M&T BANK CORP
Form 10-Q
August 09, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

or

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

Commission File Number 1-9861

M&T BANK CORPORATION

(Exact name of registrant as specified in its charter)

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

(716) 842-5445

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Number of shares of the registrant s Common Stock, $0.50 par value, outstanding as of the close of business on July 31, 2012: 126,686,762 shares.

M&T BANK CORPORATION

FORM 10-Q

For the Quarterly Period Ended June 30, 2012

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

CONSOLIDATED BALANCE SHEET (Unaudited)

Dollars in thousands, except per share	June 30, 2012	December 31, 2011
Assets		
Cash and due from banks	$ 1,421,831	1,449,547
Interest-bearing deposits at banks	1,069,717	154,960
Federal funds sold	1,000	2,850
Trading account	544,938	561,834
Investment securities (includes pledged securities that can be sold or repledged of $1,839,246 at June 30, 2012; $1,826,011 at December 31, 2011)		
Available for sale (cost: $5,510,097 at June 30, 2012; $6,312,423 at December 31, 2011)	5,534,054	6,228,560
Held to maturity (fair value: $1,131,836 at June 30, 2012; $1,012,562 at December 31, 2011)	1,188,465	1,077,708
Other (fair value: $334,781 at June 30, 2012; $366,886 at December 31, 2011)	334,781	366,886
Total investment securities	7,057,300	7,673,154
Loans and leases	63,095,796	60,377,875
Unearned discount	(244,524)	(281,870)
Loans and leases, net of unearned discount	62,851,272	60,096,005
Allowance for credit losses	(917,028)	(908,290)
Loans and leases, net	61,934,244	59,187,715
Premises and equipment	592,498	581,435
Goodwill	3,524,625	3,524,625
Core deposit and other intangible assets	143,713	176,394
Accrued interest and other assets	4,517,712	4,611,773
Total assets	$ 80,807,578	77,924,287
Liabilities		
Noninterest-bearing deposits	$ 22,854,794	20,017,883
NOW accounts	1,705,198	1,912,226
Savings deposits	32,292,412	31,001,083

	Time deposits	5,330,239	6,107,530
	Deposits at Cayman Islands office	366,164	355,927
	Total deposits	62,548,807	59,394,649
	Federal funds purchased and agreements to repurchase securities	975,575	732,059
	Other short-term borrowings		50,023
	Accrued interest and other liabilities	1,965,421	1,790,121
	Long-term borrowings	5,687,868	6,686,226
	Total liabilities	71,177,671	68,653,078
Shareholders equity			
	Preferred stock, $1.00 par, 1,000,000 shares authorized; Issued and outstanding: Liquidation preference of $1,000 per share: 381,500 shares at June 30, 2012 and December 31, 2011; Liquidation preference of $10,000 per share: 50,000 shares at June 30, 2012 and December 31, 2011	868,433	864,585
	Common stock, $.50 par, 250,000,000 shares authorized, 126,587,931 shares issued at June 30, 2012; 125,683,398 shares issued at December 31, 2011	63,294	62,842
	Common stock issuable, 57,231 shares at June 30, 2012; 68,220 shares at December 31, 2011	3,429	4,072
	Additional paid-in capital	2,874,516	2,828,986
	Retained earnings	6,098,084	5,867,165
	Accumulated other comprehensive income (loss), net	(277,849)	(356,441)
	Total shareholders equity	9,629,907	9,271,209
	Total liabilities and shareholders equity	$ 80,807,578	77,924,287

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

		Three months ended June 30		Six months ended June 30	
In thousands, except per share		2012	2011	2012	2011
Interest income	Loans and leases, including fees	$ 674,549	624,247	$ 1,323,063	1,218,279
	Deposits at banks	767	479	980	515
	Federal funds sold	8	10	11	28
	Agreements to resell securities		127		128
	Trading account	318	282	635	670
	Investment securities				
	Fully taxable	59,724	60,827	122,688	131,489
	Exempt from federal taxes	2,020	2,281	4,104	4,627
	Total interest income	737,386	688,253	1,451,481	1,355,736
Interest expense	NOW accounts	424	274	707	476
	Savings deposits	16,940	20,757	35,123	39,996
	Time deposits	12,354	19,310	25,863	38,381
	Deposits at Cayman Islands office	232	193	445	587
	Short-term borrowings	348	147	651	639
	Long-term borrowings	59,105	61,370	120,320	120,651
	Total interest expense	89,403	102,051	183,109	200,730
	Net interest income	647,983	586,202	1,268,372	1,155,006
	Provision for credit losses	60,000	63,000	109,000	138,000
	Net interest income after provision for credit losses	587,983	523,202	1,159,372	1,017,006
Other income	Mortgage banking revenues	69,514	42,151	125,706	87,307
	Service charges on deposit accounts	110,982	119,716	219,871	229,447
	Trust income	122,275	75,592	239,228	104,913
	Brokerage services income	16,172	14,926	30,073	29,222
	Trading account and foreign exchange gains	6,238	6,798	16,809	15,077
	Gain (loss) on bank investment securities	(408)	110,744	(363)	150,097
	Total other-than-temporary impairment (OTTI) losses	(4,072)	(33,211)	(24,112)	(42,725)
	Portion of OTTI losses recognized in other comprehensive income (before taxes)	(12,101)	6,681	(3,547)	154
	Net OTTI losses recognized in earnings	(16,173)	(26,530)	(27,659)	(42,571)
	Equity in earnings of Bayview Lending Group LLC	(6,635)	(5,223)	(11,387)	(11,901)
	Other revenues from operations	89,685	163,482	176,095	254,485

	Total other income	391,650	501,656	768,373	816,076
Other expense	Salaries and employee benefits	323,686	300,178	669,784	566,268
	Equipment and net occupancy	65,376	59,670	130,419	116,333
	Printing, postage and supplies	11,368	9,723	23,240	18,925
	Amortization of core deposit and other intangible assets	15,907	14,740	32,681	27,054
	FDIC assessments	24,962	26,609	53,911	45,703
	Other costs of operations	186,093	165,975	357,052	302,183
	Total other expense	627,392	576,895	1,267,087	1,076,466
	Income before taxes	352,241	447,963	660,658	756,616
	Income taxes	118,861	125,605	220,815	227,985
	Net income	$ 233,380	322,358	$ 439,843	528,631
	Net income available to common shareholders				
	Basic	$ 214,709	297,164	$ 402,947	487,283
	Diluted	214,716	297,179	402,958	487,308
	Net income per common share				
	Basic	$ 1.71	2.43	$ 3.21	4.04
	Diluted	1.71	2.42	3.20	4.02
	Cash dividends per common share	$ .70	.70	$ 1.40	1.40
	Average common shares outstanding				
	Basic	125,488	122,181	125,354	120,699
	Diluted	125,897	122,796	125,756	121,332

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

	Three months ended June 30		Six months ended June 30	
In thousands	2012	2011	2012	2011
Net income	$ 233,380	322,358	$ 439,843	528,631
Other comprehensive income, net of tax and reclassification adjustments:				
Net unrealized gains (losses) on investment securities	49,289	(33,550)	69,371	(27,892)
Reclassification to income for amortization of gains on terminated cash flow hedges	(42)	(71)	(112)	(141)
Foreign currency translation adjustment	(533)	196	(131)	196
Defined benefit plans liability adjustment	4,695	2,177	9,464	4,288
Total other comprehensive income	53,409	(31,248)	78,592	(23,549)
Total comprehensive income	$ 286,789	291,110	$ 518,435	505,082

