M&T BANK CORP
Form 10-Q
July 31, 2008

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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 June 30, 2008**

**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. Yes þ No o

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 the 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 (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). Yes o No þ

Number of shares of the registrant s Common Stock, $0.50 par value, outstanding as of the close of business on July 18, 2008: 110,204,721 shares.

M&T BANK CORPORATION
FORM 10-Q
For the Quarterly Period Ended June 30, 2008

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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* | June 30, 2008 | December 31, 2007 |
|---|---|---|
| Assets | | |
| Cash and due from banks | $ 1,624,753 | 1,719,509 |
| Interest-bearing deposits at banks | 5,654 | 18,431 |
| Federal funds sold | 13,750 | 48,038 |
| Agreements to resell securities | 90,000 | |
| Trading account | 243,050 | 281,244 |
| Investment securities (includes pledged available for sale securities that can be sold or repledged of $2,037,891 at June 30, 2008; $1,988,128 at December 31,2007) | | |
| Available for sale (cost:$8,383,504 at June 30, 2008; $8,451,411 at December 31, 2007) | 7,980,333 | 8,379,169 |
| Held to maturity (fair value: $74,808 at June 30, 2008; $78,250 at December 31, 2007) | 73,060 | 76,441 |
| Other (fair value: $605,382 at June 30, 2008; $506,388 at December 31, 2007) | 605,382 | 506,388 |
| Total investment securities | 8,658,775 | 8,961,998 |
| Loans and leases | 49,456,691 | 48,352,262 |
| Unearned discount | (342,075) | (330,700) |
| Allowance for credit losses | (774,076) | (759,439) |
| Loans and leases, net | 48,340,540 | 47,262,123 |
| Premises and equipment | 368,542 | 370,765 |
| Goodwill | 3,192,128 | 3,196,433 |
| Core deposit and other intangible assets | 213,528 | 248,556 |
| Accrued interest and other assets | 3,142,708 | 2,768,542 |
| Total assets | $65,893,428 | 64,875,639 |
| Liabilities | | |
| Noninterest-bearing deposits | $ 8,483,856 | 8,131,662 |
| NOW accounts | 991,875 | 1,190,161 |
| Savings deposits | 17,600,584 | 15,419,357 |
| Time deposits | 9,092,399 | 10,668,581 |
| Deposits at foreign office | 5,756,976 | 5,856,427 |
| Total deposits | 41,925,690 | 41,266,188 |
| Federal funds purchased and agreements to repurchase securities | 1,822,339 | 4,351,313 |

| | | |
|---|---|---|
| Other short-term borrowings | 1,939,211 | 1,470,584 |
| Accrued interest and other liabilities | 917,022 | 984,353 |
| Long-term borrowings | 12,770,110 | 10,317,945 |
| Total liabilities | 59,374,372 | 58,390,383 |
| Stockholders equity | | |
| Preferred stock, $1 par, 1,000,000 shares authorized, none outstanding | | |
| Common stock, $.50 par, 250,000,000 shares authorized, 120,396,611 shares issued at June 30, 2008 and at December 31, 2007 | 60,198 | 60,198 |
| Common stock issuable, 78,255 shares at June 30, 2008; 82,912 shares at December 31, 2007 | 4,594 | 4,776 |
| Additional paid-in capital | 2,853,649 | 2,848,752 |
| Retained earnings | 5,023,817 | 4,815,585 |
| Accumulated other comprehensive income (loss), net | (332,917) | (114,822) |
| Treasury stock common, at cost - 10,206,829 shares at June 30, 2008; 10,544,259 shares at December 31, 2007 | (1,090,285) | (1,129,233) |
| Total stockholders equity | 6,519,056 | 6,485,256 |
| Total liabilities and stockholders equity | $65,893,428 | 64,875,639 |

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M&T BANK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME (Unaudited)

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| *In thousands, except per share* | 2008 | 2007 | 2008 | 2007 |
| Interest income | | | | |
| Loans and leases, including fees | $708,083 | 786,421 | $1,476,474 | 1,554,542 |
| Deposits at banks | 22 | 67 | 66 | 133 |
| Federal funds sold | 52 | 270 | 137 | 530 |
| Agreements to resell securities | 440 | 6,464 | 1,311 | 11,005 |
| Trading account | 143 | 235 | 402 | 346 |
| Investment securities | | | | |
| Fully taxable | 105,809 | 82,129 | 216,854 | 166,803 |
| Exempt from federal taxes | 3,025 | 2,590 | 6,492 | 5,866 |
| Total interest income | 817,574 | 878,176 | 1,701,736 | 1,739,225 |
| Interest expense | | | | |
| NOW accounts | 629 | 1,024 | 1,647 | 2,191 |
| Savings deposits | 60,317 | 60,953 | 126,939 | 121,795 |
| Time deposits | 79,467 | 124,020 | 186,110 | 260,702 |
| Deposits at foreign office | 22,075 | 48,001 | 60,448 | 95,650 |
| Short-term borrowings | 42,612 | 73,500 | 104,233 | 137,064 |
| Long-term borrowings | 125,842 | 108,766 | 256,877 | 209,484 |
| Total interest expense | 330,942 | 416,264 | 736,254 | 826,886 |
| *Net interest income* | 486,632 | 461,912 | 965,482 | 912,339 |
| Provision for credit losses | 100,000 | 30,000 | 160,000 | 57,000 |
| Net interest income after provision for credit losses | 386,632 | 431,912 | 805,482 | 855,339 |
| Other income | | | | |
| Mortgage banking revenues | 38,219 | 35,546 | 78,289 | 49,419 |
| Service charges on deposit accounts | 110,340 | 104,626 | 213,794 | 199,213 |
| Trust income | 40,426 | 37,550 | 80,730 | 74,523 |
| Brokerage services income | 17,211 | 16,654 | 32,684 | 31,866 |
| Trading account and foreign exchange gains | 6,636 | 6,963 | 11,349 | 13,186 |
| Gain (loss) on bank investment securities | (5,421) | 260 | 28,026 | 1,323 |
| Equity in earnings of Bayview Lending Group LLC | (13,026) | 8,128 | (14,286) | 5,700 |
| Other revenues from operations | 76,797 | 73,390 | 153,259 | 144,370 |
| Total other income | 271,182 | 283,117 | 583,845 | 519,600 |
| Other expense | | | | |
| Salaries and employee benefits | 236,127 | 224,700 | 487,998 | 461,454 |

| | | | | |
|---|---|---|---|---|
| Equipment and net occupancy | 47,252 | 41,099 | 94,017 | 83,945 |
| Printing, postage and supplies | 9,120 | 8,984 | 19,016 | 17,890 |
| Amortization of core deposit and other intangible assets | 16,615 | 16,457 | 35,098 | 34,813 |
| Other costs of operations | 110,596 | 101,411 | 209,285 | 193,586 |
| Total other expense | 419,710 | 392,651 | 845,414 | 791,688 |
| Income before taxes | 238,104 | 322,378 | 543,913 | 583,251 |
| Income taxes | 77,839 | 108,209 | 181,452 | 193,109 |
| *Net income* | $160,265 | 214,169 | $ 362,461 | 390,142 |
| Net income per common share | | | | |
| Basic | $ 1.45 | 1.98 | $ 3.29 | 3.59 |
| Diluted | 1.44 | 1.95 | 3.26 | 3.51 |
| Cash dividends per common share | $ .70 | .60 | $ 1.40 | 1.20 |
| Average common shares outstanding | | | | |
| Basic | 110,191 | 107,939 | 110,104 | 108,811 |
| Diluted | 111,227 | 109,919 | 111,097 | 111,046 |

M&T BANK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

| *In thousands* | Six months ended June 30 2008 | 2007 |
|---|---|---|
| Cash flows from operating activities | | |
| Net income | $ 362,461 | 390,142 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Provision for credit losses | 160,000 | 57,000 |
| Depreciation and amortization of premises and equipment | 26,215 | 24,782 |
| Amortization of capitalized servicing rights | 32,723 | 30,994 |
| Amortization of core deposit and other intangible assets | 35,098 | 34,813 |
| Provision for deferred income taxes | (14,312) | (31,717) |
| Asset write-downs | 6,559 | 12,199 |
| Net gain on sales of assets | (29,608) | (6,491) |
| Net change in accrued interest receivable, payable | 7,808 | (1,538) |
| Net change in other accrued income and expense | (46,326) | 7,917 |
| Net change in loans originated for sale | 260,987 | 80,018 |
| Net change in trading account assets and liabilities | 42,718 | (10,158) |
| Net cash provided by operating activities | 844,323 | 587,961 |
| Cash flows from investing activities | | |
| Proceeds from sales of investment securities | | |
| Available for sale | 53,610 | 36,261 |
| Other | 38,689 | 1,625 |
| Proceeds from maturities of investment securities | | |
| Available for sale | 1,251,121 | 988,866 |
| Held to maturity | 29,023 | 21,108 |
| Purchases of investment securities | | |
| Available for sale | (667,060) | (748,010) |
| Held to maturity | (25,668) | (19,383) |
| Other | (137,684) | (36,260) |
| Net increase in agreements to resell securities | (240,000) | (200,000) |
| Net increase in loans and leases | (2,116,001) | (956,527) |
| Other investments, net | (4,925) | (306,823) |
| Additions to capitalized servicing rights | (15,744) | (28,406) |
| Capital expenditures, net | (24,196) | (19,614) |
| Other, net | (43,791) | (18,263) |
| Net cash used by investing activities | (1,902,626) | (1,285,426) |
| Cash flows from financing activities | | |
| Net increase (decrease) in deposits | 663,520 | (491,050) |
| Net decrease in short-term borrowings | (2,060,092) | (161,133) |
| Proceeds from long-term borrowings | 3,650,010 | 1,599,895 |
| Payments on long-term borrowings | (1,175,977) | (27,876) |

