M&T BANK CORP
Form 10-Q
November 05, 2010

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**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**FORM 10-Q**

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

**For the quarterly period ended September 30, 2010**

**or**

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

(716) 842-5445
(Registrant s telephone number, including area code)

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

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

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

| Large accelerated filer þ | Accelerated filer o | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |
|---|---|---|---|

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

Number of shares of the registrant s Common Stock, $0.50 par value, outstanding as of the close of business on October 29, 2010: 119,378,052 shares.

M&T BANK CORPORATION
FORM 10-Q
For the Quarterly Period Ended September 30, 2010

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (Unaudited)

| *Dollars in thousands, except per share* | September 30, 2010 | December 31, 2009 |
|---|---|---|
| Assets | | |
| Cash and due from banks | $ 1,070,625 | 1,226,223 |
| Interest-bearing deposits at banks | 401,624 | 133,335 |
| Federal funds sold | 18,700 | 20,119 |
| Agreements to resell securities | 425,000 | |
| Trading account | 536,702 | 386,984 |
| Investment securities (includes pledged securities that can be sold or repledged of $1,807,027 at September 30, 2010; $1,797,701 at December 31, 2009) | | |
| Available for sale (cost: $5,852,314 at September 30, 2010; $6,997,009 at December 31, 2009) | 5,783,496 | 6,704,378 |
| Held to maturity (fair value: $1,338,044 at September 30, 2010; $416,483 at December 31, 2009) | 1,425,717 | 567,607 |
| Other (fair value: $453,502 at September 30, 2010; $508,624 at December 31, 2009) | 453,502 | 508,624 |
| Total investment securities | 7,662,715 | 7,780,609 |
| Loans and leases | 51,129,133 | 52,306,457 |
| Unearned discount | (337,575) | (369,771) |
| Allowance for credit losses | (894,720) | (878,022) |
| Loans and leases, net | 49,896,838 | 51,058,664 |
| Premises and equipment | 421,352 | 435,845 |
| Goodwill | 3,524,625 | 3,524,625 |
| Core deposit and other intangible assets | 139,186 | 182,418 |
| Accrued interest and other assets | 4,149,470 | 4,131,577 |
| Total assets | $68,246,837 | 68,880,399 |
| Liabilities | | |
| Noninterest-bearing deposits | $14,665,603 | 13,794,636 |
| NOW accounts | 1,251,452 | 1,396,471 |
| Savings deposits | 25,964,136 | 23,676,798 |
| Time deposits | 6,119,516 | 7,531,495 |
| Deposits at foreign office | 653,916 | 1,050,438 |

| | | |
|---|---|---|
| Total deposits | 48,654,623 | 47,449,838 |
| Federal funds purchased and agreements to repurchase securities | 1,142,103 | 2,211,692 |
| Other short-term borrowings | 69,580 | 230,890 |
| Accrued interest and other liabilities | 1,157,250 | 995,056 |
| Long-term borrowings | 8,991,508 | 10,240,016 |
| Total liabilities | 60,015,064 | 61,127,492 |
| Stockholders equity | | |
| Preferred stock, $1.00 par, 1,000,000 shares authorized, 778,000 shares issued and oustanding (liquidation preference $1,000 per share) | 737,979 | 730,235 |
| Common stock, $.50 par, 250,000,000 shares authorized, 120,396,611 shares issued | 60,198 | 60,198 |
| Common stock issuable, 70,925 shares at September 30, 2010; 75,170 shares at December 31, 2009 | 4,146 | 4,342 |
| Additional paid-in capital | 2,408,737 | 2,442,947 |
| Retained earnings | 5,319,198 | 5,076,884 |
| Accumulated other comprehensive income (loss), net | (192,554) | (335,997) |
| Treasury stock common, at cost -1,032,949 shares at September 30, 2010; 2,173,916 shares at December 31, 2009 | (105,931) | (225,702) |
| Total stockholders equity | 8,231,773 | 7,752,907 |
| Total liabilities and stockholders equity | $68,246,837 | 68,880,399 |

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M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

| *In thousands, except per share* | | Three months ended September 30 2010 | 2009 | Nine months ended September 30 2010 | 2009 |
|---|---|---|---|---|---|
| Interest income | | | | | |
| | Loans and leases, including fees | $603,199 | 599,859 | $1,788,245 | 1,728,422 |
| | Deposits at banks | 34 | 7 | 45 | 20 |
| | Federal funds sold | 9 | 17 | 29 | 56 |
| | Agreements to resell securities | 32 | | 36 | 62 |
| | Trading account | 94 | 135 | 287 | 450 |
| | Investment securities | | | | |
| | Fully taxable | 80,043 | 97,963 | 250,922 | 297,563 |
| | Exempt from federal taxes | 2,489 | 2,612 | 7,506 | 5,955 |
| | Total interest income | 685,900 | 700,593 | 2,047,070 | 2,032,528 |
| Interest expense | | | | | |
| | NOW accounts | 219 | 288 | 638 | 861 |
| | Savings deposits | 21,453 | 22,076 | 63,366 | 90,360 |
| | Time deposits | 23,309 | 50,678 | 79,009 | 166,704 |
| | Deposits at foreign office | 315 | 481 | 1,016 | 2,038 |
| | Short-term borrowings | 760 | 1,764 | 2,373 | 6,127 |
| | Long-term borrowings | 69,976 | 77,651 | 207,239 | 269,409 |
| | Total interest expense | 116,032 | 152,938 | 353,641 | 535,499 |
| | *Net interest income* | 569,868 | 547,655 | 1,693,429 | 1,497,029 |
| | Provision for credit losses | 93,000 | 154,000 | 283,000 | 459,000 |
| | Net interest income after provision for credit losses | 476,868 | 393,655 | 1,410,429 | 1,038,029 |
| Other income | | | | | |
| | Mortgage banking revenues | 61,052 | 48,169 | 149,612 | 157,385 |
| | Service charges on deposit accounts | 117,733 | 128,502 | 367,004 | 342,010 |
| | Trust income | 30,485 | 31,586 | 91,582 | 98,908 |
| | Brokerage services income | 12,127 | 14,329 | 38,021 | 43,215 |
| | Trading account and foreign exchange gains | 6,035 | 7,478 | 14,531 | 16,456 |
| | Gain (loss) on bank investment securities | 1,440 | (56) | 1,909 | 811 |
| | | (16,486) | (64,232) | (67,052) | (202,737) |

| | | | | | |
|---|---|---|---|---|---|
| | Total other-than-temporary impairment ( OTTI ) losses | | | | |
| | Portion of OTTI losses recognized in other comprehensive income (before taxes) | 6,954 | 17,199 | 8,338 | 98,736 |
| | Net OTTI losses recognized in earnings | (9,532) | (47,033) | (58,714) | (104,001) |
| | Equity in earnings of Bayview Lending Group LLC | (6,460) | (10,912) | (18,353) | (15,263) |
| | Other revenues from operations | 77,019 | 106,163 | 235,570 | 242,695 |
| | Total other income | 289,899 | 278,226 | 821,162 | 782,216 |
| Other expense | | | | | |
| | Salaries and employee benefits | 246,389 | 255,449 | 756,296 | 754,793 |
| | Equipment and net occupancy | 54,353 | 58,195 | 165,185 | 157,688 |
| | Printing, postage and supplies | 7,820 | 8,229 | 25,412 | 28,878 |
| | Amortization of core deposit and other intangible assets | 13,526 | 16,924 | 44,834 | 47,525 |
| | FDIC assessments | 18,039 | 21,124 | 60,995 | 76,617 |
| | Other costs of operations | 140,006 | 140,135 | 392,841 | 436,611 |
| | Total other expense | 480,133 | 500,056 | 1,445,563 | 1,502,112 |
| | Income before taxes | 286,634 | 171,825 | 786,028 | 318,133 |
| | Income taxes | 94,619 | 44,161 | 254,309 | 75,060 |
| | *Net income* | $192,015 | 127,664 | $ 531,719 | 243,073 |
| | Net income available to common equity | $179,306 | 115,143 | $ 493,735 | 211,429 |
| | Net income per common share | | | | |
| | Basic | $ 1.49 | .97 | $ 4.12 | 1.84 |
| | Diluted | 1.48 | .97 | 4.10 | 1.84 |
| | Cash dividends per common share | $ .70 | .70 | $ 2.10 | 2.10 |
| | Average common shares outstanding | | | | |
| | Basic | 118,320 | 117,370 | 118,048 | 113,701 |
| | Diluted | 119,155 | 117,547 | 118,766 | 113,800 |

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M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

| *In thousands* | | Nine months ended September 30 2010 | 2009 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| | Net income | $ 531,719 | 243,073 |
| | Adjustments to reconcile net income to net cash provided by operating activities | | |
| | Provision for credit losses | 283,000 | 459,000 |
| | Depreciation and amortization of premises and equipment | 51,216 | 43,050 |
| | Amortization of capitalized servicing rights | 42,917 | 46,997 |
| | Amortization of core deposit and other intangible assets | 44,834 | 47,525 |
| | Provision for deferred income taxes | 49,111 | 82,904 |
| | Asset write-downs | 68,430 | 131,822 |
| | Net gain on sales of assets | (3,006) | (249) |
| | Net change in accrued interest receivable, payable | 4,764 | (5,154) |
| | Net change in other accrued income and expense | 119,728 | 34,206 |
| | Net change in loans originated for sale | 67,172 | 8,144 |
| | Net change in trading account assets and liabilities | (10,482) | (15,797) |
| | Net cash provided by operating activities | 1,249,403 | 1,075,521 |
| Cash flows from investing activities | | | |
| | Proceeds from sales of investment securities | | |
| | Available for sale | 21,220 | 7,159 |
| | Other | 62,331 | 115,336 |
| | Proceeds from maturities of investment securities | | |
| | Available for sale | 1,097,531 | 1,803,946 |
| | Held to maturity | 139,555 | 76,084 |
| | Purchases of investment securities | | |
| | Available for sale | (414,992) | (68,724) |
| | Held to maturity | (993,162) | (25,289) |
| | Other | (7,209) | (2,886) |
| | Net (increase) decrease in agreements to resell securities | (425,000) | 90,000 |
| | Net decrease in loans and leases | 1,087,784 | 513,519 |
| | Net increase in interest-bearing deposits at banks | (268,289) | (21,981) |
| | Other investments, net | (41,093) | (23,496) |

