Pension plans and other postretirement benefits**

The Company provides defined benefit pension and other postretirement benefits (including health care and life insurance benefits) to qualified retired employees. Net periodic defined benefit cost for defined benefit plans consisted of the following:

| | (16,718) | (16,718) | (16,718) | (16,718) |
|---|---|---|---|---|
| | Pension benefits | | Other postretirement benefits | |
| | Three months ended September 30 | | | |
| | 2011 | 2010 | 2011 | 2010 |
| | (in thousands) | | | |
| Service cost | $ 8,557 | 4,918 | 148 | 101 |
| Interest cost on projected benefit obligation | 16,155 | 12,031 | 1,038 | 782 |
| Expected return on plan assets | (16,718) | (12,722) | | |
| Amortization of prior service cost | (1,640) | (1,640) | 27 | 44 |
| Amortization of net actuarial loss | 5,132 | 3,388 | 9 | (2) |
| Net periodic benefit cost | $ 11,486 | 5,975 | 1,222 | 925 |

| | (43,981) | (43,981) | (43,981) | (43,981) |
|---|---|---|---|---|
| | Pension benefits | | Other postretirement benefits | |
| | Nine months ended September 30 | | | |
| | 2011 | 2010 | 2011 | 2010 |
| | (in thousands) | | | |
| Service cost | $ 20,270 | 14,753 | 388 | 303 |
| Interest cost on projected benefit obligation | 42,391 | 36,092 | 2,722 | 2,347 |
| Expected return on plan assets | (43,981) | (38,165) | | |
| Amortization of prior service cost | (4,919) | (4,919) | 81 | 132 |

| | | | | |
|---|---|---|---|---|
| Amortization of net actuarial loss | 15,397 | 10,164 | 27 | (7) |
| Net periodic benefit cost | $ 29,158 | 17,925 | 3,218 | 2,775 |

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**7. Pension plans and other postretirement benefits, continued**

Expense incurred in connection with the Company s defined contribution pension and retirement savings plans totaled $10,455,000 and $9,461,000 for the three months ended September 30, 2011 and 2010, respectively, and $30,521,000 and $29,926,000 for the nine months ended September 30, 2011 and 2010, respectively. The Company is not required to make any minimum contributions to the qualified defined benefit pension plan in 2011, however, during the third quarter of 2011 the Company elected to contribute $70 million to that plan.

**8. Earnings per common share**

The computations of basic earnings per common share follow:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (in thousands, except per share) | | | |
| Income available to common shareholders: | | | | |
| Net income | $ 183,108 | 192,015 | 711,739 | 531,719 |
| Less: Preferred stock dividends (a) | (14,079) | (10,056) | (31,761) | (30,169) |
| Amortization of preferred stock discount (a) | (1,848) | (2,653) | (18,132) | (7,815) |
| Net income available to common equity | 167,181 | 179,306 | 661,846 | 493,735 |
| Less: Income attributable to unvested stock-based compensation awards | (2,513) | (2,526) | (9,905) | (6,924) |
| Net income available to common shareholders | $ 164,668 | 176,780 | 651,941 | 486,811 |
| Weighted-average shares outstanding: | | | | |
| Common shares outstanding (including common stock issuable) and unvested stock-based compensation awards | 126,478 | 120,010 | 123,855 | 119,705 |
| Less: Unvested stock-based compensation awards | (1,903) | (1,690) | (1,850) | (1,657) |
| Weighted-average shares outstanding | 124,575 | 118,320 | 122,005 | 118,048 |
| Basic earnings per common share | $ 1.32 | 1.49 | 5.34 | 4.12 |

(a) *Including impact of not as yet declared cumulative dividends.*

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**8. Earnings per common share, continued**

The computations of diluted earnings per common share follow:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (in thousands, except per share) | | | |
| Net income available to common equity | $ 167,181 | 179,306 | 661,846 | 493,735 |
| Less: Income attributable to unvested stock-based compensation awards | (2,510) | (2,517) | (9,880) | (6,904) |
| Net income available to common shareholders | $ 164,671 | 176,789 | 651,966 | 486,831 |
| Adjusted weighted-average shares outstanding: | | | | |
| Common and unvested stock-based compensation awards | 126,478 | 120,010 | 123,855 | 119,705 |
| Less: Unvested stock-based compensation awards | (1,903) | (1,690) | (1,850) | (1,657) |
| Plus: Incremental shares from assumed conversion of stock-based compensation awards and convertible preferred stock | 285 | 835 | 516 | 718 |
| Adjusted weighted-average shares outstanding | 124,860 | 119,155 | 122,521 | 118,766 |
| Diluted earnings per common share | $ 1.32 | 1.48 | 5.32 | 4.10 |

GAAP defines unvested share-based awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) as participating securities that shall be included in the computation of earnings per common share pursuant to the two-class method. During the nine-month periods ended September 30, 2011 and 2010, the Company issued stock-based compensation awards in the form of restricted stock and restricted stock units, which, in accordance with GAAP, are considered participating securities.

Stock-based compensation awards, warrants to purchase common stock of M&T and preferred stock convertible into shares of M&T stock representing approximately 11.2 million and 10.7 million common shares during the three-month periods ended September 30, 2011 and 2010, respectively, and 10.6 million and 11.1 million common shares during the nine-month periods ended September 30, 2011 and 2010, respectively, were not included in the computations of diluted earnings per common share because the effect on those periods would have been antidilutive.

**Table of Contents**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**9. Comprehensive income**

The following table displays the components of other comprehensive income (loss):

| | Before-tax | Before-tax | Before-tax |
|---|---|---|---|
| | Nine months ended September 30, 2011 | | |
| | Before-tax amount | Income taxes | Net |
| | | (in thousands) | |
| Unrealized gains (losses) on investment securities: | | | |
| Available-for-sale ( AFS ) investment securities with other-than-temporary impairment ( OTTI ): | | | |
| Unrealized holding losses, net | $ (35,305) | 13,952 | (21,353) |
| Less: reclassification adjustment for gains realized in net income | 3,814 | (1,497) | 2,317 |
| Less: OTTI charges recognized in net income | (41,713) | 16,372 | (25,341) |
| Net change for AFS investment securities with OTTI | 2,594 | (923) | 1,671 |
| AFS investment securities all other: | | | |
| Unrealized holding gains, net | 147,338 | (57,629) | 89,709 |
| Less: reclassification adjustment for gains realized in net income | 146,115 | (57,257) | 88,858 |
| Net change for AFS investment securities all other | 1,223 | (372) | 851 |
| Held-to-maturity ( HTM ) investment securities with OTTI: | | | |
| Unrealized holding losses, net | (8,500) | 3,336 | (5,164) |
| Less: reclassification to income of unrealized holding losses | (213) | 83 | (130) |
| Less: OTTI charges recognized in net income | (10,500) | 4,121 | (6,379) |
| Net change for HTM investment securities with OTTI | 2,213 | (868) | 1,345 |
| Reclassification to income of unrealized holding losses on investment securities previously transferred from AFS to HTM | 5,108 | (2,005) | 3,103 |
| Net unrealized gains on investment securities | 11,138 | (4,168) | 6,970 |
| Reclassification to income for amortization of gains on terminated cash flow hedges | (336) | 125 | (211) |
| Foreign currency translation adjustment | (779) | 276 | (503) |
| Defined benefit plans liability adjustment | 10,586 | (4,155) | 6,431 |
| | $ 20,609 | (7,922) | 12,687 |