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

In thousands		Six months ended June 30 2012	2011
Cash flows from operating activities	Net income	$ 439,843	528,631
	Adjustments to reconcile net income to net cash provided by operating activities		
	Provision for credit losses	109,000	138,000
	Depreciation and amortization of premises and equipment	41,762	38,370
	Amortization of capitalized servicing rights	28,773	26,742
	Amortization of core deposit and other intangible assets	32,681	27,054
	Provision for deferred income taxes	12,064	(18,201)
	Asset write-downs	39,676	48,032
	Net gain on sales of assets	(3,786)	(181,318)
	Net change in accrued interest receivable, payable	1,731	4,035
	Net change in other accrued income and expense	(35,590)	23,766
	Net change in loans originated for sale	(33,964)	167,857
	Net change in trading account assets and liabilities	12,438	60,210
	Net cash provided by operating activities	644,628	863,178
Cash flows from investing activities	Proceeds from sales of investment securities		
	Available for sale	48,873	1,909,223
	Other	45,374	71,729
	Proceeds from maturities of investment securities		
	Available for sale	741,571	751,314
	Held to maturity	157,849	114,913
	Purchases of investment securities		
	Available for sale	(19,808)	(1,609,272)
	Held to maturity	(269,854)	(13,151)
	Other	(13,269)	(1,249)
	Net increase in loans and leases	(2,805,640)	(454,782)
	Net (increase) decrease in interest-bearing deposits at banks	(914,757)	432,037
	Net increase in agreements to resell securities		(365,000)
	Other investments, net	(5,436)	(10,249)
	Capital expenditures, net	(46,892)	(13,976)
	Acquisitions, net of cash acquired Banks and bank holding companies		178,940
	Purchase of Wilmington Trust Corporation preferred stock		(330,000)
	Proceeds from sales of real estate acquired in settlement of loans	64,735	161,514
	Other, net	(38,849)	18,322
	Net cash (used) provided by investing activities	(3,056,103)	840,313
Cash flows from financing activities	Net increase in deposits	3,162,352	566,316
	Net increase (decrease) in short-term borrowings	193,515	(528,035)
	Payments on long-term borrowings	(1,006,539)	(1,331,316)
	Proceeds from issuance of preferred stock		495,000

	Redemption of preferred stock		(370,000)
	Dividends paid - common	(179,446)	(173,135)
	Dividends paid - preferred	(26,725)	(20,046)
	Other, net	238,752	56,885
	Net cash provided (used) by financing activities	2,381,909	(1,304,331)
	Net increase (decrease) in cash and cash equivalents	(29,566)	399,160
	Cash and cash equivalents at beginning of period	1,452,397	933,755
	Cash and cash equivalents at end of period	$ 1,422,831	1,332,915
Supplemental disclosure of cash flow information	Interest received during the period	$ 1,457,310	1,366,981
	Interest paid during the period	192,666	205,514
	Income taxes paid during the period	204,249	266,240
Supplemental schedule of noncash investing and financing activities	Real estate acquired in settlement of loans	$ 26,623	45,774
	Acquisitions:		
	Fair value of:		
	Assets acquired (noncash)		10,666,102
	Liabilities assumed		10,044,555
	Common stock issued		405,557
	Retirement of Wilmington Trust Corporation preferred stock		330,000

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

In thousands, except per share	Preferred stock	Common stock	Common stock issuable	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss), net	Treasury stock	Total
2011								
Balance - January 1, 2011	$ 740,657	60,198	4,189	2,398,615	5,426,701	(205,220)	(67,445)	8,357,695
Total comprehensive income					528,631	(23,549)		505,082
Acquisition of Wilmington Trust Corporation - common stock issued		2,348		403,209				405,557
Partial redemption of Series A preferred stock	(370,000)							(370,000)
Conversion of Series B preferred stock into 433,144 shares of common stock	(26,500)	192		21,754			4,554	
Issuance of Series D preferred stock	500,000			(5,000)				495,000
Preferred stock cash dividends					(20,046)			(20,046)
Amortization of preferred stock discount	16,744				(16,744)			
Stock-based compensation plans:								
Compensation expense, net		27		(10,382)			31,666	21,311
Exercises of stock options, net		12		(8,948)			30,106	21,170
Directors stock plan				(49)			612	563
Deferred compensation plans, net, including dividend equivalents			(159)	(219)	(94)		507	35
Other				1,022				1,022
Common stock cash dividends - $1.40 per share					(173,195)			(173,195)
Balance - June 30, 2011	$ 860,901	62,777	4,030	2,800,002	5,745,253	(228,769)		9,244,194
2012								
Balance - January 1, 2012	$ 864,585	62,842	4,072	2,828,986	5,867,165	(356,441)		9,271,209
Total comprehensive income					439,843	78,592		518,435
Preferred stock cash dividends					(26,725)			(26,725)
Amortization of preferred stock discount	3,848				(3,848)			
Stock-based compensation plans:								
Compensation expense, net		216		18,289				18,505
Exercises of stock options, net		227		24,912				25,139
Directors stock plan		4		764				768
Deferred compensation plans, net, including dividend equivalents		5	(643)	549	(80)			(169)
Other				1,016				1,016
Common stock cash dividends - $1.40 per share					(178,271)			(178,271)

Balance - June 30, 2012	$ 868,433	63,294	3,429	2,874,516	6,098,084	(277,849)	9,629,907

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 2011 Annual Report. In the opinion of management, all adjustments necessary for a fair presentation have been made and were all of a normal recurring nature.

2. Acquisitions

On May 16, 2011, M&T acquired all of the outstanding common stock of Wilmington Trust Corporation (Wilmington Trust), headquartered in Wilmington, Delaware, in a stock-for-stock transaction. Wilmington Trust operated 55 banking offices in Delaware and Pennsylvania at the date of acquisition. The results of operations acquired in the Wilmington Trust transaction have been included in the Company s financial results since May 16, 2011. Wilmington Trust shareholders received .051372 shares of M&T common stock in exchange for each share of Wilmington Trust common stock, resulting in M&T issuing a total of 4,694,486 common shares with an acquisition date fair value of $406 million.

The Wilmington Trust transaction has been accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair value on the acquisition date. Assets acquired totaled approximately $10.8 billion, including $6.4 billion of loans and leases (including approximately $3.2 billion of commercial real estate loans, $1.4 billion of commercial loans and leases, $1.1 billion of consumer loans and $680 million of residential real estate loans). Liabilities assumed aggregated $10.0 billion, including $8.9 billion of deposits. The common stock issued in the transaction added $406 million to M&T s common shareholders equity. Immediately prior to the closing of the Wilmington Trust transaction, M&T redeemed the $330 million of preferred stock issued by Wilmington Trust as part of the Troubled Asset Relief Program Capital Purchase Program of the U.S. Department of Treasury (U.S. Treasury). In connection with the acquisition, the Company recorded $112 million of core deposit and other intangible assets. The core deposit and other intangible assets are generally being amortized over periods of 5 to 7 years using an accelerated method. There was no goodwill recorded as a result of the transaction, however, a non-taxable gain of $65 million was realized, which represented the excess of the fair value of assets acquired less liabilities assumed over consideration exchanged. The acquisition of Wilmington Trust added to M&T s market-leading position in the Mid-Atlantic region by giving M&T a leading deposit market share in Delaware.

