

M&T BANK CORP  
Form 10-Q  
November 03, 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 September 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

Edgar Filing: M&T BANK CORP - Form 10-Q

Number of shares of the registrant's Common Stock, \$0.50 par value, outstanding as of the close of business on October 27, 2006: 110,669,626 shares.

---

M&T BANK CORPORATION

FORM 10-Q

For the Quarterly Period Ended September 30, 2006

| <b>Table of Contents of Information Required in Report</b>  | <b>Page</b> |
|---|-------------|
| <hr/>   |             |
| <u>Part I. FINANCIAL INFORMATION</u>  |             |
| <u>Item 1. Financial Statements.</u>  |             |
| <u>CONSOLIDATED BALANCE SHEET September 30, 2006 and December 31, 2005</u>  | 3           |
| <u>CONSOLIDATED STATEMENT OF INCOME Three and nine months ended September 30, 2006 and 2005</u>                     | 4           |
| <u>CONSOLIDATED STATEMENT OF CASH FLOWS Nine months ended September 30, 2006 and 2005</u>                           | 5           |
| <u>CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY Nine months ended September 30, 2006 and 2005</u>       | 6           |
| <u>CONSOLIDATED SUMMARY OF CHANGES IN ALLOWANCE FOR CREDIT LOSSES Nine months ended September 30, 2006 and 2005</u> | 6           |
| <u>NOTES TO FINANCIAL STATEMENTS</u>  | 7           |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>               | 20          |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</u>  | 52          |
| <u>Item 4. Controls and Procedures.</u>   | 52          |
| <u>Part II. OTHER INFORMATION</u>   |             |
| <u>Item 1. Legal Proceedings.</u>   | 52          |
| <u>Item 1A. Risk Factors.</u>   | 52          |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u>   | 53          |
| <u>Item 3. Defaults Upon Senior Securities.</u>   | 53          |
| <u>Item 4. Submission of Matters to a Vote of Security Holders.</u>   | 53          |
| <u>Item 5. Other Information.</u>   | 53          |
| <u>Item 6. Exhibits.</u>  | 54          |
| <u>SIGNATURES</u>   | 54          |
| <u>EXHIBIT INDEX</u>  | 55          |
| <u>EX-10.1</u>  |             |
| <u>EX-10.2</u>  |             |
| <u>EX-10.3</u>  |             |
| <u>EX-31.1</u>  |             |
| <u>EX-31.2</u>  |             |
| <u>EX-32.1</u>  |             |
| <u>EX-32.2</u>  |             |

**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>September 30,<br/>2006</b> | <b>December 31,<br/>2005</b> |
|---|-------------------------------|------------------------------|
| <b>Assets</b>   |                               |                              |
| Cash and due from banks   | \$ 1,336,737                  | 1,479,239                    |
| Interest-bearing deposits at banks  | 10,425                        | 8,408                        |
| Federal funds sold and agreements to resell securities  | 123,245                       | 11,220                       |
| Trading account   | 176,450                       | 191,617                      |
| Investment securities   |                               |                              |
| Available for sale (cost: \$7,268,309 at September 30, 2006; \$8,011,560 at December 31, 2005)  | 7,202,117                     | 7,931,703                    |
| Held to maturity (market value: \$69,213 at September 30, 2006; \$102,880 at December 31, 2005) | 67,370                        | 101,059                      |
| Other (market value: \$356,813 at September 30, 2006; \$367,402 at December 31, 2005)           | 356,813                       | 367,402                      |
| Total investment securities   | <u>7,626,300</u>              | <u>8,400,164</u>             |
| Loans and leases  | 42,351,264                    | 40,553,691                   |
| Unearned discount   | (252,993)                     | (223,046)                    |
| Allowance for credit losses   | (646,319)                     | (637,663)                    |
| Loans and leases, net   | <u>41,451,952</u>             | <u>39,692,982</u>            |
| Premises and equipment  | 332,504                       | 337,115                      |
| Goodwill  | 2,908,849                     | 2,904,081                    |
| Core deposit and other intangible assets  | 270,910                       | 108,260                      |
| Accrued interest and other assets   | 2,136,104                     | 2,013,320                    |
| Total assets  | <u>\$ 56,373,476</u>          | <u>55,146,406</u>            |
| <b>Liabilities</b>  |                               |                              |

Edgar Filing: M&T BANK CORP - Form 10-Q

|  |                             |                             |
|--|-----------------------------|-----------------------------|
| Noninterest-bearing deposits   | \$ 7,754,061                | 8,141,928                   |
| NOW accounts   | 839,219                     | 901,938                     |
| Savings deposits   | 13,974,350                  | 13,839,150                  |
| Time deposits  | 12,535,348                  | 11,407,626                  |
| Deposits at foreign office   | 3,975,811                   | 2,809,532                   |
|  | <u>                    </u> | <u>                    </u> |
| Total deposits   | 39,078,789                  | 37,100,174                  |
|  | <u>                    </u> | <u>                    </u> |
| Federal funds purchased and agreements to repurchase securities  | 3,783,899                   | 4,211,978                   |
| Other short-term borrowings  | 634,457                     | 940,894                     |
| Accrued interest and other liabilities   | 1,001,600                   | 819,980                     |
| Long-term borrowings   | 5,723,488                   | 6,196,994                   |
|  | <u>                    </u> | <u>                    </u> |
| Total liabilities  | 50,222,233                  | 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 September 30, 2006 and at December 31, 2005 | 60,198                      | 60,198                      |
| Common stock issuable, 92,071 shares at September 30, 2006; 100,298 shares at December 31, 2005                                  | 5,080                       | 5,363                       |
| Additional paid-in capital   | 2,889,631                   | 2,886,153                   |
| Retained earnings  | 4,296,655                   | 3,854,275                   |
| Accumulated other comprehensive income (loss), net   | (86,940)                    | (97,930)                    |
| Treasury stock - common, at cost - 9,810,465 shares at September 30, 2006; 8,336,907 shares at December 31, 2005                 | (1,013,381)                 | (831,673)                   |
|  | <u>                    </u> | <u>                    </u> |
| Total stockholders' equity   | 6,151,243                   | 5,876,386                   |
|  | <u>                    </u> | <u>                    </u> |
| Total liabilities and stockholders' equity   | \$ 56,373,476               | 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</b> |                   | <b>Nine months ended</b> |                   |
|--|---------------------------|-------------------|--------------------------|-------------------|
|  | <b>September 30</b>       |                   | <b>September 30</b>      |                   |
|  | <b>2006</b>               | <b>2005</b>       | <b>2006</b>              | <b>2005</b>       |
| Interest income  |                           |                   |                          |                   |
| Loans and leases, including fees                       | \$755,543                 | 628,122           | \$2,150,076              | 1,760,226         |
| Deposits at banks                                      | 121                       | 48                | 304                      | 114               |
| Federal funds sold and agreements to resell securities | 2,487                     | 226               | 3,270                    | 598               |
| Trading account  | 680                       | 510               | 2,104                    | 909               |
| Investment securities                                  |                           |                   |                          |                   |
| Fully taxable  | 90,320                    | 88,309            | 276,100                  | 263,328           |
| Exempt from federal taxes                              | 3,685                     | 3,539             | 11,165                   | 10,418            |
|  | <u>          </u>         | <u>          </u> | <u>          </u>        | <u>          </u> |
| Total interest income                                  | 852,836                   | 720,754           | 2,443,019                | 2,035,593         |
|  | <u>          </u>         | <u>          </u> | <u>          </u>        | <u>          </u> |
| Interest expense                                       |                           |                   |                          |                   |
| NOW accounts   | 960                       | 610               | 2,398                    | 1,471             |
| Savings deposits                                       | 51,816                    | 37,222            | 142,952                  | 98,403            |
| Time deposits  | 152,571                   | 79,416            | 409,661                  | 192,271           |
| Deposits at foreign office                             | 48,244                    | 34,504            | 128,845                  | 87,985            |
| Short-term borrowings                                  | 59,487                    | 42,192            | 163,677                  | 110,861           |
| Long-term borrowings                                   | 82,574                    | 71,632            | 244,663                  | 199,867           |
|  | <u>          </u>         | <u>          </u> | <u>          </u>        | <u>          </u> |
| Total interest expense                                 | 395,652                   | 265,576           | 1,092,196                | 690,858           |
|  | <u>          </u>         | <u>          </u> | <u>          </u>        | <u>          </u> |
| <i>Net interest income</i>                             | 457,184                   | 455,178           | 1,350,823                | 1,344,735         |
| Provision for credit losses                            | 17,000                    | 22,000            | 52,000                   | 65,000            |
|  | <u>          </u>         | <u>          </u> | <u>          </u>        | <u>          </u> |
| Net interest income after provision for credit losses  | 440,184                   | 433,178           | 1,298,823                | 1,279,735         |
|  | <u>          </u>         | <u>          </u> | <u>          </u>        | <u>          </u> |
| Other income   |                           |                   |                          |                   |
| Mortgage banking revenues                              | 36,806                    | 35,345            | 112,882                  | 100,045           |
| Service charges on deposit accounts                    | 100,314                   | 94,878            | 284,739                  | 276,200           |
| Trust income   | 35,224                    | 33,748            | 103,777                  | 100,016           |
| Brokerage services income                              | 14,794                    | 13,685            | 43,999                   | 42,045            |
| Trading account and foreign exchange gains             | 5,082                     | 6,326             | 17,756                   | 17,152            |

Edgar Filing: M&T BANK CORP - Form 10-Q

|  |                   |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|
| Gain (loss) on bank investment securities                | 1,133             | (27,995)          | 1,427             | (27,749)          |
| Other revenues from operations                           | 80,549            | 65,507            | 224,855           | 193,405           |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Total other income                                       | 273,902           | 221,494           | 789,435           | 701,114           |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Other expense  |                   |                   |                   |                   |
| Salaries and employee benefits                           | 218,980           | 207,705           | 660,224           | 618,922           |
| Equipment and net occupancy                              | 41,683            | 43,033            | 127,612           | 129,647           |
| Printing, postage and supplies                           | 8,294             | 8,684             | 24,933            | 25,926            |
| Amortization of core deposit and other intangible assets | 19,936            | 13,926            | 44,321            | 44,102            |
| Other costs of operations                                | 120,048           | 94,902            | 310,851           | 297,431           |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Total other expense                                      | 408,941           | 368,250           | 1,167,941         | 1,116,028         |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Income before taxes                                      | 305,145           | 286,422           | 920,317           | 864,821           |
| Income taxes   | 94,775            | 95,348            | 294,457           | 287,623           |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| <i>Net income</i>  | <u>\$210,370</u>  | <u>191,074</u>    | <u>\$ 625,860</u> | <u>577,198</u>    |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Net income per common share                              |                   |                   |                   |                   |
| Basic  | \$ 1.89           | 1.68              | \$ 5.62           | 5.06              |
| Diluted  | 1.85              | 1.64              | 5.49              | 4.95              |
| Cash dividends per common share                          | \$ .60            | .45               | \$ 1.65           | 1.30              |
| Average common shares outstanding                        |                   |                   |                   |                   |
| Basic  | 111,047           | 113,530           | 111,331           | 114,079           |
| Diluted  | 113,897           | 116,200           | 114,069           | 116,598           |

-4-



**Table of Contents**

## M&amp;T BANK CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

| <b>In thousands</b>  | <b>Nine months ended September</b> |             |
|--|------------------------------------|-------------|
|  | <b>2006</b>                        | <b>2005</b> |
| Cash flows from operating activities   |                                    |             |
| Net income   | \$ 625,860                         | 577,198     |
| Adjustments to reconcile net income to net cash provided by operating activities |                                    |             |
| Provision for credit losses  | 52,000                             | 65,000      |
| Depreciation and amortization of premises and equipment                          | 39,202                             | 44,007      |
| Amortization of capitalized servicing rights                                     | 45,660                             | 43,910      |
| Amortization of core deposit and other intangible assets                         | 44,321                             | 44,102      |
| Provision for deferred income taxes  | (58,107)                           | (80,628)    |
| Asset write-downs  | 241                                | 32,543      |
| Net gain on sales of assets  | (11,086)                           | (8,607)     |
| Net change in accrued interest receivable, payable                               | 46,556                             | 11,282      |
| Net change in other accrued income and expense                                   | 145,724                            | 6,904       |
| Net change in loans held for sale  | (5,009)                            | (1,100,886) |
| Net change in trading account assets and liabilities                             | 5,572                              | (41,961)    |
| Net cash provided (used) by operating activities                                 | 930,934                            | (407,136)   |
| Cash flows from investing activities   |                                    |             |
| Proceeds from sales of investment securities                                     |                                    |             |
| Available for sale   | 98,365                             | 19,016      |
| Other  | 40,960                             | 46,293      |
| Proceeds from maturities of investment securities                                |                                    |             |
| Available for sale   | 1,242,416                          | 1,664,759   |
| Held to maturity   | 78,900                             | 85,797      |
| Purchases of investment securities   |                                    |             |
| Available for sale   | (596,108)                          | (1,504,722) |
| Held to maturity   | (45,228)                           | (84,950)    |
| Other  | (30,371)                           | (71,056)    |
| Additions to capitalized servicing rights  | (44,450)                           | (31,093)    |
| Net increase in loans and leases   | (1,541,817)                        | (888,175)   |
| Capital expenditures, net  | (26,627)                           | (15,167)    |
| Acquisitions, net of cash acquired   | 482,818                            |             |
| Other, net   | (51,753)                           | (80,454)    |
| Net cash used by investing activities  | (392,895)                          | (859,752)   |