**Table of Contents**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**9. Comprehensive income, continued**

| | $(35,305) | $(35,305) | $(35,305) |
|---|---|---|---|
| | Nine months ended September 30, 2010 | | |
| | Before-tax amount | Income taxes | Net |
| | | (in thousands) | |
| Unrealized gains (losses) on investment securities: | | | |
| AFS investment securities with OTTI: | | | |
| Unrealized holding losses, net | $ (67,052) | 26,074 | (40,978) |
| Less: OTTI charges recognized in net income | (58,714) | 22,758 | (35,956) |
| Net change for AFS investment securities with OTTI | (8,338) | 3,316 | (5,022) |
| AFS investment securities all other: | | | |
| Unrealized holding gains, net | 233,174 | (91,018) | 142,156 |
| Less: reclassification adjustment for gains realized in net income | 1,023 | (392) | 631 |
| Net change for AFS investment securities all other | 232,151 | (90,626) | 141,525 |
| Reclassification to income of unrealized holding losses on investment securities previously transferred from AFS to HTM | 6,400 | (2,511) | 3,889 |
| Net unrealized gains on investment securities | 230,213 | (89,821) | 140,392 |
| Reclassification to income for amortization of gains on terminated cash flow hedges | (336) | 125 | (211) |
| Defined benefit plans liability adjustment | 5,370 | (2,108) | 3,262 |
| | $ 235,247 | (91,804) | 143,443 |

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**9. Comprehensive income, continued**

Accumulated other comprehensive income (loss), net consisted of unrealized gains (losses) as follows:

| | Investment securities | | | Foreign | | |
|---|---|---|---|---|---|---|
| | | | Cash flow | currency translation | Defined benefit | |
| | With OTTI | All other | hedges | adjustment | plans | Total |
| | (in thousands) | | | | | |
| Balance - January 1, 2011 | $ (87,053) | 2,332 | 393 | | (120,892) | (205,220) |
| Net gain (loss) during period | 3,016 | 3,954 | (211) | (503) | 6,431 | 12,687 |
| Balance - September 30, 2011 | $ (84,037) | 6,286 | 182 | (503) | (114,461) | (192,533) |
| Balance - January 1, 2010 | $ (76,772) | (142,853) | 674 | | (117,046) | (335,997) |
| Net gain (loss) during period | (5,022) | 145,414 | (211) | | 3,262 | 143,443 |
| Balance - September 30, 2010 | $ (81,794) | 2,561 | 463 | | (113,784) | (192,554) |

**10. Derivative financial instruments**

As part of managing interest rate risk, the Company enters into interest rate swap agreements to modify the repricing characteristics of certain portions of the Company s portfolios of earning assets and interest-bearing liabilities. The Company designates interest rate swap agreements utilized in the management of interest rate risk as either fair value hedges or cash flow hedges. Interest rate swap agreements are generally entered into with counterparties that meet established credit standards and most contain master netting and collateral provisions protecting the at-risk party. Based on adherence to the Company s credit standards and the presence of the netting and collateral provisions, the Company believes that the credit risk inherent in these contracts is not significant as of September 30, 2011.

The net effect of interest rate swap agreements was to increase net interest income by $9 million and $10 million for the three-month periods ended September 30, 2011 and 2010, respectively, and $28 million and $32 million for the nine months ended September 30, 2011 and 2010, respectively. Information about interest rate swap agreements entered into for interest rate risk management purposes summarized by type of financial instrument the swap agreements were intended to hedge follows:

| | Notional amount (in thousands) | Average maturity (in years) | Weighted-average rate | |
|---|---|---|---|---|
| | | | Fixed | Variable |
| September 30, 2011 | | | | |
| Fair value hedges: | | | | |

| | | | | |
|---|---|---|---|---|
| Fixed rate long-term borrowings (a) | $ 900,000 | 5.6 | 6.07% | 1.87% |
| | | | | |
| December 31, 2010 | | | | |
| Fair value hedges: | | | | |
| Fixed rate long-term borrowings (a) | $ 900,000 | 6.4 | 6.07% | 1.84% |

*(a) Under the terms of these agreements, the Company receives settlement amounts at a fixed rate and pays at a variable rate.*

**Table of Contents**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**10. Derivative financial instruments, continued**

The Company utilizes commitments to sell residential and commercial real estate loans to hedge the exposure to changes in the fair value of real estate loans held for sale. Such commitments have generally been designated as fair value hedges. The Company also utilizes commitments to sell real estate loans to offset the exposure to changes in fair value of certain commitments to originate real estate loans for sale.

Derivative financial instruments used for trading purposes included interest rate contracts, foreign exchange and other option contracts, foreign exchange forward and spot contracts, and financial futures. Interest rate contracts entered into for trading purposes had notional values of $13.6 billion and $12.8 billion at September 30, 2011 and December 31, 2010, respectively. The notional amounts of foreign currency and other option and futures contracts entered into for trading purposes aggregated $1.3 billion and $769 million at September 30, 2011 and December 31, 2010, respectively.

Information about the fair values of derivative instruments in the Company s consolidated balance sheet and consolidated statement of income follows:

| | Asset derivatives Fair value | | Liability derivatives Fair value | |
|---|---|---|---|---|
| | September 30, 2011 | December 31, 2010 | September 30, 2011 | December 31, 2010 |
| | (in thousands) | | | |
| **Derivatives designated and qualifying as hedging instruments** | | | | |
| Fair value hedges: | | | | |
| Interest rate swap agreements (a) | $ 148,764 | 96,637 | $ | |
| Commitments to sell real estate loans (a) | 104 | 4,880 | 1,703 | 1,062 |
| | 148,868 | 101,517 | 1,703 | 1,062 |
| **Derivatives not designated and qualifying as hedging instruments** | | | | |
| Mortgage-related commitments to originate real estate loans for sale (a) | 7,997 | 2,827 | 60 | 583 |
| Commitments to sell real estate loans (a) | 196 | 10,322 | 3,820 | 1,962 |
| Trading: | | | | |
| Interest rate contracts (b) | 460,533 | 345,632 | 434,844 | 321,461 |
| Foreign exchange and other option and futures contracts (b) | 25,855 | 11,267 | 23,376 | 11,761 |
| | 494,581 | 370,048 | 462,100 | 335,767 |
| Total derivatives | $ 643,449 | 471,565 | $ 463,803 | 336,829 |

*(a) Asset derivatives are reported in other assets and liability derivatives are reported in other liabilities.*
*(b) Asset derivatives are reported in trading account assets and liability derivatives are reported in other liabilities.*

