M&T BANK CORP
Form 10-Q
May 09, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

or

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

Commission File Number 1-9861

M&T BANK CORPORATION

(Exact name of registrant as specified in its charter)

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

(716) 842-5445

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Number of shares of the registrant s Common Stock, $0.50 par value, outstanding as of the close of business on April 30, 2013: 129,008,896 shares.

Table of Contents

M&T BANK CORPORATION

FORM 10-Q

For the Quarterly Period Ended March 31, 2013

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (Unaudited)

Dollars in thousands, except per share		March 31, 2013	December 31, 2012
Assets	Cash and due from banks	$ 1,231,091	1,983,615
	Interest-bearing deposits at banks	1,304,770	129,945
	Federal funds sold	594,976	3,000
	Trading account	420,144	488,966
	Investment securities (includes pledged securities that can be sold or repledged of $1,761,978 at March 31, 2013; $1,801,842 at December 31, 2012)		
	Available for sale (cost: $4,288,994 at March 31, 2013; $4,643,070 at December 31, 2012)	4,400,742	4,739,437
	Held to maturity (fair value: $910,783 at March 31, 2013; $976,883 at December 31, 2012)	959,199	1,032,276
	Other (fair value: $300,890 at March 31, 2013; $302,648 at December 31, 2012)	300,890	302,648
	Total investment securities	5,660,831	6,074,361
	Loans and leases	66,139,206	66,790,186
	Unearned discount	(214,939)	(219,229)
	Loans and leases, net of unearned discount	65,924,267	66,570,957
	Allowance for credit losses	(927,117)	(925,860)
	Loans and leases, net	64,997,150	65,645,097
	Premises and equipment	589,570	594,652
	Goodwill	3,524,625	3,524,625
	Core deposit and other intangible assets	102,420	115,763
	Accrued interest and other assets	4,386,380	4,448,779
	Total assets	$ 82,811,957	83,008,803
Liabilities	Noninterest-bearing deposits	$ 23,603,971	24,240,802
	NOW accounts	1,891,621	1,979,619
	Savings deposits	35,024,025	33,783,947
	Time deposits	4,304,033	4,562,366
	Deposits at Cayman Islands office	266,076	1,044,519
	Total deposits	65,089,726	65,611,253
	Federal funds purchased and agreements to repurchase securities	374,593	1,074,482
	Accrued interest and other liabilities	1,530,118	1,512,717
	Long-term borrowings	5,394,563	4,607,758
	Total liabilities	72,389,000	72,806,210

Shareholders equity	Preferred stock, $1.00 par, 1,000,000 shares authorized; Issued and outstanding: Liquidation preference of $1,000 per share: 381,500 shares at March 31, 2013 and December 31, 2012; Liquidation preference of $10,000 per share: 50,000 shares at March 31, 2013 and December 31, 2012	874,627	872,500
	Common stock, $.50 par, 250,000,000 shares authorized, 128,952,578 shares issued at March 31, 2013; 128,176,912 shares issued at December 31, 2012	64,476	64,088
	Common stock issuable, 46,552 shares at March 31, 2013; 57,409 shares at December 31, 2012	2,829	3,473
	Additional paid-in capital	3,061,783	3,025,520
	Retained earnings	6,645,195	6,477,276
	Accumulated other comprehensive income (loss), net	(225,953)	(240,264)
	Total shareholders equity	10,422,957	10,202,593
	Total liabilities and shareholders equity	$ 82,811,957	83,008,803

- 3 -

Table of Contents

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

In thousands, except per share		Three months ended March 31 2013	2012
Interest income	Loans and leases, including fees	$ 682,455	648,514
	Deposits at banks	267	213
	Federal funds sold	17	3
	Agreements to resell securities	9	
	Trading account	638	317
	Investment securities		
	Fully taxable	44,760	62,964
	Exempt from federal taxes	1,829	2,084
	Total interest income	729,975	714,095
Interest expense	NOW accounts	322	283
	Savings deposits	14,037	18,183
	Time deposits	8,196	13,509
	Deposits at Cayman Islands office	388	213
	Short-term borrowings	231	303
	Long-term borrowings	50,751	61,215
	Total interest expense	73,925	93,706
	Net interest income	656,050	620,389
	Provision for credit losses	38,000	49,000
	Net interest income after provision for credit losses	618,050	571,389
Other income	Mortgage banking revenues	93,103	56,192
	Service charges on deposit accounts	110,949	108,889
	Trust income	121,603	116,953
	Brokerage services income	15,711	13,901
	Trading account and foreign exchange gains	8,927	10,571
	Gain on bank investment securities		45
	Total other-than-temporary impairment (OTTI) losses	(1,884)	(20,040)
	Portion of OTTI losses recognized in other comprehensive income (before taxes)	(7,916)	8,554
	Net OTTI losses recognized in earnings	(9,800)	(11,486)
	Equity in earnings of Bayview Lending Group LLC	(3,656)	(4,752)
	Other revenues from operations	96,045	86,410
	Total other income	432,882	376,723
Other expense	Salaries and employee benefits	356,551	346,098
	Equipment and net occupancy	65,159	65,043
	Printing, postage and supplies	10,699	11,872
	Amortization of core deposit and other intangible assets	13,343	16,774
	FDIC assessments	19,438	28,949
	Other costs of operations	170,406	170,959

Total other expense	635,596	639,695
Income before taxes	415,336	308,417
Income taxes	141,223	101,954
Net income	$ 274,113	206,463
Net income available to common shareholders		
Basic	$ 255,079	188,236
Diluted	255,096	188,241
Net income per common share		
Basic	$ 2.00	1.50
Diluted	1.98	1.50
Cash dividends per common share	$ .70	.70
Average common shares outstanding		
Basic	127,669	125,220
Diluted	128,636	125,616

- 4 -

Table of Contents

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

In thousands	Three months ended March 31 2013	2012
Net income	$ 274,113	206,463
Other comprehensive income, net of tax and reclassification adjustments:		
Net unrealized gains on investment securities	10,079	20,082
Reclassification to income for amortization of gains on terminated cash flow hedges		(70)
Foreign currency translation adjustment	(932)	402
Defined benefit plans liability adjustment	5,164	4,769
Total other comprehensive income	14,311	25,183
Total comprehensive income	$ 288,424	231,646

- 5 -

Table of Contents

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

		Three months ended March 31	
In thousands		2013	2012
Cash flows from operating activities	Net income	$ 274,113	206,463
	Adjustments to reconcile net income to net cash provided by operating activities		
	Provision for credit losses	38,000	49,000
	Depreciation and amortization of premises and equipment	22,027	21,022
	Amortization of capitalized servicing rights	15,208	14,476
	Amortization of core deposit and other intangible assets	13,343	16,774
	Provision for deferred income taxes	19,253	15,225
	Asset write-downs	13,558	16,388
	Net gain on sales of assets	(2,676)	(2,471)
	Net change in accrued interest receivable, payable	(2,872)	7,725
	Net change in other accrued income and expense	80,645	32,134
	Net change in loans originated for sale	205,643	154,436
	Net change in trading account assets and liabilities	22,156	7,840
	Net cash provided by operating activities	698,398	539,012
Cash flows from investing activities	Proceeds from sales of investment securities		
	Available for sale		1,045
	Other	2,032	10,224
	Proceeds from maturities of investment securities		
	Available for sale	353,305	417,348
	Held to maturity	79,164	82,670
	Purchases of investment securities		
	Available for sale	(14,597)	(10,286)
	Held to maturity	(6,010)	(6,287)
	Other	(274)	(318)
	Net (increase) decrease in loans and leases	404,142	(1,042,144)
	Net increase in interest-bearing deposits at banks	(1,174,825)	(1,127,080)
	Other investments, net	698	2,416
	Capital expenditures, net	(16,671)	(19,377)
	Proceeds from sales of real estate acquired in settlement of loans	15,500	33,775
	Other, net	(14,237)	(25,840)
	Net cash used by investing activities	(371,773)	(1,683,854)
Cash flows from financing activities	Net increase (decrease) in deposits	(519,555)	1,522,583
	Net decrease in short-term borrowings	(699,889)	(270,081)
	Proceeds from long-term borrowings	799,760	
	Payments on long-term borrowings	(3,460)	(202,352)
	Dividends paid common	(90,788)	(89,041)
	Dividends paid preferred	(4,769)	(4,769)
	Other, net	31,528	80,197
	Net cash provided (used) by financing activities	(487,173)	1,036,537