|   |                             |                             |
|---|-----------------------------|-----------------------------|
| Cash flows from financing activities                                |                             |                             |
| Net increase in deposits  | 1,015,347                   | 1,777,199                   |
| Net decrease in short-term borrowings                               | (806,767)                   | (504,435)                   |
| Proceeds from long-term borrowings                                  | 500,000                     | 1,801,657                   |
| Payments on long-term borrowings                                    | (969,595)                   | (1,276,808)                 |
| Purchases of treasury stock   | (298,896)                   | (407,748)                   |
| Dividends paid common   | (183,328)                   | (147,981)                   |
| Other, net  | 74,723                      | 83,680                      |
|   | <u>                    </u> | <u>                    </u> |
| Net cash provided (used) by financing activities                    | (668,516)                   | 1,325,564                   |
|   | <u>                    </u> | <u>                    </u> |
| Net increase (decrease) in cash and cash equivalents                | \$ (130,477)                | 58,676                      |
| 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                          | \$ 1,359,982                | 1,422,480                   |
|   | <u>                    </u> | <u>                    </u> |
| Supplemental disclosure of cash flow information                    |                             |                             |
| Interest received during the period                                 | \$ 2,435,470                | 1,995,532                   |
| Interest paid during the period                                     | 1,024,465                   | 667,355                     |
| Income taxes paid during the period                                 | 254,759                     | 367,529                     |
|   | <u>                    </u> | <u>                    </u> |
| Supplemental schedule of noncash investing and financing activities |                             |                             |
| Real estate acquired in settlement of loans                         | \$ 13,505                   | 7,804                       |
| 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 | Additional stock | Retained earnings | Accumulated other comprehensive income (loss), net | Treasury stock | Total     |
|-----------------------|--|-----------------|--------------|------------------|-------------------|--|----------------|-----------|
|                       |  | per share       | issuable     | paid-in capital  |                   |  |                |           |
| In thousands, except  |  |                 |              |                  |                   |  |                |           |
| <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   |                 |              |                  | 577,198           |  |                | 577,198   |
|                       | Other comprehensive income, net of tax and reclassification adjustments: |                 |              |                  |                   |  |                |           |
|                       | Unrealized losses on investment securities                               |                 |              |                  |                   | (28,076)   |                | (28,076)  |
|                       | Purchases of treasury stock  |                 |              |                  |                   |  | (407,748)      | (407,748) |
|                       | Repayment of management stock ownership program receivable               |                 |              | 304              |                   |  |                | 304       |
|                       | Stock-based compensation plans:  |                 |              |                  |                   |  |                |           |
|                       | Stock option and purchase plans:   |                 |              |                  |                   |  |                |           |
|                       | Compensation expense   |                 |              | 33,915           |                   |  |                | 33,915    |
|                       | Exercises  |                 |              | (49,271)         |                   |  | 137,998        | 88,727    |
|                       | Directors stock plan   |                 |              | 69               |                   |  | 750            | 819       |
|                       | Deferred compensation plans, net, including dividend equivalents         |                 | (343)        | (185)            | (131)             |  | 910            | 251       |
|                       | Common stock cash dividends - \$1.30 per share                           |                 |              |                  | (147,981)         |  |                | (147,981) |
| Balance               | September 30, 2005   | \$ 60,198       | 5,436        | 2,882,744        | 3,699,973         | (45,285)   | (756,043)      | 5,847,023 |
| <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   |                 |              |                  | 625,860           |  |                | 625,860   |
|                       | Other comprehensive income,  |                 |              |                  |                   |  |                |           |

|  |    |               |              |                  |                  |                 |                    |                             |
|--|----|---------------|--------------|------------------|------------------|-----------------|--------------------|-----------------------------|
| net of tax and reclassification adjustments:                     |    |               |              |                  |                  |                 |                    |                             |
| Unrealized gains on investment securities                        |    |               |              |                  | 10,990           |                 |                    | <u>10,990</u>               |
| Purchases of treasury stock                                      |    |               |              |                  |                  | (298,896)       |                    | 636,850<br><u>(298,896)</u> |
| Repayment of management stock ownership program receivable       |    |               | 225          |                  |                  |                 |                    | 225                         |
| Stock-based compensation plans:                                  |    |               |              |                  |                  |                 |                    |                             |
| Stock option and purchase plans:                                 |    |               |              |                  |                  |                 |                    |                             |
| Compensation expense   |    |               | 40,059       |                  |                  |                 |                    | 40,059                      |
| Exercises  |    |               | (36,419)     |                  |                  | 115,636         |                    | 79,217                      |
| Directors' stock plan  |    |               | 87           |                  |                  | 694             |                    | 781                         |
| Deferred compensation plans, net, including dividend equivalents |    | (283)         | (474)        | (152)            |                  | 858             |                    | (51)                        |
| Common stock cash dividends - \$1.65 per share                   |    |               |              |                  | (183,328)        |                 |                    | <u>(183,328)</u>            |
| Balance September 30, 2006                                       | \$ | <u>60,198</u> | <u>5,080</u> | <u>2,889,631</u> | <u>4,296,655</u> | <u>(86,940)</u> | <u>(1,013,381)</u> | <u>6,151,243</u>            |

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

| In thousands                | Nine months ended September 30 |                 |
|-----------------------------|--------------------------------|-----------------|
|                             | 2006                           | 2005            |
| Beginning balance           | \$ 637,663                     | 626,864         |
| Provision for credit losses | 52,000                         | 65,000          |
| Net charge-offs             |                                |                 |
| Charge-offs                 | (65,683)                       | (77,604)        |
| Recoveries                  | 22,339                         | 23,559          |
| Total net charge-offs       | <u>(43,344)</u>                | <u>(54,045)</u> |
| Ending balance              | \$ <u>646,319</u>              | <u>637,819</u>  |

**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:

|  | <b>Three months ended<br/>September 30</b> |             | <b>Nine months ended<br/>September 30</b> |             |
|--|--|-------------|---|-------------|
|  | <b>2006</b>                                | <b>2005</b> | <b>2006</b>                               | <b>2005</b> |
|  | <b>(in thousands, except per share)</b>    |             |   |             |
| Income available to common stockholders                                  |  |             |   |             |
| Net income   | \$210,370                                  | 191,074     | 625,860                                   | 577,198     |
| Weighted-average shares outstanding<br>(including common stock issuable) | 111,047                                    | 113,530     | 111,331                                   | 114,079     |
| Basic earnings per share   | \$ 1.89                                    | 1.68        | 5.62                                      | 5.06        |

The computations of diluted earnings per share follow:

|  | <b>Three months ended<br/>September 30</b> |             | <b>Nine months ended<br/>September 30</b> |             |
|--|--|-------------|---|-------------|
|  | <b>2006</b>                                | <b>2005</b> | <b>2006</b>                               | <b>2005</b> |
|  | <b>(in thousands, except per share)</b>    |             |   |             |
| Income available to common stockholders                              | \$210,370                                  | 191,074     | 625,860                                   | 577,198     |
| Weighted-average shares outstanding                                  | 111,047                                    | 113,530     | 111,331                                   | 114,079     |
| Plus: incremental shares from assumed<br>conversion of stock options | 2,850                                      | 2,670       | 2,738                                     | 2,519       |
| Adjusted weighted-average shares outstanding                         | 113,897                                    | 116,200     | 114,069                                   | 116,598     |
| Diluted earnings per share   | \$ 1.85                                    | 1.64        | 5.49                                      | 4.95        |

-7-

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**3. Comprehensive income**

The following table displays the components of other comprehensive income:

|  | <b>Nine months ended<br/>September 30, 2006</b> |                   |                   |
|--|---|-------------------|-------------------|
|  | <b>Before-tax Income</b>                        |                   |                   |
|  | <b>amount</b>                                   | <b>taxes</b>      | <b>Net</b>        |
|  | <b>(in<br/>thousands)</b>                       |                   |                   |
| Unrealized gains on investment securities:                         |   |                   |                   |
| Unrealized holding gains during period                             | \$ 15,092                                       | (3,211)           | 11,881            |
| Less: reclassification adjustment for gains realized in net income | 1,427   | (536)             | 891               |
|  | <u>          </u>                               | <u>          </u> | <u>          </u> |
| Net unrealized gains   | \$ 13,665                                       | (2,675)           | 10,990            |
|  | <u>          </u>                               | <u>          </u> | <u>          </u> |

  

|   | <b>Nine months ended<br/>September 30, 2005</b> |                   |                   |
|---|---|-------------------|-------------------|
|   | <b>Before-tax Income</b>                        |                   |                   |
|   | <b>amount</b>                                   | <b>taxes</b>      | <b>Net</b>        |
|   | <b>(in<br/>thousands)</b>                       |                   |                   |
| Unrealized losses on investment securities:                         |   |                   |                   |
| Unrealized holding losses during period                             | \$(88,340)                                      | 31,964            | (56,376)          |
| Less: reclassification adjustment for losses realized in net income | (27,749)  | (551)             | (28,300)          |
|   | <u>          </u>                               | <u>          </u> | <u>          </u> |
| Net unrealized losses   | \$(60,591)                                      | 32,515            | (28,076)          |
|   | <u>          </u>                               | <u>          </u> | <u>          </u> |

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

| <b>Investment</b> | <b>Minimum<br/>pension<br/>liability</b> |
|-------------------|--|
|-------------------|--|

Edgar Filing: M&T BANK CORP - Form 10-Q

|                               | <u>securities</u> | <u>adjustment</u> | <u>Total</u>    |
|-------------------------------|-------------------|-------------------|-----------------|
|                               |                   | (in<br>thousands) |                 |
| Balance January 1, 2006       | \$(48,576)        | (49,354)          | (97,930)        |
| Net gain (loss) during period | <u>10,990</u>     | <u>          </u> | <u>10,990</u>   |
| Balance September 30, 2006    | <u>\$(37,586)</u> | <u>(49,354)</u>   | <u>(86,940)</u> |
| Balance January 1, 2005       | \$ (4,712)        | (12,497)          | (17,209)        |
| Net gain (loss) during period | <u>(28,076)</u>   | <u>          </u> | <u>(28,076)</u> |
| Balance September 30, 2005    | <u>\$(32,788)</u> | <u>(12,497)</u>   | <u>(45,285)</u> |

-8-

---

**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 6.51% and 6.40%, respectively, at September 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:

| Trust     | Distribution rate   | Distribution dates                           |
|-----------|---------------------|--|
| 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 October 15 |
| Trust V   | LIBOR plus<br>.85%  | February 1, May 1, August 1 and 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:

| Trust    | Capital Securities | Common Securities | Junior Subordinated Debentures   |
|----------|--------------------|-------------------|--|
| 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                                  |



Edgar Filing: M&T BANK CORP - Form 10-Q

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-

---

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**4. Borrowings, continued**

| <b>Trust</b> | <b>Capital Securities</b> | <b>Common Securities</b> | <b>Junior Subordinated Debentures</b>   |
|--------------|---------------------------|--------------------------|---|
| 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 September 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 6.51% and 6.40%, respectively, at September 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 Junior Subordinated Debentures upon early redemption will be expressed as



**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

**4. Borrowings, continued**

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 6.94% at September 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>September 30,<br/>2006</b> | <b>December 31,<br/>2005</b> |
|----------------------|-------------------------------|------------------------------|
|                      | <b>(in thousands)</b>         |                              |
| Trust I              | \$ 154,640                    | 154,640                      |
| Trust II             | 103,093                       | 103,093                      |
| Trust III            | 68,465                        | 68,709                       |
| Trust IV             | 143,514                       | 143,102                      |
| Trust V              | 141,157                       | 140,660                      |
| Allfirst Asset Trust | 101,757                       | 101,640                      |
|                      | <u>\$712,626</u>              | <u>711,844</u>               |

**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 September 30</b> |                               |                          |                          |                               |                          |                |
|--|-------------------------------|--------------------------|--------------------------|-------------------------------|--------------------------|----------------|
| <b>2006</b>                            |                               |                          | <b>2005</b>              |                               |                          |                |
| <b>Total revenues(a)</b>               | <b>Inter-segment revenues</b> | <b>Net income (loss)</b> | <b>Total revenues(a)</b> | <b>Inter-segment revenues</b> | <b>Net income (loss)</b> |                |
| (in thousands)                         |                               |                          |                          |                               |                          |                |
| Commercial Banking                     | \$ 137,976                    | 110                      | 55,276                   | 131,474                       | 119                      | 54,449         |
| Commercial Real Estate                 | 64,805                        | 198                      | 31,583                   | 80,856                        | 319                      | 40,712         |
| Discretionary Portfolio                | 44,811                        | (500)                    | 27,251                   | 14,687                        | (197)                    | 11,218         |
| Residential Mortgage Banking           | 72,525                        | 14,350                   | 10,088                   | 69,898                        | 15,968                   | 13,128         |
| Retail Banking                         | 381,064                       | 3,026                    | 109,878                  | 340,730                       | 4,390                    | 85,598         |
| All Other                              | 29,905                        | (17,184)                 | (23,706)                 | 39,027                        | (20,599)                 | (14,031)       |
| <b>Total</b>                           | <b>\$ 731,086</b>             |                          | <b>210,370</b>           | <b>676,672</b>                |                          | <b>191,074</b> |

| <b>Nine months ended September 30</b> |                               |                          |                          |                               |                          |         |
|---------------------------------------|-------------------------------|--------------------------|--------------------------|-------------------------------|--------------------------|---------|
| <b>2006</b>                           |                               |                          | <b>2005</b>              |                               |                          |         |
| <b>Total revenues(a)</b>              | <b>Inter-segment revenues</b> | <b>Net income (loss)</b> | <b>Total revenues(a)</b> | <b>Inter-segment revenues</b> | <b>Net income (loss)</b> |         |
| (in thousands)                        |                               |                          |                          |                               |                          |         |
| Commercial Banking                    | \$ 407,401                    | 400                      | 168,960                  | 396,648                       | 439                      | 164,479 |
| Commercial Real Estate                | 198,326                       | 650                      | 97,687                   | 213,421                       | 811                      | 108,328 |
| Discretionary Portfolio               | 119,561                       | (668)                    | 73,276                   | 111,063                       | (387)                    | 71,027  |

Edgar Filing: M&T BANK CORP - Form 10-Q

|                  |                   |                   |                   |                   |                   |                   |
|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Residential      |                   |                   |                   |                   |                   |                   |
| Mortgage Banking | 216,739           | 42,423            | 44,105            | 189,074           | 38,208            | 31,605            |
| Retail Banking   | 1,087,157         | 8,872             | 304,926           | 985,416           | 13,455            | 243,214           |
| All Other        | 111,074           | (51,677)          | (63,094)          | 150,227           | (52,526)          | (41,455)          |
|                  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Total            | \$2,140,258       |                   | 625,860           | 2,045,849         |                   | 577,198           |
|                  | <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 \$5,172,000 and \$4,375,000 for the three-month periods ended September 30, 2006 and 2005, respectively, and \$14,544,000 and \$12,758,000 for the nine-month periods ended September 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>Nine months ended</b>    |             | <b>Year ended</b>  |
|                              | <b>September 30</b>         |             | <b>December 31</b> |
|                              | <b>2006</b>                 | <b>2005</b> | <b>2005</b>        |
|                              | <b>(in millions)</b>        |             |                    |
| Commercial Banking           | \$12,562                    | 11,679      | 11,723             |
| Commercial Real Estate       | 8,398                       | 8,344       | 8,335              |
| Discretionary Portfolio      | 12,185                      | 11,779      | 11,810             |
| Residential Mortgage Banking | 3,393                       | 2,452       | 2,712              |
| Retail Banking               | 14,096                      | 14,711      | 14,639             |
| All Other                    | 4,957                       | 4,934       | 4,916              |
|                              | <hr/>                       | <hr/>       | <hr/>              |
| Total                        | \$55,591                    | 53,899      | 54,135             |
|                              | <hr/>                       | <hr/>       | <hr/>              |



**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>September 30,<br/>2006</b> | <b>December 31,<br/>2005</b> |
|--|-------------------------------|------------------------------|
|  | <b>(in thousands)</b>         |                              |
| Commitments to extend credit                       |                               |                              |
| Home equity lines of credit                        | \$5,412,831                   | 4,903,834                    |
| Commercial real estate loans to be sold            | 163,045                       | 41,662                       |
| Other commercial real estate and construction      | 2,186,191                     | 2,249,805                    |
| Residential real estate loans to be sold           | 676,491                       | 351,898                      |
| Other residential real estate                      | 949,730                       | 848,015                      |
| Commercial and other                               | 6,884,384                     | 6,843,170                    |
| Standby letters of credit                          | 3,598,424                     | 3,523,234                    |
| Commercial letters of credit                       | 60,913                        | 47,360                       |
| Financial guarantees and indemnification contracts | 1,042,823                     | 1,186,385                    |
| Commitments to sell real estate loans              | 1,475,347                     | 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 \$912 million and \$941 million at September 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 through 2017. Semi-annual payments to be made by the Company over the remaining term of that agreement totaled \$59 million as of September 30, 2006.