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**10. Derivative financial instruments, continued**

| | $42,587 | $42,587 | $42,587 | $42,587 |
|---|---|---|---|---|
| | Amount of unrealized gain (loss) recognized | | | |
| | Three months ended September 30, 2011 | | Three months ended September 30, 2010 | |
| | Derivative | Hedged item | Derivative | Hedged item |
| | (in thousands) | | | |
| **Derivatives in fair value hedging relationships** | | | | |
| Interest rate swap agreements: | | | | |
| Fixed rate long-term borrowings (a) | $ 42,587 | (40,355) | $ 28,281 | (27,166) |
| **Derivatives not designated as hedging instruments** | | | | |
| Trading: | | | | |
| Interest rate contracts (b) | $ 2,425 | | $ 813 | |
| Foreign exchange and other option and futures contracts (b) | 1,764 | | (1,532) | |
| Total | $ 4,189 | | $ (719) | |

| | Amount of unrealized gain (loss) recognized | | | |
|---|---|---|---|---|
| | Nine months ended September 30, 2011 | | Nine months ended September 30, 2010 | |
| | Derivative | Hedged item | Derivative | Hedged item |
| | (in thousands) | | | |
| **Derivatives in fair value hedging relationships** | | | | |
| Interest rate swap agreements: | | | | |
| Fixed rate time deposits (a) | $ | | $ (503) | 503 |
| Fixed rate long-term borrowings (a) | 52,127 | (49,452) | 84,708 | (80,827) |
| Total | $ 52,127 | (49,452) | $ 84,205 | (80,324) |
| **Derivatives not designated as hedging instruments** | | | | |
| Trading: | | | | |
| Interest rate contracts (b) | $ 3,901 | | $ (305) | |
| Foreign exchange and other option and futures contracts (b) | 473 | | (575) | |
| Total | $ 4,374 | | $ (880) | |

*(a) Reported as other revenues from operations.*
*(b) Reported as trading account and foreign exchange gains.*

- 36 -

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**10. Derivative financial instruments, continued**

In addition, the Company also has commitments to sell and commitments to originate residential and commercial real estate loans that are considered derivatives. The Company designates certain of the commitments to sell real estate loans as fair value hedges of real estate loans held for sale. The Company also utilizes commitments to sell real estate loans to offset the exposure to changes in the fair value of certain commitments to originate real estate loans for sale. As a result of these activities, net unrealized pre-tax gains related to hedged loans held for sale, commitments to originate loans for sale and commitments to sell loans were approximately $10 million and $17 million at September 30, 2011 and December 31, 2010, respectively. Changes in unrealized gains and losses are included in mortgage banking revenues and, in general, are realized in subsequent periods as the related loans are sold and commitments satisfied.

The aggregate fair value of derivative financial instruments in a net liability position at September 30, 2011 for which the Company was required to post collateral was $321 million. The fair value of collateral posted for such instruments was $285 million. Certain of the Company s derivative financial instruments contain provisions that require the Company to maintain specific credit ratings from credit rating agencies to avoid higher collateral posting requirements. If the Company s debt rating were to fall below specified ratings, the counterparties to the derivative financial instruments could demand immediate incremental collateralization on those instruments in a net liability position. The aggregate fair value of all derivative financial instruments with such credit-risk-related contingent features in a net liability position on September 30, 2011 was $105 million, for which the Company had posted collateral of $71 million in the normal course of business. If the credit-risk-related contingent features had been triggered on September 30, 2011, the maximum amount of additional collateral the Company would have been required to post to counterparties was $34 million.

The Company s credit exposure with respect to the estimated fair value as of September 30, 2011 of interest rate swap agreements used for managing interest rate risk has been substantially mitigated through master netting arrangements with trading account interest rate contracts with the same counterparties as well as counterparty postings of $78 million of collateral with the Company. Trading account interest rate swap agreements entered into with customers are subject to the Company s credit standards and often contain collateral provisions.

**11. Variable interest entities and asset securitizations**

In accordance with GAAP, the Company determined that it was the primary beneficiary of a residential mortgage loan securitization trust considering its role as servicer and its retained subordinated interests in the trust. As a result, the Company has included the one-to-four family residential mortgage loans that were included in the trust in its consolidated financial statements. At September 30, 2011 and December 31, 2010, the carrying values of the loans in the securitization trust were $214 million and $265 million, respectively. The outstanding principal amount of mortgage-backed securities issued by the qualified special purpose trust that was held by parties unrelated to M&T at September 30, 2011 and December 31, 2010 was $33 million and $40 million, respectively. Because the transaction was non-recourse, the Company s maximum exposure to loss as a result of its association with the trust at September 30, 2011 is limited to realizing the carrying value of the loans less the amount of the mortgage-backed securities held by third parties.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**11. Variable interest entities and asset securitizations, continued**

As described in note 5, M&T has issued junior subordinated debentures payable to various trusts that have issued Capital Securities. M&T owns the common securities of those trust entities. The Company is not considered to be the primary beneficiary of those entities and, accordingly, the trusts are not included in the Company s consolidated financial statements. At September 30, 2011 and December 31, 2010, the Company included the junior subordinated debentures as long-term borrowings in its consolidated balance sheet. The Company has recognized $34 million in other assets for its investment in the common securities of the trusts that will be concomitantly repaid to M&T by the respective trust from the proceeds of M&T s repayment of the Junior Subordinated Debentures associated with capital securities described in note 5.

The Company has invested as a limited partner in various real estate partnerships that collectively had total assets of approximately $1.5 billion and $1.1 billion at September 30, 2011 and December 31, 2010, respectively. Those partnerships generally construct or acquire properties for which the investing partners are eligible to receive certain federal income tax credits in accordance with government guidelines. Such investments may also provide tax deductible losses to the partners. The partnership investments also assist the Company in achieving its community reinvestment initiatives. As a limited partner, there is no recourse to the Company by creditors of the partnerships. However, the tax credits that result from the Company s investments in such partnerships are generally subject to recapture should a partnership fail to comply with the respective government regulations. The Company s maximum exposure to loss of its investments in such partnerships was $238 million, including $50 million of unfunded commitments, at September 30, 2011 and $258 million, including $81 million of unfunded commitments, at December 31, 2010. The Company has not provided financial or other support to the partnerships that was not contractually required. Management currently estimates that no material losses are probable as a result of the Company s involvement with such entities. In accordance with the accounting provisions for variable interest entities, the Company, in its position as limited partner, does not direct the activities that most significantly impact the economic performance of the partnerships and therefore, the partnership entities are not included in the Company s consolidated financial statements.

**12. Fair value measurements**

GAAP permits an entity to choose to measure eligible financial instruments and other items at fair value. The Company has not made any fair value elections at September 30, 2011.

Pursuant to GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level hierarchy exists in GAAP for fair value measurements based upon the inputs to the valuation of an asset or liability.

Level 1 Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 Valuation is determined from quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active or by model-based techniques in which all significant inputs are observable in the market.

Level 3 Valuation is derived from model-based and other techniques in which at least one significant input is unobservable and which may be based on the Company s own estimates about the assumptions that market participants would use to value the asset or liability.

**12. Fair value measurements, continued**

When available, the Company attempts to use quoted market prices in active markets to determine fair value and classifies such items as Level 1 or Level 2. If quoted market prices in active markets are not available, fair value is often determined using model-based techniques incorporating various assumptions including interest rates, prepayment speeds and credit losses. Assets and liabilities valued using model-based techniques are classified as either Level 2 or Level 3, depending on the lowest level classification of an input that is considered significant to the overall valuation. The following is a description of the valuation methodologies used for the Company s assets and liabilities that are measured on a recurring basis at estimated fair value.