| | | | |
|---|---|---|---|
| | Capital expenditures, net | (39,380) | (27,664) |
| | Acquisitions, net of cash acquired | | |
| | Banks and bank holding companies | | 202,993 |
| | Other, net | 34,411 | 40,776 |
| | Net cash provided by investing activities | 253,707 | 2,679,773 |
| Cash flows from financing activities | | | |
| | Net increase (decrease) in deposits | 1,217,511 | (1,125,110) |
| | Net decrease in short-term borrowings | (1,230,890) | (260,488) |
| | Payments on long-term borrowings | (1,399,101) | (2,301,894) |
| | Dividends paid common | (251,125) | (242,551) |
| | Dividends paid preferred | (30,169) | (21,890) |
| | Other, net | 33,647 | 2,202 |
| | Net cash used by financing activities | (1,660,127) | (3,949,731) |
| | Net decrease in cash and cash equivalents | (157,017) | (194,437) |
| | Cash and cash equivalents at beginning of period | 1,246,342 | 1,568,151 |
| | Cash and cash equivalents at end of period | $ 1,089,325 | 1,373,714 |
| Supplemental disclosure of cash flow information | | | |
| | Interest received during the period | $ 2,072,464 | 2,042,092 |
| | Interest paid during the period | 360,289 | 525,657 |
| | Income taxes paid (refunded) during the period | 214,903 | (8,157) |
| Supplemental schedule of noncash investing and financing activities | | | |
| | Real estate acquired in settlement of loans | $ 165,933 | 69,518 |
| | Increase (decrease) from consolidation of securitization trusts: | | |
| | Loans | 423,865 | |
| | Investment securities available for sale | (360,471) | |
| | Long-term borrowings | 65,419 | |
| | Accrued interest and other | 2,025 | |
| | Securitization of residential mortgage loans allocated to: | | |
| | Available for sale investment securities | | 140,942 |
| | Capitalized servicing rights | | 788 |
| | Acquisitions: | | |
| | Fair value of: | | |
| | Assets acquired (noncash) | | 6,581,433 |
| | Liabilities assumed | | 6,318,998 |
| | Preferred stock issued | | 155,779 |
| | Common stock issued | | 272,824 |
| | Common stock options | | 1,367 |
| | Common stock warrants | | 6,467 |

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M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY (Unaudited)

| *In thousands, except per share* | Preferred stock | Common stock | Common stock issuable | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income (loss), net | Treasury stock | Total |
|---|---|---|---|---|---|---|---|---|
| **2009** | | | | | | | | |
| Balance-January 1, 2009 | $ 567,463 | 60,198 | 4,617 | 2,897,907 | 5,062,754 | (736,881) | (1,071,327) | 6,784,731 |
| Comprehensive income: | | | | | | | | |
| Net income | | | | | 243,073 | | | 243,073 |
| Other comprehensive income, net of tax and reclassification adjustments: | | | | | | | | |
| Unrealized gains on investment securities | | | | | | 309,150 | | 309,150 |
| Defined benefit plans liability adjustment | | | | | | 1,818 | | 1,818 |
| Unrealized losses on terminated cash flow hedges | | | | | | 6,627 | | 6,627 |
| | | | | | | | | 560,668 |
| Acquisition of Provident Bankshares Corporation: | | | | | | | | |
| Preferred stock issued | 155,779 | | | | | | | 155,779 |
| Common stock issued | | | | (348,080) | | | 620,904 | 272,824 |
| Common stock options | | | | 1,367 | | | | 1,367 |
| Common stock warrants | | | | 6,467 | | | | 6,467 |
| Issuance of common stock to defined benefit pension plan | | | | (51,417) | | | 95,706 | 44,289 |
| Preferred stock cash dividends | | | | | (21,890) | | | (21,890) |
| Amortization of preferred stock discount | 4,506 | | | | (4,506) | | | |
| Repayment of management stock ownership program receivable | | | | 195 | | | | 195 |
| Stock-based compensation plans: | | | | | | | | |
| Compensation expense | | | | (31,677) | | | 74,642 | 42,965 |
| Exercises of stock options | | | | (24,335) | | | 31,751 | 7,416 |
| Directors stock plan | | | | (1,082) | | | 2,050 | 968 |
| Deferred compensation plans, net, including dividend | | | (326) | (502) | (152) | | 1,035 | 55 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| equivalents | | | | | | | | |
| Common stock cash dividends $2.10 per share | | | | | (243,471) | | | (243,471) |
| Balance September 30, 2009 | $ 727,748 | 60,198 | 4,291 | 2,448,843 | 5,035,808 | (419,286) | (245,239) | 7,612,363 |
| **2010** | | | | | | | | |
| Balance-January 1, 2010 | $ 730,235 | 60,198 | 4,342 | 2,442,947 | 5,076,884 | (335,997) | (225,702) | 7,752,907 |
| Comprehensive income: | | | | | | | | |
| Net income | | | | | 531,719 | | | 531,719 |
| Other comprehensive income, net of tax and reclassification adjustments: | | | | | | | | |
| Unrealized gains on investment securities | | | | | | 140,392 | | 140,392 |
| Defined benefit plans liability adjustment | | | | | | 3,262 | | 3,262 |
| Unrealized gain on terminated cash flow hedge | | | | | | (211) | | (211) |
| | | | | | | | | 675,162 |
| Preferred stock cash dividends | | | | | (30,169) | | | (30,169) |
| Amortization of preferred stock discount | 7,744 | | | | (7,744) | | | |
| Repayment of management stock ownership program receivable | | | | 2,686 | | | | 2,686 |
| Stock-based compensation plans: | | | | | | | | |
| Compensation expense | | | | (3,545) | | | 46,697 | 43,152 |
| Exercises of stock options | | | | (25,639) | | | 58,892 | 33,253 |
| Stock purchase plan | | | | (8,482) | | | 17,480 | 8,998 |
| Directors stock plan | | | | (289) | | | 1,116 | 827 |
| Deferred compensation plans, net, including dividend equivalents | | | (196) | (295) | (147) | | 611 | (27) |
| Other | | | | 1,354 | | | (5,025) | (3,671) |
| Common stock cash dividends $2.10 per share | | | | | (251,345) | | | (251,345) |
| Balance September 30, 2010 | $ 737,979 | 60,198 | 4,146 | 2,408,737 | 5,319,198 | (192,554) | (105,931) | 8,231,773 |

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NOTES TO FINANCIAL STATEMENTS

**1. Significant accounting policies**

The consolidated financial statements of M&T Bank Corporation ( M&T ) and subsidiaries ( the Company ) were compiled in accordance with generally accepted accounting principles ( GAAP ) using the accounting policies set forth in note 1 of Notes to Financial Statements included in the 2009 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. Acquisitions**

On August 28, 2009, M&T Bank, M&T s principal banking subsidiary, entered into a purchase and assumption agreement with the Federal Deposit Insurance Corporation ( FDIC ) to assume all of the deposits and acquire certain assets of Bradford Bank ( Bradford ), based in Baltimore, Maryland. As part of the transaction, M&T Bank entered into a loss-share arrangement with the FDIC whereby M&T Bank will be reimbursed by the FDIC for most losses it incurs on the acquired loan portfolio. The transaction has been accounted for using the acquisition method of accounting and, accordingly, assets acquired and liabilities assumed were recorded at estimated fair value on the acquisition date. Assets acquired totaled approximately $469 million, including $302 million of loans, and liabilities assumed aggregated $440 million, including $361 million of deposits. In accordance with GAAP, M&T Bank recorded an after-tax gain on the transaction of $18 million ($29 million before taxes) during the third quarter of 2009. There was no goodwill or other intangible assets recorded in connection with this transaction. The Bradford acquisition transaction did not have a material impact on the Company s consolidated statement of position or results of operations.

On May 23, 2009, M&T acquired all of the outstanding common stock of Provident Bankshares Corporation ( Provident ), a bank holding company based in Baltimore, Maryland, in a stock-for-stock transaction. Provident Bank, Provident s banking subsidiary, was merged into M&T Bank on that date. The results of operations acquired in the Provident transaction have been included in the Company s financial results since May 23, 2009. Provident common shareholders received .171625 shares of M&T common stock in exchange for each share of Provident common stock, resulting in M&T issuing a total of 5,838,308 common shares with an acquisition date fair value of $273 million. In addition, based on the merger agreement, outstanding and unexercised options to purchase Provident common stock were converted into options to purchase the common stock of M&T. Those options had an estimated fair value of $1 million. In total, the purchase price was approximately $274 million based on the fair value on the acquisition date of M&T common stock exchanged and the options to purchase M&T common stock. Holders of Provident s preferred stock were issued shares of new Series B and Series C Preferred Stock of M&T having substantially identical terms. That preferred stock and warrants to purchase common stock associated with the Series C Preferred Stock added $162 million to M&T s stockholders equity.

The Provident transaction has been accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair value on the acquisition date. Assets acquired totaled $6.3 billion, including $4.0 billion of loans and leases (including approximately $1.7 billion of commercial real estate loans, $1.4 billion of consumer loans, $700 million of commercial loans and leases and $300 million of residential real estate loans) and $1.0 billion of investment securities. Liabilities assumed were $5.9 billion, including $5.1 billion of deposits. The transaction added $436 million to M&T s stockholders equity, including $280 million of common equity and $156 million of preferred equity. In connection with the acquisition, the Company recorded $332 million of goodwill and $63 million of core deposit intangible. The core deposit intangible is being amortized over seven years using an accelerated method. The acquisition of Provident

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**2. Acquisitions, continued**

expanded the Company s presence in the Mid-Atlantic area, gave the Company the second largest deposit share in Maryland, and tripled the Company s presence in Virginia.

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

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

| | May 23, 2009 (in thousands) |
|---|---|
| Contractually required principal and interest at acquisition | $ 5,465,167 |
| Contractual cash flows not expected to be collected | (832,115) |
| Expected cash flows at acquisition | 4,633,052 |
| Interest component of expected cash flows | (595,685) |
| Basis in acquired loans at acquisition estimated fair value | $ 4,037,367 |

Interest income on acquired loans for the three and nine months ended September 30, 2010 was approximately $43 million and $121 million, respectively, and for the third quarter of 2009 and for the period from the date of acquisition to September 30, 2009 was approximately $44 million and $63 million, respectively. The outstanding principal balance and the carrying amount of these loans that is included in the consolidated balance sheet at September 30, 2010 is as follows:

| | (in thousands) |
|---|---|
| Outstanding principal balance | $3,330,133 |
| Carrying amount | 3,142,319 |

Receivables (including loans and investment securities) obtained in the acquisition of Provident for which there was specific evidence of credit deterioration as of the acquisition date and for which it was probable that the Company would be unable to collect all contractually required principal and interest payments represent less than .25% of the Company s assets and, accordingly, are not considered material.

