

M&T BANK CORP
Form 10-Q
November 09, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

or

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

Commission File Number 1-9861

M&T BANK CORPORATION

(Exact name of registrant as specified in its charter)

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New York
(State or other jurisdiction of
incorporation or organization)

16-0968385
(I.R.S. Employer
Identification No.)

One M & T Plaza

Buffalo, New York
(Address of principal executive offices)

14203
(Zip Code)

(716) 842-5445

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

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

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M&T BANK CORPORATION

FORM 10-Q

For the Quarterly Period Ended September 30, 2011

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (Unaudited)

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

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shares at September 30, 2011 and none at December 31, 2010

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

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M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

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

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

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M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

<i>In thousands</i>		Nine months ended September 30	
		2011	2010
Cash flows from operating activities	Net income	\$ 711,739	531,719
	Adjustments to reconcile net income to net cash provided by operating activities		
	Provision for credit losses	196,000	283,000
	Depreciation and amortization of premises and equipment	60,220	51,216
	Amortization of capitalized servicing rights	39,895	42,917
	Amortization of core deposit and other intangible assets	44,455	44,834
	Provision for deferred income taxes	14,530	49,111
	Asset write-downs	64,153	68,430
	Net gain on sales of assets	(183,861)	(3,006)
	Net change in accrued interest receivable, payable	(6,206)	4,764
	Net change in other accrued income and expense	(21,427)	119,728
	Net change in loans originated for sale	316,623	67,172
	Net change in trading account assets and liabilities	49,376	(10,482)
	Net cash provided by operating activities	1,285,497	1,249,403
Cash flows from investing activities	Proceeds from sales of investment securities		
	Available for sale	1,909,427	21,220
	Other	106,925	62,331
	Proceeds from maturities of investment securities		
	Available for sale	1,007,612	1,097,531
	Held to maturity	180,475	139,555
	Purchases of investment securities		
	Available for sale	(2,569,168)	(414,992)
	Held to maturity	(19,386)	(993,162)
	Other	(30,438)	(7,209)
	Net (increase) decrease in loans and leases	(522,571)	1,087,784
	Net (increase) decrease in interest-bearing deposits at banks	480,708	(268,289)
	Net (increase) decrease in agreements to resell securities	15,000	(425,000)
	Other investments, net	(9,856)	(41,093)
	Capital expenditures, net	(38,030)	(39,380)
	Acquisitions, net of cash acquired		
	Banks and bank holding companies	178,940	
	Purchase of Wilmington Trust Corporation preferred stock	(330,000)	
	Proceeds from sales of real estate acquired in settlement of loans	181,310	62,609
	Other, net	73,739	(28,198)
	Net cash provided by investing activities	614,687	253,707
Cash flows from financing activities	Net increase in deposits	825,434	1,217,511
	Net decrease in short-term borrowings	(400,752)	(1,230,890)
	Payments on long-term borrowings	(1,750,195)	(1,399,101)
	Proceeds from issuance of preferred stock	495,000	
	Redemption of preferred stock	(370,000)	
	Dividends paid - common	(261,589)	(251,125)
	Dividends paid - preferred	(24,815)	(30,169)

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	Other, net	7,035	33,647
	Net cash used by financing activities	(1,479,882)	(1,660,127)
	Net increase (decrease) in cash and cash equivalents	420,302	(157,017)
	Cash and cash equivalents at beginning of period	933,755	1,246,342
	Cash and cash equivalents at end of period	\$ 1,354,057	1,089,325
Supplemental disclosure of cash flow information	Interest received during the period	\$ 2,087,083	2,072,464
	Interest paid during the period	320,758	360,289
	Income taxes paid during the period	308,057	214,903
Supplemental schedule of noncash investing and financing activities	Real estate acquired in settlement of loans	\$ 51,046	165,933
	Acquisitions:		
	Fair value of:		
	Assets acquired (noncash)	10,666,102	
	Liabilities assumed	10,044,555	
	Common stock issued	405,557	
	Retirement of Wilmington Trust Corporation preferred stock	330,000	
	Increase (decrease) from consolidation of securitization trusts:		
	Loans		423,865
	Investment securities - available for sale		(360,471)
	Long-term borrowings		65,419
	Accrued interest and other		2,025

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M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