***Trading account assets and liabilities***

Trading account assets and liabilities consist primarily of interest rate swap agreements and foreign exchange contracts with customers who require such services with offsetting positions with third parties to minimize the Company s risk with respect to such transactions. The Company generally determines the fair value of its derivative trading account assets and liabilities using externally developed pricing models based on market observable inputs and therefore classifies such valuations as Level 2. Mutual funds held in connection with deferred compensation arrangements have been classified as Level 1 valuations. Valuations of investments in municipal and other bonds can generally be obtained through reference to quoted prices in less active markets for the same or similar securities or through model-based techniques in which all significant inputs are observable and, therefore, such valuations have been classified as Level 2.

***Investment securities available for sale***

The majority of the Company s available-for-sale investment securities have been valued by reference to prices for similar securities or through model-based techniques in which all significant inputs are observable and, therefore, such valuations have been classified as Level 2. Certain investments in mutual funds and equity securities are actively traded and therefore have been classified as Level 1 valuations.

Trading activity in privately issued mortgage-backed securities has been limited. The markets for such securities were generally characterized by a sharp reduction of non-agency mortgage-backed securities issuances, a significant reduction in trading volumes and wide bid-ask spreads. Although estimated prices were generally obtained for such securities, the Company was significantly restricted in the level of market observable assumptions used in the valuation of its privately issued mortgage-backed securities portfolio. Specifically, market assumptions regarding credit adjusted cash flows and liquidity influences on discount rates were difficult to observe at the individual bond level. Because of the inactivity in the markets and the lack of observable valuation inputs, the Company has classified the valuation of privately issued mortgage-backed securities as Level 3.

GAAP provides guidance for estimating fair value when the volume and level of trading activity for an asset or liability have significantly decreased. The Company has concluded that there has been a significant decline in the volume and level of activity in the market for privately issued mortgage-backed securities. Therefore, the Company supplemented its determination of fair value for many of its privately issued mortgage-backed securities by obtaining pricing indications from two independent sources at September 30, 2011 and December 31, 2010. However, the Company could not readily ascertain that the basis of such valuations could be ascribed to orderly and observable trades in the market for privately issued residential mortgage-backed securities. As a result, the Company also performed internal modeling to estimate the cash flows and fair value of privately issued residential mortgage-backed securities with an amortized cost basis of $1.3 billion

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

at September 30, 2011 and $1.5 billion at December 31, 2010. The Company s internal modeling techniques included discounting estimated bond-specific cash flows using assumptions about cash flows associated with loans underlying each of the bonds, including estimates about the timing and amount of credit losses and prepayments. In estimating those cash flows, the Company used assumptions as to future delinquency, defaults, further home price depreciation and loss rates. Differences between internal model valuations and external pricing indications were generally considered to be reflective of the lack of liquidity in the market for privately issued mortgage-backed securities given the nature of the cash flow modeling performed in the Company s assessment of value. To determine the point within the range of potential values that was most representative of fair value for each of the bonds, the Company computed values based on judgmentally applied weightings of the internal model valuations and the indications obtained from the average of the two independent pricing sources. At September 30, 2011, weighted-average reliance on internal model pricing for the bonds modeled was 34% with a 66% average weighting placed on the values provided by the independent sources. The Company concluded its estimate of fair value for the $1.3 billion of privately issued residential mortgage-backed securities to approximate $1.1 billion, which implies a weighted-average market yield based on reasonably likely cash flows of 8.4%.

Included in collateralized debt obligations are securities backed by trust preferred securities issued by financial institutions and other entities. Given the severe disruption in the credit markets and the wide disparity in observable trade information, the Company could not obtain pricing indications for many of these securities from its two primary independent pricing sources. The Company, therefore, performed internal modeling to estimate the cash flows and fair value of its portfolio of securities backed by trust preferred securities at September 30, 2011 and December 31, 2010. The modeling techniques included discounting estimated cash flows using bond-specific assumptions about defaults, deferrals and prepayments of the trust preferred securities underlying each bond. The estimation of cash flows included assumptions as to future collateral defaults and related loss severities. The resulting cash flows were then discounted by reference to market yields observed in the single-name trust preferred securities market. At September 30, 2011, the total amortized cost and fair value of securities backed by trust preferred securities issued by financial institutions and other entities were $44 million and $51 million, respectively, and at December 31, 2010 were $95 million and $111 million, respectively. Privately issued mortgage-backed securities and securities backed by trust preferred securities issued by financial institutions and other entities constituted all of the available-for-sale investment securities classified as Level 3 valuations as of September 30, 2011 and December 31, 2010.

***Real estate loans held for sale***

The Company utilizes commitments to sell real estate loans to hedge the exposure to changes in fair value of real estate loans held for sale. The carrying value of hedged real estate loans held for sale includes changes in estimated fair value during the hedge period. Typically, the Company attempts to hedge real estate loans held for sale from the date of close through the sale date. The fair value of hedged real estate loans held for sale is generally calculated by reference to quoted prices in secondary markets for commitments to sell real estate loans with similar characteristics and, accordingly, such loans have been classified as a Level 2 valuation.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

***Commitments to originate real estate loans for sale and commitments to sell real estate loans***

The Company enters into various commitments to originate real estate loans for sale and commitments to sell real estate loans. Such commitments are considered to be derivative financial instruments and, therefore, are carried at estimated fair value on the consolidated balance sheet. The estimated fair values of such commitments were generally calculated by reference to quoted prices in secondary markets for commitments to sell real estate loans to certain government-sponsored entities and other parties. The fair valuations of commitments to sell real estate loans generally result in a Level 2 classification. The estimated fair value of commitments to originate real estate loans for sale are adjusted to reflect the Company s anticipated commitment expirations. Estimated commitment expirations are considered a significant unobservable input, which results in a Level 3 classification. The Company includes the expected net future cash flows related to the associated servicing of the loan in the fair value measurement of a derivative loan commitment. The estimated value ascribed to the expected net future servicing cash flows is also considered a significant unobservable input contributing to the Level 3 classification of commitments to originate real estate loans for sale.

***Interest rate swap agreements used for interest rate risk management***

The Company utilizes interest rate swap agreements as part of the management of interest rate risk to modify the repricing characteristics of certain portions of its portfolios of earning assets and interest-bearing liabilities. The Company generally determines the fair value of its interest rate swap agreements using externally developed pricing models based on market observable inputs and therefore classifies such valuations as Level 2. The Company has considered counterparty credit risk in the valuation of its interest rate swap assets and has considered its own credit risk in the valuation of its interest rate swap liabilities.