In connection with the Provident and Bradford acquisition transactions, the Company incurred merger-related expenses for professional services and other temporary help fees associated with the conversion of systems and/or integration of operations; costs related to branch and office consolidations; costs related to termination of existing contractual arrangements for various services; initial marketing and promotion expenses designed to introduce M&T Bank to its new customers;

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**2. Acquisitions, continued**

severance (for former Provident employees) and incentive compensation costs; travel costs; and printing, supplies and other costs of commencing operations in new markets and offices. A summary of merger-related expenses included in the consolidated statement of income follows:

| | Three months ended September 30, 2009 | Nine months ended September 30, 2009 |
|---|---|---|
| | (in thousands) | |
| Salaries and employee benefits | $ 870 | 9,649 |
| Equipment and net occupancy | 1,845 | 2,430 |
| Printing, postage and supplies | 629 | 3,444 |
| Other costs of operations | 10,666 | 67,370 |
| | $ 14,010 | 82,893 |

The following table discloses the impact of Provident (excluding the impact of merger-related expenses) since the acquisition on May 23, 2009 through the end of the third quarter of 2009. The table also presents certain pro forma information for the nine-month period ended September 30, 2009 as if Provident had been acquired on January 1, 2009. These results combine the historical results of Provident into the Company s consolidated statement of income and, while certain adjustments were made for the estimated impact of certain fair valuation adjustments and other acquisition-related activity, they are not indicative of what would have occurred had the acquisition taken place on January 1, 2009. In particular, no adjustments have been made to eliminate the amount of Provident s provision for credit losses of $42 million or the impact of other-than-temporary impairment losses recognized by Provident of $87 million in 2009 that would not have been necessary had the acquired loans and investment securities been recorded at fair value as of the beginning of 2009. Furthermore, expenses related to systems conversions and other costs of integration are included in the 2009 periods in which such costs were incurred.

Additionally, the Company expects to achieve further operating cost savings and other business synergies as a result of the acquisition which are not reflected in the pro forma amounts that follow.

| | Actual since acquisition through September 30, 2009 | Pro forma Nine months ended September 30, 2009 |
|---|---|---|
| | (in thousands) | |
| Total revenues | $116,016 | 2,864,760 |
| Net income | 18,583 | 157,653 |

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**3. Investment securities**

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

| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
|---|---|---|---|---|
| | | (in thousands) | | |
| September 30, 2010 | | | | |
| Investment securities available for sale: | | | | |
| U.S. Treasury and federal agencies | $ 73,395 | 2,216 | 46 | $ 75,565 |
| Obligations of states and political subdivisions | 63,528 | 866 | 42 | 64,352 |
| Mortgage-backed securities: | | | | |
| Government issued or guaranteed | 3,391,427 | 183,529 | 58 | 3,574,898 |
| Privately issued residential | 1,769,795 | 12,736 | 259,163 | 1,523,368 |
| Privately issued commercial | 28,116 | | 4,636 | 23,480 |
| Collateralized debt obligations | 96,130 | 22,972 | 9,760 | 109,342 |
| Other debt securities | 309,095 | 27,325 | 42,456 | 293,964 |
| Equity securities | 120,828 | 5,433 | 7,734 | 118,527 |
| | 5,852,314 | 255,077 | 323,895 | 5,783,496 |
| Investment securities held to maturity: | | | | |
| Obligations of states and political subdivisions | 204,599 | 6,856 | 33 | 211,422 |
| Mortgage-backed securities: | | | | |
| Government issued or guaranteed | 884,445 | 27,531 | | 911,976 |
| Privately issued | 324,513 | | 122,027 | 202,486 |
| Other debt securities | 12,160 | | | 12,160 |
| | 1,425,717 | 34,387 | 122,060 | 1,338,044 |
| Other securities | 453,502 | | | 453,502 |
| Total | $ 7,731,533 | 289,464 | 445,955 | $ 7,575,042 |
| December 31, 2009 | | | | |
| Investment securities available for sale: | | | | |
| U.S. Treasury and federal agencies | $ 102,755 | 1,988 | 57 | $ 104,686 |
| Obligations of states and political subdivisions | 61,468 | 1,583 | 128 | 62,923 |
| Mortgage-backed securities: | | | | |
| Government issued or guaranteed | 3,777,642 | 131,407 | 6,767 | 3,902,282 |
| Privately issued residential | 2,438,353 | 9,630 | 383,079 | 2,064,904 |
| Privately issued commercial | 33,133 | | 7,967 | 25,166 |
| Collateralized debt obligations | 103,159 | 23,389 | 11,202 | 115,346 |
| Other debt securities | 309,514 | 16,851 | 58,164 | 268,201 |
| Equity securities | 170,985 | 5,590 | 15,705 | 160,870 |
| | 6,997,009 | 190,438 | 483,069 | 6,704,378 |

| | | | | |
|---|---|---|---|---|
| Investment securities held to maturity: | | | | |
| Obligations of states and political subdivisions | 203,825 | 1,419 | 1,550 | 203,694 |
| Privately issued mortgage-backed securities | 352,195 | | 150,993 | 201,202 |
| Other debt securities | 11,587 | | | 11,587 |
| | 567,607 | 1,419 | 152,543 | 416,483 |
| Other securities | 508,624 | | | 508,624 |
| Total | $ 8,073,240 | 191,857 | 635,612 | $ 7,629,485 |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**3. Investment securities, continued**

Gross realized gains and losses from sales of investment securities were not significant during the three- and nine-month periods ended September 30, 2010 and 2009. The Company recognized $10 million and $59 million of pre-tax other-than-temporary impairment losses during the three and nine months ended September 30, 2010, respectively. Approximately $12 million of the losses recognized in the second quarter of 2010 related to American Depositary Shares ( ADSs ) of Allied Irish Banks, p.l.c. ( AIB ) which were obtained in M&T s acquisition of Allfirst Financial Inc. in 2003. The remaining losses in 2010 related to certain privately issued residential mortgage-backed securities and collateralized debt obligations backed by pooled trust preferred securities. The impairment charges related to the AIB ADSs were recognized due to mounting credit and other losses incurred by AIB and significant dilution of AIB common shareholders based on the Irish government s significant ownership position. Other-than-temporary impairment losses on investment securities of $47 million and $104 million (pre-tax) were recognized by the Company for the three and nine months ended September 30, 2009 and related primarily to privately issued residential mortgage-backed securities. The impairment charges related to the privately issued residential mortgage-backed securities in the 2010 and 2009 periods were recognized in light of deterioration of housing values in the residential real estate market and a rise in delinquencies and charge-offs of underlying mortgage loans collateralizing those securities. The impairment charges related to the collateralized debt obligations in the 2010 periods were recognized after evaluating the expected repayment performance of financial institutions where trust preferred securities were within the collateralized debt obligations obtained in acquisitions. The other-than-temporary impairment losses represent management s estimate of credit losses inherent in the securities considering projected cash flows using assumptions of delinquency rates, loss severities, and other estimates of future collateral performance. The following table displays changes in credit losses for debt securities recognized in earnings for the three and nine months ended September 30, 2010 and 2009.

| | Three months ended September 30 | |
|---|---|---|
| | 2010 | 2009 |
| | (in thousands) | |
| Beginning balance | $ 314,263 | 205,918 |
| Additions for credit losses not previously recognized | 9,532 | 47,033 |
| Reductions for increases in cash flows | (108) | (254) |
| Reductions for realized losses | (11,812) | (425) |
| Ending balance | $ 311,875 | 252,272 |

| | Nine months ended September 30 | |
|---|---|---|
| | 2010 | 2009 |
| | (in thousands) | |
| Beginning balance | $ 284,513 | 155,967 |
| Additions for credit losses not previously recognized | 46,721 | 104,001 |
| Reductions for increases in cash flows | (450) | (1,201) |
| Reductions for realized losses | (18,909) | (6,495) |
| Ending balance | $ 311,875 | 252,272 |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**3. Investment securities, continued**

At September 30, 2010, the amortized cost and estimated fair value of debt securities by contractual maturity were as follows:

| | Amortized cost | Estimated fair value |
|---|---|---|
| | (in thousands) | |
| Debt securities available for sale: | | |
| Due in one year or less | $ 48,926 | 49,213 |
| Due after one year through five years | 55,277 | 57,558 |
| Due after five years through ten years | 27,647 | 30,012 |
| Due after ten years | 410,298 | 406,440 |
| | 542,148 | 543,223 |
| Mortgage-backed securities available for sale | 5,189,338 | 5,121,746 |
| | $ 5,731,486 | 5,664,969 |
| Debt securities held to maturity: | | |
| Due in one year or less | $ 40,961 | 41,191 |
| Due after one year through five years | 10,864 | 11,417 |
| Due after five years through ten years | 130,978 | 136,206 |
| Due after ten years | 33,956 | 34,768 |
| | 216,759 | 223,582 |
| Mortgage-backed securities held to maturity | 1,208,958 | 1,114,462 |
| | $ 1,425,717 | 1,338,044 |