	Net decrease in cash and cash equivalents	(160,548)	(108,305)
	Cash and cash equivalents at beginning of period	1,986,615	1,452,397
	Cash and cash equivalents at end of period	$ 1,826,067	1,344,092
Supplemental disclosure of cash flow information	Interest received during the period	$ 718,296	721,159
	Interest paid during the period	72,106	89,241
	Income taxes paid during the period	9,545	8,416
Supplemental schedule of noncash investing and financing activities	Real estate acquired in settlement of loans	$ 8,244	17,123

Table of Contents

M&T BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

In thousands, except per share	Preferred stock	Common stock	Common stock issuable	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss), net	Total
2012							
Balance January 1, 2012	$ 864,585	62,842	4,072	2,828,986	5,867,165	(356,441)	9,271,209
Total comprehensive income					206,463	25,183	231,646
Preferred stock cash dividends					(13,363)		(13,363)
Amortization of preferred stock discount	1,904				(1,904)		
Stock-based compensation plans:							
Compensation expense, net		207		7,783			7,990
Exercises of stock options, net		183		19,429			19,612
Directors stock plan		2		370			372
Deferred compensation plans, net, including dividend equivalents		4	(645)	507	(40)		(174)
Other				481			481
Common stock cash dividends $.70 per share					(89,085)		(89,085)
Balance March 31, 2012	$ 866,489	63,238	3,427	2,857,556	5,969,236	(331,258)	9,428,688
2013							
Balance January 1, 2013	$ 872,500	64,088	3,473	3,025,520	6,477,276	(240,264)	10,202,593
Total comprehensive income					274,113	14,311	288,424
Preferred stock cash dividends					(13,363)		(13,363)
Amortization of preferred stock discount	2,127				(2,127)		
Exercise of 407,542 Series C stock warrants into 186,589 shares of common stock		93		(93)			
Stock-based compensation plans:							
Compensation expense, net		160		12,911			13,071
Exercises of stock options, net		126		21,444			21,570
Directors stock plan		4		772			776
Deferred compensation plans, net, including dividend equivalents		5	(644)	563	(32)		(108)
Other				666			666
Common stock cash dividends $.70 per share					(90,672)		(90,672)
Balance March 31, 2013	$ 874,627	64,476	2,829	3,061,783	6,645,195	(225,953)	10,422,957

Table of Contents

NOTES TO FINANCIAL STATEMENTS

1. Significant accounting policies

The consolidated financial statements of M&T Bank Corporation (M&T) and subsidiaries (the Company) were compiled in accordance with generally accepted accounting principles (GAAP) using the accounting policies set forth in note 1 of Notes to Financial Statements included in the 2012 Annual Report. In the opinion of management, all adjustments necessary for a fair presentation have been made and were all of a normal recurring nature.

2. Acquisitions

On August 27, 2012, M&T announced that it had entered into a definitive agreement with Hudson City Bancorp, Inc. (Hudson City), headquartered in Paramus, New Jersey, under which Hudson City would be acquired by M&T. Pursuant to the terms of the agreement, Hudson City shareholders will receive consideration for each common share of Hudson City in an amount valued at .08403 of an M&T share in the form of either M&T common stock or cash, based on the election of each Hudson City shareholder, subject to proration as specified in the merger agreement (which provides for an aggregate split of total consideration of 60% common stock of M&T and 40% cash). As of March 31, 2013 total consideration to be paid was valued at approximately $4.4 billion.

At March 31, 2013, Hudson City had $40.3 billion of assets, including $26.2 billion of loans and $10.6 billion of investment securities, and $35.6 billion of liabilities, including $23.2 billion of deposits. After the merger is completed, M&T forecasts that it will likely repay approximately $12 billion of Hudson City s long-term borrowings and sell investment securities. The merger has received the approval of the common shareholders of M&T and Hudson City. However, the merger is subject to a number of other conditions, including regulatory approvals. On April 12, 2013, M&T announced that additional time would be required to obtain a regulatory determination on the applications for the proposed merger with Hudson City. M&T has learned that the Federal Reserve has identified certain regulatory concerns with the Company s procedures, systems and processes related to the Company s Bank Secrecy Act and anti-money-laundering compliance program. M&T has commenced a major initiative, including the hiring of an outside consulting firm, intended to fully address the Federal Reserve s concerns. In view of the potential timeframe required to implement this initiative, demonstrate its efficacy to the satisfaction of the Federal Reserve and otherwise meet any other regulatory requirements that may be imposed in connection with these matters, M&T and Hudson City extended the date after which either party may elect to terminate the merger agreement if the merger has not yet been completed from August 27, 2013 to January 31, 2014. There can be no assurances that the merger will be completed by that date. M&T and Hudson City intend to close the merger as soon as possible following the receipt of all necessary regulatory approvals and satisfaction of all other conditions to closing.

In connection with the pending acquisition, the Company incurred merger-related expenses related to systems conversions and other costs of integrating and conforming acquired operations with and into the Company. Those expenses consisted largely of professional services and other temporary help fees associated with planning for the conversion of systems and/or integration of operations; initial marketing and promotion expenses designed to introduce M&T Bank to its new customers; travel costs; and printing, postage, supplies and other costs of planning for the transaction and commencing operations in new markets and offices. The Company expects to incur additional merger-related expenses during the remainder of 2013.

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. Acquisitions, continued

A summary of merger-related expenses in the first quarter of 2013 associated with the pending Hudson City acquisition and in the first quarter of 2012 associated with the May 16, 2011 acquisition of Wilmington Trust Corporation (Wilmington Trust) included in the consolidated statement of income follows:

	Three months ended March 31, 2013	March 31, 2012
	(in thousands)	
Salaries and employee benefits	$ 536	$ 1,973
Equipment and net occupancy	201	15
Printing, postage and supplies	827	
Other cost of operations	3,168	740
	$ 4,732	$ 2,728

3. Investment securities

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

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
		(in thousands)		
March 31, 2013				
Investment securities available for sale:				
U.S. Treasury and federal agencies	$ 38,907	793		$ 39,700
Obligations of states and political subdivisions	19,545	503	7	20,041
Mortgage-backed securities:				
Government issued or guaranteed	2,855,716	174,372	178	3,029,910
Privately issued residential	1,077,879	5,799	97,989	985,689
Privately issued commercial	6,414	1,144		7,558
Collateralized debt obligations	42,957	19,799	1,038	61,718
Other debt securities	136,645	2,371	21,505	117,511
Equity securities	110,931	27,691	7	138,615
	4,288,994	232,472	120,724	4,400,742
Investment securities held to maturity:				
Obligations of states and political subdivisions	180,458	7,003	31	187,430
Mortgage-backed securities:				
Government issued or guaranteed	532,074	26,003		558,077
Privately issued	236,632	47	81,438	155,241
Other debt securities	10,035			10,035
	959,199	33,053	81,469	910,783

Other securities	300,890			300,890
Total	$ 5,549,083	265,525	202,193	$ 5,612,415

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. Investment securities, continued

