

M&T BANK  
CORPORATION



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ANNUAL REPORT

**COVER ART:** Commissioned in 1927 for the Necho Allen Hotel in Pottsville, Pennsylvania, painter George Benjamin Luks' three panel mural portrays the legend of Necho Allen's discovery of coal in Schuylkill County, Pennsylvania.

Luks, who rejected the genteel subjects that dominated art during the late-nineteenth and early-twentieth centuries, concentrated on depicting a realistic view of ordinary people. He aligned himself with a group who called themselves "The Eight," though their vision of American life earned them the nickname "The Ash Can School."

In 1970, the painting was purchased by the former Pennsylvania National Bank & Trust Company, which in conjunction with its holding company, the former Keystone Financial, Inc., donated the painting in 1995 to the Schuylkill Campus of The Pennsylvania State University, Schuylkill Haven, PA, where it now hangs in the Ciletti Memorial Library. M&T Bank Corporation acquired Keystone Financial, Inc., in 2000.

This is the third in a series of annual reports to feature the work of regional artists from the communities supported by M&T Bank.

LUKS, GEORGE BENJAMIN (1866-1933).

*Necho Allen Discovering Coal*, 1927.

Oil on canvas, 9' x 16'. Ciletti Memorial Library, Schuylkill Campus of The Pennsylvania State University, Schuylkill Haven, PA.

# M&T BANK CORPORATION

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**ANNUAL MEETING** The annual meeting of stockholders will take place at 11:00 a.m. on April 16, 2002 at One M&T Plaza in Buffalo.

**PROFILE** M&T Bank Corporation is a bank holding company headquartered in Buffalo, New York, which had assets of \$31.5 billion at December 31, 2001. M&T Bank Corporation's subsidiaries include Manufacturers and Traders Trust Company and M&T Bank, National Association.

Manufacturers and Traders Trust Company has offices throughout New York State, Pennsylvania, Maryland and West Virginia, and has an office in the Cayman Islands. Major subsidiaries include:

- Highland Lease Corporation
- M&T Credit Corporation
- M&T Financial Corporation
- M&T Mortgage Corporation
- M&T Real Estate, Inc.
- M&T Securities, Inc.
- Matthews, Bartlett & Dedecker, Inc.

M&T BANK CORPORATION AND SUBSIDIARIES

Financial Highlights

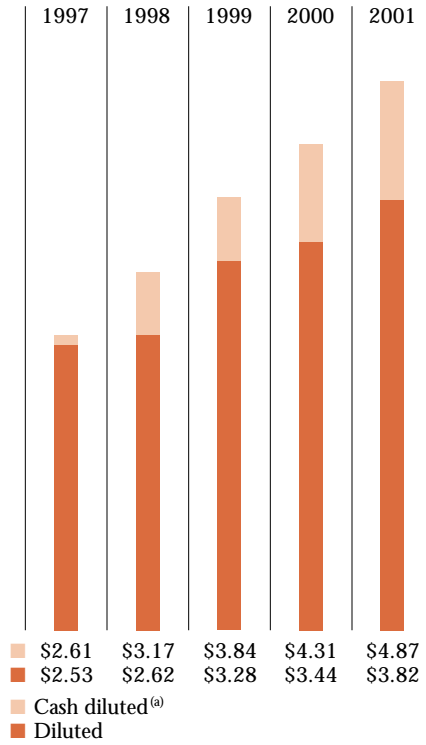
		2001	2000	Change
<b>For the year</b>				
<b>Performance</b>	Net income (thousands) . . . . .	\$378,075	286,156	+ 32%
	Return on			
	Average assets . . . . .	1.23%	1.21%	
	Average common equity . . . . .	12.78%	14.07%	
	Net interest margin . . . . .	4.23%	4.02%	
	Net charge-offs/average loans . . . . .	.31%	.16%	
	Efficiency ratio <sup>(a)</sup> . . . . .	56.94%	56.06%	
<b>Per common share data</b>	Basic earnings . . . . .	\$ 3.95	3.55	+ 11%
	Diluted earnings . . . . .	3.82	3.44	+ 11%
	Cash dividends . . . . .	1.00	.625	+ 60%
<b>Cash (tangible) operating results <sup>(b)</sup></b>	Net income (thousands) <sup>(c)</sup> . . . . .	\$482,264	358,639	+ 34%
	Diluted earnings per common share <sup>(c)</sup> . . . . .	4.87	4.31	+ 13%
	Return on			
	Average tangible assets . . . . .	1.63%	1.56%	
	Average tangible common equity . . . . .	28.50%	27.65%	
	Efficiency ratio <sup>(a)</sup> . . . . .	49.58%	50.22%	
<b>At December 31</b>				
<b>Balance sheet data (millions)</b>	Loans and leases, net of unearned discount . . . . .	\$ 25,188	22,743	+ 11%
	Total assets . . . . .	31,450	28,949	+ 9%
	Deposits . . . . .	21,580	20,233	+ 7%
	Stockholders' equity . . . . .	2,939	2,700	+ 9%
<b>Loan quality</b>	Allowance for credit losses/net loans . . . . .	1.69%	1.65%	
	Nonperforming assets ratio . . . . .	.82%	.55%	
<b>Capital</b>	Tier 1 risk-based capital ratio . . . . .	7.37%	7.49%	
	Total risk-based capital ratio . . . . .	10.72%	11.19%	
	Leverage ratio . . . . .	6.55%	6.66%	
	Common equity/total assets . . . . .	9.35%	9.33%	
	Common equity (book value) per share . . . . .	\$ 31.33	28.93	+ 8%
	Tangible common equity per share . . . . .	18.34	16.74	+ 10%
	Market price per share			
	Closing . . . . .	72.85	68.00	+ 7%
	High . . . . .	82.11	68.42	
	Low . . . . .	59.80	35.70	

<sup>(a)</sup> Excludes impact of nonrecurring merger-related expenses and net securities transactions.

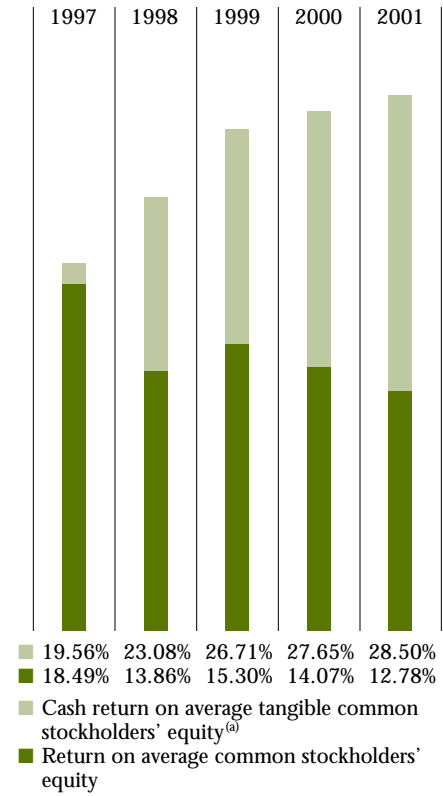
<sup>(b)</sup> Excludes amortization and balances related to goodwill and core deposit intangible and nonrecurring merger-related expenses which, except in the calculation of the efficiency ratio, are net of applicable income tax effects.

<sup>(c)</sup> Cash net income excludes the after-tax impact of nonrecurring merger-related expenses of \$4.8 million or \$.05 per diluted share in 2001 and \$16.4 million or \$.20 per diluted share in 2000.

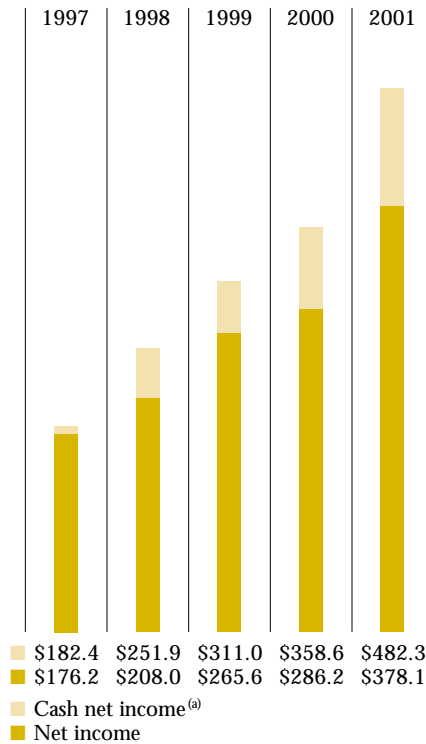
DILUTED EARNINGS  
PER COMMON SHARE



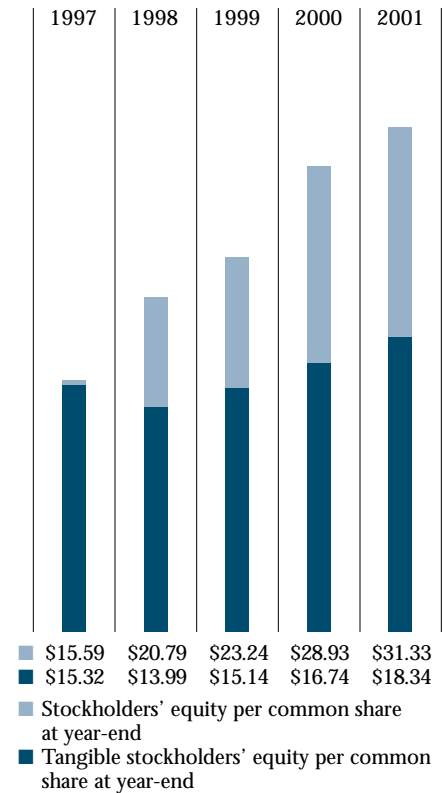
RETURN ON AVERAGE COMMON  
STOCKHOLDERS' EQUITY



NET INCOME  
*In millions*



STOCKHOLDERS' EQUITY  
PER COMMON SHARE AT YEAR-END



<sup>(a)</sup> Excludes nonrecurring merger-related expenses, net of applicable income tax effects.



## MESSAGE TO STOCKHOLDERS

**M&T** Bank Corporation's record of consistent earnings growth continued during 2001, keyed by the successful integration of our acquisitions of the past two years. Diluted cash earnings rose 13% per share, from \$4.31 to \$4.87, the eighth consecutive year of double-digit growth, in percentage terms. In the aggregate, cash net income jumped 34%, from \$359 million in 2000 to \$482 million in 2001. Cash net income, measured in relation to average tangible assets, improved to 1.63%, from 1.56% one year earlier. As a percentage of average tangible equity, cash net income in 2001 was 28.50%, up from 27.65% in 2000.

These results reflect our progress in integrating Keystone Financial, Inc. (Keystone) and Premier National Bancorp, Inc. (Premier), acquired on October 6, 2000 and February 9, 2001, respectively, and confirm our belief in the potential of those acquisitions. The acquisition of Premier, for \$347 million in cash and stock, added \$1.0 billion of loans and \$1.4 billion of deposits. Just as the acquisition of Keystone established our presence in central Pennsylvania, the acquisition of Premier has enhanced our position in New York's Hudson Valley region. These, and the other successes enjoyed by the bank, are fundamentally a reflection of the skills, dedication and creativity of our employees. As chairman, I extend to them my thanks for their exceptional performance and for their commitment to M&T.

As has been our practice, our reported cash earnings do not reflect nonrecurring merger-related expenses associated with integrating acquired entities into M&T. Such expenses, after tax effect, were 5 cents per diluted share last year, or \$5 million. In 2000, similar expenses amounted to 20 cents per diluted share, or \$16 million. Cash earnings also exclude noncash charges for amortization of goodwill and core deposit intangible assets that resulted from our use of the purchase method of accounting for acquisitions. Such charges, also net of applicable tax consequences, were \$1.00 per diluted share, or \$99 million, in 2001 and 67 cents per diluted share, or \$56 million, in 2000.

We have historically reported cash earnings in order to allow comparability of our operating performance with the vast majority of other companies that completed bank acquisitions but which, unlike M&T, used the pooling-of-interests method of accounting. That method, in contrast to the purchase method, did not require recognition of goodwill and other amortizable intangible assets. In this regard, it is noteworthy that in June of last year, the

Financial Accounting Standards Board issued two edicts that, taken together, endorsed purchase accounting, abolished use of the pooling-of-interests method and, beginning in 2002 mandated cessation of amortization of goodwill (with some exceptions) when measuring income in accordance with generally accepted accounting principles (GAAP). As a result, we anticipate that the 2002 after-tax charge for amortization of goodwill and core deposit intangible will be reduced to approximately \$33 million, or about one-third of the amount amortized in 2001.

Using the GAAP-basis method of reporting (which includes the after-tax impact of nonrecurring expenses and noncash amortization charges) in effect for 2001 and earlier years, M&T's diluted earnings per share for last year improved to \$3.82, a rise of 11% from \$3.44 in 2000. GAAP-basis net income was \$378 million in 2001. That was a 32% increase from 2000's net income of \$286 million. Expressed as a return on average total assets, the 2001 result came in at 1.23%, up from the 1.21% ratio in 2000. The GAAP-basis return on average stockholders' equity was further muffled in 2001 by higher noncash charges for amortization of goodwill and core deposit intangible, falling to 12.78%, compared to 14.07% in 2000.