| | | |
|---|---|---|
| Purchases of treasury stock | | (424,995) |
| Dividends paid common | (154,121) | (130,191) |
| Other, net | 5,919 | 44,669 |
| Net cash provided by financing activities | 929,259 | 409,319 |
| Net decrease in cash and cash equivalents | (129,044) | (288,146) |
| Cash and cash equivalents at beginning of period | 1,767,547 | 1,624,964 |
| Cash and cash equivalents at end of period | $ 1,638,503 | 1,336,818 |
| Supplemental disclosure of cash flow information | | |
| Interest received during the period | $ 1,763,523 | 1,753,066 |
| Interest paid during the period | 775,474 | 833,608 |
| Income taxes paid during the period | 186,313 | 200,556 |
| Supplemental schedule of noncash investing and financing activities | | |
| Real estate acquired in settlement of loans | $ 40,314 | 15,342 |
| Securitization of residential mortgage loans allocated to | | |
| Available for sale investment securities | 541,196 | |
| Capitalized servicing rights | 4,940 | |
| Loans held for sale transferred to loans held for investment | | 870,759 |

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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 |
|---|---|---|---|---|---|---|---|---|
| **2007** | | | | | | | | |
| Balance January 1, 2007 | $ | 60,198 | 5,060 | 2,889,449 | 4,443,441 | (53,574) | (1,063,479) | 6,281,095 |
| Comprehensive income: | | | | | | | | |
| Net income | | | | | 390,142 | | | 390,142 |
| Other comprehensive income, net of tax and reclassification adjustments: | | | | | | | | |
| Unrealized losses on investment securities | | | | | | (14,358) | | (14,358) |
| Defined benefit plan liablity adjustment | | | | | | (285) | | (285) |
| Unrealized gains on cash flow hedge | | | | | | 1,384 | | 1,384 |
| | | | | | | | | 376,883 |
| Purchases of treasury stock | | | | | | | (424,995) | (424,995) |
| Stock-based compensation plans: | | | | | | | | |
| Stock option and purchase plans: | | | | | | | | |
| Compensation expense | | | | 29,960 | | | | 29,960 |
| Exercises | | | | (23,808) | | | 65,682 | 41,874 |
| Directors stock plan | | | | 76 | | | 626 | 702 |
| Deferred compensation plans, net, including dividend equivalents | | | (254) | (438) | (100) | | 771 | (21) |
| Common stock cash dividends $1.20 per share | | | | | (130,191) | | | (130,191) |
| Balance June 30, 2007 | $ | 60,198 | 4,806 | 2,895,239 | 4,703,292 | (66,833) | (1,421,395) | 6,175,307 |
| **2008** | | | | | | | | |
| Balance January 1, 2008 | $ | 60,198 | 4,776 | 2,848,752 | 4,815,585 | (114,822) | (1,129,233) | 6,485,256 |
| Comprehensive income: | | | | | | | | |
| Net income | | | | | 362,461 | | | 362,461 |
| Other comprehensive income, net of tax and reclassification | | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| adjustments: | | | | | | | |
| Unrealized losses on investment securities | | | | | (212,309) | | (212,309) |
| Defined benefit plans liability adjustment | | | | | (699) | | (699) |
| Unrealized losses on cash flow hedges | | | | | (5,087) | | (5,087) |
| | | | | | | | 144,366 |
| Repayment of management stock ownership program receivable | | | 72 | | | | 72 |
| Stock-based compensation plans: | | | | | | | |
| Stock option and purchase plans: | | | | | | | |
| Compensation expense | | | 24,949 | | | 3,944 | 28,893 |
| Exercises | | | (19,518) | | | 33,346 | 13,828 |
| Directors stock plan | | | (223) | | | 919 | 696 |
| Deferred compensation plans, net, including dividend equivalents | | (182) | (383) | (108) | | 739 | 66 |
| Common stock cash dividends $1.40 per share | | | | (154,121) | | | (154,121) |
| Balance June 30, 2008 | $ 60,198 | 4,594 | 2,853,649 | 5,023,817 | (332,917) | (1,090,285) | 6,519,056 |

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

| | Six months ended June 30 | |
|---|---|---|
| In thousands | 2008 | 2007 |
| Beginning balance | $ 759,439 | 649,948 |
| Provision for credit losses | 160,000 | 57,000 |
| Allowance related to loans sold or securitized | (327) | |
| Net charge-offs | | |
| Charge-offs | (165,404) | (53,067) |
| Recoveries | 20,368 | 14,257 |
| Total net charge-offs | (145,036) | (38,810) |
| Ending balance | $ 774,076 | 668,138 |

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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 the accounting policies set forth in note 1 of Notes to Financial Statements included in the Company s 2007 Annual Report, except as described below. In the opinion of management, all adjustments necessary for a fair presentation have been made and were all of a normal recurring nature.

**2. Earnings per share**

The computations of basic earnings per share follow:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (in thousands, except per share) | | | |
| Income available to common stockholders | | | | |
| Net income | $160,265 | 214,169 | 362,461 | 390,142 |
| Weighted-average shares outstanding (including common stock issuable) | 110,191 | 107,939 | 110,104 | 108,811 |
| Basic earnings per share | $ 1.45 | 1.98 | 3.29 | 3.59 |

The computations of diluted earnings per share follow:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (in thousands, except per share) | | | |
| Income available to common stockholders | $ 160,265 | 214,169 | 362,461 | 390,142 |
| Weighted-average shares outstanding | 110,191 | 107,939 | 110,104 | 108,811 |
| Plus: incremental shares from assumed conversion of stock-based compensation awards | 1,036 | 1,980 | 993 | 2,235 |
| Adjusted weighted average shares outstanding | 111,227 | 109,919 | 111,097 | 111,046 |
| Diluted earnings per share | $ 1.44 | 1.95 | 3.26 | 3.51 |

Options to purchase approximately 9.1 million and 3.4 million common shares during the three-month periods ended June 30, 2008 and 2007, respectively, and 8.9 million and 3.2 million common shares during the six-month periods ended June 30, 2008 and 2007, respectively, were not included in the computations of diluted earnings per share because the effect on those periods would have been antidilutive.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**3. Comprehensive income**

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

| | Six months ended June 30, 2008 | | |
|---|---|---|---|
| | Before-tax amount | Income taxes | Net |
| | | (in thousands) | |
| Unrealized losses on investment securities: | | | |
| Unrealized holding losses during period | $ (302,903) | 107,664 | (195,239) |
| Less: reclassification adjustment for gains realized in net income | 28,026 | (10,956) | 17,070 |
| | (330,929) | 118,620 | (212,309) |
| Cash flow hedges: | | | |
| Unrealized losses on cash flow hedges | (20,225) | 7,887 | (12,338) |
| Reclassification of losses on terminated cash flow hedges to income | 11,892 | (4,641) | 7,251 |
| | (8,333) | 3,246 | (5,087) |
| Defined benefit plans liability adjustment | (1,149) | 450 | (699) |
| | $ (340,411) | 122,316 | (218,095) |

| | Six months ended June 30, 2007 | | |
|---|---|---|---|
| | Before-tax amount | Income taxes | Net |
| | | (in thousands) | |
| Unrealized losses on investment securities: | | | |
| Unrealized holding losses during period | $ (24,587) | 11,046 | (13,541) |
| Less: reclassification adjustment for gains realized in net income | 1,323 | (506) | 817 |
| | (25,910) | 11,552 | (14,358) |
| Gain on cash flow hedge | 2,197 | (813) | 1,384 |
| Defined benefit plans liability adjustment | (467) | 182 | (285) |
| | $ (24,180) | 10,921 | (13,259) |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**3. Comprehensive income, continued**

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

| | Investment securities | Cash flow hedges | Defined benefit plans | Total |
|---|---|---|---|---|
| | | (in thousands) | | |
| Balance January 1, 2008 | $ (59,406) | (8,931) | (46,485) | (114,822) |
| Net gain (loss) during period | (212,309) | (5,087) | (699) | (218,095) |
| Balance June 30, 2008 | $ (271,715) | (14,018) | (47,184) | (332,917) |
| Balance January 1, 2007 | $ (25,311) | | (28,263) | (53,574) |
| Net gain (loss) during period | (14,358) | 1,384 | (285) | (13,259) |
| Balance June 30, 2007 | $ (39,669) | 1,384 | (28,548) | (66,833) |

