

M&T BANK CORP  
Form 10-Q  
August 01, 2006

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended June 30, 2006

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<br>incorporation or organization) | (I.R.S. Employer<br>Identification No.) |

|   |            |
|---|------------|
| One M & T Plaza                             | 14203      |
| Buffalo, New York                           | (Zip Code) |
| (Address of principal<br>executive offices) |            |

(716) 842-5445

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. Yes  No

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Number of shares of the registrant's Common Stock, \$0.50 par value, outstanding as of the close of business on July 21, 2006: 111,006,937 shares.

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**Table of Contents**

**M&T BANK CORPORATION**

**FORM 10-Q**

**For the Quarterly Period Ended June 30, 2006**

| <b><u>Table of Contents of Information Required in Report</u></b>  | <b><u>Page</u></b> |
|--|--------------------|
| <hr/>  |                    |
| <b><u>Part I. FINANCIAL INFORMATION</u></b>  |                    |
| <b><u>Item 1. Financial Statements.</u></b>  |                    |
| <b><u>CONSOLIDATED BALANCE SHEET June 30, 2006 and December 31, 2005</u></b>   | 3                  |
| <b><u>CONSOLIDATED STATEMENT OF INCOME Three and six months ended June 30, 2006 and 2005</u></b>                     | 4                  |
| <b><u>CONSOLIDATED STATEMENT OF CASH FLOWS Six months ended June 30, 2006 and 2005</u></b>                           | 5                  |
| <b><u>CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY Six months ended June 30, 2006 and 2005</u></b>      | 6                  |
| <b><u>CONSOLIDATED SUMMARY OF CHANGES IN ALLOWANCE FOR CREDIT LOSSES Six months ended June 30, 2006 and 2005</u></b> | 6                  |
| <b><u>NOTES TO FINANCIAL STATEMENTS</u></b>  | 7                  |
| <b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.</u></b>         | 20                 |
| <b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</u></b>                                    | 48                 |
| <b><u>Item 4. Controls and Procedures.</u></b>   | 48                 |
| <b><u>Part II. OTHER INFORMATION</u></b>   |                    |
| <b><u>Item 1. Legal Proceedings.</u></b>   | 48                 |
| <b><u>Item 1A. Risk Factors.</u></b>   | 48                 |
| <b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u></b>                                   | 49                 |
| <b><u>Item 3. Defaults Upon Senior Securities.</u></b>   | 49                 |
| <b><u>Item 4. Submission of Matters to a Vote of Security Holders.</u></b>   | 49                 |
| <b><u>Item 5. Other Information.</u></b>   | 49                 |
| <b><u>Item 6. Exhibits.</u></b>  | 50                 |
| <b><u>SIGNATURES</u></b>   | 50                 |
| <b><u>EXHIBIT INDEX</u></b>  | 51                 |
| <b><u>EX-10.1</u></b>  |                    |
| <b><u>EX-31.1</u></b>  |                    |
| <b><u>EX-31.2</u></b>  |                    |
| <b><u>EX-32.1</u></b>  |                    |
| <b><u>EX-32.2</u></b>  |                    |

**Table of Contents**

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET (Unaudited)

| <b>Dollars in thousands, except per share</b>  | <b>June 30,<br/>2006</b> | <b>December 31,<br/>2005</b> |
|--|--------------------------|------------------------------|
| <b>Assets</b>  |                          |                              |
| Cash and due from banks  | \$ 1,572,863             | 1,479,239                    |
| Interest-bearing deposits at banks   | 14,923                   | 8,408                        |
| Federal funds sold and agreements to resell securities                                     | 16,649                   | 11,220                       |
| Trading account  | 208,291                  | 191,617                      |
| Investment securities  |                          |                              |
| Available for sale (cost: \$7,611,934 at June 30, 2006; \$8,011,560 at December 31, 2005)  | 7,444,686                | 7,931,703                    |
| Held to maturity (market value: \$92,128 at June 30, 2006; \$102,880 at December 31, 2005) | 90,682                   | 101,059                      |
| Other (market value: \$367,774 at June 30, 2006; \$367,402 at December 31, 2005)           | 367,774                  | 367,402                      |
|  | <u>7,903,142</u>         | <u>8,400,164</u>             |
| Total investment securities  |                          |                              |
|  | <u>7,903,142</u>         | <u>8,400,164</u>             |
| Loans and leases   | 41,820,338               | 40,553,691                   |
| Unearned discount  | (220,877)                | (223,046)                    |
| Allowance for credit losses  | (645,851)                | (637,663)                    |
|  | <u>40,953,610</u>        | <u>39,692,982</u>            |
| Loans and leases, net  |                          |                              |
|  | <u>40,953,610</u>        | <u>39,692,982</u>            |
| Premises and equipment   | 334,873                  | 337,115                      |
| Goodwill   | 2,908,849                | 2,904,081                    |
| Core deposit and other intangible assets   | 290,847                  | 108,260                      |
| Accrued interest and other assets  | 2,303,041                | 2,013,320                    |
|  | <u>56,507,088</u>        | <u>55,146,406</u>            |
| Total assets   |                          |                              |
|  | <u>\$56,507,088</u>      | <u>55,146,406</u>            |
| <b>Liabilities</b>   |                          |                              |

Liabilities

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|   |                             |                             |
|---|-----------------------------|-----------------------------|
| Noninterest-bearing deposits  | \$ 8,099,083                | 8,141,928                   |
| NOW accounts  | 1,017,813                   | 901,938                     |
| Savings deposits  | 14,127,054                  | 13,839,150                  |
| Time deposits   | 12,492,427                  | 11,407,626                  |
| Deposits at foreign office  | 2,777,306                   | 2,809,532                   |
|   | <u>                    </u> | <u>                    </u> |
| Total deposits  | 38,513,683                  | 37,100,174                  |
|   | <u>                    </u> | <u>                    </u> |
| Federal funds purchased and agreements to repurchase securities   | 4,533,796                   | 4,211,978                   |
| Other short-term borrowings   | 771,018                     | 940,894                     |
| Accrued interest and other liabilities  | 953,858                     | 819,980                     |
| Long-term borrowings  | 5,734,509                   | 6,196,994                   |
|   | <u>                    </u> | <u>                    </u> |
| Total liabilities   | 50,506,864                  | 49,270,020                  |
|   | <u>                    </u> | <u>                    </u> |
| Stockholders' equity  |                             |                             |
| Preferred stock, \$1 par, 1,000,000 shares authorized, none outstanding   |                             |                             |
| Common stock, \$.50 par, 250,000,000 shares authorized, 120,396,611 shares issued at June 30, 2006 and at December 31, 2005 | 60,198                      | 60,198                      |
| Common stock issuable, 93,114 shares at June 30, 2006; 100,298 shares at December 31, 2005                                  | 5,107                       | 5,363                       |
| Additional paid-in capital  | 2,887,441                   | 2,886,153                   |
| Retained earnings   | 4,152,943                   | 3,854,275                   |
| Accumulated other comprehensive income (loss), net  | (147,794)                   | (97,930)                    |
| Treasury stock - common, at cost - 9,403,971 shares at June 30, 2006; 8,336,907 shares at December 31, 2005                 | (957,671)                   | (831,673)                   |
|   | <u>                    </u> | <u>                    </u> |
| Total stockholders' equity  | 6,000,224                   | 5,876,386                   |
|   | <u>                    </u> | <u>                    </u> |
| Total liabilities and stockholders' equity  | \$56,507,088                | 55,146,406                  |
|   | <u>                    </u> | <u>                    </u> |

**Table of Contents**

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF INCOME (Unaudited)

| <b>In thousands, except per share</b>                  | <b>Three months ended<br/>June 30</b> |             | <b>Six months ended<br/>June 30</b> |             |
|--|---------------------------------------|-------------|-------------------------------------|-------------|
|  | <b>2006</b>                           | <b>2005</b> | <b>2006</b>                         | <b>2005</b> |
| Interest income  |                                       |             |                                     |             |
| Loans and leases, including fees                       | \$713,816                             | 583,415     | \$1,394,533                         | 1,132,104   |
| Deposits at banks                                      | 111                                   | 38          | 183                                 | 66          |
| Federal funds sold and agreements to resell securities | 405                                   | 203         | 783                                 | 372         |
| Trading account  | 753                                   | 300         | 1,424                               | 399         |
| Investment securities                                  |                                       |             |                                     |             |
| Fully taxable  | 94,092                                | 89,032      | 185,780                             | 175,019     |
| Exempt from federal taxes                              | 3,734                                 | 3,530       | 7,480                               | 6,879       |
|  | <hr/>                                 | <hr/>       | <hr/>                               | <hr/>       |
| Total interest income                                  | 812,911                               | 676,518     | 1,590,183                           | 1,314,839   |
|  | <hr/>                                 | <hr/>       | <hr/>                               | <hr/>       |
| Interest expense                                       |                                       |             |                                     |             |
| NOW accounts   | 779                                   | 543         | 1,438                               | 861         |
| Savings deposits                                       | 47,579                                | 33,292      | 91,136                              | 61,181      |
| Time deposits  | 139,032                               | 64,101      | 257,090                             | 112,855     |
| Deposits at foreign office                             | 43,798                                | 28,101      | 80,601                              | 53,481      |
| Short-term borrowings                                  | 53,623                                | 36,678      | 104,190                             | 68,669      |
| Long-term borrowings                                   | 81,487                                | 66,301      | 162,089                             | 128,235     |
|  | <hr/>                                 | <hr/>       | <hr/>                               | <hr/>       |
| Total interest expense                                 | 366,298                               | 229,016     | 696,544                             | 425,282     |
|  | <hr/>                                 | <hr/>       | <hr/>                               | <hr/>       |
| <i>Net interest income</i>                             | 446,613                               | 447,502     | 893,639                             | 889,557     |
| Provision for credit losses                            | 17,000                                | 19,000      | 35,000                              | 43,000      |
|  | <hr/>                                 | <hr/>       | <hr/>                               | <hr/>       |
| Net interest income after provision for credit losses  | 429,613                               | 428,502     | 858,639                             | 846,557     |
|  | <hr/>                                 | <hr/>       | <hr/>                               | <hr/>       |
| Other income   |                                       |             |                                     |             |
| Mortgage banking revenues                              | 41,565                                | 31,274      | 76,076                              | 64,700      |
| Service charges on deposit accounts                    | 95,549                                | 92,969      | 184,425                             | 181,322     |
| Trust income   | 34,757                                | 32,745      | 68,553                              | 66,268      |

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|  |                   |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|
| Brokerage services income                                | 14,481            | 14,179            | 29,205            | 28,360            |
| Trading account and foreign exchange gains               | 6,168             | 5,957             | 12,674            | 10,826            |
| Gain on bank investment securities                       | 236               | 30                | 294               | 246               |
| Other revenues from operations                           | 69,846            | 68,208            | 144,306           | 127,898           |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Total other income                                       | 262,602           | 245,362           | 515,533           | 479,620           |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Other expense  |                   |                   |                   |                   |
| Salaries and employee benefits                           | 217,162           | 204,607           | 441,244           | 411,217           |
| Equipment and net occupancy                              | 42,527            | 42,608            | 85,929            | 86,614            |
| Printing, postage and supplies                           | 8,072             | 8,411             | 16,639            | 17,242            |
| Amortization of core deposit and other intangible assets | 11,357            | 14,055            | 24,385            | 30,176            |
| Other costs of operations                                | 97,879            | 110,760           | 190,803           | 202,529           |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Total other expense                                      | 376,997           | 380,441           | 759,000           | 747,778           |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Income before taxes                                      | 315,218           | 293,423           | 615,172           | 578,399           |
| Income taxes   | 102,645           | 96,589            | 199,682           | 192,275           |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| <i>Net income</i>  | \$212,573         | 196,834           | \$ 415,490        | 386,124           |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Net income per common share                              |                   |                   |                   |                   |
| Basic  | \$ 1.91           | 1.73              | \$ 3.73           | 3.38              |
| Diluted  | 1.87              | 1.69              | 3.64              | 3.31              |
| Cash dividends per common share                          | \$ .60            | .45               | \$ 1.05           | .85               |
| Average common shares outstanding                        |                   |                   |                   |                   |
| Basic  | 111,259           | 113,949           | 111,474           | 114,359           |
| Diluted  | 113,968           | 116,422           | 114,157           | 116,801           |

-4-



**Table of Contents**

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

| <b>In thousands</b>  | <b>Six months ended June 30</b> |                    |
|--|---------------------------------|--------------------|
|  | <b>2006</b>                     | <b>2005</b>        |
| Cash flows from operating activities   |                                 |                    |
| Net income   | \$ 415,490                      | 386,124            |
| Adjustments to reconcile net income to net cash provided by operating activities |                                 |                    |
| Provision for credit losses  | 35,000                          | 43,000             |
| Depreciation and amortization of premises and equipment                          | 26,849                          | 29,978             |
| Amortization of capitalized servicing rights                                     | 30,350                          | 28,923             |
| Amortization of core deposit and other intangible assets                         | 24,385                          | 30,176             |
| Provision for deferred income taxes  | (46,425)                        | (62,232)           |
| Asset write-downs  | 203                             | 189                |
| Net gain on sales of assets  | (9,801)                         | (5,801)            |
| Net change in accrued interest receivable, payable                               | 34,729                          | 4,106              |
| Net change in other accrued income and expense                                   | (25,162)                        | 36,610             |
| Net change in loans held for sale  | (263,186)                       | (438,607)          |
| Net change in trading account assets and liabilities                             | 5,766                           | (41,688)           |
| Net cash provided by operating activities  | <u>228,198</u>                  | <u>10,778</u>      |
| Cash flows from investing activities   |                                 |                    |
| Proceeds from sales of investment securities                                     |                                 |                    |
| Available for sale   | 95,752                          | 13,576             |
| Other  | 27,333                          | 31,290             |
| Proceeds from maturities of investment securities                                |                                 |                    |
| Available for sale   | 824,720                         | 1,060,852          |
| Held to maturity   | 41,335                          | 62,491             |
| Purchases of investment securities   |                                 |                    |
| Available for sale   | (520,429)                       | (972,924)          |
| Held to maturity   | (30,970)                        | (50,951)           |
| Other  | (27,705)                        | (20,706)           |
| Additions to capitalized servicing rights  | (32,230)                        | (21,563)           |
| Net increase in loans and leases   | (779,886)                       | (1,097,057)        |
| Capital expenditures, net  | (16,736)                        | (6,457)            |
| Acquisitions, net of cash acquired   | 482,818                         |                    |
| Other, net   | (73,763)                        | (49,263)           |
| Net cash used by investing activities  | <u>(9,761)</u>                  | <u>(1,050,712)</u> |

|   |                   |                   |
|---|-------------------|-------------------|
| Cash flows from financing activities                                |                   |                   |
| Net increase in deposits  | 454,307           | 1,880,294         |
| Net increase (decrease) in short-term borrowings                    | 151,942           | (417,712)         |
| Proceeds from long-term borrowings                                  | 500,000           | 801,322           |
| Payments on long-term borrowings                                    | (956,166)         | (826,552)         |
| Purchases of treasury stock   | (207,120)         | (252,550)         |
| Dividends paid common   | (116,725)         | (97,001)          |
| Other, net  | 54,378            | 66,394            |
|   | <u>          </u> | <u>          </u> |
| Net cash provided (used) by financing activities                    | (119,384)         | 1,154,195         |
|   | <u>          </u> | <u>          </u> |
| Net increase in cash and cash equivalents                           | \$ 99,053         | 114,261           |
| Cash and cash equivalents at beginning of period                    | 1,490,459         | 1,363,804         |
|   | <u>          </u> | <u>          </u> |
| Cash and cash equivalents at end of period                          | \$ 1,589,512      | 1,478,065         |
|   | <u>          </u> | <u>          </u> |
| Supplemental disclosure of cash flow information                    |                   |                   |
| Interest received during the period                                 | \$ 1,592,125      | 1,289,452         |
| Interest paid during the period                                     | 655,029           | 413,723           |
| Income taxes paid during the period                                 | 240,021           | 223,319           |
|   | <u>          </u> | <u>          </u> |
| Supplemental schedule of noncash investing and financing activities |                   |                   |
| Real estate acquired in settlement of loans                         | \$ 10,235         | 4,993             |
| Acquisitions :  |                   |                   |
| Fair value of :   |                   |                   |
| Assets acquired (noncash)   | 514,055           |                   |
| Liabilities assumed   | 999,022           |                   |

**Table of Contents**

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY (Unaudited)

|  | Preferred stock | Common stock<br>Common stock<br>issuable | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income<br>(loss), net | Treasury<br>stock | Total             |
|--|-----------------|--|----------------------------------|----------------------|--|-------------------|-------------------|
| <b>2005</b>  |                 |  |                                  |                      |  |                   |                   |
| Balance January 1, 2005  | \$ 60,198       | 5,779                                    | 2,897,912                        | 3,270,887            | (17,209)   | (487,953)         | 5,729,614         |
| Comprehensive income:  |                 |  |                                  |                      |  |                   |                   |
| Net income   |                 |  |                                  | 386,124              |  |                   | 386,124           |
| Other comprehensive income,<br>net of tax and reclassification<br>adjustments: |                 |  |                                  |                      |  |                   |                   |
| Unrealized losses on investment<br>securities                                  |                 |  |                                  |                      | (20,603)   |                   | (20,603)          |
|  |                 |  |                                  |                      |  |                   | <u>365,521</u>    |
| Purchases of treasury stock  |                 |  |                                  |                      |  | (252,550)         | (252,550)         |
| Repayment of management stock<br>ownership program receivable                  |                 |  | 304                              |                      |  |                   | 304               |
| Stock-based compensation plans:  |                 |  |                                  |                      |  |                   |                   |
| Stock option and purchase plans:   |                 |  |                                  |                      |  |                   |                   |
| Compensation expense   |                 |  | 22,805                           |                      |  |                   | 22,805            |
| Exercises  |                 |  | (42,113)                         |                      |  | 110,286           | 68,173            |
| Directors' stock plan  |                 |  | 48                               |                      |  | 508               | 556               |
| Deferred compensation plans,<br>net, including dividend<br>equivalents         |                 | (237)                                    | (168)                            | (85)                 |  | 791               | 301               |
| Common stock cash dividends<br>\$0.85 per share                                |                 |  |                                  | (97,001)             |  |                   | (97,001)          |
|  |                 |  |                                  |                      |  |                   | <u>          </u> |
| Balance June 30, 2005  | \$ 60,198       | 5,542                                    | 2,878,788                        | 3,559,925            | (37,812)   | (628,918)         | 5,837,723         |
| <b>2006</b>  |                 |  |                                  |                      |  |                   |                   |
| Balance January 1, 2006  | \$ 60,198       | 5,363                                    | 2,886,153                        | 3,854,275            | (97,930)   | (831,673)         | 5,876,386         |
| Comprehensive income:  |                 |  |                                  |                      |  |                   |                   |
| Net income   |                 |  |                                  | 415,490              |  |                   | 415,490           |
| Other comprehensive income,<br>net of tax and reclassification                 |                 |  |                                  |                      |  |                   |                   |

adjustments:

|  |    |        |          |           |           |           |           |           |
|--|----|--------|----------|-----------|-----------|-----------|-----------|-----------|
| Unrealized losses on investment securities                       |    |        |          |           | (49,864)  |           | (49,864)  |           |
| Purchases of treasury stock                                      |    |        |          |           | (207,120) |           | 365,626   |           |
| Repayment of management stock ownership program receivable       |    |        | 225      |           |           |           | (207,120) |           |
| Stock-based compensation plans:                                  |    |        |          |           |           |           | 225       |           |
| Stock option and purchase plans:                                 |    |        |          |           |           |           |           |           |
| Compensation expense   |    |        | 28,906   |           |           |           | 28,906    |           |
| Exercises  |    |        | (27,493) |           |           | 79,894    | 52,401    |           |
| Directors stock plan   |    |        | 54       |           |           | 485       | 539       |           |
| Deferred compensation plans, net, including dividend equivalents |    | (256)  | (404)    | (97)      |           | 743       | (14)      |           |
| Common stock cash dividends \$1.05 per share                     |    |        |          |           | (116,725) |           | (116,725) |           |
| Balance June 30, 2006  | \$ | 60,198 | 5,107    | 2,887,441 | 4,152,943 | (147,794) | (957,671) | 6,000,224 |

## CONSOLIDATED SUMMARY OF CHANGES IN ALLOWANCE FOR CREDIT LOSSES (Unaudited)

| In thousands                | Six months ended June 30 |          |
|-----------------------------|--------------------------|----------|
|                             | 2006                     | 2005     |
| Beginning balance           | \$637,663                | 626,864  |
| Provision for credit losses | 35,000                   | 43,000   |
| Net charge-offs             |                          |          |
| Charge-offs                 | (43,553)                 | (48,547) |
| Recoveries                  | 16,741                   | 16,028   |
| Total net charge-offs       | (26,812)                 | (32,519) |
| Ending balance              | \$645,851                | 637,345  |

**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 the accounting policies set forth in note 1 of Notes to Financial Statements included in the Company's 2005 Annual Report, except as described below. In the opinion of management, all adjustments necessary for a fair presentation have been made and were all of a normal recurring nature.