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 September 30</b> |              |                                    |             |
|   | <b>2006</b>                            | <b>2005</b>  | <b>2006</b>                        | <b>2005</b> |
|   | <b>(in thousands)</b>                  |              |                                    |             |
| Service cost                                  | \$ 5,537                               | 7,620        | 137                                | (5)         |
| Interest cost on projected benefit obligation | 8,482                                  | 9,595        | 1,035                              | 510         |
| Expected return on plan assets                | (9,767)                                | (9,215)      |                                    |             |
| Amortization of prior service cost            | (1,504)                                | 29           | 35                                 | 85          |
| Amortization of net actuarial loss            | 1,772                                  | 1,395        | 110                                | (294)       |
| Net periodic benefit cost                     | <u>\$ 4,520</u>                        | <u>9,424</u> | <u>1,317</u>                       | <u>296</u>  |

|   | <b>Pension<br/>benefits</b>           |               | <b>Postretirement<br/>benefits</b> |              |
|---|---------------------------------------|---------------|------------------------------------|--------------|
|   | <b>Nine months ended September 30</b> |               |                                    |              |
|   | <b>2006</b>                           | <b>2005</b>   | <b>2006</b>                        | <b>2005</b>  |
|   | <b>(in thousands)</b>                 |               |                                    |              |
| Service cost                                  | \$ 16,687                             | 23,620        | 437                                | 495          |
| Interest cost on projected benefit obligation | 26,832                                | 29,445        | 2,735                              | 3,210        |
| Expected return on plan assets                | (29,017)                              | (28,365)      |                                    |              |
| Amortization of prior service cost            | (5,054)                               | 29            | 135                                | 85           |
| Amortization of net actuarial loss            | 6,272                                 | 3,795         | 160                                | 306          |
| Net periodic benefit cost                     | <u>\$ 15,720</u>                      | <u>28,524</u> | <u>3,467</u>                       | <u>4,096</u> |

## 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 September 30, 2006 and 2005, the Company recognized \$11 million of stock-based compensation expense and \$3 million of related income tax benefits. For the nine months ended September 30, 2006 and 2005, the Company recognized \$40 million and \$34 million, respectively, of stock-based compensation expense and \$10 million and \$9 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 of retirement. This change affected the timing of stock-based compensation expense recognition in the Company's consolidated financial statements for the first three 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

**Table of Contents**

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

expense increased stock-based compensation expense for the nine-months ended September 30, 2006 by \$5 million (\$4 million after taxes), and reduced basic and diluted earnings per share by \$.03 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 nine-month period ended September 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 third quarter of 2006 was insignificant. The following is selected information pertaining to the Company's stock option activity as of and for the nine-month periods ended September 30, 2006 and 2005. Additional information concerning the Company's stock-based compensation plans can be found in the Company's 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 nine-month periods ended September 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, 2006       | 10,454,663               | \$ 73.81                                  |  |   |
| Granted                              | 1,723,432                | 109.00                                    |  |   |
| Exercised                            | (1,071,601)              | 55.41                                     |  |   |
| Cancelled                            | (95,460)                 | 99.29                                     |  |   |
|                                      | <hr/>                    | <hr/>                                     |  |   |
| Outstanding at September 30,<br>2006 | 11,011,034               | \$ 80.89                                  | 6.1  | \$ 430,190  |
|                                      | <hr/>                    | <hr/>                                     | <hr/>  | <hr/>   |
|                                      | 6,006,604                | \$ 65.63                                  | 4.4  | \$ 326,368  |

Exercisable at September 30,  
2006

\_\_\_\_\_

For the nine months ended September 30, 2006 and 2005, M&T received \$57 million and \$72 million, respectively, in cash and realized \$20 million and \$25 million, respectively, in tax benefits from the exercise of stock options. The intrinsic value of stock options exercised during those periods was \$64 million and \$75 million, respectively. As of September 30, 2006, there was \$52 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 2.5 years. Reflecting

**Table of Contents**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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 nine months ended September 30, 2006 and 2005 was \$37 million and \$41 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. The transaction did not have a significant effect on M&T's day-to-day operating results during the third 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 \$1 million (\$704 thousand net of applicable income taxes) in the third quarter 2006, and \$5 million (\$3 million net of applicable income taxes) for the nine-month period ended September 30, 2006.



**Table of Contents**

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

**Overview**

Net income of M&T Bank Corporation ( M&T ) was \$210 million or \$1.85 of diluted earnings per common share in the third quarter of 2006, representing increases of 10% and 13%, respectively, from \$191 million or \$1.64 of diluted earnings per common share in the third quarter of 2005. During the second quarter of 2006, net income was \$213 million or \$1.87 of diluted earnings per common share. Basic earnings per common share were \$1.89 in 2006's third quarter, compared with \$1.68 in the year-earlier quarter and \$1.91 in the second quarter of 2006.

On June 30, 2006, M&T Bank, the principal bank subsidiary of M&T, 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. M&T's financial results for the third quarter of 2006 reflect the impact of that transaction. Expenses associated with integrating the acquired branches into M&T Bank and introducing the customers associated with those branches to M&T Bank's products and services aggregated \$1 million, after applicable tax effect, or \$.01 of diluted earnings per share during the third quarter of 2006 and \$3 million, after applicable tax effect, or \$.03 of diluted earnings per share during the nine-month period ended September 30, 2006. M&T expects that additional acquisition-related expenses will be incurred in the fourth quarter of 2006, however, such expenses are not expected to be significant. Including the impact of acquisition-related expenses and the amortization of core deposit intangible resulting from the transaction, net income and diluted earnings per share of M&T and its subsidiaries ( the Company ) in the recent quarter were reduced by approximately \$5 million and \$.04, respectively, as a result of the transaction.

The recent quarter's results also reflect certain other notable events that in total had no significant effect on net income. The Company recorded a \$13 million gain resulting from the accelerated recognition of a purchase accounting premium related to the call of a \$200 million Federal Home Loan Bank of Atlanta borrowing assumed in a previous acquisition. After applicable taxes, that gain added \$8 million to net income. Also reflected in the 2006 third quarter results was a \$3 million reduction of income tax expense related to the favorable settlement of refund claims originally filed by Allfirst Financial Inc. ( Allfirst ) prior to its acquisition by M&T on April 1, 2003. The refunds received, consisting of income taxes and taxable interest, exceeded the amounts previously accrued for such items by \$5 million (pre-tax). Finally, an \$18 million tax deductible contribution was made by M&T Bank to The M&T Charitable Foundation, a tax-exempt private charitable foundation, which increased other expense by the amount of the contribution and, after applicable tax effect, reduced net income by \$11 million. As noted above, the aggregate impact of these events had no significant effect on the Company's net income or diluted earnings per share in the third quarter of 2006.

M&T's results for the third quarter of 2005 included a \$29 million other-than-temporary impairment charge related to \$133 million of variable rate preferred stock issuances of the Federal National Mortgage Association ( FNMA ) and the Federal Home Loan Mortgage Corporation ( FHLMC ). Although the securities were rated as investment grade, M&T recognized the impairment charge, in accordance with generally accepted accounting principles ( GAAP ), in light of changing circumstances during the third quarter of 2005. As a result of that impairment charge and the recognition of available income tax benefits, the Company's net income in 2005's third quarter was reduced by \$18 million, or \$.16 of diluted earnings per share.

**Table of Contents**

For the nine-months ended September 30, 2006, net income was \$626 million or \$5.49 per diluted share, increases of 8% and 11%, respectively, from \$577 million or \$4.95 per diluted share during the similar period of 2005. Basic earnings per share were \$5.62 for the first nine months of 2006, compared with \$5.06 in the corresponding nine-month period of 2005.

The annualized rate of return on the Company's average total assets in the third quarter of 2006 was 1.49%, compared with 1.39% in the year-earlier quarter and 1.54% in 2006's second quarter. The annualized rate of return on average common stockholders' equity was 13.72% in the recently completed quarter, compared with 12.97% in the third quarter of 2005 and 14.35% in 2006's second quarter. During the first nine months of 2006, the annualized rates of return on average assets and average common stockholders' equity were 1.51% and 14.01%, respectively, compared with 1.43% and 13.37%, respectively, in the similar 2005 period.

**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 September 30, 2006 and \$3.0 billion at each of September 30 and December 31, 2005. Included in such intangible assets at September 30, 2006, September 30, 2005 and December 31, 2005 was goodwill of \$2.9 billion. Amortization of core deposit and other intangible assets, after tax effect, totaled \$12 million (\$.10 per diluted share) during the third quarter of 2006, compared with \$9 million (\$.08 per diluted share) in the similar 2005 quarter and \$7 million (\$.06 per diluted share) in 2006's second quarter. For each of the nine-month periods ended September 30, 2006 and 2005, amortization of core deposit and other intangible assets, after tax effect, totaled \$27 million (\$.23 per diluted share).

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 (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.

Reflecting the impact of each year's third quarter events described earlier, net operating income rose 12% to \$223 million during the recent quarter from \$200 million in the third quarter of 2005. Diluted net operating earnings per share for 2006's third quarter were \$1.96, up 14% from \$1.72 in the year-earlier quarter. Net operating income and diluted net operating earnings per share were \$222 million and \$1.95, respectively, in the second quarter of 2006. For the first three quarters of 2006, net operating income and diluted net operating earnings per share were \$656 million and \$5.75, respectively, compared with \$604 million and \$5.18 in the corresponding 2005 period.

Expressed as an annualized rate of return on average tangible assets, net operating income was 1.67% in the recent quarter, compared with 1.54% in the year-earlier quarter and 1.69% in the second quarter of 2006. Net operating income expressed as an annualized return on average tangible common equity was 30.22% in 2006's third quarter, compared with 27.67% in the similar quarter of 2005 and 30.02% in 2006's second quarter. For the nine-month period ended September 30, 2006, net operating income represented an annualized return on average tangible assets and average tangible common

**Table of Contents**

stockholders' equity of 1.67% and 29.86%, respectively, compared with 1.59% and 29.04%, respectively, in the corresponding period of 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 increased 1% to \$462 million in the third quarter of 2006 from \$460 million in the similar quarter of 2005. Growth in taxable-equivalent net interest income resulting from a \$1.8 billion, or 5% increase in average loan balances outstanding, to \$41.7 billion from \$39.9 billion in the third quarter of 2005, was offset by a decline in the Company's net interest margin, or taxable-equivalent net interest income expressed as an annualized percentage of average earning assets. The Company's net interest margin was 3.68% in the third quarter of 2006 and 3.76% in the third quarter of 2005. Taxable-equivalent net interest income was \$451 million in the second quarter of 2006. The increase in net interest income from the second quarter of 2006 to the recently completed quarter reflects a 2 basis point (hundredth of one percent) increase in net interest margin from 3.66% in 2006's second quarter and a \$730 million increase in average loans outstanding from \$41.0 billion.

For the first three quarters of 2006, taxable-equivalent net interest income was \$1.37 billion, up 1% from \$1.36 billion in the similar 2005 period. Similar to the circumstances described above, growth in average loans and leases of \$1.8 billion, or 5%, was largely offset by the impact of a lower net interest margin, which declined 10 basis points to 3.69% during the first nine months of 2006 from 3.79% in the corresponding 2005 period.

Higher average outstanding balances of commercial loans, commercial real estate loans and residential real estate loans were responsible for the recent quarter's growth in average loans outstanding as compared with the third quarter of 2005 and the second quarter of 2006. As compared with the year-earlier quarter, during 2006's third quarter, average commercial loan balances grew \$939 million, or 9%, to \$11.4 billion, while average commercial real estate loans increased \$905 million, or 6%, to \$15.3 billion, and average balances of residential real estate loans increased \$785 million, or 18%, to \$5.1 billion. Average outstanding consumer loan balances decreased \$798 million to \$10.0 billion in the third quarter of 2006 from \$10.8 billion in the corresponding 2005 quarter, largely due to declines of \$853 million in outstanding automobile loans and leases, the result of the Company's decision to not extend such credit at unfavorable interest rates. Reflecting similar trends, increases in the average balances of commercial loans of \$162 million, commercial real estate loans of \$309 million, and residential real estate loans of \$193 million contributed significantly to the \$730 million growth in average loans outstanding from 2006's second quarter to the third quarter. Average consumer loans outstanding increased \$66 million or 1%, from 2006's second quarter, reflecting growth in outstanding average balances of home equity lines of credit of \$152 million or 4%, offset by a decline of \$165 million, or 6%, in average automobile loan and lease balances. Approximately one-third of the aggregate increase in average loans from the second to third quarter of 2006 was due to the \$269 million of loans obtained in the June 30, 2006 branch acquisition, including \$57 million of commercial loans, \$40 million of commercial real estate loans, \$121 million of outstanding home equity line of credit balances and \$51 million of other consumer loans. The following table summarizes quarterly changes in the major components of the loan and lease portfolio.