A summary of investment securities that as of September 30, 2010 and December 31, 2009 had been in a continuous unrealized loss position for less than twelve months and those that had been in a continuous unrealized loss position for twelve months or longer follows:

| | Less than 12 months | | 12 months or more | |
|---|---|---|---|---|
| | Fair value | Unrealized losses | Fair value | Unrealized losses |
| | (in thousands) | | | |
| September 30, 2010 | | | | |
| Investment securities available for sale: | | | | |
| U.S. Treasury and federal agencies | $ 2,017 | (46) | | |
| Obligations of states and political subdivisions | 2,057 | (7) | 3,210 | (35) |
| Mortgage-backed securities: | | | | |
| Government issued or guaranteed | 4,028 | (34) | 2,581 | (24) |
| Privately issued residential | 162,633 | (1,981) | 1,143,110 | (257,182) |
| Privately issued commercial | | | 23,480 | (4,636) |
| Collateralized debt obligations | 19,532 | (9,464) | 3,593 | (296) |
| Other debt securities | 924 | (1) | 86,574 | (42,455) |

| | | | | |
|---|---|---|---|---|
| Equity securities | 5,488 | (3,559) | 1,219 | (4,175) |
| | 196,679 | (15,092) | 1,263,767 | (308,803) |
| Investment securities held to maturity: | | | | |
| Obligations of states and political subdivisions | 1,741 | (6) | 700 | (27) |
| Privately issued mortgage-backed securities | | | 202,486 | (122,027) |
| | 1,741 | (6) | 203,186 | (122,054) |
| Total | $ 198,420 | (15,098) | 1,466,953 | (430,857) |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**3. Investment securities, continued**

| | Less than 12 months | | 12 months or more | |
|---|---|---|---|---|
| | Fair value | Unrealized losses | Fair value | Unrealized losses |
| | (in thousands) | | | |
| December 31, 2009 | | | | |
| Investment securities available for sale: | | | | |
| U.S. Treasury and federal agencies | $ 6,265 | (53) | 572 | (4) |
| Obligations of states and political subdivisions | 9,540 | (83) | 3,578 | (45) |
| Mortgage-backed securities: | | | | |
| Government issued or guaranteed | 685,319 | (6,460) | 19,379 | (307) |
| Privately issued residential | 98,312 | (2,871) | 1,504,020 | (380,208) |
| Privately issued commercial | | | 25,166 | (7,967) |
| Collateralized debt obligations | 13,046 | (10,218) | 3,598 | (984) |
| Other debt securities | 5,786 | (174) | 138,705 | (57,990) |
| Equity securities | 7,449 | (1,728) | 23,159 | (13,977) |
| | 825,717 | (21,587) | 1,718,177 | (461,482) |
| Investment securities held to maturity: | | | | |
| Obligations of states and political subdivisions | 136,032 | (1,492) | 626 | (58) |
| Privately issued mortgage-backed securities | | | 201,202 | (150,993) |
| | 136,032 | (1,492) | 201,828 | (151,051) |
| Total | $ 961,749 | (23,079) | 1,920,005 | (612,533) |

The Company owned 327 individual investment securities with aggregate gross unrealized losses of $446 million at September 30, 2010. Approximately $381 million of the unrealized losses pertained to privately issued residential mortgage-backed securities with a cost basis of $1.9 billion. The Company also had $52 million of unrealized losses on trust preferred securities issued by financial institutions and securities backed by trust preferred securities issued by financial institutions and other entities having a cost basis of $156 million. Based on a review of each of the securities in the investment securities portfolio at September 30, 2010, with the exception of the aforementioned securities for which other-than-temporary impairment losses were recognized, the Company concluded that it expected to recover the amortized cost basis of its investment. As of September 30, 2010, the Company does not intend to sell nor is it anticipated that it would be required to sell any of its impaired investment securities. At September 30, 2010, the Company has not identified events or changes in circumstances which may have a significant adverse effect on the fair value of the $454 million of cost method investment securities.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**4. Allowance for credit losses**

Changes in the allowance for credit losses were as follows:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (in thousands) | | | |
| Beginning balance | $ 894,667 | 855,365 | 878,022 | 787,904 |
| Provision for credit losses | 93,000 | 154,000 | 283,000 | 459,000 |
| Consolidation of loan securitization trusts | | | 2,752 | |
| Net charge-offs | | | | |
| Charge-offs | (101,782) | (150,150) | (313,167) | (409,169) |
| Recoveries | 8,835 | 8,659 | 44,113 | 30,139 |
| Net charge-offs | (92,947) | (141,491) | (269,054) | (379,030) |
| Ending balance | $ 894,720 | 867,874 | 894,720 | 867,874 |

Except for consumer and residential mortgage loans that are considered smaller balance homogenous loans and are evaluated collectively and purchased-impaired loans, the Company considers a loan to be impaired for purposes of applying GAAP when, based on current information and events, it is probable that the Company will be unable to collect all amounts according to the contractual terms of the loan agreement or the loan is delinquent 90 days. Purchased-impaired loans are considered impaired under GAAP when it is probable that the Company will be unable to collect all cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimates after acquisition. Regardless of loan type, the Company considers a loan to be impaired if it qualifies as a troubled debt restructuring. Impaired loans are classified as either nonaccrual or as loans renegotiated at below market rates, with the exception of purchased-impaired loans which continue to accrete income in accordance with GAAP. Loans less than 90 days delinquent are deemed to have an insignificant delay in payment and are generally not considered impaired. Impairment of a loan is measured based on the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s observable market price, or the fair value of collateral if the loan is collateral dependent.

The recorded investment in loans considered impaired for purposes of applying GAAP was $1.1 billion and $1.3 billion at September 30, 2010 and December 31, 2009, respectively. The recorded investment in loans considered impaired for which there was a related valuation allowance for impairment included in the allowance for credit losses and the amount of such impairment allowance were $827 million and $214 million, respectively, at September 30, 2010 and $1.1 billion and $244 million, respectively, at December 31, 2009. The recorded investment in loans considered impaired for which there was no related valuation allowance for impairment was $300 million and $234 million at September 30, 2010 and December 31, 2009, respectively.

**5. Borrowings**

The Company had $1.2 billion of fixed and floating rate junior subordinated deferrable interest debentures ( Junior Subordinated Debentures ) outstanding at September 30, 2010 which are held by various trusts that were issued in connection with the issuance by those trusts of preferred capital securities ( Capital Securities ) and common securities ( Common Securities ). The proceeds from the issuances of the Capital Securities and the Common Securities were used by the trusts to purchase the Junior Subordinated Debentures. The Common Securities of each of those trusts are wholly owned by M&T and are the only class of each trust s securities possessing general voting powers. The Capital Securities represent preferred undivided interests in the assets of the corresponding trust.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**5. Borrowings, continued**

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

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

The Capital Securities will remain outstanding until the Junior Subordinated Debentures are repaid at maturity, are redeemed prior to maturity or are distributed in liquidation to the Trusts. The Capital Securities are mandatorily redeemable in whole, but not in part, upon repayment at the stated maturity dates (ranging from 2027 to 2068) of the Junior Subordinated Debentures or the earlier redemption of the Junior Subordinated Debentures in whole upon the occurrence of one or more events set forth in the indentures relating to the Capital Securities, and in whole or in part at any time after an optional redemption prior to contractual maturity contemporaneously with the optional redemption of the related Junior Subordinated Debentures in whole or in part, subject to possible regulatory approval. In connection with the issuance of 8.50% Enhanced Trust Preferred Securities associated with $350 million of Junior Subordinated Debentures maturing in 2068, M&T entered into a replacement capital covenant that provides that neither M&T nor any of its subsidiaries will repay, redeem or purchase any of the Junior Subordinated Debentures due January 31, 2068 or the 8.50% Enhanced Trust Preferred Securities prior to January 31, 2048, with certain limited exceptions, except to the extent that, during the 180 days prior to the date of that repayment, redemption or purchase, M&T and its subsidiaries have received proceeds from the sale of qualifying securities that (i) have equity-like characteristics that are the same as, or more equity-like than, the applicable characteristics of the 8.50% Enhanced Trust Preferred Securities or the Junior Subordinated Debentures due January 31, 2068, as applicable, at the time of repayment, redemption or purchase, and (ii) M&T has obtained the prior approval of the Federal Reserve Board, if required.

Including the unamortized portions of purchase accounting adjustments to reflect estimated fair value at the acquisition dates of the Common Securities of various trusts, the Junior Subordinated Debentures associated with Capital Securities had financial statement carrying values of $1.2 billion at each of September 30, 2010 and December 31, 2009.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**6. Stockholders equity**

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

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

| | Shares issued and outstanding | Carrying value September 30, 2010 | Carrying value December 31, 2009 |
|---|---|---|---|
| | | (dollars in thousands) | |
| Series A (a) Fixed Rate Cumulative Perpetual Preferred Stock, Series A, $1,000 liquidation preference per share, 600,000 shares authorized | 600,000 | $577,082 | 572,580 |
| Series B (b) Series B Mandatory Convertible Non-cumulative Preferred Stock, $1,000 liquidation preference per share, 26,500 shares authorized | 26,500 | 26,500 | 26,500 |
| Series C (a)(c) Fixed Rate Cumulative Perpetual Preferred Stock, Series C, $1,000 liquidation preference per share, 151,500 shares authorized | 151,500 | 134,397 | 131,155 |

*(a) Shares were issued as part of the Troubled Asset Relief Program Capital Purchase Program of the U.S. Department of Treasury ( U.S. Treasury ). Cash proceeds were allocated between the preferred stock and a ten-year warrant to purchase M&T common stock (Series A 1,218,522*

*common shares at $73.86 per share, Series C 407,542 common shares at $55.76 per share). Dividends, if declared, will accrue and be paid quarterly at a rate of 5% per year for the first five years following the original 2008 issuance dates and thereafter at a rate of 9% per year. The agreement with the U.S. Treasury contains limitations on certain actions of M&T, including the payment of quarterly cash dividends on M&T s common stock in excess of $.70 per share, the repurchase of its common stock during the first three years of the agreement, and the amount and nature of compensation arrangements for certain of the Company s officers.*

*(b) Shares were assumed in the*

*Provident acquisition and a new Series B Preferred Stock was designated. In the aggregate, the shares of Series B Preferred Stock will automatically convert into 433,148 shares of M&T common stock on April 1, 2011, but shareholders may elect to convert their preferred shares at any time prior to that date. Dividends, if declared, are payable quarterly in arrears at a rate of 10% per year.*

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

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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 defined benefit cost for defined benefit plans consisted of the following:

| | Pension benefits | | Other postretirement benefits | |
|---|---|---|---|---|
| | Three months ended September 30 | | | |
| | 2010 | 2009 | 2010 | 2009 |
| | (in thousands) | | | |
| Service cost | $ 4,918 | 4,935 | 101 | 88 |
| Interest cost on projected benefit obligation | 12,031 | 11,910 | 782 | 828 |
| Expected return on plan assets | (12,722) | (11,963) | | |
| Amortization of prior service cost | (1,640) | (1,640) | 44 | 61 |
| Amortization of net actuarial loss | 3,388 | 2,424 | (2) | (5) |
| Net periodic benefit cost | $ 5,975 | 5,666 | 925 | 972 |

| | Pension benefits | | Other postretirement benefits | |
|---|---|---|---|---|
| | Nine months ended September 30 | | | |
| | 2010 | 2009 | 2010 | 2009 |
| | (in thousands) | | | |
| Service cost | $ 14,753 | 14,548 | 303 | 265 |
| Interest cost on projected benefit obligation | 36,092 | 34,189 | 2,347 | 2,475 |
| Expected return on plan assets | (38,165) | (35,014) | | |
| Amortization of prior service cost | (4,919) | (4,919) | 132 | 182 |
| Amortization of net actuarial loss | 10,164 | 7,273 | (7) | (15) |
| Net periodic benefit cost | $ 17,925 | 16,077 | 2,775 | 2,907 |