**4. Borrowings**

M&T Capital Trust I ( Trust I ), M&T Capital Trust II ( Trust II ), and M&T Capital Trust III ( Trust III ) have issued fixed rate preferred capital securities aggregating $310 million. On January 31, 2008 M&T Capital Trust IV ( Trust IV ), a Delaware business trust, issued $350 million of 8.50% fixed rate Enhanced Trust Preferred Securities ( 8.50% Enhanced Trust Preferred Securities ). First Maryland Capital I ( Trust V ) and First Maryland Capital II ( Trust VI ) have issued floating rate preferred capital securities aggregating $300 million. The distribution rates on the preferred capital securities of Trust V and Trust VI adjust quarterly based on changes in the three-month London Interbank Offered Rate ( LIBOR ) and were 3.71% and 3.72%, respectively, at June 30, 2008 and 6.24% and 5.76%, respectively, at December 31, 2007. As a result of an acquisition in the fourth quarter of 2007, M&T assumed responsibility for $31.5 million of similar preferred capital securities previously issued by special-purpose entities consisting of $16.5 million of fixed rate preferred capital securities issued by BSB Capital Trust I ( Trust VII ) and $15 million of floating rate preferred capital securities issued by BSB Capital Trust III ( Trust VIII ). The distribution rate on the preferred capital securities of Trust VIII adjusts quarterly based on changes in the three-month LIBOR and was 6.06% at June 30, 2008 and 8.59% at December 31, 2007. Trust I, Trust II, Trust III, Trust IV, Trust V, Trust VI, Trust VII and Trust VIII are referred to herein collectively as the Trusts.

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

| Trust | Distribution rate | Distribution dates |
|---|---|---|
| Trust I | 8.234% | February 1 and August 1 |
| Trust II | 8.277% | June 1 and December 1 |
| Trust III | 9.25% | February 1 and August 1 |

| Trust IV | 8.50% | March 15, June 15, September 15 and December 15 |
| --- | --- | --- |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**4. Borrowings, continued**

| Trust | Distribution rate | Distribution dates |
|---|---|---|
| Trust V | LIBOR plus 1.00% | January 15, April 15, July 15 and October 15 |
| Trust VI | LIBOR plus .85% | February 1, May 1, August 1 and November 1 |
| Trust VII | 8.125% | January 31 and July 31 |
| Trust VIII | LIBOR plus 3.35% | January 7, April 7, July 7 and October 7 |

The common securities of each Trust ( Common Securities ) are wholly owned by M&T and are the only class of each Trust s securities possessing general voting powers. The Capital Securities represent preferred undivided interests in the assets of the corresponding Trust. Under the Federal Reserve Board s current risk-based capital guidelines, the Capital Securities are includable in M&T s Tier 1 (core) capital.

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

| Trust | Capital Securities | Common Securities | Junior Subordinated Debentures |
|---|---|---|---|
| Trust I | $150 million | $4.64 million | $154.64 million aggregate liquidation amount of 8.234% Junior Subordinated Debentures due February 1, 2027. |
| Trust II | $100 million | $3.09 million | $103.09 million aggregate liquidation amount of 8.277% Junior Subordinated Debentures due June 1, 2027. |
| Trust III | $60 million | $1.856 million | $61.856 million aggregate liquidation amount of 9.25% Junior Subordinated Debentures due February 1, 2027. |
| Trust IV | $350 million | $.01 million | $350.01 million aggregate liquidation amount of 8.50% Junior Subordinated Debentures due January 31, 2068. |
| Trust V | $150 million | $4.64 million | $154.64 million aggregate liquidation amount of floating rate Junior Subordinated Debentures due January 15, 2027. |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**4. Borrowings, continued**

| Trust | Capital Securities | Common Securities | Junior Subordinated Debentures |
|---|---|---|---|
| Trust VI | $150 million | $4.64 million | $154.64 million aggregate liquidation amount of floating rate Junior Subordinated Debentures due February 1, 2027. |
| Trust VII | $16.5 million | $.928 million | $17.428 million aggregate liquidation amount of 8.125% Junior Subordinated Debentures due July 31, 2028. |
| Trust VIII | $15 million | $.464 million | $15.464 million aggregate liquidation amount of floating rate Junior Subordinated Debentures due January 7, 2033. |

The Junior Subordinated Debentures represent the sole assets of each Trust and payments under the Junior Subordinated Debentures are the sole source of cash flow for each Trust. The financial statement carrying values of junior subordinated debentures associated with preferred capital securities at June 30, 2008 and December 31, 2007 of Trust III, Trust V, Trust VI and Trust VII include the unamortized portions of purchase accounting adjustments to reflect estimated fair value as of the date of M&T s acquisition of the common securities of each respective trust. The interest rates payable on the Junior Subordinated Debentures of Trust V, Trust VI and Trust VIII were 3.71%, 3.72% and 6.06%, respectively, at June 30, 2008 and were 6.24%, 5.76% and 8.59%, respectively, at December 31, 2007.

Holders of the Capital Securities receive preferential cumulative cash distributions on each distribution date at the stated distribution rate unless M&T exercises its right to extend the payment of interest on the Junior Subordinated Debentures for up to ten semi-annual periods (in the case of Trust I, Trust II, Trust III and Trust VII), twenty quarterly periods (in the case of Trust V, Trust VI and Trust VIII) or, with respect to Trust IV, for up to twenty quarterly periods without being subject to the alternative payment mechanism (as described below), and for up to forty quarterly periods, without giving rise to an event of default, 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 the Junior Subordinated Debentures due January 31, 2068 held by Trust IV, M&T must fund the payment of accrued and unpaid interest through the 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 held by Trust IV. 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.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**4. Borrowings, continued**

The Capital Securities will remain outstanding until the Junior Subordinated Debentures are repaid at maturity, are redeemed prior to maturity or are distributed in liquidation to the Trusts. The Capital Securities are mandatorily redeemable in whole, but not in part, upon repayment at the stated maturity dates of the Junior Subordinated Debentures or the earlier redemption of the Junior Subordinated Debentures in whole upon the occurrence of one or more events set forth in the indentures relating to the Capital Securities, and in whole or in part at any time after an optional redemption 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 the 8.50% Enhanced Trust Preferred Securities by Trust IV, 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.

Allfirst Preferred Capital Trust ( Allfirst Capital Trust ) has issued $100 million of Floating Rate Non-Cumulative Subordinated Trust Enhanced Securities ( SKATES ). Allfirst Capital Trust is a Delaware business trust that was formed for the exclusive purposes of (i) issuing the SKATES and common securities, (ii) purchasing Asset Preferred Securities issued by Allfirst Preferred Asset Trust ( Allfirst Asset Trust ) and (iii) engaging in only those other activities necessary or incidental thereto. M&T holds 100% of the common securities of Allfirst Capital Trust. Allfirst Asset Trust is a Delaware business trust that was formed for the exclusive purposes of (i) issuing Asset Preferred Securities and common securities, (ii) investing the gross proceeds of the Asset Preferred Securities in junior subordinated debentures of M&T and other permitted investments and (iii) engaging in only those other activities necessary or incidental thereto. M&T holds 100% of the common securities of Allfirst Asset Trust and Allfirst Capital Trust holds 100% of the Asset Preferred Securities of Allfirst Asset Trust. M&T currently has outstanding $105.3 million aggregate liquidation amount Floating Rate Junior Subordinated Debentures due July 15, 2029 that are payable to Allfirst Asset Trust. The interest rates payable on such debentures were 4.14% and 6.67% at June 30, 2008 and December 31, 2007, respectively.

Distributions on the SKATES are non-cumulative. The distribution rate on the SKATES and on the Floating Rate Junior Subordinated Debentures is a rate per annum of three-month LIBOR plus 1.50% and three-month LIBOR plus 1.43%, respectively, reset quarterly two business days prior to the distribution dates of January 15, April 15, July 15, and October 15 in each year. Distributions on the SKATES will be paid if, as and when Allfirst Capital Trust has funds available for payment. The SKATES are subject to mandatory redemption if the Asset Preferred Securities of Allfirst Asset Trust are redeemed. Allfirst Asset Trust will redeem the Asset Preferred Securities if the junior subordinated debentures of M&T held by Allfirst Asset Trust are redeemed. M&T may redeem such junior subordinated debentures, in whole or in part, at any time on or after July 15, 2009, subject to regulatory approval. Allfirst Asset Trust will redeem the Asset Preferred Securities at par plus accrued and unpaid distributions from the last distribution payment date. M&T has guaranteed, on a subordinated basis, the payment in full of all distributions and other payments on the SKATES and on the Asset Preferred Securities to the extent that Allfirst Capital Trust and Allfirst

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**4. Borrowings, continued**

Asset Trust, respectively, have funds legally available. Under the Federal Reserve Board s current risk-based capital guidelines, the SKATES are includable in M&T s Tier 1 Capital.