**Table of Contents****AVERAGE LOANS AND LEASES**

(net of unearned discount)

Dollars in millions

|                             | <b>3rd Qtr.<br/>2006</b> | <b>Percent increase<br/>(decrease) from</b> |                              |
|-----------------------------|--------------------------|---|------------------------------|
|                             |                          | <b>3rd<br/>Qtr.<br/>2005</b>                | <b>2nd<br/>Qtr.<br/>2006</b> |
| Commercial, financial, etc. | \$11,436                 | 9%  | 1%                           |
| Real estate commercial      | 15,256                   | 6   | 2                            |
| Real estate consumer        | 5,053                    | 18  | 4                            |
| Consumer                    |                          |   |                              |
| Automobile                  | 2,763                    | (24)  | (6)                          |
| Home equity lines           | 4,291                    | 5   | 4                            |
| Home equity loans           | 1,224                    | (1)   | 2                            |
| Other                       | 1,687                    | (8)   | 3                            |
|                             | <hr/>                    | <hr/>                                       | <hr/>                        |
| Total consumer              | 9,965                    | (7)   | 1                            |
|                             | <hr/>                    | <hr/>                                       | <hr/>                        |
| Total                       | \$41,710                 | 5%  | 2%                           |
|                             | <hr/>                    | <hr/>                                       | <hr/>                        |

For the nine months ended September 30, 2006, average loans and leases totaled \$41.1 billion, up 5% from \$39.2 billion in the similar 2005 period. Growth in the commercial, commercial real estate and consumer real estate loan portfolios were each significant factors in the increase in average loans and leases outstanding, partially offset by lower average consumer loan balances.

Investment securities averaged \$7.9 billion in 2006's third quarter, down 6% from \$8.4 billion in the year-earlier quarter and 5% from \$8.3 billion during 2006's second quarter, largely the result of net paydowns and maturities of collateralized residential mortgage obligations. For the first nine months of 2006 and 2005, average investment securities were \$8.2 billion and \$8.5 billion, respectively. 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 September 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. Those other earning assets in the aggregate averaged \$241 million, \$129 million and \$149 million for the quarters ended September 30, 2006, September 30, 2005 and June 30, 2006, respectively. For the nine-month periods ended September 30, 2006 and 2005, such assets averaged \$176 million and \$108 million, respectively. 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.

The changes described herein resulted in a rise in average earning assets of \$1.4 billion, or 3%, to \$49.8 billion in the recent quarter from \$48.4 billion in the third quarter of 2005. Average earning assets were \$49.4 billion in the second quarter of 2006 and totaled \$49.5 billion and \$47.9 billion for the nine-month periods ended September 30, 2006 and 2005, respectively.

**Table of Contents**

The most significant source of funding for the Company is core deposits, which 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 subsidiary of M&T. Core deposits averaged \$28.7 billion in 2006's third quarter, compared with \$27.9 billion in the year-earlier quarter and \$28.0 billion in 2006's second quarter. The previously discussed June 30, 2006 branch acquisition added approximately \$900 million of average core deposits to the recent quarter's total. More notably, the rise in average balances of time deposits less than \$100,000 in the current quarter as compared with the third quarter of 2005 was due largely 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. The following table provides an analysis of quarterly changes in the components of average core deposits. For the nine-month periods ended September 30, 2006 and 2005, core deposits averaged \$28.2 billion and \$27.9 billion, respectively.

**AVERAGE CORE DEPOSITS**

Dollars in millions

|                                   |                          | <b>Percent increase<br/>(decrease) from</b> |                              |
|-----------------------------------|--------------------------|---|------------------------------|
|                                   | <b>3rd Qtr.<br/>2006</b> | <b>3rd<br/>Qtr.<br/>2005</b>                | <b>2nd<br/>Qtr.<br/>2006</b> |
| NOW accounts                      | \$ 434                   | 9%  | (1)%                         |
| Savings deposits                  | 14,393                   | (2)   | 1                            |
| Time deposits less than \$100,000 | 6,290                    | 32  | 6                            |
| Noninterest-bearing deposits      | 7,571                    | (5)   | 2                            |
|                                   | <hr/>                    | <hr/>                                       | <hr/>                        |
| Total                             | \$28,688                 | 3%  | 2%                           |
|                                   | <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 \$3.1 billion in the third quarter of 2006, compared with \$1.8 billion and \$2.9 billion in the year-earlier quarter and the second quarter of 2006, respectively. Offshore branch deposits, primarily comprised of balances of \$100,000 or more, averaged \$3.7 billion, \$4.0 billion and \$3.6 billion for the three-month periods ended September 30, 2006, September 30, 2005 and June 30, 2006, respectively. Average brokered time deposits were \$3.6 billion in the recent quarter, compared with \$2.9 billion in the third quarter of 2005 and \$3.8 billion in 2006's second quarter. At September 30, 2006, brokered time deposits totaled \$3.2 billion and had a weighted-average remaining term to maturity of 10 months. Certain of those 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 \$675 million of brokered

time deposits. The Company also had brokered money-market deposit accounts which averaged \$69 million during 2006's third quarter, compared with \$63 million and \$65 million during the similar quarter of 2005 and second quarter of 2006, respectively. Offshore branch deposits and brokered deposits have been 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.

**Table of Contents**

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 \$4.4 billion in the third quarter of 2006, compared with \$4.8 billion in the corresponding 2005 quarter and \$4.3 billion in 2006's second quarter. Unsecured federal funds borrowings, which generally mature daily, included in short-term borrowings averaged \$3.6 billion in the third quarter of 2006, \$4.0 billion in the year-earlier quarter and \$3.4 billion in the second quarter of 2006. 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 \$5.7 billion in the recent quarter, compared with \$6.4 billion and \$5.9 billion in the third quarter of 2005 and the second quarter of 2006, respectively. Included in average long-term borrowings were amounts borrowed from the FHLB totaling \$3.7 billion in each of the third quarters of 2006 and 2005, and \$3.9 billion in 2006's second quarter, and subordinated capital notes of \$1.2 billion in each of those quarters. Junior subordinated debentures associated with trust preferred securities that were included in average long-term borrowings were \$712 million in each of the two most recent quarters and \$711 million in the third quarter of 2005. Information regarding trust preferred securities and the related junior subordinated debentures is provided in note 4 of Notes to Financial Statements.

Changes in the composition of the Company's earning assets and interest-bearing liabilities as discussed herein, as well as 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 3.06% in the recent quarter, down from 3.30% in the year-earlier quarter. The yield on earning assets during 2006's third quarter was 6.83%, up 89 basis points from 5.94% in the similar quarter of 2005, while the rate paid on interest-bearing liabilities increased 113 basis points to 3.77% from 2.64%. In the second quarter of 2006, the net interest spread was 3.07%, the yield on earning assets was 6.63% and the rate paid on interest-bearing liabilities was 3.56%. For the first nine months of 2006, the net interest spread was 3.10%, a decrease of 27 basis points from the year-earlier period. The yield on earning assets and the rate paid on interest-bearing liabilities were 6.64% and 3.54%, respectively, for the nine-month period ended September 30, 2006, compared with 5.72% and 2.35%, respectively, in the similar 2005 period. During the period from January 1, 2005 through June 30, 2006, the Federal Reserve raised its benchmark overnight federal funds target rate twelve times, 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 the interest-bearing liabilities, most notably short-term borrowings, than in yields on earning assets. The results of these conditions was a contraction of the net interest spread from the first quarter of 2005 through the third quarter of 2006.

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 two most recent quarters, compared with \$8.5 billion in the third quarter of 2005. During the first nine months of 2006 and 2005, average net interest-free funds were \$8.2 billion and \$8.6 billion, respectively. The decreases in average net interest-free funds in the 2006 periods as compared



**Table of Contents**

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 \$3.2 billion during the third quarter of 2006, compared with \$3.0 billion during each of the third quarter of 2005 and the second quarter of 2006. The cash surrender value of bank owned life insurance averaged \$1.1 billion in the two most recent quarters, and \$1.0 billion in the third quarter of 2005. 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 .62% in 2006's third quarter, compared with .46% in the third quarter of 2005 and .59% in 2006's second quarter. For the first three quarters of 2006 and 2005, the contribution of net interest-free funds to net interest margin was .59% and .42%, respectively. The increased contribution to net interest margin ascribed to interest-free funds in the three and nine months ended September 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 net interest spread and the contribution of interest-free funds as described herein, the Company's net interest margin was 3.68% in the recent quarter, 8 basis points lower than 3.76% in the third quarter of 2005, but 2 basis points higher than 3.66% in the second quarter of 2006. During the nine-month periods ended September 30, of 2006 and 2005, the net interest margin was 3.69% and 3.79%, 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. Until the recent quarter, the only exceptions were a one basis point increase in net interest margin from 2004's final quarter to the first quarter of 2005 due to the impact of two less days in 2005's initial quarter and an increase in net interest margin of four basis points 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. During 2006's third quarter, the Federal Reserve held interest rates steady and the Company's net interest margin stabilized. In addition, the impact of the June 30 branch acquisition added approximately three basis points to the recent quarter's net interest margin.

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 \$812 million as of September 30, 2006, \$700 million as of September 30, 2005, \$787 million as of June 30, 2006 and \$652 million as of December 31, 2005. In general, 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.

As of September 30, 2006, all of the Company's interest rate swap agreements entered into for interest-rate 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

**Table of Contents**

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 quarters ended September 30, 2006 and 2005 and during the quarter ended June 30, 2006 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 \$8 million and \$18 million at September 30, 2006 and 2005, respectively, and a loss of \$9 million at December 31, 2005. The fair values of such swap agreements were substantially offset by unrealized gains or losses on the hedged items. The changes in the fair values of the interest rate swap agreements and the hedged items resulted 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 5.04% and 5.98%, respectively, at September 30, 2006. The average notional amounts of interest rate swap agreements and the related effect on net interest income and margin, and weighted-average interest rates paid or received on those swap agreements, are presented in the accompanying table.

**INTEREST RATE SWAP AGREEMENTS**

Dollars in thousands

|                            | <b>Three months ended September 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            | \$ 1,677                               | .02 %         | \$ (802)         | (.01) %       |
| Interest expense           | <u>1,677</u>                           | .02           | <u>(802)</u>     | (.01)         |
| Net interest income/margin | <u>\$ (1,677)</u>                      | <u>(.01)%</u> | <u>\$ 802</u>    | <u>.01 %</u>  |
| Average notional amount    | <u>\$795,665</u>                       |               | <u>\$694,565</u> |               |
| Rate received**            |  | 5.22 %        |                  | 6.85 %        |
| Rate paid**                |  | <u>6.05 %</u> |                  | <u>6.39 %</u> |

**Nine months ended September 30**

|  | <b>2006</b> | <b>2005</b> |
|--|-------------|-------------|
|--|-------------|-------------|

|                            | <u>Amount</u>     | <u>Rate*</u>  | <u>Amount</u>    | <u>Rate*</u>  |
|----------------------------|-------------------|---------------|------------------|---------------|
| Increase (decrease) in:    |                   |               |                  |               |
| Interest income            | \$ 2,746          | %             | \$ (5,449)       | %             |
| Interest expense           | <u>2,746</u>      | .01           | <u>(5,449)</u>   | (.02)         |
| Net interest income/margin | <u>\$ (2,746)</u> | <u>(.01)%</u> | <u>\$ 5,449</u>  | <u>.02 %</u>  |
| Average notional amount    | <u>\$754,420</u>  |               | <u>\$727,308</u> |               |
| Rate received**            |                   | 5.14 %        |                  | 6.80 %        |
| Rate paid**                |                   | <u>5.63 %</u> |                  | <u>5.80 %</u> |

\* 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 demand 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 regulations. 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 \$3.6 billion, \$3.3 billion and \$4.0 billion at September 30, 2006, September 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 money-market assets and investment securities, repayments of loans and investment securities, and cash generated from operations, such as fees collected for services.

Certain customers of the Company obtain financing through the issuance of variable rate demand bonds (VRDBs). 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 \$46 million and \$53 million at September 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 September 30, 2006 and December 31, 2005, compared with \$1.6 billion at September 30, 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 this test, at September 30, 2006 approximately \$286 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 September 30, 2006 or at December 31, 2005.

Management closely monitors the Company's liquidity position 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 that 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 Company is exposed to interest rate risk in its core banking activities of lending and deposit-taking, since 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

**Table of Contents**

rates at each point on the yield curve) and non-parallel (that is, allowing 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 September 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>September 30, 2006</b>  | <b>December 31,<br/>2005</b> |
| +200 basis points                | \$ 3,799   | (7,178)                      |
| +100 basis points                | 7,876  | (4,096)                      |
| -100 basis points                | (7,459)  | (5,733)                      |
| -200 basis points                | (14,999)   | (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 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,

**Table of Contents**

mortgage-backed securities, mutual funds and interest rate contracts, such as 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 \$8.0 billion at September 30, 2006, compared with \$6.7 billion at each of September 30 and December 31, 2005. The notional amounts of foreign currency and other option and futures contracts entered into for trading purposes were \$727 million, \$897 million and \$679 million at September 30, 2006, September 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 were \$176 million and \$67 million, respectively, at September 30, 2006, \$187 million and \$79 million, respectively, at September 30, 2005, and \$192 million and \$77 million, respectively, at December 31, 2005. Included in trading account assets at September 30, 2006 were \$43 million related to deferred compensation plans, compared with \$41 million at each of September 30 and 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 each of September 30, 2006, September 30, 2005 and December 31, 2005 were \$48 million of 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 each of the second and third quarter of 2006 was \$17 million, compared with \$22 million in the third quarter of 2005. Net loan charge-offs were \$17 million and \$22 million in the quarters ended September 30, 2006 and 2005, respectively, and \$10 million in 2006's second quarter. Net charge-offs as an annualized percentage of average loans and leases were .16% in the recent quarter, compared with .21% in the third quarter of 2005 and .10% in the second quarter of 2006. For the nine-month periods ended September 30, 2006 and 2005, the provision for credit losses was \$52 million and \$65 million, respectively. Net charge-offs through September 30 were \$43 million and \$54 million in 2006 and 2005, respectively, representing an annualized .14% and .18% 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>3rd Qtr.</b> | <b>Year to-date</b> |
| Commercial, financial, etc. | \$ 6,085        | 2,119           | 1,384           | 9,588               |
| Real estate:                |                 |                 |                 |                     |
| Commercial                  | 86              | 249             | (105)           | 230                 |
| Residential                 | 473             | 696             | 2,431           | 3,600               |
| Consumer                    | 10,188          | 6,916           | 12,822          | 29,926              |
|                             | <u>\$16,832</u> | <u>9,980</u>    | <u>16,532</u>   | <u>43,344</u>       |

|                             | <b>2005</b>     |                 |                 |                     |
|-----------------------------|-----------------|-----------------|-----------------|---------------------|
|                             | <b>1st Qtr.</b> | <b>2nd Qtr.</b> | <b>3rd Qtr.</b> | <b>Year to-date</b> |
| Commercial, financial, etc. | \$ 6,070        | 3,625           | 9,321           | 19,016              |
| Real estate:                |                 |                 |                 |                     |
| Commercial                  | (769)           | (236)           | (530)           | (1,535)             |
| Residential                 | 492             | 425             | 597             | 1,514               |
| Consumer                    | 13,078          | 9,834           | 12,138          | 35,050              |
|                             | <u>\$18,871</u> | <u>13,648</u>   | <u>21,526</u>   | <u>54,045</u>       |

Loans classified as nonperforming, consisting of nonaccrual and restructured loans, totaled \$180 million or .43% of total loans and leases outstanding at September 30, 2006, compared with \$166 million or .41% at September 30, 2005, \$156 million or .39% at December 31, 2005, and \$156 million or .38% at June 30, 2006. The increase in such loans as compared with the prior periods was due to the recent quarter addition of approximately \$26 million of loans related to a single automobile dealer relationship.