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

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Unrealized gains on investment securities								
Defined benefit plans liability adjustment					6,431			6,431
Unrealized gain on terminated cash flow hedge					(211)			(211)
Foreign currency translation adjustment					(503)			(503)
								724,426
Acquisition of Wilmington Trust Corporation - common stock issued	2,348			403,209				405,557
Partial redemption of Series A preferred stock	(370,000)							(370,000)
Conversion of Series B preferred stock into 433,144 shares of common stock	(26,500)	192		21,754			4,554	
Issuance of Series D preferred stock	500,000			(5,000)				495,000
Preferred stock cash dividends					(34,125)			(34,125)
Amortization of preferred stock discount	18,560				(18,560)			
Stock-based compensation plans:								
Compensation expense, net	36			650			31,666	32,352
Exercises of stock options, net	29			(6,691)			30,106	23,444
Directors stock plan	2			414			612	1,028
Deferred compensation plans, net, including dividend equivalents		(123)		(203)	(141)		507	40
Other								1,395
Common stock cash dividends - \$2.10 per share					(261,686)			(261,686)
Balance - September 30, 2011	\$ 862,717	62,805	4,066	2,814,143	5,823,928	(192,533)		9,375,126

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NOTES TO FINANCIAL STATEMENTS

1. Significant accounting policies

The consolidated financial statements of M&T Bank Corporation (M&T) and subsidiaries (the Company) were compiled in accordance with generally accepted accounting principles (GAAP) using the accounting policies set forth in note 1 of Notes to Financial Statements included in the 2010 Annual Report. In the opinion of management, all adjustments necessary for a fair presentation have been made and were all of a normal recurring nature.

2. Acquisitions

On May 16, 2011, M&T acquired all of the outstanding common stock of Wilmington Trust Corporation (Wilmington Trust), headquartered in Wilmington, Delaware, in a stock-for-stock transaction. Wilmington Trust operated 55 banking offices in Delaware and Pennsylvania at the date of acquisition. The results of operations acquired in the Wilmington Trust transaction have been included in the Company's financial results since May 16, 2011. Wilmington Trust shareholders received .051372 shares of M&T common stock in exchange for each share of Wilmington Trust common stock, resulting in M&T issuing a total of 4,694,486 common shares with an acquisition date fair value of \$406 million.

The Wilmington Trust transaction has been accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair value on the acquisition date. Assets acquired totaled approximately \$10.8 billion, including \$6.4 billion of loans and leases (including approximately \$3.2 billion of commercial real estate loans, \$1.4 billion of commercial loans and leases, \$1.1 billion of consumer loans and \$680 million of residential real estate loans). Liabilities assumed aggregated \$10.0 billion, including \$8.9 billion of deposits. The common stock issued in the transaction added \$406 million to M&T's common shareholders' equity. Immediately prior to the closing of the Wilmington Trust transaction, M&T redeemed the \$330 million of preferred stock issued by Wilmington Trust as part of the Troubled Asset Relief Program Capital Purchase Program of the U.S. Department of Treasury (U.S. Treasury). In connection with the acquisition, the Company recorded \$176 million of core deposit and other intangible assets. The core deposit and other intangible assets are generally being amortized over periods of 5 to 7 years using an accelerated method. There was no goodwill recorded as a result of the transaction, however, a non-taxable gain of \$65 million was realized, which represented the excess of the fair value of assets acquired less liabilities assumed over consideration exchanged. The acquisition of Wilmington Trust added to M&T's market-leading position in the Mid-Atlantic region by giving M&T the leading deposit market share in Delaware.

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. Acquisitions, continued

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

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

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

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

	(in thousands)
Purchase price:	
Value of:	
Common shares issued (4,694,486 shares)	\$ 405,557
Preferred stock purchased from U.S. Treasury	330,000
Total purchase price	735,557
Identifiable assets:	
Cash and due from banks	178,940
Interest-bearing deposits at banks	2,606,265
Other short-term investments	57,817
Investment securities	510,390
Loans and leases	6,410,430
Core deposit and other intangibles	176,194
Other assets	905,006
Total identifiable assets	10,845,042

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Liabilities:	
Deposits	8,864,161
Short-term borrowings	147,752
Long-term borrowings	600,830
Other liabilities	431,812
Total liabilities	10,044,555
Net gain resulting from acquisition	\$ 64,930

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. Acquisitions, continued

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

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

(a) Represents net interest income plus other income.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. Acquisitions, continued

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

In connection with the Wilmington Trust and K Bank acquisitions, the Company incurred merger-related expenses related to systems conversions and other costs of integrating and conforming acquired operations with and into the Company. Those expenses consisted largely of professional services and other temporary help fees associated with the conversion of systems and/or integration of operations; costs related to termination of existing contractual arrangements of Wilmington Trust to purchase various services; initial marketing and promotion expenses designed to introduce M&T Bank to its new customers; travel costs; and printing, postage, supplies and other costs of completing the transactions and commencing operations in new markets and offices. There were no merger-related expenses during the three months or nine months ended September 30, 2010. The Company expects to incur additional merger-related expenses during the remainder of 2011. As of September 30, 2011, the remaining unpaid portion of incurred merger-related expenses was \$17 million. A summary of merger-related expenses included in the consolidated statement of income follows.