M&T ended last year with total assets of \$31.5 billion, including \$25.2 billion of loans and leases outstanding. At the end of 2000, total assets were \$28.9 billion and the portfolio of loans and leases aggregated \$22.7 billion. Deposits totaled \$21.6 billion at December 31, 2001, up from \$20.2 billion a year earlier. Supporting the balance sheet was stockholders' equity of \$2.9 billion, or \$31.33 per share, and \$2.7 billion, or \$28.93 per share, at the end of 2001 and 2000, respectively.

Taxable-equivalent net interest income, the largest ingredient in the mix for determining net income – both on a cash and GAAP basis – grew 36% to \$1.176 billion in 2001, up from \$865 million in 2000. That growth reflects the combined effects of higher average loans and deposits and a widening of the net interest spread. This latter factor is the difference between the average yield on earning assets and the average rate paid on interest-bearing liabilities.

Spurred by loans and deposits obtained in the mergers with Keystone and Premier, as well as by over \$1.5 billion of added loan volume from day-to-day business activities, loans and leases averaged \$24.4 billion in 2001. That was 32% higher than 2000's average of \$18.5 billion. Over the same time period,



average interest-bearing deposits rose 25%, increasing from \$13.9 billion in 2000 to \$17.3 billion in 2001.

Actions taken by the Federal Reserve throughout all of last year in response to the slowing economy served to lower interest rates. The Fed's eleven interest rate cuts last year led to the lowering of the average rate we paid on interest-bearing liabilities. Last year's rate of 3.91% was 100 basis points (hundredths of one percent) lower than the 4.91% we paid on such liabilities in 2000. Not as pronounced was the impact of the declining interest rate environment on the average yield on earning assets. The 7.62% yield on the asset side of the balance sheet marked a 68 basis point decline from the year-earlier return of 8.30%. The 68 basis point decline in yield on earning assets and the 100 basis point lowering of the rate paid on interest-bearing liabilities produced a 32 basis point betterment in last year's net interest spread to 3.71%. In 2000 the net interest spread was 3.39%. Net interest margin is the ratio of taxable-equivalent net interest income to average total earning assets. That ratio consists of the spread plus the imputed contribution of net interest-free funds. A further consequence of last year's lower rate environment was an 11 basis point decline, to 52 basis points, in that contribution. Overall, the net interest margin last year of 4.23% surpassed that of the prior year (4.02%) by 21 basis points.

As noted in these pages last year, net loan charge-offs – that is, the amount by which loans charged off exceeded amounts that we recovered from loans previously charged off – as a percentage of average loans outstanding, were at historically low levels for 2000. As we anticipated, that ratio increased last year, rising to .31% from .16% in 2000. In dollar amount, net charge-offs increased to \$75 million in 2001. A year earlier they totaled \$29 million. Although approximately 16% of our total loan portfolio is secured by commercial real estate properties in the New York City metropolitan area, we were fortunate that M&T – as we have noted in previous public statements – did not experience any direct losses as a result of the tragic events of September 11, 2001.

Nonperforming loans also rose in 2001. At the end of the year they totaled \$190 million. That was .76% of outstanding loans. At December 31, 2000, nonperforming loans were \$111 million or .49%.

Mindful of this credit data, as well as of the weakened economy nationally and in the markets of New York State and Pennsylvania directly served by M&T, we did not wait for the Securities and Exchange Commission,

bank regulators and accounting authorities to conclude their still ongoing debate, begun in a much different economic environment (and about which I commented in these pages two years ago) as to the recognition of loan losses. Rather, we increased our provision for credit losses last year to \$104 million – prudently, in our view. In 2000 we recorded a provision of \$38 million. As a result, the allowance for loan losses at the 2001 year-end stood at \$425 million. That was equal to 1.69% of loans outstanding. A year earlier the allowance equaled \$375 million, or 1.65% of then outstanding loans.

Other important sources of revenue growth for 2001 included noninterest income, which rose to \$477 million, a jump of 47% from \$325 million a year earlier. About 55% of this improvement was attributable to providing deposit account, trust, brokerage and other services to customers in market areas associated with the Keystone and Premier acquisitions. In addition, the downward spiral of interest rates throughout much of 2001 led to robust activity in the refinancing of home mortgages. That activity significantly boosted mortgage banking revenues, which grew 63% to \$103 million.

During 2001 we continued the work of integrating the operations acquired from Keystone – as well as those acquired from Premier – into M&T. After factoring in a full year’s worth of expenses associated with the businesses acquired from Keystone, operating expenses, which exclude the same nonrecurring costs and amortization charges described earlier, totaled \$819 million last year. That was up from \$599 million in the previous year when only about three months of incremental operating expenses were incurred following the October 2000 acquisition of Keystone. Notwithstanding our expanded scope and consequent increase in operating expenses, M&T’s cash basis efficiency ratio – that is, operating expenses divided by the sum of taxable-equivalent net interest income and noninterest income (exclusive of securities transactions) – dropped for the first time to a level below 50 percent, improving to 49.6% last year from 50.2% in 2000.

Peter J. O’Donnell, Jr., a director of the company and its principal subsidiary, Manufacturers and Traders Trust Company (M&T Bank), since April 1, 1998, will retire from the board concurrent with the April 16, 2002 annual meeting of stockholders. Mr. O’Donnell, president and chief executive officer of Pine Tree Management Corporation, has also served as a member of the bank’s Directors

Advisory Council for northeastern Pennsylvania. His previous association with ONBANCorp and Franklin First Savings Bank, before their mergers with M&T, made him a source of wise counsel. We thank him for his service.

On July 17, 2001 Arthur Levitt, Jr. rejoined the company as an advisory director. Mr. Levitt first became associated with M&T in December 1987, following the merger with The East New York Savings Bank, where he had served as a trustee. He rejoins M&T after leaving, in July 1993, to serve as chairman of the Securities and Exchange Commission, where he remained until February 2001. The longest-serving SEC chair in history, Mr. Levitt has previously served as the chairman of the New York City Economic Development Corporation and the American Stock Exchange. He also joins M&T Bank's Directors Advisory Council for New York City.

#### THE M&T PHILOSOPHY

That earnings at M&T this past year continued to grow, and even exceed, expectations, despite a climate of economic downturn, cannot be attributed entirely either to luck nor happenstance, although one would be foolish to rule out such factors altogether. Our success is explained, too, by considered beliefs about how the business of banking is best approached. The M&T philosophy includes beliefs about our relationships with our employees and our customers, standards of credit, the best routes to operating efficiency and stockholder return. Our philosophy, and the practices to which it leads us, have guided our series of successful acquisitions and underlie the consistency of our earnings growth. They help us as we seek to realize our unchanging goal: to make M&T the bank of choice for customers in the communities we serve. It is a philosophy worth spelling out in some detail.

#### CUSTOMER ORIENTATION

There is no business which would not say that its fundamental focus rests on its customers. That said, we believe that we have developed a number of particularly effective approaches to maintaining and building our customer base. Especially in relatively slow-growth markets like ours, a significant part of our potential for earnings growth rests on maintaining a long-term relationship with our customers and increasing the amount of business we do with them. Doing so means that employees at all levels of the company must be alert and attentive

to customer needs. Our employees are trained to understand the specific situations of both our commercial and retail customers and to direct them, accordingly, to products and services which meet their particular needs. We go so far as to designate employees – we call them relationship bankers for our retail customers, relationship managers or business bankers for our commercial customers – whose job it is to get to know customers so well that we can anticipate their needs and provide approaches to help them achieve their financial objectives. We ask everyone who comes into contact with customers to be alert to opportunities to inform customers about products and services in which they might have an interest. In the banking industry, the most valuable relationships are those with satisfied, long-term customers. Our relationship-based approach has helped make us the market share leader among banks serving middle-market businesses in upstate New York. This approach has had similar benefits for our retail banking operation. For example, over the past three years we have increased the number of our retail customers who on average utilize three or more services by a third.

Customer focus affects the entire company, including our development of new products. For instance, much of the growth in home equity lending which we enjoyed in 2001 was attributable to a “customer-designed” product called the Choice Equity Line of Credit – a home equity line with special features for customers who want to designate a portion of their line for a specific purpose, one for which they want to fix the rate of interest and the number of installments (mimicking, in effect, a traditional consumer loan). This product, developed to provide flexibility and enhance service for customers, helped us to achieve record growth in the volume of our home equity lending.

Thinking about customers extends to thinking about the communities in which they live, as well. We have always seen ourselves as a community bank, one which lends in the same areas as those from which we draw our deposits. That role has guided our corporate philanthropy, which has focused, as described in these pages last year, on projects and organizations which tangibly improve the quality of life in our core markets – whether for a concert series or historic preservation.

## CONSISTENT CREDIT CULTURE

It has been observed that, historically, banks tend to make the worst of loans in the best of times. Implicit in that observation is the possibility that credit standards change with the times – and the fear that earnings can suffer as a result. At M&T, we take a different approach, one built on a combination of strict but consistent standards. If applicants meet our credit standards, they can be assured that their loan requests will be approved. Underwriting is centralized; all loans above a set amount are reviewed by both managers' and senior loan committees. These committees are guided by the knowledge that we don't engage in speculative lending but, instead, understand our role as one of providing credit largely (though, of course, not exclusively) to our established customers, both for their recurring needs and their new plans. Our approach has been validated by results. From 1990 through 2001, M&T had a lower percentage of net charge-offs as a percentage of average loans outstanding than the median for the largest 50 U.S. banks every year. Notably, our results have been best, compared to our peers, when times were worst. Not only does this conservative and consistent approach protect earnings, it allows us to keep our loan window open and to continue to serve our customers and communities, even during downturns in the credit cycle. Access to credit is, of course, central to the capacity of the economy to right itself. A notable example of the long-term value of this approach has been our record in the New York City metropolitan area commercial real estate market. In 1992, at a time when the city was in the grip of a previous recession, our commercial portfolio totaled \$1.5 billion – and our loan window was open. Since then, the value of our metro New York portfolio (concentrated in New York City itself) has climbed to its present level of \$3.9 billion – and our window is still open and will remain that way. It is a policy we believe is fully consonant with our consistent credit culture – and which, too, reflects our long-term confidence in the city, notwithstanding the terrible effects of last September 11.

## OPERATING EFFICIENCY

At M&T, we fully understand that profitability depends not only on our lending and investing acumen but also on the efficiency of our own internal processes. Thus, we are particularly proud that even as we have grown dramatically over the past 20 years, from a \$2 billion to a \$31 billion bank, our efficiency ratio

has improved. As already noted, it improved once again in 2001, moving from 50.2% to 49.6%, even as we integrated Keystone and Premier, and as our operating expenses increased 37%, from \$599 million in 2000 to \$819 million in 2001. Over the past six years, in fact, the rate of operating expense growth for M&T has been lower than the rate of revenue growth. This is no coincidence. We focus specifically on asking our individual business units to keep that measurement in mind; that is, to maintain an adequate spread between revenue and expense growth. That target helps them to make a range of operations-related decisions. It guides our unit managers, for instance, in deciding when they should spend money to make money, by investing in equipment and personnel, and when prospects dictate that it's time, instead, to curb expenses, choosing that way to maintain the desired spread between revenue and costs. Moreover, by making the management of the revenue-expense spread the responsibility of our various business units, we avoid such draconian, and often counter-productive, expense control strategies as across-the-board cuts. Our deep interest in improving the efficiency of our systems has led us to make effective use of technology and facilities which have been part and parcel of our recent acquisitions. The Keystone purchase, for instance, has allowed us to adopt a better ATM system than the one we'd had, as well as to expand and improve our call center service.

#### STOCKHOLDER RETURN

Even after the Keystone and Premier acquisitions, M&T is managed, to a significant degree, by its major stockholders. M&T management, directors and their affiliates own almost a fifth of the company. It is not empty reassurance, then, to say that those running M&T day-to-day strive to keep the interests of stockholders in mind. Put another way, M&T management fully understands that its own long-term financial interests are coincident with the long-term interests of the company's stockholders as a whole. Ours is a common cause. Indeed, a focus on stockholder value has been a hallmark of the company. It has guided us in our acquisition strategy, particularly. Our use of significant amounts of cash in completing acquisitions reduces the need to issue additional shares and means that current stockholders own, in effect, a larger part of our cash net income. By definition, earnings per share is higher than it would otherwise have been. We have taken other steps, as well, with earnings per share

in mind. Rather than let capital accumulate, we return value to the stockholders by buying back stock. In the last three years alone, we used a portion of cash net income to repurchase nearly 7.4 million shares of our common stock, at an aggregate cost of \$458 million.