Expense incurred in connection with the Company s defined contribution pension and retirement savings plans totaled $9,461,000 and $8,061,000 for the three months ended September 30, 2010 and 2009, respectively, and $29,926,000 and $27,166,000 for the nine months ended September 30, 2010 and 2009, respectively.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**8. Earnings per common share**

The computations of basic earnings per common share follow:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (in thousands, except per share) | | | |
| Income available to common stockholders: | | | | |
| Net income | $ 192,015 | 127,664 | 531,719 | 243,073 |
| Less: Preferred stock dividends(a) | (10,056) | (10,056) | (30,169) | (26,024) |
| Amortization of preferred stock discount(a) | (2,653) | (2,465) | (7,815) | (5,620) |
| Net income available to common equity | 179,306 | 115,143 | 493,735 | 211,429 |
| Less: Income attributable to unvested stock-based compensation awards | (2,526) | (1,249) | (6,924) | (2,367) |
| Net income available to common stockholders | $ 176,780 | 113,894 | 486,811 | 209,062 |
| Weighted-average shares outstanding: | | | | |
| Common shares outstanding (including common stock issuable) and unvested stock- based compensation awards | 120,010 | 118,663 | 119,705 | 114,843 |
| Less: Unvested stock-based compensation awards | (1,690) | (1,293) | (1,657) | (1,142) |
| Weighted-average shares outstanding | 118,320 | 117,370 | 118,048 | 113,701 |
| Basic earnings per common share | $ 1.49 | .97 | 4.12 | 1.84 |

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The computations of diluted earnings per common share follow:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (in thousands, except per share) | | | |
| Net income available to common equity | $ 179,306 | 115,143 | 493,735 | 211,429 |
| Less: Income attributable to unvested stock-based compensation awards | (2,517) | (1,249) | (6,904) | (2,367) |
| Net income available to common stockholders | $ 176,789 | 113,894 | 486,831 | 209,062 |
| Adjusted weighted-average shares outstanding: | | | | |
| Common and unvested stock-based compensation awards | 120,010 | 118,663 | 119,705 | 114,843 |
| Less: Unvested stock-based compensation awards | (1,690) | (1,293) | (1,657) | (1,142) |
| Plus: Incremental shares from assumed conversion of stock- based compensation awards and convertible preferred stock | 835 | 177 | 718 | 99 |
| Adjusted weighted-average shares outstanding | 119,155 | 117,547 | 118,766 | 113,800 |
| Diluted earnings per common share | $ 1.48 | .97 | 4.10 | 1.84 |

GAAP defines unvested share-based awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) as participating securities that shall be included in the computation of earnings per common share pursuant to the two-class method. During the nine-month periods ended September 30, 2010 and 2009, the Company issued stock-based compensation awards in the form of restricted stock and restricted stock units, which, in accordance with GAAP, are considered participating securities.

Stock-based compensation awards, warrants to purchase common stock of M&T and preferred stock convertible into shares of M&T stock representing approximately 10.7 million and 15.1 million common shares during the three-month periods ended September 30, 2010 and 2009, respectively, and 11.1 million and 15.1 million common shares during the nine-month periods ended September 30, 2010 and 2009, respectively, were not included in the computations of diluted earnings per common share because the effect on those periods would have been antidilutive.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**9. Comprehensive income**

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

| | Nine months ended September 30, 2010 | | |
|---|---|---|---|
| | Before-tax amount | Income taxes | Net |
| | | (in thousands) | |
| Unrealized gains (losses) on investment securities: | | | |
| Available for sale ( AFS ) investment securities with other-than-temporary impairment ( OTTI ): | | | |
| Securities with OTTI charges during the period | $ (67,052) | 26,074 | (40,978) |
| Less: OTTI charges recognized in net income | (58,714) | 22,758 | (35,956) |
| Net unrealized losses on investment securities with OTTI | (8,338) | 3,316 | (5,022) |
| AFS investment securities all other: | | | |
| Unrealized holding gains during period | 166,122 | (64,944) | 101,178 |
| Less: Reclassification adjustment for gains recognized in net income | 1,023 | (392) | 631 |
| Less: Securities with OTTI charges during the period | (67,052) | 26,074 | (40,978) |
| | 232,151 | (90,626) | 141,525 |
| Reclassification of unrealized holding losses to income during period on investment securities previously transferred from AFS to held to maturity ( HTM ) | 6,400 | (2,511) | 3,889 |
| Net unrealized gains on investment securities | 230,213 | (89,821) | 140,392 |
| Reclassification for amortization of gains on terminated cash flow hedges to income | (336) | 125 | (211) |
| Defined benefit plans liability adjustment | 5,370 | (2,108) | 3,262 |
| | $ 235,247 | (91,804) | 143,443 |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**9. Comprehensive income, continued**

| | Nine months ended September 30, 2009 | | |
|---|---|---|---|
| | Before-tax amount | Income taxes | Net |
| | | (in thousands) | |
| Unrealized gains (losses) on investment securities: | | | |
| AFS investment securities with OTTI: | | | |
| Securities with OTTI charges during the period | $ (202,737) | 79,296 | (123,441) |
| Less: OTTI charges recognized in net income | (104,001) | 40,662 | (63,339) |
| Net unrealized losses on investment securities with OTTI | (98,736) | 38,634 | (60,102) |
| AFS investment securities all other: | | | |
| Unrealized holding gains during period | 389,609 | (149,651) | 239,958 |
| Less: Reclassification adjustment for losses realized in net income | (135) | 54 | (81) |
| Less: Securities with OTTI charges during the period | (202,737) | 79,296 | (123,441) |
| | 592,481 | (229,001) | 363,480 |
| Reclassification of unrealized holding losses to income during period on investment securities previously transferred from AFS to HTM | 7,955 | (2,183) | 5,772 |
| Net unrealized gains on investment securities | 501,700 | (192,550) | 309,150 |
| Reclassification for amortization of losses on terminated cash flow hedges to income | 10,873 | (4,246) | 6,627 |
| Defined benefit plans liability adjustment | 2,521 | (703) | 1,818 |
| | $ 515,094 | (197,499) | 317,595 |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**9. Comprehensive income, continued**

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

| | Investment securities | | Cash flow | Defined benefit | |
|---|---|---|---|---|---|
| | With OTTI | All other | hedges | plans | Total |
| | | | (in thousands) | | |
| Balance January 1, 2010 | $ (76,772) | (142,853) | 674 | (117,046) | (335,997) |
| Net gain (loss) during period | (5,022) | 145,414 | (211) | 3,262 | 143,443 |
| Balance September 30, 2010 | $ (81,794) | 2,561 | 463 | (113,784) | (192,554) |
| Balance January 1, 2009 | $ | (556,668) | (5,883) | (174,330) | (736,881) |
| Net gain (loss) during period | (60,102) | 369,252 | 6,627 | 1,818 | 317,595 |
| Balance September 30, 2009 | $ (60,102) | (187,416) | 744 | (172,512) | (419,286) |

**10. Derivative financial instruments**

As part of managing interest rate risk, the Company enters into interest rate swap agreements to modify the repricing characteristics of certain portions of the Company s portfolios of earning assets and interest-bearing liabilities. The Company designates interest rate swap agreements utilized in the management of interest rate risk as either fair value hedges or cash flow hedges. Interest rate swap agreements are generally entered into with counterparties that meet established credit standards and most contain master netting and collateral provisions protecting the at-risk party. Based on adherence to the Company s credit standards and the presence of the netting and collateral provisions, the Company believes that the credit risk inherent in these contracts is not significant as of September 30, 2010.

The net effect of interest rate swap agreements was to increase net interest income by $10 million for each of the three-month periods ended September 30, 2010 and 2009, and $32 million and $27 million for the nine months ended September 30, 2010 and 2009, respectively. Information about interest rate swap agreements entered into for interest rate risk management purposes summarized by type of financial instrument the swap agreements were intended to hedge follows:

| | Notional amount (in thousands) | Average maturity (in years) | Weighted-average rate | |
|---|---|---|---|---|
| | | | Fixed | Variable |
| September 30, 2010 | | | | |
| Fair value hedges: | | | | |
| Fixed rate long-term borrowings (a) | $ 1,037,241 | 5.7 | 6.33% | 2.18% |
| December 31, 2009 | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Fair value hedges: | | | | | |
| Fixed rate time deposits (a) | $ | 25,000 | 3.7 | 5.30% | 0.34% |
| Fixed rate long-term borrowings (a) | | 1,037,241 | 6.5 | 6.33 | 2.12 |
| | $ | 1,062,241 | 6.4 | 6.30% | 2.07% |

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**10. Derivative financial instruments, continued**

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

Derivative financial instruments used for trading purposes included interest rate contracts, foreign exchange and other option contracts, foreign exchange forward and spot contracts, and financial futures. Interest rate contracts entered into for trading purposes had notional values of $12.6 billion and $13.9 billion at September 30, 2010 and December 31, 2009, respectively. The notional amounts of foreign currency and other option and futures contracts entered into for trading purposes aggregated $622 million and $608 million at September 30, 2010 and December 31, 2009, respectively.