**2. Earnings per share**

The computations of basic earnings per share follow:

|   | Three months ended<br>June 30    |         | Six months ended<br>June 30 |         |
|---|----------------------------------|---------|-----------------------------|---------|
|   | 2006                             | 2005    | 2006                        | 2005    |
|   | (in thousands, except per share) |         |                             |         |
| Income available to common stockholders                               |                                  |         |                             |         |
| Net income  | \$212,573                        | 196,834 | 415,490                     | 386,124 |
| Weighted-average shares outstanding (including common stock issuable) | 111,259                          | 113,949 | 111,474                     | 114,359 |
| Basic earnings per share  | \$ 1.91                          | 1.73    | 3.73                        | 3.38    |

The computations of diluted earnings per share follow:

|   | Three months ended<br>June 30    |         | Six months ended<br>June 30 |         |
|---|----------------------------------|---------|-----------------------------|---------|
|   | 2006                             | 2005    | 2006                        | 2005    |
|   | (in thousands, except per share) |         |                             |         |
| Income available to common stockholders                           | \$212,573                        | 196,834 | 415,490                     | 386,124 |
| Weighted-average shares outstanding                               | 111,259                          | 113,949 | 111,474                     | 114,359 |
| Plus: incremental shares from assumed conversion of stock options | 2,709                            | 2,473   | 2,683                       | 2,442   |
| Adjusted weighted average shares outstanding                      | 113,968                          | 116,422 | 114,157                     | 116,801 |
| Diluted earnings per share  | \$ 1.87                          | 1.69    | 3.64                        | 3.31    |

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**3. Comprehensive income**

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

|  | <b>Six months ended June 30, 2006</b> |                         |                        |
|--|---------------------------------------|-------------------------|------------------------|
|  | <b>Before-tax<br/>amount</b>          | <b>Income<br/>taxes</b> | <b>Net</b>             |
|  | (in thousands)                        |                         |                        |
| Unrealized losses on investment securities:                        |                                       |                         |                        |
| Unrealized holding losses during period                            | \$(87,097)                            | 37,414                  | (49,683)               |
| Less: reclassification adjustment for gains realized in net income | <u>294</u>                            | <u>(113)</u>            | <u>181</u>             |
| Net unrealized losses  | <u><b>\$(87,391)</b></u>              | <u><b>37,527</b></u>    | <u><b>(49,864)</b></u> |

|  | <b>Six months ended June 30, 2005</b> |                         |                        |
|--|---------------------------------------|-------------------------|------------------------|
|  | <b>Before-tax<br/>amount</b>          | <b>Income<br/>taxes</b> | <b>Net</b>             |
|  | (in thousands)                        |                         |                        |
| Unrealized losses on investment securities:                        |                                       |                         |                        |
| Unrealized holding losses during period                            | \$(30,878)                            | 10,425                  | (20,453)               |
| Less: reclassification adjustment for gains realized in net income | <u>246</u>                            | <u>(96)</u>             | <u>150</u>             |
| Net unrealized losses  | <u><b>\$(31,124)</b></u>              | <u><b>10,521</b></u>    | <u><b>(20,603)</b></u> |

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

| <b>Investment<br/>securities</b> | <b>Minimum<br/>pension<br/>liability<br/>adjustment</b> | <b>Total</b> |
|----------------------------------|---|--------------|
| (in thousands)                   |   |              |

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|                               |                 |                   |                   |                  |
|-------------------------------|-----------------|-------------------|-------------------|------------------|
| Balance                       | January 1, 2006 | \$(48,576)        | (49,354)          | (97,930)         |
| Net gain (loss) during period |                 | <u>(49,864)</u>   | <u>          </u> | <u>(49,864)</u>  |
| Balance                       | June 30, 2006   | <u>\$(98,440)</u> | <u>(49,354)</u>   | <u>(147,794)</u> |
| Balance                       | January 1, 2005 | \$ (4,712)        | (12,497)          | (17,209)         |
| Net gain (loss) during period |                 | <u>(20,603)</u>   | <u>          </u> | <u>(20,603)</u>  |
| Balance                       | June 30, 2005   | <u>\$(25,315)</u> | <u>(12,497)</u>   | <u>(37,812)</u>  |

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**4. Borrowings**

In 1997, M&T Capital Trust I ( Trust I ), M&T Capital Trust II ( Trust II ), and M&T Capital Trust III ( Trust III ) issued \$310 million of fixed rate preferred capital securities. In 1996, \$150 million of floating rate preferred capital securities were issued by First Maryland Capital I ( Trust IV ) and in 1997, \$150 million of floating rate preferred capital securities were issued by First Maryland Capital II ( Trust V ). The distribution rates on the preferred capital securities of Trust IV and Trust V adjust quarterly based on changes in the three-month London Interbank Offered Rate ( LIBOR ) and were 6.08% and 6.00%, respectively, at June 30, 2006 and 5.15% and 5.10%, respectively, at December 31, 2005. Trust I, Trust II, Trust III, Trust IV and Trust V are referred to herein collectively as the Trusts.

Other than the following payment terms (and the redemption terms described below), the preferred capital securities issued by the Trusts ( Capital Securities ) are substantially identical in all material respects:

| <b>Trust</b> | <b>Distribution<br/>rate</b> | <b>Distribution<br/>dates</b>                   |
|--------------|------------------------------|---|
| Trust I      | 8.234%                       | February 1 and August 1                         |
| Trust II     | 8.277%                       | June 1 and December 1                           |
| Trust III    | 9.25%                        | February 1 and August 1                         |
| Trust IV     | LIBOR plus<br>1.00%          | January 15, April 15, July 15 and<br>October 15 |
| Trust V      | LIBOR plus .85%              | February 1, May 1, August 1 and<br>November 1   |

The common securities of each Trust ( Common Securities ) 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 (core) capital.

The proceeds from the issuances of the Capital Securities and Common Securities were used by the Trusts to purchase junior subordinated deferrable interest debentures ( Junior Subordinated Debentures ) of M&T as follows:

| <b>Trust</b> | <b>Capital<br/>Securities</b> | <b>Common<br/>Securities</b> | <b>Junior Subordinated<br/>Debentures</b>  |
|--------------|-------------------------------|------------------------------|--|
| Trust I      | \$150 million                 | \$4.64 million               | \$154.64 million aggregate liquidation amount of 8.234% Junior Subordinated Debentures due February 1, 2027. |
| Trust II     | \$100 million                 | \$3.09 million               | \$103.09 million aggregate liquidation amount of 8.277% Junior Subordinated                                  |



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Debentures due June 1, 2027.

|           |              |                 |   |
|-----------|--------------|-----------------|---|
| Trust III | \$60 million | \$1.856 million | \$61.856 million aggregate liquidation amount of 9.25% Junior Subordinated Debentures due February 1, 2027. |
|-----------|--------------|-----------------|---|

-9-

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**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**4. Borrowings, continued**

| <u>Trust</u> | <u>Capital Securities</u> | <u>Common Securities</u> | <u>Junior Subordinated Debentures</u>   |
|--------------|---------------------------|--------------------------|---|
| Trust IV     | \$150 million             | \$4.64 million           | \$154.64 million aggregate liquidation amount of Floating Rate Junior Subordinated Debentures due January 15, 2027. |
| Trust V      | \$150 million             | \$4.64 million           | \$154.64 million aggregate liquidation amount of Floating Rate Junior Subordinated Debentures due February 1, 2027. |

The Junior Subordinated Debentures represent the sole assets of each Trust and payments under the Junior Subordinated Debentures are the sole source of cash flow for each Trust. The financial statement carrying values of junior subordinated debentures associated with preferred capital securities of Trust III, Trust IV and Trust V at June 30, 2006 and December 31, 2005 include the unamortized portions of purchase accounting adjustments to reflect estimated fair value as of the date of M&T's acquisition of the common securities of each respective trust. The interest rates payable on the Junior Subordinated Debentures of Trust IV and Trust V were 6.08% and 6.00%, respectively, at June 30, 2006 and 5.15% and 5.10%, respectively, at December 31, 2005.

Holders of the Capital Securities receive preferential cumulative cash distributions on each distribution date at the stated distribution rate unless M&T exercises its right to extend the payment of interest on the Junior Subordinated Debentures for up to ten semi-annual periods (in the case of Trust I, Trust II and Trust III) or twenty quarterly periods (in the case of Trust IV and Trust V), 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. 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 of the Junior Subordinated Debentures or the earlier redemption of the Junior Subordinated Debentures in whole upon the occurrence of one or more events ( Events ) set forth in the indentures relating to the Capital Securities, and in whole or in part at any time after the stated optional redemption dates (January 15, 2007 in the case of Trust IV, February 1, 2007 in the case of Trust I, Trust III and Trust V, and June 1, 2007 in the case of Trust II) contemporaneously with the optional redemption of the related Junior Subordinated Debentures in whole or in part. The Junior Subordinated Debentures are redeemable prior to their stated maturity dates at M&T's option (i) on or after the stated optional redemption dates, in whole at any time or in part from time to time, or (ii) in whole, but not in part, at any time within 90 days following the occurrence and during the continuation of one or more of the Events, in each case subject to possible regulatory

approval. The redemption price of the Capital Securities and the related

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**4. Borrowings, continued**

Junior Subordinated Debentures upon early redemption will be expressed as a percentage of the liquidation amount plus accumulated but unpaid distributions. In the case of Trust I, such percentage adjusts annually and ranges from 104.117% at February 1, 2007 to 100.412% for the annual period ending January 31, 2017, after which the percentage is 100%, subject to a make-whole amount if the early redemption occurs prior to February 1, 2007. In the case of Trust II, such percentage adjusts annually and ranges from 104.139% at June 1, 2007 to 100.414% for the annual period ending May 31, 2017, after which the percentage is 100%, subject to a make-whole amount if the early redemption occurs prior to June 1, 2007. In the case of Trust III, such percentage adjusts annually and ranges from 104.625% at February 1, 2007 to 100.463% for the annual period ending January 31, 2017, after which the percentage is 100%, subject to a make-whole amount if the early redemption occurs prior to February 1, 2007. In the case of Trust IV and Trust V, the redemption price upon early redemption will be equal to 100% of the principal amount to be redeemed plus any accrued but unpaid distributions to the redemption date.

In 1999, Allfirst Preferred Capital Trust ( Allfirst Capital Trust ) issued \$100 million of Floating Rate Non-Cumulative Subordinated Trust Enhanced Securities ( SKATES ). Allfirst Capital Trust is a Delaware business trust that was formed in June 1999 for the exclusive purposes of (i) issuing the SKATES and common securities, (ii) purchasing Asset Preferred Securities issued by Allfirst Preferred Asset Trust ( Allfirst Asset Trust ) and (iii) engaging in only those other activities necessary or incidental thereto. M&T holds 100% of the common securities of Allfirst Capital Trust. Allfirst Asset Trust is a Delaware business trust that was formed in June 1999 for the exclusive purposes of (i) issuing Asset Preferred Securities and common securities, (ii) investing the gross proceeds of the Asset Preferred Securities in junior subordinated debentures assumed by M&T in an acquisition and other permitted investments and (iii) engaging in only those other activities necessary or incidental thereto. M&T holds 100% of the common securities of Allfirst Asset Trust and Allfirst Capital Trust holds 100% of the Asset Preferred Securities of Allfirst Asset Trust. M&T currently has outstanding \$105.3 million aggregate liquidation amount Floating Rate Junior Subordinated Debentures due July 15, 2029 that are payable to Allfirst Asset Trust. The interest rates payable on such debentures were 6.51% at June 30, 2006 and 5.58% at December 31, 2005.

Distributions on the SKATES are non-cumulative. The distribution rate on the SKATES and on the Floating Rate Junior Subordinated Debentures is a rate per annum of three-month LIBOR plus 1.50% and three-month LIBOR plus 1.43%, respectively, reset quarterly two business days prior to the distribution dates of January 15, April 15, July 15, and October 15 in each year. Distributions on the SKATES will be paid if, as and when Allfirst Capital Trust has funds available for payment. The SKATES are subject to mandatory redemption if the Asset Preferred Securities of Allfirst Asset Trust are redeemed. Allfirst Asset Trust will redeem the Asset Preferred Securities if the junior subordinated debentures of M&T held by Allfirst Asset Trust are redeemed. M&T may redeem such junior subordinated debentures, in whole or in part, at any time on or after July 15, 2009, subject to regulatory approval. Allfirst Asset Trust will redeem the Asset Preferred Securities at par plus accrued and unpaid distributions from the last distribution payment date. M&T has guaranteed, on a subordinated basis, the payment in full of all distributions and other payments on the SKATES and on the Asset Preferred Securities to the extent that Allfirst Capital Trust and Allfirst Asset Trust, respectively, have funds legally available. Under the Federal Reserve Board's current risk-based capital guidelines, the SKATES are includable in M&T's Tier 1 Capital.

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**4. Borrowings, continued**

Including the unamortized portions of purchase accounting adjustments to reflect estimated fair value at the acquisition dates of the common securities of Trust III, Trust IV, Trust V and Allfirst Asset Trust, the junior subordinated debentures associated with preferred capital securities had financial statement carrying values as follows:

|                      | <b>June<br/>30,<br/>2006</b> | <b>December<br/>31,<br/>2005</b> |
|----------------------|------------------------------|----------------------------------|
|                      | <b>(in thousands)</b>        |                                  |
| Trust I              | \$ 154,640                   | 154,640                          |
| Trust II             | 103,093                      | 103,093                          |
| Trust III            | 68,547                       | 68,709                           |
| Trust IV             | 143,377                      | 143,102                          |
| Trust V              | 140,991                      | 140,660                          |
| Allfirst Asset Trust | 101,717                      | 101,640                          |
|                      | <b>\$712,365</b>             | <b>711,844</b>                   |

**5. Segment information**

Reportable segments have been determined based upon the Company's internal profitability reporting system, which is organized by strategic business units. 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 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 21 to the Company's consolidated financial statements as of and for the year ended December 31, 2005. 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 generally accepted accounting principles. 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 21 to the Company's 2005 consolidated financial statements, goodwill and core deposit and other intangible assets (and the amortization charges associated with such assets) resulting from acquisitions of financial institutions have not been allocated to the Company's reportable segments, but are included in the All Other category. The Company has, however,

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**5. Segment information, continued**

assigned such intangible assets to business units for purposes of testing for impairment. Information about the Company's segments is presented in the following table:

|                              | <b>Three months ended June 30</b> |  |                                  |                              |  |                                     |
|------------------------------|-----------------------------------|--|----------------------------------|------------------------------|--|-------------------------------------|
|                              | <b>2006</b>                       |  |                                  | <b>2005</b>                  |  |                                     |
|                              | <b>Total<br/>revenues(a)</b>      | <b>Inter-<br/>segment<br/>revenues</b> | <b>Net<br/>income<br/>(loss)</b> | <b>Total<br/>revenues(a)</b> | <b>Inter-<br/>segment<br/>revenues</b> | <b>Net<br/>income<br/>(loss)(a)</b> |
|                              | (in thousands)                    |  |                                  |                              |  |                                     |
| Commercial Banking           | \$ 135,104                        | 142                                    | 57,590                           | 137,761                      | 147                                    | 58,316                              |
| Commercial Real Estate       | 65,032                            | 220                                    | 32,237                           | 67,037                       | 289                                    | 34,853                              |
| Discretionary Portfolio      | 37,395                            | (1,098)                                | 23,730                           | 49,116                       | (345)                                  | 30,169                              |
| Residential Mortgage Banking | 75,125                            | 12,907                                 | 18,626                           | 61,561                       | 13,247                                 | 7,584                               |
| Retail Banking               | 360,194                           | 2,993                                  | 102,494                          | 330,704                      | 4,564                                  | 82,319                              |
| All Other                    | 36,365                            | (15,164)                               | (22,104)                         | 46,685                       | (17,902)                               | (16,407)                            |
| <b>Total</b>                 | <b>\$ 709,215</b>                 |  | <b>212,573</b>                   | <b>692,864</b>               |  | <b>196,834</b>                      |

|                         | <b>Six months ended June 30</b> |  |                                  |                              |  |                                     |
|-------------------------|---------------------------------|--|----------------------------------|------------------------------|--|-------------------------------------|
|                         | <b>2006</b>                     |  |                                  | <b>2005</b>                  |  |                                     |
|                         | <b>Total<br/>revenues(a)</b>    | <b>Inter-<br/>segment<br/>revenues</b> | <b>Net<br/>income<br/>(loss)</b> | <b>Total<br/>revenues(a)</b> | <b>Inter-<br/>segment<br/>revenues</b> | <b>Net<br/>income<br/>(loss)(a)</b> |
|                         | (in thousands)                  |  |                                  |                              |  |                                     |
| Commercial Banking      | \$ 269,425                      | 290                                    | 113,684                          | 265,174                      | 320                                    | 110,030                             |
| Commercial Real Estate  | 133,521                         | 452                                    | 66,104                           | 132,565                      | 492                                    | 67,616                              |
| Discretionary Portfolio | 74,750                          | (168)                                  | 46,025                           | 96,376                       | (190)                                  | 59,809                              |

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|                  |                   |                   |                   |                   |                   |                   |
|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Residential      |                   |                   |                   |                   |                   |                   |
| Mortgage Banking | 144,214           | 28,073            | 34,017            | 119,176           | 22,240            | 18,477            |
| Retail Banking   | 706,093           | 5,846             | 195,048           | 644,686           | 9,065             | 157,616           |
| All Other        | 81,169            | (34,493)          | (39,388)          | 111,200           | (31,927)          | (27,424)          |
|                  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Total            | \$1,409,172       |                   | 415,490           | 1,369,177         |                   | 386,124           |
|                  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**5. Segment information, continued**

- (a) Total revenues are comprised of net interest income and other income. Net interest income is the difference between taxable-equivalent interest earned on assets and interest paid on liabilities owed by a segment and a funding charge (credit) based on the Company's internal funds transfer methodology. Segments are charged a cost to fund any assets (e.g. loans) and are paid a funding credit for any funds provided (e.g. deposits). The taxable-equivalent adjustment aggregated \$4,641,000 and \$4,263,000 for the three-month periods ended June 30, 2006 and 2005 respectively, and \$9,372,000 and \$8,383,000 for the six-month periods ended June 30, 2006 and 2005, respectively, and is eliminated in All Other total revenues. Intersegment revenues are included in total revenues of the reportable segments. The elimination of intersegment revenues is included in the determination of All Other total revenues.

|                              | <b>Average total assets</b> |               |                 |
|------------------------------|-----------------------------|---------------|-----------------|
|                              | <b>Six months ended</b>     |               | <b>Year</b>     |
|                              | <b>June 30</b>              |               | <b>ended</b>    |
|                              | <b>2006</b>                 | <b>2005</b>   | <b>December</b> |
|                              |                             |               | <b>31</b>       |
|                              | <b>2006</b>                 | <b>2005</b>   | <b>2005</b>     |
|                              | <b>(in millions)</b>        |               |                 |
| Commercial Banking           | \$12,406                    | 11,589        | 11,723          |
| Commercial Real Estate       | 8,379                       | 8,447         | 8,335           |
| Discretionary Portfolio      | 12,226                      | 11,750        | 11,810          |
| Residential Mortgage Banking | 3,315                       | 2,156         | 2,712           |
| Retail Banking               | 14,076                      | 14,747        | 14,639          |
| All Other                    | 4,901                       | 4,933         | 4,916           |
|                              | <b>55,303</b>               | <b>53,622</b> | <b>54,135</b>   |
| Total                        | \$55,303                    | 53,622        | 54,135          |



**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**6. 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.

|  | <b>June 30,<br/>2006</b> | <b>December 31,<br/>2005</b> |
|--|--------------------------|------------------------------|
|  | <b>(in thousands)</b>    |                              |
| Commitments to extend credit                       |                          |                              |
| Home equity lines of credit                        | \$5,352,242              | 4,903,834                    |
| Commercial real estate loans to be sold            | 31,225                   | 41,662                       |
| Other commercial real estate and construction      | 2,499,378                | 2,249,805                    |
| Residential real estate loans to be sold           | 647,501                  | 351,898                      |
| Other residential real estate                      | 890,983                  | 848,015                      |
| Commercial and other                               | 6,862,862                | 6,843,170                    |
| Standby letters of credit                          | 3,621,256                | 3,523,234                    |
| Commercial letters of credit                       | 60,520                   | 47,360                       |
| Financial guarantees and indemnification contracts | 1,112,329                | 1,186,385                    |
| Commitments to sell real estate loans              | 1,741,850                | 1,164,360                    |

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 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.