**Table of Contents**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

The following tables present assets and liabilities at September 30, 2011 and December 31, 2010 measured at estimated fair value on a recurring basis:

| | Fair value measurements at September 30, 2011 | Level 1 (a) | Level 2 (a) | Level 3 |
|---|---|---|---|---|
| | | (in thousands) | | |
| Trading account assets | $ 605,557 | 53,453 | 552,104 | |
| Investment securities available for sale: | | | | |
| U.S. Treasury and federal agencies | 71,028 | | 71,028 | |
| Obligations of states and political subdivisions | 46,792 | | 46,792 | |
| Mortgage-backed securities: | | | | |
| Government issued or guaranteed | 3,877,038 | | 3,877,038 | |
| Privately issued residential | 1,215,078 | | | 1,215,078 |
| Privately issued commercial | 16,829 | | | 16,829 |
| Collateralized debt obligations | 51,354 | | | 51,354 |
| Other debt securities | 180,853 | | 180,853 | |
| Equity securities | 176,906 | 163,189 | 13,717 | |
| | 5,635,878 | 163,189 | 4,189,428 | 1,283,261 |
| Real estate loans held for sale | 276,623 | | 276,623 | |
| Other assets (b) | 157,061 | | 149,064 | 7,997 |
| Total assets | $ 6,675,119 | 216,642 | 5,167,219 | 1,291,258 |
| Trading account liabilities | $ 458,220 | | 458,220 | |
| Other liabilities (b) | 5,583 | | 5,523 | 60 |
| Total liabilities | $ 463,803 | | 463,743 | 60 |

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

| | Fair value measurements at December 31, 2010 | Level 1 (a) | Level 2 (a) | Level 3 |
|---|---|---|---|---|
| | | (in thousands) | | |
| Trading account assets | $ 523,834 | 53,032 | 470,802 | |
| Investment securities available for sale: | | | | |
| U.S. Treasury and federal agencies | 63,434 | | 63,434 | |
| Obligations of states and political subdivisions | 60,425 | | 60,425 | |
| Mortgage-backed securities: | | | | |
| Government issued or guaranteed | 3,306,241 | | 3,306,241 | |
| Privately issued residential | 1,435,561 | | | 1,435,561 |
| Privately issued commercial | 22,407 | | | 22,407 |
| Collateralized debt obligations | 110,756 | | | 110,756 |
| Other debt securities | 298,900 | | 298,900 | |
| Equity securities | 115,768 | 106,872 | 8,896 | |
| | 5,413,492 | 106,872 | 3,737,896 | 1,568,724 |
| Real estate loans held for sale | 544,567 | | 544,567 | |
| Other assets (b) | 114,666 | | 111,839 | 2,827 |
| Total assets | $ 6,596,559 | 159,904 | 4,865,104 | 1,571,551 |
| Trading account liabilities | $ 333,222 | | 333,222 | |
| Other liabilities (b) | 3,607 | | 3,024 | 583 |
| Total liabilities | $ 336,829 | | 336,246 | 583 |

*(a) There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy during the three months and nine months ended September 30, 2011 and 2010.*

*(b) Comprised predominantly of interest rate swap agreements used for interest rate risk management (Level 2), commitments to sell real estate loans (Level 2) and commitments to originate real estate loans to be held for sale (Level 3).*

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

The changes in Level 3 assets and liabilities measured at estimated fair value on a recurring basis during the three months ended September 30, 2011 were as follows:

| | Investment securities available for sale | | | |
|---|---|---|---|---|
| | Privately issued residential mortgage-backed securities | Privately issued commercial mortgage-backed securities | Collateralized debt obligations | Other assets and other liabilities |
| | | (in thousands) | | |
| Balance June 30, 2011 | $ 1,306,202 | $ 17,233 | $ 61,601 | $ 13,171 |
| Total gains (losses) realized/unrealized: | | | | |
| Included in earnings | (9,642)(a) | | | 13,565(b) |
| Included in other comprehensive income | (4,030) | 1,581 | (9,482) | |
| Settlements | (77,452) | (1,985) | (765) | |
| Transfers in and/or out of Level 3 (c) | | | | (18,799) |
| Balance September 30, 2011 | $ 1,215,078 | $ 16,829 | $ 51,354 | $ 7,937 |
| Changes in unrealized gains (losses) included in earnings related to assets still held at September 30, 2011 | $ (9,642)(a) | $ | $ | $ 5,926(b) |

The changes in Level 3 assets and liabilities measured at estimated fair value on a recurring basis during the three months ended September 30, 2010 were as follows:

| | Investment securities available for sale | | | |
|---|---|---|---|---|
| | Privately issued residential mortgage-backed securities | Privately issued commercial mortgage-backed securities | Collateralized debt obligations | Other assets and other liabilities |
| | | (in thousands) | | |
| Balance June 30, 2010 | $ 1,598,033 | $ 26,643 | $ 118,040 | $ 20,843 |
| Total gains (losses) realized/unrealized: | | | | |
| Included in earnings | (6,675)(a) | | (2,857)(a) | 38,399(b) |
| Included in other comprehensive income | 37,634 | (1,369) | (5,592) | |
| Settlements | (105,624) | (1,794) | (249) | |
| Transfers in and/or out of Level 3 (c) | | | | (32,825) |
| Balance September 30, 2010 | $ 1,523,368 | $ 23,480 | $ 109,342 | $ 26,417 |

| | | | | |
|---|---|---|---|---|
| Changes in unrealized gains (losses) included in earnings related to assets still held at September 30, 2010 | $ (6,675)(a) | $ | $ (2,857)(a) | $ 23,910(b) |

- 44 -

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

The changes in Level 3 assets and liabilities measured at estimated fair value on a recurring basis during the nine months ended September 30, 2011 were as follows:

| | Investment securities available for sale | | | |
|---|---|---|---|---|
| | Privately issued residential mortgage-backed securities | Privately issued commercial mortgage-backed securities | Collateralized debt obligations | Other assets and other liabilities |
| | (in thousands) | | | |
| Balance January 1, 2011 | $ 1,435,561 | $ 22,407 | $ 110,756 | $ 2,244 |
| Total gains (losses) realized/unrealized: | | | | |
| Included in earnings | (41,713)(a) | | | 56,809(b) |
| Included in other comprehensive income | 95,526 | 99 | (2,276) | |
| Purchases | | | 50,790 | |
| Sales | | | (105,643) | |
| Settlements | (274,296) | (5,677) | (2,273) | |
| Transfers in and/or out of Level 3 (c) | | | | (51,116) |
| Balance September 30, 2011 | $ 1,215,078 | $ 16,829 | $ 51,354 | $ 7,937 |
| Changes in unrealized gains (losses) included in earnings related to assets still held at September 30, 2011 | $ (41,713)(a) | $ | $ | $ 7,932(b) |

The changes in Level 3 assets and liabilities measured at estimated fair value on a recurring basis during the nine months ended September 30, 2010 were as follows:

| | Investment securities available for sale | | | | |
|---|---|---|---|---|---|
| | Privately issued residential mortgage-backed securities | Privately issued commercial mortgage-backed securities | Collateralized debt obligations | Other debt securities | Other assets and other liabilities |
| | (in thousands) | | | | |
| Balance January 1, 2010 | $ 2,064,904 | $ 25,166 | $ 115,346 | $ 420 | $ (80) |
| Total gains (losses) realized/unrealized: | | | | | |
| Included in earnings | (41,018)(a) | | (5,703)(a) | | 86,249(b) |
| Included in other comprehensive income | 152,882 | 4,725 | 215 | 35 | |
| Settlements | (298,152) | (6,411) | (516) | | |
| Transfers in and/or out of Level 3 (c) | (355,248)(d) | | | (455) | (59,752) |

| | | | | | |
|---|---|---|---|---|---|
| Balance September 30, 2010 | $ 1,523,368 | $ 23,480 | $ 109,342 | $ | $ 26,417 |
| Changes in unrealized gains (losses) included in earnings related to assets still held at September 30, 2010 | $ (41,018)(a) | $ | $ (5,703)(a) | $ | $ 26,326(b) |