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

| | Asset derivatives Fair value | | Liability derivatives Fair value | |
|---|---|---|---|---|
| | September 30, 2010 | December 31, 2009 | September 30, 2010 | December 31, 2009 |
| | (in thousands) | | | |
| **Derivatives designated and qualifying as hedging instruments** | | | | |
| Fair value hedges: | | | | |
| Interest rate swap agreements (a) | $ 139,718 | 54,486 | $ | |
| Commitments to sell real estate loans (a) | 406 | 6,009 | 2,945 | 171 |
| | 140,124 | 60,495 | 2,945 | 171 |
| **Derivatives not designated and qualifying as hedging instruments** | | | | |
| Mortgage-related commitments to originate real estate loans for sale (a) | 26,554 | 4,428 | 137 | 4,508 |
| Commitments to sell real estate loans (a) | 721 | 13,293 | 8,906 | 1,360 |
| Trading: | | | | |
| Interest rate contracts (b) | 439,386 | 317,651 | 415,741 | 290,104 |
| Foreign exchange and other option and futures contracts (b) | 8,582 | 11,908 | 9,343 | 12,094 |
| | 475,243 | 347,280 | 434,127 | 308,066 |
| Total derivatives | $ 615,367 | 407,775 | $ 437,072 | 308,237 |

*(a) Asset derivatives are reported in other assets and*

*liability derivatives are reported in other liabilities.*

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**10. Derivative financial instruments, continued**

| | Amount of unrealized gain (loss) recognized | | | |
|---|---|---|---|---|
| | Three months ended September 30, 2010 | | Three months ended September 30, 2009 | |
| | Derivative | Hedged item | Derivative | Hedged item |
| | (in thousands) | | | |
| **Derivatives in fair value hedging relationships** | | | | |
| Interest rate swap agreements: | | | | |
| Fixed rate time deposits (a) | $ | | $ (133) | 133 |
| Fixed rate long-term borrowings (a) | 28,281 | (27,166) | 19,265 | (18,349) |
| Total | $ 28,281 | (27,166) | $ 19,132 | (18,216) |
| **Derivatives not designated as hedging instruments** | | | | |
| Trading: | | | | |
| Interest rate contracts (b) | $ 813 | | $ (1,421) | |
| Foreign exchange and other option and futures contracts (b) | (1,532) | | 604 | |
| Total | $ (719) | | $ (817) | |

| | Amount of unrealized gain (loss) recognized | | | |
|---|---|---|---|---|
| | Nine months ended September 30, 2010 | | Nine months ended September 30, 2009 | |
| | Derivative | Hedged item | Derivative | Hedged item |
| | (in thousands) | | | |
| **Derivatives in fair value hedging relationships** | | | | |
| Interest rate swap agreements: | | | | |
| Fixed rate time deposits (a) | $ (503) | 503 | $ (1,527) | 1,520 |
| Fixed rate long-term borrowings (a) | 84,708 | (80,827) | (62,452) | 58,476 |
| Total | $ 84,205 | (80,324) | $ (63,979) | 59,996 |
| **Derivatives not designated as hedging instruments** | | | | |

| | | |
|---|---|---|
| Trading: | | |
| Interest rate contracts (b) | $ (305) | $ (2,778) |
| Foreign exchange and other option and futures contracts (b) | (575) | 1,536 |
| Total | $ (880) | $ (1,242) |

*(a) Reported as other revenues from operations.*

*(b) Reported as trading account and foreign exchange gains.*

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**10. Derivative financial instruments, continued**

In addition, the Company also has commitments to sell and commitments to originate residential and commercial real estate loans that are considered derivatives. The Company designates certain of the commitments to sell real estate loans as fair value hedges of real estate loans held for sale. The Company also utilizes commitments to sell real estate loans to offset the exposure to changes in the fair value of certain commitments to originate real estate loans for sale. As a result of these activities, net unrealized pre-tax gains related to hedged loans held for sale, commitments to originate loans for sale and commitments to sell loans were approximately $34 million and $20 million at September 30, 2010 and December 31, 2009, respectively. Changes in unrealized gains and losses are included in mortgage banking revenues and, in general, are realized in subsequent periods as the related loans are sold and commitments satisfied.

The aggregate fair value of derivative financial instruments in a net liability position at September 30, 2010 for which the Company was required to post collateral was $302 million. The fair value of collateral posted for such instruments was $298 million.

The Company s credit exposure with respect to the estimated fair value as of September 30, 2010 of interest rate swap agreements used for managing interest rate risk has been substantially mitigated through master netting arrangements with trading account interest rate contracts with the same counterparties as well as counterparty postings of $80 million of collateral with the Company.

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

Effective January 1, 2010, the Financial Accounting Standards Board ( FASB ) amended accounting guidance relating to the consolidation of variable interest entities to eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest entity. The amended guidance instead requires a reporting entity to qualitatively assess the determination of the primary beneficiary of a variable interest entity based on whether the reporting entity has the power to direct the activities that most significantly impact the variable interest entity s economic performance and has the obligation to absorb losses or the right to receive benefits of the variable interest entity that could potentially be significant to the variable interest entity. The amended guidance requires ongoing reassessments of whether the reporting entity is the primary beneficiary of a variable interest entity.

Also effective January 1, 2010, the FASB amended accounting guidance relating to accounting for transfers of financial assets to eliminate the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred assets. The recognition and measurement provisions of the amended guidance were required to be applied prospectively. Additionally, beginning January 1, 2010, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities had to be re-evaluated for consolidation in accordance with applicable consolidation guidance, including the new accounting guidance relating to the consolidation of variable interest entities discussed in the previous paragraph.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

In 2002 and 2003, the Company transferred approximately $1.9 billion of one-to-four family residential mortgage loans to qualified special-purpose trusts in two non-recourse securitization transactions. In exchange for the loans, the Company received cash, no more than 88% of the resulting securities, and the servicing rights to the loans. Through December 31, 2009, all of the retained securities were classified as investment securities available for sale as the qualified special-purpose trusts were not included in the Company s consolidated financial statements. Effective January 1, 2010, the Company determined that it was the primary beneficiary of both securitization trusts under the amended consolidation rules considering its role as servicer and its retained subordinated interests in the trusts. As a result, beginning January 1, 2010, the Company included the one-to-four family residential mortgage loans that were included in the two non-recourse securitization transactions in its consolidated financial statements. The effect of that consolidation on January 1, 2010 was to increase loans receivable by $424 million, decrease the amortized cost of available-for-sale investment securities by $360 million (fair value of $355 million), and increase borrowings by $65 million. The transition adjustment at January 1, 2010 as a result of the Company s adoption of the new accounting requirements was not significant. In the second quarter of 2010, the 2002 securitization trust was terminated as the Company exercised its right to purchase the underlying mortgage loans pursuant to the clean-up call provisions of the qualified special-purpose trust. At September 30, 2010, the carrying value of the loans in the remaining securitization trust was $283 million. The outstanding principal amount of mortgage-backed securities issued by the qualified special purpose trust was $290 million at September 30, 2010 and the principal amount of such securities held by the Company was $247 million. The remainder of the outstanding mortgage-backed securities were held by parties unrelated to M&T. Because the transaction was non-recourse, the Company s maximum exposure to loss as a result of its association with the trust at September 30, 2010 is limited to realizing the carrying value of the loans less the $43 million carrying value of the mortgage-backed securities outstanding to third parties.

In the first quarter of 2009, the Company securitized approximately $141 million of one-to-four family residential mortgage loans in guaranteed mortgage securitizations with Fannie Mae. The Company recognized no gain or loss on the transactions as it retained all of the resulting securities. Such securities were classified as investment securities available for sale. The Company expects no material credit-related losses on the retained securities as a result of the guarantees by Fannie Mae.

Other variable interest entities in which the Company holds a variable interest are described below.

M&T has a variable interest in a trust that holds AIB ADSs for the purpose of satisfying options to purchase such shares for certain employees. The trust purchased the AIB ADSs with the proceeds of a loan from an entity subsequently acquired by M&T. Proceeds from option exercises and any dividends and other earnings on the trust assets are used to repay the loan plus interest. Option holders have no preferential right with respect to the trust assets and the trust assets are subject to the claims of M&T s creditors. The trust has been included in the Company s consolidated financial statements. As a result, included in investment securities available for sale were 591,813 AIB ADSs with a carrying value of approximately $1 million and $2 million at September 30, 2010 and December 31, 2009, respectively. Outstanding options granted to employees who have continued service with M&T totaled 138,800 and 189,450 at September 30, 2010 and December 31, 2009, respectively. All outstanding options were fully vested and exercisable at both September 30, 2010 and December 31, 2009. The options expire at various dates through October 2011. The AIB ADSs are included in

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

available for sale investment securities and have a fair value and an amortized cost of $1 million at September 30, 2010. An other-than-temporary impairment charge of $12 million was recognized during the second quarter of 2010 on the AIB ADSs due to adverse developments impacting AIB, including significant dilution of AIB common shareholders and further deterioration of AIB s financial condition.

As described in note 5, M&T has issued Junior Subordinated Debentures payable to various trusts that have issued Capital Securities. M&T owns the common securities of those trust entities. The Company is not considered to be the primary beneficiary of those entities and, accordingly, the trusts are not included in the Company s consolidated financial statements. At September 30, 2010 and December 31, 2009, the Company included the Junior Subordinated Debentures as long-term borrowings in its consolidated balance sheet. The Company has recognized $34 million in other assets for its investment in the common securities of the trusts that will be concomitantly repaid to M&T by the respective trust from the proceeds of M&T s repayment of the Junior Subordinated Debentures associated with Capital Securities described in note 5.

The Company has invested as a limited partner in various real estate partnerships that collectively had total assets of approximately $1.0 billion at each of September 30, 2010 and December 31, 2009. Those partnerships generally construct or acquire properties for which the investing partners are eligible to receive certain federal income tax credits in accordance with government guidelines. Such investments may also provide tax deductible losses to the partners. The partnership investments also assist the Company in achieving its community reinvestment initiatives. As a limited partner, there is no recourse to the Company by creditors of the partnerships. However, the tax credits that result from the Company s investments in such partnerships are generally subject to recapture should a partnership fail to comply with the respective government regulations. The Company s maximum exposure to loss of its investments in such partnerships was $246 million, including $75 million of unfunded commitments, at September 30, 2010 and $246 million, including $89 million of unfunded commitments, at December 31, 2009. The Company has not provided financial or other support to the partnerships that was not contractually required. Management currently estimates that no material losses are probable as a result of the Company s involvement with such entities. In accordance with the accounting provisions for variable interest entities, the Company, in its position as limited partner, does not direct the activities that most significantly impact the economic performance of the partnerships and therefore, the partnership entities are not included in the Company s consolidated financial statements.

**12. Fair value measurements**

GAAP permits an entity to choose to measure eligible financial instruments and other items at fair value. The Company has not made any fair value elections at September 30, 2010.

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

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

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

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

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

***Trading account assets and liabilities***

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

***Investment securities available for sale***

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

Trading activity in privately issued mortgage-backed securities has been limited. The markets for such securities were generally characterized by a sharp reduction of non-agency mortgage-backed securities issuances, a significant reduction in trading volumes and extremely wide bid-ask spreads, all driven by the lack of market participants. Although estimated prices were generally obtained for such securities, the Company was significantly restricted in the level of market observable assumptions used in the valuation of its privately issued mortgage-backed securities portfolio. Specifically, market assumptions regarding credit adjusted cash flows and liquidity influences on discount rates

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

were difficult to observe at the individual bond level. Because of the inactivity in the markets and the lack of observable valuation inputs, the Company has classified the valuation of privately issued mortgage-backed securities as Level 3.