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

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| | (in thousands) | |
| Trust I | $ 154,640 | 154,640 |
| Trust II | 103,093 | 103,093 |
| Trust III | 67,897 | 68,059 |
| Trust IV | 350,010 | |
| Trust V | 144,476 | 144,201 |
| Trust VI | 142,317 | 141,986 |
| Trust VII | 16,914 | 16,902 |
| Trust VIII | 15,464 | 15,464 |
| Allfirst Asset Trust | 102,030 | 101,952 |
| | $ 1,096,841 | 746,297 |

**5. 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 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 21 to the Company s consolidated financial statements as of and for the year ended December 31, 2007. The management accounting policies and processes utilized in compiling segment financial information are highly subjective and, unlike financial accounting, are not based on authoritative guidance similar to generally accepted accounting principles (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 21 to the Company s 2007 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 has, however,

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**5. Segment information, continued**

assigned such intangible assets to business units for purposes of testing for impairment.

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

| | Three months ended June 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | 2007 | | |
| | Total revenues (a) | Inter-segment revenues | Net income (loss) | Total revenues (a)(b) | Inter-segment revenues | Net income (loss) (b) |
| | (in thousands) | | | | | |
| Business Banking | $ 91,995 | 3 | 29,547 | 92,030 | | 34,674 |
| Commercial Banking | 153,566 | 165 | 53,516 | 139,843 | 95 | 54,074 |
| Commercial Real Estate | 88,273 | 203 | 42,646 | 77,812 | 224 | 39,016 |
| Discretionary Portfolio | 28,792 | (4,170) | 5,324 | 33,505 | (3,196) | 20,724 |
| Residential Mortgage Banking | 64,021 | 12,953 | (10,420) | 65,176 | 12,556 | 10,409 |
| Retail Banking | 292,175 | 3,355 | 62,927 | 304,312 | 3,429 | 85,081 |
| All Other | 38,992 | (12,509) | (23,275) | 32,351 | (13,108) | (29,809) |
| Total | $ 757,814 | | 160,265 | 745,029 | | 214,169 |

| | Six months ended June 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | 2007 | | |
| | Total revenues (a) | Inter-segment revenues | Net income (loss) | Total revenues (a)(b) | Inter-segment revenues | Net income (loss) (b) |
| | (in thousands) | | | | | |
| Business Banking | $ 187,244 | 3 | 62,330 | 181,109 | | 66,252 |
| Commercial Banking | 316,150 | 250 | 120,325 | 275,548 | 220 | 108,552 |
| Commercial Real Estate | 174,551 | 411 | 85,455 | 149,131 | 375 | 73,304 |
| Discretionary Portfolio | 72,267 | (8,499) | 21,301 | 62,781 | (5,542) | 39,662 |
| Residential Mortgage Banking | 131,439 | 26,284 | (5,361) | 110,844 | 23,447 | 7,886 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Retail Banking | 595,043 | 6,322 | 138,397 | 589,062 | 6,457 | 160,885 |
| All Other | 72,633 | (24,771) | (59,986) | 63,464 | (24,957) | (66,399) |
| Total | $ 1,549,327 | | 362,461 | 1,431,939 | | 390,142 |

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**5. Segment information, continued**

| | Average total assets | | |
|---|---|---|---|
| | Six months ended June 30 | | Year ended December 31 |
| | 2008 | 2007 (b) | 2007 (b) |
| | (in millions) | | |
| Business Banking | $ 4,415 | 4,144 | 4,179 |
| Commercial Banking | 14,692 | 12,762 | 12,989 |
| Commercial Real Estate | 11,230 | 9,337 | 9,550 |
| Discretionary Portfolio | 14,725 | 12,316 | 12,953 |
| Residential Mortgage Banking | 2,743 | 3,128 | 2,874 |
| Retail Banking | 11,459 | 10,119 | 10,360 |
| All Other | 6,035 | 5,560 | 5,640 |
| Total | $ 65,299 | 57,366 | 58,545 |

(a) Total revenues are comprised of net interest income and other income. Net interest income is the difference between taxable-equivalent interest earned on assets and interest paid on liabilities owed by a segment and a funding charge (credit) based on the Company s internal funds transfer methodology. Segments are charged a cost to fund any assets

(e.g. loans) and are paid a funding credit for any funds provided (e.g. deposits). The taxable-equivalent adjustment aggregated $5,851,000 and $4,972,000 for the three-month periods ended June 30, 2008 and 2007, respectively, and $11,634,000 and $10,095,000 for the six-month periods ended June 30, 2008 and 2007, respectively, and is eliminated in All Other total revenues. Intersegment revenues are included in total revenues of the reportable segments. The elimination of intersegment revenues is included in the determination of All Other total revenues.

(b) Effective January 1, 2008, the Company changed its internal profitability reporting to move a New York City-based lending unit from the Commercial Banking segment to the Commercial Real Estate

segment. Accordingly, financial information presented herein for periods prior to January 1, 2008 has been reclassified to conform to current year presentation. As a result, total revenues and net income decreased in the Commercial Banking segment and increased in the Commercial Real Estate segment for the three-month period ended June 30, 2007 by $6 million and $4 million, respectively, and for the six-month period ended June 30, 2007 by $13 million and $6 million, respectively, as compared with amounts previously reported. The lending unit had average total assets of $621 million during the six-months ended June 30, 2007 and $667 million during the year ended December 31, 2007. Accordingly, average total assets presented for those periods differ from amounts

previously
reported.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**6. Commitments and contingencies**

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

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| | (in thousands) | |
| Commitments to extend credit | | |
| Home equity lines of credit | $6,098,767 | 5,937,903 |
| Commercial real estate loans to be sold | 67,723 | 96,995 |
| Other commercial real estate and construction | 2,531,003 | 2,869,961 |
| Residential real estate loans to be sold | 477,259 | 492,375 |
| Other residential real estate | 315,092 | 425,579 |
| Commercial and other | 6,991,615 | 7,346,790 |
| Standby letters of credit | 3,788,172 | 3,691,971 |
| Commercial letters of credit | 60,552 | 34,105 |
| Financial guarantees and indemnification contracts | 1,435,350 | 1,318,733 |
| Commitments to sell real estate loans | 780,343 | 946,457 |

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 $1.1 billion and $1.0 billion as of June 30, 2008 and December 31, 2007, 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.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**6. Commitments and contingencies, continued**

The Company utilizes commitments to sell real estate loans to hedge exposure to changes in the fair value of real estate loans held for sale. Such commitments are considered derivatives in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, and along with commitments to originate real estate loans to be held for sale are generally recorded in the consolidated balance sheet at estimated fair market value. Until January 1, 2008, in estimating that fair value for commitments to originate loans for sale, value ascribable to cash flows to be realized in connection with loan servicing activities was not included. Value ascribable to that portion of cash flows was recognized at the time the underlying mortgage loans were sold. Effective January 1, 2008, the Company adopted the provisions of Staff Accounting Bulletin ( SAB ) No. 109 issued by the Securities and Exchange Commission ( SEC ), which reversed previous conclusions expressed by the SEC staff regarding written loan commitments that are accounted for at fair value through earnings. Specifically, the SEC staff now believes that the expected net future cash flows related to the associated servicing of the loan should be included in the fair value measurement of the derivative loan commitment. In accordance with SAB No. 105, Application of Accounting Principles to Loan Commitments, the Company had not included such amount in the value of loan commitments accounted for as derivatives at December 31, 2007. As a result of the Company s adoption of required changes in accounting pronouncements on January 1, 2008, there was an acceleration of the recognition of mortgage banking revenues of approximately $7 million during the first quarter of 2008. If not for the changes in accounting pronouncements, those revenues would have been recognized later in 2008 when the underlying loans were sold.

The Company has an agreement with the Baltimore Ravens of the National Football League whereby the Company obtained the naming rights to a football stadium in Baltimore, Maryland. 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 $108 million at June 30, 2008. Assets of subsidiaries providing reinsurance that are available to satisfy claims totaled approximately $59 million at June 30, 2008. 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. The amount of the Company s recorded liability for reported reinsurance losses as well as estimated losses incurred but not yet reported was not significant at either June 30, 2008 or December 31, 2007.