The M&T philosophy – including our credit standards, our attention to controlling expenses and the nature of our relationship with our customers – increases the likelihood that, as some sources of earnings decline other sources of earnings, or savings, will emerge to take their place. The record indicates that such has been the case. Since 1990, cash earnings per share have increased each year, leading to a compound annual growth rate of 17.8%. Not coincidentally, during the same time period, M&T stock – through good times and bad – has increased in value more than twice as much as the Standard & Poors Banks Composite Index (Bank Index). Just \$100 invested in M&T stock at the end of 1990 would have been worth \$1,331 at December 31, 2001, representing a compound annual return of 26.5%, or 9.3% more than the Bank Index. Indeed, since the 1983 arrival of the present management team, the value of M&T shares (through the end of 2001) has risen at a compound annual growth rate of 22.7% – a higher rate than that of any of the top 100 bank holding companies in existence at that time.

#### ACQUISITION APPROACH

Because much of our effort for the year 2001 was directed at seeing through our acquisitions of Keystone and Premier – acquisitions which increased the size of our assets by fully a third – it is worth spelling out the relationship between the M&T philosophy and our approach to acquisitions. They are, in fact, tightly linked. Our focus on stockholder value not only influences the manner in which we finance our acquisitions, it affects the nature of those acquisitions. As managers with a sizeable ownership stake, we don't seek expansion for its own sake. We're not concerned with our number of branches and level of deposits as ends in themselves. Our overriding goal is the successful integration of our acquisitions into the M&T way of doing business – with the goal of retaining customers, reducing expenses and increasing stockholder return. The goal of successful integration has led us to expand both steadily and with care, focusing on contiguous markets similar to those we have already learned how to serve as a community bank.

We believe it's no coincidence that in years in which we've announced or completed a major acquisition, we've significantly outperformed the Bank Index – a reflection of our track record of successful integration. One measure used by analysts to gauge the success of an acquisition is the rate of stock appreciation following the acquisition announcement, as compared with that of the Bank Index. By this measure, among the group of banks which announced acquisitions valued at more than \$1 billion during the two-year period which ended December 31, 2001, the rate of increase in value of M&T stock has exceeded that of the Bank Index at a rate higher than any of the others.

All that said, we're under no illusions that the fact the former Keystone and Premier branches are now running on the same computer systems as the rest of M&T (vitaly important as that is) means that the work of successful integration is complete. Familiarizing former Keystone and Premier employees with the M&T philosophy is not something that can happen overnight. As I've outlined above, M&T is not a collection of branches but a strong, unified business based in the culture of a conservative, community bank, one which values good people and good credit, establishes sound processes for employees to follow, helps them to be attentive to details and to control expenses. In integrating Keystone and Premier, we have never ceased to keep these things in mind. The challenge was not a small one. At Keystone, in particular, individual offices were more independent, reflecting their roots as separately-managed community banks. To welcome them into the M&T culture, we dispatched more than 200 employees from existing M&T business units to former Keystone, and later Premier, branches and regional offices. We have retained many good employees whom we were fortunate enough to inherit. Over the past year, we have provided training in the M&T system for hundreds of those former Keystone and Premier employees. This is an investment in our own human capital we believe has only just begun to bring returns. For the coming year, we look to former Keystone and Premier operations, not merely as acquisitions, but as new engines of increased core growth for M&T. For that to occur, we must disseminate the M&T philosophy across the company. Both our earnings, as well as individual anecdotes, tell me we are succeeding. I was particularly pleased, for instance, to hear from one long-time employee who, notwithstanding her fears about transferring from an M&T branch in Wilkes-Barre, Pennsylvania to one hundreds of miles away in Jamestown, New York, was relieved to find



the same “team feeling” at her new branch. Call it team feeling or call it M&T philosophy, it’s a combination of values and approaches that have served us well to date and I believe will continue to do so.

#### ACCOUNTING AND AUDITING

During the current period of concern about corporate accounting practices, it is worth underscoring M&T’s firm and unchanging commitment to accurate financial reporting, conservative application of accounting principles, and easy-to-understand disclosures about our business activities. Said another way, the same conservative approach which we take in our business practices applies to our accounting practices.

Much has also been reported of late about fees paid to outside auditors for non-audit services. In 2001, we paid PricewaterhouseCoopers \$675,000 to audit M&T’s consolidated financial statements. We paid them an additional \$725,000 for reviewing income tax returns and providing other income tax-related services, rendering reports about compliance with various regulations and requirements, and performing audit services for our Trust Division and several of our subsidiaries. Lastly, we paid \$361,000 for special work associated with acquisitions, implementation of a new accounting standard, providing staffing assistance to our internal audit department (but, nevertheless, working only under the direct supervision of M&T’s internal audit management), and other miscellaneous matters. We view our relationship with PricewaterhouseCoopers very positively. We believe that both the nature of the non-audit services they provide to M&T and the fees we pay for such services have in no way compromised, in either appearance or fact, PricewaterhouseCoopers’ integrity and independence with respect to M&T Bank Corporation. Furthermore, the Audit Committee of the Board of Directors – which is comprised of five nonemployee directors – meets regularly with representatives of PricewaterhouseCoopers to review the services that firm provides to M&T. Nevertheless, we recognize that a substantial body of opinion is developing that firms which provide audit services should not do non-audit work for their clients. As we go forward we will give thoughtful consideration to these issues.

Whether it be analyzing potential acquisitions, valuing our assets and obligations, or utilizing the services of an independent auditor, stockholders can rest assured that we resolutely take precautions to avoid the sins of over-

optimism or over-indulgence that might contribute to inappropriate application of accounting and financial principles.

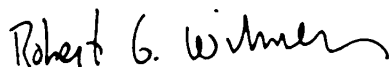
## PUBLIC AFFAIRS

It has long been my habit to comment on significant public affairs in the regions served by M&T. Historically, many of my comments have addressed the high tax burden and precarious financial condition of the upstate New York area, in particular. This past year, these underlying problems have been tragically exacerbated by the terrorist attacks of September 11. The blow to the New York State economy was significant and was reflected in the decreased revenues available to state government. Cities in the upstate region particularly, which have relied on state assistance in balancing their own local budgets while maintaining public services, have been hard hit, as a result.

The reduction in state aid has thrown into sharp relief underlying problems which have been ignored for too long. For example, Buffalo, our headquarters city, about whose high levels of taxation and public employment I have previously warned, learned that, with reduced state assistance, its past practices simply could not be sustained. Major budget deficits, both for fiscal 2002 and projected for fiscal 2003, have sparked a financial crisis in the city and large-scale layoffs of public school teachers. Although the proximate cause of these budget problems was the sharp decline in the level of assistance from Albany, it is certainly the case that being a ward of the state was never a good path to a healthy future. State aid has long shielded the city from the changes in the level and delivery method of public services implied by a shrinking population and tax base. If any good is to come of recent hand wringing, it will have to begin with a greater receptivity among elected officials, public employees and the electorate as a whole throughout the upstate region to dramatically new ways of doing business. One must not be insensitive to the disruption for individuals and families that such change can bring. Nor can one fail to sympathize with those touched by it. But the alternative to change is the bleakness of a slow death. Given the strengths and potential of our region and its people, such a fate is unnecessary and would be tragic. Just as M&T's business units consistently look for ways to reduce expenses, so must government – at the same time always keeping in mind that its goal is service, not profit. A number of approaches, long thought out-of-bounds, have come

under serious consideration. Surely, with the wolf at the door, no plausible idea should be off the table.

That change can lead to improvement was demonstrated this past year by results achieved at Buffalo's Westminster Community School, a neighborhood school in a high-poverty section of the city in which the company has invested considerable amounts of time and money over the past 8 years. Improvement in its students' scores on state-administered standardized mathematics tests led New York State last year to designate Westminster as one of the "most improved" schools in the Buffalo region. Some will say that this result demonstrates only that additional, outside funding is all that is necessary for public schools to improve and that without such funding there will be no improvement. But much of what has been achieved at Westminster required no additional funding at all: a take-charge principal, an orderly atmosphere for learning, higher expectations of students and increased discretion in hiring. Moreover, even when M&T's contribution is added to the costs incurred by the school district, the \$7,167 spent per pupil per year at Westminster has actually been lower than the \$12,024 average for the Buffalo school district as a whole. I extend my congratulations to all those, at the school, in the community and here at the bank, who have made the improvement at Westminster possible.



Robert G. Wilmer  
Chairman of the Board,  
President and Chief Executive Officer

February 19, 2002



## FINANCIAL REVIEW

## M&T BANK CORPORATION AND SUBSIDIARIES

### Financial Review

#### CORPORATE PROFILE AND SIGNIFICANT DEVELOPMENTS

M&T Bank Corporation (“M&T”) is a bank holding company headquartered in Buffalo, New York with consolidated assets of \$31.5 billion at December 31, 2001. The consolidated financial information presented herein reflects M&T and all of its subsidiaries, which are referred to collectively as “the Company.” M&T’s wholly owned bank subsidiaries are Manufacturers and Traders Trust Company (“M&T Bank”) and M&T Bank, National Association (“M&T Bank, N.A.”).

M&T Bank, with total assets of \$30.8 billion at December 31, 2001, is a New York-chartered commercial bank with 469 banking offices in New York State, Pennsylvania, Maryland and West Virginia, and an office in the Cayman Islands. M&T Bank and its subsidiaries offer a broad range of financial services to a diverse base of consumers, businesses, professional clients, governmental entities and financial institutions located in its markets. Lending is largely focused on consumers residing in New York State and Pennsylvania, and on small and medium size businesses based in those areas. Certain lending activities are also conducted in other states through various subsidiaries. M&T Bank’s subsidiaries include: M&T Credit Corporation, a consumer lending and commercial leasing and lending company; M&T Financial Corporation, a commercial leasing company; M&T Mortgage Corporation, a residential mortgage banking company; M&T Real Estate, Inc., a commercial mortgage lender; M&T Securities, Inc., a broker/dealer; Highland Lease Corporation, a consumer leasing company; and Matthews, Bartlett & Dedecker, Inc., an insurance agency.

M&T Bank, N.A., with total assets of \$810 million at December 31, 2001, is a national bank with an office in Oakfield, New York. M&T Bank, N.A. offers selected deposit and loan products on a nationwide basis, largely through telephone and direct mail marketing techniques. Insurance products are offered by M&T Bank, N.A. through banking offices of M&T Bank.

On February 9, 2001, M&T acquired Premier National Bancorp, Inc. (“Premier”), a bank holding company headquartered in Lagrangeville, New

York. Premier National Bank, Premier’s bank subsidiary, was merged into M&T Bank on that date. Premier National Bank operated 34 banking offices in the mid-Hudson Valley region of New York State. As of the merger date, assets acquired totaled approximately \$1.8 billion, including approximately \$1.0 billion of loans and leases, and liabilities assumed were approximately \$1.5 billion, including approximately \$1.4 billion of deposits. The acquisition has been accounted for using the purchase method of accounting and, accordingly, the operations acquired from Premier have been included in M&T’s financial results subsequent to the acquisition date. Premier’s stockholders received \$171 million in cash and 2,440,812 shares of M&T common stock in exchange for the Premier shares outstanding at the time of the acquisition. In connection with the acquisition, the Company recorded approximately \$178 million of goodwill and \$32 million of core deposit intangible.

On October 6, 2000, M&T completed the acquisition of Keystone Financial, Inc. (“Keystone”), a bank holding company headquartered in Harrisburg, Pennsylvania. Keystone Financial Bank, N.A., Keystone’s bank subsidiary, was merged into M&T Bank on that date. Keystone Financial Bank, N.A. operated banking offices in Pennsylvania, Maryland and West Virginia. The acquisition has been accounted for using the purchase method of accounting and, accordingly,

the operations acquired from Keystone have been included in M&T’s financial results since the acquisition date.

Keystone’s stockholders received \$375 million in cash and 15,900,292 shares of M&T common stock in exchange for the Keystone shares outstanding at the time of acquisition. The Company recorded approximately \$475 million of goodwill and \$121 million of core deposit intangible as a result of the Keystone acquisition. Following the completion of an actuarial review and merger of the pension and other post-retirement benefits plans of M&T and Keystone, in 2001 the Company adjusted the net prepaid benefit cost obtained in the acquisition of Keystone. The effect of such adjustment was to increase net prepaid benefit costs by approximately \$28 million and, after applicable tax effect, to decrease goodwill by approximately \$18 million. Reflecting such adjustments, the accompanying table provides a summary of assets acquired and liabilities assumed by the Company on October 6, 2000 in the Keystone transaction.