Loans past due 90 days or more and accruing interest were \$112 million or .27% of total loans and leases at September 30, 2006, compared with \$131 million or .32% a year earlier, \$129 million or .32% at December 31, 2005 and \$101 million or .24% at June 30, 2006. Those loans included \$76 million, \$107 million, \$106 million and \$79 million at September 30, 2006, September 30, 2005, December 31, 2005 and June 30, 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 in order 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 were \$58 million and \$74 million at September 30, 2006 and 2005, respectively, \$79 million at December 31, 2005 and \$58 million at June 30, 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 \$18 million at September 30, 2006, \$30 million a year earlier, \$26 million at December 31, 2005 and \$21 million at June 30, 2006.

Commercial loans and leases classified as nonperforming totaled \$67 million at September 30, 2006, \$39 million at each of September 30, 2005 and December 31, 2005, and \$47 million at June 30, 2006.

Nonperforming commercial real estate loans totaled \$40 million at September 30, 2006, \$55 million a year earlier, \$44 million at December 31, 2005 and \$37 million at June 30, 2005.

**Table of Contents**

Nonperforming residential real estate loans aggregated \$30 million at September 30, 2006, \$32 million at each of September 30, 2005 and June 30, 2006, and \$29 million at December 31, 2005. Residential real estate loans past due 90 days or more and accruing interest totaled \$81 million at September 30, 2006, compared with \$90 million at September 30, 2005, and \$96 million and \$71 million at December 31, 2005 and June 30, 2006, respectively. As already discussed, a significant portion of such amounts relate to repurchased loans that are guaranteed by government-related entities.

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

Assets acquired in settlement of defaulted loans totaled \$14 million at each of June 30 and September 30, 2006, and \$9 million at each of September 30 and December 31, 2005.

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

|  | 2006 Quarters |         |         | 2005 Quarters |         |
|--|---------------|---------|---------|---------------|---------|
|  | Third         | Second  | First   | Fourth        | Third   |
| Nonaccrual loans                                     | \$162,933     | 140,626 | 127,934 | 141,067       | 154,768 |
| Renegotiated loans                                   | 16,579        | 15,399  | 14,790  | 15,384        | 11,697  |
| Total nonperforming loans                            | 179,512       | 156,025 | 142,724 | 156,451       | 166,465 |
| Real estate and other assets owned                   | 13,920        | 13,805  | 9,588   | 9,486         | 8,624   |
| Total nonperforming assets                           | \$194,432     | 169,830 | 152,312 | 165,937       | 175,089 |
| Accruing loans past due 90 days or more*             | \$112,090     | 101,001 | 109,287 | 129,403       | 130,944 |
| Government guaranteed loans included in totals above |               |         |         |               |         |
| Nonperforming loans                                  | \$ 13,655     | 13,542  | 13,804  | 13,845        | 14,932  |

|  |                   |                   |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Accruing loans past due<br>90 days or more   | 76,050            | 79,272            | 85,775            | 105,508           | 106,596           |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Nonperforming loans to total<br>loans and leases, net of<br>unearned discount                        | .43%              | .38%              | .35%              | .39%              | .41%              |
| Nonperforming assets to<br>total net loans and leases and<br>real estate and other assets<br>owned   | .46%              | .41%              | .37%              | .41%              | .43%              |
| Accruing loans past due<br>90 days or more to total<br>loans and leases, net of<br>unearned discount | .27%              | .24%              | .27%              | .32%              | .32%              |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |

\* *Predominately  
residential  
mortgage 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

**Table of Contents**

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 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 at 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 September 30, 2006 in light of (i) the sluggish pace of economic growth in many of the markets served by the Company; (ii) continuing 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 national economy has experienced moderate growth in 2006 with inflation being reasonably well contained, concerns exist about the level of energy prices; a weakening housing market; Federal Reserve positioning of monetary policy; the underlying impact of 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 September 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 1.54% of total loans and leases at September 30, 2006, compared with \$638 million or 1.58% at each of September 30 and December 31, 2005, and \$646 million or 1.55% at June 30, 2006. The ratio of the allowance for credit losses to nonperforming loans was 360% at the most recent quarter-end, compared with 383% a year earlier, 408% at December 31, 2005 and 414% at June 30, 2006. The level of the allowance reflects management's evaluation of the loan and lease portfolio as of each respective date.

**Table of Contents****Other Income**

Other income totaled \$274 million in the third quarter of 2006, up 24% from \$221 million in the similar quarter of 2005 and 4% higher than \$263 million in the second quarter of 2006. The increase from the prior year's third quarter was largely the result of the previously discussed \$13 million gain in the recent quarter from the accelerated recognition of a purchase accounting premium related to a call of an FHLB borrowing assumed in an acquisition and the \$29 million charge during 2005's third quarter for the other-than-temporary declines in value of preferred stock of FNMA and FHLMC. The increase from the immediately preceding quarter was the result of the \$13 million gain from the call of the FHLB borrowing and higher service charges on deposit accounts, partially offset by a decrease in mortgage banking revenues.

Mortgage banking revenues totaled \$37 million in the recent quarter, up from \$35 million in the third quarter of 2005, but lower than \$42 million in the second 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 \$30 million in the recent quarter, up from \$27 million in the year-earlier period, but down from \$35 million in the second quarter of 2006. Residential mortgage loans originated for sale to other investors were approximately \$1.5 billion during the third quarter of 2006, compared with \$2.5 billion in the third quarter of 2005 and \$1.9 billion in the second quarter of 2006. Realized gains from sales of residential mortgage loans and loan servicing rights and recognized net unrealized losses attributable to residential mortgage loans held for sale, commitments to originate loans for sale and commitments to sell loans aggregated \$12 million in the recently completed quarter, compared with \$11 million in the third quarter of 2005 and \$16 million in 2006's second quarter.

Revenues from servicing residential mortgage loans for others were \$16 million in the two most recent quarters, compared with \$14 million in the third 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 in each of the two most recent quarters and \$2 million in the third quarter of 2005. Residential mortgage loans serviced for others were \$16.2 billion at September 30, 2006, \$14.4 billion a year earlier and \$15.6 billion at December 31, 2005, including the small balance commercial mortgage loans noted above of approximately \$2.8 billion and \$1.9 billion at September 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 \$149 million at September 30, 2006, compared with \$126 million at September 30, 2005 and \$140 million at December 31, 2005. Included in capitalized residential mortgage servicing assets were \$32 million at September 30, 2006, \$16 million a year earlier 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 \$1.4 billion and \$1.8 billion at September 30, 2006 and 2005, respectively, and \$1.2 billion at December 31, 2005. Commitments to sell loans and commitments to originate loans for sale at pre-determined rates were \$1.2 billion and \$676 million, respectively, at September 30, 2006, \$1.9 billion and \$832 million, respectively, at September 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

**Table of Contents**

commitments to originate loans for sale were approximately \$1 million at September 30, 2006, \$2 million a year earlier and \$5 million at December 31, 2005. Changes in such net unrealized losses are recorded in mortgage banking revenues and resulted in a net decrease in revenues of \$1 million in the third quarter of 2006, compared with decreases of \$3 million during each of 2005's third quarter and the second quarter of 2006.

Commercial mortgage banking revenues in the two most recent quarters were \$7 million, compared with \$8 million in 2005's third quarter. Revenues from commercial mortgage loan origination and sales activities were \$3 million in each of the third quarters of 2006 and 2005, compared with \$4 million in the quarter ended June 30, 2006. Commercial mortgage loan servicing revenues were \$4 million in the third quarter of 2006, compared with \$5 million in the third quarter of 2005 and \$3 million in 2006's second quarter. Capitalized commercial mortgage servicing assets totaled \$20 million at September 30, 2006, and \$21 million at each of September 30, 2005 and December 31, 2005. Commercial mortgage loans held for sale at September 30, 2006 and 2005 were \$70 million and \$104 million, respectively, and \$199 million at December 31, 2005.

Service charges on deposit accounts increased 6% to \$100 million in the third quarter of 2006 from \$95 million in the year-earlier quarter and were 5% higher than \$96 million in the second quarter of 2006. The increases from the prior periods were largely due to higher overdraft and debit card interchange fees. Trust income totaled \$35 million in the two most recent quarters, compared with \$34 million in last year's third quarter. Brokerage services income, which includes revenues from the sale of mutual funds and annuities and securities brokerage fees, totaled \$15 million in the third quarter of 2006 and \$14 million in each of the third quarter of 2005 and second quarter of 2006. Trading account and foreign exchange activity resulted in gains of \$5 million during the third quarter of 2006 and \$6 million in each of the third quarter of 2005 and second quarter of 2006. Gains from bank investment securities were \$1 million during the third quarter of 2006, compared with losses of \$28 million in the third quarter of 2005. The losses in 2005 include the previously noted \$29 million charge for the other-than-temporary decline in value of FNMA and FHLMC preferred stock.

Other revenues from operations aggregated \$81 million in the recent quarter, compared with \$66 million in 2005's third quarter and \$70 million in the second quarter of 2006. The increase in such revenues in the recent quarter as compared with the prior quarters resulted predominantly from the already discussed \$13 million gain from the accelerated recognition of a purchase accounting premium related to a call of an FHLB borrowing assumed in a prior acquisition. Other revenues from operations included letter of credit and other credit-related fees of \$20 million in the two most recent quarters and \$19 million in the third quarter of 2005. 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 \$10 million in the recent quarter, \$11 million in the year-earlier quarter and \$14 million in 2006's second quarter. Merchant discount and credit card fees totaled \$8 million in each of the second and third quarters of 2006, compared with \$7 million in the year-earlier quarter. Insurance-related sales commissions and other revenues aggregated \$8 million in the quarters ended June 30, 2006 and September 30, 2006, compared with \$6 million in the third quarter of 2005. The higher insurance-related revenues in the 2006 quarters as compared with the third 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 totaled \$789 million in the first nine months of 2006, compared with \$701 million in the corresponding 2005 period. The two largest factors in the rise in such income were the previously noted recent quarter's

**Table of Contents**

\$13 million gain related to the call of an FHLB borrowing and the \$29 million charge recognized in the third quarter of 2005 related to the other-than-temporary decline in value of the preferred stock of FNMA and FHLMC. Also contributing to the increase were higher mortgage banking revenues, service charges on deposit accounts and other revenues from operations.

For the first three quarters of 2006, mortgage banking revenues totaled \$113 million, up 13% from \$100 million in the year-earlier period. Residential mortgage banking revenues increased 19% to \$94 million during the nine-month period ended September 30, 2006 from \$79 million in the corresponding 2005 period. Residential mortgage loans originated for sale to other investors were \$4.8 billion in the first three quarters of 2006, compared with \$5.4 billion in the similar 2005 period. 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 aggregated \$40 million and \$30 million during the nine-month periods ended September 30, 2006 and 2005, respectively. Revenues from servicing residential mortgage loans for others were \$49 million and \$43 million for the first three quarters 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 \$10 million and \$7 million for the nine-month periods ended September 30, 2006 and 2005, respectively. Commercial mortgage banking revenues totaled \$19 million during the first nine months of 2006, compared with \$21 million in the comparable 2005 period.

Service charges on deposit accounts were \$285 million during the first nine months of 2006, up 3% from \$276 million in the comparable 2005 period, while trust income aggregated \$104 million, 4% higher than \$100 million a year earlier. Brokerage services income increased 5% to \$44 million during the first nine months of 2006 from \$42 million in the similar 2005 period. Trading account and foreign exchange activity resulted in gains of \$18 million and \$17 million for the nine-month periods ended September 30, 2006 and 2005, respectively. Gains from bank investment securities were \$1 million during the first nine months of 2006, compared with losses of \$28 million in the year-earlier period. The losses in 2005 include the previously noted \$29 million charge for the other-than-temporary decline in value of FNMA and FHLMC preferred stock.

Other revenues from operations rose to \$225 million in the first three quarters of 2006 from \$193 million in the comparable 2005 period. Included in other revenues from operations during the nine-month periods ended September 30, 2006 and 2005 were letter of credit and other credit-related fees of \$59 million and \$56 million, respectively, and income from bank owned life insurance of \$38 million and \$35 million, respectively. During the first three quarters of 2006 and 2005, merchant discount and credit card fees were \$24 million and \$21 million, respectively, and insurance-related sales commissions and other revenues totaled \$23 million and \$17 million, respectively. 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 from operations was the previously noted \$13 million gain from the call of an FHLB borrowing and higher income from educational lending services, partially offset by lower revenues from commercial leasing activities and fees from providing automated teller machine services.

**Other Expense**

Other expense totaled \$409 million in the third quarter of 2006, up 11% from \$368 million in the year-earlier period, and 8% higher than \$377 million in 2006's second quarter. Included in the amounts noted above are expenses considered by management to be nonoperating in nature consisting of



**Table of Contents**

amortization of core deposit and other intangible assets of \$20 million and \$14 million in the third quarters of 2006 and 2005, respectively, and \$11 million in the second 2006 quarter, and the branch acquisition-related expenses of \$4 million and \$1 million in the second and third quarters of 2006. There were no similar expenses in 2005. Exclusive of these nonoperating expenses, noninterest operating expenses aggregated \$388 million in the recent quarter, compared with \$354 million in the third quarter of 2005 and \$362 million in the second quarter of 2006. The most significant contributor to the higher operating expenses in 2006's third quarter as compared with the prior quarters was the \$18 million charitable contribution noted earlier. Also contributing to the higher expense level in the third quarter of 2006 was an addition to the valuation allowance for impairment of capitalized residential mortgage servicing rights of \$5 million. In contrast, partial reversals of the valuation allowance for capitalized servicing rights of \$6 million and \$8 million were recorded in the third quarter of 2005 and second quarter of 2006, respectively.