In October 2007, Visa completed a reorganization in contemplation of its initial public offering ( IPO ) expected to occur in 2008. As part of that reorganization, M&T Bank, M&T s principal banking subsidiary, and other member banks of Visa received shares of Class B common stock of Visa. Those banks are also obligated under various agreements with Visa to share in losses stemming from certain litigation involving Visa ( Covered Litigation ). As of December 31, 2007, although Visa was expected to set aside a portion of the proceeds from

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**6. Commitments and contingencies, continued**

its IPO in an escrow account to fund any judgments or settlements that may arise out of the Covered Litigation, guidance from the SEC indicated that Visa member banks should record a liability for the fair value of the contingent obligation to Visa. The estimation of the Company s proportionate share of any potential losses related to the Covered Litigation was extremely difficult and involved a great deal of judgment. Nevertheless, in the fourth quarter of 2007 the Company recorded a pre-tax charge of $23 million ($14 million after tax effect) related to the Covered Litigation. In accordance with GAAP and consistent with the SEC guidance, the Company did not recognize any value for its common stock ownership interest in Visa as of December 31, 2007. During the first quarter of 2008, Visa completed its IPO and, as part of the transaction, funded an escrow account for $3 billion from the proceeds of the IPO to cover potential settlements arising out of the Covered Litigation. As a result, during the first three months of 2008, the Company reversed approximately $15 million of the $23 million accrued during the fourth quarter of 2007 for the Covered Litigation. The initial accrual in 2007 and the partial reversal in 2008 were included in other costs of operations in the consolidated statement of income. In addition, M&T Bank was allocated 1,967,028 Class B common shares of Visa. Of those shares, 760,455 were mandatorily redeemed in March 2008 resulting in a pre-tax gain of $33 million ($20 million after tax) which has been included in gain on bank investment securities in the consolidated statement of income.

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.

**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 | | | |
| | 2008 | 2007 | 2008 | 2007 |
| | (in thousands) | | | |
| Service cost | $ 4,362 | 5,542 | 115 | 150 |
| Interest cost on projected benefit obligation | 10,508 | 9,375 | 941 | 925 |
| Expected return on plan assets | (11,933) | (10,025) | | |
| Amortization of prior service cost | (1,639) | (1,650) | 96 | 50 |
| Amortization of net actuarial loss | 751 | 1,742 | (21) | 168 |
| Net periodic benefit cost | $ 2,049 | 4,984 | 1,131 | 1,293 |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**7. Pension plans and other postretirement benefits, continued**

| | Pension benefits | | Other postretirement benefits | |
|---|---|---|---|---|
| | Six months ended June 30 | | | |
| | 2008 | 2007 | 2008 | 2007 |
| | (in thousands) | | | |
| Service cost | $ 9,705 | 11,017 | 279 | 300 |
| Interest cost on projected benefit obligation | 21,272 | 18,750 | 2,017 | 1,850 |
| Expected return on plan assets | (23,047) | (20,050) | | |
| Amortization of prior service cost | (3,279) | (3,300) | 138 | 100 |
| Amortization of net actuarial loss | 1,971 | 2,942 | 21 | 218 |
| Net periodic benefit cost | $ 6,622 | 9,359 | 2,455 | 2,468 |

Expense incurred in connection with the Company s defined contribution pension and retirement savings plans totaled $7,990,000 and $7,248,000 for the three months ended June 30, 2008 and 2007, respectively, and $18,317,000 and $16,417,000 for the six months ended June 30, 2008 and 2007, respectively.

**8. Acquisitions**

On November 30, 2007, M&T completed the acquisition of Partners Trust Financial Group, Inc. ( Partners Trust ), a bank holding company headquartered in Utica, New York. Partners Trust was merged with and into M&T on that date. Partners Trust Bank, the primary banking subsidiary of Partners Trust, was merged into M&T Bank on that date. Partners Trust Bank operated 33 branch offices in upstate New York at the date of acquisition. The results of operations acquired in the Partners Trust transaction have been included in the Company s financial results since November 30, 2007, but did not have a material effect on the Company s results of operations in 2007 or in the first six months of 2008. After application of the election, allocation and proration procedures contained in the merger agreement with Partners Trust, M&T paid $282 million in cash and issued 3,096,861 shares of M&T common stock in exchange for Partners Trust shares and stock options outstanding at the time of acquisition. The purchase price was approximately $559 million based on the cash paid to Partners Trust shareholders, the fair value of M&T common stock exchanged, and the cash paid to holders of Partners Trust stock options. The acquisition of Partners Trust expands M&T s presence in upstate New York, making M&T Bank the deposit market share leader in the Utica-Rome and Binghamton markets, while strengthening its lead position in Syracuse.

Assets acquired from Partners Trust on November 30, 2007 totaled $3.5 billion, including $2.2 billion of loans and leases (largely residential real estate and consumer loans), liabilities assumed aggregated $3.0 billion, including $2.2 billion of deposits (largely savings, money-market and time deposits), and $277 million was added to stockholders equity. In connection with the acquisition, the Company recorded approximately $283 million of goodwill and $50 million of core deposit intangible. The core deposit intangible is being amortized over 7 years using an accelerated method.

As a condition of the approval of the Partners Trust acquisition by regulators, M&T Bank was required to divest three branch offices in Binghamton, New York. The three branches were sold on March 15, 2008, including loans of $13 million and deposits of $65 million. No gain or loss was recognized on that transaction.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**8. Acquisitions, continued**

On December 7, 2007, M&T Bank acquired 13 branch offices in the Mid-Atlantic region from First Horizon Bank in a cash transaction. The offices had approximately $214 million of loans, $216 million of deposits and $80 million of trust and investment assets under management on the transaction date.

The Company incurred merger-related expenses related to systems conversions and other costs of integrating and conforming acquired operations with and into the Company of $4 million ($2 million net of applicable income taxes) during the first quarter of 2008. There were no similar expenses in the second quarter of 2008, nor in the first six months of 2007.

**9. Relationship with Bayview Lending Group LLC and Bayview Financial Holdings, L.P.**

On February 5, 2007 M&T invested $300 million to acquire a minority interest in Bayview Lending Group LLC ( BLG ), a privately-held commercial mortgage lender that specializes in originating, securitizing and servicing small balance commercial real estate loans. M&T recognizes income from BLG using the equity method of accounting.

Bayview Financial Holdings, L.P. (together with its affiliates, Bayview Financial ), a privately-held specialty mortgage finance company, is BLG s majority investor. In addition to their common investment in BLG, the Company and Bayview Financial conduct other business activities with each other. The Company has purchased loan servicing rights for small balance commercial mortgage loans from BLG and Bayview Financial having outstanding principal balances of $5.8 billion and $4.9 billion at June 30, 2008 and December 31, 2007, respectively. Amounts recorded as capitalized servicing assets for such loans totaled $64 million at June 30, 2008 and $57 million at December 31, 2007. In addition, capitalized servicing rights at June 30, 2008 and December 31, 2007 also included $32 million and $40 million, respectively, for servicing rights that were purchased from Bayview Financial related to residential mortgage loans with outstanding principal balances of $4.3 billion at June 30, 2008 and $4.6 billion at December 31, 2007. Revenues from servicing residential and small balance commercial mortgage loans purchased from BLG and Bayview Financial were $13 million and $12 million for the three months ended June 30, 2008 and 2007, respectively, and $27 million and $23 million for the six months ended June 30, 2008 and 2007, respectively. M&T Bank provides $107 million of credit facilities to Bayview Financial of which $87 million was outstanding at June 30, 2008. There was no outstanding balance at December 31, 2007. Finally, at June 30, 2008 and December 31, 2007, the Company held $347 million and $450 million, respectively, of private collateralized mortgage obligations in its available for sale investment securities portfolio that were securitized by Bayview Financial.

**10. Fair value measurements**

Effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements, for fair value measurements of certain of its financial instruments. The provisions of SFAS No. 157 that pertain to measurement of non-financial assets and liabilities have been deferred by the Financial Accounting Standards Board ( FASB ) until 2009. The adoption of SFAS No. 157 did not have a material effect on the Company s financial position or results of operations.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**10. Fair value measurements, continued**

The provisions of SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which permit an entity to choose to measure eligible financial instruments and other items at fair value, also became effective January 1, 2008. The Company has not made any fair value elections under SFAS No.159 as of June 30, 2008.

The definition of fair value is clarified by SFAS No. 157 to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a three-level hierarchy for fair value measurements based upon the inputs to the valuation of an asset or liability.

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 techniques in which at least one significant input is unobservable and 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 to determine fair value and classifies such items as Level 1 or Level 2. If quoted market prices 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 trading 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. Prices for certain foreign exchange contracts are more observable and therefore have been classified as Level 1. Mutual funds held in connection with deferred compensation arrangements have also 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. For many privately issued mortgage-backed securities and other securities where there is limited trading activity or less observable valuation inputs, the Company has classified such valuations as Level 3.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**10. Fair value measurements, continued**

***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 from the date of close through the sale date. Most of the Company s real estate loans held for sale have generally been hedged since the origination 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, as such, 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 oftentimes 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. Additionally, during the first quarter of 2008 the Company adopted the provisions of SAB No. 109 for written loan commitments issued or modified after January 1, 2008. SAB No. 109 reversed previous conclusions expressed by the SEC staff regarding written loan commitments that are accounted for at fair value through earnings. Specifically, the SEC staff now believes that the expected net future cash flows related to the associated servicing of the loan should be included in the fair value measurement of the derivative loan commitment. In accordance with SAB No. 105, the Company had not included such amount in the value of commitments to originate real estate loans for sale at December 31, 2007. 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.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**10. Fair value measurements, continued**

A summary of assets and liabilities at June 30, 2008 measured at estimated fair value on a recurring basis were as follows:

| | Fair value measurements at June 30, 2008 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| | | (in thousands) | | |
| Trading account assets | $ 243,050 | 47,687 | 195,363 | |
| Investment securities available for sale | 7,980,333 | 199,104 | 6,773,915 | 1,007,314 |
| Real estate loans held for sale | 652,360 | | 652,360 | |
| Other assets (a) | 25,080 | | 20,259 | 4,821 |
| Total assets | $ 8,900,823 | 246,791 | 7,641,897 | 1,012,135 |
| Trading account liabilities | $ 147,549 | 4,823 | 142,726 | |
| Other liabilities (a) | 32,572 | | 31,870 | 702 |
| Total liabilities | $ 180,121 | 4,823 | 174,596 | 702 |

(a) 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).