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 Federal National Mortgage Association Delegated Underwriting and Servicing program. Under this program, the Company's maximum credit risk associated with loans sold with recourse totaled \$986 million and \$941 million at June 30, 2006 and December 31, 2005, 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.

**Table of Contents**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**6. Commitments and contingencies, continued**

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 in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, and along with commitments to originate real estate loans to be held for sale and hedged real estate loans held for sale are now generally recorded in the consolidated balance sheet at estimated fair market value. However, in accordance with Staff Accounting Bulletin ( SAB ) No. 105, Application of Accounting Principles to Loan Commitments, issued by the United States Securities and Exchange Commission, effective April 1, 2004, value ascribable to cash flows that will be realized in connection with loan servicing activities has not been included in the determination of fair value of loans held for sale or commitments to originate loans for sale. Value ascribable to that portion of cash flows is now recognized at the time the underlying mortgage loans are sold.

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 for a fifteen year term. Under the agreement, the Company paid \$3 million in both 2003 and 2004, \$5 million in 2005, and is obligated to pay \$5 million per year from 2006 through 2013 and \$6 million per year from 2014 through 2017.

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

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 against M&T or its subsidiaries will be material to the Company's consolidated financial position, but at the present time is not in a position to determine whether such litigation will have a material adverse effect on the Company's consolidated results of operations in any future reporting period.

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**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 benefit cost consisted of the following:

|   | <b>Pension<br/>benefits</b>       |                       | <b>Postretirement<br/>benefits</b> |                   |
|---|-----------------------------------|-----------------------|------------------------------------|-------------------|
|   | <b>Three months ended June 30</b> |                       |                                    |                   |
|   | <b>2006</b>                       | <b>2005</b>           | <b>2006</b>                        | <b>2005</b>       |
|   |                                   | <b>(in thousands)</b> |                                    |                   |
| Service cost                                  | \$ 5,575                          | 8,000                 | 150                                | 250               |
| Interest cost on projected benefit obligation | 9,175                             | 9,925                 | 850                                | 1,350             |
| Expected return on plan assets                | (9,625)                           | (9,575)               |                                    |                   |
| Amortization of prior service cost            | (1,775)                           |                       | 50                                 |                   |
| Amortization of net actuarial loss            | 2,250                             | 1,200                 | 25                                 | 300               |
|   | <u>          </u>                 | <u>          </u>     | <u>          </u>                  | <u>          </u> |
| Net periodic benefit cost                     | <u>\$ 5,600</u>                   | <u>9,550</u>          | <u>1,075</u>                       | <u>1,900</u>      |

|   | <b>Pension<br/>benefits</b>     |                       | <b>Postretirement<br/>benefits</b> |                   |
|---|---------------------------------|-----------------------|------------------------------------|-------------------|
|   | <b>Six months ended June 30</b> |                       |                                    |                   |
|   | <b>2006</b>                     | <b>2005</b>           | <b>2006</b>                        | <b>2005</b>       |
|   |                                 | <b>(in thousands)</b> |                                    |                   |
| Service cost                                  | \$ 11,150                       | 16,000                | 300                                | 500               |
| Interest cost on projected benefit obligation | 18,350                          | 19,850                | 1,700                              | 2,700             |
| Expected return on plan assets                | (19,250)                        | (19,150)              |                                    |                   |
| Amortization of prior service cost            | (3,550)                         |                       | 100                                |                   |
| Amortization of net actuarial loss            | 4,500                           | 2,400                 | 50                                 | 600               |
|   | <u>          </u>               | <u>          </u>     | <u>          </u>                  | <u>          </u> |
| Net periodic benefit cost                     | <u>\$ 11,200</u>                | <u>19,100</u>         | <u>2,150</u>                       | <u>3,800</u>      |

Expense incurred in connection with the Company's defined contribution pension and retirement savings plans totaled \$6,406,000 and \$4,121,000 for the three months ended June 30, 2006 and 2005, respectively, and \$14,237,000 and \$8,142,000 for the six months ended June 30, 2006 and 2005, respectively.

#### **8. Stock-based compensation plans**

Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), Share Based Payment, ( SFAS No. 123R ), an amendment of SFAS No. 123, Accounting for Stock-Based Compensation, as amended. Prior to that date, the Company recognized expense for stock-based compensation using the fair value method of accounting described in SFAS No. 123. Under SFAS No. 123R and SFAS No. 123, stock-based compensation expense is recognized over the vesting period of the stock-based grant based on the estimated grant date value of the stock-based compensation that is expected to vest. For each of the quarters ended June 30, 2006 and 2005, the Company recognized \$11 million of stock-based compensation expense and \$3 million of related income tax benefits. For the six months ended June 30, 2006 and 2005, the Company recognized \$29 million and \$23 million, respectively, of stock-based compensation expense and \$7 million and \$6 million, respectively, of related income tax benefits. As required, coincident with the adoption of SFAS No. 123R, the Company began accelerating the recognition of compensation costs for stock-based awards granted to retirement-eligible employees and employees who become retirement-eligible prior to full vesting of the award because the Company's incentive compensation plans allow for vesting at the time an employee retires. Stock-based compensation granted to retirement-eligible individuals through December 31, 2005 was expensed over the normal vesting period with any remaining unrecognized compensation cost recognized at the time

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**8. Stock-based compensation plans, continued**

of retirement. This change affected the timing of stock-based compensation expense recognition in the Company's consolidated financial statements for the first and second quarters of 2006, as most of the Company's stock-based awards are granted in January, but did not affect the value ascribed to stock-based compensation granted to employees nor the aggregate amount of stock-based compensation expense to be recognized by the Company. The acceleration of such expense increased stock-based compensation expense for the six-months ended June 30, 2006 by \$5 million (\$4 million after taxes), and reduced basic and diluted earnings per share by \$.04 from what would otherwise have been recognized in that period had the expense recognition not been accelerated. If not for this required change, the additional \$5 million of stock-based compensation expense recognized in the six-month period ended June 30, 2006 would have been recognized throughout the remainder of 2006, 2007, 2008 and 2009 following the normal vesting schedule for stock options granted by the Company. The effect of the acceleration of such expense on the results of operations and basic and diluted earnings per share for the second quarter of 2006 was insignificant. The following is selected information pertaining to the Company's stock option activity as of and for the six-month periods ended June 30, 2006 and 2005. Additional information concerning the Company's stock-based compensation plans can be found in its Annual Report on Form 10-K for the year ended December 31, 2005.

The Company used an option pricing model to estimate the grant date present value of stock options granted. The weighted-average estimated grant date value per option was \$28.10 and \$22.96 during the six-month periods ended June 30, 2006 and 2005, respectively. The values were calculated using the following weighted-average assumptions; an option term of 6.5 years (representing the estimated period between grant date and exercise date based on historical data); a risk-free interest rate of 4.28% in 2006 and 3.95% in 2005 (representing the yield on a U.S. Treasury security with a remaining term equal to the expected option term); expected volatility of 24% in 2006 and 21% in 2005; and estimated dividend yields of 1.65% in 2006 and 1.57% in 2005 (representing the approximate annualized cash dividend rate paid with respect to a share of common stock at or near the grant date). Based on historical data and projected employee turnover rates, the Company reduced the estimated value of stock options for purposes of recognizing stock-based compensation expense by 7% in 2006 and 8% in 2005 to reflect the probability of forfeiture prior to vesting.

A summary of stock option activity follows:

|                                   | <b>Stock<br/>options</b> | <b>Weighted-<br/>average<br/>exercise</b> | <b>Weighted-<br/>average<br/>remaining<br/>life<br/>(in<br/>years)</b> | <b>Aggregate<br/>intrinsic<br/>value<br/>(in<br/>thousands)</b> |
|-----------------------------------|--------------------------|---|--|---|
|                                   | <b>outstanding</b>       | <b>price</b>                              |  |   |
| Outstanding at January 1,<br>2006 | 10,454,663               | \$ 73.81                                  |  |   |
| Granted                           | 1,720,500                | 108.98                                    |  |   |
| Exercised                         | (808,015)                | 55.09                                     |  |   |
| Cancelled                         | (67,398)                 | 98.82                                     |  |   |
|                                   | <hr/>                    | <hr/>                                     |  |   |
| Outstanding at June 30, 2006      | 11,299,750               | \$ 80.35                                  | 6.3  | \$424,495   |

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|                              |                   |                   |               |                   |
|------------------------------|-------------------|-------------------|---------------|-------------------|
|                              | <u>          </u> | <u>          </u> | <u>      </u> | <u>          </u> |
| Exercisable at June 30, 2006 | 6,267,132         | \$ 65.21          | 4.6           | \$330,338         |
|                              | <u>          </u> | <u>          </u> | <u>      </u> | <u>          </u> |

- 18 -

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**Table of Contents**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**8. Stock-based compensation plans, continued**

For the six months ended June 30, 2006 and 2005, M&T received \$43 million and \$62 million, respectively, in cash and realized \$14 million and \$23 million, respectively, in tax benefits from the exercise of stock options. The intrinsic value of stock options exercised during those periods was \$47 million and \$66 million, respectively. As of June 30, 2006, there was \$63 million of total unrecognized compensation cost related to non-vested stock options. That cost is expected to be recognized over a weighted-average period of 2.7 years. Reflecting the fact that the Company grants most of its stock option awards in January and such options vest on annual anniversary dates, the total grant date fair value of shares vested during the six months ended June 30, 2006 and 2005 was \$37 million and \$40 million, respectively. The Company recognized stock-based compensation expense for these awards throughout their respective vesting period. Upon the exercise of stock options, the Company generally issues shares from treasury stock to the extent available, but may also issue new shares.

**9. Acquisition of branch offices**

On June 30, 2006, M&T Bank, M&T's principal banking subsidiary, acquired 21 branch offices in Buffalo and Rochester, New York from Citibank, N.A. in a cash transaction. The branches had approximately \$269 million in loans, mostly to consumers, small businesses and middle market customers, and approximately \$1.0 billion of deposits. Although the transaction had no effect on day-to-day operating results during the second quarter of 2006, expenses associated with systems conversions and other costs of integrating and introducing Citibank, N.A.'s former customers to M&T Bank's products and services aggregated \$4 million (\$2 million net of applicable income taxes) in that quarter.



**Table of Contents**

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Overview**

Net income for M&T Bank Corporation ( M&T ) in the second quarter of 2006 totaled \$213 million or \$1.87 of diluted earnings per common share, up 8% and 11%, respectively, from \$197 million or \$1.69 of diluted earnings per common share in the year-earlier quarter. During 2006's first quarter, net income was \$203 million or \$1.77 of diluted earnings per common share. Basic earnings per common share were \$1.91 in the recent quarter, compared with \$1.73 in the corresponding 2005 quarter and \$1.82 in the initial 2006 quarter.

For the six-month period ended June 30, 2006, net income totaled \$415 million or \$3.64 per diluted share, up 8% and 10%, respectively, from \$386 million or \$3.31 per diluted share in the similar 2005 period. Basic earnings per share for the first six months of 2006 and 2005 were \$3.73 and \$3.38, respectively.

The annualized rate of return on average total assets for M&T and its consolidated subsidiaries ( the Company ) in the second quarter of 2006 was 1.54%, compared with 1.46% in the year-earlier quarter and 1.49% in the first quarter of 2006. The annualized rate of return on average common stockholders' equity was 14.35% in the recently completed quarter, improved from 13.73% in the corresponding 2005 quarter and 13.97% in the initial quarter of 2006. During the first half of 2006, the annualized rates of return on average assets and average common stockholders' equity were 1.52% and 14.16%, respectively, compared with 1.45% and 13.57%, respectively, in the first six months of 2005.

On June 30, 2006, M&T Bank, M&T's principal banking subsidiary, completed the acquisition of 21 branch offices in Buffalo and Rochester, New York from Citibank, N.A., including approximately \$269 million in loans, mostly to consumers, small businesses and middle market customers, and approximately \$1.0 billion of deposits. Although the transaction had no effect on day-to-day operating results during the recent quarter, expenses associated with integrating and introducing Citibank N.A.'s former customers to M&T's products and services aggregated \$2 million, after applicable tax effect, or \$.02 of diluted earnings per share during the three and six-month periods ended June 30, 2006. M&T expects to incur additional acquisition-related expenses in the third quarter of 2006.

**Supplemental Reporting of Non-GAAP Results of Operations**

As a result of accounting for business combinations using the purchase method of accounting, the Company had recorded intangible assets consisting of goodwill and core deposit and other intangible assets totaling \$3.2 billion at June 30, 2006 and \$3.0 billion at each of June 30 and December 31, 2005. Included in such intangible assets at June 30, 2006, June 30, 2005 and December 31, 2005 was goodwill of \$2.9 billion. Amortization of core deposit and other intangible assets, after tax effect, was \$7 million (\$.06 per diluted share) during the second quarter of 2006, compared with \$9 million (\$.07 per diluted share) in the similar 2005 quarter and \$8 million (\$.07 per diluted share) in the first quarter of 2006. For the six-month periods ended June 30, 2006 and 2005, amortization of core deposit and other intangible assets, after tax effect, totaled \$15 million (\$.13 per diluted share) and \$18 million (\$.15 per diluted share), respectively.

Since 1998, M&T has consistently provided supplemental reporting of its results on a net operating or tangible basis, from which M&T excludes the after-tax effect of amortization of core deposit and other intangible assets

**Table of Contents**

(and the related goodwill, core deposit intangible and other intangible asset balances, net of applicable deferred tax amounts) and expenses associated with merging acquired operations into the Company, since such expenses are considered by management to be nonoperating in nature. Although net operating income as defined by M&T is not a GAAP measure, M&T's management believes that this information helps investors understand the effect of acquisition activity in reported results.

Net operating income rose 8% to \$222 million in the recent quarter from \$205 million in the second quarter of 2005. Diluted net operating earnings per share for 2006's second quarter were \$1.95, up 11% from \$1.76 in the corresponding 2005 period. Net operating income and diluted net operating earnings per share were \$211 million and \$1.84, respectively, in the initial 2006 quarter. For the first six months of 2006, net operating income and diluted net operating earnings per share were \$433 million and \$3.79, respectively, compared with \$405 million and \$3.46 in the similar 2005 period.

Net operating income expressed as an annualized return on average tangible assets was 1.69% in 2006's second quarter, compared with 1.62% in the similar 2005 quarter and 1.64% in the first quarter of 2006. Net operating income expressed as an annualized return on average tangible common equity was 30.02% in the recent quarter, compared with 29.88% in the year-earlier quarter and 29.31% in the initial quarter of 2006. For the first half of 2006, net operating income represented an annualized return on average tangible assets and average tangible common stockholders' equity of 1.67% and 29.67%, respectively, compared with 1.61% and 29.77%, respectively, in the six-month period ended June 30, 2005.

Reconciliations of GAAP amounts with corresponding non-GAAP amounts are provided in table 2.

**Taxable-equivalent Net Interest Income**

Taxable-equivalent net interest income was \$451 million in the recently completed quarter, compared with \$452 million in each of the second quarter of 2005 and the first quarter of 2006. Net interest margin, or taxable-equivalent net interest income expressed as an annualized percentage of average earning assets, declined to 3.66% in 2006's second quarter from 3.78% in the year-earlier period and 3.73% in the first quarter of 2006. The impact of a lower net interest margin in the recent quarter as compared with the year-earlier and immediately preceding quarters was largely offset by higher average loans and leases outstanding, which increased \$1.8 billion, or 4%, to \$41.0 billion from \$39.2 billion in the second quarter of 2005 and were up \$435 million, or 1%, from \$40.5 billion in the initial quarter of 2006.

For the first half of 2006, taxable-equivalent net interest income was \$903 million, up 1% from \$898 million in the similar 2005 period. A 5% or \$1.9 billion increase in average loans and leases was the leading factor contributing to that improvement. Largely offsetting the impact of growth in loans was a decline in the Company's net interest margin, which decreased 11 basis points (hundredths of one percent) to 3.70% during the first six months of 2006 from 3.81% in the first half of 2005.

Higher average outstanding balances of commercial loans, commercial real estate loans and residential real estate loans were largely responsible for the recent quarter's growth in average loans outstanding as compared with both the second quarter of 2005 and the first quarter of 2006. In 2006's second quarter, commercial loans and commercial real estate loans averaged \$11.3 billion and \$14.9 billion, respectively, up 8% and 4%, respectively, from \$10.5 billion and \$14.4 billion in the corresponding 2005 quarter. Average residential real estate loans rose 39% or \$1.4 billion from 2005's second quarter, the result of a \$600 million increase in loans held for sale

**Table of Contents**

and the Company deciding to retain certain residential real estate loan originations rather than selling them. Average outstanding consumer loans declined \$954 million, or 9%, in the second quarter of 2006 as compared with the year-earlier quarter, as average automobile loan and lease balances declined \$874 million, the result of the Company's decision to not extend such credit at unfavorable interest rates. Reflecting similar trends, increases in the commercial loan and commercial real estate loan portfolios totaling \$239 million and \$269 million, respectively, contributed significantly to the growth in average loans outstanding from 2006's first to second quarter. During that same period, average residential real estate loans increased \$259 million, while average consumer loans declined \$332 million. The following table summarizes quarterly changes in the major components of the loan and lease portfolio.