Other expense for the nine-month period ended September 30, 2006 aggregated \$1.17 billion, up \$52 million or 5% from \$1.12 billion in the corresponding 2005 period. Included in those amounts are expenses considered to be nonoperating in nature consisting of amortization of core deposit and other intangible assets of \$44 million in each of 2006 and 2005, and the branch acquisition-related expenses of \$5 million in the first nine months of 2006. Exclusive of these nonoperating expenses, noninterest operating expenses through the first nine months of 2006 increased 4% to \$1.12 billion from \$1.07 billion in the comparable 2005 period. Higher costs for salaries and the \$18 million charitable contribution already discussed were the main contributors to the higher expense level in the 2006 period, partially offset by net partial reversals of the valuation allowance for impairment of capitalized residential mortgage servicing rights of \$10 million in 2006, compared with reversals of \$5 million in 2005. Table 2 provides a reconciliation of other expense to noninterest operating expense.

Salaries and employee benefits expense totaled \$219 million in the third quarter of 2006, compared with \$208 million in the corresponding 2005 quarter and \$217 million in the second quarter of 2006. For the first nine months of 2006, salaries and employee benefits expense increased to \$660 million from \$619 million in the year-earlier period. The higher expense levels in the 2006 periods as compared with the 2005 periods were due largely to salaries-related costs, including the impact of merit pay increases awarded to employees, a higher level of full-time equivalent employees and higher stock-based compensation costs. Stock-based compensation totaled \$11 million for each of the quarters ended September 30, 2006, September 30, 2005 and June 30, 2006, and \$40 million and \$34 million for the nine-month periods ended September 30, 2006 and 2005, respectively. The higher levels of stock-based compensation in the first three quarters 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. As of September 30, 2006, approximately \$5 million of that \$6 million amount would not yet have been recognized as expense if the normal four year vesting schedule had been used for purposes of expense recognition as allowed prior to the required adoption of SFAS No. 123R. The number of full-time equivalent employees was 12,815 at September 30, 2006, 12,770 at September 30, 2005, 12,780 at December 31, 2005 and 12,932 at June 30, 2006.

**Table of Contents**

Excluding the nonoperating expense items previously noted, nonpersonnel expense totaled \$169 million in the third quarter of 2006, compared with \$147 million in the corresponding quarter of 2005 and \$145 million in the second quarter of 2006. Nonpersonnel expenses in 2006's third quarter included the previously noted \$18 million charitable contribution. Also contributing to the higher level of expenses in the recent quarter was a \$5 million addition to the valuation allowance for the impairment of capitalized residential mortgage servicing rights. The addition to the valuation allowance reflects a decrease in the value of capitalized mortgage servicing rights resulting from lower residential mortgage interest rates at September 30, 2006 as compared with June 30, 2006. The lower interest rates resulted in increases in the expected rate of residential mortgage loan prepayments used in calculating the estimated fair value of capitalized servicing rights. In contrast, during the third quarter of 2005 and the second quarter of 2006, the Company recognized partial reversals of the valuation allowance for impairment of capitalized residential mortgage servicing rights of \$6 million and \$8 million, respectively. The reductions of the valuation allowance reflected the increases in value of capitalized mortgage servicing rights resulting from higher residential mortgage loan interest rates at the end of each of those quarters as compared with such rates at the immediately preceding quarter-end.

Nonpersonnel operating expenses were \$459 million during the first nine months of 2006 and \$453 million during the similar period of 2005. The principal factor in the rise in expenses from 2005 to 2006 was the \$18 million charitable contribution in 2006, offset, in part, by net partial reversals of the valuation allowance for impairment of capitalized residential mortgage servicing rights of \$10 million in 2006 and \$5 million in 2005.

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 on bank investment securities), measures the relationship of noninterest operating expenses to revenues. The Company's efficiency ratio was 52.8% during the recent quarter, compared with 50.0% during the third quarter of 2005 and 50.7% in the second quarter of 2006. Were the recent quarter's \$18 million charitable contribution and the \$13 million gain on the called borrowing with the FHLB excluded from the computation, the Company's efficiency ratio during that quarter would have been 51.2%. The efficiency ratios for the nine months ended September 30, 2006 and 2005 were 52.0% and 51.4%, respectively. Noninterest operating expenses used in calculating the efficiency ratio do not include the amortization of core deposit and other intangible assets noted earlier. If charges for amortization of core deposit and other intangible assets were included, the ratio for the three-month periods ended September 30, 2006, September 30, 2005 and June 30, 2006 would have been 55.5%, 51.9% and 52.3%, respectively, and for the nine-month periods ended September 30, 2006 and 2005 would have been 54.0% and 53.5%, respectively.

**Income Taxes**

The provision for income taxes for each of the quarters ended September 30, 2006 and 2005 was \$95 million, and for the quarter ended June 30, 2006 was \$103 million, resulting in effective tax rates for those periods of 31.1%, 33.3% and 32.6%, respectively. The lower tax rate in the recent quarter as compared with the prior periods was the result of the previously noted \$3 million reduction of income tax expense related to the favorable settlement of refund claims originally filed by Allfirst. The refunds received, consisting of income taxes and taxable interest, exceeded the amounts previously accrued for such items by \$5 million (pre-tax). For the nine-month periods ended September 30, 2006 and 2005, the provision for income

**Table of Contents**

taxes was \$294 million and \$288 million, respectively, resulting in effective tax rates of 32.0% in 2006 and 33.3% in 2005.

**Capital**

Stockholders' equity at September 30, 2006 totaled \$6.2 billion and represented 10.91% of total assets, compared with \$5.8 billion or 10.66% 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 \$55.58 at September 30, 2006, up from \$51.81 and \$52.39 at September 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 \$27.15 at September 30, 2006, compared with \$25.42 a year earlier and \$25.91 at December 31, 2005.

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 \$38 million, or \$.34 per common share, at September 30, 2006, compared with unrealized losses of \$33 million, or \$.29 per share, at September 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 September 30, 2006 and December 31, 2005, or by \$.45 per share at September 30, 2006 and \$.44 per share at December 31, 2005. A similar adjustment was \$12 million at September 30, 2005, or \$.11 per share.

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 third quarter of 2006, 762,000 shares of common stock were repurchased by M&T pursuant to such plan at an average cost of \$120.44 per share. Through September 30, 2006, M&T had repurchased 2,681,400 shares of common stock pursuant to such plan at an average cost of \$113.31 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 September 30, 2006, core capital included \$688 million of the trust preferred securities described in note 4 of Notes to Financial Statements, and total capital further included \$902 million of subordinated notes.

The Company generates significant amounts of regulatory capital. The rate of regulatory core capital generation, or net operating income (as 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 17.32% during the third quarter of 2006, compared with 16.90% in the similar quarter of 2005 and 17.00% in the second quarter of 2006.

**Table of Contents**

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

**REGULATORY CAPITAL RATIOS**  
September 30, 2006

|               | <b>M&amp;T</b><br><b>(Consolidated)</b> | <b>M&amp;T</b><br><b>Bank</b> | <b>M&amp;T</b><br><b>Bank,</b><br><b>N.A.</b> |
|---------------|---|-------------------------------|---|
| Core capital  | 7.53%                                   | 7.13%                         | 29.69%  |
| Total capital | 10.63%                                  | 10.32%                        | 30.52%  |
| Leverage      | 6.97%                                   | 6.64%                         | 12.70%  |

**Segment Information**

In accordance with 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.

Net income earned by the Commercial Banking segment was \$55 million in the third quarter of 2006, up slightly from \$54 million in the year-earlier quarter, but lower than the \$58 million earned in the second quarter of 2006. The slight improvement from the third quarter of 2005 was due to a \$10 million increase in net interest income, largely the result of improved contribution from deposit products and an 8% increase in loan balances outstanding, partially offset by lower noninterest income of \$3 million and higher noninterest expenses of \$3 million. The decline from the second quarter of 2006 was the result of a \$5 million increase in the provision for credit losses, partially offset by higher net interest income of \$3 million. For the nine-month period ended September 30, 2006, this segment contributed \$169 million to net income, 3% above \$164 million earned in the similar 2005 period. Higher net interest income in 2006 of \$15 million and a lower provision for credit losses of \$6 million were offset, in part, by a \$5 million increase in personnel expenses and a decline in noninterest income of \$4 million. The higher net interest income was predominantly the result of a wider net interest margin on deposits.

The Commercial Real Estate segment's net income for the recent quarter was \$32 million, 22% lower than \$41 million in the third quarter of 2005, but little changed from 2006's second quarter. The decrease from the third quarter of 2005 was primarily due to lower net interest income of \$12 million, largely the result of a 56 basis point decline in loan net interest margin. Net income for this segment declined to \$98 million during the first nine months of 2006 from \$108 million in the similar 2005 period, largely due to lower net interest income of \$11 million, a \$4 million decline in noninterest income and a \$4 million increase in noninterest expenses. A 25 basis point decline in loan net interest margin contributed to the lower net interest income.

The Discretionary Portfolio segment's net income totaled \$27 million in the third quarter of 2006, up from \$11 million in the year-earlier quarter and \$24 million in 2006's second quarter. The favorable performance compared with last year's third quarter was largely due to the previously noted \$29 million non-cash, other-than-temporary impairment charge related to the preferred stock issuances of FNMA and FHLMC recorded in 2005's third quarter and the recent quarter's \$13 million gain resulting from the accelerated recognition of a purchase accounting premium related to the call of an FHLB borrowing assumed in a previous acquisition. Partially offsetting these factors



**Table of Contents**

was a \$12 million decrease in net interest income, predominantly the result of a 66 basis point decline in net interest margin on investment securities. As compared with the second quarter of 2006, the \$13 million gain recognized on the called FHLB borrowing in 2006's third quarter was offset, in part, by \$3 million decreases in each of net interest income and other revenues from operations. Net contribution for this segment increased to \$73 million for the first nine months of 2006 from \$71 million in the corresponding 2005 period, with the impact of the preferred stock impairment charge in 2005 and the gain on the FHLB borrowing in 2006 being largely offset by lower net interest income of \$34 million, resulting from a 71 basis point decrease in net interest margin on investment securities.

Net income of the Residential Mortgage Banking segment was \$10 million in the third quarter of 2006, down from \$13 million in the corresponding quarter of last year and \$19 million in the immediately preceding quarter. The lower net income in the recent quarter as compared with the prior quarters was the result of a \$5 million addition to the capitalized mortgage servicing rights valuation allowance being recognized during the recent quarter, while reductions to such allowance of \$4 million and \$8 million were reflected in the results of 2005's third quarter and the second quarter of 2006, respectively. Through September 30, 2006, net income for this segment totaled \$44 million, up 40% from \$32 million in the similar 2005 period. The improvement was due to a \$20 million increase in revenues from loan origination, sales, and servicing activities and an \$8 million increase in net interest income, partially offset by higher salaries and benefits expenses of \$9 million. The increase in net interest income was attributable to a 43% increase in loan balances outstanding offset, in part, by a 78 basis point decrease in loan net interest margin. Partial reversals of the capitalized residential mortgage servicing rights valuation allowance of \$10 million and \$4 million were made during the first nine months of 2006 and 2005, respectively.

The Retail Banking segment contributed net income of \$110 million in the third quarter of 2006, up 28% from \$86 million in the year-earlier quarter and 7% higher than \$102 million earned in the second quarter of 2006. The increase from the third quarter of last year was largely due to higher net interest income of \$37 million, the result of an increase in net interest margin attributed to deposit products. Higher service charges on deposit accounts of \$6 million also contributed to the rise in net income. The favorable variance as compared with the second quarter of 2006 was largely due to a \$21 million increase in revenues, the result of higher net interest income attributable to deposit products of \$15 million and increased service charges on deposit accounts of \$5 million. Partially offsetting the higher revenues were increases in net occupancy expenses of \$5 million and the provision for credit losses of \$4 million. For the first nine months of 2006, the Retail Banking segment's earnings rose 25% to \$305 million from \$243 million in the year-earlier period. The favorable performance was due to an increase in net interest income of \$84 million resulting largely from a 52 basis point rise in net interest margin attributable to deposit products. Also contributing to the favorable variance were a \$13 million increase in deposit service charges and a \$4 million decrease in the provision for credit losses.

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 \$24 million in the

**Table of Contents**

third quarter of 2006, \$14 million in the third quarter of 2005 and \$22 million in the second quarter of 2006. For the first nine months of 2006 and 2005, the All Other segment reported net losses of \$63 million and \$41 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. The previously mentioned \$18 million charitable contribution made by M&T Bank to The M&T Charitable Foundation is reflected in the All Other category's results for the third 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. As currently written, under SFAS No. 155 securities involving prepayable assets (e.g. mortgage-backed securities) that are issued from a securitization trust and that are obtained by an entity at a discount would be accounted for in one of two ways. Under the first allowable method, an entity would bifurcate the embedded derivative feature with respect to prepayment risk and record the bifurcated derivative at fair value. Subsequent changes in fair value of the bifurcated derivative would be reported in earnings. As an alternative, an entity could elect not to bifurcate the embedded derivative but instead record the entire security at fair value with subsequent changes in fair value of the security being reported in earnings. In recent redeliberations, the FASB has indicated its intention to issue new guidance to address this topic. In light of these developments, the Company is still evaluating the potential impact of adopting SFAS No. 155 as of January 1, 2007.

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

**Table of Contents**

of an entity's fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that 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 September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. The definition of fair value is clarified by SFAS No. 157 to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 expands disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. The disclosures focus on the inputs used to measure fair value and the effect of the measurements on earnings for the period. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The provisions generally should be applied prospectively as of the beginning of the fiscal year in which SFAS No. 157 is applied, with certain provisions required to be applied retrospectively. Many of the Company's assets, liabilities and off-balance sheet positions are required to either be accounted for or disclosed using fair value as their relevant measurement attribute. Given the pervasiveness of fair value measurements throughout the Company's financial statements, the Company has not yet determined the impact that the adoption of SFAS No. 157 will have on its financial statements.

Also in September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, which requires an employer to recognize as an asset or liability in its balance sheet the overfunded or underfunded status of a defined benefit postretirement plan, measured as the difference between the fair value of plan assets and the benefit obligation. For a pension plan, the benefit obligation is the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation is the accumulated postretirement benefit obligation. The measurement of the funded status of a plan should be the date of a company's year-end balance sheet. SFAS No. 158 requires the recognition of the gains or losses and prior service costs or credits that arise during the period, but are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87, Employers Accounting for Pensions, or SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, as a component of other comprehensive income. Some additional disclosures in the notes to financial statements are also required. An employer with publicly-traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after



**Table of Contents**

December 15, 2006. Any required adjustment to the Company's financial condition at December 31, 2006 will depend on the fair value of plan assets and the level of long-term interest rates at that date. As a result, the Company cannot precisely predict the impact that the adoption of SFAS No. 158 will have on its consolidated financial condition at December 31, 2006.