The changes in Level 3 assets and liabilities measured at estimated fair value on a recurring basis during the three-month and six-month periods ended June 30, 2008 were as follows:

| | Investment securities available | Other assets and other |
|---|---|---|

| | for sale | liabilities |
|---|---|---|
| | (in thousands) | |
| Balance April 1, 2008 | $ 1,172,801 | 8,128 |
| Total realized/unrealized gains (losses): | | |
| Included in earnings | | 2,242(a) |
| Included in other comprehensive income | (27,981) | |
| Purchases, sales, issuances and settlements, net | (52,287) | |
| Transfers in and/or out of Level 3 | (85,219) | (6,251) |
| Balance June 30, 2008 | $ 1,007,314 | 4,119 |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED
**10. Fair value measurements, continued**

| | Investment securities available for sale | Other assets and other liabilities |
|---|---|---|
| | (in thousands) | |
| Balance January 1, 2008 | $ 1,313,821 | 2,654 |
| Total realized/unrealized gains (losses): | | |
| Included in earnings | | 14,962(a) |
| Included in other comprehensive income | (89,492) | |
| Purchases, sales, issuances and settlements, net | (102,860) | |
| Transfers in and/or out of Level 3 | (114,155) | (13,497) |
| Balance June 30, 2008 | $ 1,007,314 | 4,119 |
| Changes in unrealized gains (losses) included in earnings for the three months ended June 30, 2008 related to assets and liabilities still recorded on the balance sheet at June 30, 2008 | $ | 3,596(a) |
| Changes in unrealized gains (losses) included in earnings for the six months ended June 30, 2008 related to assets and liabilities still recorded on the balance sheet at June 30, 2008 | $ | 4,119(a) |

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

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 in accordance with GAAP.

***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 calculated in accordance with SFAS No. 114, Accounting by Creditors for Impairment of a Loan, 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 independent

appraisals or other indications of value based on recent comparable sales of similar properties or

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

**10. Fair value measurements, continued**

assumptions generally observable in the marketplace and the related nonrecurring fair value measurement adjustments have generally been classified as Level 2. 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 $288 million at June 30, 2008, $214 million and $74 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 June 30, 2008 were decreases of $71 million and $88 million for the three months and six months ended June 30, 2008, 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 SFAS No. 156, Accounting for Servicing of Financial Assets an amendment to FASB Statement No. 140, 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 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 June 30, 2008, $20 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 months and six months ended June 30, 2008 were increases of $9 million and $5 million, respectively.

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

**Overview**

Net income for M&T Bank Corporation ( M&T ) in the second quarter of 2008 was $160 million or $1.44 of diluted earnings per common share, down 25% and 26%, respectively, from $214 million or $1.95 of diluted earnings per common share in the second quarter of 2007. During the first quarter of 2008, net income totaled $202 million or $1.82 of diluted earnings per common share. Basic earnings per common share were $1.45 in the recent quarter, compared with $1.98 in the year-earlier quarter and $1.84 in the initial quarter of 2008. The after-tax impact of acquisition and integration-related expenses (included herein as merger-related expenses) associated with the November 30, 2007 acquisition of Partners Trust Financial Group, Inc. ( Partners Trust ) and the December 7, 2007 acquisition by M&T Bank, the principal bank subsidiary of M&T, of the Mid-Atlantic retail banking franchise of First Horizon Bank ( First Horizon ) was $2 million ($4 million pre-tax) or $.02 of basic and diluted earnings per share in the first quarter of 2008. There were no similar expenses in the second quarter of 2008 or during 2007. For the first six months of 2008, net income totaled $362 million or $3.26 per diluted share, compared with $390 million or $3.51 per diluted share in the similar 2007 period. Basic earnings per share for the six-month periods ended June 30, 2008 and 2007 were $3.29 and $3.59, respectively.

The annualized rate of return on average total assets for M&T and its consolidated subsidiaries ( the Company ) in the second quarter of 2008 was .98%, compared with 1.49% in the year-earlier quarter and 1.25% in the first quarter of 2008. The annualized rate of return on average common stockholders equity was 9.96% in the recently completed quarter, compared with 13.92% in the second quarter of 2007 and 12.49% in the initial 2008 quarter. During the first six months of 2008, the annualized rates of return on average assets and average common stockholders equity were 1.12% and 11.23%, respectively, compared with 1.37% and 12.65%, respectively, in the first half of 2007.

Second quarter 2008 results recorded by the Company were damped by higher credit costs and a decline in the contribution of M&T s pro-rata portion of the operating results of Bayview Lending Group LLC ( BLG ), a privately-held commercial mortgage lender in which M&T invested $300 million in February 2007. BLG specializes in originating, securitizing and servicing small balance commercial real estate loans. The provision for credit losses in the recent quarter was $100 million, up from $30 million in the second quarter of 2007 and $60 million in 2008 s initial quarter. That higher level of the provision reflects increased charge-offs and delinquencies, particularly in the Company s portfolios of loans backed by residential real estate, including loans to builders and developers of residential real estate. M&T s pro-rata share of the operating results of BLG was a loss of $13 million (pre-tax) in the second quarter of 2008, compared with income of $8 million in the year-earlier quarter and a loss of $1 million in the first quarter of 2008. Disruptions in the commercial mortgage-backed securities marketplace have limited BLG s ability to sell securities backed by small balance commercial mortgage loans and have, therefore, reduced the amount of income recognized by BLG as a result of such activities. As a result, BLG has begun utilizing its contingent liquidity sources and has reduced it origination activities and staffing levels.

The Company s financial results in the first quarter of 2008 reflected $29 million, or $.26 of diluted earnings per share, resulting from M&T Bank s status as a member bank of Visa. During the last quarter of 2007, Visa completed a reorganization in contemplation of its initial public offering ( IPO ) in 2008. As part of that reorganization M&T Bank and other member banks of Visa received shares of Class B common stock of Visa. Those banks are also obligated under various agreements with Visa to share in losses stemming from certain litigation involving Visa ( Covered Litigation ). As of December 31, 2007, although Visa

was expected to set aside a portion of the proceeds from its IPO in an escrow account to fund any judgments or settlements that may arise out of the Covered Litigation, guidance from the Securities and Exchange Commission ( SEC ) indicated that Visa member banks should record a liability for the fair value of the contingent obligation to Visa. The estimation of the Company s proportionate share of any potential losses related to the Covered Litigation was extremely difficult and involved a great deal of judgment. Nevertheless, in the fourth quarter of 2007 the Company recorded a pre-tax charge of $23 million ($14 million after tax effect, or $.13 per diluted share) related to the Covered Litigation. In accordance with generally accepted accounting principles ( GAAP ) and consistent with the SEC guidance, the Company did not recognize any value for its common stock ownership interest in Visa as of the 2007 year-end. During the first quarter of 2008, Visa completed its IPO and, as part of the transaction, funded an escrow account with $3 billion from the proceeds of the IPO to cover potential settlements arising out of the Covered Litigation. As a result, during the first three months of 2008, the Company reversed approximately $15 million of the $23 million accrued during the fourth quarter of 2007 for the Covered Litigation. In addition, M&T Bank was allocated 1,967,028 Class B common shares of Visa based on its proportionate ownership of Visa. Of those shares, 760,455 were mandatorily redeemed in March 2008 for a pre-tax gain of $33 million ($20 million after-tax), which was recorded as gain on bank investment securities in the consolidated statement of income for 2008 s initial quarter.

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

As a result of business combinations and other acquisitions, the Company had intangible assets consisting of goodwill and core deposit and other intangible assets totaling $3.4 billion at each of June 30, 2008 and December 31, 2007, and $3.1 billion at June 30, 2007. Included in such intangible assets was goodwill of $3.2 billion at each of June 30, 2008 and December 31, 2007, and $2.9 billion at June 30, 2007. Amortization of core deposit and other intangible assets, after tax effect, was $10 million ($.09 per diluted share) during each of the second quarters of 2008 and 2007, and $11 million ($.10 per diluted share) in the first quarter of 2008. For each of the six-month periods ended June 30, 2008 and 2007, amortization of core deposit and other intangible assets, after tax effect, totaled $21 million ($.19 per diluted share).

M&T consistently provides supplemental reporting of its results on a net operating or tangible basis, from which M&T excludes the after-tax effect of amortization of core deposit and other intangible assets (and the related goodwill, core deposit intangible and other intangible asset balances, net of applicable deferred tax amounts, when calculating certain performance ratios) and expenses associated with merging acquired operations into the Company, since such expenses are considered by management to be nonoperating in nature. Although net operating income as defined by M&T is not a GAAP measure, M&T s management believes that this information helps investors understand the effect of acquisition activity in reported results.