**AVERAGE LOANS AND LEASES**

(net of unearned discount)

Dollars in millions

|                             | <b>2nd Qtr.<br/>2006</b> | <b>Percent increase<br/>(decrease) from</b> |                              |
|-----------------------------|--------------------------|---|------------------------------|
|                             |                          | <b>2nd<br/>Qtr.<br/>2005</b>                | <b>1st<br/>Qtr.<br/>2006</b> |
| Commercial, financial, etc. | \$ 11,274                | 8%  | 2%                           |
| Real estate commercial      | 14,947                   | 4   | 2                            |
| Real estate consumer        | 4,860                    | 39  | 6                            |
| Consumer                    |                          |   |                              |
| Automobile                  | 2,928                    | (23)  | (7)                          |
| Home equity lines           | 4,139                    | 4   | 1                            |
| Home equity loans           | 1,202                    | (7)   |                              |
| Other                       | 1,630                    | (9)   | (7)                          |
|                             | <hr/>                    | <hr/>                                       | <hr/>                        |
| Total consumer              | 9,899                    | (9)   | (3)                          |
|                             | <hr/>                    | <hr/>                                       | <hr/>                        |
| Total                       | \$40,980                 | 4%  | 1%                           |
|                             | <hr/>                    | <hr/>                                       | <hr/>                        |

For the first half of 2006, average loans and leases aggregated \$40.8 billion, 5% above \$38.9 billion in the first six months of 2005. Consistent with the loan portfolio changes discussed above, growth in commercial loans, commercial real estate loans and residential real estate loans was partially offset by lower average consumer loan balances.

Investment securities averaged \$8.3 billion in the recent quarter, compared with \$8.6 billion in the second quarter of 2005 and \$8.4 billion in the first quarter of 2006. The investment securities portfolio is largely comprised of residential and commercial mortgage-backed securities and collateralized mortgage obligations, debt securities issued by municipalities, debt and preferred equity securities issued by government-sponsored agencies and certain financial institutions, and shorter-term U.S. Treasury notes. When purchasing investment securities, the Company considers its overall interest-rate risk profile as well as the adequacy of expected returns relative to the risks assumed, including

prepayments. In managing the investment securities portfolio, the Company occasionally sells investment securities as a result of changes in interest rates and spreads, actual or anticipated prepayments, credit risk associated with a particular security, or as a result of restructuring its investment securities portfolio following completion of a business combination. The Company regularly reviews its investment securities for declines in value below amortized cost that might be other than temporary. As of June 30, 2006 and December 31, 2005, the Company concluded that such declines were temporary in nature.

Other earning assets include deposits at banks, trading account assets, federal funds sold and agreements to resell securities. The amount of investment securities and other earning assets held by the Company are influenced by such factors as demand for loans, which generally yield more than investment securities and other earning assets, ongoing repayments, the levels of deposits, and management of balance sheet size and resulting capital ratios.

**Table of Contents**

The changes described herein resulted in a rise in average earning assets of \$1.5 billion, or 3%, to \$49.4 billion in the second quarter of 2006 from \$47.9 billion in the corresponding quarter in 2005. Average earning assets were \$49.1 billion in the initial quarter of 2006 and aggregated \$49.3 billion and \$47.6 billion for the six-month periods ended June 30, 2006 and 2005, respectively.

Core deposits represent the most significant source of funding for the Company and are comprised of noninterest-bearing deposits, interest-bearing transaction accounts, nonbrokered savings deposits and nonbrokered domestic time deposits under \$100,000. The Company's branch network is the principal source of core deposits, which generally carry lower interest rates than wholesale funds of comparable maturities. Also included in core deposits are certificates of deposit under \$100,000 generated on a nationwide basis by M&T Bank, National Association ( M&T Bank, N.A. ), a wholly owned banking subsidiary of M&T. Average core deposits totaled \$28.0 billion in the recent quarter, compared with \$28.2 billion in the second quarter of 2005 and \$27.8 billion in 2006's initial quarter. The increase in average balances of time deposits less than \$100,000 in the current quarter as compared with the prior periods was due, in part, to customer response to higher interest rates being offered on those products as market interest rates have risen. In contrast, average savings deposits have declined, as depositors seek higher interest rates on their deposits and shift deposit balances into time accounts. Although the branch acquisition completed on June 30, 2006 added \$921 million of core deposits, that transaction had no impact on average core deposits for the recent quarter. The following table provides an analysis of quarterly changes in the components of average core deposits. For each of the six-month periods ended June 30, 2006 and 2005, core deposits averaged \$27.9 billion.

**AVERAGE CORE DEPOSITS**

Dollars in millions

|                                   | <b>2nd Qtr.<br/>2006</b> | <b>Percent increase<br/>(decrease) from</b> |                              |
|-----------------------------------|--------------------------|---|------------------------------|
|                                   |                          | <b>2nd<br/>Qtr.<br/>2005</b>                | <b>1st<br/>Qtr.<br/>2006</b> |
| NOW accounts                      | \$ 438                   | 9%  | 7%                           |
| Savings deposits                  | 14,189                   | (6)   | (1)                          |
| Time deposits less than \$100,000 | 5,937                    | 33  | 7                            |
| Noninterest-bearing deposits      | 7,446                    | (9)   | (2)                          |
|                                   | <hr/>                    | <hr/>                                       | <hr/>                        |
| Total                             | \$28,010                 | (1)%  | 1%                           |
|                                   | <hr/>                    | <hr/>                                       | <hr/>                        |

Additional funding sources for the Company include domestic time deposits of \$100,000 or more, deposits originated through the Company's offshore branch office, and brokered deposits. Domestic time deposits over \$100,000, excluding brokered certificates of deposit, averaged \$2.9 billion in the second quarter of 2006, compared with \$1.7 billion and \$2.6 billion in the year-earlier quarter and in the first quarter of 2006, respectively. Offshore branch deposits, primarily comprised of accounts with balances of \$100,000 or more, averaged \$3.6 billion in the recent quarter, \$3.9 billion in the second quarter of 2005, and \$3.4 billion in 2006's first quarter. Average brokered time deposits were \$3.8 billion in the second quarter of 2006, compared with \$2.5 billion in the year-earlier quarter

and \$3.7 billion in 2006's first quarter. At June 30, 2006, brokered time deposits totaled \$3.5 billion and the weighted-average remaining term to maturity of such deposits was 11 months. Certain of these brokered time deposits have provisions that allow for early redemption. In connection with the Company's management of interest rate risk, interest rate swap agreements have been entered into under which the Company receives a fixed rate of interest and pays a variable rate and that have notional amounts and terms substantially similar to the amounts and terms of \$650 million of brokered time deposits. The Company also had brokered money-market deposit accounts which averaged \$65 million during the second quarter of 2006, compared with \$61 million and \$66 million during the corresponding quarter of 2005 and the first quarter of 2006, respectively. Offshore branch deposits and brokered deposits have been

**Table of Contents**

used by the Company as alternatives to short-term borrowings. Additional amounts of offshore branch deposits or brokered deposits may be solicited in the future depending on market conditions, including demand by customers and other investors for those deposits, and the cost of funds available from alternative sources at the time.

The Company also uses borrowings from banks, securities dealers, the Federal Home Loan Banks of New York, Pittsburgh and Atlanta (together, the FHLB), and others as sources of funding. Short-term borrowings averaged \$4.3 billion in the recent quarter, compared with \$5.0 billion in the second quarter of 2005 and \$4.6 billion in the initial quarter of 2006. Unsecured federal funds borrowings, which generally mature daily, included in short-term borrowings averaged \$3.4 billion, \$4.0 billion and \$3.8 billion in the second quarters of 2006 and 2005, and the first quarter of 2006, respectively. Overnight federal funds borrowings represent the largest component of short-term borrowings and are obtained daily from a wide variety of banks and other financial institutions. Also included in short-term borrowings is a \$500 million revolving asset-backed structured borrowing secured by automobile loans that were transferred to M&T Auto Receivables I, LLC, a special purpose subsidiary of M&T Bank. The subsidiary, the loans and the borrowings are included in the consolidated financial statements of the Company.

Long-term borrowings averaged \$5.9 billion in the recent quarter, compared with \$6.3 billion in both the second quarter of 2005 and the first quarter of 2006. Included in average long-term borrowings were amounts borrowed from the FHLB of \$3.9 billion in the second quarter of 2006, compared with \$3.6 billion and \$4.1 billion in the year-earlier quarter and the first quarter of 2006, respectively, and subordinated capital notes of \$1.2 billion in the two most recent quarters and \$1.3 billion in the second quarter of 2005. Junior subordinated debentures associated with trust preferred securities that were included in average long-term borrowings were \$712 million in each of the first two quarters of 2006, and \$711 million in the second quarter of 2005. Information regarding trust preferred securities and the related junior subordinated debentures is provided in note 4 of Notes to Financial Statements.

In addition to changes in the composition of the Company's earning assets and interest-bearing liabilities as discussed herein, changes in interest rates and spreads can impact net interest income. Net interest spread, or the difference between the taxable-equivalent yield on earning assets and the rate paid on interest-bearing liabilities, was 3.07% in the recent quarter, down from 3.36% in the second quarter of 2005. The yield on earning assets during the recently completed quarter was 6.63%, up 93 basis points from 5.70% in the year-earlier quarter, while the rate paid on interest-bearing liabilities increased 122 basis points to 3.56% from 2.34% in the second quarter of 2005. In the first quarter of 2006, the net interest spread was 3.18%, the yield on earning assets was 6.46% and the rate paid on interest-bearing liabilities was 3.28%. For the first six months of 2006, the net interest spread was 3.13%, a decrease of 28 basis points from the corresponding 2005 period. The yield on earning assets and the rate paid on interest-bearing liabilities were 6.55% and 3.42%, respectively, in the first six months of 2006, compared with 5.61% and 2.20%, respectively, in the similar period of 2005. During the period from January 1, 2005 through June 30, 2006, the Federal Reserve raised its benchmark overnight federal funds target rate twelve times, including eight increases since June 30, 2005, each increase representing a 25 basis point increment over the previously effective target rate. Those interest rate increases resulted in a more rapid rise in rates paid on interest-bearing liabilities, most notably short-term borrowings, than in the yields on earning assets. The result of these conditions was a contraction of the net interest spread from the first quarter of 2005 through the second quarter of 2006.

**Table of Contents**

Net interest-free funds consist largely of noninterest-bearing demand deposits and stockholders' equity, partially offset by bank owned life insurance and non-earning assets, including goodwill and core deposit and other intangible assets. Net interest-free funds averaged \$8.2 billion in the second quarter of 2006, equal to the immediately preceding quarter, but down from \$8.7 billion in the year-earlier quarter. During the first half of 2006 and 2005, average net interest-free funds aggregated \$8.2 billion and \$8.6 billion, respectively. The decreases in average net interest-free funds in the 2006 periods as compared with the corresponding 2005 periods were due largely to lower noninterest-bearing deposit balances, a result of the higher interest rate environment. Goodwill and core deposit and other intangible assets averaged \$3.0 billion during each of the quarters ended June 30, 2006, June 30, 2005 and March 31, 2006. The cash surrender value of bank owned life insurance averaged \$1.1 billion during 2006's second quarter, compared with \$1.0 billion in each of the second quarter of 2005 and the first quarter of 2006. Increases in the cash surrender value of bank owned life insurance are not included in interest income, but rather are recorded in other revenues from operations.

The contribution of net interest-free funds to the Company's net interest margin was .59% in the second quarter of 2006, compared with .42% in the year-earlier quarter and .55% in the first quarter of 2006. The contribution of net interest-free funds to net interest margin for the first six months of the year was .57% in 2006 and .40% in 2005. The increase in the contribution to net interest margin ascribed to net interest-free funds in the three and six months ended June 30, 2006 as compared with the prior periods resulted largely from the impact of higher interest rates on interest-bearing liabilities used to value such contribution.

Reflecting the changes to the net interest margin and the contribution of interest-free funds as described herein, the Company's net interest margin was 3.66% in the recent quarter, 12 basis points lower than 3.78% in the corresponding quarter of 2005, and 7 basis points below 3.73% in the first quarter of 2006. During the first six months of 2006 and 2005, the net interest margin was 3.70% and 3.81%, respectively. Future changes in market interest rates or spreads, as well as changes in the composition of the Company's portfolios of earning assets and interest-bearing liabilities that result in reductions in spreads, could adversely impact the Company's net interest income and net interest margin. In general, the Company's net interest margin has been declining since the Federal Reserve began raising interest rates in June 2004. The only exception was an increase in net interest margin from 2005's final quarter to the first quarter of 2006 that was largely due to higher fees associated with customer prepayments of commercial real estate loans and the impact of two less days in the first quarter of 2006. Continued pressure on the Company's net interest margin is expected until the Federal Reserve slows or stops increasing interest rates.

Management assesses the potential impact of future changes in interest rates and spreads by projecting net interest income under several interest rate scenarios. In managing interest rate risk, the Company utilizes interest rate swap agreements to modify the repricing characteristics of certain portions of its portfolios of earning assets and interest-bearing liabilities. Periodic settlement amounts arising from these agreements are generally reflected in either the yields earned on assets or, as appropriate, the rates paid on interest-bearing liabilities. The notional amount of interest rate swap agreements entered into for interest rate risk management purposes was \$787 million at June 30, 2006, \$755 million at June 30, 2005, \$717 million at March 31, 2006 and \$652 million at December 31, 2005. Under the terms of these swap agreements, the Company receives payments based on the outstanding notional amount of the swap agreements at fixed rates and makes payments at variable rates.



**Table of Contents**

As of June 30, 2006, all of the Company's interest rate swap agreements entered into for risk management purposes had been designated as fair value hedges. In a fair value hedge, the fair value of the derivative (the interest rate swap agreement) and changes in the fair value of the hedged item are recorded in the Company's consolidated balance sheet with the corresponding gain or loss recognized in current earnings. The difference between changes in the fair value of the interest rate swap agreements and the hedged items represents hedge ineffectiveness and is recorded in other revenues from operations in the Company's consolidated statement of income. In a cash flow hedge, unlike in a fair value hedge, the effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income and subsequently reclassified into earnings when the forecasted transaction affects earnings. The ineffective portion of the gain or loss is reported in other revenues from operations immediately. The amounts of hedge ineffectiveness recognized during the first two quarters of 2006 and in 2005's second quarter were not material to the Company's results of operations. The estimated aggregate fair value of interest rate swap agreements designated as fair value hedges represented losses of approximately \$16 million and \$4 million at June 30, 2006 and 2005, respectively, and \$9 million at December 31, 2005. The fair values of such swap agreements were substantially offset by changes in the fair values of the hedged items. The changes in the fair values of the interest rate swap agreements and the hedged items result from the effects of changing interest rates.

The weighted-average rates to be received and paid under interest rate swap agreements currently in effect were 5.01% and 5.75%, respectively, at June 30, 2006. The average notional amounts of interest rate swap agreements and the related effect on net interest income and margin, and the weighted-average interest rates paid or received on those swap agreements are presented in the accompanying table.

**INTEREST RATE SWAPS**

Dollars in thousands

|                            | <b>Three months ended June 30</b> |              |               |              |
|----------------------------|-----------------------------------|--------------|---------------|--------------|
|                            | <b>2006</b>                       |              | <b>2005</b>   |              |
|                            | <b>Amount</b>                     | <b>Rate*</b> | <b>Amount</b> | <b>Rate*</b> |
| Increase (decrease) in:    |                                   |              |               |              |
| Interest income            | \$                                | %            | \$            | %            |
| Interest expense           | 913                               | .01          | (1,831)       | (.02)        |
| Net interest income/margin | \$ (913)                          | (.01)%       | \$ 1,831      | .02%         |
| Average notional amount    | \$769,988                         |              | \$754,011     |              |
| Rate received**            |                                   | 5.13%        |               | 6.73%        |
| Rate paid**                |                                   | 5.60%        |               | 5.75%        |

**Six months ended June 30**

|                            | 2006       |       | 2005      |       |
|----------------------------|------------|-------|-----------|-------|
|                            | Amount     | Rate* | Amount    | Rate* |
| Increase (decrease) in:    |            |       |           |       |
| Interest income            | \$         | %     | \$        | %     |
| Interest expense           | 1,069      |       | (4,647)   | (.02) |
| Net interest income/margin | \$ (1,069) | %     | \$ 4,647  | .02%  |
| Average notional amount    | \$730,694  |       | \$743,950 |       |
| Rate received**            |            | 5.12% |           | 6.78% |
| Rate paid**                |            | 5.42% |           | 5.52% |

\* Computed as an annualized percentage of average earning assets or interest-bearing liabilities.

\*\* Weighted-average rate paid or received on interest rate swap agreements in effect during the period.

**Table of Contents**

As a financial intermediary, the Company is exposed to various risks, including liquidity and market risk. Liquidity refers to the Company's ability to ensure that sufficient cash flow and liquid assets are available to satisfy current and future obligations, including demands for loans and deposit withdrawals, funding operating costs, and other corporate purposes. Liquidity risk arises whenever the maturities of financial instruments included in assets and liabilities differ. M&T's banking subsidiaries have access to additional funding sources through FHLB borrowings, lines of credit with the Federal Reserve Bank of New York, and other available borrowing facilities. The Company has, from time to time, issued subordinated capital notes to provide liquidity and enhance regulatory capital ratios. Such notes qualify for inclusion in the Company's total capital as defined by federal regulators. As an additional source of funding, the Company maintains the already discussed \$500 million revolving asset-backed structured borrowing secured by automobile loans that were transferred to M&T Auto Receivables I, LLC. M&T Auto Receivables I, LLC was formed for the purpose of borrowing \$500 million in a revolving, asset-backed structured borrowing with an unaffiliated conduit lender.

The Company has informal and sometimes reciprocal sources of funding available through various arrangements for unsecured short-term borrowings from a wide group of banks and other financial institutions. Short-term federal funds borrowings aggregated \$4.4 billion, \$3.5 billion and \$4.0 billion at June 30, 2006, June 30, 2005 and December 31, 2005, respectively. In general, these borrowings were unsecured and matured on the following business day. As already noted, offshore branch deposits and brokered certificates of deposit have been used by the Company as alternatives to short-term borrowings.

Should the Company experience a substantial deterioration in its financial condition or its debt ratings, or should the availability of short-term funding become restricted due to a disruption in the financial markets, the Company's ability to obtain funding from these or other sources could be negatively impacted. The Company attempts to quantify such credit-event risk by modeling scenarios that estimate the liquidity impact resulting from a short-term ratings downgrade over various grading levels. The Company estimates such impact by attempting to measure the effect on available unsecured lines of credit, available capacity from secured borrowing sources and securitizable assets. In addition to deposits and borrowings, other sources of liquidity include maturities of interest-bearing deposits at banks, federal funds sold, agreements to resell securities and investment securities; repayments of loans and investment securities; and cash generated from operations, such as fees collected for services.

The Company serves in the capacity of remarketing agent for variable rate demand bonds ( VRDBs ) issued by customers of the Company for the purpose of obtaining financing. The VRDBs are generally enhanced by direct-pay letters of credit provided by M&T Bank. M&T Bank oftentimes acts as remarketing agent for the VRDBs and, at its discretion, may from time-to-time own some of the VRDBs while such instruments are remarketed. When this occurs, the VRDBs are classified as trading assets in the Company's consolidated balance sheet. Nevertheless, M&T Bank is not contractually obligated to purchase the VRDBs. The value of VRDBs in the Company's trading account totaled \$49 million and \$52 million at June 30, 2006 and 2005, respectively, and \$58 million at December 31, 2005. The total amount of VRDBs outstanding backed by an M&T Bank letter of credit was \$1.7 billion at June 30, 2006 and 2005, and at December 31, 2005. M&T Bank also serves as remarketing agent for most of those bonds.

The Company enters into contractual obligations in the normal course of business which require future cash payments. Such obligations include, among others, payments related to deposits, borrowings, leases and other contractual commitments. The Company also enters into various other off-

**Table of Contents**

balance sheet commitments to customers that may impact liquidity, including commitments to extend credit, standby letters of credit, commercial letters of credit, financial guarantees and indemnification contracts, and commitments to sell real estate loans. Because many of these commitments or contracts expire without being funded in whole or in part, the contract amounts are not necessarily indicative of future cash flows. Further information relating to these commitments is provided in note 6 of Notes to Financial Statements.