In April 2009, the FASB issued new accounting rules that provided guidance for estimating fair value when the volume and level of trading activity for an asset or liability have significantly decreased. The Company has concluded that there has been a significant decline in the volume and level of activity in the market for privately issued mortgage-backed securities. Therefore, the Company supplemented its determination of fair value for many of its privately issued mortgage-backed securities by obtaining pricing indications from two independent sources at September 30, 2010. However, the Company could not readily ascertain that the basis of such valuations could be ascribed to orderly and observable trades in the market for privately issued residential mortgage-backed securities. As a result, the Company also performed internal modeling to estimate the cash flows and fair value of 144 of its privately issued residential mortgage-backed securities with an amortized cost basis of $1.6 billion at September 30, 2010. The Company s internal modeling techniques included discounting estimated bond-specific cash flows using assumptions about cash flows associated with loans underlying each of the bonds, including estimates about the timing and amount of credit losses and prepayments. In estimating those cash flows, the Company used assumptions as to future delinquency, defaults and loss rates, including assumptions for further home price depreciation. Differences between internal model valuations and external pricing indications were generally considered to be reflective of the lack of liquidity in the market for privately issued mortgage-backed securities given the nature of the cash flow modeling performed in the Company s assessment of value. To determine the point within the range of potential values that was most representative of fair value under current market conditions for each of the 144 bonds, the Company computed values based on judgmentally applied weightings of the internal model valuations and the indications obtained from the average of the two independent pricing sources. Weightings applied to internal model valuations generally ranged from zero to 40% depending on bond structure and collateral type, with prices for bonds in non-senior tranches generally receiving lower weightings on the internal model results and senior bonds receiving a higher model weighting. Weighted-average reliance on internal model pricing for the bonds modeled was 37% with a 63% average weighting placed on the values provided by the independent sources. The Company concluded its estimate of fair value for the $1.6 billion of privately issued residential mortgage-backed securities to approximate $1.4 billion, which implies a weighted-average market yield based on reasonably likely cash flows of 8.5%. Other valuations of privately issued residential mortgage-backed securities were determined by reference to independent pricing sources without adjustment.

Included in collateralized debt obligations are securities backed by trust preferred securities issued by financial institutions and other entities. Given the severe disruption in the credit markets and lack of observable trade information, the Company could not obtain pricing indications for many of these securities from its two primary independent pricing sources. The Company, therefore, performed internal modeling to estimate the cash flows and fair value of its portfolio of securities backed by trust preferred securities at September 30, 2010. The modeling techniques included discounting estimated cash flows using bond-specific assumptions about defaults, deferrals and prepayments of the trust preferred securities underlying each bond. The estimation of cash flows included assumptions as to future collateral defaults and related loss severities. The resulting cash flows were then discounted by reference to market yields observed in the single-name trust preferred securities market. At September 30, 2010, the total amortized cost and fair value of securities backed by trust preferred securities issued by financial institutions and other entities was $96 million and $109 million, respectively.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

Privately issued mortgage-backed securities and securities backed by trust preferred securities issued by financial institutions and other entities constituted all of the available-for-sale investment securities classified as Level 3 valuations as of September 30, 2010.

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

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

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

The following tables present assets and liabilities at September 30, 2010 and December 31, 2009 measured at estimated fair value on a recurring basis:

| | Fair value measurements at September 30, 2010 | Level 1(a) | Level 2(a) | Level 3 |
|---|---|---|---|---|
| | | (in thousands) | | |
| Trading account assets | $ 536,702 | 49,528 | 487,174 | |
| Investment securities available for sale: | | | | |
| U.S. Treasury and federal agencies | 75,565 | | 75,565 | |
| Obligations of states and political subdivisions | 64,352 | | 64,352 | |
| Mortgage-backed securities: | | | | |
| Government issued or guaranteed | 3,574,898 | | 3,574,898 | |
| Privately issued residential | 1,523,368 | | | 1,523,368 |
| Privately issued commercial | 23,480 | | | 23,480 |
| Collateralized debt obligations | 109,342 | | | 109,342 |
| Other debt securities | 293,964 | | 293,964 | |
| Equity securities | 118,527 | 108,373 | 10,154 | |
| | 5,783,496 | 108,373 | 4,018,933 | 1,656,190 |
| Real estate loans held for sale | 656,888 | | 656,888 | |
| Other assets(b) | 167,399 | | 140,845 | 26,554 |
| Total assets | $ 7,144,485 | 157,901 | 5,303,840 | 1,682,744 |
| Trading account liabilities | $ 425,084 | | 425,084 | |
| Other liabilities(b) | 11,988 | | 11,851 | 137 |
| Total liabilities | $ 437,072 | | 436,935 | 137 |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

| | Fair value measurements at December 31, 2009 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| | | (in thousands) | | |
| Trading account assets | $ 386,984 | 40,836 | 346,148 | |
| Investment securities available for sale: | | | | |
| U.S. Treasury and federal agencies | 104,686 | | 104,686 | |
| Obligations of states and political subdivisions | 62,923 | | 62,923 | |
| Mortgage-backed securities: | | | | |
| Government issued or guaranteed | 3,902,282 | | 3,902,282 | |
| Privately issued residential | 2,064,904 | | | 2,064,904 |
| Privately issued commercial | 25,166 | | | 25,166 |
| Collateralized debt obligations | 115,346 | | | 115,346 |
| Other debt securities | 268,201 | | 267,781 | 420 |
| Equity securities | 160,870 | 145,817 | 15,053 | |
| | 6,704,378 | 145,817 | 4,352,725 | 2,205,836 |
| Real estate loans held for sale | 652,761 | | 652,761 | |
| Other assets (b) | 78,216 | | 73,788 | 4,428 |
| Total assets | $ 7,822,339 | 186,653 | 5,425,422 | 2,210,264 |
| Trading account liabilities | $ 302,198 | 5,577 | 296,621 | |
| Other liabilities (b) | 6,039 | | 1,531 | 4,508 |
| Total liabilities | $ 308,237 | 5,577 | 298,152 | 4,508 |

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

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

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

| | | Total gains (losses) realized/unrealized | | | | | |
|---|---|---|---|---|---|---|---|
| | Balance- June 30, 2010 | Included in earnings | Included in other comprehensive income | Settlements | Transfer in and/or out of Level 3(c) | Balance- September 30, 2010 . | Changes in unrealized gains (losses) included in earnings related to assets still held at September 30, 2010 |
| | | | | (in thousands) | | | |
| Investment securities available for sale: | | | | | | | |
| Privately issued residential mortgage-backed securities | $ 1,598,033 | (6,675)(a) | 37,634 | (105,624) | | 1,523,368 | (6,675)(a) |
| Privately issued commercial mortgage-backed securities | 26,643 | | (1,369) | (1,794) | | 23,480 | |
| Collateralized debt obligations | 118,040 | (2,857)(a) | (5,592) | (249) | | 109,342 | (2,857)(a) |
| Other debt securities | | | | | | | |
| | 1,742,716 | (9,532) | 30,673 | (107,667) | | 1,656,190 | (9,532) |
| Other assets and other liabilities | 20,843 | 38,399(b) | | | (32,825) | 26,417 | 23,910(b) |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

The changes in Level 3 assets and liabilities measured at estimated fair value on a recurring basis during the three months ended September 30, 2009 were as follows:

| | Balance- June 30, 2009 | Total gains (losses) realized/unrealized Included in earnings | Included in other comprehensive income | Purchases, sales, issuances & settlements | Transfer in and/or out of Level 3(c) | Balance- September 30, 2009 | Changes in unrealized gains (losses) included in earnings related to assets still held at September 30, 2009 |
|---|---|---|---|---|---|---|---|
| | (in thousands) | | | | | | |
| Investment securities available for sale: | | | | | | | |
| Obligations of states and political subdivisions | $ 12,203 | | 132 | | | 12,335 | |
| Privately issued residential mortgage-backed securities | 2,241,758 | (44,278)(a) | 161,308 | (174,551) | | 2,184,237 | (44,278)(a) |
| Privately issued commercial mortgage-backed securities | 23,018 | | 523 | | | 23,541 | |
| Collateralized debt obligations | 112,372 | (2,502)(a) | 19,205 | 2,262 | | 131,337 | (2,502)(a) |
| Other debt securities | 765 | | 70 | | (450) | 385 | |
| Equity securities | 2,329 | | 1 | (12) | | 2,318 | |
| | 2,392,445 | (46,780) | 181,239 | (172,301) | (450) | 2,354,153 | (46,780) |
| Other assets and other liabilities | 9,676 | 16,195(b) | | | (11,951) | 13,920 | 13,148(b) |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

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

| | Balance- January 1, 2010 | Total gains (losses) realized/unrealized Included in earnings | Included in other comprehensive income | Settlements | Transfer in and/or out of Level 3(c) | Balance- September 30, 2010 | Changes in unrealized gains (losses) included in earnings related to assets still held at September 30, 2010 |
|---|---|---|---|---|---|---|---|
| | | | | (in thousands) | | | |
| Investment securities available for sale: | | | | | | | |
| Privately issued residential mortgage-backed securities | $ 2,064,904 | (41,018)(a) | 152,882 | (298,152) | (355,248)(d) | 1,523,368 | (41,018)(a) |
| Privately issued commercial mortgage-backed securities | 25,166 | | 4,725 | (6,411) | | 23,480 | |
| Collateralized debt obligations | 115,346 | (5,703)(a) | 215 | (516) | | 109,342 | (5,703)(a) |
| Other debt securities | 420 | | 35 | | (455) | | |
| | 2,205,836 | (46,721) | 157,857 | (305,079) | (355,703) | 1,656,190 | (46,721) |
| Other assets and other liabilities | (80) | 86,249(b) | | | (59,752) | 26,417 | 26,326(b) |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

The changes in Level 3 assets and liabilities measured at estimated fair value on a recurring basis during the nine months ended September 30, 2009 were as follows:

| | Balance- January 1, 2009 | Total gains (losses) realized/unrealized Included in earnings | Included in other comprehensive income | Purchases, sales, issuances & settlements | Transfer in and/or out of Level 3(c) | Balance- September 30, 2009 | Changes in unrealized gains (losses) included in earnings related to assets still held at September 30, 2009 |
|---|---|---|---|---|---|---|---|
| | (in thousands) | | | | | | |
| Investment securities available for sale: | | | | | | | |
| U.S. Treasury and federal agencies | $ 5,532 | | | | (5,532) | | |
| Obligations of states and political subdivisions | 38 | | 154 | | 12,143 | 12,335 | |
| Government issued or guaranteed mortgage- backed securities | 84,544 | | | | (84,544) | | |
| Privately issued residential mortgage-backed securities | 2,326,554 | (98,746)(a) | 376,435 | (420,006) | | 2,184,237 | (98,746)(a) |
| Privately issued commercial mortgage- backed securities | 41,046 | | (8,478) | (9,027) | | 23,541 | |
| Collateralized debt obligations | 2,496 | (4,055)(a) | 32,917 | 99,979 | | 131,337 | (4,055)(a) |
| Other debt securities | | | 110 | 725 | (450) | 385 | |
| Equity securities | 2,302 | | 2 | 14 | | 2,318 | |
| | 2,462,512 | (102,801) | 401,140 | (328,315) | (78,383) | 2,354,153 | (102,801) |

| | | | | | |
|---|---|---|---|---|---|
| Other assets and other liabilities | 8,266 | 35,685(b) | (30,031) | 13,920 | 16,444(b) |