In connection with the acquisitions described above, the Company incurred nonrecurring expenses related to systems conversions and other costs of integrating and conforming the acquired operations with and into the operations of M&T Bank. Nonrecurring expenses associated with the Premier and Keystone acquisitions totaled approximately \$8 million (\$5 million after-tax) and \$26 million (\$16 million

#### KEYSTONE FINANCIAL, INC. ACQUISITION

*In thousands*

<b>Assets</b>	
Investment securities . . . . .	\$1,167,646
Loans and leases, net of unearned discount . . . . .	4,847,013
Allowance for credit losses . . . . .	(49,518)
Loans and leases, net . . . . .	4,797,495
Goodwill and core deposit intangible. . . . .	596,157
Other assets . . . . .	858,602
Total assets. . . . .	\$7,419,900
<b>Liabilities</b>	
Deposits . . . . .	\$5,182,893
Short-term borrowings . . . . .	348,842
Long-term borrowings . . . . .	670,924
Other liabilities . . . . .	178,699
Total liabilities. . . . .	\$6,381,358

after-tax) during the years ended December 31, 2001 and 2000, respectively. Such expenses consisted largely of expenses for professional services and other temporary help fees associated with the conversion of systems and/or integration of operations; recruiting and other incentive compensation; initial marketing and promotion expenses designed to introduce M&T Bank to customers; travel; and printing, supplies and other costs of commencing operations in new markets and offices. In accordance with generally accepted accounting principles, included in the determination of goodwill associated with the Premier merger were charges totaling \$4 million, net of applicable income taxes, for severance of former Premier employees; legal and other professional fees; and termination of Premier contracts for data processing and other services. As of December 31, 2001, unpaid Premier merger-related expenses and charges included in the determination of goodwill were insignificant. The resolution of any preacquisition contingencies is not expected to have a material impact on the allocation of the purchase price or the amount of goodwill recorded as part of the Premier acquisition. Included in the determination of goodwill associated with the Keystone merger were charges totaling \$30 million, net of applicable income taxes, for severance of former Keystone employees; investment banking, legal and other professional fees; and termination of Keystone contracts for data processing and other services. As of December 31, 2001, unpaid Keystone merger-related expenses and charges included in the determination of goodwill were insignificant. Unpaid Keystone merger-related expenses and goodwill charges were \$2 million and \$7 million, respectively, at December 31, 2000.

In anticipation of the Keystone and Premier acquisitions, M&T Bank issued \$500 million of 8% fixed rate subordinated capital notes on October 5, 2000. The subordinated notes are included in total regulatory capital of M&T and M&T Bank. The notes pay interest semi-annually on April 1 and October 1, and will mature on October 1, 2010. In addition to providing regulatory capital, the proceeds were used to fund the cash portions of the Keystone and Premier merger consideration.

In 1999, the Company completed acquisitions of FNB Rochester Corp. ("FNB"), which through a subsidiary operated 17 banking offices in western and central New York State, and 29 upstate New York banking offices from The Chase Manhattan Bank ("Chase"). Loans and leases acquired in the merger with FNB totaled \$393 million on the June 1, 1999 acquisition date and deposit liabilities assumed were \$511 million. At the time of the September 1999 acquisition of the 29 banking offices from Chase, such offices had \$634 million of deposits and \$44 million of loans. Chase also transferred trust accounts associated with customers of the acquired offices to the Company. Such accounts had transfer-date balances of approximately \$433 million. Such balances represent customer assets in investment management and custody accounts and, accordingly, are not recorded in the Company's consolidated balance sheet.

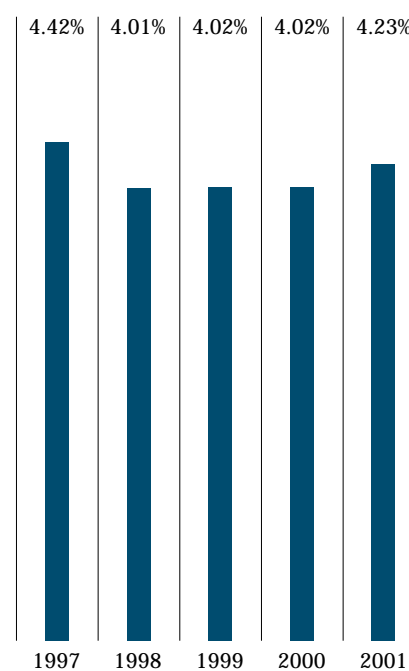
In connection with the acquisitions described in the preceding paragraph, the Company recorded \$116 million of goodwill and \$36 million of core deposit intangible and incurred \$5 million (\$3 million after-tax) of nonrecurring expenses similar in nature to those previously described as having been incurred in connection with the Keystone and Premier mergers.

#### OVERVIEW

M&T reported net income in 2001 of \$378 million or \$3.82 of diluted earnings per common share, increases of 32% and 11%, respectively, from \$286 million or \$3.44 per diluted share in 2000. Basic earnings per common share rose 11% to \$3.95 in 2001 from \$3.55 in 2000. Net income in 1999 totaled \$266 million, while diluted and basic earnings per share were \$3.28 and \$3.41, respectively. The after-tax impact of nonrecurring expenses associated with the previously described acquisitions was \$5 million (\$8 million pre-tax) or \$.05 of diluted and basic earnings per share in 2001, \$16 million (\$26 million pre-tax) or \$.20 of diluted and basic earnings per share in 2000, and \$3 million (\$5 million pre-tax) or \$.03 of diluted earnings per share and \$.04 of basic earnings per share in 1999.

Net income represented a return on average assets in 2001 of 1.23%,

#### TAXABLE-EQUIVALENT NET INTEREST MARGIN



compared with 1.21% in 2000 and 1.26% in 1999. The return on average common stockholders' equity was 12.78% in 2001, 14.07% in 2000 and 15.30% in 1999. Excluding the impact of merger-related expenses, the rates of return on average assets and average common equity in 2001 were 1.24% and 12.94%, respectively, compared with 1.28% and 14.88%, respectively, in 2000 and 1.28% and 15.47%, respectively, in 1999.

Taxable-equivalent net interest income rose 36% to \$1.176 billion in 2001 from \$865 million in 2000, largely due to a \$6.3 billion or 29% increase in average earning assets to \$27.8 billion in 2001 from \$21.5 billion in 2000 and a widening of the Company's net interest margin, or taxable-equivalent net interest income expressed as a percentage of average earning assets. Including the impact of the loans obtained at the time of the acquisitions of Keystone and Premier, average loans and leases increased \$5.9 billion or 32%, to \$24.4 billion in 2001 from \$18.5 billion in 2000. Net interest margin improved by 21 basis points (hundredths of one percent) to 4.23% in 2001 from 4.02% a year earlier, due largely to the declining interest rate environment throughout 2001. A 13% increase in average earning assets in

## EARNINGS SUMMARY

Dollars in millions

Increase (decrease) <sup>(a)</sup> 2000 to 2001		Increase (decrease) <sup>(a)</sup> 1999 to 2000			2001	2000	1999	1998	1997	Compound growth rate 5 years 1996 to 2001
Amount	%	Amount	%							
\$336.1	19	\$297.0	20	Interest income <sup>(b)</sup> . . . . .	\$2,119.4	1,783.3	1,486.3	1,366.6	1,073.3	16%
25.0	3	199.4	28	Interest expense . . . . .	943.6	918.6	719.2	687.5	508.1	15
311.1	36	97.6	13	Net interest income <sup>(b)</sup> . . . . .	1,175.8	864.7	767.1	679.1	565.2	17
65.5	172	(6.5)	(15)	Less: provision for credit losses . . . . .	103.5	38.0	44.5	43.2	46.0	19
5.0	–	(4.7)	–	Gain (loss) on sales of bank investment securities . . . . .	1.9	(3.1)	1.6	1.8	(.3)	–
147.7	45	47.0	17	Other income . . . . .	475.5	327.8	280.8	261.2	190.8	23
				Less:						
105.7	32	44.4	16	Salaries and employee benefits . . . . .	434.9	329.2	284.8	259.5	220.0	16
148.2	41	71.1	24	Other expense . . . . .	513.4	365.2	294.1	306.6	201.8	21
144.4	32	30.9	7	Income before income taxes . . . . .	601.4	457.0	426.1	332.8	287.9	19
				Less:						
7.0	67	2.7	35	Taxable-equivalent adjustment <sup>(b)</sup> . . . . .	17.5	10.5	7.8	7.2	5.8	31
45.5	28	7.6	5	Income taxes . . . . .	205.8	160.3	152.7	117.6	105.9	16
\$ 91.9	32	\$ 20.6	8	Net income . . . . .	\$ 378.1	286.2	265.6	208.0	176.2	20%

<sup>(a)</sup> Changes were calculated from unrounded amounts.

<sup>(b)</sup> Interest income data are on a taxable-equivalent basis. The taxable-equivalent adjustment represents additional income taxes that would be due if all interest income were subject to income taxes. This adjustment, which is related to interest received on qualified municipal securities, industrial revenue financings and preferred equity securities of government-sponsored agencies, is based on a composite income tax rate of approximately 37% for 2001, 40% for 2000, 41% for 1999, 1998 and 1997.

2000 was the most significant factor contributing to the rise in that year's net interest income from \$767 million in 1999. The increase in average earning assets resulted primarily from growth in average loans and leases. Despite the impact of the securitization of approximately \$1.0 billion of residential mortgage loans during the second quarter of 2000, average loans and leases during 2000 rose \$2.1 billion or 13% from \$16.4 billion in 1999. Excluding the impact of the securitization, average loans and leases grew approximately \$2.7 billion in 2000, approximately half of which was due to new originations, net of repayments. The remaining increase was largely the result of the \$4.8 billion of loans and leases obtained in the October 2000 acquisition of Keystone.

Reflecting the weakened economy, nationally and in the markets directly served by the Company, the provision for credit losses increased to \$104 million in 2001 from \$38 million in 2000 and \$45 million in 1999. Net charge-offs totaled \$75 million in

2001, up significantly from \$29 million in 2000 and \$40 million in 1999. Net charge-offs as a percentage of average loans and leases outstanding rose to .31% in 2001 from .16% and .25% in 2000 and 1999, respectively.

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. SFAS No. 133 established accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction or (c) a hedge of the foreign currency exposure of a net investment in

a foreign operation, an unrecognized firm commitment, an available for sale security, or a foreign currency denominated forecasted transaction.

Pursuant to SFAS No. 133, the accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. An entity that elects to apply hedge accounting is required to establish at the inception of the hedge the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. Those methods must be consistent with the entity's approach to managing risk.

The January 1, 2001 transition adjustment prescribed by SFAS No. 133 was not material to the Company's consolidated financial position or its results of operations. As a result of adopting the provisions of SFAS No. 133, hedged residential real estate loans held for sale, commitments to originate loans for sale, and commitments



to sell loans are now generally recorded in the consolidated balance sheet at estimated fair market value, rather than at the lower of aggregate cost or fair market value, which was the Company's policy prior to January 1, 2001. As a result of recording such items at estimated fair market value, the Company recognized approximately \$8 million of additional mortgage banking revenues in 2001. If not for the required adoption of SFAS No. 133, such revenues would have generally been recognized in 2002 as the residential mortgage loans to which they related were sold. The impact on the Company's results of operations resulting from the adoption of SFAS No. 133 as related to the Company's use of interest rate swaps to manage interest rate risk associated with other earning assets and interest-bearing liabilities was not significant.

Noninterest income totaled \$477 million in 2001, 47% above the \$325 million in 2000. Noninterest income was \$282 million in 1999. Approximately 55% of the increase from 2000 to 2001 was attributable to revenues related to operations in market areas associated with the Keystone and Premier acquisitions. Growth in mortgage banking revenues, including the impact of adopting SFAS No. 133 described in the preceding paragraph, and higher service charges on deposit accounts also contributed to the increase in noninterest income. Contributing to the higher noninterest income in 2000 as compared with 1999 were increases in service charges on deposit accounts, income from leasing activities and brokerage services income, partially offset by lower mortgage banking revenues and losses from sales of bank investment securities.

Approximately 40% of the increase in 2000's noninterest income from 1999 was attributable to revenues related to operations and/or market areas associated with the Keystone acquisition.

Noninterest operating expenses, which exclude amortization of goodwill and core deposit intangible and nonrecurring merger-related expenses, were \$819 million in 2001, 37% higher than \$599 million in 2000. Nonrecurring merger-related expenses excluded from noninterest operating expenses were \$8 million and \$26 million in 2001 and 2000, respectively. Charges for goodwill

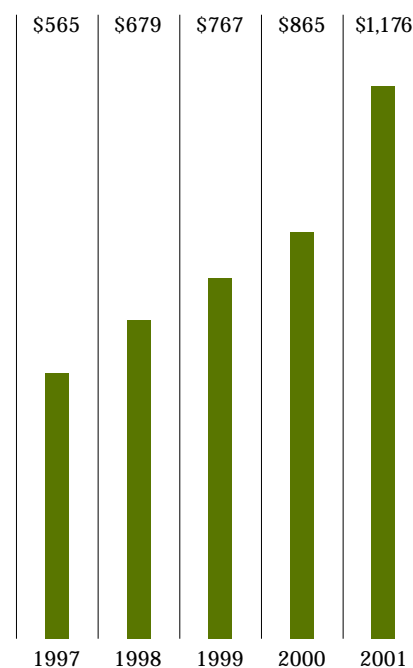
and core deposit intangible amortization excluded from noninterest operating expenses were \$69 million and \$53 million, respectively, in 2001 and \$44 million and \$26 million, respectively, in 2000. Expenses related to the acquired operations of Keystone and Premier significantly contributed to the higher operating expense levels in 2001 compared with 2000. Also contributing to such higher expense levels were increased expenses for salaries and employee benefits, including incentive-based compensation arrangements, advertising, professional and other services, and amortization of capitalized servicing rights. Noninterest operating expenses were 14% higher in 2000 than 1999's total of \$525 million. Excluded from M&T's operating expenses in 1999 were \$5 million of nonrecurring merger-related expenses, \$36 million of amortization of goodwill and \$14 million of amortization of core deposit intangible. Higher salaries and employee benefits expenses, including merit salary increases, incentive-based compensation arrangements, and increased staffing levels as a result of acquisitions in 2000 and 1999, contributed to 2000's increase in noninterest operating expenses.