M&T's primary source of funds to pay for operating expenses, shareholder dividends and treasury stock repurchases has historically been the receipt of dividends from its banking subsidiaries, which are subject to various regulatory limitations. Dividends from any banking subsidiary to M&T are limited by the amount of earnings of the banking subsidiary in the current year and the two preceding years. For purposes of that test, at June 30, 2006 approximately \$240 million was available for payment of dividends to M&T from banking subsidiaries without prior regulatory approval. These historic sources of cash flow have been augmented in the past by the issuance of trust preferred securities. Information regarding trust preferred securities and the related junior subordinated debentures is included in note 4 of Notes to Financial Statements. M&T also maintains a \$30 million line of credit with an unaffiliated commercial bank, of which there were no borrowings outstanding at June 30, 2006 or at December 31, 2005.

Management closely monitors the Company's liquidity position on an ongoing basis for compliance with internal policies and believes that available sources of liquidity are adequate to meet funding needs anticipated in the normal course of business. Management does not currently anticipate engaging in any activities, either currently or in the long-term, for which adequate funding would not be available and would therefore result in a significant strain on liquidity at either M&T or its subsidiary banks.

Market risk is the risk of loss from adverse changes in market prices and/or interest rates of the Company's financial instruments. The primary market risk the Company is exposed to is interest rate risk. The core banking activities of lending and deposit-taking expose the Company to interest rate risk, which occurs when assets and liabilities reprice at different times and by different amounts as interest rates change. As a result, net interest income earned by the Company is subject to the effects of changing interest rates. The Company measures interest rate risk by calculating the variability of net interest income in future periods under various interest rate scenarios using projected balances for earning assets, interest-bearing liabilities and derivatives used to hedge interest rate risk. Management's philosophy toward interest rate risk management is to limit the variability of net interest income. The balances of financial instruments used in the projections are based on expected growth from forecasted business opportunities, anticipated prepayments of loans and investment securities, and expected maturities of investment securities, loans and deposits. Management uses a value of equity model to supplement the modeling technique described above. Those supplemental analyses are based on discounted cash flows associated with on- and off-balance sheet financial instruments. Such analyses are modeled to reflect changes in interest rates and non-parallel shifts in the maturity curve of interest rates and provide management with a long-term interest rate risk metric.

The Company's Risk Management Committee, which includes members of senior management, monitors the sensitivity of the Company's net interest income to changes in interest rates with the aid of a computer model that forecasts net interest income under different interest rate scenarios. In modeling changing interest rates, the Company considers different yield curve shapes that consider both parallel (that is, simultaneous changes in interest rates at each point on the yield curve) and non-parallel (that is, allowing

**Table of Contents**

interest rates at points on the yield curve to vary by different amounts) shifts in the yield curve. In utilizing the model, market-implied forward interest rates over the subsequent twelve months are generally used to determine a base interest rate scenario for the net interest income simulation. That calculated base net interest income is then compared to the income calculated under the varying interest rate scenarios. The model considers the impact of ongoing lending and deposit gathering activities, as well as interrelationships in the magnitude and timing of the repricing of financial instruments, including the effect of changing interest rates on expected prepayments and maturities. Management has taken actions, when deemed prudent, to mitigate exposure to interest rate risk through the use of on- or off-balance sheet financial instruments, and intends to do so in the future. Possible actions include, but are not limited to, changes in the pricing of loan and deposit products, modifying the composition of earning assets and interest-bearing liabilities, and adding to, modifying or terminating existing interest rate swap agreements or other financial instruments used for interest rate risk management purposes.

The accompanying table as of June 30, 2006 and December 31, 2005 displays the estimated impact on net interest income from non-trading financial instruments in the base scenario described above resulting from parallel changes in interest rates across repricing categories during the first modeling year.

**SENSITIVITY OF NET INTEREST INCOME  
TO CHANGES IN INTEREST RATES**

Dollars in thousands

| <b>Changes in interest rates</b> | <b>Calculated increase (decrease)<br/>in projected net interest income</b> |                          |
|----------------------------------|--|--------------------------|
|                                  | <b>June 30, 2006</b>   | <b>December 31, 2005</b> |
| +200 basis points                | \$ (21,241)  | (7,178)                  |
| +100 basis points                | (9,186)  | (4,096)                  |
| -100 basis points                | 3,213  | (5,733)                  |
| -200 basis points                | (1,124)  | (16,184)                 |

The Company utilized many assumptions to calculate the impact that changes in interest rates may have on net interest income. The more significant of those assumptions included the rate of prepayments of mortgage-related assets, cash flows from derivative and other financial instruments held for non-trading purposes, loan and deposit volumes and pricing, and deposit maturities. In the scenarios presented, the Company also assumed gradual changes in interest rates during a twelve-month period of 100 and 200 basis points as compared with the assumed base scenario. In the event that a 100 or 200 basis point rate change cannot be achieved, the applicable rate changes are limited to lesser amounts such that interest rates cannot be less than zero. The assumptions used in interest rate sensitivity modeling are inherently uncertain and, as a result, the Company cannot precisely predict the impact of changes in interest rates on net interest income. Actual results may differ significantly from those presented due to the timing, magnitude and frequency of changes in interest rates, market conditions, and interest rate differentials (spreads) between maturity/repricing categories, as well as any actions, such as those previously described, which management may take to counter such changes. In light of the uncertainties and assumptions associated with the process, the amounts presented in the table and changes in such amounts are not considered significant to the Company's past or projected net interest income.

The Company engages in trading activities to meet the financial needs of customers, to fund the Company's obligations under certain deferred compensation plans and, to a limited extent, to profit from perceived market opportunities. Financial instruments utilized in trading activities have included forward and futures contracts related to

foreign currencies and mortgage-backed securities, U.S. Treasury and other government securities, mortgage-backed securities, mutual funds and interest rate contracts, such as

**Table of Contents**

swap agreements. The Company generally mitigates the foreign currency and interest rate risk associated with trading activities by entering into offsetting trading positions. The amounts of gross and net trading positions, as well as the type of trading activities conducted by the Company, are subject to a well-defined series of potential loss exposure limits established by management and approved by M&T's Board of Directors. However, as with any non-government guaranteed financial instrument, the Company is exposed to credit risk associated with counterparties to the Company's trading activities.

The notional amounts of interest rate contracts entered into for trading purposes totaled \$7.2 billion at June 30, 2006, compared with \$6.7 billion at each of June 30 and December 31, 2005. The notional amounts of foreign currency and other option and futures contracts entered into for trading purposes were \$578 million, \$681 million and \$679 million at June 30, 2006, June 30, 2005 and December 31, 2005, respectively. Although the notional amounts of these trading contracts are not recorded in the consolidated balance sheet, the fair values of all financial instruments used for trading activities are recorded in the consolidated balance sheet. The fair values of all trading account assets and liabilities totaled \$208 million and \$99 million, respectively, at June 30, 2006, \$195 million and \$88 million, respectively, at June 30, 2005, and \$192 million and \$77 million, respectively, at December 31, 2005. Included in trading account assets at June 30, 2006 were \$43 million related to deferred compensation plans, compared with \$40 million at June 30, 2005 and \$41 million at December 31, 2005. Changes in the fair value of such assets are recorded as trading account and foreign exchange gains in the consolidated statement of income. Included in other liabilities in the consolidated balance sheet at June 30, 2006 and at December 31, 2005 were \$48 million of liabilities related to deferred compensation plans, while at June 30, 2005, \$47 million of such liabilities related to deferred compensation plans. Changes in the balances of such liabilities due to the valuation of allocated investment options to which the liabilities are indexed are recorded in other costs of operations in the consolidated statement of income.

Given the Company's policies, limits and positions, management believes that the potential loss exposure to the Company resulting from market risk associated with trading activities was not material.

**Provision for Credit Losses**

The Company maintains an allowance for credit losses that in management's judgment is adequate to absorb losses inherent in the loan and lease portfolio. A provision for credit losses is recorded to adjust the level of the allowance as deemed necessary by management. The provision for credit losses in the second quarter of 2006 was \$17 million, compared with \$19 million in the similar 2005 quarter and \$18 million in the initial quarter of 2006. Net loan charge-offs declined to \$10 million in the recent quarter from \$14 million in the second quarter of 2005 and \$17 million in 2006's first quarter. Net charge-offs as an annualized percentage of average loans and leases were .10% in the recent quarter, compared with .14% and .17% in the quarters ended June 30, 2005 and March 31, 2006, respectively. Management expects that net charge-offs as a percentage of average loans outstanding will be higher during the last half of 2006 than during 2006's second quarter. For the six-month periods ended June 30, 2006 and 2005, the provision for credit losses was \$35 million and \$43 million, respectively. Net charge-offs through June 30 aggregated \$27 million in 2006 and \$33 million in 2005, representing .13% and .17%, respectively, of average loans and leases. A summary of net charge-offs by loan type follows.

**Table of Contents**NET CHARGE-OFFS  
BY LOAN/LEASE TYPE

In thousands

|                             | <b>2006</b>     |                 |                         |
|-----------------------------|-----------------|-----------------|-------------------------|
|                             | <b>1st Qtr.</b> | <b>2nd Qtr.</b> | <b>Year<br/>to-date</b> |
| Commercial, financial, etc. | \$ 6,085        | 2,119           | 8,204                   |
| Real estate:                |                 |                 |                         |
| Commercial                  | 86              | 249             | 335                     |
| Residential                 | 473             | 696             | 1,169                   |
| Consumer                    | 10,188          | 6,916           | 17,104                  |
|                             | <u>\$16,832</u> | <u>9,980</u>    | <u>26,812</u>           |
|                             |                 |                 |                         |
|                             | <b>2005</b>     |                 |                         |
|                             | <b>1st Qtr.</b> | <b>2nd Qtr.</b> | <b>Year<br/>to-date</b> |
| Commercial, financial, etc. | \$ 6,070        | 3,625           | 9,695                   |
| Real estate:                |                 |                 |                         |
| Commercial                  | (769)           | (236)           | (1,005)                 |
| Residential                 | 492             | 425             | 917                     |
| Consumer                    | 13,078          | 9,834           | 22,912                  |
|                             | <u>\$18,871</u> | <u>13,648</u>   | <u>32,519</u>           |

Loans classified as nonperforming, consisting of nonaccrual and restructured loans, were \$156 million or .38% of total loans and leases outstanding at June 30, 2006, compared with \$184 million or .46% at June 30, 2005, \$156 million or .39% at December 31, 2005, and \$143 million or .35% at March 31, 2006. Accruing loans past due 90 days or more totaled \$101 million or .24% of total loans and leases at the recent quarter-end, compared with \$123 million or .31% a year earlier, \$129 million or .32% at December 31, 2005 and \$109 million or .27% at March 31, 2006. Accruing loans past due 90 days or more included \$79 million, \$99 million, \$106 million and \$86 million at June 30, 2006, June 30, 2005, December 31, 2005 and March 31, 2006, respectively, of loans guaranteed by government-related entities. Such guaranteed loans included one-to-four family residential mortgage loans serviced by the Company that were repurchased to reduce servicing costs associated with them, including a requirement to advance principal and interest payments that had not been received from individual mortgagors. The outstanding principal balances of the repurchased loans are fully guaranteed by government-related entities and totaled



\$58 million and \$73 million at June 30, 2006 and 2005, respectively, \$79 million at December 31, 2005 and \$66 million at March 31, 2006. Also included in loans past due 90 days or more and accruing interest that were guaranteed by government-related entities were foreign commercial and industrial loans supported by the Export-Import Bank of the United States totaling \$21 million at June 30, 2006, compared with \$24 million a year earlier, \$26 million at December 31, 2005 and \$20 million at March 31, 2006.

Nonperforming commercial loans and leases totaled \$47 million at June 30, 2006, \$48 million at June 30, 2005, \$39 million at December 31, 2005 and \$38 million at March 31, 2006.

Commercial real estate loans classified as nonperforming totaled \$37 million at June 30 and March 31, 2006, \$63 million at June 30, 2005 and \$44 million at December 31, 2005.

Nonperforming residential real estate loans totaled \$32 million at June 30, 2006, \$35 million at June 30, 2005, \$29 million at December 31, 2005 and \$30 million at March 31, 2006. Residential real estate loans past due 90

**Table of Contents**

days or more and accruing interest totaled \$71 million at June 30, 2006, compared with \$89 million a year-earlier, and \$96 million and \$82 million at December 31, 2005 and March 31, 2006, respectively. As already discussed, a significant portion of such amounts relate to repurchased loans that are guaranteed by government-related entities.

Consumer loans and leases classified as nonperforming totaled \$40 million at the recent quarter-end, compared with \$38 million a year earlier and at March 31, 2006, and \$44 million at December 31, 2005. As a percentage of consumer loan balances outstanding, nonperforming consumer loans and leases were .40% and .35% at June 30, 2006 and 2005, respectively, .42% at December 31, 2005 and .38% at March 31, 2006.

Assets acquired in settlement of defaulted loans were \$14 million at June 30, 2006, compared with \$8 million a year earlier, \$9 million at December 31, 2005 and \$10 million at March 31, 2006.

A comparative summary of nonperforming assets and certain past due loan data and credit quality ratios as of the end of the periods indicated is presented in the accompanying table.

**NONPERFORMING ASSET AND PAST DUE LOAN DATA**

Dollars in thousands

|  | <b>2006 Quarters</b> |                | <b>2005 Quarters</b> |                |                |
|--|----------------------|----------------|----------------------|----------------|----------------|
|  | <b>Second</b>        | <b>First</b>   | <b>Fourth</b>        | <b>Third</b>   | <b>Second</b>  |
| Nonaccrual loans                                     | \$ 140,626           | 127,934        | 141,067              | 154,768        | 173,403        |
| Renegotiated loans                                   | 15,399               | 14,790         | 15,384               | 11,697         | 10,649         |
| <b>Total nonperforming loans</b>                     | <b>156,025</b>       | <b>142,724</b> | <b>156,451</b>       | <b>166,465</b> | <b>184,052</b> |
| Real estate and other assets owned                   | 13,805               | 9,588          | 9,486                | 8,624          | 8,123          |
| <b>Total nonperforming assets</b>                    | <b>\$ 169,830</b>    | <b>152,312</b> | <b>165,937</b>       | <b>175,089</b> | <b>192,175</b> |
| Accruing loans past due 90 days or more*             | \$ 101,001           | 109,287        | 129,403              | 130,944        | 123,301        |
| Government guaranteed loans included in totals above |                      |                |                      |                |                |
| Nonperforming loans                                  | \$ 13,542            | 13,804         | 13,845               | 14,932         | 13,593         |
| Accruing loans past due 90 days or more              | 79,272               | 85,775         | 105,508              | 106,596        | 98,711         |
|  | .38%                 | .35%           | .39%                 | .41%           | .46%           |

|   |       |       |       |       |       |
|---|-------|-------|-------|-------|-------|
| Nonperforming loans to total loans and leases, net of unearned discount                     |       |       |       |       |       |
| Nonperforming assets to total net loans and leases and real estate and other assets owned   | .41%  | .37%  | .41%  | .43%  | .48%  |
| Accruing loans past due 90 days or more to total loans and leases, net of unearned discount | .24%  | .27%  | .32%  | .32%  | .31%  |
|   | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |

\* *Predominantly residential mortgage loans and government-guaranteed commercial loans.*

Management regularly assesses the adequacy of the allowance for credit losses by performing ongoing evaluations of the loan and lease portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any

**Table of Contents**

guarantees or indemnifications. Management evaluated the impact of changes in interest rates and overall economic conditions on the ability of borrowers to meet repayment obligations when quantifying the Company's exposure to credit losses and assessing the adequacy of the Company's allowance for such losses as of each reporting date. Factors also considered by management when performing its assessment, in addition to general economic conditions and the other factors described above, included, but were not limited to: (i) the concentration of commercial real estate loans in the Company's loan portfolio, particularly the large concentration of loans secured by properties in New York State, in general, and in the New York City metropolitan area, in particular; (ii) the amount of commercial and industrial loans to businesses in areas of New York State outside of the New York City metropolitan area and in central Pennsylvania that have historically experienced less economic growth and vitality than the vast majority of other regions of the country; and (iii) the size of the Company's portfolio of loans to individual consumers, which historically have experienced higher net charge-offs as a percentage of loans outstanding than other loan types. The level of the allowance is adjusted based on the results of management's analysis.

Management cautiously and conservatively evaluated the allowance for credit losses as of June 30, 2006 in light of (i) the sluggish pace of economic growth in many of the markets served by the Company; (ii) continued weakness in industrial employment in upstate New York and central Pennsylvania; and (iii) the significant subjectivity involved in commercial real estate valuations for properties located in areas with stagnant or low growth economies. Although the remaining economic outlook for 2006 predicts moderate national growth with inflation expected to be reasonably well contained, concerns exist about higher energy prices; a waning housing boom; Federal Reserve tightening of monetary policy; the underlying impact on businesses' operations and abilities to repay loans resulting from rising interest rates; sluggish job creation, which could cause consumer spending to slow; continued stagnant population growth in the upstate New York and central Pennsylvania regions; and moderate loan demand in many market areas served by the Company.

Factors that influence the Company's credit loss experience include overall economic conditions affecting businesses and consumers generally, such as those described above, but also real estate valuations, in particular, given the size and geographic concentration of the commercial real estate loan portfolio. Commercial real estate valuations can be highly subjective, as they are based upon many assumptions. Such valuations can be significantly affected over relatively short periods of time by changes in business climate, economic conditions, interest rates and, in many cases, the results of operations of businesses and other occupants of the real property.

Management believes that the allowance for credit losses at June 30, 2006 was adequate to absorb credit losses inherent in the portfolio as of that date. The allowance for credit losses was \$646 million, or 1.55% of total loans and leases at June 30, 2006, compared with \$637 million or 1.60% a year earlier, \$638 million or 1.58% at December 31, 2005 and \$639 million or 1.56% at March 31, 2006. The ratio of the allowance for credit losses to nonperforming loans was 414% at the most recent quarter-end, compared with 346% a year earlier, 408% at December 31, 2005 and 448% at March 31, 2006. The level of the allowance reflects management's evaluation of the loan and lease portfolio as of each respective date.

**Other Income**

Other income was \$263 million in the second quarter of 2006, up 7% from \$245 million in the year-earlier quarter and 4% higher than \$253 million in the first quarter of 2006. The increases in the recent quarter as compared with

**Table of Contents**

the second quarter of 2005 and 2006's first quarter were due largely to higher revenues from residential mortgage banking activities, deposit account service charges and trust department income.

Mortgage banking revenues rose 33% to \$42 million in the recent quarter from \$31 million in the corresponding quarter of 2005, and were up 20% from \$35 million in the initial quarter of 2006. Mortgage banking revenues are comprised of both residential and commercial mortgage banking activities.

Residential mortgage banking revenues, consisting of gains from sales of residential mortgage loans and loan servicing rights, residential mortgage loan servicing fees, and other residential mortgage loan-related fees and income, totaled \$35 million in the recent quarter, compared with \$25 million in the year-earlier period and \$29 million in 2006's initial quarter. Residential mortgage loans originated for sale to other investors were approximately \$1.9 billion during the second quarter of 2006, compared with \$1.8 billion in the similar 2005 quarter and \$1.4 billion in the 2006's first quarter. Realized gains from sales of residential mortgage loans and loan servicing rights and recognized net unrealized gains and losses attributable to residential mortgage loans held for sale, commitments to originate loans for sale and commitments to sell loans aggregated \$16 million in the recently completed quarter, compared with \$9 million in the second quarter of 2005 and \$11 million in the first quarter of 2006.