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
		(in thousands)		
December 31, 2012				
Investment securities available for sale:				
U.S. Treasury and federal agencies	$ 38,422	922		$ 39,344
Obligations of states and political subdivisions	20,375	534	8	20,901
Mortgage-backed securities:				
Government issued or guaranteed	3,163,210	208,060	229	3,371,041
Privately issued residential	1,133,639	4,894	125,647	1,012,886
Privately issued commercial	8,648	2,378	26	11,000
Collateralized debt obligations	43,228	19,663	1,022	61,869
Other debt securities	136,603	2,247	26,900	111,950
Equity securities	98,945	14,921	3,420	110,446
	4,643,070	253,619	157,252	4,739,437
Investment securities held to maturity:				
Obligations of states and political subdivisions	182,103	7,647	27	189,723
Mortgage-backed securities:				
Government issued or guaranteed	597,340	31,727		629,067
Privately issued	242,378	160	94,900	147,638
Other debt securities	10,455			10,455
	1,032,276	39,534	94,927	976,883
Other securities	302,648			302,648
Total	$ 5,977,994	293,153	252,179	$ 6,018,968

Gross realized gains and losses from sales of investment securities were not significant for the quarters ended March 31, 2013 and 2012. The Company recognized $10 million and $11 million of pre-tax other-than-temporary impairment (OTTI) losses during the quarters ended March 31, 2013 and 2012, respectively, related to privately issued mortgage-backed securities. The impairment charges were recognized in light of deterioration of real estate values and a rise in delinquencies and charge-offs of underlying mortgage loans collateralizing those securities. The OTTI losses represent management s estimate of credit losses inherent in the debt securities considering projected cash flows using assumptions for delinquency rates, loss severities, and other estimates of future collateral performance.

Changes in credit losses associated with debt securities for which OTTI losses have been recognized in earnings for the three months ended March 31, 2013 and 2012 follows:

	Three months ended March 31	
	2013	2012

	(in thousands)	
Beginning balance	$ 197,809	285,399
Additions for credit losses not previously recognized	9,800	11,486
Reductions for realized losses	(20,495)	(29,412)
Ending balance	$ 187,114	267,473

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. Investment securities, continued

At March 31, 2013, the amortized cost and estimated fair value of debt securities by contractual maturity were as follows:

	Amortized cost	Estimated fair value
	(in thousands)	
Debt securities available for sale:		
Due in one year or less	$ 24,442	24,602
Due after one year through five years	22,459	23,522
Due after five years through ten years	9,221	9,843
Due after ten years	181,932	181,003
	238,054	238,970
Mortgage-backed securities available for sale	3,940,009	4,023,157
	$ 4,178,063	4,262,127
Debt securities held to maturity:		
Due in one year or less	$ 25,558	25,691
Due after one year through five years	55,547	57,974
Due after five years through ten years	99,177	103,589
Due after ten years	10,211	10,211
	190,493	197,465
Mortgage-backed securities held to maturity	768,706	713,318
	$ 959,199	910,783

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. Investment securities, continued

A summary of investment securities that as of March 31, 2013 and December 31, 2012 had been in a continuous unrealized loss position for less than twelve months and those that had been in a continuous unrealized loss position for twelve months or longer follows:

	Less than 12 months		12 months or more	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	(in thousands)			
March 31, 2013				
Investment securities available for sale:				
Obligations of states and political subdivisions	$ 572	(3)	680	(4)
Mortgage-backed securities:				
Government issued or guaranteed	7,966	(41)	7,450	(137)
Privately issued	89,046	(401)	695,871	(97,588)
Collateralized debt obligations			6,039	(1,038)
Other debt securities			101,198	(21,505)
Equity securities	7	(7)		
	97,591	(452)	811,238	(120,272)
Investment securities held to maturity:				
Obligations of states and political subdivisions	1,065	(7)	1,794	(24)
Privately issued mortgage-backed securities			155,050	(81,438)
	1,065	(7)	156,844	(81,462)
Total	$ 98,656	(459)	968,082	(201,734)
December 31, 2012				
Investment securities available for sale:				
Obligations of states and political subdivisions	$ 166	(1)	683	(7)
Mortgage-backed securities:				
Government issued or guaranteed	12,107	(65)	8,804	(164)
Privately issued residential	121,487	(692)	773,409	(124,955)
Privately issued commercial			919	(26)
Collateralized debt obligations			6,043	(1,022)
Other debt securities			95,685	(26,900)
Equity securities	5,535	(1,295)	2,956	(2,125)
	139,295	(2,053)	888,499	(155,199)
Investment securities held to maturity:				
Obligations of states and political subdivisions	1,026	(5)	3,558	(22)
Privately issued mortgage-backed securities			147,273	(94,900)
	1,026	(5)	150,831	(94,922)

Total	$ 140,321	(2,058)	1,039,330	(250,121)

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. Investment securities, continued

The Company owned 241 individual investment securities with aggregate gross unrealized losses of $202 million at March 31, 2013. Approximately $179 million of the unrealized losses pertain to privately issued mortgage-backed securities with a cost basis of $1.1 billion. The Company also had $23 million of unrealized losses on trust preferred securities issued by financial institutions and securities backed by trust preferred securities having a cost basis of $130 million. Based on a review of each of the remaining securities in the investment securities portfolio at March 31, 2013, with the exception of the aforementioned securities for which OTTI losses were recognized, the Company concluded that it expected to recover the amortized cost basis of its investment. As of March 31, 2013, the Company does not intend to sell nor is it anticipated that it would be required to sell any of its impaired investment securities. At March 31, 2013, the Company has not identified events or changes in circumstances which may have a significant adverse effect on the fair value of the $301 million of cost method investment securities.

4. Loans and leases and the allowance for credit losses

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

	March 31, 2013	December 31, 2012
	(in thousands)	
Outstanding principal balance	$ 6,148,875	6,705,120
Carrying amount:		
Commercial, financial, leasing, etc.	754,913	928,107
Commercial real estate	2,322,317	2,567,050
Residential real estate	677,306	707,309
Consumer	1,560,598	1,637,887
	$ 5,315,134	5,840,353

Purchased impaired loans included in the table above totaled $425 million at March 31, 2013 and $447 million at December 31, 2012, representing less than 1% of the Company s assets as of each date. A summary of changes in the accretable yield for acquired loans for the three months ended March 31, 2013 and 2012 follows:

	Three months ended March 31, 2013		
	Purchased impaired	Other acquired	Total
		(in thousands)	
Balance at beginning of period	$ 42,252	638,272	680,524
Interest income	(8,704)	(61,747)	(70,451)
Reclassifications from (to) nonaccretable balance, net	180	10,817	10,997
Other (a)		(9,733)	(9,733)
Balance at end of period	$ 33,728	577,609	611,337

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

	Three months ended March 31, 2012		
	Purchased impaired	Other acquired	Total
		(in thousands)	
Balance at beginning of period	$ 30,805	807,960	838,765
Interest income	(7,664)	(73,723)	(81,387)
Reclassifications from (to) nonaccretable balance, net	(576)	1,000	424
Other (a)		12,229	12,229
Balance at end of period	$ 22,565	747,466	770,031

(a) Other changes in expected cash flows including changes in interest rates and prepayment assumptions.