2. Acquisitions, continued

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

	(in thousands)
Purchase price:	
Value of:	
Common shares issued (4,694,486 shares)	$ 405,557
Preferred stock purchased from U.S. Treasury	330,000
Total purchase price	735,557
Identifiable assets:	
Cash and due from banks	178,940
Interest-bearing deposits at banks	2,606,265
Other short-term investments	57,817
Investment securities	510,390
Loans and leases	6,410,430
Core deposit and other intangibles	112,094
Other assets	969,106
Total identifiable assets	10,845,042
Liabilities:	
Deposits	8,864,161
Short-term borrowings	147,752
Long-term borrowings	600,830
Other liabilities	431,812
Total liabilities	10,044,555
Net gain resulting from acquisition	$ 64,930

The following table presents certain pro forma information as if Wilmington Trust had been included in the Company s results of operations for the three months and six months ended June 30, 2011 rather than since the acquisition date on May 16, 2011. These results combine the historical results of Wilmington Trust into the Company s consolidated statement of income and, while certain adjustments were made for the estimated impact of certain fair valuation adjustments and other acquisition-related activity, they are not indicative of what would have occurred had the acquisition taken place as indicated. In particular, no adjustments have been made to eliminate the amount of Wilmington Trust s provision for credit losses of $41 million or the impact of other-than-temporary impairment losses of $5 million recognized by Wilmington Trust during the first quarter of 2011 that may not have been necessary had the acquired loans and investment securities been recorded at fair value as of the beginning of 2011. Additionally, the Company expects to achieve operating cost savings and other business synergies as a result of the acquisition which are not reflected in the pro forma amounts that follow.

2. Acquisitions, continued

	Pro forma Three months ended June 30, 2011	Pro forma Six months ended June 30, 2011
	(in thousands)	
Total revenues (a)	$ 1,166,694	2,208,188
Net income	309,527	480,948

(a) Represents net interest income plus other income.

In connection with the acquisition, the Company incurred merger-related expenses related to systems conversions and other costs of integrating and conforming acquired operations with and into the Company. Those expenses consisted largely of professional services and other temporary help fees associated with systems conversions and/or integration of operations; costs related to termination of existing contractual arrangements of Wilmington Trust to purchase various services; initial marketing and promotion expenses designed to introduce M&T Bank to its new customers; severance for former employees; travel costs; and printing, postage, supplies and other costs of completing the transaction and commencing operations in new markets and offices. The Company does not expect to incur any significant additional merger-related expenses during the remainder of 2012.

A summary of merger-related expenses included in the consolidated statement of income follows:

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
		(in thousands)		
Salaries and employee benefits	$ 3,024	15,305	4,997	15,312
Equipment and net occupancy		25	15	104
Printing, postage and supplies		318		465
Other costs of operations	4,127	21,348	4,867	25,410
	$ 7,151	36,996	9,879	41,291

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)		
June 30, 2012				
Investment securities available for sale:				
U.S. Treasury and federal agencies	$ 55,484	1,115		$ 56,599
Obligations of states and political subdivisions	34,007	569	8	34,568
Mortgage-backed securities:				
Government issued or guaranteed	3,840,610	218,117	227	4,058,500
Privately issued residential	1,252,709	5,254	189,571	1,068,392
Privately issued commercial	13,048		921	12,127
Collateralized debt obligations	43,749	13,079	1,730	55,098
Other debt securities	158,153	2,034	31,258	128,929
Equity securities	112,337	10,926	3,422	119,841
	5,510,097	251,094	227,137	5,534,054
Investment securities held to maturity:				
Obligations of states and political subdivisions	187,936	8,375	30	196,281
Mortgage-backed securities:				
Government issued or guaranteed	733,912	31,929		765,841
Privately issued	255,291	317	97,220	158,388
Other debt securities	11,326			11,326
	1,188,465	40,621	97,250	1,131,836
Other securities	334,781			334,781
Total	$ 7,033,343	291,715	324,387	$ 7,000,671
December 31, 2011				
Investment securities available for sale:				
U.S. Treasury and federal agencies	$ 69,468	1,255		$ 70,723
Obligations of states and political subdivisions	39,518	771	20	40,269
Mortgage-backed securities:				
Government issued or guaranteed	4,344,116	177,392	275	4,521,233
Privately issued residential	1,369,371	6,373	239,488	1,136,256
Privately issued commercial	17,679		2,650	15,029
Collateralized debt obligations	43,834	11,154	2,488	52,500
Other debt securities	216,700	4,588	44,443	176,845
Equity securities	211,737	8,468	4,500	215,705
	6,312,423	210,001	293,864	6,228,560
Investment securities held to maturity:				
Obligations of states and political subdivisions	188,680	9,141	28	197,793
Mortgage-backed securities:				
Government issued or guaranteed	608,533	24,881		633,414

Privately issued	268,642		99,140	169,502
Other debt securities	11,853			11,853
	1,077,708	34,022	99,168	1,012,562
Other securities	366,886			366,886
Total	$ 7,757,017	244,023	393,032	$ 7,608,008

3. Investment securities, continued

Gross realized gains on investment securities were $111 million and $150 million for the three-month and six-month periods ended June 30, 2011. Gross realized gains were not significant in 2012. Gross realized losses on investment securities were not significant during the three-month and six-month periods ended June 30, 2012 or 2011. During the second quarter of 2011, the Company sold residential mortgage-backed securities guaranteed by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) having an aggregate amortized cost of approximately $1.0 billion which resulted in a gain of $66 million (pre-tax). The Company also sold trust preferred securities and collateralized debt obligations during the second quarter of 2011 having an aggregate amortized cost of $136 million and $100 million, respectively, which resulted in gains of $25 million (pre-tax) and $20 million (pre-tax), respectively. During the first quarter of 2011, the Company sold residential mortgage-backed securities guaranteed by Fannie Mae and Freddie Mac having an aggregate amortized cost of approximately $484 million which resulted in a gain of $39 million (pre-tax).

The Company recognized pre-tax other-than-temporary impairment losses of $16 million and $28 million during the three months and six months ended June 30, 2012, respectively, and $27 million and $43 million during the three months and six months ended June 30, 2011, respectively, related to privately issued mortgage-backed securities. The impairment charges were recognized in light of deterioration of real estate values and a rise in delinquencies and charge-offs of underlying mortgage loans collateralizing those securities. The other-than-temporary losses represent management s estimate of credit losses inherent in the debt securities considering projected cash flows using assumptions of delinquency rates, loss severities, and other estimates for future collateral performance.