Net operating income was $170 million in the recent quarter, compared with $224 million in the second quarter of 2007. Diluted net operating earnings per share for the second quarter of 2008 were $1.53, compared with $2.04 in the similar 2007 period. Net operating income and diluted net operating earnings per share were $216 million and $1.94, respectively, in the initial 2008 quarter. For the first half of 2008, net operating income and diluted net operating earnings per share were $386 million and $3.47, respectively, compared with $411 million and $3.70, respectively, in the corresponding 2007 period.

Net operating income expressed as an annualized return on average tangible assets was 1.10% in the second quarter of 2008, compared with 1.65% in the year-earlier quarter and 1.41% in the first quarter of 2008. Net operating income expressed as an annualized return on average tangible common equity was 22.20% in

the recent quarter, compared with 29.35% in the year-earlier quarter and 27.86% in the first 2008 quarter. For the first six months of 2008, net operating income represented an annualized return on average tangible assets and average tangible common stockholders equity of 1.25% and 25.04%, respectively, compared with 1.53% and 26.71%, respectively, in the six-month period ended June 30, 2007.

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

**Taxable-equivalent Net Interest Income**

Taxable-equivalent net interest income rose 5% to $492 million in the second quarter of 2008 from $467 million in the year-earlier quarter. The improvement from 2007 s second quarter was the result of higher average earning assets, which increased $7.5 billion, or 15%, to $58.5 billion in the recent quarter from $51.0 billion in the second quarter of 2007, offset partially by a 28 basis point (hundredths of one percent) narrowing of the Company s net interest margin, or taxable-equivalent net interest income expressed as an annualized percentage of average earning assets. Taxable-equivalent net interest income aggregated $485 million in the initial 2008 quarter. The recent quarter s improvement from the immediately preceding quarter resulted from a rise in average earning assets of $751 million and a 1 basis point widening of the net interest margin. Earning assets obtained in the Partners Trust and First Horizon transactions at the respective acquisition dates in the fourth quarter of 2007 were $3.1 billion and $214 million, respectively.

For the first half of 2008, taxable-equivalent net interest income was $977 million, 6% above $922 million in the similar period of 2007. Growth in average earning assets of 14% or $7.3 billion was the leading factor contributing to that improvement. Partially offsetting the impact of average earning asset growth was a decline in the Company s net interest margin of 28 basis points.

Average loans and leases rose $5.9 billion, or 14%, to $49.5 billion in the second quarter of 2008 from $43.6 billion in the year-earlier quarter, and were $947 million, or 2%, higher than the $48.6 billion average in the initial 2008 quarter. Included in average loans and leases in the recent quarter were loans obtained in the 2007 acquisitions of approximately $1.2 billion, compared with $1.4 billion in the first quarter of 2008. Commercial loans and leases averaged $13.8 billion in the second quarter of 2008, up $1.6 billion or 14% from $12.2 billion in the year-earlier quarter. Commercial real estate loans averaged $18.5 billion in the recent quarter, $2.9 billion or 19% higher than $15.6 billion in 2007 s second quarter. Average outstanding residential real estate loans increased $151 million, or 3%, in the second quarter of 2008 as compared with the year-earlier quarter. Included in that portfolio were loans held for sale, which averaged $728 million in the recent quarter, compared with $956 million in the second quarter of 2007. Average consumer loans rose 12% or $1.2 billion from the year-earlier period. That growth was due largely to higher average automobile loan balances outstanding, including approximately $309 million of such loans related to the 2007 acquisition transactions.

Contributing to the growth in average loans outstanding from $48.6 billion in 2008 s initial quarter to $49.5 billion in the second quarter of 2008 were commercial loans and leases, which increased $492 million, and commercial real estate loans, which rose $496 million. During that same period, average residential real estate loans increased $50 million, while average balances of consumer loans declined $91 million. The accompanying table summarizes quarterly changes in the major components of the loan and lease portfolio.

AVERAGE LOANS AND LEASES
(net of unearned discount)
Dollars in millions

| | | Percent increase (decrease) from | |
|---|---|---|---|
| | 2nd Qtr. 2008 | 2nd Qtr. 2007 | 1st Qtr. 2008 |
| Commercial, financial, etc. | $ 13,800 | 14% | 4% |
| Real estate commercial | 18,491 | 19 | 3 |
| Real estate consumer | 6,026 | 3 | 1 |
| Consumer | | | |
| Automobile | 3,630 | 25 | (3) |
| Home equity lines | 4,387 | 6 | 2 |
| Home equity loans | 1,087 | (5) | (5) |
| Other | 2,101 | 19 | 1 |
| Total consumer | 11,205 | 12 | (1) |
| Total | $ 49,522 | 14% | 2% |

For the first two quarters of 2008, average loans and leases totaled $49.0 billion, 13% above $43.3 billion in the first six months of 2007. Increases in average balances of commercial loans and leases, commercial real estate loans and consumer loans all contributed to that growth.

The investment securities portfolio averaged $8.8 billion in the second quarter of 2008, up 27% from $6.9 billion in the year-earlier quarter. The increase in such securities from the second quarter of 2007 reflects a December 2007 securitization of approximately $950 million of loans obtained in the Partners Trust acquisition into Federal National Mortgage Association ( FNMA ) mortgage-backed securities. Those securities are guaranteed by FNMA and there is no credit recourse to the Company. The Company recognized no gain or loss on the transaction as it retained all of the resulting securities, which are held in the available-for-sale investment securities portfolio. Average investment securities aggregated $8.9 billion in the first quarter of 2008. In June 2008, the Company completed another securitization of approximately $550 million of residential mortgage loans into FNMA mortgage-backed securities. Those securities are guaranteed by FNMA and there is no credit recourse to the Company. The Company recognized no gain or loss on that transaction as it retained all of the resulting securities, which are held in the available-for-sale investment securities portfolio. An additional securitization of approximately $330 million of residential mortgage loans was completed on July 2, 2008. The June 2008 securitization decreased the average balances of residential real estate loans and correspondingly increased average investment securities during the second quarter of 2008 by approximately $66 million. The securitizations were completed to improve the Company s liquidity and to enhance regulatory capital ratios.

The investment securities portfolio is largely comprised of residential and commercial mortgage-backed securities and collateralized mortgage obligations, debt securities issued by municipalities, debt and preferred equity securities issued by government-sponsored agencies and certain financial institutions, and shorter-term U.S. Treasury and federal agency notes. When purchasing investment securities, the Company considers its overall interest-rate risk profile as well as the adequacy of expected returns relative to the risks assumed, including credit and prepayment risk. In managing its investment securities portfolio, the Company occasionally sells investment securities as a result of changes in interest rates and spreads, actual or anticipated prepayments, credit risk associated with a particular security, or as a result of restructuring its investment securities portfolio following completion of a business combination. The Company regularly reviews its investment securities for declines in value below amortized cost that

might be characterized as other than temporary. During the second quarter of 2008, an other-than-temporary impairment charge of $6 million was recognized on one collateralized mortgage obligation backed by option adjustable rate residential mortgages that had an amortized cost of $7 million. During 2007 s fourth quarter, the Company recognized other-than-temporary impairment charges of $127 million related to $132 million of

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collateralized debt obligations. As of June 30, 2008 and December 31, 2007, the Company concluded that the declines in value of its other investment securities were temporary in nature. Further discussion of the fair value of investment securities is included herein under the heading Capital.

Other earning assets include deposits at banks, trading account assets, federal funds sold and agreements to resell securities. Those other earning assets in the aggregate averaged $173 million in the recent quarter, compared with $524 million and $214 million in the second quarter of 2007 and the first quarter of 2008, respectively. The decline in such assets in the recent quarter as compared with the second quarter of 2007 resulted from maturities of investment securities under agreements to resell. Those resell agreements had been entered into primarily to collateralize municipal deposits. Resell agreements are accounted for similar to collateralized loans, with changes in the fair value of the collateral monitored by the Company to ensure sufficient coverage. Such agreements averaged $88 million, $429 million and $115 million during the quarters ended June 30, 2008, June 30, 2007 and March 31, 2008, respectively. The amounts of investment securities and other earning assets held by the Company are influenced by such factors as demand for loans, which generally yield more than investment securities and other earning assets, ongoing repayments, the level of deposits, and management of balance sheet size and resulting capital ratios.

As a result of the changes described herein, average earning assets rose 15% to $58.5 billion in the second quarter of 2008 from $51.0 billion in the corresponding quarter in 2007. Average earning assets were $57.7 billion in the initial quarter of 2008 and aggregated $58.1 billion and $50.8 billion during the six-month periods ended June 30, 2008 and 2007, respectively.