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

*(b) Reported as mortgage banking revenues in the consolidated statement of income and includes the fair value of commitment issuances and expirations.*

*(c) The Company s policy for transfers between fair value levels is to recognize the transfer as of the actual date of the event or change in circumstances that caused the transfer.*

*(d) As a result of the Company s adoption of new accounting rules governing the consolidation of variable interest entities, effective January 1, 2010 the Company derecognized $355 million of available-for-sale investment securities previously classified as Level 3 measurements. Further information regarding the Company s adoption of new accounting*

*requirements is included in note 11.*

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

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

***Loans***

Loans are generally not recorded at fair value on a recurring basis. Periodically, the Company records nonrecurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Nonrecurring adjustments also include certain impairment amounts for collateral-dependent loans when establishing the allowance for credit losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan and, as a result, the carrying value of the loan less the calculated valuation amount does not necessarily represent the fair value of the loan. Real estate collateral is typically valued using appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace and the related nonrecurring fair value measurement adjustments have generally been classified as Level 2, unless significant adjustments have been made to the valuation that are not readily observable by market participants. Estimates of fair value used for other collateral supporting commercial loans generally are based on assumptions not observable in the marketplace and therefore such valuations have been classified as Level 3. Loans subject to nonrecurring fair value measurement were $625 million at September 30, 2010, ($373 million and $252 million of which were classified as Level 2 and Level 3, respectively) and $828 million at September 30, 2009 ($301 million and $527 million of which were classified as Level 2 and Level 3, respectively). Changes in fair value recognized for partial charge-offs of loans and loan impairment reserves on loans held by the Company on September 30, 2010 were decreases of $61 million and $154 million for the three and nine months ended September 30, 2010, respectively, and on loans held by the Company on September 30, 2009 were decreases of $136 million and $292 million for the three months and nine months ended September 30, 2009, respectively.

***Capitalized servicing rights***

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

$6 million, respectively. At September 30, 2009, $28 million of capitalized servicing rights had a carrying value equal to their fair value. Changes in fair value of capitalized servicing rights recognized for the nine months ended September 30, 2009 reflected increases in fair value of $18 million. There were no similar changes during the three months ended September 30, 2009.

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

Assets taken in foreclosure of defaulted loans are primarily comprised of commercial and residential real property and are generally measured at the lower of cost or fair value less costs to sell. The fair value of the real property is generally determined using appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace, and the related nonrecurring fair value measurement adjustments have generally been classified as Level 2. Assets taken in foreclosure of defaulted loans subject to nonrecurring fair value measurement were $160 million and $38 million at September 30, 2010 and September 30, 2009, respectively. Changes in fair value recognized for those foreclosed assets held by the Company at September 30, 2010 were $19 million and $34 million for the three and nine months ended September 30, 2010, respectively. Changes in fair value recognized for those foreclosed assets held by the Company at September 30, 2009 were $4 million and $25 million for the three and nine months ended September 30, 2009, respectively.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

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

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

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

| | September 30, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Carrying amount | Calculated estimate | Carrying amount | Calculated estimate |
| | (in thousands) | | | |
| Financial assets: | | | | |
| Cash and cash equivalents | $ 1,089,325 | $ 1,089,325 | $ 1,246,342 | $ 1,246,342 |
| Interest-bearing deposits at banks | 401,624 | 401,624 | 133,335 | 133,335 |
| Agreements to resell securities | 425,000 | 425,000 | | |
| Trading account assets | 536,702 | 536,702 | 386,984 | 386,984 |
| Investment securities | 7,662,715 | 7,575,042 | 7,780,609 | 7,629,485 |
| Loans and leases: | | | | |
| Commercial loans and leases | 12,788,136 | 12,494,338 | 13,479,447 | 13,090,206 |
| Commercial real estate loans | 20,580,450 | 20,258,451 | 20,949,931 | 20,426,273 |
| Residential real estate loans | 5,754,432 | 5,556,767 | 5,463,463 | 5,058,763 |
| Consumer loans | 11,668,540 | 11,333,568 | 12,043,845 | 11,575,525 |
| Allowance for credit losses | (894,720) | | (878,022) | |
| Loans and leases, net | 49,896,838 | 49,643,124 | 51,058,664 | 50,150,767 |
| Accrued interest receivable | 224,475 | 224,475 | 214,692 | 214,692 |
| Financial liabilities: | | | | |
| Noninterest-bearing deposits | $ (14,665,603) | $ (14,665,603) | $ (13,794,636) | $ (13,794,636) |
| Savings deposits and NOW accounts | (27,215,588) | (27,215,588) | (25,073,269) | (25,073,269) |
| Time deposits | (6,119,516) | (6,171,627) | (7,531,495) | (7,592,214) |
| Deposits at foreign office | (653,916) | (653,916) | (1,050,438) | (1,050,438) |
| Short-term borrowings | (1,211,683) | (1,211,683) | (2,442,582) | (2,442,582) |
| Long-term borrowings | (8,991,508) | (9,118,366) | (10,240,016) | (9,822,153) |
| Accrued interest payable | (110,013) | (110,013) | (94,838) | (94,838) |
| Trading account liabilities | (425,084) | (425,084) | (302,198) | (302,198) |
| Other financial instruments: | | | | |
| Commitments to originate real estate loans for sale | $ 26,417 | $ 26,417 | $ (80) | $ (80) |
| Commitments to sell real estate loans | (10,724) | (10,724) | 17,771 | 17,771 |

| | | | | |
|---|---|---|---|---|
| Other credit-related commitments | (51,515) | (51,515) | (55,954) | (55,954) |
| Interest rate swap agreements used for interest rate risk management | 139,718 | 139,718 | 54,486 | 54,486 |

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

The following assumptions, methods and calculations were used in determining the estimated fair value of financial instruments not measured at fair value in the consolidated balance sheet.

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

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

***Investment securities***

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

***Loans and leases***

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

***Deposits***

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

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

***Long-term borrowings***

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

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

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**12. Fair value measurements, continued**

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

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

***Other commitments and contingencies***

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

The Company does not believe that the estimated information presented herein is representative of the earnings power or value of the Company. The preceding analysis, which is inherently limited in depicting fair value, also does not consider any value associated with existing customer relationships nor the ability of the Company to create value through loan origination, deposit gathering or fee generating activities.

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**13. Commitments and contingencies**

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

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| | (in thousands) | |
| Commitments to extend credit | | |
| Home equity lines of credit | $6,346,123 | 6,482,987 |
| Commercial real estate loans to be sold | 157,952 | 180,498 |
| Other commercial real estate and construction | 1,501,564 | 1,360,805 |
| Residential real estate loans to be sold | 930,160 | 631,090 |
| Other residential real estate | 217,352 | 127,788 |
| Commercial and other | 7,731,120 | 7,155,188 |
| Standby letters of credit | 3,779,166 | 3,828,586 |
| Commercial letters of credit | 72,191 | 66,377 |
| Financial guarantees and indemnification contracts | 1,521,275 | 1,633,549 |
| Commitments to sell real estate loans | 1,375,705 | 1,239,001 |

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

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. The Company s maximum credit risk for recourse associated with loans sold under this program totaled approximately $1.5 billion and $1.3 billion at September 30, 2010 and December 31, 2009, 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.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**13. 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 and along with commitments to originate real estate loans to be held for sale are generally recorded in the consolidated balance sheet at estimated fair market value.

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

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

The Company reinsures credit life and accident and health insurance purchased by consumer loan customers. The Company also enters into reinsurance contracts with third party insurance companies who insure against the risk of a mortgage borrower s payment default in connection with certain mortgage loans originated by the Company. When providing reinsurance coverage, the Company receives a premium in exchange for accepting a portion of the insurer s risk of loss. The outstanding loan principal balances reinsured by the Company were approximately $89 million at September 30, 2010. Assets of subsidiaries providing reinsurance that are available to satisfy claims totaled approximately $74 million at September 30, 2010. The amounts noted above are not necessarily indicative of losses which may ultimately be incurred. Such losses are expected to be substantially less because most loans are repaid by borrowers in accordance with the original loan terms. Management believes any reinsurance losses that may be payable by the Company will not be material to the Company s consolidated financial position.

The Company is contractually obligated to repurchase previously sold residential mortgage loans that do not ultimately meet investor sale criteria related to underwriting procedures or loan documentation. When required to do so, the Company may reimburse loan purchasers for losses incurred or may repurchase certain loans. The Company reduces residential mortgage banking revenues by an estimate for losses related to its obligations to loan purchasers. The amount of those charges is based on the volume of loans sold, the level of reimbursement requests received from loan purchasers and estimates of losses that may be associated with previously sold loans. At September 30, 2010, management believes that any remaining liability arising out of the Company s obligation to loan purchasers is not material to the Company s consolidated financial position.

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.

**14. Segment information**

Reportable segments have been determined based upon the Company s internal profitability reporting system, which is organized by strategic business unit. Certain strategic business units have been combined for segment information reporting purposes where the nature of the products and services, the type of customer and the distribution of those products and services are similar. The

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**14. Segment information, continued**

reportable segments are Business Banking, Commercial Banking, Commercial Real Estate, Discretionary Portfolio, Residential Mortgage Banking and Retail Banking.

The financial information of the Company s segments was compiled utilizing the accounting policies described in note 22 to the Company s consolidated financial statements as of and for the year ended December 31, 2009. The management accounting policies and processes utilized in compiling segment financial information are highly subjective and, unlike financial accounting, are not based on authoritative guidance similar to GAAP. As a result, the financial information of the reported segments is not necessarily comparable with similar information reported by other financial institutions. As also described in note 22 to the Company s 2009 consolidated financial statements, neither goodwill nor core deposit and other intangible assets (and the amortization charges associated with such assets) resulting from acquisitions of financial institutions have been allocated to the Company s reportable segments, but are included in the All Other category. The Company does, however, assign such intangible assets to business units for purposes of testing for impairment.

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