The following table displays changes in credit losses associated with debt securities for which other-than-temporary impairment losses have been previously recognized in earnings for the three months and six months ended June 30, 2012 and 2011:

	Three months ended June 30	
	2012	2011
	(in thousands)	
Beginning balance	$ 267,473	322,719
Additions for credit losses not previously recognized	16,173	26,530
Reductions for increases in cash flows		(4,881)
Reductions for realized losses	(19,449)	(46,227)
Ending balance	$ 264,197	298,141

	Six months ended June 30	
	2012	2011
	(in thousands)	
Beginning balance	$ 285,399	327,912
Additions for credit losses not previously recognized	27,659	42,571
Reductions for increases in cash flows		(5,020)
Reductions for realized losses	(48,861)	(67,322)
Ending balance	$ 264,197	298,141

3. Investment securities, continued

At June 30, 2012, 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	$ 33,314	33,367
Due after one year through five years	40,715	42,082
Due after five years through ten years	11,098	11,886
Due after ten years	206,266	187,859
	291,393	275,194
Mortgage-backed securities available for sale	5,106,367	5,139,019
	$ 5,397,760	5,414,213
Debt securities held to maturity:		
Due in one year or less	$ 30,983	31,166
Due after one year through five years	40,576	42,599
Due after five years through ten years	114,797	120,839
Due after ten years	12,906	13,003
	199,262	207,607
Mortgage-backed securities held to maturity	989,203	924,229
	$ 1,188,465	1,131,836

NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. Investment securities, continued

A summary of investment securities that as of June 30, 2012 and December 31, 2011 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)			
June 30, 2012				
Investment securities available for sale:				
Obligations of states and political subdivisions	$ 171	(1)	678	(7)
Mortgage-backed securities:				
Government issued or guaranteed	15,936	(70)	9,951	(157)
Privately issued residential	126,139	(1,861)	841,748	(187,710)
Privately issued commercial			12,127	(921)
Collateralized debt obligations	3,106	(39)	5,349	(1,691)
Other debt securities	16,858	(2,053)	74,206	(29,205)
Equity securities	8,118	(1,389)	2,193	(2,033)
	170,328	(5,413)	946,252	(221,724)
Investment securities held to maturity:				
Obligations of states and political subdivisions	5,598	(23)	169	(7)
Privately issued mortgage-backed securities			157,659	(97,220)
	5,598	(23)	157,828	(97,227)
Total	$ 175,926	(5,436)	1,104,080	(318,951)
December 31, 2011				
Investment securities available for sale:				
Obligations of states and political subdivisions	$		1,228	(20)
Mortgage-backed securities:				
Government issued or guaranteed	38,492	(190)	6,017	(85)
Privately issued residential	297,133	(14,188)	751,077	(225,300)
Privately issued commercial			15,029	(2,650)
Collateralized debt obligations	2,871	(335)	4,863	(2,153)
Other debt securities	72,637	(9,883)	73,635	(34,560)
Equity securities	9,883	(4,500)		
	421,016	(29,096)	851,849	(264,768)
Investment securities held to maturity:				
Obligations of states and political subdivisions	3,084	(4)	1,430	(24)
Privately issued mortgage-backed securities	1,883	(592)	167,139	(98,548)
	4,967	(596)	168,569	(98,572)
Total	$ 425,983	(29,692)	1,020,418	(363,340)

NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. Investment securities, continued

The Company owned 290 individual investment securities with aggregate gross unrealized losses of $324 million at June 30, 2012. Approximately $288 million of the unrealized losses pertained to privately issued mortgage-backed securities with a cost basis of $1.4 billion. The Company also had $33 million of unrealized losses on trust preferred securities issued by financial institutions, securities backed by trust preferred securities issued by financial institutions and other entities, and other debt securities having a cost basis of $133 million. Based on a review of each of the remaining securities in the investment securities portfolio at June 30, 2012, 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 June 30, 2012, 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 June 30, 2012, the Company has not identified events or changes in circumstances which may have a significant adverse effect on the fair value of the $335 million of cost method investment securities.

4. Loans and leases and the allowance for credit losses

The outstanding principal balance and the carrying amount of acquired loans that were recorded at fair value at the acquisition date that is included in the consolidated balance sheet is as follows:

	June 30, 2012	December 31, 2011
	(in thousands)	
Outstanding principal balance	$ 8,097,216	9,203,366
Carrying amount:		
Commercial, financial, leasing, etc.	1,216,711	1,331,198
Commercial real estate	3,222,688	3,879,518
Residential real estate	814,288	915,371
Consumer	1,834,751	2,033,700
	$ 7,088,438	8,159,787

Purchased impaired loans included in the table above totaled $561 million at June 30, 2012 and $653 million at December 31, 2011, representing less than 1% of the Company s assets as of each date.

Interest income on acquired loans that were recorded at fair value at the acquisition date was $90 million and $171 million for the three months and six months ended June 30, 2012 and $69 million and $110 million for the three months and six months ended June 30, 2011, respectively. Reflecting an improvement in estimated cash flows on acquired loans, the Company transferred $140 million from nonaccretable balance to accretable yield during the quarter ended June 30, 2012. At December 31, 2010 and June 30, 2011, the accretable yield on acquired loans was $457 million and $1.04 billion, respectively. A summary of changes in the accretable yield for acquired loans for the three months and six months ended June 30, 2012 follows:

	Three months ended June 30, 2012		
	Purchased impaired	Other acquired	Total
		(in thousands)	
Balance at beginning of period	$ 22,565	747,466	770,031
Interest income	(9,621)	(80,249)	(89,870)
Reclassifications from (to) nonaccretable balance, net	42,655	97,165	139,820
Other (a)		(31,221)	(31,221)

Balance at end of period	$ 55,599	733,161	788,760

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

	Six months ended June 30, 2012		
	Purchased impaired	Other acquired (in thousands)	Total
Balance at beginning of period	$ 30,805	807,960	838,765
Interest income	(17,285)	(153,972)	(171,257)
Reclassifications from (to) nonaccretable balance, net	42,079	98,165	140,244
Other (a)		(18,992)	(18,992)
Balance at end of period	$ 55,599	733,161	788,760

(a) *Other changes in expected cash flows including changes in interest rates and prepayments.*

A summary of current, past due and nonaccrual loans as of June 30, 2012 and December 31, 2011 were as follows:

	Current	30-89 Days past due	90 Days or more past due and accruing: Non-acquired	90 Days or more past due and accruing: Acquired (a)	Purchased impaired (b)	Nonaccrual	Total
				(in thousands)			
June 30, 2012							
Commercial, financial, leasing, etc.	$ 16,138,169	73,581	1,455	12,402	16,424	153,556	16,395,587
Real estate:							
Commercial	20,854,618	128,489	10,128	49,038	164,855	173,278	21,380,406
Residential builder and developer	761,655	47,065	2,213	18,330	264,163	240,248	1,333,674
Other commercial construction	2,051,194	16,174	4,352	23,158	63,446	26,303	2,184,627
Residential	8,563,870	252,076	251,750	41,047	47,135	174,937	9,330,815
Residential Alt-A	355,574	24,221				100,915	480,710
Consumer:							
Home equity lines and loans	6,384,785	41,795		15,263	4,381	54,509	6,500,733
Automobile	2,490,590	34,961		261		24,482	2,550,294
Other	2,628,257	38,085	4,700	2,988	296	20,100	2,694,426
Total	$ 60,228,712	656,447	274,598	162,487	560,700	968,328	62,851,272