*(a) Reported as an other-than-temporary impairment loss in the consolidated statement of income or as gain (loss) on bank investment securities.*

**12. Fair value measurements, continued**

(b) *Reported as mortgage banking revenues in the consolidated statement of income and includes the fair value of commitment issuances and expirations.*
(c) *The Company s policy for transfers between fair value levels is to recognize the transfer as of the actual date of the event or change in circumstances that caused the transfer.*
(d) *As a result of the Company s adoption of new accounting rules governing the consolidation of variable interest entities, effective January 1, 2010 the Company derecognized $355 million of available-for-sale investment securities previously classified as Level 3 measurements.*

The Company is required, on a nonrecurring basis, to adjust the carrying value of certain assets or provide valuation allowances related to certain assets using fair value measurements.

***Loans***

Loans are generally not recorded at fair value on a recurring basis. Periodically, the Company records nonrecurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Nonrecurring adjustments also include certain impairment amounts for collateral-dependent loans when establishing the allowance for credit losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan and, as a result, the carrying value of the loan less the calculated valuation amount does not necessarily represent the fair value of the loan. Real estate collateral is typically valued using appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace and the related nonrecurring fair value measurement adjustments have generally been classified as Level 2, unless significant adjustments have been made to the valuation that are not readily observable by market participants. Estimates of fair value used for other collateral supporting commercial loans generally are based on assumptions not observable in the marketplace and therefore such valuations have been classified as Level 3. Loans subject to nonrecurring fair value measurement were $506 million at September 30, 2011, ($355 million and $151 million of which were classified as Level 2 and Level 3, respectively) and $625 million at September 30, 2010 ($373 million and $252 million of which were classified as Level 2 and Level 3, respectively). Changes in fair value recognized for partial charge-offs of loans and loan impairment reserves on loans held by the Company on September 30, 2011 were decreases of $38 million and $137 million for the three and nine months ended September 30, 2011, respectively, and on loans held by the Company on September 30, 2010 were decreases of $61 million and $154 million for the three months and nine months ended September 30, 2010, respectively.

***Assets taken in foreclosure of defaulted loans***

Assets taken in foreclosure of defaulted loans are primarily comprised of commercial and residential real property and are generally measured at the lower of cost or fair value less costs to sell. The fair value of the real property is generally determined using appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace, and the related nonrecurring fair value measurement adjustments have generally been classified as Level 2. Assets taken in foreclosure of defaulted loans subject to nonrecurring fair value measurement were $53 million and $31 million at September 30, 2011 and September 30, 2010, respectively. Reflecting further declines in residential real estate and residential development projects subsequent to foreclosure, changes in fair value recognized for those foreclosed assets held by the Company at September

**Table of Contents**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

30, 2011 were $6 million and $17 million for the three and nine months ended September 30, 2011, respectively. Changes in fair value recognized for those foreclosed assets held by the Company at September 30, 2010 were $7 million and $8 million for the three and nine months ended September 30, 2010, respectively.

***Capitalized servicing rights***

Capitalized servicing rights are initially measured at fair value in the Company s consolidated balance sheet. The Company utilizes the amortization method to subsequently measure its capitalized servicing assets. In accordance with GAAP, the Company must record impairment charges, on a nonrecurring basis, when the carrying value of certain strata exceed their estimated fair value. To estimate the fair value of servicing rights, the Company considers market prices for similar assets, if available, and the present value of expected future cash flows associated with the servicing rights calculated using assumptions that market participants would use in estimating future servicing income and expense. Such assumptions include estimates of the cost of servicing loans, loan default rates, an appropriate discount rate, and prepayment speeds. For purposes of evaluating and measuring impairment of capitalized servicing rights, the Company stratifies such assets based on the predominant risk characteristics of the underlying financial instruments that are expected to have the most impact on projected prepayments, cost of servicing and other factors affecting future cash flows associated with the servicing rights. Such factors may include financial asset or loan type, note rate and term. The amount of impairment recognized is the amount by which the carrying value of the capitalized servicing rights for a stratum exceed estimated fair value. Impairment is recognized through a valuation allowance. The determination of fair value of capitalized servicing rights is considered a Level 3 valuation. At September 30, 2011, $13 million of capitalized servicing rights had a carrying value equal to their fair value. Changes in fair value of capitalized servicing rights recognized for the three and nine months ended September 30, 2011 each reflected a decrease of $1 million. At September 30, 2010, $33 million of capitalized servicing rights had a carrying value equal to their fair value. Changes in fair value of capitalized servicing rights recognized for the three and nine months ended September 30, 2010 reflected decreases of $3 million and $6 million, respectively.

***Disclosures of fair value of financial instruments***

With the exception of marketable securities, certain off-balance sheet financial instruments and one-to-four family residential mortgage loans originated for sale, the Company s financial instruments are not readily marketable and market prices do not exist. The Company, in attempting to comply with the provisions of GAAP that require disclosures of fair value of financial instruments, has not attempted to market its financial instruments to potential buyers, if any exist. Since negotiated prices in illiquid markets depend greatly upon the then present motivations of the buyer and seller, it is reasonable to assume that actual sales prices could vary widely from any estimate of fair value made without the benefit of negotiations. Additionally, changes in market interest rates can dramatically impact the value of financial instruments in a short period of time. Additional information about the assumptions and calculations utilized follows.

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

The carrying amounts and calculated estimates of fair value for financial instrument assets (liabilities) are presented in the following table:

| | September 30, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| | Carrying amount | Calculated estimate | Carrying amount | Calculated estimate |
| | (in thousands) | | | |
| Financial assets: | | | | |
| Cash and cash equivalents | $ 1,354,057 | $ 1,354,057 | $ 933,755 | $ 933,755 |
| Interest-bearing deposits at banks | 2,226,779 | 2,226,779 | 101,222 | 101,222 |
| Trading account assets | 605,557 | 605,557 | 523,834 | 523,834 |
| Investment securities | 7,173,797 | 7,109,175 | 7,150,540 | 7,051,454 |
| Loans and leases: | | | | |
| Commercial loans and leases | 15,218,502 | 15,013,979 | 13,390,610 | 13,135,569 |
| Commercial real estate loans | 23,961,306 | 23,671,716 | 21,183,161 | 20,840,346 |
| Residential real estate loans | 7,065,451 | 6,927,276 | 5,928,056 | 5,699,028 |
| Consumer loans | 12,156,005 | 11,913,880 | 11,488,555 | 11,178,583 |
| Allowance for credit losses | (908,525) | | (902,941) | |
| Loans and leases, net | 57,492,739 | 57,526,851 | 51,087,441 | 50,853,526 |
| Accrued interest receivable | 231,553 | 231,553 | 202,182 | 202,182 |
| Financial liabilities: | | | | |
| Noninterest-bearing deposits | $ (19,637,491) | $ (19,637,491) | $ (14,557,568) | $ (14,557,568) |
| Savings deposits and NOW accounts | (32,552,528) | (32,552,528) | (27,824,630) | (27,824,630) |
| Time deposits | (6,777,499) | (6,805,449) | (5,817,170) | (5,865,779) |
| Deposits at Cayman Islands office | (514,871) | (514,871) | (1,605,916) | (1,605,916) |
| Short-term borrowings | (694,398) | (694,398) | (947,432) | (947,432) |
| Long-term borrowings | (6,748,857) | (6,854,853) | (7,840,151) | (7,937,397) |
| Accrued interest payable | (98,137) | (98,137) | (71,954) | (71,954) |
| Trading account liabilities | (458,220) | (458,220) | (333,222) | (333,222) |
| Other financial instruments: | | | | |
| Commitments to originate real estate loans for sale | $ 7,937 | $ 7,937 | $ 2,244 | $ 2,244 |
| Commitments to sell real estate loans | (5,223) | (5,223) | 12,178 | 12,178 |
| Other credit-related commitments | (98,520) | (98,520) | (74,426) | (74,426) |
| Interest rate swap agreements used for interest rate risk management | 148,764 | 148,764 | 96,637 | 96,637 |

The following assumptions, methods and calculations were used in determining the estimated fair value of financial instruments.

***Cash and cash equivalents, interest-bearing deposits at banks, short-term borrowings, accrued interest receivable and accrued interest payable***

Due to the nature of cash and cash equivalents and the near maturity of interest-bearing deposits at banks, short-term borrowings, accrued interest receivable and accrued interest payable, the Company estimated that the carrying amount of such instruments approximated estimated fair value.

***Investment securities***

Estimated fair values of investments in readily marketable securities were generally based on quoted market prices. Investment securities that were not readily marketable were assigned amounts based on estimates provided by outside parties or modeling techniques that relied upon discounted calculations of projected cash flows or, in the case of other investment securities, which include capital stock of the Federal Reserve Bank of New York and the Federal Home Loan Bank of New York, at an amount equal to the carrying amount.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

***Loans and leases***

In general, discount rates used to calculate values for loan products were based on the Company s pricing at the respective period end. A higher discount rate was assumed with respect to estimated cash flows associated with nonaccrual loans. Projected loan cash flows were adjusted for estimated credit losses. However, such estimates made by the Company may not be indicative of assumptions and adjustments that a purchaser of the Company s loans and leases would seek.

***Deposits***

Pursuant to GAAP, the estimated fair value ascribed to noninterest-bearing deposits, savings deposits and NOW accounts must be established at carrying value because of the customers ability to withdraw funds immediately. Time deposit accounts are required to be revalued based upon prevailing market interest rates for similar maturity instruments. As a result, amounts assigned to time deposits were based on discounted cash flow calculations using prevailing market interest rates based on the Company s pricing at the respective date for deposits with comparable remaining terms to maturity.

The Company believes that deposit accounts have a value greater than that prescribed by GAAP. The Company feels, however, that the value associated with these deposits is greatly influenced by characteristics of the buyer, such as the ability to reduce the costs of servicing the deposits and deposit attrition which often occurs following an acquisition.

***Long-term borrowings***

The amounts assigned to long-term borrowings were based on quoted market prices, when available, or were based on discounted cash flow calculations using prevailing market interest rates for borrowings of similar terms and credit risk.

***Commitments to originate real estate loans for sale and commitments to sell real estate loans***

The Company enters into various commitments to originate real estate loans for sale and commitments to sell real estate loans. Such commitments are considered to be derivative financial instruments and, therefore, are carried at estimated fair value on the consolidated balance sheet. The estimated fair values of such commitments were generally calculated by reference to quoted market prices for commitments to sell real estate loans to certain government-sponsored entities and other parties.

***Interest rate swap agreements used for interest rate risk management***

The estimated fair value of interest rate swap agreements used for interest rate risk management represents the amount the Company would have expected to receive or pay to terminate such agreements.

***Other commitments and contingencies***

As described in note 13, in the normal course of business, various commitments and contingent liabilities are outstanding, such as loan commitments, credit guarantees and letters of credit. The Company s pricing of such financial instruments is based largely on credit quality and relationship, probability of funding and other requirements. Loan commitments often have fixed expiration dates and contain termination and other clauses which provide for relief from funding in the event of significant deterioration in the credit quality of the customer. The rates and terms of the Company s loan commitments, credit guarantees and letters of credit are competitive with other financial institutions operating in markets served by the Company. The Company believes that the carrying amounts, which are included in other liabilities, are reasonable estimates of the fair value of these financial instruments.

The Company does not believe that the estimated information presented herein is representative of the earnings power or value of the Company. The preceding

**Table of Contents**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

analysis, which is inherently limited in depicting fair value, also does not consider any value associated with existing customer relationships nor the ability of the Company to create value through loan origination, deposit gathering or fee generating activities.

Many of the estimates presented herein are based upon the use of highly subjective information and assumptions and, accordingly, the results may not be precise. Management believes that fair value estimates may not be comparable between financial institutions due to the wide range of permitted valuation techniques and numerous estimates which must be made. Furthermore, because the disclosed fair value amounts were estimated as of the balance sheet date, the amounts actually realized or paid upon maturity or settlement of the various financial instruments could be significantly different.

**13. Commitments and contingencies**

In the normal course of business, various commitments and contingent liabilities are outstanding. The following table presents the Company s significant commitments. Certain of these commitments are not included in the Company s consolidated balance sheet.

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| | (in thousands) | |
| Commitments to extend credit | | |
| Home equity lines of credit | $ 6,428,783 | 6,281,366 |
| Commercial real estate loans to be sold | 55,622 | 72,930 |
| Other commercial real estate and construction | 2,978,229 | 1,672,006 |
| Residential real estate loans to be sold | 227,178 | 161,583 |
| Other residential real estate | 199,734 | 151,111 |
| Commercial and other | 10,967,112 | 8,332,199 |
| Standby letters of credit | 3,878,609 | 3,917,318 |
| Commercial letters of credit | 41,567 | 76,962 |
| Financial guarantees and indemnification contracts | 2,045,661 | 1,609,944 |
| Commitments to sell real estate loans | 445,207 | 734,696 |

Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Standby and commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party, whereas commercial letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and a third party. The credit risk associated with commitments to extend credit and standby and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management s assessment of the customer s creditworthiness.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**13. Commitments and contingencies, continued**

Financial guarantees and indemnification contracts are oftentimes similar to standby letters of credit and include mandatory purchase agreements issued to ensure that customer obligations are fulfilled, recourse obligations associated with sold loans, and other guarantees of customer performance or compliance with designated rules and regulations. Included in financial guarantees and indemnification contracts are loan principal amounts sold with recourse in conjunction with the Company s involvement in the Fannie Mae Delegated Underwriting and Servicing program. The Company s maximum credit risk for recourse associated with loans sold under this program totaled approximately $1.8 billion and $1.6 billion at September 30, 2011 and December 31, 2010, respectively.