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 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 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.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 108 to require quantification of financial statement misstatements under both the rollover approach and the iron curtain approach. The rollover approach quantifies a misstatement based on the amount of the error originating in the current year income statement, but ignores the effects of correcting the portion of the current year balance sheet misstatement that originated in prior years. The iron curtain approach quantifies a misstatement based on the effects of

## **Table of Contents**

correcting the misstatement existing in the balance sheet at the end of the current year, irrespective of the misstatement's year(s) of origination. The provisions of SAB No. 108 must be applied to financial statements for fiscal years ending after November 15, 2006. The Company does not anticipate that the quantification of financial statement misstatements pursuant to the provisions of SAB No. 108 will result in any material impact to the Company's financial statements at December 31, 2006.

At its September 2006 meeting, the Emerging Issues Task Force (EITF) reached a final consensus on Issue 06-04, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. The consensus stipulates that an agreement by an employer to share a portion of the proceeds of a life insurance policy with an employee during the postretirement period is a postretirement benefit arrangement required to be accounted for under SFAS No. 106 or Accounting Principles Board Opinion (APB) No. 12, Omnibus Opinion 1967. The consensus concludes that the purchase of a split-dollar life insurance policy does not constitute a settlement under SFAS No. 106 and, therefore, a liability for the postretirement obligation must be recognized under SFAS No. 106 if the benefit is offered under an arrangement that constitutes a plan or under APB No. 12 if it is not part of a plan. Issue 06-04 is effective for annual or interim reporting periods beginning after December 15, 2007. The provisions of Issue 06-04 should be applied through either a cumulative effect adjustment to retained earnings as of the beginning of the year of adoption or retrospective application. The Company has endorsement split-dollar life insurance policies that it inherited through certain acquisitions that are associated with employees who are no longer active, which it is currently in the process of evaluating to determine the impact of adoption of Issue 06-04.

## **Forward-Looking Statements**

Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this quarterly report 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 required capital levels; 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

**Table of Contents**

with 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 |         |         |         |
|---|---------------|---------|---------|---------------|---------|---------|---------|
|   | Third         | Second  | First   | Fourth        | Third   | Second  | First   |
| <b>Earnings and dividends</b>                     |               |         |         |               |         |         |         |
| <i>Amounts in thousands,<br/>except per share</i> |               |         |         |               |         |         |         |
| Interest income<br>(taxable-equivalent basis)     | \$858,008     | 817,552 | 782,003 | 757,654       | 725,129 | 680,781 | 642,441 |
| Interest expense                                  | 395,652       | 366,298 | 330,246 | 303,493       | 265,576 | 229,016 | 196,266 |
| Net interest income                               | 462,356       | 451,254 | 451,757 | 454,161       | 459,553 | 451,765 | 446,175 |
| Less: provision for credit<br>losses              | 17,000        | 17,000  | 18,000  | 23,000        | 22,000  | 19,000  | 24,000  |
| Other income                                      | 273,902       | 262,602 | 252,931 | 248,604       | 221,494 | 245,362 | 234,258 |
| Less: other expense                               | 408,941       | 376,997 | 382,003 | 369,114       | 368,250 | 380,441 | 367,337 |
| Income before income<br>taxes                     | 310,317       | 319,859 | 304,685 | 310,651       | 290,797 | 297,686 | 289,096 |
| Applicable income taxes                           | 94,775        | 102,645 | 97,037  | 101,113       | 95,348  | 96,589  | 95,686  |
| Taxable-equivalent<br>adjustment                  | 5,172         | 4,641   | 4,731   | 4,553         | 4,375   | 4,263   | 4,120   |
| Net income  | \$210,370     | 212,573 | 202,917 | 204,985       | 191,074 | 196,834 | 189,290 |
| Per common share data                             |               |         |         |               |         |         |         |
| Basic earnings                                    | \$ 1.89       | 1.91    | 1.82    | 1.82          | 1.68    | 1.73    | 1.65    |
| Diluted earnings                                  | 1.85          | 1.87    | 1.77    | 1.78          | 1.64    | 1.69    | 1.62    |
| Cash dividends                                    | \$ .60        | .60     | .45     | .45           | .45     | .45     | .40     |
| Average common shares<br>outstanding              |               |         |         |               |         |         |         |
| Basic   | 111,047       | 111,259 | 111,693 | 112,529       | 113,530 | 113,949 | 114,773 |
| Diluted   | 113,897       | 113,968 | 114,347 | 115,147       | 116,200 | 116,422 | 117,184 |
| <b>Performance ratios,<br/>annualized</b>         |               |         |         |               |         |         |         |

Edgar Filing: M&T BANK CORP - Form 10-Q

|  |        |        |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|--------|--------|
| Return on Average assets   | 1.49%  | 1.54%  | 1.49%  | 1.48%  | 1.39%  | 1.46%  | 1.44%  |
| Average common stockholders equity                                       | 13.72% | 14.35% | 13.97% | 13.85% | 12.97% | 13.73% | 13.41% |
| Net interest margin on average earning assets (taxable-equivalent basis) | 3.68%  | 3.66%  | 3.73%  | 3.69%  | 3.76%  | 3.78%  | 3.83%  |
| Nonperforming loans to total loans and leases, net of unearned discount  | .43%   | .38%   | .35%   | .39%   | .41%   | .46%   | .46%   |
| Efficiency ratio (a)   | 55.47% | 52.29% | 54.21% | 52.49% | 51.94% | 54.58% | 54.00% |

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

|  |           |         |         |         |         |         |         |
|--|-----------|---------|---------|---------|---------|---------|---------|
| Net income (in thousands)                    | \$223,228 | 221,838 | 210,856 | 212,738 | 199,577 | 205,415 | 199,135 |
| Diluted net income per common share          | 1.96      | 1.95    | 1.84    | 1.85    | 1.72    | 1.76    | 1.70    |
| Annualized return on Average tangible assets | 1.67%     | 1.69%   | 1.64%   | 1.63%   | 1.54%   | 1.62%   | 1.61%   |
| Average tangible common stockholders equity  | 30.22%    | 30.02%  | 29.31%  | 29.12%  | 27.67%  | 29.88%  | 29.67%  |
| Efficiency ratio (a)                         | 52.76%    | 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)                           | \$ 56,158 | 55,498 | 55,106 | 54,835 | 54,444 | 53,935 | 53,306 |
| Total tangible assets (c)                  | 53,004    | 52,522 | 52,130 | 51,860 | 51,461 | 50,944 | 50,305 |
| Earning assets                             | 49,849    | 49,443 | 49,066 | 48,833 | 48,447 | 47,931 | 47,240 |
| Investment securities                      | 7,898     | 8,314  | 8,383  | 8,302  | 8,439  | 8,593  | 8,573  |
| Loans and leases, net of unearned discount | 41,710    | 40,980 | 40,544 | 40,403 | 39,879 | 39,229 | 38,580 |
| Deposits                                   | 39,158    | 38,435 | 37,569 | 37,006 | 36,708 | 36,245 | 35,282 |
| Stockholders equity (c)                    | 6,085     | 5,940  | 5,893  | 5,873  | 5,845  | 5,749  | 5,723  |
| Tangible stockholders equity (c)           | 2,931     | 2,964  | 2,917  | 2,898  | 2,862  | 2,758  | 2,722  |

|  |           |        |        |        |        |        |        |
|--|-----------|--------|--------|--------|--------|--------|--------|
| At end of quarter                          |           |        |        |        |        |        |        |
| Total assets (c)                           | \$ 56,373 | 56,507 | 55,420 | 55,146 | 54,841 | 54,482 | 53,887 |
| Total tangible assets (c)                  | 53,227    | 53,345 | 52,443 | 52,176 | 51,863 | 51,495 | 50,891 |
| Earning assets                             | 49,950    | 49,628 | 49,281 | 48,852 | 48,691 | 48,341 | 47,853 |
| Investment securities                      | 7,626     | 7,903  | 8,294  | 8,400  | 8,230  | 8,320  | 8,679  |
| Loans and leases, net of unearned discount | 42,098    | 41,599 | 40,859 | 40,331 | 40,335 | 39,911 | 39,073 |

Edgar Filing: M&T BANK CORP - Form 10-Q

|                                      |              |              |              |              |              |              |              |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Deposits                             | 39,079       | 38,514       | 38,171       | 37,100       | 37,199       | 37,306       | 36,293       |
| Stockholders equity (c)              | 6,151        | 6,000        | 5,919        | 5,876        | 5,847        | 5,838        | 5,674        |
| Tangible stockholders equity (c)     | 3,005        | 2,838        | 2,942        | 2,906        | 2,869        | 2,851        | 2,678        |
| Equity per common share              | 55.58        | 54.01        | 53.11        | 52.39        | 51.81        | 51.20        | 49.78        |
| Tangible equity per common share     | 27.15        | 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>_____</b> |
| <b>Market price per common share</b> |              |              |              |              |              |              |              |
| High                                 | \$ 124.21    | 119.40       | 117.29       | 112.50       | 112.50       | 107.28       | 108.04       |
| Low                                  | 116.39       | 113.34       | 106.45       | 96.71        | 103.50       | 98.75        | 96.71        |
| Closing                              | 119.96       | 117.92       | 114.14       | 109.05       | 105.71       | 105.16       | 102.06       |
|                                      | <b>_____</b> | <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  |                |                |                |                |
|--|------------------|----------------|----------------|----------------|----------------|----------------|----------------|
|  | Third            | Second         | First          | Fourth         | Third          | Second         | First          |
| <b>Income statement data</b>                                 |                  |                |                |                |                |                |                |
| <i>In thousands, except per share</i>                        |                  |                |                |                |                |                |                |
| <b>Net income</b>  |                  |                |                |                |                |                |                |
| Net income   | \$210,370        | 212,573        | 202,917        | 204,985        | 191,074        | 196,834        | 189,290        |
| Amortization of core deposit and other intangible assets (1) | 12,154           | 6,921          | 7,939          | 7,753          | 8,503          | 8,581          | 9,845          |
| Merger-related expenses (1)                                  | 704              | 2,344          |                |                |                |                |                |
| Net operating income   | <u>\$223,228</u> | <u>221,838</u> | <u>210,856</u> | <u>212,738</u> | <u>199,577</u> | <u>205,415</u> | <u>199,135</u> |
| <b>Earnings per share</b>                                    |                  |                |                |                |                |                |                |
| Diluted earnings per common share                            | \$ 1.85          | 1.87           | 1.77           | 1.78           | 1.64           | 1.69           | 1.62           |
| Amortization of core deposit and other intangible assets (1) | .10              | .06            | .07            | .07            | .08            | .07            | .08            |
| Merger-related expenses (1)                                  | .01              | .02            |                |                |                |                |                |
| Diluted net operating earnings per share                     | <u>\$ 1.96</u>   | <u>1.95</u>    | <u>1.84</u>    | <u>1.85</u>    | <u>1.72</u>    | <u>1.76</u>    | <u>1.70</u>    |
| <b>Other expense</b>   |                  |                |                |                |                |                |                |
| Other expense  | \$408,941        | 376,997        | 382,003        | 369,114        | 368,250        | 380,441        | 367,337        |
| Amortization of core deposit and other intangible assets     | (19,936)         | (11,357)       | (13,028)       | (12,703)       | (13,926)       | (14,055)       | (16,121)       |
| Merger-related expenses                                      | (1,155)          | (3,842)        |                |                |                |                |                |



Edgar Filing: M&T BANK CORP - Form 10-Q

|  |                  |               |               |               |               |               |               |
|--|------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Noninterest operating expense            | \$ 387,850       | 361,798       | 368,975       | 356,411       | 354,324       | 366,386       | 351,216       |
| <b>Merger-related expenses</b>           |                  |               |               |               |               |               |               |
| Salaries and employee benefits           | \$ 305           | 510           |               |               |               |               |               |
| Equipment and net occupancy              | 12               | 212           |               |               |               |               |               |
| Printing, postage and supplies           | 141              | 14            |               |               |               |               |               |
| Other costs of operations                | 697              | 3,106         |               |               |               |               |               |
| <b>Total</b>                             | <b>\$ 1,155</b>  | <b>3,842</b>  |               |               |               |               |               |
| <b>Balance sheet data</b>                |                  |               |               |               |               |               |               |
| <i>In millions</i>                       |                  |               |               |               |               |               |               |
| <b>Average assets</b>                    |                  |               |               |               |               |               |               |
| Average assets                           | \$ 56,158        | 55,498        | 55,106        | 54,835        | 54,444        | 53,935        | 53,306        |
| Goodwill                                 | (2,909)          | (2,909)       | (2,907)       | (2,904)       | (2,904)       | (2,904)       | (2,904)       |
| Core deposit and other intangible assets | (281)            | (107)         | (112)         | (115)         | (128)         | (142)         | (157)         |
| Deferred taxes                           | 36               | 40            | 43            | 44            | 49            | 55            | 60            |
| <b>Average tangible assets</b>           | <b>\$ 53,004</b> | <b>52,522</b> | <b>52,130</b> | <b>51,860</b> | <b>51,461</b> | <b>50,944</b> | <b>50,305</b> |
| <b>Average equity</b>                    |                  |               |               |               |               |               |               |
| Average equity                           | \$ 6,085         | 5,940         | 5,893         | 5,873         | 5,845         | 5,749         | 5,723         |
| Goodwill                                 | (2,909)          | (2,909)       | (2,907)       | (2,904)       | (2,904)       | (2,904)       | (2,904)       |
| Core deposit and other intangible assets | (281)            | (107)         | (112)         | (115)         | (128)         | (142)         | (157)         |
| Deferred taxes                           | 36               | 40            | 43            | 44            | 49            | 55            | 60            |
| <b>Average tangible equity</b>           | <b>\$ 2,931</b>  | <b>2,964</b>  | <b>2,917</b>  | <b>2,898</b>  | <b>2,862</b>  | <b>2,758</b>  | <b>2,722</b>  |
| <b>At end of quarter</b>                 |                  |               |               |               |               |               |               |
| <b>Total assets</b>                      |                  |               |               |               |               |               |               |
| Total assets                             | \$ 56,373        | 56,507        | 55,420        | 55,146        | 54,841        | 54,482        | 53,887        |
| Goodwill                                 | (2,909)          | (2,909)       | (2,909)       | (2,904)       | (2,904)       | (2,904)       | (2,904)       |
| Core deposit and other intangible assets | (271)            | (291)         | (111)         | (108)         | (121)         | (135)         | (149)         |
| Deferred taxes                           | 34               | 38            | 43            | 42            | 47            | 52            | 57            |