The efficiency ratio, or noninterest operating expenses divided by the sum of taxable-equivalent net interest income and noninterest income measures how much of a company's revenue is consumed by operating expenses. The Company's efficiency ratio, calculated using the operating expense totals noted above and excluding gains or losses from sales of bank investment securities from noninterest income, was 49.6% in 2001, improved from 50.2% in 2000 and 50.1% in 1999.

#### CASH OPERATING RESULTS

M&T has accounted for substantially all of its business combinations using the purchase method of accounting, unlike many other banking companies. As a result, the Company had recorded intangible assets consisting predominately of goodwill and core deposit intangible totaling \$1.3 billion, \$1.2 billion and \$648 million at December 31, 2001, 2000 and 1999, respectively. Included in such intangible assets at December 31, 2001, 2000 and 1999 was goodwill of \$1.1 billion, \$1.0 billion

TAXABLE-EQUIVALENT  
NET INTEREST INCOME  
*In millions*

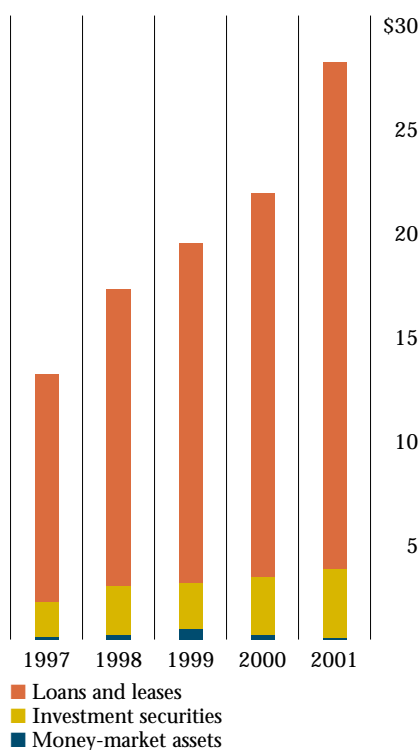


and \$572 million, respectively. Charges for amortization of goodwill and core deposit intangible, after tax effect, were \$66 million (\$.67 per diluted share) and \$33 million (\$.33 per diluted share), respectively, during 2001. Comparable after-tax amortization charges in 2000 were \$40 million (\$.48 per diluted share) for goodwill and \$16 million (\$.19 per diluted share) for core deposit intangible, and in 1999 were \$34 million (\$.43 per diluted share) for goodwill and \$8 million (\$.10 per diluted share) for core deposit intangible. Since the amortization of these acquired intangible assets does not result in a cash expense, M&T believes that supplemental reporting of its operating results on a "cash," or "tangible," basis (which excludes the after-tax effect of amortization of goodwill and core deposit intangible and the related asset balances) represents a relevant measure of financial performance. The supplemental cash basis data presented herein do not exclude the effect of other non-cash operating expenses such as depreciation, provision for credit losses, or deferred income taxes associated with the results of operations. Unless noted otherwise, cash basis data do, however, exclude the after-tax impact of



## AVERAGE EARNING ASSETS

In billions



nonrecurring merger-related expenses associated with acquisitions.

Cash net income increased 34% to \$482 million in 2001 from \$359 million in 2000. Diluted and basic cash earnings per share in 2001 both increased by 13% to \$4.87 and \$5.04, respectively, from \$4.31 and \$4.45, respectively, in 2000. In 1999, cash net income totaled \$311 million, while diluted and basic cash earnings per share were \$3.84 and \$3.99, respectively.

Expressed as a rate of return on average tangible assets, cash net income was 1.63% in 2001, compared with 1.56% in 2000 and 1.52% in 1999. Cash return on average tangible common equity was 28.50% in 2001, compared with 27.65% and 26.71% in 2000 and 1999, respectively. Including the effect of merger-related expenses, the cash return on average tangible assets for 2001, 2000 and 1999 was 1.62%, 1.49% and 1.50%, respectively, and the cash return on average tangible common equity was 28.22%, 26.38% and 26.45%, respectively.

As further discussed under the heading "Recently Issued Accounting Standards," effective January 1, 2002

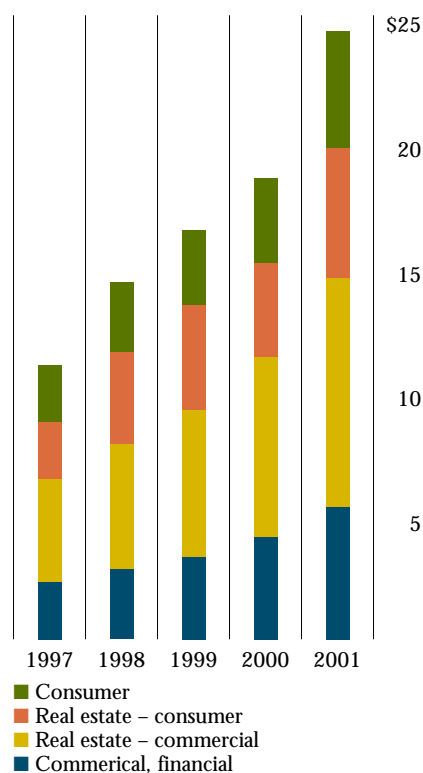
the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." As a result, goodwill associated with corporate acquisitions will no longer be amortized, but rather it will be tested for impairment no less frequently than annually. However, goodwill associated with most branch acquisitions, core deposit intangibles and other intangible assets will continue to be amortized subsequent to January 1, 2002. Amortization expense relating to such assets is expected to approximate \$51 million (\$33 million after-tax) in 2002.

## NET INTEREST INCOME/LENDING AND FUNDING ACTIVITIES

Taxable-equivalent net interest income rose 36% to \$1.176 billion in 2001 from \$865 million in 2000, largely the result of growth in average earning assets and a widening of the Company's net interest margin. 2000's taxable-equivalent net interest income represented a 13% increase from \$767 million in 1999. That increase was also largely due to higher balances of average earning assets. The Company's average earning assets were \$27.8 billion, \$21.5 billion and \$19.1 billion in 2001, 2000 and 1999, respectively. The growth in such assets in 2001 and 2000 was largely attributable to higher average loans and leases outstanding, which totaled \$24.4 billion in 2001, up 32% from \$18.5 billion in 2000 and 49% higher than \$16.4 billion in 1999. The higher levels of loans and leases in 2001 reflect the impact of loans obtained in the Keystone and Premier mergers as well as growth from new loan originations, net of customer repayments. On the October 6, 2000 acquisition date, Keystone's loans totaled \$4.8 billion and included approximately \$1.2 billion of commercial loans, \$1.3 billion of commercial real estate loans, \$1.1 billion of residential real estate loans and \$1.2 billion of consumer loans and leases. Loans obtained in the Premier acquisition on February 9, 2001 totaled \$994 million and included \$127 million of commercial loans, \$317 million of commercial real estate loans, \$356 million of residential real estate loans, and \$194 million of consumer loans. Approximately one-fourth of the increase in average loans and leases during 2001 was attributable to net loan origination activities. Of

## AVERAGE LOANS AND LEASES

In billions



such increase, approximately \$450 million was attributable to higher average balances of residential mortgage loans held for sale. Growth in average loans and leases in 2000 resulting from origination and acquisition activities was partially offset by the impact of the securitization of approximately \$1.0 billion of residential mortgage loans during 2000's second quarter. The resulting mortgage-backed securities, which are fully guaranteed by the Federal National Mortgage Association, are included in the Company's portfolio of available-for-sale investment securities. Excluding the impact of the securitization, average loans and leases grew by approximately \$2.7 billion, or 17%, from 1999 to 2000. Approximately half of such growth was attributable to new originations, net of the impact of repayments. The remaining increase was largely the result of the \$4.8 billion of loans obtained in the October 2000 acquisition of Keystone. The accompanying table summarizes average loans and leases outstanding in 2001 and percentage changes in the major components of the portfolio over the past two years.

M&T BANK CORPORATION AND SUBSIDIARIES

*Average Balance Sheets and Taxable-Equivalent Rates*

<i>Average balance in millions; interest in thousands</i>	2001			2000		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
<b>Assets</b>						
Earning assets						
Loans and leases, net of unearned discount <sup>(a)</sup>						
Commercial, financial, etc. . . . .	\$ 5,271	\$ 372,234	7.06%	4,129	365,951	8.86%
Real estate – commercial . . . . .	9,224	732,162	7.94	7,188	615,304	8.56
Real estate – consumer . . . . .	5,228	407,767	7.80	3,798	296,915	7.82
Consumer . . . . .	4,707	385,363	8.19	3,388	304,640	8.99
Total loans and leases, net . . . . .	24,430	1,897,526	7.77	18,503	1,582,810	8.55
Money-market assets						
Interest-bearing deposits at banks . . . . .	4	116	3.10	6	308	5.41
Federal funds sold and agreements to resell securities . . . . .	63	2,027	3.22	212	12,891	6.08
Trading account . . . . .	13	413	3.16	21	1,069	5.08
Total money-market assets. . . . .	80	2,556	3.20	239	14,268	5.97
Investment securities <sup>(b)</sup>						
U.S. Treasury and federal agencies . . . . .	1,709	113,908	6.67	1,603	105,104	6.56
Obligations of states and political subdivisions . . . . .	332	24,483	7.37	122	8,890	7.27
Other . . . . .	1,267	80,925	6.39	1,033	72,259	7.00
Total investment securities. . . . .	3,308	219,316	6.63	2,758	186,253	6.75
<i>Total earning assets</i> . . . . .	27,818	2,119,398	7.62	21,500	1,783,331	8.30
Allowance for credit losses . . . . .	(409)			(333)		
Cash and due from banks . . . . .	706			536		
Other assets. . . . .	2,711			1,955		
Total assets. . . . .	\$30,826			23,658		
<b>Liabilities and stockholders' equity</b>						
Interest-bearing liabilities						
Interest-bearing deposits						
NOW accounts . . . . .	\$ 722	8,548	1.18	486	7,487	1.54
Savings deposits . . . . .	7,378	134,454	1.82	5,507	132,225	2.40
Time deposits . . . . .	8,906	453,940	5.10	7,674	445,666	5.81
Deposits at foreign office. . . . .	327	11,264	3.44	250	14,915	5.95
Total interest-bearing deposits . . . . .	17,333	608,206	3.51	13,917	600,293	4.31
Short-term borrowings . . . . .	3,280	124,810	3.81	2,715	172,466	6.35
Long-term borrowings . . . . .	3,538	210,581	5.95	2,086	145,838	6.99
<i>Total interest-bearing liabilities</i> . . . . .	24,151	943,597	3.91	18,718	918,597	4.91
Noninterest-bearing deposits . . . . .	3,327			2,425		
Other liabilities . . . . .	390			482		
Total liabilities. . . . .	27,868			21,625		
Stockholders' equity . . . . .	2,958			2,033		
Total liabilities and stockholders' equity. . . . .	\$30,826			23,658		
Net interest spread. . . . .			3.71			3.39
Contribution of interest-free funds . . . . .			.52			.63
Net interest income/margin on earning assets. . . . .		\$1,175,801	4.23%		864,734	4.02%

<sup>(a)</sup> Includes nonaccrual loans.

<sup>(b)</sup> Includes available for sale securities at amortized cost.