A summary of current, past due and nonaccrual loans as of March 31, 2013 and December 31, 2012 were as follows:

	Current	30-89 Days past due	90 Days or more past due and accruing Non-acquired	90 Days or more past due and accruing Acquired (a)	Purchased impaired (b)	Nonaccrual	Total
			(in thousands)				
March 31, 2013							
Commercial, financial, leasing, etc.	$ 17,144,615	90,708	3,669	9,206	16,741	204,199	17,469,138
Real estate:							
Commercial	21,513,598	185,101	11,444	41,268	121,090	186,239	22,058,740
Residential builder and developer	781,748	30,019	513	20,365	167,207	166,796	1,166,648
Other commercial construction	2,541,578	42,849	2,279	14,301	78,254	40,170	2,719,431
Residential	9,742,192	279,879	309,366	43,050	38,709	252,799	10,665,995
Residential Alt-A	315,500	24,779				88,303	428,582
Consumer:							
Home equity lines and loans	6,068,137	33,433		27,359	3,231	72,021	6,204,181
Automobile	2,466,577	30,363		158		20,095	2,517,193
Other	2,634,775	32,039	4,012	1,361		22,172	2,694,359
Total	$ 63,208,720	749,170	331,283	157,068	425,232	1,052,794	65,924,267

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

	Current	30-89 Days past due	90 Days or more past due and accruing Non-acquired	Acquired (a)	Purchased impaired (b)	Nonaccrual	Total
			(in thousands)				
December 31, 2012							
Commercial, financial, leasing, etc.	$ 17,511,052	62,479	23,490	10,587	17,437	151,908	17,776,953
Real estate:							
Commercial	21,759,997	118,249	13,111	54,995	132,962	193,859	22,273,173
Residential builder and developer	757,311	35,419	3,258	23,909	187,764	181,865	1,189,526
Other commercial construction	2,379,953	35,274	509	9,572	68,971	36,812	2,531,091
Residential	9,811,956	337,969	313,184	45,124	36,769	249,314	10,794,316
Residential Alt-A	331,021	19,692				95,808	446,521
Consumer:							
Home equity lines and loans	6,199,591	40,759		20,318	3,211	58,071	6,321,950
Automobile	2,442,502	40,461		251		25,107	2,508,321
Other	2,661,432	40,599	4,845	1,798		20,432	2,729,106
Total	$ 63,854,815	730,901	358,397	166,554	447,114	1,013,176	66,570,957

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

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

Changes in the allowance for credit losses for the three months ended March 31, 2013 and 2012 were as follows:

	Commercial, Financial, Leasing, etc.	Real Estate Commercial	Real Estate Residential	Consumer	Unallocated	Total
			(in thousands)			
2013						
Beginning balance	$ 246,759	337,101	88,807	179,418	73,775	925,860
Provision for credit losses	17,880	(312)	5,036	14,836	560	38,000
Net charge-offs						
Charge-offs	(9,544)	(9,588)	(8,171)	(21,645)		(48,948)
Recoveries	2,756	815	4,450	4,184		12,205
Net charge-offs	(6,788)	(8,773)	(3,721)	(17,461)		(36,743)
Ending balance	$ 257,851	328,016	90,122	176,793	74,335	927,117
2012						

Beginning balance	$ 234,022	367,637	91,915	143,121	71,595	908,290
Provision for credit losses	10,121	(2,260)	16,230	23,538	1,371	49,000
Net charge-offs						
Charge-offs	(8,037)	(10,540)	(12,718)	(28,981)		(60,276)
Recoveries	3,167	1,717	1,874	5,234		11,992
Net charge-offs	(4,870)	(8,823)	(10,844)	(23,747)		(48,284)
Ending balance	$ 239,273	356,554	97,301	142,912	72,966	909,006

Despite the above allocation, the allowance for credit losses is general in nature and is available to absorb losses from any loan or lease type.

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

In establishing the allowance for credit losses, the Company estimates losses attributable to specific troubled credits identified through both normal and detailed or intensified credit review processes and also estimates losses inherent in other loans and leases on a collective basis. For purposes of determining the level of the allowance for credit losses, the Company evaluates its loan and lease portfolio by loan type. The amounts of loss components in the Company s loan and lease portfolios are determined through a loan by loan analysis of larger balance commercial and commercial real estate loans that are in nonaccrual status and by applying loss factors to groups of loan balances based on loan type and management s classification of such loans under the Company s loan grading system. Measurement of the specific loss components is typically based on expected future cash flows, collateral values and other factors that may impact the borrower s ability to pay. In determining the allowance for credit losses, the Company utilizes a loan grading system which is applied to commercial and commercial real estate credits on an individual loan basis. Loan officers are responsible for continually assigning grades to these loans based on standards outlined in the Company s Credit Policy. Internal loan grades are also monitored by the Company s loan review department to ensure consistency and strict adherence to the prescribed standards. Loan grades are assigned loss component factors that reflect the Company s loss estimate for each group of loans and leases. Factors considered in assigning loan grades and loss component factors include borrower-specific information related to expected future cash flows and operating results, collateral values, geographic location, financial condition and performance, payment status, and other information; levels of and trends in portfolio charge-offs and recoveries; levels of and trends in portfolio delinquencies and impaired loans; changes in the risk profile of specific portfolios; trends in volume and terms of loans; effects of changes in credit concentrations; and observed trends and practices in the banking industry. As updated appraisals are obtained on individual loans or other events in the market place indicate that collateral values have significantly changed, individual loan grades are adjusted as appropriate. Changes in other factors cited may also lead to loan grade changes at any time. Except for consumer and residential mortgage loans that are considered smaller balance homogenous loans and acquired loans that are evaluated on an aggregated basis, the Company considers a loan to be impaired for purposes of applying GAAP when, based on current information and events, it is probable that the Company will be unable to collect all amounts according to the contractual terms of the loan agreement or the loan is delinquent 90 days. Regardless of loan type, the Company considers a loan to be impaired if it qualifies as a troubled debt restructuring. Modified loans, including smaller balance homogenous loans, that are considered to be troubled debt restructurings are evaluated for impairment giving consideration to the impact of the modified loan terms on the present value of the loan s expected cash flows.

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The following tables provide information with respect to loans and leases that were considered impaired as of March 31, 2013 and December 31, 2012 and for the three month periods ended March 31, 2013 and 2012.

	March 31, 2013			December 31, 2012		
	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Related allowance
	(in thousands)					
With an allowance recorded:						
Commercial, financial, leasing, etc.	$ 165,867	186,405	45,277	127,282	149,534	33,829
Real estate:						
Commercial	116,111	142,349	19,859	121,542	143,846	23,641
Residential builder and developer	106,510	202,139	19,956	115,306	216,218	25,661
Other commercial construction	73,622	77,164	6,533	73,544	76,869	6,836
Residential	104,096	123,244	5,464	103,451	121,819	3,521
Residential Alt-A	125,781	139,779	17,000	128,891	141,940	17,000
Consumer:						
Home equity lines and loans	12,457	13,805	2,315	12,360	13,567	2,254
Automobile	45,876	45,876	12,916	49,210	49,210	14,273
Other	15,280	15,280	5,519	14,408	14,408	5,667
	765,600	946,041	134,839	745,994	927,411	132,682
With no related allowance recorded:						
Commercial, financial, leasing, etc.	46,187	58,422		32,631	42,199	
Real estate:						
Commercial	76,396	98,494		78,380	100,337	
Residential builder and developer	67,685	93,936		74,307	105,438	
Other commercial construction	26,298	27,170		23,018	23,532	
Residential	86,240	96,741		86,342	96,448	
Residential Alt-A	28,083	53,057		31,354	58,768	
	330,889	427,820		326,032	426,722	
Total:						
Commercial, financial, leasing, etc.	212,054	244,827	45,277	159,913	191,733	33,829
Real estate:						
Commercial	192,507	240,843	19,859	199,922	244,183	23,641
Residential builder and developer	174,195	296,075	19,956	189,613	321,656	25,661
Other commercial construction	99,920	104,334	6,533	96,562	100,401	6,836
Residential	190,336	219,985	5,464	189,793	218,267	3,521
Residential Alt-A	153,864	192,836	17,000	160,245	200,708	17,000
Consumer:						
Home equity lines and loans	12,457	13,805	2,315	12,360	13,567	2,254
Automobile	45,876	45,876	12,916	49,210	49,210	14,273
Other	15,280	15,280	5,519	14,408	14,408	5,667

Total	$ 1,096,489	1,373,861	134,839	1,072,026	1,354,133	132,682

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

	Three months ended March 31, 2013			Three months ended March 31, 2012		
		Interest income recognized			Interest income recognized	
	Average recorded investment	Total	Cash basis	Average recorded investment	Total	Cash basis
	(in thousands)					
Commercial, financial, leasing, etc.	$ 167,793	2,434	2,434	167,724	409	409
Real estate:						
Commercial	194,446	303	303	178,315	318	318
Residential builder and developer	183,853	140	65	282,495	341	179
Other commercial construction	98,318	635	635	104,105	170	170
Residential	188,075	1,470	922	126,376	1,342	878
Residential Alt-A	156,971	1,740	591	181,018	1,843	546
Consumer:						
Home equity lines and loans	12,454	167	39	9,998	166	42
Automobile	47,606	776	146	53,289	898	178
Other	14,930	151	54	8,302	93	39
Total	$ 1,064,446	7,816	5,189	1,111,622	5,580	2,759