The most significant source of funding for the Company is core deposits, which are comprised of noninterest-bearing deposits, interest-bearing transaction accounts, nonbrokered savings deposits and nonbrokered domestic time deposits under $100,000. The Company s branch network is its principal source of core deposits, which generally carry lower interest rates than wholesale funds of comparable maturities. Certificates of deposit under $100,000 generated on a nationwide basis by M&T Bank, National Association ( M&T Bank, N.A. ), a wholly owned banking subsidiary of M&T, are also included in core deposits. Average core deposits aggregated $31.6 billion in the second quarter of 2008, compared with $28.5 billion in the year-earlier quarter and $30.6 billion in the initial quarter of 2008. The Partners Trust and First Horizon acquisition transactions in 2007 s fourth quarter added approximately $2.0 billion of core deposits at acquisition. The following table provides an analysis of quarterly changes in the components of average core deposits. For the six-month periods ended June 30, 2008 and 2007, core deposits averaged $31.1 billion and $28.5 billion, respectively. Core deposits totaled $32.3 billion at June 30, 2008, compared with $31.7 billion at March 31, 2008 and $30.7 billion at December 31, 2007.

AVERAGE CORE DEPOSITS
Dollars in millions

| | | Percent increase (decrease) from | |
|---|---|---|---|
| | 2nd Qtr. 2008 | 2nd Qtr. 2007 | 1st Qtr. 2008 |
| NOW accounts | $ 512 | 13% | 6% |
| Savings deposits | 17,968 | 20 | 7 |
| Time deposits less than $100,000 | 5,540 | (4) | (7) |
| Noninterest-bearing deposits | 7,577 | 3 | 2 |
| Total | $ 31,597 | 11% | 3% |

Domestic time deposits of $100,000 or more, deposits originated through the Company s offshore branch office, and brokered deposits provide additional sources of funding for the Company. Domestic time deposits over $100,000, excluding brokered certificates of deposit, averaged $2.2 billion in the second quarter of 2008, compared with $2.7 billion in the year-earlier quarter and $2.6

billion in the first quarter of 2008. Offshore branch deposits, primarily comprised of accounts with balances of $100,000 or more, averaged $4.3 billion, $3.7 billion and $4.8 billion for the three-month periods ended June 30, 2008, June 30, 2007 and March 31, 2008, respectively. Brokered time deposits averaged $1.4 billion in the second quarter of 2008, compared with $2.0 billion in the year-earlier quarter and $1.8 billion in 2008 s initial quarter. In connection with the Company s management of interest rate risk, interest rate swap agreements have been entered into under which the Company receives a fixed rate of interest and pays a variable rate and that have notional amounts and terms substantially similar to the amounts and terms of $115 million of brokered time deposits. The Company also had brokered money-market deposit accounts which averaged $124 million during the second quarter of 2008, compared with $81 million and $102 million during the corresponding quarter of 2007 and the first quarter of 2008, respectively. Offshore branch deposits and brokered deposits have been used by the Company as alternatives to short-term borrowings. Additional amounts of offshore branch deposits or brokered deposits may be solicited in the future depending on market conditions, including demand by customers and other investors for such deposits, and the cost of funds and/or maturities associated with such funding that will be available from alternative sources at the time.

The Company also uses borrowings from banks, securities dealers, various Federal Home Loan Banks ( FHLBs ), and others as sources of funding. Short-term borrowings averaged $6.9 billion in the recent quarter, compared with $5.6 billion in the second quarter of 2007 and $7.2 billion in the initial quarter of 2008. Included in average short-term borrowings were unsecured federal funds borrowings, which generally mature daily and averaged $5.0 billion, $4.8 billion and $5.6 billion in the second quarters of 2008 and 2007, and the first quarter of 2008, respectively. Overnight federal funds borrowings represent the largest component of short-term borrowings and are obtained daily from a wide variety of banks and other financial institutions. Also included in short-term borrowings is a $500 million revolving asset-backed structured borrowing secured by automobile loans that were transferred to M&T Auto Receivables I, LLC, a special purpose subsidiary of M&T Bank. The special purpose subsidiary, the loans and the borrowings are included in the consolidated financial statements of the Company. Average short-term borrowings during 2008 s second quarter included $729 million of borrowings from the FHLB of New York, compared with $781 million in the first quarter of 2008. There were no similar short-term borrowings outstanding during the second quarter of 2007.

Long-term borrowings averaged $11.4 billion in the second quarter of 2008, compared with $7.9 billion in the year-earlier quarter and $10.3 billion in the first quarter of 2008. Included in average long-term borrowings were amounts borrowed from the FHLBs of $6.5 billion in the recent quarter, compared with $3.7 billion and $5.4 billion in the second quarter of 2007 and the initial quarter of 2008, respectively, and subordinated capital notes of $1.9 billion in the two most recent quarters and $1.7 billion in the second quarter of 2007. M&T Bank issued $400 million of subordinated notes in December 2007, in part to maintain appropriate regulatory capital ratios. Junior subordinated debentures associated with trust preferred securities that were included in average long-term borrowings were $1.1 billion in the second quarter of 2008, compared with $713 million in the second quarter of 2007 and $981 million in the first quarter of 2008. During January 2008, M&T Capital Trust IV issued $350 million of Enhanced Trust Preferred Securities, bearing a fixed rate of interest of 8.50% and maturing in 2068. The related junior subordinated debentures are included in long-term borrowings. Information regarding trust preferred securities and the related junior subordinated debentures is provided in note 4 of Notes to Financial Statements. Also included in long-term borrowings were agreements to repurchase securities, which averaged $1.6 billion during the quarters ended June 30, 2008, June 30, 2007 and March 31, 2008.

During the second quarter of 2008, the Company actively sought to increase the average maturity of its non-deposit sources of funds and to reduce short-term borrowings. As a result, short-term borrowings were reduced to $3.8 billion at June 30, 2008, including $1.6 billion of overnight federal funds borrowings, and long-term borrowings increased to $12.8 billion, including $7.9 billion of FHLB borrowings. As previously noted, core deposits increased by $606 million to $32.3 billion at June 30, 2008 from $31.7 billion at March 31, 2008 to further supplement the Company s funding.

Changes in the composition of the Company s earning assets and interest-bearing liabilities as discussed herein, as well as changes in interest rates and spreads, can impact net interest income. Net interest spread, or the difference between the taxable-equivalent yield on earning assets and the rate paid on interest-bearing liabilities, was 3.02% in the second quarter of 2008, compared with 3.08% in the year-earlier quarter. The yield on earning assets during the recent quarter was 5.66%, down 129 basis points from 6.95% in the second quarter of 2007, while the rate paid on interest-bearing liabilities decreased 123 basis points to 2.64% from 3.87% in 2007 s second quarter. In the first quarter of 2008, the net interest spread was 2.94%, the yield on earning assets was 6.20% and the rate paid on interest-bearing liabilities was 3.26%. For the first six months of 2008, the net interest spread was 2.98%, a decrease of 8 basis points from the corresponding 2007 period. The yield on earning assets and the rate paid on interest-bearing liabilities were 5.93% and 2.95%, respectively, in the first half of 2008, compared with 6.94% and 3.88%, respectively, in the similar period of 2007.

Net interest-free funds consist largely of noninterest-bearing demand deposits and stockholders equity, partially offset by bank owned life insurance and non-earning assets, including goodwill, core deposit and other intangible assets and M&T s investment in BLG. Net interest-free funds averaged $8.1 billion in the second quarter of 2008, compared with $7.8 billion in the corresponding quarter of 2007 and $7.7 billion in the first quarter of 2008. The increase in such funds from the year-earlier period was due, in part, to higher average balances of noninterest-bearing deposits and stockholders equity, while the increase in net interest-free funds as compared with the first quarter of 2008 was largely due to higher average balances of noninterest-bearing deposits. During each of the first six months of 2008 and 2007, average net interest-free funds aggregated $7.9 billion. Goodwill and core deposit and other intangible assets averaged $3.4 billion during the quarters ended June 30, 2008 and March 31, 2008, and $3.1 billion in the second quarter of 2007. The cash surrender value of bank owned life insurance averaged $1.2 billion during each of the two most recent quarters, and $1.1 billion in the second quarter of 2007. Increases in the cash surrender value of bank owned life insurance are not included in interest income, but rather are recorded in other revenues from operations.

The contribution of net interest-free funds to net interest margin was .37% in the recent quarter, compared with .59% in the second quarter of 2007 and .44% in the first quarter of 2008. The contribution of net interest-free funds to net interest margin for the first half of the year was .40% in 2008 and .60% in 2007. The decrease in the contribution to net interest margin ascribed to net interest-free funds in the 2008 periods as compared with the similar 2007 periods resulted largely from the impact of lower interest rates on interest-bearing liabilities used to value such contribution.

Reflecting the changes to the net interest spread and the contribution of interest-free funds as described herein, the Company s net interest margin was 3.39% in the recent quarter, down from 3.67% in the similar quarter of 2007, but 1 basis point higher than 3.38% in the initial quarter of 2008. During the first six months of 2008 and 2007, the net interest margin was 3.38% and 3.66%, respectively. Future changes in market interest rates or spreads, as well as changes in the composition of