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. Investment securities

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

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

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. Investment securities, continued

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

The Company recognized \$10 million and \$52 million of pre-tax other-than-temporary impairment losses during the three- and nine-month periods ended September 30, 2011, respectively, related to privately issued mortgage-backed securities. The impairment charges were recognized in light of deterioration of real estate values and continued high levels of delinquencies and charge-offs of underlying mortgage loans collateralizing those securities. Other-than-temporary impairment losses on investment securities of \$10 million and \$59 million (pre-tax) were recognized by the Company for the three- and nine-month periods ended September 30, 2010. Approximately \$12 million of the losses recognized in the second quarter of 2010 related to American Depositary Shares of Allied Irish Banks, p.l.c. (AIB ADSs) which were obtained in M&T's acquisition of a subsidiary of AIB in 2003. The remaining losses in 2010 related to certain privately issued residential mortgage-backed securities and collateralized debt obligations backed by pooled trust preferred securities. The impairment charges related to the AIB ADSs were recognized due to mounting credit and other losses incurred by AIB and significant dilution of AIB common shareholders based on the Irish government's significant ownership position. The impairment charges related to the privately issued residential mortgage-backed securities were recognized in light of deterioration of housing values in the residential real estate market and a rise in delinquencies and charge-offs of underlying mortgage loans collateralizing those securities. The other-than-temporary impairment losses on debt securities represent management's estimate of credit losses inherent in the securities considering projected cash flows using assumptions of delinquency rates, loss severities, and other estimates of future collateral performance. The following table displays changes in credit losses for debt securities recognized in earnings for the three months and nine months ended September 30, 2011 and 2010.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. Investment securities, continued

	000000000 Three months ended 2011	000000000 September 30 2010
	(in thousands)	
Beginning balance	\$ 298,141	314,263
Additions for credit losses not previously recognized	9,642	9,532
Reductions for increases in cash flows	(90)	(108)
Reductions for bond charge-offs	(23,127)	(11,812)

Ending balance	\$ 284,566	311,875
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	000000000 Nine months ended 2011	000000000 September 30 2010
	(in thousands)	
Beginning balance	\$ 327,912	284,513
Additions for credit losses not previously recognized	52,213	46,721
Reductions for increases in cash flows	(5,110)	(450)
Reductions for bond charge-offs	(90,449)	(18,909)

Ending balance	\$ 284,566	311,875
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At September 30, 2011, the amortized cost and estimated fair value of debt securities by contractual maturity were as follows:

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

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. Investment securities, continued

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

	Less than 12 months Fair value	Unrealized losses (in thousands)	12 months or more Fair value	Unrealized losses
September 30, 2011				
Investment securities available for sale:				
Obligations of states and political subdivisions	\$ 656	(5)	2,389	(37)
Mortgage-backed securities:				
Government issued or guaranteed	46,184	(167)	3,523	(60)
Privately issued residential	295,370	(8,164)	803,491	(225,385)
Privately issued commercial			16,829	(2,617)
Collateralized debt obligations	2,549	(531)	4,684	(2,320)
Other debt securities	77,028	(5,252)	72,961	(34,694)
Equity securities	9,189	(2,981)		
	430,976	(17,100)	903,877	(265,113)
Investment securities held to maturity:				
Obligations of states and political subdivisions	1,542	(11)	184	(8)
Privately issued mortgage-backed securities	2,791	(1,116)	175,590	(98,936)
	4,333	(1,127)	175,774	(98,944)
Total	\$ 435,309	(18,227)	1,079,651	(364,057)
December 31, 2010				
Investment securities available for sale:				
U.S. Treasury and federal agencies	\$ 27,289	(18)		
Obligations of states and political subdivisions	3,712	(18)	2,062	(39)
Mortgage-backed securities:				
Government issued or guaranteed	68,507	(1,079)	2,965	(32)
Privately issued residential	61,192	(1,054)	1,057,315	(251,027)
Privately issued commercial			22,407	(2,950)
Collateralized debt obligations	12,462	(6,959)	6,004	(2,119)
Other debt securities	2,134	(10)	88,969	(37,990)