1999			1998			1997		
Average balance	Interest	Average rate	Average balance	Interest	Average rate	Average balance	Interest	Average rate
3,331	268,279	8.05%	2,831	235,628	8.32%	2,257	190,189	8.43%
5,908	497,247	8.42	4,999	434,906	8.70	4,180	365,457	8.74
4,182	310,514	7.42	3,683	280,760	7.62	2,228	187,336	8.41
2,994	249,670	8.34	2,773	249,567	9.00	2,308	213,942	9.27
16,415	1,325,710	8.08	14,286	1,200,861	8.41	10,973	956,924	8.72
2	87	3.78	10	400	3.86	42	2,475	5.95
467	24,491	5.24	153	8,293	5.43	55	2,989	5.42
48	3,221	6.71	67	4,524	6.79	26	1,937	7.27
517	27,799	5.37	230	13,217	5.75	123	7,401	6.00
920	53,108	5.77	1,448	88,030	6.08	1,122	70,968	6.33
74	4,660	6.28	73	4,566	6.29	43	2,832	6.61
1,150	75,064	6.53	887	59,962	6.76	534	35,214	6.59
2,144	132,832	6.20	2,408	152,558	6.33	1,699	109,014	6.42
19,076	1,486,341	7.79	16,924	1,366,636	8.08	12,795	1,073,339	8.39
(312)			(302)			(273)		
464			394			308		
1,829			1,293			479		
21,057			18,309			13,309		
389	4,683	1.21	327	4,851	1.48	257	3,455	1.34
5,163	121,888	2.36	4,430	115,345	2.60	3,420	90,907	2.66
7,074	367,889	5.20	7,022	388,185	5.53	5,818	327,611	5.63
254	12,016	4.73	288	14,973	5.20	230	12,160	5.29
12,880	506,476	3.93	12,067	523,354	4.34	9,725	434,133	4.46
2,056	104,911	5.10	1,923	105,582	5.49	812	44,341	5.46
1,748	107,847	6.17	835	58,567	7.02	373	29,619	7.94
16,684	719,234	4.31	14,825	687,503	4.64	10,910	508,093	4.66
1,965			1,666			1,228		
672			317			218		
19,321			16,808			12,356		
1,736			1,501			953		
21,057			18,309			13,309		
		3.48			3.44			3.73
		.54			.57			.69
	767,107	4.02%		679,133	4.01%		565,246	4.42%

AVERAGE LOANS AND LEASES (NET OF UNEARNED DISCOUNT)

<i>Dollars in millions</i>	Percent increase (decrease) from		
	2001	2000 to 2001	1999 to 2000
Commercial, financial, etc. . . . .	\$ 5,271	28%	24%
Real estate – commercial. . . . .	9,224	28	22
Real estate – consumer. . . . .	5,228	38	(9)
Consumer			
Automobile . . . . .	2,117	47	(1)
Home equity . . . . .	1,273	30	22
Other . . . . .	1,317	36	30
Total consumer . . . . .	4,707	39	13
Total . . . . .	\$24,430	32%	13%

Loans secured by real estate, including outstanding balances of home equity lines of credit which the Company classifies as consumer loans, represented approximately 64% of the loan and lease portfolio during 2001, compared with 65% in 2000 and 66% in 1999. At December 31, 2001, the Company held approximately \$9.4 billion of commercial real estate loans, \$5.4 billion of consumer real estate mortgage loans secured by one-to-four family residential properties and \$1.5 billion of outstanding balances of home equity lines of credit, compared with \$8.7 billion, \$4.8 billion and \$1.1 billion, respectively, at December 31, 2000.

Commercial real estate loans originated by the Company are largely secured by properties in the New York City metropolitan area, including areas in neighboring states generally considered to be within commuting distance of New York City, and other areas of New York State where the Company operates, including the Buffalo, Rochester, Syracuse, Albany, Hudson Valley and Southern Tier regions. Commercial real estate loans are also originated through the Company's offices in central Pennsylvania, Maryland, Oregon and West Virginia. Commercial real estate loans originated by the Company include fixed-rate instruments with monthly payments and a balloon payment of the remaining unpaid principal at maturity, in many cases five years after origination. For borrowers in good standing, the terms of such loans may be extended by the customer for an additional five years at the then-current market rate of interest. In response to customer needs, in recent years the Company has also originated fixed-rate

commercial real estate loans with maturities of greater than five years, generally having original maturity terms of approximately ten years. The Company also originates adjustable-rate commercial real estate loans, which represented approximately 38% of the commercial real estate loan portfolio as of December 31, 2001. The accompanying table presents commercial real estate loans by geographic area, type of collateral and size of the loans outstanding at December 31, 2001. Of the \$3.9 billion of commercial real estate loans in the New York City metropolitan area, approximately 41% were secured by multifamily residential properties, 23% by retail space and 14% by office space. The Company's experience has been that office space and retail properties tend to demonstrate more volatile fluctuations in value through economic cycles and changing economic conditions than do multifamily residential properties. Approximately 49% of the aggregate dollar amount of New York City-area loans were for \$5 million or less, while loans of more than \$10 million made up approximately 34% of the total. Less than 7% of loans secured by commercial real estate properties in the New York City metropolitan area at December 31, 2001 were secured by properties located in lower Manhattan. The Company did not experience any significant losses or delinquencies in its loan portfolios as a direct result of the events of September 11, 2001. Commercial real estate loans secured by properties elsewhere in New York State and in Pennsylvania tend to have a greater diversity of collateral types and include a significant amount of lending to customers who use the mortgaged property in their trade or

business. Approximately 76% of the aggregate dollar amount of commercial real estate loans in New York State secured by properties located outside of the metropolitan New York City area were for \$5 million or less, while approximately 83% of the outstanding balance of commercial real estate loans in Pennsylvania were for \$5 million or less.

Commercial real estate loans secured by properties located outside of New York State and Pennsylvania, and outside of areas of neighboring states considered to be part of the New York City metropolitan area, comprised 10% of total commercial real estate loans as of December 31, 2001.

Of the \$539 million of commercial construction loans presented in the accompanying table, \$289 million represent loans for which the Company has also committed to provide permanent financing. Commercial construction loans represented 2% of total loans and leases at December 31, 2001.

Real estate loans secured by one-to-four family residential properties totaled \$5.4 billion at December 31, 2001, including approximately 48% secured by properties located in New York State and 24% secured by properties located in Pennsylvania. At December 31, 2001, \$1.0 billion of residential real estate loans were held for sale by M&T Mortgage Corporation, the Company's residential mortgage banking subsidiary, compared with \$525 million at December 31, 2000. Loans to finance the construction of one-to-four family residential properties totaled \$491 million at December 31, 2001, or approximately 2% of total loans and leases.

Consumer loans and leases represented approximately 19% of the average loan portfolio during 2001, up from 18% during 2000 and 1999. Automobile loans and leases and outstanding balances of home equity lines of credit represent the largest components of the consumer loan portfolio. Approximately 83% of home equity lines of credit outstanding at December 31, 2001 were secured by properties in New York State and 14% were secured by properties in Pennsylvania. At December 31, 2001, 33% and 43% of the automobile loan and lease portfolio were to customers residing in New York State and Pennsylvania, respectively. Automobile loans and leases are generally originated

COMMERCIAL REAL ESTATE LOANS (NET OF UNEARNED DISCOUNT)

December 31, 2001

<i>Dollars in millions</i>	Outstandings	Percent of dollars outstanding by loan size			
		\$0-1	\$1-5	\$5-10	\$10+
<b>Metropolitan New York City</b>					
Apartments/Multifamily . . . . .	\$1,650.6	6%	18%	5%	12%
Office . . . . .	542.5	1	3	2	8
Retail . . . . .	914.2	3	9	4	7
Construction . . . . .	145.4	-	1	2	1
Industrial . . . . .	65.8	1	1	-	-
Other . . . . .	630.4	1	5	4	6
<b>Total Metropolitan New York City . . . . .</b>	<b>\$3,948.9</b>	<b>12%</b>	<b>37%</b>	<b>17%</b>	<b>34%</b>
<b>Other New York State</b>					
Apartments/Multifamily . . . . .	\$ 295.8	4%	5%	1%	-%
Office . . . . .	962.5	9	14	6	3
Retail . . . . .	338.6	4	5	1	1
Construction . . . . .	221.5	1	3	2	1
Industrial . . . . .	252.5	5	2	1	-
Other . . . . .	965.7	12	12	5	3
<b>Total other New York State . . . . .</b>	<b>\$3,036.6</b>	<b>35%</b>	<b>41%</b>	<b>16%</b>	<b>8%</b>
<b>Pennsylvania</b>					
Apartments/Multifamily . . . . .	\$ 250.1	11%	4%	1%	1%
Office . . . . .	203.0	5	8	-	1
Retail . . . . .	150.2	4	4	1	1
Construction . . . . .	75.8	2	2	1	-
Industrial . . . . .	86.7	3	2	-	1
Other . . . . .	711.2	24	14	3	7
<b>Total Pennsylvania . . . . .</b>	<b>\$1,477.0</b>	<b>49%</b>	<b>34%</b>	<b>6%</b>	<b>11%</b>
<b>Other</b>					
Apartments/Multifamily . . . . .	\$ 245.1	6%	10%	6%	5%
Office . . . . .	74.2	1	3	2	2
Retail . . . . .	167.8	2	5	4	8
Construction . . . . .	96.4	1	3	3	4
Industrial . . . . .	63.3	1	2	1	3
Other . . . . .	256.7	6	13	6	3
<b>Total other . . . . .</b>	<b>\$ 903.5</b>	<b>17%</b>	<b>36%</b>	<b>22%</b>	<b>25%</b>
<b>Total commercial real estate loans . . . . .</b>	<b>\$9,366.0</b>	<b>26%</b>	<b>38%</b>	<b>15%</b>	<b>21%</b>

through dealers, however, all applications submitted through dealers are subject to the Company's normal underwriting and loan approval procedures. Automobile loans and leases represented approximately 9% of the Company's average loan portfolio during 2001, while no other consumer loan product represented more than 6%. The average outstanding balance of automobile leases was approximately \$587 million in 2001, and \$375 million in both 2000 and 1999. Automobile leases acquired in the Keystone transaction totaled \$231 million on October 6, 2000.

The investment securities portfolio averaged \$3.3 billion in 2001, up from

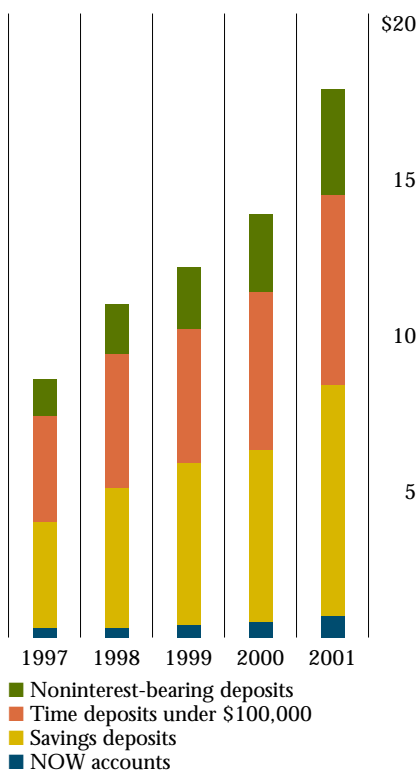
\$2.8 billion in 2000 and \$2.1 billion in 1999. Investment securities obtained in the acquisition of Keystone added approximately \$359 and \$185 million to the average balances in 2001 and 2000, respectively, while investment securities obtained in the Premier acquisition added approximately \$300 million to the average balance in 2001. The remaining increase in 2000 from 1999 was generally the result of the previously described securitization of approximately \$1.0 billion of residential mortgage loans during the second quarter of 2000. The investment securities portfolio is largely comprised of residential mortgage-backed securities

and collateralized mortgage obligations, commercial real estate mortgage-backed securities, and shorter-term U.S. Treasury notes. The Company has also invested in debt securities issued by municipalities and debt and preferred equity securities issued by government-sponsored agencies and certain financial institutions. When purchasing investment securities, the Company considers its overall interest-rate risk profile as well as the adequacy of expected returns relative to risks assumed, including prepayments. 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, or credit risk associated with a particular security, or following completion of a business combination. Investment securities obtained in the Keystone transaction totaled approximately \$1.2 billion on October 6, 2000 and in the Premier transaction totaled \$453 million on February 9, 2001. Money-market assets, which are comprised of interest-earning deposits at banks, interest-earning trading account assets, Federal funds sold and agreements to resell securities, averaged \$80 million in 2001, compared with \$239 million in 2000 and \$517 million in 1999. The size of the investment securities and money-market assets portfolios are influenced by such factors as demand for loans, which generally yield more than investment securities, ongoing repayments, the level of deposits, and management of balance sheet size and resulting capital ratios.

The most significant source of funding for the Company is core deposits, which consist of noninterest-bearing deposits, interest-bearing transaction accounts, 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, N.A. are also included in core deposits. Average core deposits were \$17.6 billion in 2001, up from \$13.6 billion in 2000 and \$11.9 billion in 1999. The increase in average core deposits in 2001 was largely due to the full-year impact of the



**AVERAGE CORE DEPOSITS**  
*In billions*



\$4.7 billion of core deposits obtained on October 6, 2000 in connection with the Keystone transaction, as well as the \$1.2 billion of core deposits obtained on February 9, 2001 in connection with the Premier acquisition. The Company experienced a shift in the composition of core deposits throughout 2001, largely as a result of the lower interest rate environment. Reflecting a change in customer saving trends, average savings deposits rose to \$8.0 billion during the fourth quarter of 2001 from \$6.8 billion in the year's first quarter. In contrast, average time deposits under \$100,000 decreased to \$5.3 billion in the final 2001 quarter from \$6.8 billion in the first quarter of

2001. Average core deposits of M&T Bank, N.A. were \$521 million in 2001, \$643 million in 2000 and \$429 million in 1999. Funding provided by core deposits totaled 63% of average earning assets in 2001 and 2000, compared with 62% in 1999. The accompanying table summarizes average core deposits in 2001 and percentage changes in the components of such deposits over the past two years.