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

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

	Commercial, Financial, Leasing, etc.	Commercial	Real Estate Residential Builder and Developer	Other Commercial Construction
		(in thousands)		
March 31, 2013				
Pass	$ 16,590,137	21,086,718	929,857	2,533,617
Criticized accrual	674,802	785,783	69,995	145,644
Criticized nonaccrual	204,199	186,239	166,796	40,170
Total	$ 17,469,138	22,058,740	1,166,648	2,719,431
December 31, 2012				
Pass	$ 16,889,753	21,275,182	922,141	2,307,436
Criticized accrual	735,292	804,132	85,520	186,843
Criticized nonaccrual	151,908	193,859	181,865	36,812
Total	$ 17,776,953	22,273,173	1,189,526	2,531,091

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

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

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The allocation of the allowance for credit losses summarized on the basis of the Company s impairment methodology was as follows:

	Commercial, Financial, Leasing, etc.	Real Estate		Consumer	Total
		Commercial	Residential (in thousands)		
March 31, 2013					
Individually evaluated for impairment	$ 45,277	45,503	22,444	20,750	$ 133,974
Collectively evaluated for impairment	212,574	281,492	66,145	155,480	715,691
Purchased impaired		1,021	1,533	563	3,117
Allocated	$ 257,851	328,016	90,122	176,793	852,782
Unallocated					74,335
Total					$ 927,117
December 31, 2012					
Individually evaluated for impairment	$ 33,669	55,291	20,502	22,194	$ 131,656
Collectively evaluated for impairment	212,930	280,789	66,684	156,661	717,064
Purchased impaired	160	1,021	1,621	563	3,365
Allocated	$ 246,759	337,101	88,807	179,418	852,085
Unallocated					73,775
Total					$ 925,860

The recorded investment in loans and leases summarized on the basis of the Company s impairment methodology was as follows:

	Commercial, Financial, Leasing, etc.	Real Estate		Consumer	Total
		Commercial	Residential (in thousands)		
March 31, 2013					
Individually evaluated for impairment	$ 212,054	461,084	343,642	73,611	$ 1,090,391
Collectively evaluated for impairment	17,240,343	25,117,184	10,712,226	11,338,891	64,408,644
Purchased impaired	16,741	366,551	38,709	3,231	425,232
Total	$ 17,469,138	25,944,819	11,094,577	11,415,733	$ 65,924,267

December 31, 2012					
Individually evaluated for impairment	$ 159,761	480,335	349,477	75,978	$ 1,065,551
Collectively evaluated for impairment	17,599,755	25,123,758	10,854,591	11,480,188	65,058,292
Purchased impaired	17,437	389,697	36,769	3,211	447,114
Total	$ 17,776,953	25,993,790	11,240,837	11,559,377	$ 66,570,957

During the normal course of business, the Company modifies loans to maximize recovery efforts. If the borrower is experiencing financial difficulty and a concession is granted, the Company considers such modifications as troubled debt restructurings and classifies those loans as either nonaccrual loans or renegotiated

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

loans. The types of concessions that the Company grants typically include principal deferrals and interest rate concessions, but may also include other types of concessions.

The table below summarizes the Company s loan modification activities that were considered troubled debt restructurings for the three months ended March 31, 2013:

		Recorded investment		Financial effects of modification	
	Number	Pre-modification	Post-modification	Recorded investment (a)	Interest (b)
			(dollars in thousands)		
Commercial, financial, leasing, etc.					
Principal deferral	24	$ 2,006	$ 1,982	$ (24)	$
Other	1	47,200	47,200		
Combination of concession types	1	342	342		
Real estate:					
Commercial					
Principal deferral	8	18,478	18,363	(115)	
Combination of concession types	2	582	581	(1)	(56)
Residential builder and developer					
Principal deferral	8	1,357	1,340	(17)	
Combination of concession types	1	1,701	1,691	(10)	
Residential					
Principal deferral	7	566	607	41	
Other	1	195	195		
Combination of concession types	20	2,449	2,536	87	(371)
Residential Alt-A					
Combination of concession types	5	907	925	18	(110)
Consumer:					
Home equity lines and loans					
Principal deferral	2	79	79		
Combination of concession types	2	211	211		(33)
Automobile					
Principal deferral	121	1,586	1,586		
Interest rate reduction	2	36	36		(5)
Other	17	159	159		
Combination of concession types	61	553	553		(42)
Other					
Principal deferral	6	45	45		
Other	1	12	12		
Combination of concession types	42	1,217	1,217		(267)
Total	332	$ 79,681	$ 79,660	$ (21)	$ (884)

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

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The table below summarizes the Company s loan modification activities that were considered troubled debt restructurings for the three months ended March 31, 2012:

		Recorded investment		Financial effects of modification	
	Number	Pre-modification	Post-modification	Recorded investment (a)	Interest (b)
		(dollars in thousands)			
Commercial, financial, leasing, etc.					
Principal deferral	9	$ 2,812	$ 2,954	$ 142	$
Other	1	972	1,098	126	
Combination of concession types	1	45	44	(1)	(33)
Real estate:					
Commercial					
Principal deferral	2	2,425	2,405	(20)	
Residential builder and developer					
Principal deferral	5	6,822	6,034	(788)	
Combination of concession types	2	2,350	2,726	376	
Residential					
Principal deferral	15	1,505	1,588	83	
Combination of concession types	18	2,936	3,007	71	(200)
Residential Alt-A					
Principal deferral	3	397	407	10	
Combination of concession types	8	1,360	1,394	34	(5)
Consumer:					
Home equity lines and loans					
Principal deferral	1	117	117		
Interest rate reduction	1	144	144		(6)
Combination of concession types	2	235	235		(24)
Automobile					
Principal deferral	153	1,885	1,885		
Interest rate reduction	4	57	57		(4)
Other	10	19	19		
Combination of concession types	112	1,609	1,609		(172)
Other					
Principal deferral	52	647	647		
Interest rate reduction	3	23	23		(3)
Other	9	49	49		
Combination of concession types	34	219	219		(36)
Total	445	$ 26,628	$ 26,661	$ 33	$ (483)

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

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

Troubled debt restructurings are considered to be impaired loans and for purposes of establishing the allowance for credit losses are evaluated for impairment giving consideration to the impact of the modified loan terms on the present value of the loan s expected cash flows. Impairment of troubled debt restructurings that have subsequently defaulted may also be measured based on the loan s observable market price or the fair value of collateral if the loan is collateral-dependent. Charge-offs may also be recognized on troubled debt restructurings that have subsequently defaulted. Loans that were modified as troubled debt restructurings during the twelve months ended March 31, 2013 and 2012 and for which there was a subsequent payment default during the three-month periods ended March 31, 2013 and 2012, respectively, were not material.

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

5. Borrowings

M&T had $1.2 billion of fixed and floating rate junior subordinated deferrable interest debentures (Junior Subordinated Debentures) outstanding at March 31, 2013 that are held by various trusts and were issued in connection with the issuance by those trusts of preferred capital securities (Capital Securities) and common securities (Common Securities). The proceeds from the issuances of the Capital Securities and the Common Securities were used by the trusts to purchase the Junior Subordinated Debentures. The Common Securities of each of those trusts are wholly owned by M&T and are the only class of each trust s securities possessing general voting powers. The Capital Securities represent preferred undivided interests in the assets of the corresponding trust.