Revenues from servicing residential mortgage loans for others were \$16 million in each of the two most recently completed quarters, and \$14 million in the second quarter of 2005. Included in such servicing revenues were amounts related to purchased servicing rights associated with small balance commercial mortgage loans which totaled \$4 million and \$2 million in the second quarter of 2006 and 2005, respectively, and \$3 million in 2006's initial quarter. Residential mortgage loans serviced for others aggregated \$16.1 billion at June 30, 2006, compared with \$14.4 billion a year earlier and \$15.6 billion at December 31, 2005, including the small balance commercial real estate loans noted above of approximately \$2.9 billion and \$1.7 billion at June 30, 2006 and 2005, respectively, and \$2.4 billion at December 31, 2005. Capitalized residential mortgage servicing assets, net of a valuation allowance for impairment, were \$156 million at June 30, 2006, compared with \$125 million a year earlier and \$140 million at December 31, 2005. Included in capitalized residential mortgage servicing assets were \$29 million at June 30, 2006, \$13 million at June 30, 2005 and \$23 million at December 31, 2005 of purchased servicing rights associated with the small balance commercial mortgage loans noted above.

Loans held for sale that were secured by residential real estate totaled \$1.7 billion at June 30, 2006 and \$1.2 billion at each of June 30 and December 31, 2005. Commitments to sell loans and commitments to originate loans for sale at pre-determined rates were \$1.7 billion and \$648 million, respectively, at June 30, 2006, \$1.5 billion and \$900 million, respectively, at June 30, 2005, and \$923 million and \$352 million, respectively, at December 31, 2005. Net unrealized losses on residential mortgage loans held for sale, commitments to sell loans, and commitments to originate loans for sale were approximately \$194 thousand at June 30, 2006 and \$5 million at December 31, 2005, compared with net unrealized gains of \$1 million at June 30, 2005. Changes in such net unrealized gains and losses are recorded in mortgage banking revenues and resulted in net decreases in revenues of \$3 million and \$442 thousand in the second quarter of 2006 and 2005, respectively, compared with a net increase in revenues of \$8 million in the first quarter of 2006.

Commercial mortgage banking revenues were \$7 million in the recent quarter, compared with \$6 million in each of the second quarter of 2005 and the first quarter of 2006. Revenues from commercial mortgage loan origination and sales activities were \$4 million in the second quarter of 2006, compared

**Table of Contents**

with \$3 million in the second quarter of 2005 and \$2 million in the initial 2006 quarter. Commercial mortgage loan servicing revenues were \$3 million in the second quarters of 2006 and 2005, and \$4 million in the first quarter of 2006. Capitalized commercial mortgage servicing assets totaled \$20 million at June 30, 2006, \$22 million at June 30, 2005 and \$21 million at December 31, 2005. Commercial mortgage loans held for sale at June 30, 2006 and 2005 were \$51 million and \$78 million, respectively, and \$199 million at December 31, 2005.

Service charges on deposit accounts increased 3% to \$96 million in the second quarter of 2006 from \$93 million in the year-earlier quarter and were 8% higher than \$89 million in the first quarter of 2006. The increase from the immediately preceding quarter was due, in part, to lower seasonal volume levels typically experienced in the first quarter of each year. Trust income totaled \$35 million in the recent quarter, up 6% from \$33 million in last year's second quarter and 3% above the initial quarter of 2006. Brokerage services income, which includes revenues from the sale of mutual funds and annuities and securities brokerage fees, totaled \$14 million in the second quarters of 2006 and 2005, compared with \$15 million in the first quarter of 2006. Trading account and foreign exchange activity resulted in gains of \$6 million during each of the second quarters of 2006 and 2005, and \$7 million in the initial 2006 quarter.

Other revenues from operations were \$70 million in the recent quarter, compared with \$68 million in the second quarter of 2005 and \$74 million in the first quarter of 2006. The increase in such revenues in the recent quarter as compared with the second 2005 quarter reflects higher income from educational lending and insurance-related activities, offset, in part, by a decrease in income from commercial leasing. The decline in other revenues from operations from the initial 2006 quarter to the second quarter was largely due to lower revenues from commercial leasing and educational lending activities. Other revenues from operations included letter of credit and other credit-related fees of \$20 million in each of the second quarters of 2006 and 2005, and \$19 million in the first quarter of 2006. Also included in other revenues from operations is tax-exempt income from bank owned life insurance, which includes increases in the cash surrender value of life insurance policies and benefits received. Such income totaled \$14 million in the second quarters of 2006 and 2005, compared with \$13 million in the first quarter of 2006. Merchant discount and credit card fees totaled \$8 million in the recent quarter, and \$7 million in each of the quarters ended June 30, 2005 and March 31, 2006. Insurance-related sales commissions and other revenues aggregated \$8 million in the quarter ended June 30, 2006, compared with \$5 million in the similar quarter of 2005 and \$7 million in 2006's first quarter. The increase in insurance-related revenues in the 2006 quarters as compared with the second quarter of 2005 was largely the result of the February 1, 2006 acquisition by M&T Bank of a commercial insurance and surety brokerage agency based in Maryland.

Other income rose 7% to \$516 million in the first six months of 2006 from \$480 million in the corresponding 2005 period. The most significant contributors to the rise in other income were higher revenues from mortgage banking, educational lending and insurance-related activities, partially offset by gains realized in 2005 from venture capital investments.

Mortgage banking revenues totaled \$76 million for the first six months of 2006, 18% higher than \$65 million in the year-earlier period. Residential mortgage banking revenues increased to \$63 million in the first half of 2006 from \$52 million in the similar period of 2005. Residential mortgage loans originated for sale to other investors were \$3.3 billion through June 30, 2006, compared with \$2.9 billion in 2005's first six months. Realized gains from sales of residential mortgage loans and loan servicing rights and recognized unrealized gains on residential mortgage loans held for sale, commitments to originate loans for sale and commitments to sell loans totaled \$28 million

**Table of Contents**

and \$19 million during the six-month periods ended June 30, 2006 and 2005, respectively. Revenues from servicing residential mortgage loans for others were \$32 million and \$29 million for the first half of 2006 and 2005, respectively. Included in such amounts were revenues related to purchased servicing rights associated with the previously noted small balance commercial mortgage loans of \$7 million and \$4 million for the first six months of 2006 and 2005, respectively. Commercial mortgage banking revenues totaled \$13 million during the first half of 2006 and in the similar 2005 period.

Service charges on deposit accounts were \$184 million during the first half of 2006, up 2% from \$181 million in the comparable 2005 period. Trust income increased 3% to \$69 million from \$66 million a year earlier. Brokerage services income increased 3% to \$29 million during the first six months of 2006 from \$28 million in the similar 2005 period. Trading account and foreign exchange activity resulted in gains of \$13 million and \$11 million for the six-month periods ended June 30, 2006 and 2005, respectively. Other revenues from operations increased 13% to \$144 million in the first six months of 2006 from \$128 million in the corresponding 2005 period. Included in other revenues from operations during the six-month periods ended June 30, 2006 and 2005 were letter of credit and other credit-related fees of \$39 million and \$37 million, respectively, and income from bank owned life insurance totaling \$27 million and \$24 million, respectively. Merchant discount and credit card fees were \$15 million and \$14 million, respectively, and insurance-related sales commissions and other revenues totaled \$15 million and \$11 million, respectively, during the six-month periods ended June 30, 2006 and 2005. The higher insurance-related revenues in 2006 were predominantly a result of the previously-noted insurance agency acquisition. Also contributing to the year-over-year increase in other revenues was the previously discussed rise in 2006 in income from educational lending, partially offset by higher gains realized in 2005 from venture capital investments.

**Other Expense**

Other expense aggregated \$377 million in the recent quarter, down 1% from \$380 million in the second quarter of 2005, and also 1% below \$382 million in the initial 2006 quarter. Included in those amounts are expenses considered to be nonoperating in nature consisting of amortization of core deposit and other intangible assets of \$11 million in 2006's second quarter, \$14 million in the year-earlier quarter, and \$13 million in the first quarter of 2006, and the previously noted branch acquisition-related expenses that totaled \$4 million in the second quarter of 2006. There were no similar expenses in 2005 or in the initial 2006 quarter. Exclusive of these nonoperating expenses, noninterest operating expenses aggregated \$362 million in the recent quarter, compared with \$366 million in the year-earlier quarter and \$369 million in the first quarter of 2006. The lower expense level in 2006's second quarter as compared with the year-earlier quarter was predominantly due to an \$8 million partial reversal of the valuation allowance for the impairment of capitalized residential mortgage servicing rights during the recent quarter reflecting an increase in the estimated fair value of such rights that resulted from higher residential mortgage loan interest rates at June 30, 2006 as compared with three months earlier. In contrast, the Company added \$5 million to the valuation allowance for the impairment of such rights during the second quarter of 2005. As compared with the first quarter of 2006, the decline in noninterest operating expenses was largely the result of lower salaries and employee benefits expense.

Other expense for the first six-months of 2006 totaled \$759 million, up 2% from \$748 million in the similar period of 2005. Included in those amounts are expenses considered to be nonoperating in nature consisting of amortization of core deposit and other intangible assets of \$24 million in

**Table of Contents**

the first half of 2006 and \$30 million in the corresponding 2005 period, and the branch acquisition-related expenses of \$4 million in the first six months of 2006. Exclusive of these nonoperating expenses, noninterest operating expenses for the six-month period ended June 30, 2006 increased 2% to \$731 million from \$718 million in the similar 2005 period. The most significant contributor to the higher expense levels in the 2006 period as compared with 2005 were higher expenses for salaries, partially offset by a \$16 million impact from reductions of the valuation allowance for capitalized residential mortgage servicing rights. Table 2 provides a reconciliation of other expense to noninterest operating expense.

Salaries and employee benefits expense totaled \$217 million in the recent quarter, compared with \$205 million in the second quarter of 2005 and \$224 million in 2006's initial quarter. The higher expense level in the recent quarter as compared with the year-earlier quarter was largely due to salaries-related costs, including the impact of merit pay increases awarded to employees and a higher level of full-time equivalent employees. The decline in salaries and benefits expense in the second quarter of 2006 as compared with the immediately preceding quarter was largely due to lower stock-based incentive compensation, and payroll-related taxes and Company contributions for retirement savings plan benefits related to incentive compensation payments made in 2006's first quarter, partially offset by higher salaries and other incentive compensation expenses. For the first half of 2006, salaries and employee benefits expense rose 7% to \$441 million from \$411 million in the corresponding 2005 period. Higher salaries-related costs were the largest factor causing the increase, resulting from merit increases, more employees and higher stock-based compensation costs. Stock-based compensation totaled \$11 million in the second quarters of 2006 and 2005, \$18 million in the quarter ended March 31, 2006, and \$29 million and \$23 million in the six-month periods ended June 30, 2006 and 2005, respectively. The higher levels of stock-based compensation in the first quarter and first half of 2006 were due to the adoption of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment, (SFAS No. 123R), effective January 1, 2006. As required, coincident with the adoption of SFAS No. 123R, the Company began accelerating the recognition of compensation costs for stock-based awards granted to retirement-eligible employees and employees who will become retirement-eligible prior to full vesting of the award. As a result, stock-based compensation expense during the first quarter of 2006 included \$6 million that would otherwise have been recognized over the normal four year vesting period if not for the required adoption of SFAS No. 123R. That acceleration had no effect on the value of stock-based compensation awarded to employees. The number of full-time equivalent employees was 12,932 at June 30, 2006, 12,769 at June 30, 2005, 12,780 at December 31, 2005 and 12,837 at March 31, 2006.

Excluding the nonoperating expense items previously noted, nonpersonnel expense totaled \$145 million in each of the two most recently completed quarters, compared with \$162 million in the second quarter of 2005. On the same basis, such expenses were \$290 million during the first half of 2006, down from \$306 million during the similar 2005 period. The most significant contributors to the lower nonpersonnel operating expense levels in the first two quarters of 2006 as compared with the second quarter and first six months of 2005 were the partial reversals of the valuation allowance for the impairment of capitalized residential mortgage servicing rights of \$8 million and \$7 million that were recognized in the second and first quarters of 2006, respectively. During the second quarter and first half of 2005, additional expense for provisions for the impairment of capitalized residential mortgage servicing rights totaled \$5 million and \$1 million, respectively.

The efficiency ratio, or noninterest operating expenses (as defined above) divided by the sum of taxable-equivalent net interest income and noninterest income (exclusive of gains and losses from bank investment securities), measures the relationship of noninterest operating expenses to



**Table of Contents**

revenues. The Company's efficiency ratio was 50.7% during the recent quarter, compared with 52.6% during the year-earlier quarter and 52.4% in the initial quarter of 2006. The efficiency ratios for the six-month periods ended June 30, 2006 and 2005 were 51.5% and 52.1%, respectively. Noninterest operating expenses used in calculating the efficiency ratio do not include the acquisition-related costs and amortization of core deposit and other intangible assets noted earlier. If charges for amortization of core deposit and other intangible assets were included, the ratios for the three-month periods ended June 30, 2006, June 30, 2005 and March 31, 2006 would have been 52.3%, 54.6% and 54.2%, respectively, and for the six-month periods ended June 30, 2006 and 2005 would have been 53.2% and 54.3%, respectively.

**Capital**

Stockholders' equity was \$6.0 billion at June 30, 2006, representing 10.62% of total assets, compared with \$5.8 billion or 10.71% of total assets a year earlier and \$5.9 billion or 10.66% at December 31, 2005. On a per share basis, stockholders' equity was \$54.01 at June 30, 2006, up from \$51.20 and \$52.39 at June 30 and December 31, 2005, respectively. Tangible equity per share, which excludes goodwill and core deposit and other intangible assets and applicable deferred tax balances, was \$25.55 at the end of the second quarter of 2006, compared with \$25.00 a year earlier and \$25.91 at December 31, 2005. A reconciliation of total stockholders' equity and tangible equity as of each of those respective dates is presented in table 2.

Stockholders' equity reflects accumulated other comprehensive income or loss, which includes the net after-tax impact of unrealized gains or losses on investment securities classified as available for sale and minimum pension liability adjustments. Net unrealized losses on available for sale investment securities were \$98 million, or \$.89 per common share, at June 30, 2006, compared with unrealized losses of \$25 million, or \$.22 per share, at June 30, 2005 and \$49 million, or \$.43 per share, at December 31, 2005. Such unrealized losses are generally due to changes in interest rates and represent the difference, net of applicable income tax effect, between the estimated fair value and amortized cost of investment securities classified as available for sale. The minimum pension liability adjustment, net of applicable tax effect, reduced accumulated other comprehensive income by \$49 million at June 30, 2006 and December 31, 2005, or by \$.44 per share at those respective dates, compared with \$12 million at June 30, 2005, or \$.11 per share.

During the second quarter of 2006, M&T increased the quarterly dividend on its common stock from \$.45 per share to \$.60 per share, an increase of 33%.

In November 2005, M&T announced that it had been authorized by its Board of Directors to purchase up to 5,000,000 shares of its common stock. During the quarter ended June 30, 2006, 605,700 shares of common stock were repurchased by M&T pursuant to such plan at an average cost of \$114.61 per share. Through June 30, 2006, M&T had repurchased 1,919,400 shares of common stock pursuant to such plan at an average cost of \$110.48 per share.

Federal regulators generally require banking institutions to maintain core capital and total capital ratios of at least 4% and 8%, respectively, of risk-adjusted total assets. In addition to the risk-based measures, Federal bank regulators have also implemented a minimum leverage ratio guideline of 3% of the quarterly average of total assets. At June 30, 2006, core capital included \$688 million of trust preferred securities described in note 4 of Notes to Financial Statements, and total capital further included \$943 million of subordinated notes.

The Company generates significant amounts of regulatory capital. The rate of regulatory core capital generation, or net operating income (as

**Table of Contents**

previously defined) less the sum of dividends paid and the after-tax effect of merger-related expenses expressed as an annualized percentage of regulatory core capital at the beginning of each period was 17.00% during the second quarter of 2006, compared with 18.49% in the year-earlier quarter and 18.11% in the first quarter of 2006.

The regulatory capital ratios of the Company, M&T Bank and M&T Bank, N.A., as of June 30, 2006 are presented in the accompanying table.

**REGULATORY CAPITAL RATIOS**

June 30, 2006

|               | <b>M&amp;T<br/>(Consolidated)</b> | <b>M&amp;T<br/>Bank</b> | <b>M&amp;T<br/>Bank, N.A.</b> |
|---------------|-----------------------------------|-------------------------|-------------------------------|
| Core capital  | 7.31%                             | 6.98%                   | 27.13%                        |
| Total capital | 10.49%                            | 10.18%                  | 27.93%                        |
| Leverage      | 6.84%                             | 6.58%                   | 11.70%                        |

**Segment Information**

In accordance with the provisions of SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information, the Company's reportable segments have been determined based upon its internal profitability reporting system, which is organized by strategic business unit. Financial information about the Company's segments is presented in note 5 of Notes to Financial Statements.

The Commercial Banking segment's net income for the second quarter of 2006 was \$58 million, unchanged from the second quarter of 2005 but improved from \$56 million in the initial quarter of 2006. As compared with the year-earlier quarter, lower revenues in 2006's second quarter, largely due to declines in service charges on deposit accounts and letter of credit and other credit-related loan fees, were offset by a decline in the provision for credit losses. The current quarter's improved performance over the first quarter of 2006 was the result of a \$2 million decrease in the provision for credit losses and slightly higher revenues of \$1 million. For the six months ended June 30, 2006, this segment contributed \$114 million to net income, up 3% from \$110 million earned in the corresponding period of 2005. The favorable performance was due to higher revenues of \$4 million, resulting mainly from increased net interest income, and a \$7 million decrease in the provision for credit losses, offset partially by a \$5 million increase in noninterest expenses predominantly due to higher salaries and employee benefit costs.

Net income earned by the Commercial Real Estate segment totaled \$32 million during the second quarter of 2006, down from \$35 million in the year-earlier quarter and \$34 million in the first quarter of 2006. The decrease from the second quarter of 2005 was due to lower revenues of \$2 million, primarily the result of a 24 basis point decline in loan interest margin, and higher noninterest expenses of \$2 million. In comparison to the first quarter of 2006, lower revenues of \$3 million, due in large part to a 30 basis point decline in loan interest margin, and higher noninterest expenses of \$1 million, contributed to the unfavorable variance. Net contribution for this segment declined to \$66 million during the first six months of 2006 from \$68 million in the similar 2005 period. The lower net income was mainly due to higher noninterest expenses of \$4 million, resulting from increased salaries and benefits costs and other costs of operations, partially offset by a \$1 million decrease in the provision for credit losses.

**Table of Contents**

The Discretionary Portfolio segment's net income totaled \$24 million in the recent quarter, down from \$30 million in the second quarter of 2005, but up from \$22 million in 2006's first quarter. The unfavorable performance compared with last year's second quarter was largely due to a \$12 million decline in net interest income, predominantly the result of a 76 basis point decline in net interest margin on investment securities. In comparison to the first quarter of 2006, a decrease in the provision for credit losses and slightly lower noninterest expenses were the main factors contributing to the favorable performance. Net contribution for this segment decreased to \$46 million for the first six months of 2006 from \$60 million in the corresponding 2005 period, due primarily to a \$22 million decline in net interest income resulting from a 74 basis point decline in net interest margin on investment securities.

The Residential Mortgage Banking segment contributed \$19 million in the second quarter of 2006, up from \$8 million in last year's similar quarter and \$15 million in the immediately preceding quarter. The increase from the prior year's second quarter was due to a \$14 million increase in revenues largely from loan origination, sales, and servicing activities, and an \$8 million reduction of the capitalized mortgage servicing rights valuation allowance during the recent quarter, compared with a \$3 million addition to such allowance in this segment during the second quarter of 2005. Partially offsetting these favorable factors were higher salaries and employee benefits costs of \$4 million. The increase from the initial quarter of 2006 was due to higher revenues of \$6 million, predominately from loan origination, sales, and servicing activities. During the first quarter of 2006, there was a \$7 million reduction of the capitalized mortgage servicing rights valuation allowance. For the first six months of 2006, net income for this segment totaled \$34 million, up from \$18 million in the corresponding period of 2005. The favorable variance was due to an \$18 million increase in revenues from loan origination, sales, and servicing activities, a \$7 million increase in net interest income, primarily due to an increase in average loan balances outstanding, and a \$15 million reduction of the capitalized servicing rights valuation allowance during the first half of 2006, compared with a \$1 million addition to such allowance during the corresponding period in 2005. Partially offsetting these favorable factors was a \$10 million increase in salaries and employee benefits costs in comparison to the first six months of 2005.