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

	Current	30-89 Days past due	90 Days or more past due and accruing Non-acquired	Acquired (a)	Purchased impaired (b)	Nonaccrual	Total
				(in thousands)			
December 31, 2011							
Commercial, financial, leasing, etc.	$ 15,493,803	37,112	7,601	8,560	23,762	163,598	15,734,436
Real estate:							
Commercial	19,658,761	172,641	9,983	54,148	192,804	171,111	20,259,448
Residential builder and developer	845,680	49,353	13,603	21,116	297,005	281,576	1,508,333
Other commercial construction	2,393,304	41,049	968	23,582	78,105	106,325	2,643,333
Residential	6,626,182	256,017	250,472	37,982	56,741	172,681	7,400,075
Residential Alt-A	383,834	34,077				105,179	523,090
Consumer:							
Home equity lines and loans	6,570,675	43,516		15,409	4,635	47,150	6,681,385
Automobile	2,644,330	48,342		601		26,835	2,720,108
Other	2,551,225	43,547	5,249	2,340	310	23,126	2,625,797
Total	$ 57,167,794	725,654	287,876	163,738	653,362	1,097,581	60,096,005

(a) *Acquired loans that were recorded at fair value at acquisition date. This category does not include purchased impaired loans that are presented separately.*

(b) *Accruing loans that were impaired at acquisition date and were recorded at fair value.*

Changes in the allowance for credit losses for the three months ended June 30, 2012 were as follows:

	Commercial, Financial, Leasing, etc.	Real Estate Commercial	Residential	Consumer	Unallocated	Total
			(in thousands)			
Beginning balance	$ 239,273	356,554	97,301	142,912	72,966	909,006
Provision for credit losses	19,103	(3,309)	5,587	38,427	192	60,000
Net charge-offs						
Charge-offs	(16,078)	(13,056)	(11,407)	(23,621)		(64,162)
Recoveries	2,430	1,332	1,788	6,634		12,184
Net charge-offs	(13,648)	(11,724)	(9,619)	(16,987)		(51,978)
Ending balance	$ 244,728	341,521	93,269	164,352	73,158	917,028

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

	Commercial, Financial, Leasing, etc.	Real Estate Commercial	Real Estate Residential	Consumer	Unallocated	Total
			(in thousands)			
Beginning balance	$ 215,659	391,107	87,526	137,351	72,060	903,703
Provision for credit losses	6,870	22,735	13,654	19,852	(111)	63,000
Net charge-offs						
Charge-offs	(14,923)	(15,915)	(15,872)	(24,940)		(71,650)
Recoveries	2,273	3,184	2,033	5,046		12,536
Net charge-offs	(12,650)	(12,731)	(13,839)	(19,894)		(59,114)
Ending balance	$ 209,879	401,111	87,341	137,309	71,949	907,589

Changes in the allowance for credit losses for the six months ended June 30, 2012 were as follows:

	Commercial, Financial, Leasing, etc.	Real Estate Commercial	Real Estate Residential	Consumer	Unallocated	Total
			(in thousands)			
Beginning balance	$ 234,022	367,637	91,915	143,121	71,595	908,290
Provision for credit losses	29,224	(5,569)	21,817	61,965	1,563	109,000
Net charge-offs						
Charge-offs	(24,115)	(23,596)	(24,125)	(52,602)		(124,438)
Recoveries	5,597	3,049	3,662	11,868		24,176
Net charge-offs	(18,518)	(20,547)	(20,463)	(40,734)		(100,262)
Ending balance	$ 244,728	341,521	93,269	164,352	73,158	917,028

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

	Commercial, Financial, Leasing, etc.	Real Estate Commercial	Real Estate Residential	Consumer	Unallocated	Total
			(in thousands)			
Beginning balance	$ 212,579	400,562	86,351	133,067	70,382	902,941
Provision for credit losses	21,812	37,510	29,495	47,616	1,567	138,000
Net charge-offs						
Charge-offs	(28,950)	(40,494)	(32,039)	(53,261)		(154,744)
Recoveries	4,438	3,533	3,534	9,887		21,392

Net charge-offs	(24,512)	(36,961)	(28,505)	(43,374)		(133,352)
Ending balance	$ 209,879	401,111	87,341	137,309	71,949	907,589

Despite the above allocation, the allowance for credit losses is general in nature and is available to absorb losses from any portfolio segment.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

In establishing the allowance for credit losses, the Company estimates losses attributable to specific troubled credits identified through both normal and detailed or intensified credit review processes and also estimates losses inherent in other loans and leases on a collective basis. For purposes of determining the level of the allowance for credit losses, the Company evaluates its loan and lease portfolio by loan type. The amounts of loss components in the Company s loan and lease portfolios are determined through a loan by loan analysis of larger balance commercial and commercial real estate loans that are in nonaccrual status and by applying loss factors to groups of loan balances based on loan type and management s classification of such loans under the Company s loan grading system. Measurement of the specific loss components is typically based on expected future cash flows, collateral values and other factors that may impact the borrower s ability to pay. In determining the allowance for credit losses, the Company utilizes an extensive loan grading system which is applied to all commercial and commercial real estate credits on an individual loan basis. Loan officers are responsible for continually assigning grades to these loans based on standards outlined in the Company s Credit Policy. Internal loan grades are also monitored by the Company s loan review department to ensure consistency and strict adherence to the prescribed standards. Loan grades are assigned loss component factors that reflect the Company s loss estimate for each group of loans and leases. Factors considered in assigning loan grades and loss component factors include borrower-specific information related to expected future cash flows and operating results, collateral values, geographic location, financial condition and performance, payment status, and other information; levels of and trends in portfolio charge-offs and recoveries; levels of and trends in portfolio delinquencies and impaired loans; changes in the risk profile of specific portfolios; trends in volume and terms of loans; effects of changes in credit concentrations; and observed trends and practices in the banking industry. As updated appraisals are obtained on individual loans or other events in the market place indicate that collateral values have significantly changed, individual loan grades are adjusted as appropriate. Changes in other factors cited may also lead to loan grade changes at anytime. Except for consumer and residential mortgage loans that are considered smaller balance homogenous loans and acquired loans that are evaluated on an aggregated basis, 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. Regardless of loan type, the Company considers a loan to be impaired if it qualifies as a troubled debt restructuring. Modified loans, including smaller balance homogenous loans, that are considered to be troubled debt restructurings are evaluated for impairment giving consideration to the impact of the modified loan terms on the present value of the loan s expected cash flows.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The following tables provide information with respect to impaired loans and leases as of June 30, 2012 and December 31, 2011 and for the three months and six months ended June 30, 2012 and June 30, 2011:

	June 30, 2012			December 31, 2011		
	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Related allowance
			(in thousands)			
With an allowance recorded:						
Commercial, financial, leasing, etc.	$ 118,670	139,477	39,134	118,538	145,510	48,674
Real estate:						
Commercial	116,765	148,232	19,323	102,886	128,456	17,651
Residential builder and developer	135,172	243,663	33,490	159,293	280,869	52,562
Other commercial construction	81,077	89,410	12,404	20,234	24,639	3,836
Residential	108,167	127,032	4,332	101,882	119,498	4,420
Residential Alt-A	136,995	150,849	23,000	150,396	162,978	25,000
Consumer:						
Home equity lines and loans	11,707	13,327	2,986	9,385	10,670	2,306
Automobile	51,649	51,649	15,324	53,710	53,710	11,468
Other	10,578	10,578	4,403	8,401	8,401	2,084
	770,780	974,217	154,396	724,725	934,731	168,001
With no related allowance recorded:						
Commercial, financial, leasing, etc.	43,179	52,473		53,104	60,778	
Real estate:						
Commercial	62,529	79,604		71,636	91,118	
Residential builder and developer	110,954	128,880		133,156	177,277	
Other commercial construction	4,976	9,386		86,652	89,862	
Residential	17,990	24,930		19,686	25,625	
Residential Alt-A	33,588	62,379		34,356	60,942	
	273,216	357,652		398,590	505,602	
Total:						
Commercial, financial, leasing, etc.	161,849	191,950	39,134	171,642	206,288	48,674
Real estate:						
Commercial	179,294	227,836	19,323	174,522	219,574	17,651
Residential builder and developer	246,126	372,543	33,490	292,449	458,146	52,562
Other commercial construction	86,053	98,796	12,404	106,886	114,501	3,836
Residential	126,157	151,962	4,332	121,568	145,123	4,420
Residential Alt-A	170,583	213,228	23,000	184,752	223,920	25,000
Consumer:						
Home equity lines and loans	11,707	13,327	2,986	9,385	10,670	2,306
Automobile	51,649	51,649	15,324	53,710	53,710	11,468
Other	10,578	10,578	4,403	8,401	8,401	2,084
Total	$ 1,043,996	1,331,869	154,396	1,123,315	1,440,333	168,001

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

	Three months ended June 30, 2012			Three months ended June 30, 2011		
		Interest income recognized			Interest income recognized	
	Average recorded investment	Total	Cash basis	Average recorded investment	Total	Cash basis
	(in thousands)					
Commercial, financial, leasing, etc.	$ 161,311	743	743	162,827	679	666
Real estate:						
Commercial	180,199	1,238	1,238	194,508	513	483
Residential builder and developer	262,254	385	252	308,709	314	112
Other commercial construction	109,037	4,840	4,840	93,980	187	150
Residential	127,258	1,315	810	97,317	1,029	565
Residential Alt-A	174,181	1,753	527	199,056	1,991	410
Consumer:						
Home equity lines and loans	11,237	164	46	12,069	189	23
Automobile	52,200	871	190	58,650	984	292
Other	9,877	106	47	3,544	55	13
Total	$ 1,087,554	11,415	8,693	1,130,660	5,941	2,714

	Six months ended June 30, 2012			Six months ended June 30, 2011		
		Interest income recognized			Interest income recognized	
	Average recorded investment	Total	Cash basis	Average recorded investment	Total	Cash basis
	(in thousands)					
Commercial, financial, leasing, etc.	$ 164,779	1,152	1,152	167,456	1,672	1,654
Real estate:						
Commercial	179,213	1,556	1,556	191,472	895	822
Residential builder and developer	271,903	726	431	317,054	839	240
Other commercial construction	107,151	5,010	5,010	103,751	697	471
Residential	126,880	2,657	1,688	90,813	2,026	1,140
Residential Alt-A	177,623	3,596	1,073	202,339	3,986	961
Consumer:						
Home equity lines and loans	10,593	330	88	12,098	349	48
Automobile	52,799	1,769	368	58,655	1,968	588
Other	9,080	199	86	3,304	112	19
Total	$ 1,100,021	16,995	11,452	1,146,942	12,544	5,943

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

In accordance with the previously described policies, the Company utilizes a loan grading system that is applied to all commercial loans and commercial real estate loans. Loan grades are utilized to differentiate risk within the portfolio and consider the expectations of default for each loan. Commercial loans and commercial real estate loans with a lower expectation of default are assigned one of ten possible pass loan grades and are generally ascribed lower loss factors when determining the allowance for credit losses. In general, acquired loans that were recorded at estimated fair value on the acquisition date are assigned a pass loan grade because their net financial statement value is based on the present value of expected cash flows. Loans with an elevated level of credit risk are classified as criticized and are ascribed a higher loss factor when determining the allowance for credit losses. Criticized loans may be classified as nonaccrual if the Company no longer expects to collect all amounts according to the contractual terms of the loan agreement or the loan is delinquent 90 days or more. All larger balance criticized commercial and commercial real estate loans are individually reviewed by centralized loan review personnel each quarter to determine the appropriateness of the assigned loan grade, including whether the loan should be reported as accruing or nonaccruing. Smaller balance criticized loans are analyzed by business line risk management areas to ensure proper loan grade classification. Furthermore, criticized nonaccrual commercial loans and commercial real estate loans are considered impaired and, as a result, specific loss allowances on such loans are established within the allowance for credit losses to the extent appropriate in each individual instance. The following table summarizes the loan grades applied to the various classes of the Company s commercial and commercial real estate loans as of June 30, 2012 and December 31, 2011.

	Commercial, Financial, Leasing, etc.	Commercial	Real Estate Residential Builder and Developer	Other Commercial Construction
		(in thousands)		
June 30, 2012				
Pass	$ 15,499,951	20,403,488	989,903	1,903,981
Criticized accrual	742,080	803,640	103,523	254,343
Criticized nonaccrual	153,556	173,278	240,248	26,303
Total	$ 16,395,587	21,380,406	1,333,674	2,184,627
December 31, 2011				
Pass	$ 14,869,636	19,089,252	1,085,970	2,254,609
Criticized accrual	701,202	999,085	140,787	282,399
Criticized nonaccrual	163,598	171,111	281,576	106,325
Total	$ 15,734,436	20,259,448	1,508,333	2,643,333

In determining the allowance for credit losses, residential real estate loans and consumer loans are generally evaluated collectively after considering such factors as payment performance, recent loss experience and trends, which are mainly driven by current collateral values in the market place as well as the amount of loan defaults. Loss rates on such loans are determined by reference to recent charge-off history and are evaluated (and adjusted if deemed appropriate) through consideration of other factors including near-term forecasted loss estimates developed by M&T s Credit Department. In arriving at such forecasts, M&T considers the current estimated fair value of its collateral based on geographical adjustments for home price depreciation/appreciation and overall borrower repayment performance. With regard to collateral values, the realizability of such values by the Company contemplates repayment of any first lien position prior to recovering amounts on a second lien position. However, residential real estate loans and outstanding balances of home equity loans and lines of credit that are more than 150 days past due are generally evaluated for collectibility on a loan-by-loan basis giving consideration to estimated collateral values.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The Company also measures additional losses for purchased impaired loans when it is probable that the Company will be unable to collect all cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimates after acquisition. The determination of the allocated portion of the allowance for credit losses is very subjective. Given that inherent subjectivity and potential imprecision involved in determining the allocated portion of the allowance for credit losses, the Company also provides an inherent unallocated portion of the allowance. The unallocated portion of the allowance is intended to recognize probable losses that are not otherwise identifiable and includes management s subjective determination of amounts necessary to provide for the possible use of imprecise estimates in determining the allocated portion of the allowance. Therefore, the level of the unallocated portion of the allowance is primarily reflective of the inherent imprecision in the various calculations used in determining the allocated portion of the allowance for credit losses. Other factors that could also lead to changes in the unallocated portion include the effects of expansion into new markets for which the Company does not have the same degree of familiarity and experience regarding portfolio performance in changing market conditions, the introduction of new loan and lease product types, and other risks associated with the Company s loan portfolio that may not be specifically identifiable.