Under the Federal Reserve Board s current risk-based capital guidelines, the Capital Securities are includable in M&T s Tier 1 capital. However, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 that was signed into law on July 21, 2010 provides for a three-year phase-in related to the exclusion of trust preferred capital securities from Tier 1 capital for large financial institutions, including M&T. That phase-in period began on January 1, 2013. However, specific rules related to that phase-in period have not yet been finalized.

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

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

During the first quarter of 2013, M&T Bank, the principal bank subsidiary of M&T, finalized a Bank Note Program whereby M&T Bank may offer up to $5 billion of unsecured senior and subordinated notes, which will mature 270 days or more from their date of issue. During March 2013, three-year floating rate senior notes due March 2016 were issued for $300 million and five-year 1.45% fixed rate senior notes due March 2018 were issued for $500 million.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

5. Borrowings, continued

Also included in long-term borrowings are agreements to repurchase securities of $1.4 billion at each of March 31, 2013 and December 31, 2012. The agreements are subject to master netting arrangements and are fully collateralized.

6. Shareholders equity

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

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

	Shares issued and outstanding	Carrying value March 31, 2013	Carrying value December 31, 2012
		(dollars in thousands)	
Series A (a)			
Fixed Rate Cumulative Perpetual Preferred Stock, Series A, $1,000 liquidation preference per share	230,000	$ 227,711	$ 226,965
Series C (a)(b)			
Fixed Rate Cumulative Perpetual Preferred Stock, Series C, $1,000 liquidation preference per share	151,500	146,916	145,535
Series D (c)			
Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series D, $10,000 liquidation preference per share	50,000	500,000	500,000

(a) *Shares were originally issued as part of the Troubled Asset Relief Program Capital Purchase Program (TARP) of the U.S. Department of Treasury (U.S. Treasury). Cash proceeds were allocated between the preferred stock and a ten-year warrant to purchase M&T common stock (Series A 1,218,522 common shares at $73.86 per share, Series C 407,542 common shares at $55.76 per share). The U.S. Treasury sold all of the shares of M&T preferred stock that it held in August 2012. In connection with that sale, the terms of the preferred stock were modified such that dividends, if declared, will accrue and be paid quarterly at a rate of 5% per year through November 14, 2013 and at 6.375% thereafter, and that M&T will not redeem the preferred shares until on or after November 15, 2018. In December 2012, the U.S. Treasury sold to other investors the Series A warrants for $26.50 per warrant. In March 2013, the U.S. Treasury exercised the Series C warrants in a cashless exercise, resulting in the issuance of 186,589 common shares.*

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

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

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

6. Shareholders equity, continued

In addition to the Series A and Series C warrants mentioned in (a) above, a ten-year warrant to purchase 95,383 shares of M&T common stock at $518.96 per share was outstanding at March 31, 2013 and December 31, 2012.

7. Pension plans and other postretirement benefits

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

	Pension benefits		Other postretirement benefits	
	Three months ended March 31			
	2013	2012	2013	2012
	(in thousands)			
Service cost	$ 6,050	7,900	200	175
Interest cost on projected benefit obligation	15,126	15,600	675	950
Expected return on plan assets	(21,875)	(17,675)		
Amortization of prior service credit	(1,650)	(1,650)	(350)	
Amortization of net actuarial loss	10,400	9,400	100	100
Net periodic benefit cost	$ 8,051	13,575	625	1,225

Expense incurred in connection with the Company s defined contribution pension and retirement savings plans totaled $15,755,000 and $14,625,000 for the three months ended March 31, 2013 and 2012, respectively.

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

8. Earnings per common share

The computations of basic earnings per common share follow:

	Three months ended March 31	
	2013	2012
	(in thousands, except per share)	
Income available to common shareholders:		
Net income	$ 274,113	206,463
Less: Preferred stock dividends (a)	(13,363)	(13,363)
Amortization of preferred stock discount (a)	(2,147)	(1,924)
Net income available to common equity	258,603	191,176
Less: Income attributable to unvested stock-based compensation awards	(3,524)	(2,940)
Net income available to common shareholders	$ 255,079	188,236
Weighted-average shares outstanding:		
Common shares outstanding (including common stock issuable) and unvested stock-based compensation awards	129,449	127,157
Less: Unvested stock-based compensation awards	(1,780)	(1,937)
Weighted-average shares outstanding	127,669	125,220
Basic earnings per common share	$ 2.00	1.50

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

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

8. Earnings per common share, continued

The computations of diluted earnings per common share follow:

	Three months ended March 31	
	2013	2012
	(in thousands, except per share)	
Net income available to common equity	$ 258,603	191,176
Less: Income attributable to unvested stock-based compensation awards	(3,507)	(2,935)
Net income available to common shareholders	$ 255,096	188,241
Adjusted weighted-average shares outstanding:		
Common shares outstanding (including common stock issuable) and unvested stock-based compensation awards	129,449	127,157
Less: Unvested stock-based compensation awards	(1,780)	(1,937)
Plus: Incremental shares from assumed conversion of stock-based compensation awards and convertible preferred stock	967	396
Adjusted weighted-average shares outstanding	128,636	125,616
Diluted earnings per common share	$ 1.98	1.50

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

Stock-based compensation awards and warrants to purchase common stock of M&T representing approximately 4.7 million and 10.0 million common shares during the three-month periods ended March 31, 2013 and 2012, respectively, were not included in the computations of diluted earnings per common share because the effect on those periods would have been antidilutive.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

9. Comprehensive income

The following tables display the components of other comprehensive income (loss) and amounts reclassified from accumulated other comprehensive income (loss) to net income:

	Investment Securities						
	With OTTI	All other	Defined benefit plans	Other	Total amount before tax	Income tax	Net
				(in thousands)			
Balance January 1, 2013	$ (91,835)	152,199	(455,590)	(431)	$ (395,657)	155,393	$ (240,264)
Other comprehensive income before reclassifications:							
Unrealized holding gains (losses), net	24,540	(18,959)			5,581	(2,181)	3,400
Foreign currency translation adjustment				(1,452)	(1,452)	520	(932)
Total other comprehensive income before reclassifications	24,540	(18,959)		(1,452)	4,129	(1,661)	2,468
Amounts reclassified from accumulated other comprehensive income that (increase) decrease net income:							
Accretion of unrealized holding losses on held-to-maturity (HTM) securities	49	1,146			1,195(a)	(469)	726
OTTI charges recognized in net income	9,800				9,800(b)	(3,847)	5,953
Amortization of prior service credit			(2,000)		(2,000)(e)	785	(1,215)
Amortization of actuarial losses			10,500		10,500(e)	(4,121)	6,379
Total reclassifications	9,849	1,146	8,500		19,495	(7,652)	11,843
Total gain (loss) during the period	34,389	(17,813)	8,500	(1,452)	23,624	(9,313)	14,311
Balance March 31, 2013	$ (57,446)	134,386	(447,090)	(1,883)	$ (372,033)	146,080	$ (225,953)

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

9. Comprehensive income, continued

	Investment Securities						
	With OTTI	All other	Defined benefit plan	Other	Total amount before tax	Income tax	Net
				(in thousands)			
Balance January 1, 2012	$ (138,319)	9,757	(457,145)	(1,062)	$ (586,769)	230,328	$ (356,441)
Other comprehensive income before reclassifications:							
Unrealized holding gains (losses), net	(10,085)	29,696			19,611	(7,657)	11,954
Foreign currency translation adjustment				622	622	(220)	402
Total other comprehensive income before reclassifications	(10,085)	29,696		622	20,233	(7,877)	12,356
Amounts reclassified from accumulated other comprehensive income that (increase) decrease net income:							
Accretion of unrealized holding losses on HTM securities	819	1,123			1,942(a)	(762)	1,180
OTTI charges recognized in net income	11,486				11,486(b)	(4,508)	6,978
Gains realized in net income		(45)			(45)(c)	15	(30)
Amortization of gains on terminated cash flow hedges				(112)	(112)(d)	42	(70)
Amortization of prior service credit			(1,650)		(1,650)(e)	648	(1,002)
Amortization of actuarial losses			9,500		9,500(e)	(3,729)	5,771
Total reclassifications	12,305	1,078	7,850	(112)	21,121	(8,294)	12,827
Total gain (loss) during the period	2,220	30,774	7,850	510	41,354	(16,171)	25,183
Balance March 31, 2012	$ (136,099)	40,531	(449,295)	(552)	$ (545,415)	214,157	$ (331,258)