Net income for the Retail Banking segment increased to \$102 million in the second quarter of 2006 from \$82 million in the year-earlier quarter and \$93 million in the first quarter of 2006. The favorable variance in comparison to the second quarter of 2005 was largely due to higher net interest income of \$24 million, primarily the result of rising market interest rates which resulted in a 51 basis point increase in deposit net interest margin. Higher service charges on deposit accounts of \$4 million, a \$2 million decline in net charge-offs, and a \$2 million decline in noninterest expenses also contributed to the favorable variance as compared with 2005's second quarter. The increase in the recent quarter's net income when compared with the first quarter of 2006 was the result of higher revenues of \$14 million, due to a 15 basis point increase in deposit net interest margin and a \$7 million increase in service charges on deposit accounts, and a \$5 million decrease in net charge-offs. For the first six months of 2006, net income for this segment totaled \$195 million, up 24% from \$158 million earned in the similar 2005 period. The favorable performance was due to higher revenues of \$61 million, resulting primarily from an increase in deposit net interest margin and higher service charges on deposit accounts.

**Table of Contents**

The All Other category reflects other activities of the Company that are not directly attributable to the reported segments as determined in accordance with SFAS No. 131, such as the M&T Investment Group, which includes the Company's trust, brokerage and insurance businesses. Also reflected in this category are the amortization of core deposit and other intangible assets, merger-related expenses resulting from acquisitions, and the net impact of the Company's allocation methodologies for internal funds transfer pricing and the provision for credit losses. The various components of the All Other category resulted in net losses of \$22 million in the second quarter of 2006, \$16 million in the second quarter of 2005 and \$17 million in the first quarter of 2006. For the first six months of 2006 and 2005, the All Other segment reported net losses of \$39 million and \$27 million, respectively. The net losses resulted from the Company's allocation methodologies for internal transfers for funding charges and credits associated with earning assets and interest-bearing liabilities of the Company's reportable segments, and higher levels of noninterest expenses, including \$4 million of branch acquisition-related expenses in the second quarter of 2006.

**Recent Accounting Developments**

In February 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment to FASB Statements No. 133 and 140. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. It also clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133 and establishes a requirement to evaluate interests in securitized financial assets to identify interests that contain an embedded derivative requiring bifurcation. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including financial statements for any interim period for that fiscal year. The Company has not early-adopted the provisions of SFAS No. 155 and does not currently anticipate that the impact of such adoption in 2007 will have a material impact on its consolidated financial position.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140. SFAS No. 156 defines the situations in which an entity should recognize a servicing asset or servicing liability when it undertakes an obligation to service a financial asset by entering into a servicing contract. SFAS No. 156 requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value and permits an entity to choose its subsequent measurement method for each class of separately recognized servicing assets and servicing liabilities as either the amortization method or fair value measurement method. The amortization method requires servicing assets and servicing liabilities to be amortized in proportion to and over the period of estimated net servicing income or net servicing loss and assess servicing assets or servicing liabilities for impairment or increased obligation based on fair value at each reporting date. The fair value measurement method requires servicing assets and servicing liabilities to be measured at fair value at each reporting date and requires entities to report changes in fair value of servicing assets and liabilities in earnings in the period in which the changes occur. SFAS No. 156 requires prospective adoption as of the beginning of an entity's first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that

**Table of Contents**

fiscal year. An entity may elect to subsequently measure a class of separately recognized servicing assets and servicing liabilities at fair value as of the beginning of any fiscal year, beginning with the fiscal year in which the entity adopts this statement. Upon such election, which is irrevocable, the effect of remeasuring an existing class of separately recognized servicing assets and servicing liabilities at fair value should be reported as a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year. Currently, the Company initially measures servicing assets retained in sales and securitization transactions for which it is the transferor under the relative fair value method prescribed in SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and subsequently measures its servicing assets under the amortization method. The Company has not early-adopted the provisions of SFAS No. 156. No decision has been reached as to whether the Company will elect to adopt the fair value measurement method for any classes of separately recognized servicing assets, and therefore, the impact of adoption of SFAS No. 156 cannot be determined at this time.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized under SFAS No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of an uncertain tax position taken or expected to be taken in a tax return. The evaluation of an uncertain tax position in accordance with FIN 48 is a two-step process. The first step is recognition, which requires a determination whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The second step is measurement: A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. FIN 48 is effective for fiscal years beginning after December 15, 2006. The cumulative effect of applying the provisions of FIN 48 shall be reported as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets) for that fiscal year. The Company is still evaluating the applicability of FIN 48 to positions taken on the Company's tax returns. Although that evaluation is not complete, the Company anticipates that the adoption of FIN 48 on January 1, 2007 will not have a material impact on its financial position, but may impact the recognition of income tax expense in future periods.

Also in July 2006, the FASB adopted FASB Staff Position No. 13-2, Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction ( FSP 13-2 ). FSP 13-2 requires that a change or projected change in the timing of cash flows relating to income taxes generated by a leveraged lease shall be accounted for in accordance with the guidance in paragraph 46 of SFAS No. 13, Accounting for Leases. That is, the projected timing of income tax cash flows generated by a leveraged lease transaction shall be reviewed annually or more frequently if events or changes in circumstances indicate that a change in timing has occurred or is projected to occur. If, during the lease term, the projected timing of income tax cash flows generated by a leveraged lease is revised, the rate of return and the allocation of income to positive investment years shall be recalculated from inception of the lease following the method described in paragraph 44 of SFAS No. 13. The guidance in FSP 13-2 shall be applied to fiscal years beginning after December 15, 2006. The

**Table of Contents**

cumulative effect of applying the provisions of FSP 13-2 shall be reported as an adjustment to the opening balance of retained earnings as of the beginning of the period of adoption. The Company does not expect that the adoption of FSP 13-2 on January 1, 2007 will have a material effect on its financial position or results of operations.

**Forward-Looking Statements**

Management's discussion and analysis of financial condition and results of operations and other sections of the Company's Quarterly Report on Form 10-Q contain forward-looking statements that are based on current expectations, estimates and projections about the Company's business, management's beliefs and assumptions made by management. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ( Future Factors ) which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements.

Future Factors include changes in interest rates, spreads on earning assets and interest-bearing liabilities, and interest rate sensitivity; prepayment speeds, loan originations and credit losses; sources of liquidity; common shares outstanding; common stock price volatility; fair value of and number of stock-based compensation awards to be issued in future periods; legislation affecting the financial services industry as a whole, and/or M&T and its subsidiaries individually or collectively; regulatory supervision and oversight, including monetary policy and required capital levels; changes in accounting policies or procedures as may be required by the FASB or other regulatory agencies; increasing price and product/service competition by competitors, including new entrants; rapid technological developments and changes; the ability to continue to introduce competitive new products and services on a timely, cost-effective basis; the mix of products/services; containing costs and expenses; governmental and public policy changes; protection and validity of intellectual property rights; reliance on large customers; technological, implementation and cost/financial risks in large, multi-year contracts; the outcome of pending and future litigation and governmental proceedings; continued availability of financing; financial resources in the amounts, at the times and on the terms required to support the Company's future businesses; and material differences in the actual financial results of merger and acquisition activities compared to the Company's expectations, including the full realization of anticipated cost savings and revenue enhancements.

These are representative of the Future Factors that could affect the outcome of the forward-looking statements. In addition, such statements could be affected by general industry and market conditions and growth rates, general economic and political conditions, either nationally or in the states in which the Company conducts business, including interest rate and currency exchange rate fluctuations, changes and trends in the securities markets, and other Future Factors.

**Table of Contents**

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

Table 1

## QUARTERLY TRENDS

|   | 2006 Quarters |         | 2005 Quarters |         |         |         |
|---|---------------|---------|---------------|---------|---------|---------|
|   | Second        | First   | Fourth        | Third   | Second  | First   |
| <b>Earnings and dividends</b>                 |               |         |               |         |         |         |
| <i>Amounts in thousands, except per share</i> |               |         |               |         |         |         |
| Interest income (taxable-equivalent basis)    | \$ 817,552    | 782,003 | 757,654       | 725,129 | 680,781 | 642,441 |
| Interest expense                              | 366,298       | 330,246 | 303,493       | 265,576 | 229,016 | 196,266 |
| Net interest income                           | 451,254       | 451,757 | 454,161       | 459,553 | 451,765 | 446,175 |
| Less: provision for credit losses             | 17,000        | 18,000  | 23,000        | 22,000  | 19,000  | 24,000  |
| Other income                                  | 262,602       | 252,931 | 248,604       | 221,494 | 245,362 | 234,258 |
| Less: other expense                           | 376,997       | 382,003 | 369,114       | 368,250 | 380,441 | 367,337 |
| Income before income taxes                    | 319,859       | 304,685 | 310,651       | 290,797 | 297,686 | 289,096 |
| Applicable income taxes                       | 102,645       | 97,037  | 101,113       | 95,348  | 96,589  | 95,686  |
| Taxable-equivalent adjustment                 | 4,641         | 4,731   | 4,553         | 4,375   | 4,263   | 4,120   |
| Net income                                    | \$ 212,573    | 202,917 | 204,985       | 191,074 | 196,834 | 189,290 |
| Per common share data                         |               |         |               |         |         |         |
| Basic earnings                                | \$ 1.91       | 1.82    | 1.82          | 1.68    | 1.73    | 1.65    |
| Diluted earnings                              | 1.87          | 1.77    | 1.78          | 1.64    | 1.69    | 1.62    |
| Cash dividends                                | \$ .60        | .45     | .45           | .45     | .45     | .40     |
| Average common shares outstanding             |               |         |               |         |         |         |
| Basic   | 111,259       | 111,693 | 112,529       | 113,530 | 113,949 | 114,773 |
| Diluted                                       | 113,968       | 114,347 | 115,147       | 116,200 | 116,422 | 117,184 |
| <b>Performance ratios, annualized</b>         |               |         |               |         |         |         |
| Return on                                     |               |         |               |         |         |         |

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|  |        |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|--------|
| Average assets   | 1.54%  | 1.49%  | 1.48%  | 1.39%  | 1.46%  | 1.44%  |
| Average common stockholders equity                                       | 14.35% | 13.97% | 13.85% | 12.97% | 13.73% | 13.41% |
| Net interest margin on average earning assets (taxable-equivalent basis) | 3.66%  | 3.73%  | 3.69%  | 3.76%  | 3.78%  | 3.83%  |
| Nonperforming loans to total loans and leases, net of unearned discount  | .38%   | .35%   | .39%   | .41%   | .46%   | .46%   |
| Efficiency ratio (a)   | 52.29% | 54.21% | 52.49% | 51.94% | 54.58% | 54.00% |

**Net operating (tangible) results (b)**

|  |            |         |         |         |         |         |
|--|------------|---------|---------|---------|---------|---------|
| Net income (in thousands)                    | \$ 221,838 | 210,856 | 212,738 | 199,577 | 205,415 | 199,135 |
| Diluted net income per common share          | 1.95       | 1.84    | 1.85    | 1.72    | 1.76    | 1.70    |
| Annualized return on Average tangible assets | 1.69%      | 1.64%   | 1.63%   | 1.54%   | 1.62%   | 1.61%   |
| Average tangible common stockholders equity  | 30.02%     | 29.31%  | 29.12%  | 27.67%  | 29.88%  | 29.67%  |
| Efficiency ratio (a)                         | 50.70%     | 52.36%  | 50.69%  | 49.97%  | 52.56%  | 51.63%  |

**Balance sheet data**

*In millions, except per share*

|  |           |        |        |        |        |        |
|--|-----------|--------|--------|--------|--------|--------|
| Average balances                           |           |        |        |        |        |        |
| Total assets (c)                           | \$ 55,498 | 55,106 | 54,835 | 54,444 | 53,935 | 53,306 |
| Total tangible assets (c)                  | 52,522    | 52,130 | 51,860 | 51,461 | 50,944 | 50,305 |
| Earning assets                             | 49,443    | 49,066 | 48,833 | 48,447 | 47,931 | 47,240 |
| Investment securities                      | 8,314     | 8,383  | 8,302  | 8,439  | 8,593  | 8,573  |
| Loans and leases, net of unearned discount | 40,980    | 40,544 | 40,403 | 39,879 | 39,229 | 38,580 |
| Deposits                                   | 38,435    | 37,569 | 37,006 | 36,708 | 36,245 | 35,282 |
| Stockholders equity (c)                    | 5,940     | 5,893  | 5,873  | 5,845  | 5,749  | 5,723  |
| Tangible stockholders equity (c)           | 2,964     | 2,917  | 2,898  | 2,862  | 2,758  | 2,722  |

At end of quarter

|  |           |        |        |        |        |        |
|--|-----------|--------|--------|--------|--------|--------|
| Total assets (c)                           | \$ 56,507 | 55,420 | 55,146 | 54,841 | 54,482 | 53,887 |
| Total tangible assets (c)                  | 53,345    | 52,443 | 52,176 | 51,863 | 51,495 | 50,891 |
| Earning assets                             | 49,628    | 49,281 | 48,852 | 48,691 | 48,341 | 47,853 |
| Investment securities                      | 7,903     | 8,294  | 8,400  | 8,230  | 8,320  | 8,679  |
| Loans and leases, net of unearned discount | 41,599    | 40,859 | 40,331 | 40,335 | 39,911 | 39,073 |
| Deposits                                   | 38,514    | 38,171 | 37,100 | 37,199 | 37,306 | 36,293 |
| Stockholders equity (c)                    | 6,000     | 5,919  | 5,876  | 5,847  | 5,838  | 5,674  |
| Tangible stockholders equity (c)           | 2,838     | 2,942  | 2,906  | 2,869  | 2,851  | 2,678  |



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|                                      |              |              |              |              |              |              |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Equity per common share              | 54.01        | 53.11        | 52.39        | 51.81        | 51.20        | 49.78        |
| Tangible equity per common share     | 25.55        | 26.41        | 25.91        | 25.42        | 25.00        | 23.49        |
|                                      | <b>_____</b> | <b>_____</b> | <b>_____</b> | <b>_____</b> | <b>_____</b> | <b>_____</b> |
| <b>Market price per common share</b> |              |              |              |              |              |              |
| High                                 | \$ 119.40    | 117.29       | 112.50       | 112.50       | 107.28       | 108.04       |
| Low                                  | 113.34       | 106.45       | 96.71        | 103.50       | 98.75        | 96.71        |
| Closing                              | 117.92       | 114.14       | 109.05       | 105.71       | 105.16       | 102.06       |
|                                      | <b>_____</b> | <b>_____</b> | <b>_____</b> | <b>_____</b> | <b>_____</b> | <b>_____</b> |

(a) Excludes impact of merger-related expenses and net securities transactions.

(b) Excludes amortization and balances related to goodwill and core deposit and other intangible assets and merger-related expenses which, except in the calculation of the efficiency ratio, are net of applicable income tax effects. A reconciliation of net income and net operating income appears in table 2.

(c) The difference between total assets and total tangible assets, and stockholders equity and tangible

stockholders  
equity,  
represents  
goodwill, core  
deposit and  
other intangible  
assets, net of  
applicable  
deferred tax  
balances. A  
reconciliation of  
such balances  
appears in table  
2.

**Table of Contents**

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

Table 2

## RECONCILIATION OF QUARTERLY GAAP TO NON-GAAP MEASURES

|  | 2006 Quarters |          | 2005 Quarters |          |          |          |
|--|---------------|----------|---------------|----------|----------|----------|
|  | Second        | First    | Fourth        | Third    | Second   | First    |
| <b>Income statement data</b>                                 |               |          |               |          |          |          |
| <i>In thousands, except per share</i>                        |               |          |               |          |          |          |
| <b>Net income</b>  |               |          |               |          |          |          |
| Net income   | \$212,573     | 202,917  | 204,985       | 191,074  | 196,834  | 189,290  |
| Amortization of core deposit and other intangible assets (1) | 6,921         | 7,939    | 7,753         | 8,503    | 8,581    | 9,845    |
| Merger-related expenses (1)                                  | 2,344         |          |               |          |          |          |
| Net operating income   | \$221,838     | 210,856  | 212,738       | 199,577  | 205,415  | 199,135  |
| <b>Earnings per share</b>                                    |               |          |               |          |          |          |
| Diluted earnings per common share                            | \$ 1.87       | 1.77     | 1.78          | 1.64     | 1.69     | 1.62     |
| Amortization of core deposit and other intangible assets (1) | .06           | .07      | .07           | .08      | .07      | .08      |
| Merger-related expenses (1)                                  | .02           |          |               |          |          |          |
| Diluted net operating earnings per share                     | \$ 1.95       | 1.84     | 1.85          | 1.72     | 1.76     | 1.70     |
| <b>Other expense</b>   |               |          |               |          |          |          |
| Other expense  | \$376,997     | 382,003  | 369,114       | 368,250  | 380,441  | 367,337  |
| Amortization of core deposit and other intangible assets     | (11,357)      | (13,028) | (12,703)      | (13,926) | (14,055) | (16,121) |
| Merger-related expenses                                      | (3,842)       |          |               |          |          |          |

|  |                   |                   |                   |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Noninterest operating expense            | \$ 361,798        | 368,975           | 356,411           | 354,324           | 366,386           | 351,216           |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>Merger-related expenses</b>           |                   |                   |                   |                   |                   |                   |
| Salaries and employee benefits           | \$ 510            |                   |                   |                   |                   |                   |
| Equipment and net occupancy              | 212               |                   |                   |                   |                   |                   |
| Printing, postage and supplies           | 14                |                   |                   |                   |                   |                   |
| Other costs of operations                | 3,106             |                   |                   |                   |                   |                   |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Total                                    | \$ 3,842          |                   |                   |                   |                   |                   |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>Balance sheet data</b>                |                   |                   |                   |                   |                   |                   |
| <i>In millions</i>                       |                   |                   |                   |                   |                   |                   |
| <b>Average assets</b>                    |                   |                   |                   |                   |                   |                   |
| Average assets                           | \$ 55,498         | 55,106            | 54,835            | 54,444            | 53,935            | 53,306            |
| Goodwill                                 | (2,909)           | (2,907)           | (2,904)           | (2,904)           | (2,904)           | (2,904)           |
| Core deposit and other intangible assets | (107)             | (112)             | (115)             | (128)             | (142)             | (157)             |
| Deferred taxes                           | 40                | 43                | 44                | 49                | 55                | 60                |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Average tangible assets                  | \$ 52,522         | 52,130            | 51,860            | 51,461            | 50,944            | 50,305            |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>Average equity</b>                    |                   |                   |                   |                   |                   |                   |
| Average equity                           | \$ 5,940          | 5,893             | 5,873             | 5,845             | 5,749             | 5,723             |
| Goodwill                                 | (2,909)           | (2,907)           | (2,904)           | (2,904)           | (2,904)           | (2,904)           |
| Core deposit and other intangible assets | (107)             | (112)             | (115)             | (128)             | (142)             | (157)             |
| Deferred taxes                           | 40                | 43                | 44                | 49                | 55                | 60                |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Average tangible equity                  | \$ 2,964          | 2,917             | 2,898             | 2,862             | 2,758             | 2,722             |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>At end of quarter</b>                 |                   |                   |                   |                   |                   |                   |
| <b>Total assets</b>                      |                   |                   |                   |                   |                   |                   |
| Total assets                             | \$ 56,507         | 55,420            | 55,146            | 54,841            | 54,482            | 53,887            |
| Goodwill                                 | (2,909)           | (2,909)           | (2,904)           | (2,904)           | (2,904)           | (2,904)           |
| Core deposit and other intangible assets | (291)             | (111)             | (108)             | (121)             | (135)             | (149)             |
| Deferred taxes                           | 38                | 43                | 42                | 47                | 52                | 57                |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |

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|   |                   |                   |                   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Total tangible assets                       | \$ 53,345         | 52,443            | 52,176            | 51,863            | 51,495            | 50,891            |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>Total equity</b>                         |                   |                   |                   |                   |                   |                   |
| Total equity                                | \$ 6,000          | 5,919             | 5,876             | 5,847             | 5,838             | 5,674             |
| Goodwill                                    | (2,909)           | (2,909)           | (2,904)           | (2,904)           | (2,904)           | (2,904)           |
| Core deposit and other<br>intangible assets | (291)             | (111)             | (108)             | (121)             | (135)             | (149)             |
| Deferred taxes                              | 38                | 43                | 42                | 47                | 52                | 57                |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Total tangible equity                       | \$ 2,838          | 2,942             | 2,906             | 2,869             | 2,851             | 2,678             |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |

(1) After any  
related tax  
effect.