The Company also obtains funding through domestic time deposits of \$100,000 or more, deposits originated through the Company's offshore branch office, and brokered certificates of deposit. Domestic time deposits over \$100,000, excluding brokered certificates of deposit, averaged \$2.0 billion in 2001, compared with \$1.8 billion in 2000 and \$1.6 billion in 1999. Offshore branch deposits, comprised primarily of accounts with balances of \$100,000 or more, averaged \$327 million in 2001, compared with \$250 million and \$254 million in 2000 and 1999, respectively. Brokered deposits, which have been used as an alternative to short-term borrowings, averaged \$794 million in 2001, \$696 million in 2000 and \$1.1 billion in 1999, and totaled \$1.8 billion at December 31, 2001. The weighted-average remaining term to maturity of brokered deposits at December 31, 2001 was .5 years. Certain of the brokered deposits have provisions that allow early redemption. In connection with the Company's management of interest rate risk, interest rate swaps 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 similar to the amounts and terms of \$334 million of brokered deposits. Additional amounts of brokered deposits may be solicited in the future depending on market conditions and the

cost of funds available from alternative sources at the time.

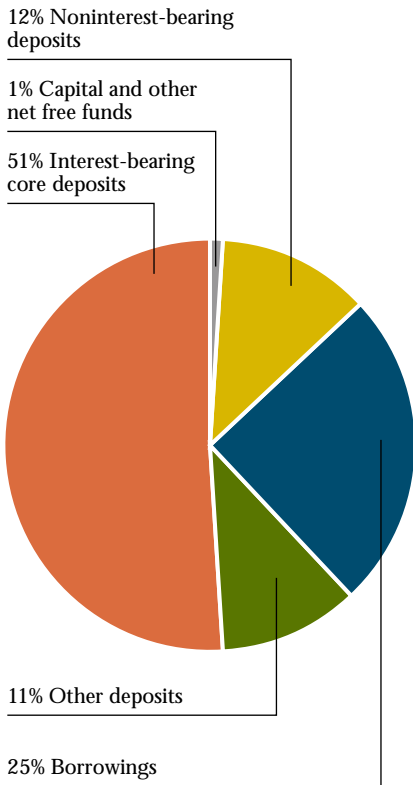
The Company also uses borrowings from banks, securities dealers, the Federal Home Loan Bank of New York and the Federal Home Loan Bank of Pittsburgh (together, the "FHLB"), and others as sources of funding. Short-term borrowings averaged \$3.3 billion in 2001, \$2.7 billion in 2000 and \$2.1 billion in 1999. Amounts borrowed from the FHLB and included in short-term borrowings averaged \$814 million in 2001, \$574 million in 2000 and \$356 million in 1999. The average balance of long-term borrowings was \$3.5 billion in 2001, \$2.1 billion in 2000 and \$1.7 billion in 1999. Included in average long-term borrowings were amounts borrowed from the FHLB of \$2.4 billion in 2001, \$1.4 billion in 2000 and \$1.2 billion in 1999 and subordinated capital notes issued by M&T Bank of \$674 million in 2001, \$295 million in 2000 and \$175 million in 1999. As previously noted, M&T Bank issued \$500 million of 8% subordinated capital notes on October 5, 2000 in anticipation of the Keystone and Premier acquisitions. Trust preferred securities with a carrying value of \$318 million that were issued in 1997 are also included in average long-term borrowings. Information regarding trust preferred securities, as well as information regarding contractual maturities of long-term borrowings, is provided in note 8 of Notes to Financial Statements. Certain interest rate swap agreements have been entered into by the Company as part of its management of interest rate risk relating to long-term FHLB borrowings. Further information on such interest rate swaps is provided in note 16 of Notes to Financial Statements.

Changes in the composition of the Company's earning assets and interest-bearing liabilities, as described herein, as well as changes in interest rates and spreads, can impact net interest income. Throughout 2001, the Federal Reserve took numerous actions to lower the level of interest rates by reducing its benchmark overnight federal funds target rate by 475 basis points. In general, such actions resulted in a greater and more rapid decline in short-term rates as compared with the decline in longer-term rates. The decline in short-term interest rates and the general steepening

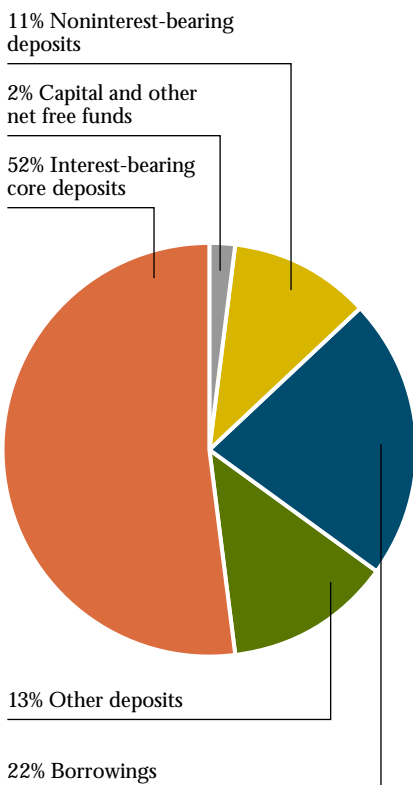
**AVERAGE CORE DEPOSITS**

<i>Dollars in millions</i>	Percent increase from		
	2001	2000 to 2001	1999 to 2000
NOW accounts . . . . .	\$ 722	49%	25%
Savings deposits . . . . .	7,378	34	7
Time deposits under \$100,000 . . . . .	6,136	19	18
Noninterest-bearing deposits . . . . .	3,327	37	23
Total . . . . .	\$17,563	30%	14%

2001 AVERAGE FUNDING SOURCES



2000 AVERAGE FUNDING SOURCES



of the yield curve had a positive effect on the Company's net interest spread, or the difference between the taxable-equivalent yield on earning assets and the rate paid on interest-bearing liabilities, in 2001. The yield on the Company's earning assets decreased 68 basis points to 7.62% in 2001 from 8.30% in 2000, while the rate paid on interest-bearing liabilities in 2001 was 3.91%, down 100 basis points from 4.91% in 2000. The impact of the more rapid repricing of interest-bearing liabilities than earning assets combined with the magnitude of the interest rate reductions led to a 32 basis point increase in the Company's net interest spread, from 3.39% in 2000 to 3.71% in 2001. In 1999, the net interest spread was 3.48%, the yield on earning assets was 7.79% and the rate paid on interest-bearing liabilities was 4.31%. The yield on earning assets increased 51 basis points in 2000 from 7.79% in 1999 and the rate paid on interest-bearing liabilities increased even further, rising 60 basis points from 4.31% in 1999. Actions taken by the Federal Reserve in the second half of 1999 and the first five months of 2000 contributed to the rising level of interest rates in 2000.

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 that include goodwill and core deposit intangible. Average net interest-free funds totaled \$3.7 billion in 2001, \$2.8 billion in 2000 and \$2.4 billion in 1999. The rise in average net interest-free funds in 2001 as compared with 2000 was due largely to increases in noninterest-bearing deposits and stockholders' equity. Net interest-free funds contributed .52% to net interest margin in 2001, compared with .63% in 2000 and .54% in 1999. The decline in the contribution to net interest margin ascribed to net interest-free funds in 2001 from 2000 resulted largely from the impact of lower interest rates on interest-bearing liabilities used to value such contribution. The increase in the contribution in 2000 (as compared with 1999) resulted from the impact of that year's higher interest rates on interest-bearing liabilities and a \$390 million increase in the average balance of net interest-free funds, largely com-

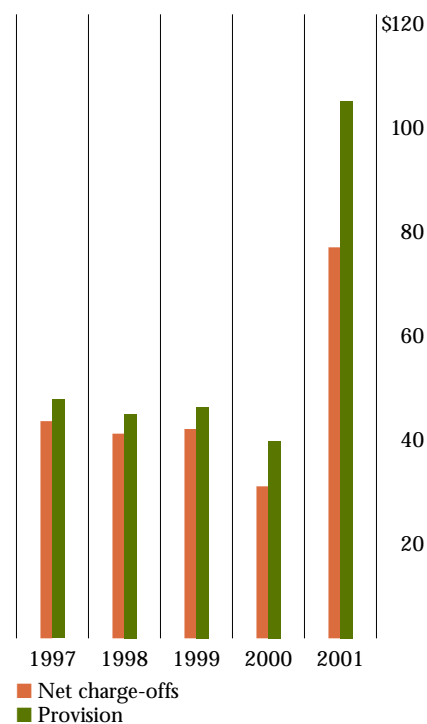
prised of higher average balances in noninterest-bearing deposits and retained earnings. Goodwill and core deposit intangible assets averaged \$1.3 billion in 2001, \$766 million in 2000 and \$594 million in 1999, while the cash surrender value of bank owned life insurance averaged \$573 million in 2001, \$458 million in 2000 and \$379 million in 1999. 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."

Future changes in market interest rates or spreads, as well as changes in the composition of the Company's portfolios of earning assets and interest-bearing liabilities that result in reductions in spreads, could adversely impact the Company's net interest margin and net interest income. Management assesses the potential impact of future changes in interest rates and spreads by projecting net interest income under several different interest rate scenarios. In managing interest rate risk, the Company utilizes interest rate swap agreements to modify the repricing characteristics of certain portions of its portfolios of earning assets and interest-bearing liabilities. Periodic settlement amounts arising from these agreements are generally reflected in either the yields earned on assets or, as appropriate, the rates paid on interest-bearing liabilities. The notional amount of interest rate swaps entered into for interest rate risk management purposes as of December 31, 2001 was approximately \$576 million. In general, under the terms of these swaps, the Company receives payments based on the outstanding notional amount of the swaps at fixed rates of interest and makes payments at variable rates. However, under the terms of \$117 million of swaps, the Company pays a fixed rate of interest and receives a variable rate. In anticipation of the previously noted issuance of \$500 million of fixed-rate subordinated notes in October 2000, the Company terminated certain interest rate swap agreements during September 2000, including forward-starting swaps, with an aggregate notional amount of approximately \$421 million. Under the terms of the terminated swaps, the Company would have made fixed-rate payments and received variable-rate payments. The

termination of these swaps, which had been entered into to hedge interest rate risk associated with fixed-rate commercial real estate loans, resulted in a net deferred gain of approximately \$15.5 million which is being recognized in income over the designated hedge period of the swaps. The impact on the Company's results of operations in 2001 and 2000 from amortizing the net deferred gain was not significant. The amounts of net deferred gain to be recognized in future years is included in note 16 of Notes to Financial Statements. As previously discussed, the Company adopted SFAS No. 133 on January 1, 2001. As a result, \$476 million of the Company's interest rate swap agreements as of December 31, 2001 had been designated as fair value hedges and \$100 million had been designated as cash flow hedges. In a fair value hedge, the fair value of the derivative (the interest rate swap) and changes in the fair value of the hedged item are recorded in the Company's consolidated balance sheet with the corresponding gain or loss recognized in current earnings. The difference between changes in the fair value of the interest rate swaps and the hedged items represents hedge ineffectiveness and is recorded in "other revenues from operations" in the Company's consolidated statement of income. In a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income and subsequently reclassified into earnings when the forecasted transaction affects earnings. The ineffective portion of the gain or

loss is reported in "other revenues from operations" immediately. The amount of hedge ineffectiveness of both fair value and cash flow hedges recognized in 2001 was not material to the Company's results of operations. The estimated fair value of interest rate swaps designated as fair value hedges was a gain of approximately \$5 million at December 31, 2001. The fair value of such swaps was substantially offset by unrealized losses on the fair value of the hedged items. The estimated fair value of the interest rate swaps designated as cash flow hedges was a loss of approximately \$461 thousand at December 31, 2001. Net of applicable income taxes, such loss was approximately \$298 thousand and has been included in "accumulated other comprehensive income, net" in the Company's consolidated balance sheet. The changes in the fair values of the interest rate swaps and the hedged items result from the effects of changing interest rates. Prior to the adoption of SFAS No. 133, the fair value of interest rate swaps entered into for interest rate risk management purposes was not recorded in the Company's consolidated balance sheet. The unrecognized fair value associated with such interest rate swaps at December 31, 2000 and 1999 were pre-tax gains of approximately \$1 million and \$25 million, respectively. The average notional amounts of interest rate swaps entered into for interest rate risk management purposes, the related effect on net interest income and margin, and the weighted-average rate paid or received on those swaps are presented in the accompanying table.