(a) Included in interest income
(b) Included in OTTI losses recognized in earnings
(c) Included in gain on bank investment securities
(d) Included in interest expense
(e) Included in salaries and employee benefits expense

Accumulated other comprehensive income (loss), net consisted of the following:

	Investment securities				
	With OTTI	All other	Defined benefit plans	Other	Total
Balance December 31, 2012	$ (55,790)	92,581	(276,771)	(284)	(240,264)

Net gain (loss) during period	20,891	(10,812)	5,164	(932)	14,311
Balance March 31, 2013	$ (34,899)	81,769	(271,607)	(1,216)	(225,953)

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

10. Derivative financial instruments

As part of managing interest rate risk, the Company enters into interest rate swap agreements to modify the repricing characteristics of certain portions of the Company s portfolios of earning assets and interest-bearing liabilities. The Company designates interest rate swap agreements utilized in the management of interest rate risk as either fair value hedges or cash flow hedges. Interest rate swap agreements are generally entered into with counterparties that meet established credit standards and most contain master netting and collateral provisions protecting the at-risk party. Based on adherence to the Company s credit standards and the presence of the netting and collateral provisions, the Company believes that the credit risk inherent in these contracts is not significant as of March 31, 2013.

The net effect of interest rate swap agreements was to increase net interest income by $10 million and $9 million for the three months ended March 31, 2013 and 2012, respectively.

Information about interest rate swap agreements entered into for interest rate risk management purposes summarized by type of financial instrument the swap agreements were intended to hedge follows:

	Notional amount (in thousands)	Average maturity (in years)	Weighted-average rate	
			Fixed	Variable
March 31, 2013				
Fair value hedges:				
Fixed rate long-term borrowings (a)	$ 900,000	4.1	6.07%	1.83%
December 31, 2012				
Fair value hedges:				
Fixed rate long-term borrowings (a)	$ 900,000	4.4	6.07%	1.85%

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

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

Derivative financial instruments used for trading purposes included interest rate contracts, foreign exchange and other option contracts, foreign exchange forward and spot contracts, and financial futures. Interest rate contracts entered into for trading purposes had notional values of $15.2 billion and $15.5 billion at March 31, 2013 and December 31, 2012, respectively. The notional amounts of foreign currency and other option and futures contracts entered into for trading purposes aggregated $921 million and $869 million at March 31, 2013 and December 31, 2012, respectively.

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

10. Derivative financial instruments, continued

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

	Asset derivatives Fair value		Liability derivatives Fair value	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
	(in thousands)			
Derivatives designated and qualifying as hedging instruments				
Fair value hedges:				
Interest rate swap agreements (a)	$ 134,306	143,179	$	
Commitments to sell real estate loans (a)	3,255	1,114	3,913	3,825
	137,561	144,293	3,913	3,825
Derivatives not designated and qualifying as hedging instruments				
Mortgage-related commitments to originate real estate loans for sale (a)	36,166	48,056	47	197
Commitments to sell real estate loans (a)	1,664	1,982	5,574	6,570
Trading:				
Interest rate contracts (b)	351,611	399,963	317,701	365,616
Foreign exchange and other option and futures contracts (b)	10,505	8,725	9,907	8,658
	399,946	458,726	333,229	381,041
Total derivatives	$ 537,507	603,019	$ 337,142	384,866

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

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

10. Derivative financial instruments, continued

	Amount of unrealized gain (loss) recognized			
	Three months ended March 31, 2013		Three months ended March 31, 2012	
	Derivative	Hedged item	Derivative	Hedged item
	(in thousands)			
Derivatives in fair value hedging relationships				
Interest rate swap agreements:				
Fixed rate long-term borrowings (a)	$ (8,873)	8,900	$ (7,029)	6,544
Derivatives not designated as hedging instruments				
Trading:				
Interest rate contracts (b)	$ 968		$ 1,139	
Foreign exchange and other option and futures contracts (b)	(381)		(710)	
Total	$ 587		$ 429	

(a) *Reported as other revenues from operations.*
(b) *Reported as trading account and foreign exchange gains.*

In addition, the Company also has commitments to sell and commitments to originate residential and commercial real estate loans that are considered derivatives. The Company designates certain of the commitments to sell real estate loans as fair value hedges of real estate loans held for sale. The Company also utilizes commitments to sell real estate loans to offset the exposure to changes in the fair value of certain commitments to originate real estate loans for sale. As a result of these activities, net unrealized pre-tax gains related to hedged loans held for sale, commitments to originate loans for sale and commitments to sell loans were approximately $62 million and $89 million at March 31, 2013 and December 31, 2012, respectively. Changes in unrealized gains and losses are included in mortgage banking revenues and, in general, are realized in subsequent periods as the related loans are sold and commitments satisfied.

The Company does not offset derivative asset and liability positions in its consolidated financial statements. The Company s exposure to credit risk by entering into derivative contracts is mitigated through master netting agreements and collateral posting requirements. Master netting agreements covering interest rate and foreign exchange contracts with the same party include a right to set-off that becomes enforceable in the event of default, early termination or under other specific conditions.

The aggregate fair value of derivative financial instruments in a liability position, which are subject to an enforceable master netting arrangement, was $330 million and $374 million at March 31, 2013 and December 31, 2012, respectively. After consideration of such netting arrangements, the net liability positions with counterparties aggregated $236 million and $281 million at March 31, 2013 and December 31, 2012, respectively. The Company was required to post collateral relating to those positions of $218 million and $266 million, respectively, at March 31, 2013 and December 31, 2012, respectively. Certain of the Company s derivative financial instruments contain provisions that require the Company to maintain specific credit ratings from credit rating agencies to avoid higher collateral posting requirements. If the Company s debt rating were

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

10. Derivative financial instruments, continued

to fall below specified ratings, the counterparties of the derivative financial instruments could demand immediate incremental collateralization on those instruments in a net liability position. The aggregate fair value of all derivative financial instruments with such credit-risk-related contingent features in a net liability position on March 31, 2013 was $74 million for which the Company had posted collateral of $58 million in the normal course of business. If the credit-risk-related contingent features had been triggered on March 31, 2013, the maximum amount of additional collateral the Company would have been required to post with counterparties was $16 million.

The aggregate fair value of derivative financial instruments in an asset position, which are subject to an enforceable master netting arrangement, was $168 million and $164 million at March 31, 2013 and December 31, 2012, respectively. After consideration of such netting arrangements, the net asset positions with counterparties aggregated $75 million and $71 million at March 31, 2013 and December 31, 2012, respectively. Counterparties posted collateral relating to those positions of $75 million and $69 million respectively, at March 31, 2013 and December 31, 2012, respectively. Trading account interest rate swap agreements entered into with customers are subject to the Company s credit risk standards and often contain collateral provisions.

11. Variable interest entities and asset securitizations

In accordance with GAAP, the Company determined that it was the primary beneficiary of a residential mortgage loan securitization trust considering its role as servicer and its retained subordinated interests in the trust. As a result, the Company has included the one-to-four family residential mortgage loans that were included in the trust in its consolidated financial statements. At March 31, 2013 and December 31, 2012, the carrying values of the loans in the securitization trust were $142 million and $151 million, respectively. The outstanding principal amount of mortgage-backed securities issued by the qualified special purpose trust that was held by parties unrelated to M&T at March 31, 2013 and December 31, 2012 was $21 million and $23 million, respectively. Because the transaction was non-recourse, the Company s maximum exposure to loss as a result of its association with the trust at March 31, 2013 is limited to realizing the carrying value of the loans less the amount of the mortgage-backed securities held by third parties.