**Table of Contents**

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

Table 3

## AVERAGE BALANCE SHEETS AND ANNUALIZED TAXABLE-EQUIVALENT RATES

| Average balance in millions; interest in thousands     | 2006 Second Quarter |                |              | 2006 First Quarter |                |              |
|--|---------------------|----------------|--------------|--------------------|----------------|--------------|
|  | Average balance     | Interest       | Average rate | Average balance    | Interest       | Average rate |
| <b>Assets</b>  |                     |                |              |                    |                |              |
| Earning assets   |                     |                |              |                    |                |              |
| Loans and leases, net of unearned discount*            |                     |                |              |                    |                |              |
| Commercial, financial, etc.                            | \$11,274            | \$197,945      | 7.04%        | 11,034             | 181,057        | 6.65%        |
| Real estate commercial                                 | 14,947              | 269,632        | 7.22         | 14,678             | 260,008        | 7.09         |
| Real estate consumer                                   | 4,860               | 76,377         | 6.29         | 4,601              | 71,097         | 6.18         |
| Consumer   | 9,899               | 172,523        | 6.99         | 10,231             | 171,342        | 6.79         |
|  | <hr/>               | <hr/>          | <hr/>        | <hr/>              | <hr/>          | <hr/>        |
| Total loans and leases, net                            | 40,980              | 716,477        | 7.01         | 40,544             | 683,504        | 6.84         |
|  | <hr/>               | <hr/>          | <hr/>        | <hr/>              | <hr/>          | <hr/>        |
| Interest-bearing deposits at banks                     | 16                  | 111            | 2.85         | 10                 | 72             | 3.03         |
| Federal funds sold and agreements to resell securities | 30                  | 405            | 5.36         | 31                 | 378            | 4.88         |
| Trading account  | 103                 | 753            | 2.94         | 98                 | 671            | 2.75         |
| Investment securities**                                |                     |                |              |                    |                |              |
| U.S. Treasury and federal agencies                     | 3,062               | 32,473         | 4.25         | 3,024              | 30,310         | 4.06         |
| Obligations of states and political subdivisions       | 171                 | 2,804          | 6.55         | 176                | 2,741          | 6.21         |
| Other  | 5,081               | 64,529         | 5.09         | 5,183              | 64,327         | 5.03         |
|  | <hr/>               | <hr/>          | <hr/>        | <hr/>              | <hr/>          | <hr/>        |
| Total investment securities                            | 8,314               | 99,806         | 4.81         | 8,383              | 97,378         | 4.71         |
|  | <hr/>               | <hr/>          | <hr/>        | <hr/>              | <hr/>          | <hr/>        |
| <b>Total earning assets</b>                            | <b>49,443</b>       | <b>817,552</b> | <b>6.63</b>  | <b>49,066</b>      | <b>782,003</b> | <b>6.46</b>  |
|  | <hr/>               | <hr/>          | <hr/>        | <hr/>              | <hr/>          | <hr/>        |
| Allowance for credit losses                            | (645)               |                |              | (641)              |                |              |
| Cash and due from banks                                | 1,326               |                |              | 1,360              |                |              |
| Other assets   | 5,374               |                |              | 5,321              |                |              |
|  | <hr/>               |                |              | <hr/>              |                |              |
| Total assets   | \$55,498            |                |              | 55,106             |                |              |
|  | <hr/>               |                |              | <hr/>              |                |              |
| <b>Liabilities and stockholders equity</b>             |                     |                |              |                    |                |              |
| Interest-bearing liabilities                           |                     |                |              |                    |                |              |

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|  |                   |                   |                   |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Interest-bearing deposits                    |                   |                   |                   |                   |                   |                   |
| NOW accounts                                 | \$ 438            | 779               | .71               | 409               | 659               | .65               |
| Savings deposits                             | 14,254            | 47,579            | 1.34              | 14,335            | 43,557            | 1.23              |
| Time deposits                                | 12,699            | 139,032           | 4.39              | 11,870            | 118,058           | 4.03              |
| Deposits at foreign office                   | 3,598             | 43,798            | 4.88              | 3,383             | 36,803            | 4.41              |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Total interest-bearing deposits              | 30,989            | 231,188           | 2.99              | 29,997            | 199,077           | 2.69              |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Short-term borrowings                        | 4,326             | 53,623            | 4.97              | 4,555             | 50,567            | 4.50              |
| Long-term borrowings                         | 5,930             | 81,487            | 5.51              | 6,293             | 80,602            | 5.19              |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>Total interest-bearing liabilities</b>    | 41,245            | 366,298           | 3.56              | 40,845            | 330,246           | 3.28              |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Noninterest-bearing deposits                 | 7,446             |                   |                   | 7,572             |                   |                   |
| Other liabilities                            | 867               |                   |                   | 796               |                   |                   |
|  | <u>          </u> |                   |                   | <u>          </u> |                   |                   |
| Total liabilities                            | 49,558            |                   |                   | 49,213            |                   |                   |
|  | <u>          </u> |                   |                   | <u>          </u> |                   |                   |
| Stockholders' equity                         | 5,940             |                   |                   | 5,893             |                   |                   |
|  | <u>          </u> |                   |                   | <u>          </u> |                   |                   |
| Total liabilities and stockholders' equity   | \$55,498          |                   |                   | 55,106            |                   |                   |
|  | <u>          </u> |                   |                   | <u>          </u> |                   |                   |
| Net interest spread                          |                   |                   | 3.07              |                   |                   | 3.18              |
| Contribution of interest-free funds          |                   |                   | .59               |                   |                   | .55               |
|  |                   |                   | <u>          </u> |                   |                   | <u>          </u> |
| Net interest income/margin on earning assets |                   | \$451,254         | 3.66%             |                   | 451,757           | 3.73%             |
|  |                   | <u>          </u> | <u>          </u> |                   | <u>          </u> | <u>          </u> |

[Additional columns below]

[Continued from above table, first column(s) repeated]

| Average balance in millions; interest in thousands | 2005 Fourth Quarter |              |
|--|---------------------|--------------|
|  | Average balance     | Average rate |
|  | Interest            |              |

| <b>Assets</b>  |                   |                   |                   |
|--|-------------------|-------------------|-------------------|
| Earning assets   |                   |                   |                   |
| Loans and leases, net of unearned discount*            |                   |                   |                   |
| Commercial, financial, etc.                            | 10,738            | 169,192           | 6.25%             |
| Real estate commercial                                 | 14,419            | 249,416           | 6.92              |
| Real estate consumer                                   | 4,674             | 70,567            | 6.04              |
| Consumer   | 10,572            | 173,884           | 6.53              |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Total loans and leases, net                            | 40,403            | 663,059           | 6.51              |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Interest-bearing deposits at banks                     | 10                | 55                | 2.14              |
| Federal funds sold and agreements to resell securities | 19                | 210               | 4.29              |
| Trading account  | 99                | 635               | 2.57              |
| Investment securities**                                |                   |                   |                   |
| U.S. Treasury and federal agencies                     | 3,103             | 30,398            | 3.89              |
| Obligations of states and political subdivisions       | 174               | 2,663             | 6.13              |
| Other  | 5,025             | 60,634            | 4.79              |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Total investment securities                            | 8,302             | 93,695            | 4.48              |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>Total earning assets</b>                            | <b>48,833</b>     | <b>757,654</b>    | <b>6.16</b>       |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Allowance for credit losses                            | (642)             |                   |                   |
| Cash and due from banks                                | 1,389             |                   |                   |
| Other assets   | 5,255             |                   |                   |
|  | <u>          </u> |                   |                   |
| Total assets   | 54,835            |                   |                   |
|  | <u>          </u> |                   |                   |
| <b>Liabilities and stockholders equity</b>             |                   |                   |                   |
| Interest-bearing liabilities                           |                   |                   |                   |
| Interest-bearing deposits                              |                   |                   |                   |
| NOW accounts   | 421               | 711               | .67               |
| Savings deposits                                       | 14,498            | 41,042            | 1.12              |
| Time deposits  | 11,018            | 102,511           | 3.69              |
| Deposits at foreign office                             | 3,227             | 32,137            | 3.95              |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Total interest-bearing deposits                        | 29,164            | 176,401           | 2.40              |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Short-term borrowings                                  | 4,625             | 46,992            | 4.03              |
| Long-term borrowings                                   | 6,606             | 80,100            | 4.81              |



|  |                   |                   |                   |
|--|-------------------|-------------------|-------------------|
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>Total interest-bearing liabilities</b>    | 40,395            | 303,493           | 2.98              |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Noninterest-bearing deposits                 | 7,842             |                   |                   |
| Other liabilities                            | 725               |                   |                   |
|  | <u>          </u> |                   |                   |
| Total liabilities                            | 48,962            |                   |                   |
|  | <u>          </u> |                   |                   |
| Stockholders' equity                         | 5,873             |                   |                   |
|  | <u>          </u> |                   |                   |
| Total liabilities and stockholders' equity   | 54,835            |                   |                   |
|  | <u>          </u> |                   |                   |
| Net interest spread                          |                   |                   | 3.18              |
| Contribution of interest-free funds          |                   |                   | <u>.51</u>        |
|  |                   |                   |                   |
| Net interest income/margin on earning assets |                   | 454,161           | 3.69%             |
|  |                   | <u>          </u> | <u>          </u> |

\* *Includes nonaccrual loans.*

\*\* *Includes available for sale securities at amortized cost.*

(continued)

**Table of Contents**

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

Table 3 (continued)

## AVERAGE BALANCE SHEETS AND ANNUALIZED TAXABLE-EQUIVALENT RATES (continued)

| Average balance in millions; interest in thousands     | 2005 Third Quarter |           |              | 2005 Second Quarter |          |              |
|--|--------------------|-----------|--------------|---------------------|----------|--------------|
|  | Average balance    | Interest  | Average rate | Average balance     | Interest | Average rate |
| <b>Assets</b>  |                    |           |              |                     |          |              |
| Earning assets   |                    |           |              |                     |          |              |
| Loans and leases, net of unearned discount*            |                    |           |              |                     |          |              |
| Commercial, financial, etc.                            | \$ 10,497          | \$151,076 | 5.71%        | 10,484              | 142,228  | 5.44%        |
| Real estate commercial                                 | 14,351             | 245,965   | 6.86         | 14,399              | 229,117  | 6.37         |
| Real estate consumer                                   | 4,268              | 63,940    | 5.99         | 3,493               | 52,390   | 6.00         |
| Consumer   | 10,763             | 169,648   | 6.25         | 10,853              | 162,070  | 5.99         |
| Total loans and leases, net                            | 39,879             | 630,629   | 6.27         | 39,229              | 585,805  | 5.99         |
| Interest-bearing deposits at banks                     | 11                 | 48        | 1.77         | 10                  | 38       | 1.48         |
| Federal funds sold and agreements to resell securities | 24                 | 226       | 3.79         | 24                  | 203      | 3.37         |
| Trading account  | 94                 | 510       | 2.16         | 75                  | 299      | 1.60         |
| Investment securities**                                |                    |           |              |                     |          |              |
| U.S. Treasury and federal agencies                     | 3,348              | 32,442    | 3.84         | 3,618               | 34,797   | 3.86         |
| Obligations of states and political subdivisions       | 171                | 2,527     | 5.92         | 183                 | 2,766    | 6.06         |
| Other  | 4,920              | 58,747    | 4.74         | 4,792               | 56,873   | 4.76         |
| Total investment securities                            | 8,439              | 93,716    | 4.41         | 8,593               | 94,436   | 4.41         |
| <b>Total earning assets</b>                            | 48,447             | 725,129   | 5.94         | 47,931              | 680,781  | 5.70         |
| Allowance for credit losses                            | (641)              |           |              | (637)               |          |              |
| Cash and due from banks                                | 1,395              |           |              | 1,395               |          |              |
| Other assets   | 5,243              |           |              | 5,246               |          |              |
| Total assets   | \$ 54,444          |           |              | 53,935              |          |              |
| <b>Liabilities and stockholders equity</b>             |                    |           |              |                     |          |              |
| Interest-bearing liabilities                           |                    |           |              |                     |          |              |

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|  |                   |                   |                   |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Interest-bearing deposits                    |                   |                   |                   |                   |                   |                   |
| NOW accounts                                 | \$ 400            | 610               | .60               | 401               | 543               | .54               |
| Savings deposits                             | 14,822            | 37,222            | 1.00              | 15,163            | 33,292            | .88               |
| Time deposits                                | 9,540             | 79,416            | 3.30              | 8,609             | 64,101            | 2.99              |
| Deposits at foreign office                   | 4,005             | 34,504            | 3.42              | 3,850             | 28,101            | 2.93              |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Total interest-bearing deposits              | 28,767            | 151,752           | 2.09              | 28,023            | 126,037           | 1.80              |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Short-term borrowings                        | 4,779             | 42,192            | 3.50              | 4,969             | 36,678            | 2.96              |
| Long-term borrowings                         | 6,373             | 71,632            | 4.46              | 6,263             | 66,301            | 4.25              |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>Total interest-bearing liabilities</b>    | <b>39,919</b>     | <b>265,576</b>    | <b>2.64</b>       | <b>39,255</b>     | <b>229,016</b>    | <b>2.34</b>       |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Noninterest-bearing deposits                 | 7,941             |                   |                   | 8,222             |                   |                   |
| Other liabilities                            | 739               |                   |                   | 709               |                   |                   |
|  | <u>          </u> |                   |                   | <u>          </u> |                   |                   |
| Total liabilities                            | 48,599            |                   |                   | 48,186            |                   |                   |
|  | <u>          </u> |                   |                   | <u>          </u> |                   |                   |
| Stockholders' equity                         | 5,845             |                   |                   | 5,749             |                   |                   |
|  | <u>          </u> |                   |                   | <u>          </u> |                   |                   |
| Total liabilities and stockholders' equity   | \$ 54,444         |                   |                   | 53,935            |                   |                   |
|  | <u>          </u> |                   |                   | <u>          </u> |                   |                   |
| Net interest spread                          |                   |                   | 3.30              |                   |                   | 3.36              |
| Contribution of interest-free funds          |                   |                   | .46               |                   |                   | .42               |
|  |                   |                   | <u>          </u> |                   |                   | <u>          </u> |
| Net interest income/margin on earning assets |                   | \$459,553         | 3.76%             |                   | 451,765           | 3.78%             |
|  |                   | <u>          </u> | <u>          </u> |                   | <u>          </u> | <u>          </u> |

\* Includes nonaccrual loans.

\*\* Includes available for sale securities at amortized cost.

**Table of Contents**

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Incorporated by reference to the discussion contained under the caption "Taxable-equivalent Net Interest Income" in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures. Based upon their evaluation of the effectiveness of M&T's disclosure controls and procedures (as defined in Exchange Act rules 13a-15(e) and 15d-15(e)), Robert E. Sadler, Jr., President and Chief Executive Officer, and René F. Jones, Executive Vice President and Chief Financial Officer, concluded that M&T's disclosure controls and procedures were effective as of June 30, 2006.

(b) Changes in internal control over financial reporting. M&T regularly assesses the adequacy of its internal control over financial reporting and enhances its controls in response to internal control assessments and internal and external audit and regulatory recommendations. No changes in internal control over financial reporting have been identified in connection with the evaluation of disclosure controls and procedures during the quarter ended June 30, 2006 that have materially affected, or are reasonably likely to materially affect, M&T's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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 against M&T or its subsidiaries will be material to M&T's consolidated financial position, but at the present time is not in a position to determine whether such litigation will have a material adverse effect on M&T's consolidated results of operations in any future reporting period.

Item 1A. Risk Factors.

There have been no material changes in risk factors relating to M&T to those disclosed in response to Item 1A. to Part I of Form 10-K for the year ended December 31, 2005.

**Table of Contents**

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(a) (b) Not applicable.

(c)

**Issuer Purchases of Equity Securities**

| <b>Period</b>            | <b>(a)Total<br/>Number<br/>of Shares<br/>(or Units)<br/>Purchased(1)</b> | <b>(b)Average<br/>Price Paid<br/>per Share<br/>(or Unit)</b> | <b>(c)Total<br/>Number of<br/>Shares<br/>(or Units)<br/>Purchased<br/>as Part of<br/>Publicly<br/>Announced<br/>Plans or<br/>Programs</b> | <b>(d)Maximum<br/>Number (or<br/>Approximate<br/>Dollar Value)<br/>of Shares<br/>(or Units)<br/>that may yet<br/>be Purchased<br/>Under the<br/>Plans or<br/>Programs (2)</b> |
|--------------------------|--|--|---|---|
| April 1 - April 30, 2006 | 261,264  | \$ 114.05  | 260,700   | 3,425,600   |
| May 1 - May 31, 2006     | 195,000  | 115.29   | 195,000   | 3,230,600   |
| June 1 - June 30, 2006   | 150,640  | 114.73   | 150,000   | 3,080,600   |
| <b>Total</b>             | <b>606,904</b>   | <b>\$ 114.62</b>   | <b>605,700</b>  |   |

(1) The total number of shares purchased during the periods indicated includes shares purchased as part of publicly announced programs and shares deemed to have been received from employees who exercised stock options by attesting to previously acquired shares in satisfaction of the exercise price, as is permitted under M&T's stock option plans.

(2) In November 2005, M&T announced a program to purchase up to 5,000,000 shares of its common stock.

## Item 3. Defaults Upon Senior Securities.

(Not applicable.)

## Item 4. Submission of Matters to a Vote of Security Holders.

Information concerning the matters submitted to a vote of stockholders at M&T's Annual Meeting of Stockholders held on April 18, 2006 was previously reported in response to Item 4 of Part II of M&T's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006.

## Item 5. Other Information.

(None.)

**Table of Contents**

Item 6. Exhibits.

The following exhibits are filed as a part of this report.

| <b>Exhibit<br/>No.</b> |   |
|------------------------|---|
| 10.1                   | M&T Bank Corporation Directors Stock Plan, as amended and restated. Filed herewith.   |
| 31.1                   | Certificate of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.                               |
| 31.2                   | Certificate of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.                               |
| 32.1                   | Certification of Chief Executive Officer under 18 U.S.C. §1350 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith. |
| 32.2                   | Certification of Chief Financial Officer under 18 U.S.C. §1350 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith. |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

M&T BANK CORPORATION

Date: August 1, 2006

By: /s/ René F. Jones

\_\_\_\_\_  
René F. Jones  
Executive Vice President  
and Chief Financial Officer

**Table of Contents**

EXHIBIT INDEX

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