Edgar Filing: M&T BANK CORP - Form 10-Q

|   |                   |                   |                   |                   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Total tangible assets                       | \$ 53,227         | 53,345            | 52,443            | 52,176            | 51,863            | 51,495            | 50,891            |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>Total equity</b>                         |                   |                   |                   |                   |                   |                   |                   |
| Total equity                                | \$ 6,151          | 6,000             | 5,919             | 5,876             | 5,847             | 5,838             | 5,674             |
| Goodwill                                    | (2,909)           | (2,909)           | (2,909)           | (2,904)           | (2,904)           | (2,904)           | (2,904)           |
| Core deposit and other<br>intangible assets | (271)             | (291)             | (111)             | (108)             | (121)             | (135)             | (149)             |
| Deferred taxes                              | 34                | 38                | 43                | 42                | 47                | 52                | 57                |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Total tangible equity                       | \$ 3,005          | 2,838             | 2,942             | 2,906             | 2,869             | 2,851             | 2,678             |
|   | <u>          </u> | <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 Third Quarter |                |              | 2006 Second Quarter |                |              | 2006 First Quarter |                |              |
|--|--------------------|----------------|--------------|---------------------|----------------|--------------|--------------------|----------------|--------------|
|  | Average balance    | Interest       | Average Rate | 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.                            | \$ 11,436          | \$ 210,733     | 7.31%        | 11,274              | 197,945        | 7.04%        | 11,034             | 181,057        | 6.98%        |
| Real estate commercial                                 | 15,256             | 283,197        | 7.43         | 14,947              | 269,632        | 7.22         | 14,678             | 260,008        | 7.18         |
| Real estate consumer                                   | 5,053              | 81,833         | 6.48         | 4,860               | 76,377         | 6.29         | 4,601              | 71,097         | 6.29         |
| Consumer   | 9,965              | 183,041        | 7.29         | 9,899               | 172,523        | 6.99         | 10,231             | 171,342        | 6.78         |
| Total loans and leases, net                            | <u>41,710</u>      | <u>758,804</u> | <u>7.22</u>  | <u>40,980</u>       | <u>716,477</u> | <u>7.01</u>  | <u>40,544</u>      | <u>683,504</u> | <u>6.98</u>  |
| Interest-bearing deposits at banks                     | 13                 | 121            | 3.67         | 16                  | 111            | 2.85         | 10                 | 72             | 3.00         |
| General funds sold and agreements to resell securities | 136                | 2,487          | 7.23         | 30                  | 405            | 5.36         | 31                 | 378            | 4.80         |
| Sweeping account                                       | 92                 | 680            | 2.97         | 103                 | 753            | 2.94         | 98                 | 671            | 2.97         |
| Investment securities**                                |                    |                |              |                     |                |              |                    |                |              |
| U.S. Treasury and federal agencies                     | 2,826              | 30,396         | 4.27         | 3,062               | 32,473         | 4.25         | 3,024              | 30,310         | 4.25         |
| Obligations of states and political subdivisions       | 147                | 2,434          | 6.61         | 171                 | 2,804          | 6.55         | 176                | 2,741          | 6.55         |
| Other  | 4,925              | 63,086         | 5.08         | 5,081               | 64,529         | 5.09         | 5,183              | 64,327         | 5.08         |
| Total investment securities                            | <u>7,898</u>       | <u>95,916</u>  | <u>4.82</u>  | <u>8,314</u>        | <u>99,806</u>  | <u>4.81</u>  | <u>8,383</u>       | <u>97,378</u>  | <u>4.81</u>  |
| <b>Total earning assets</b>                            | <u>49,849</u>      | <u>858,008</u> | <u>6.83</u>  | <u>49,443</u>       | <u>817,552</u> | <u>6.63</u>  | <u>49,066</u>      | <u>782,003</u> | <u>6.63</u>  |
| Provision for credit losses                            | (648)              |                |              | (645)               |                |              | (641)              |                |              |
| Due from banks   | 1,365              |                |              | 1,326               |                |              | 1,360              |                |              |
| Other assets   | <u>5,592</u>       |                |              | <u>5,374</u>        |                |              | <u>5,321</u>       |                |              |
| <b>Total assets</b>                                    | <u>\$ 56,158</u>   |                |              | <u>55,498</u>       |                |              | <u>55,106</u>      |                |              |
| <b>Liabilities and stockholders' equity</b>            |                    |                |              |                     |                |              |                    |                |              |
| Interest-bearing liabilities                           |                    |                |              |                     |                |              |                    |                |              |

|  |                 |                  |              |               |                |              |               |                |  |  |
|--|-----------------|------------------|--------------|---------------|----------------|--------------|---------------|----------------|--|--|
| Interest-bearing deposits                |                 |                  |              |               |                |              |               |                |  |  |
| NOW accounts                             | \$ 434          | 960              | .88          | 438           | 779            | .71          | 409           | 659            |  |  |
| Savings deposits                         | 14,463          | 51,816           | 1.42         | 14,254        | 47,579         | 1.34         | 14,335        | 43,557         |  |  |
| Time deposits                            | 13,016          | 152,571          | 4.65         | 12,699        | 139,032        | 4.39         | 11,870        | 118,058        |  |  |
| Deposits at foreign office               | 3,674           | 48,244           | 5.21         | 3,598         | 43,798         | 4.88         | 3,383         | 36,803         |  |  |
|  | <u>31,587</u>   | <u>253,591</u>   | <u>3.19</u>  | <u>30,989</u> | <u>231,188</u> | <u>2.99</u>  | <u>29,997</u> | <u>199,077</u> |  |  |
| Short-term borrowings                    | 4,441           | 59,487           | 5.31         | 4,326         | 53,623         | 4.97         | 4,555         | 50,567         |  |  |
| Long-term borrowings                     | 5,660           | 82,574           | 5.79         | 5,930         | 81,487         | 5.51         | 6,293         | 80,602         |  |  |
|  | <u>41,688</u>   | <u>395,652</u>   | <u>3.77</u>  | <u>41,245</u> | <u>366,298</u> | <u>3.56</u>  | <u>40,845</u> | <u>330,246</u> |  |  |
| Interest-bearing deposits                | 7,571           |                  |              | 7,446         |                |              | 7,572         |                |  |  |
| Other liabilities                        | 814             |                  |              | 867           |                |              | 796           |                |  |  |
|  | <u>50,073</u>   |                  |              | <u>49,558</u> |                |              | <u>49,213</u> |                |  |  |
| Stockholders' equity                     | 6,085           |                  |              | 5,940         |                |              | 5,893         |                |  |  |
|  | <u>\$56,158</u> |                  |              | <u>55,498</u> |                |              | <u>55,106</u> |                |  |  |
| Interest spread                          |                 |                  | 3.06         |               |                | 3.07         |               |                |  |  |
| Contribution of interest-free funds      |                 |                  | .62          |               |                | .59          |               |                |  |  |
|  |                 |                  | <u>3.68%</u> |               |                | <u>3.66%</u> |               |                |  |  |
| Interest income/margin on earning assets |                 | \$462,356        |              |               | 451,254        |              |               | 451,757        |  |  |
|  |                 | <u>\$462,356</u> |              |               | <u>451,254</u> |              |               | <u>451,757</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 Fourth Quarter |                |              | 2005 Third 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.                            | \$10,738            | \$169,192      | 6.25%        | 10,497             | 151,076        | 5.71%        |
| Real estate commercial                                 | 14,419              | 249,416        | 6.92         | 14,351             | 245,965        | 6.86         |
| Real estate consumer                                   | 4,674               | 70,567         | 6.04         | 4,268              | 63,940         | 5.99         |
| Consumer   | 10,572              | 173,884        | 6.53         | 10,763             | 169,648        | 6.25         |
|  | <u>40,403</u>       | <u>663,059</u> | <u>6.51</u>  | <u>39,879</u>      | <u>630,629</u> | <u>6.27</u>  |
| Interest-bearing deposits at banks                     | 10                  | 55             | 2.14         | 11                 | 48             | 1.77         |
| Federal funds sold and agreements to resell securities | 19                  | 210            | 4.29         | 24                 | 226            | 3.79         |
| Trading account  | 99                  | 635            | 2.57         | 94                 | 510            | 2.16         |
| Investment securities**                                |                     |                |              |                    |                |              |
| U.S. Treasury and federal agencies                     | 3,103               | 30,398         | 3.89         | 3,348              | 32,442         | 3.84         |
| Obligations of states and political subdivisions       | 174                 | 2,663          | 6.13         | 171                | 2,527          | 5.92         |
| Other  | 5,025               | 60,634         | 4.79         | 4,920              | 58,747         | 4.74         |
|  | <u>8,302</u>        | <u>93,695</u>  | <u>4.48</u>  | <u>8,439</u>       | <u>93,716</u>  | <u>4.41</u>  |
| <b>Total investment securities</b>                     | <u>8,302</u>        | <u>93,695</u>  | <u>4.48</u>  | <u>8,439</u>       | <u>93,716</u>  | <u>4.41</u>  |
| <b>Total earning assets</b>                            | <u>48,833</u>       | <u>757,654</u> | <u>6.16</u>  | <u>48,447</u>      | <u>725,129</u> | <u>5.94</u>  |
| Allowance for credit losses                            | (642)               |                |              | (641)              |                |              |
| Cash and due from banks                                | 1,389               |                |              | 1,395              |                |              |
| Other assets   | 5,255               |                |              | 5,243              |                |              |
|  | <u>54,835</u>       |                |              | <u>54,444</u>      |                |              |
| <b>Total assets</b>                                    | <u>\$54,835</u>     |                |              | <u>54,444</u>      |                |              |
| <b>Liabilities and stockholders equity</b>             |                     |                |              |                    |                |              |
| Interest-bearing liabilities                           |                     |                |              |                    |                |              |

Edgar Filing: M&T BANK CORP - Form 10-Q

|  |                   |                   |                   |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Interest-bearing deposits                    |                   |                   |                   |                   |                   |                   |
| NOW accounts                                 | \$ 421            | 711               | .67               | 400               | 610               | .60               |
| Savings deposits                             | 14,498            | 41,042            | 1.12              | 14,822            | 37,222            | 1.00              |
| Time deposits                                | 11,018            | 102,511           | 3.69              | 9,540             | 79,416            | 3.30              |
| Deposits at foreign office                   | 3,227             | 32,137            | 3.95              | 4,005             | 34,504            | 3.42              |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Total interest-bearing deposits              | 29,164            | 176,401           | 2.40              | 28,767            | 151,752           | 2.09              |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Short-term borrowings                        | 4,625             | 46,992            | 4.03              | 4,779             | 42,192            | 3.50              |
| Long-term borrowings                         | 6,606             | 80,100            | 4.81              | 6,373             | 71,632            | 4.46              |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>Total interest-bearing liabilities</b>    | <b>40,395</b>     | <b>303,493</b>    | <b>2.98</b>       | <b>39,919</b>     | <b>265,576</b>    | <b>2.64</b>       |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Noninterest-bearing deposits                 | 7,842             |                   |                   | 7,941             |                   |                   |
| Other liabilities                            | 725               |                   |                   | 739               |                   |                   |
|  | <u>          </u> |                   |                   | <u>          </u> |                   |                   |
| Total liabilities                            | 48,962            |                   |                   | 48,599            |                   |                   |
|  | <u>          </u> |                   |                   | <u>          </u> |                   |                   |
| Stockholders' equity                         | 5,873             |                   |                   | 5,845             |                   |                   |
|  | <u>          </u> |                   |                   | <u>          </u> |                   |                   |
| Total liabilities and stockholders' equity   | \$54,835          |                   |                   | 54,444            |                   |                   |
|  | <u>          </u> |                   |                   | <u>          </u> |                   |                   |
| Net interest spread                          |                   |                   | 3.18              |                   |                   | 3.30              |
| Contribution of interest-free funds          |                   |                   | .51               |                   |                   | .46               |
|  |                   |                   | <u>          </u> |                   |                   | <u>          </u> |
| Net interest income/margin on earning assets |                   | \$454,161         | 3.69%             |                   | 459,553           | 3.76%             |
|  |                   | <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 September 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 September 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> |
|--------------------------------|---|--|---|---|
| July 1 July 31, 2006           | 81,787  | \$116.80   | 77,500  | 3,003,100   |
| August 1 August 31, 2006       | 186,711   | 122.45   | 184,100   | 2,819,000   |
| September 1 September 30, 2006 | 503,132   | 120.29   | 500,400   | 2,318,600   |
|                                | <u>771,630</u>  | <u>\$120.44</u>  | <u>762,000</u>  |   |
| Total                          | <u>771,630</u>  | <u>\$120.44</u>  | <u>762,000</u>  |   |

(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.  
(None.)

Item 5. Other Information.  
(None.)

**Table of Contents**

Item 6. Exhibits.

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

**Exhibit  
No.**

---

- 10.1 First amendment, dated as of August 1, 2006, to the Supplemental Deferred Compensation Agreement between Manufacturers and Traders Trust Company and Robert E. Sadler, Jr. dated as of March 7, 1985. Filed herewith.
- 10.2 First amendment, dated as of August 1, 2006, to the Supplemental Deferred Compensation Agreement between Manufacturers and Traders Trust Company and Brian E. Hickey dated as of July 21, 1994. Filed herewith.
- 10.3 First amendment, dated as of August 1, 2006, to the Supplemental Deferred Compensation Agreement, dated July 17, 1989, between The East New York Savings Bank and Atwood Collins, III. 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: November 3, 2006

By: /s/ René F. Jones

---

René F. Jones  
Executive Vice President  
and Chief Financial Officer

**Table of Contents**

EXHIBIT INDEX

**Exhibit  
No.**

---

- 10.1 First amendment, dated as of August 1, 2006, to the Supplemental Deferred Compensation Agreement between Manufacturers and Traders Trust Company and Robert E. Sadler, Jr. dated as of March 7, 1985. Filed herewith.
- 10.2 First amendment, dated as of August 1, 2006, to the Supplemental Deferred Compensation Agreement between Manufacturers and Traders Trust Company and Brian E. Hickey dated as of July 21, 1994. Filed herewith.
- 10.3 First amendment, dated as of August 1, 2006, to the Supplemental Deferred Compensation Agreement, dated July 17, 1989, between The East New York Savings Bank and Atwood Collins, III. Filed herewith.
- 31.1 Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
- 31.2 Certification 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.