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. Investment securities, continued

The Company owned 317 individual investment securities with aggregate gross unrealized losses of \$382 million at September 30, 2011. Approximately \$234 million of the unrealized losses pertained to available-for-sale privately issued residential mortgage-backed securities with a cost basis of \$1.3 billion. The Company also had \$43 million of unrealized losses on available-for-sale trust preferred securities issued by financial institutions and securities backed by trust preferred securities having a cost basis of \$200 million. Based on a review of each of the securities in the investment securities portfolio at September 30, 2011, with the exception of the aforementioned securities for which other-than-temporary impairment losses were recognized, the Company concluded that it expected to recover the amortized cost basis of its investment. As of September 30, 2011, the Company does not intend to sell nor is it anticipated that it would be required to sell any of its impaired investment securities. At September 30, 2011, the Company has not identified events or changes in circumstances which may have a significant adverse effect on the fair value of the \$376 million of cost method investment securities.

4. Loans and leases and the allowance for credit losses

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

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

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

	00000000	00000000	00000000	00000000	00000000	00000000	00000000
			90 Days or more past due and accruing (in thousands)	Purchased impaired (a)	Other acquired impaired (b)	Nonaccrual	Total
	Current	30-89 Days past due					
September 30, 2011							
Commercial, financial, leasing, etc.	\$ 14,943,399	45,226	31,459	25,792	21,924	150,702	15,218,502
Real estate:							
Commercial	18,746,145	197,412	19,207	207,523	82,815	182,953	19,436,055
Residential builder and developer	813,855	116,705	32,767	338,182	49,483	318,957	1,669,949
Other commercial construction	2,600,321	57,034	1,972	67,045	24,035	104,895	2,855,302
Residential	5,787,582	261,641	218,434	59,120	25,724	165,058	6,517,559
Residential Alt-A	415,267	23,832				108,793	547,892
Consumer:							
Home equity lines and loans	6,671,948	45,028		4,794	12,607	41,593	6,775,970
Automobile	2,691,109	49,756			777	27,032	2,768,674
Other	2,531,909	57,950	6,127	1,176	394	13,805	2,611,361
Total	\$ 55,201,535	854,584	309,966	703,632	217,759	1,113,788	58,401,264

	00000000	00000000	00000000	00000000	00000000	00000000	00000000
			90 Days or more past due and accruing (in thousands)	Purchased impaired (a)	Other acquired impaired (b)	Nonaccrual	Total
	Current	30-89 Days past due					
December 31, 2010							
Commercial, financial, leasing, etc.	\$ 13,088,887	96,087	16,647	2,250	13,374	173,365	13,390,610
Real estate:							
Commercial	16,589,240	89,906	35,338	8,275	24,670	184,361	16,931,790
Residential builder and developer	891,764	30,805	9,763	72,710	29,637	316,811	1,351,490
Other commercial construction	2,723,399	36,420	11,323	2,098	10,376	116,265	2,899,881
Residential	4,699,711	229,641	192,276	9,320	10,728	162,001	5,303,677
Residential Alt-A	475,236	42,674				106,469	624,379
Consumer:							
Home equity lines and loans	6,472,563	38,367		2,366	9,692	33,363	6,556,351

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

- (a) *Accruing loans that were specifically identified as impaired at acquisition date and recorded at fair value.*
- (b) *Acquired loans that ceased performing in accordance with their contractual terms subsequent to the acquisition date, but are included in accounting pools that continue to accrue interest.*

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

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

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

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

In determining the allowance for credit losses, residential real estate loans and consumer loans are generally evaluated collectively after considering such factors as payment performance, recent loss experience and trends related thereto. However, residential real estate loans and outstanding balances of home equity loans and lines of credit that are more than 150 days past due are generally evaluated for collectibility on a loan-by-loan basis giving consideration to estimated collateral values.