At June 30, 2012 and December 31, 2011, the allocation of the allowance for credit losses summarized on the basis of the Company s impairment methodology was as follows:

	Commercial, Financial, Leasing, etc.	Real Estate		Consumer	Total
		Commercial	Residential (in thousands)		
June 30, 2012					
Individually evaluated for impairment	$ 38,961	64,143	27,258	22,713	$ 153,075
Collectively evaluated for impairment	205,594	275,671	62,182	141,159	684,606
Purchased impaired	173	1,707	3,829	480	6,189
Allocated	$ 244,728	341,521	93,269	164,352	843,870
Unallocated					73,158
Total					$ 917,028
December 31, 2011					
Individually evaluated for impairment	$ 48,517	71,784	29,420	15,858	$ 165,579
Collectively evaluated for impairment	185,048	291,271	60,742	126,613	663,674
Purchased impaired	457	4,582	1,753	650	7,442
Allocated	$ 234,022	367,637	91,915	143,121	836,695
Unallocated					71,595
Total					$ 908,290

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The recorded investment in loans and leases summarized on the basis of the Company s impairment methodology as of June 30, 2012 and December 31, 2011 was as follows:

	Commercial, Financial, Leasing, etc.	Real Estate Commercial	Real Estate Residential	Consumer	Total
			(in thousands)		
June 30, 2012					
Individually evaluated for impairment	$ 161,669	504,281	295,314	73,934	$ 1,035,198
Collectively evaluated for impairment	16,217,494	23,901,962	9,469,076	11,666,842	61,255,374
Purchased impaired	16,424	492,464	47,135	4,677	560,700
Total	$ 16,395,587	24,898,707	9,811,525	11,745,453	$ 62,851,272
December 31, 2011					
Individually evaluated for impairment	$ 171,442	561,615	306,320	71,496	$ 1,110,873
Collectively evaluated for impairment	15,539,232	23,281,585	7,560,104	11,950,849	58,331,770
Purchased impaired	23,762	567,914	56,741	4,945	653,362
Total	$ 15,734,436	24,411,114	7,923,165	12,027,290	$ 60,096,005

During the normal course of business, the Company modifies loans to maximize recovery efforts. If the borrower is experiencing financial difficulty and a concession is granted, the Company considers such modifications as troubled debt restructurings and classifies those loans as either nonaccrual loans or renegotiated loans. The types of concessions that the Company grants typically include principal deferrals and interest rate concessions, but may also include other types of concessions.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The tables below summarize the Company s loan modification activities that were considered troubled debt restructurings for the three months ended June 30, 2012 and 2011:

Three months ended June 30, 2012	Number	Recorded investment Pre-modification	Recorded investment Post-modification	Financial effects of modification Recorded investment (a)	Financial effects of modification Interest (b)
		(dollars in thousands)			
Commercial, financial, leasing, etc.					
Principal deferral	9	$ 10,392	$ 9,061	$ (1,331)	$
Other	2	1,995	1,954	(41)	
Real estate:					
Commercial					
Principal deferral	1	2,011	1,999	(12)	
Interest rate reduction	1	383	430	47	(89)
Combination of concession types	4	1,210	1,231	21	(256)
Residential builder and developer					
Principal deferral	3	2,503	2,503		
Other commercial construction					
Principal deferral	3	60,888	60,898	10	
Residential					
Principal deferral	7	1,059	1,087	28	
Combination of concession types	11	2,049	2,098	49	(65)
Residential Alt-A					
Principal deferral	1	153	158	5	
Combination of concession types	7	1,509	1,543	34	(44)
Consumer:					
Home equity lines and loans					
Principal deferral	9	734	734		
Combination of concession types	4	480	480		(123)
Automobile					
Principal deferral	196	2,700	2,700		
Interest rate reduction	3	20	20		(1)
Other	21	152	152		
Combination of concession types	77	1,170	1,170		(110)
Other					
Principal deferral	7	134	134		
Combination of concession types	18	142	142		(22)
Total	384	$ 89,684	$ 88,494	$ (1,190)	$ (710)

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

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

		Recorded investment		Financial effects of modification	
Three months ended June 30, 2011	Number	Pre-modification	Post-modification	Recorded investment (a)	Interest (b)
		(dollars in thousands)			
Commercial, financial, leasing, etc.					
Principal deferral	20	$ 5,932	$ 5,947	$ 15	$
Combination of concession types	1	1,945	1,945		(641)
Real estate:					
Commercial					
Principal deferral	9	5,226	5,143	(83)	
Residential builder and developer					
Principal deferral	3	15,162	14,237	(925)	
Other	1	412	412		
Residential					
Principal deferral	9	646	622	(24)	
Interest rate reduction	3	619	639	20	(13)
Combination of concession types	29	5,187	5,342	155	(56)
Residential Alt-A					
Principal deferral	1	73	76	3	
Combination of concession types	6	1,260	1,278	18	(21)
Consumer:					
Home equity lines and loans					
Principal deferral	1	69	69		
Combination of concession types	8	719	719		(91)
Automobile					
Principal deferral	217	2,845	2,845		
Interest rate reduction	7	87	87		(5)
Other	31	151	151		
Combination of concession types	100	1,139	1,139		(80)
Other					
Principal deferral	3	88	88		
Combination of concession types	9	91	91		(20)
Total	458	$ 41,651	$ 40,830	$ (821)	$ (927)

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

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The tables below summarize the Company s loan modification activities that were considered troubled debt restructurings for the six months ended June 30, 2012 and 2011:

		Recorded investment		Financial effects of modification	
Six months ended June 30, 2012	Number	Pre-modification	Post-modification	Recorded investment (a)	Interest (b)
		(dollars in thousands)			
Commercial, financial, leasing, etc.					
Principal deferral	18	$ 13,204	$ 12,015	$ (1,189)	$
Other	3	2,967	3,052	85	
Combination of concession types	1	45	44	(1)	(33)
Real estate:					
Commercial					
Principal deferral	3	4,436	4,404	(32)	
Interest rate reduction	1	383	430	47	(89)
Combination of concession types	4	1,210	1,231	21	(256)
Residential builder and developer					
Principal deferral	8	9,325	8,537	(788)	
Combination of concession types	2	2,350	2,726	376	
Other commercial construction					
Principal deferral	3	60,888	60,898	10	
Residential					
Principal deferral	22	2,564	2,675	111	
Combination of concession types	29	4,985	5,105	120	(265)
Residential Alt-A					
Principal deferral	4	550	565	15	
Combination of concession types	15	2,869	2,937	68	(49)
Consumer:					
Home equity lines and loans					
Principal deferral	10	851	851		
Interest rate reduction	1	144	144		(6)
Combination of concession types	6	715	715		(147)
Automobile					
Principal deferral	349	4,585	4,585		
Interest rate reduction	7	77	77		(5)
Other	31	171	171		
Combination of concession types	189	2,779	2,779		(282)
Other					
Principal deferral	59	781	781		
Interest rate reduction	3	23	23		(3)
Other	9	49	49		
Combination of concession types	52	361	361		(58)
Total	829	$ 116,312	$ 115,155	$ (1,157)	$ (1,193)