Since many loan commitments, standby letters of credit, and guarantees and indemnification contracts expire without being funded in whole or in part, the contract amounts are not necessarily indicative of future cash flows.

The Company utilizes commitments to sell real estate loans to hedge exposure to changes in the fair value of real estate loans held for sale. Such commitments are considered derivatives and along with commitments to originate real estate loans to be held for sale are generally recorded in the consolidated balance sheet at estimated fair market value.

The Company has an agreement with the Baltimore Ravens of the National Football League whereby the Company obtained the naming rights to a football stadium in Baltimore, Maryland. Under the agreement, the Company is obligated to pay $5 million per year through 2013 and $6 million per year from 2014 through 2017.

The Company also has commitments under long-term operating leases.

The Company reinsures credit life and accident and health insurance purchased by consumer loan customers. The Company also enters into reinsurance contracts with third party insurance companies who insure against the risk of a mortgage borrower s payment default in connection with certain mortgage loans originated by the Company. When providing reinsurance coverage, the Company receives a premium in exchange for accepting a portion of the insurer s risk of loss. The outstanding loan principal balances reinsured by the Company were approximately $77 million at September 30, 2011. Assets of subsidiaries providing reinsurance that are available to satisfy claims totaled approximately $50 million at September 30, 2011. The amounts noted above are not necessarily indicative of losses which may ultimately be incurred. Such losses are expected to be substantially less because most loans are repaid by borrowers in accordance with the original loan terms. Management believes any reinsurance losses that may be payable by the Company will not be material to the Company s consolidated financial position.

The Company is contractually obligated to repurchase previously sold residential real estate loans that do not ultimately meet investor sale criteria related to underwriting procedures or loan documentation. When required to do so, the Company may reimburse loan purchasers for losses incurred or may repurchase certain loans. The Company reduces residential mortgage banking revenues by an estimate for losses related to its obligations to loan purchasers. The amount of those charges is based on the volume of loans sold, the level of reimbursement requests received from loan purchasers and estimates of losses that may be associated with previously sold loans. At September 30, 2011, management believes that any remaining liability arising out of the Company s obligation to loan purchasers is not material to the Company s consolidated financial position.

**Table of Contents**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**13. Commitments and contingencies, continued**

M&T and its subsidiaries are subject in the normal course of business to various pending and threatened legal proceedings in which claims for monetary damages are asserted. Management, after consultation with legal counsel, does not anticipate that the aggregate ultimate liability arising out of litigation pending or threatened against M&T or its subsidiaries will be material to the Company s consolidated financial position. On an on-going basis the Company assesses its liabilities and contingencies in connection with such legal proceedings. For those matters where it is probable that the Company will incur losses and the amounts of the losses can be reasonably estimated, the Company records an expense and corresponding liability in its consolidated financial statements. To the extent the pending or threatened litigation could result in exposure in excess of that liability, the amount of such excess is not currently estimable. Although not considered probable, the range of reasonably possible losses for such matters in the aggregate, beyond the existing recorded liability, was between $0 and $40 million. Although the Company does not believe that the outcome of pending litigations will be material to the Company s consolidated financial position, it cannot rule out the possibility that such outcomes will be material to the consolidated results of operations for a particular reporting period in the future.

**14. Segment information**

Reportable segments have been determined based upon the Company s internal profitability reporting system, which is organized by strategic business unit. Certain strategic business units have been combined for segment information reporting purposes where the nature of the products and services, the type of customer and the distribution of those products and services are similar. The reportable segments are Business Banking, Commercial Banking, Commercial Real Estate, Discretionary Portfolio, Residential Mortgage Banking and Retail Banking.

The financial information of the Company s segments was compiled utilizing the accounting policies described in note 22 to the Company s consolidated financial statements as of and for the year ended December 31, 2010. The management accounting policies and processes utilized in compiling segment financial information are highly subjective and, unlike financial accounting, are not based on authoritative guidance similar to GAAP. As a result, the financial information of the reported segments is not necessarily comparable with similar information reported by other financial institutions. As also described in note 22 to the Company s 2010 consolidated financial statements, neither goodwill nor core deposit and other intangible assets (and the amortization charges associated with such assets) resulting from acquisitions of financial institutions have been allocated to the Company s reportable segments, but are included in the All Other category. The Company does, however, assign such intangible assets to business units for purposes of testing for impairment.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**14. Segment information, continued**

Information about the Company s segments is presented in the following table:

| | Three months ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | |
| | Total revenues(a) | Inter-segment revenues | Net income (loss) | Total revenues(a) | Inter-segment revenues | Net income (loss) |
| | (in thousands) | | | | | |
| Business Banking | $ 110,627 | 957 | 31,237 | 103,475 | 290 | 24,295 |
| Commercial Banking | 230,023 | 1,318 | 93,783 | 199,139 | 282 | 71,567 |
| Commercial Real Estate | 152,878 | 410 | 65,566 | 118,666 | 104 | 53,727 |
| Discretionary Portfolio | 16,437 | (3,968) | 2,077 | 12,493 | (2,733) | (2,759) |
| Residential Mortgage Banking | 67,757 | 25,012 | 10,805 | 73,744 | 9,419 | 9,408 |
| Retail Banking | 314,113 | 2,583 | 43,947 | 302,656 | 2,632 | 55,572 |
| All Other | 93,266 | (26,312) | (64,307) | 49,594 | (9,994) | (19,795) |
| Total | $ 985,101 | | 183,108 | 859,767 | | 192,015 |

| | Nine months ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | |
| | Total revenues(a) | Inter-segment revenues | Net income (loss) | Total revenues(a) | Inter-segment revenues | Net income (loss) |
| | (in thousands) | | | | | |
| Business Banking | $ 314,416 | 2,890 | 84,121 | 307,881 | 290 | 76,191 |
| Commercial Banking | 672,199 | 3,674 | 277,225 | 586,120 | 282 | 230,047 |
| Commercial Real Estate | 412,250 | 1,214 | 179,634 | 338,566 | 161 | 141,147 |
| Discretionary Portfolio | 171,303 | (16,174) | 76,566 | 5,840 | (7,980) | (22,994) |
| Residential Mortgage Banking | 183,910 | 44,018 | 21,556 | 202,627 | 26,492 | 9,536 |
| Retail Banking | 920,645 | 8,537 | 151,318 | 925,769 | 8,009 | 181,689 |
| All Other | 281,460 | (44,159) | (78,681) | 147,788 | (27,254) | (83,897) |
| Total | $ 2,956,183 | | 711,739 | 2,514,591 | | 531,719 |

**Table of Contents**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**14. Segment information, continued**

| | Average total assets . | | |
|---|---|---|---|
| | Nine months ended | | Year ended |
| | September 30 | | December 31 |
| | 2011 | 2010 | 2010 |
| | (in millions) | | |
| Business Banking | $ 4,995 | 4,850 | 4,843 |
| Commercial Banking | 17,397 | 15,460 | 15,461 |
| Commercial Real Estate | 14,730 | 13,198 | 13,194 |
| Discretionary Portfolio | 13,844 | 14,658 | |