As described in note 5, M&T has issued junior subordinated debentures payable to various trusts that have issued Capital Securities. M&T owns the common securities of those trust entities. The Company is not considered to be the primary beneficiary of those entities and, accordingly, the trusts are not included in the Company s consolidated financial statements. At March 31, 2013 and December 31, 2012, the Company included the junior subordinated debentures as long-term borrowings in its consolidated balance sheet. The Company has recognized $34 million in other assets for its investment in the common securities of the trusts that will be concomitantly repaid to M&T by the respective trust from the proceeds of M&T s repayment of the junior subordinated debentures associated with preferred capital securities described in note 5.

The Company has invested as a limited partner in various partnerships that collectively had total assets of approximately $1.4 billion and $1.5 billion at March 31, 2013 and December 31, 2012, respectively. Those partnerships generally construct or acquire properties for which the investing partners are eligible to receive certain federal income tax credits in accordance with government guidelines. Such investments may also provide tax deductible losses to the partners. The partnership investments also assist the Company in achieving its community reinvestment initiatives. As a limited partner, there is no recourse

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

11. Variable interest entities and asset securitizations, continued

to the Company by creditors of the partnerships. However, the tax credits that result from the Company s investments in such partnerships are generally subject to recapture should a partnership fail to comply with the respective government regulations. The Company s maximum exposure to loss of its investments in such partnerships was $258 million, including $68 million of unfunded commitments, at March 31, 2013 and $270 million, including $71 million of unfunded commitments, at December 31, 2012. The Company has not provided financial or other support to the partnerships that was not contractually required. Management currently estimates that no material losses are probable as a result of the Company s involvement with such entities. The Company, in its position as limited partner, does not direct the activities that most significantly impact the economic performance of the partnerships and, therefore, in accordance with the accounting provisions for variable interest entities, the partnership entities are not included in the Company s consolidated financial statements.

12. Fair value measurements

GAAP permits an entity to choose to measure eligible financial instruments and other items at fair value. The Company has not made any fair value elections at March 31, 2013.

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

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

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

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

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

Trading account assets and liabilities

Trading account assets and liabilities consist primarily of interest rate swap agreements and foreign exchange contracts with customers who require such services with offsetting positions with third parties to minimize the Company s risk with respect to such transactions. The Company generally determines the fair value of its derivative trading account assets and liabilities using externally developed pricing models based on market observable inputs and, therefore,

12. Fair value measurements, continued

classifies such valuations as Level 2. Mutual funds held in connection with deferred compensation arrangements have been classified as Level 1 valuations. Valuations of investments in municipal and other bonds can generally be obtained through reference to quoted prices in less active markets for the same or similar securities or through model-based techniques in which all significant inputs are observable and, therefore, such valuations have been classified as Level 2.

Investment securities available for sale

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

The markets for privately issued mortgage-backed securities have experienced a sharp reduction of non-agency mortgage-backed securities issuances, a reduction in trading volumes and wide bid-ask spreads. Although estimated prices were generally obtained for such securities, the Company was significantly restricted in the level of market observable assumptions used in the valuation of its privately issued mortgage-backed securities portfolio. Specifically, market assumptions regarding credit adjusted cash flows and liquidity influences on discount rates were difficult to observe at the individual bond level. Because of the inactivity in the markets and the lack of observable valuation inputs, the Company has classified the valuation of privately issued mortgage-backed securities as Level 3.

The Company supplemented its determination of fair value for many of its privately issued mortgage-backed securities by obtaining pricing indications from two independent sources at March 31, 2013 and December 31, 2012. However, the Company could not readily ascertain that the basis of such valuations could be ascribed to orderly and observable trades in the market for privately issued mortgage-backed securities. As a result, the Company also performed internal modeling to estimate the cash flows and fair value of privately issued mortgage-backed securities with an amortized cost basis of $1.1 billion. The Company s internal modeling techniques included discounting estimated bond-specific cash flows using assumptions about cash flows associated with loans underlying each of the bonds, including estimates about the timing and amount of credit losses and prepayments. In estimating those cash flows, the Company used assumptions as to future delinquency, defaults, home price depreciation or appreciation and loss rates. To determine the point within the range of potential values that was most representative of fair value under current market conditions for each of the bonds, the Company averaged the internal model valuations and the indications obtained from the two independent pricing sources, such that the weighted-average reliance on internal model pricing for the bonds modeled was 33% with a 67% average weighting placed on the values provided by the independent sources. Significant unobservable inputs used in the Company s modeling of fair value for mortgage-backed securities are included in the accompanying table of significant unobservable inputs to Level 3 measurements. The Company concluded its estimate of fair value for the $1.1 billion of privately issued mortgage-backed securities to approximate $1.0 billion, which reflects a market yield based on reasonably likely cash flows of 5.9% at March 31, 2013.

Included in collateralized debt obligations are securities backed by trust preferred securities issued by financial institutions and other entities. The Company could not obtain pricing indications for many of these securities from its two primary independent pricing sources. The Company, therefore, performed internal modeling to estimate the cash flows and fair value of its portfolio of securities backed by trust preferred securities at March 31, 2013 and December

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

12. Fair value measurements, continued

31, 2012. The modeling techniques included estimating cash flows using bond-specific assumptions about future collateral defaults and related loss severities. The resulting cash flows were then discounted by reference to market yields observed in the single-name trust preferred securities market. In determining a market yield applicable to the estimated cash flows, a margin over LIBOR, ranging from 5% to 10% with a weighted-average of 7% was used. Significant unobservable inputs used in the determination of estimated fair value of collateralized debt obligations are included in the accompanying table of significant unobservable inputs to Level 3 measurements. The total amortized cost and fair value of securities backed by trust preferred securities issued by financial institutions and other entities were $43 million and $62 million, respectively, at March 31, 2013 and December 31, 2012. Privately issued mortgage-backed securities and securities backed by trust preferred securities issued by financial institutions and other entities constituted all of the available-for-sale investment securities classified as Level 3 valuations as of March 31, 2013 and December 31, 2012.

The Company ensures an appropriate control framework is in place over the valuation processes and techniques used for Level 3 fair value measurements. Specifically, the Company attempts to obtain the market observable inputs used by third party pricing sources on a sample of bonds each quarter. Analytical procedures are performed to understand changes in fair value from period to period. Internal pricing models are subject to validation procedures including testing of mathematical constructs, review of valuation methodology and significant assumptions used.

Real estate loans held for sale

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

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

The Company enters into various commitments to originate real estate loans for sale and commitments to sell real estate loans. Such commitments are considered to be derivative financial instruments and, therefore, are carried at estimated fair value on the consolidated balance sheet. The estimated fair values of such commitments were generally calculated by reference to quoted prices in secondary markets for commitments to sell real estate loans to certain government-sponsored entities and other parties. The fair valuations of commitments to sell real estate loans generally result in a Level 2 classification. The estimated fair value of commitments to originate real estate loans for sale are adjusted to reflect the Company s anticipated commitment expirations. The estimated commitment expirations are considered significant unobservable inputs contributing to the Level 3 classification of commitments to originate real estate loans for sale. Significant unobservable inputs used in the determination of estimated fair value of commitments to originate real estate loans for sale are included in the accompanying table of significant unobservable inputs to Level 3 measurements.

Table of Contents

NOTES TO FINANCIAL STATEMENTS, CONTINUED

12. Fair value measurements, continued

Interest rate swap agreements used for interest rate risk management

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

The following tables present assets and liabilities at March 31, 2013 and December 31, 2012 measured at estimated fair value on a recurring basis:

	Fair value measurements at March 31, 2013	Level 1 (a)	Level 2 (a)	Level 3
		(in thousands)		
Trading account assets	$ 420,144	46,567	373,577	
Investment securities available for sale:				
U.S. Treasury and federal agencies	39,700		39,700	
Obligations of states and political subdivisions	20,041			