The Company also measures additional losses for purchased impaired loans when it is probable that the Company will be unable to collect all cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimates after acquisition. Given the inherent subjectivity and potential imprecision involved in determining the allocated portion of the allowance for credit losses, the Company also provides an inherent unallocated portion of the allowance. The unallocated portion of the allowance is intended to recognize probable losses that are not otherwise identifiable and includes management's subjective determination of amounts necessary to provide for the possible use of imprecise estimates in determining the

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

allocated portion of the allowance. The determination of the allocated portion of the allowance for credit losses is very subjective. Factors that influence the precision in developing loss estimates for the allocated allowance impact the level of the unallocated portion of the allowance. Such factors might include the effects of expansion into new markets for which the Company does not have the same degree of familiarity and experience regarding portfolio performance in changing market conditions, the introduction of new loan and lease product types, and other risks associated with the Company's loan portfolio that may not be specifically identifiable.

At September 30, 2011 and December 31, 2010, the allocation of the allowance for credit losses summarized on the basis of the Company's impairment methodology was as follows:

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

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

During the normal course of business, the Company modifies loans to maximize recovery efforts. If the borrower is experiencing financial difficulty and a concession is granted, the Company considers such modifications as troubled debt restructurings and classifies those loans as either nonaccrual loans or renegotiated loans. The types of concessions that the Company grants typically include principal deferrals and interest rate concessions, but may also include other types of concessions. As a result of adopting amendments to the accounting guidance in the third quarter of 2011, the Company was required to reassess any loan modifications that occurred on or after January 1, 2011 to determine if they qualified as troubled debt restructurings. The impact of the retrospective evaluation of loan modifications was not significant.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

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

(a)

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

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

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

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- (a) Financial effects impacting the recorded investment included principal payments or advances, charge-offs and capitalized escrow arrearages.
- (b) Represents the present value of interest rate concessions discounted at the effective rate of the original loan.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

5. Borrowings

M&T had \$1.2 billion of fixed and floating rate junior subordinated deferrable interest debentures (Junior Subordinated Debentures) outstanding at September 30, 2011 which are held by various trusts that were issued in connection with the issuance by those trusts of preferred capital securities (Capital Securities) and common securities (Common Securities). The proceeds from the issuances of the Capital Securities and the Common Securities were used by the trusts to purchase the Junior Subordinated Debentures. The Common Securities of each of those trusts are wholly owned by M&T and are the only class of each trust's securities possessing general voting powers. The Capital Securities represent preferred undivided interests in the assets of the corresponding trust.

Under the Federal Reserve Board's current risk-based capital guidelines, the Capital Securities are includable in M&T's Tier 1 capital. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 was signed into law on July 21, 2010. One of its provisions is for a three-year phase-in related to the exclusion of trust preferred capital securities from Tier 1 capital for large financial institutions, including M&T. That phase-in period begins on January 1, 2013.

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

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

5. Borrowings, continued

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

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

6. Shareholders equity

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

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

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

- (a) *Shares were issued as part of the Troubled Asset Relief Program Capital Purchase Program of the U.S. Treasury. Cash proceeds were allocated between the preferred stock and a ten-year warrant to purchase M&T common stock (Series A 1,218,522 common shares at \$73.86 per share, Series C 407,542 common shares at \$55.76 per share). Dividends, if declared, will accrue and be paid quarterly at a rate of 5% per year for the first five years following the original 2008 issuance dates and thereafter at a rate of 9% per year. The agreement with the U.S. Treasury contains limitations on certain actions of M&T, including the payment of quarterly cash dividends on M&T's common stock in excess of \$.70 per share, the repurchase of its common stock during the first three years of the agreement, and the amount and nature of compensation arrangements for certain of the Company's officers.*

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

6. Shareholders' equity, continued

- (b) Shares were assumed in an acquisition and a new Series B Preferred Stock was designated. Pursuant to their terms, the shares of Series B Preferred Stock were converted into 433,144 shares of M&T common stock on April 1, 2011. The preferred stock had a stated dividend rate of 10% per year.
- (c) Shares were assumed in an acquisition and a new Series C Preferred Stock was designated.
- (d) On May 18, 2011, M&T redeemed and retired 370,000 shares of the Series A Preferred Stock. Accelerated amortization of preferred stock discount associated with the redemption was \$11.2 million.
- (e) Shares were issued on May 31, 2011. Dividends, if declared, will be paid semi-annually at a rate of 6.875% per year. The shares are redeemable in whole or in part on or after June 15, 2016. Notwithstanding M&T's option to redeem the shares, if an event occurs such that the shares no longer qualify as Tier 1 Capital, M&T may redeem all of the shares within 90 days following that occurrence.

7. Pension plans and other postretirement benefits

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

7. Pension plans and other postretirement benefits, continued

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

8. Earnings per common share

The computations of basic earnings per common share follow:

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