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

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Six months ended June 30, 2011	Number	Recorded investment Pre-modification	Recorded investment Post-modification	Financial effects of modification Recorded investment (a)	Financial effects of modification Interest (b)
		(dollars in thousands)			
Commercial, financial, leasing, etc.					
Principal deferral	33	$ 7,281	$ 7,281	$	$
Combination of concession types	1	1,945	1,945		(641)
Real estate:					
Commercial					
Principal deferral	18	11,851	11,740	(111)	
Residential builder and developer					
Principal deferral	4	18,586	17,661	(925)	
Other	5	116,414	108,806	(7,608)	
Combination of concession types	1	798	790	(8)	
Other commercial construction					
Principal deferral	1	2,275	2,269	(6)	
Residential					
Principal deferral	12	770	760	(10)	
Interest rate reduction	11	1,678	1,718	40	(63)
Combination of concession types	59	13,094	13,341	247	(813)
Residential Alt-A					
Principal deferral	1	73	76	3	
Combination of concession types	15	2,862	2,916	54	(231)
Consumer:					
Home equity lines and loans					
Principal deferral	1	69	69		
Combination of concession types	10	789	790	1	(127)
Automobile					
Principal deferral	421	6,338	6,338		
Interest rate reduction	11	131	131		(8)
Other	57	258	258		
Combination of concession types	222	4,000	4,000		(516)
Other					
Principal deferral	13	162	162		
Other	1	11	11		
Combination of concession types	46	217	217		(40)
Total	943	$ 189,602	$ 181,279	$ (8,323)	$ (2,439)

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

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

Troubled debt restructurings are considered to be impaired loans and for purposes of establishing the allowance for credit losses are evaluated for impairment giving consideration to the impact of the modified loan terms on the present value of the loan s expected cash flows. Impairment of troubled debt restructurings that have subsequently defaulted may also be measured based on the loan s observable market price or the fair value of collateral if the loan is collateral-dependent. Loans that were modified as troubled debt restructurings during the twelve months ended June 30, 2012 and 2011 and for which there was a subsequent payment default during the three-month and six-month periods ended June 30, 2012 and 2011, respectively, were not material.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

5. Borrowings

M&T had $1.2 billion of fixed and floating rate junior subordinated deferrable interest debentures (Junior Subordinated Debentures) outstanding at June 30, 2012 which are held by various trusts that were issued in connection with the issuance by those trusts of preferred capital securities (Capital Securities) and common securities (Common Securities). The proceeds from the issuances of the Capital Securities and the Common Securities were used by the trusts to purchase the Junior Subordinated Debentures. The Common Securities of each of those trusts are wholly owned by M&T and are the only class of each trust s securities possessing general voting powers. The Capital Securities represent preferred undivided interests in the assets of the corresponding trust.

Under the Federal Reserve Board s current risk-based capital guidelines, the Capital Securities are includable in M&T s Tier 1 capital. However, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 that was signed into law on July 21, 2010 provides 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.

5. Borrowings, continued

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 June 30, 2012 and December 31, 2011.

6. Shareholders equity

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

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

	Shares issued and outstanding	Carrying value June 30, 2012	Carrying value December 31, 2011
		(dollars in thousands)	
Series A (a)(b)			
Fixed Rate Cumulative Perpetual Preferred Stock, Series A, $1,000 liquidation preference per share	230,000	$ 225,570	$ 224,277
Series C (a)(c)			
Fixed Rate Cumulative Perpetual Preferred Stock, Series C, $1,000 liquidation preference per share	151,500	142,863	140,308
Series D (d)			
Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series D, $10,000 liquidation preference per share	50,000	500,000	500,000

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

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

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

6. Shareholders equity, continued

In addition to the Series A and Series C warrants mentioned in (a) above, a ten-year warrant to purchase 95,383 shares of M&T common stock at $518.96 per share was outstanding at June 30, 2012 and December 31, 2011. This warrant was issued by Wilmington Trust in December 2008 as part of the Troubled Asset Relief Program Capital Purchase Program of the U.S. Treasury along with $330 million of fixed rate cumulative perpetual preferred stock, which was redeemed by M&T immediately prior to the May 16, 2011 acquisition of Wilmington Trust.

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 June 30			
	2012	2011	2012	2011
	(in thousands)			
Service cost	$ 6,875	6,413	159	115
Interest cost on projected benefit obligation	15,418	14,086	919	909
Expected return on plan assets	(17,581)	(14,563)		
Amortization of prior service cost	(1,629)	(1,629)	10	29
Amortization of net actuarial loss	9,183	5,165	165	18
Net periodic benefit cost	$ 12,266	9,472	1,253	1,071

	Pension benefits		Other postretirement benefits	
	Six months ended June 30			
	2012	2011	2012	2011
	(in thousands)			
Service cost	$ 14 ,775	11,713	334	240
Interest cost on projected benefit obligation	31,018	26,236	1,869	1,684
Expected return on plan assets	(35,256)	(27,263)		
Amortization of prior service cost	(3,279)	(3,279)	10	54
Amortization of net actuarial loss	18,583	10,265	265	18
Net periodic benefit cost	$ 25,841	17,672	2,478	1,996

Expense incurred in connection with the Company s defined contribution pension and retirement savings plans totaled $11,390,000 and $9,890,000 for the three months ended June 30, 2012 and 2011, respectively, and $26,015,000 and $20,066,000 for the six months ended June 30, 2012 and 2011, respectively.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

8. Earnings per common share

The computations of basic earnings per common share follow:

	Three months ended		Six months ended	
	June 30		June 30	
	2012	2011	2012	2011
	(in thousands, except per share)			
Income available to common shareholders:				
Net income	$ 233,380	322,358	439,843	528,631
Less: Preferred stock dividends (a)	(13,362)	(7,184)	(26,725)	(17,682)
Amortization of preferred stock discount (a)	(1,964)	(13,531)	(3,888)	(16,284)
Net income available to common equity	218,054	301,643	409,230	494,665
Less: Income attributable to unvested stock-based compensation awards	(3,345)	(4,479)	(6,283)	(7,382)
Net income available to common shareholders	$ 214,709	297,164	402,947	487,283
Weighted-average shares outstanding:				
Common shares outstanding (including common stock issuable) and unvested stock-based compensation awards	127,445	124,035	127,301	122,522
Less: Unvested stock-based compensation awards	(1,957)	(1,854)	(1,947)	(1,823)
Weighted-average shares outstanding	125,488	122,181	125,354	120,699
Basic earnings per common share	$ 1.71	2.43	3.21	4.04

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

8. Earnings per common share, continued

The computations of diluted earnings per common share follow:

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
	(in thousands, except per share)			
Net income available to common equity	$ 218,054	301,643	409,230	494,665
Less: Income attributable to unvested stock-based compensation awards	(3,338)	(4,464)	(6,272)	(7,357)
Net income available to common shareholders	$ 214,716	297,179	402,958	487,308
Adjusted weighted-average shares outstanding:				