PROVISION AND NET CHARGE-OFFS  
In millions



PROVISION FOR CREDIT LOSSES

A provision for credit losses is recorded to adjust the Company's allowance for credit losses to a level that is adequate to absorb losses inherent in the loan and lease portfolio. The provision for credit losses was \$104 million in 2001, up from \$38 million in 2000 and \$45 million in 1999. Reflecting general weakness in the U.S. economy and in markets directly served by the Company,

INTEREST RATE SWAPS

Dollars in thousands	Year ended December 31					
	2001		2000		1999	
	Amount	Rate <sup>(a)</sup>	Amount	Rate <sup>(a)</sup>	Amount	Rate <sup>(a)</sup>
Increase (decrease) in:						
Interest income . . . . .	\$ (360)	– %	\$ 793	–%	\$ 12,750	.07 %
Interest expense . . . . .	(7,080)	(.03)	780	–	(13,350)	(.08)
Net interest income/margin . . . . .	\$ 6,720	.03 %	\$ 13	–%	\$ 26,100	.14 %
Average notional amount <sup>(b)</sup> . . . . .	\$522,730		\$875,933		\$1,944,813	
Rate received <sup>(c)</sup> . . . . .		5.75 %		6.43%		6.69 %
Rate paid <sup>(c)</sup> . . . . .		4.47 %		6.43%		5.35 %

<sup>(a)</sup> Computed as a percentage of average earning assets or interest-bearing liabilities.  
<sup>(b)</sup> Excludes forward-starting interest rate swaps.  
<sup>(c)</sup> Weighted-average rate paid or received on interest rate swaps in effect during year.

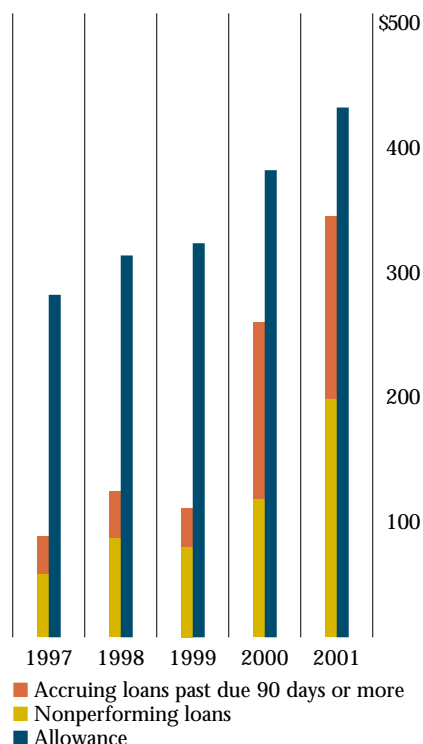


net loan charge-offs in 2001 were \$75 million, significantly higher than \$29 million in 2000 and \$40 million in 1999. Net loan charge-offs as a percentage of average loans outstanding increased to .31% in 2001 from .16% in 2000 and .25% in 1999. The Company did not experience any significant charge-offs or delinquencies in its portfolio of commercial real estate loans secured by properties in the New York City metropolitan area that were directly related to the events of September 11, 2001. A summary of loan charge-offs, provision and allowance for credit losses is presented in the accompanying table.

Nonperforming loans, consisting of nonaccrual and restructured loans, totaled \$190 million or .76% of loans and leases outstanding at December 31, 2001, compared with \$111 million or .49% at December 31, 2000 and \$72

million or .41% at December 31, 1999. The higher level of nonperforming loans in 2001 reflects the weakened economy and its impact on the Company's customers. The recent year's increase in nonperforming loans also reflects two larger-balance commercial loans totaling \$40 million at 2001's year-end that were classified as nonperforming during the year. The increase in nonperforming loans at the end of 2000 as compared with a year earlier reflects the impact of loans obtained in the October 6, 2000 acquisition of Keystone. Nonperforming loans obtained in such acquisition were \$50 million at December 31, 2001 and \$43 million at December 31, 2000. Nonperforming loans obtained in the February 9, 2001 acquisition of Premier were \$7 million at December 31, 2001. No loans were reported as

ALLOWANCE AND  
NONPERFORMING AND  
PAST DUE LOANS  
*In millions*



nonperforming at December 31, 2001 as a direct result of the events of September 11, 2001.

Accruing loans past due 90 days or more were \$147 million or .58% of total loans and leases at December 31, 2001, compared with \$142 million or .62% at December 31, 2000 and \$31 million or .18% at December 31, 1999. In general, such loans are either guaranteed by government agencies or well-secured by collateral. The increases from 1999 resulted largely from the inclusion of \$108 million and \$93 million at December 31, 2001 and 2000, respectively, of one-to-four family residential mortgage loans serviced by the Company and repurchased from the Government National Mortgage Association ("GNMA"). The outstanding principal balances of the repurchased loans are fully guaranteed by government agencies. The loans were repurchased to reduce servicing costs associated with the loans, including a requirement to advance to GNMA principal and interest payments that had not been received from individual mortgagors.

LOAN CHARGE-OFFS, PROVISION AND ALLOWANCE FOR CREDIT LOSSES

<i>Dollars in thousands</i>	2001	2000	1999	1998	1997
Allowance for credit losses beginning balance . . . . .	\$374,703	316,165	306,347	274,656	270,466
Charge-offs during year					
Commercial, financial, agricultural, etc. . . . .	35,555	6,943	19,246	5,457	4,539
Real estate - construction . .	-	-	-	950	-
Real estate - mortgage. . . .	16,391	7,917	5,241	7,210	9,910
Consumer . . . . .	42,208	28,071	35,168	42,684	44,880
Total charge-offs . . . . .	94,154	42,931	59,655	56,301	59,329
Recoveries during year					
Commercial, financial, agricultural, etc. . . . .	3,949	1,199	2,244	2,783	2,609
Real estate - construction . .	-	-	406	-	-
Real estate - mortgage. . . .	4,701	3,573	3,201	2,894	5,869
Consumer . . . . .	10,197	9,179	13,486	11,210	9,041
Total recoveries . . . . .	18,847	13,951	19,337	16,887	17,519
Net charge-offs . . . . .	75,307	28,980	40,318	39,414	41,810
Provision for credit losses . . .	103,500	38,000	44,500	43,200	46,000
Allowance for credit losses acquired during the year. . .	22,112	49,518	5,636	27,905	-
Allowance for credit losses ending balance . . . . .	\$425,008	374,703	316,165	306,347	274,656
Net charge-offs as a percent of:					
Provision for credit losses . .	72.76%	76.26%	90.60%	91.24%	90.89%
Average loans and leases, net of unearned discount . .	.31%	.16%	.25%	.28%	.38%
Allowance for credit losses as a percent of loans and leases, net of unearned discount, at year-end . . .	1.69%	1.65%	1.82%	1.94%	2.39%

Several factors influence the Company's credit loss experience, including overall economic conditions affecting businesses and consumers, in general, and, due to the size of the Company's commercial real estate loan portfolio, real estate valuations, in particular. Commercial real estate valuations include many assumptions and, as a result, can be highly subjective. Commercial real estate values can be significantly affected over relatively short periods of time by changes in business climate, economic conditions, interest rates, and, in many cases, the results of operations of businesses and other occupants of the real property.

Net charge-offs of commercial real estate loans in 2001 were \$5 million. During 2000 and 1999, the Company realized net recoveries of previously charged-off commercial real estate loans of \$383 thousand and \$2 million, respectively. Nonperforming commercial real estate loans totaled \$39 million at December 31, 2001, compared with \$37 million and \$13 million at December

31, 2000 and 1999, respectively. Commercial real estate loans obtained in the Keystone acquisition that were classified as nonperforming at December 31, 2001 and 2000 were \$20 million and \$23 million, respectively. Similar loans obtained in the Premier acquisition were \$2 million at December 31, 2001.

During 2001, net charge-offs of commercial loans and leases totaled \$32 million, compared with \$6 million in 2000 and \$17 million in 1999. The higher level of charge-offs in 2001 compared with 2000 was mainly a function of 2001's economic downturn, while the higher level of charge-offs in 1999 compared with 2000 was largely the result of two commercial loans with partial charge-offs aggregating \$15 million. Reflecting the weakened economy and the two previously noted loans totaling \$40 million, nonperforming commercial loans and leases totaled \$85 million at December 31, 2001, up from \$26 million and \$21 million at December 31, 2000 and 1999, respectively. Commercial loans

acquired in the Keystone acquisition that were classified as nonperforming at December 31, 2001 and 2000 were \$10 million and \$13 million, respectively. Similar loans acquired in the Premier acquisition were \$1 million at December 31, 2001.

Net charge-offs of residential real estate loans were \$6 million in 2001, compared with \$5 million and \$4 million in 2000 and 1999, respectively. Residential real estate loans classified as nonperforming at December 31, 2001 totaled \$40 million, compared with \$36 million and \$26 million at December 31, 2000 and 1999, respectively. Residential real estate loans past due ninety days or more and accruing interest totaled \$135 million, \$115 million and \$14 million at December 31, 2001, 2000 and 1999, respectively. As noted earlier, the higher level of such loans in 2001 and 2000 as compared with 1999 resulted largely from the inclusion at December 31, 2001 and 2000 of \$108 million and \$93 million, respectively, of loans repurchased from GNMA. The repurchased loans are fully guaranteed by government agencies. Residential real estate loans obtained in the Keystone acquisition that were classified at December 31, 2001 as nonperforming and accruing loans past due ninety days or more were \$14 million and \$12 million, respectively. Such loans were \$7 million and \$8 million, respectively, at December 31, 2000. Similar loans obtained in the Premier acquisition were \$3 million and \$2 million, respectively, at December 31, 2001.

Net charge-offs of consumer loans and leases were \$32 million in 2001, representing .68% of average consumer loans and leases outstanding during the year, compared with \$19 million or .56% in 2000 and \$22 million or .72% in 1999. Charge-offs of indirect automobile loans and leases represented the most significant type of consumer loans charged off during the past three years. Net indirect automobile loan and lease charge-offs during 2001 were \$12 million, compared with \$7 million in 2000 and \$8 million in 1999. Nonperforming consumer loans and leases totaled \$26 million or .50% of outstanding consumer loans at December 31, 2001, compared with \$12 million or .29% at December 31, 2000 and \$12 million or .37% at

#### NONPERFORMING ASSETS AND PAST DUE LOAN DATA

*Dollars in thousands*

December 31	2001	2000	1999	1998	1997
Nonaccrual loans . . . . .	\$180,344	100,951	61,816	70,999	38,588
Renegotiated loans . . . . .	10,128	9,688	10,353	8,262	11,660
Total nonperforming loans . .	190,472	110,639	72,169	79,261	50,248
Real estate and other assets owned . . . . .	16,387	13,619	10,000	11,129	8,413
Total nonperforming assets . .	\$206,859	124,258	82,169	90,390	58,661
Accruing loans past due 90 days or more <sup>(a)</sup> . . . . .	\$146,899	141,843	31,017	37,784	30,402
Government guaranteed loans included in totals above:					
Nonperforming loans . . .	\$ 10,196	8,625	5,239	4,033	3,024
Accruing loans past due 90 days or more . . . . .	113,600	102,505	11,290	10,283	14,688
Nonperforming loans to total loans and leases, net of unearned discount . . .	.76%	.49%	.41%	.50%	.44%
Nonperforming assets to total net loans and leases and real estate and other assets owned . . . . .	.82%	.55%	.47%	.57%	.51%
Accruing loans past due 90 days or more to total loans and leases, net of unearned discount . . . . .	.58%	.62%	.18%	.24%	.26%

<sup>(a)</sup> Predominately residential mortgage loans and consumer loans.

December 31, 1999. Accruing consumer loans and leases past due 90 days or more were \$5 million, \$21 million and \$16 million at December 31, 2001, 2000 and 1999, respectively. During the first quarter of 2001, the Company began classifying non-guaranteed consumer loans and leases past due 90 days or more as nonaccrual. Previously, such loans accrued interest until the loan balances were charged off. The change in classification did not have a material effect on the Company's results of operations or its financial condition. Consumer loans and leases obtained in the Keystone acquisition that were past due ninety days or more and accruing interest were \$1 million and \$6 million at December 31, 2001 and 2000, respectively. Despite the existence of loan collateral in many cases, management conservatively evaluated the collectability of delinquent consumer loans and leases when assessing the adequacy of the allowance for credit losses.

The Company maintains an allowance for credit losses which it believes is adequate to absorb losses inherent in the loan and lease portfolio as of the balance sheet date. Management regularly assesses the adequacy of the allowance by performing ongoing evaluations of the loan and lease portfolio, including such factors as the differing economic risks associated with each loan category, the current financial condition of specific borrowers, the economic environment in which borrowers operate, the level of delinquent loans and the value of any collateral. Management cautiously evaluated the impact of changes in interest rates and overall economic conditions on the ability of borrowers to meet repayment obligations when quantifying the Company's exposure to credit losses and assessing the adequacy of the Company's allowance for such losses as of each reporting date. In addition to the impact of loans obtained in acquisitions and economic conditions in geographic areas entered through acquisitions, factors considered by management when performing its assessment included, but were not limited to: (i) the concentration of commercial real estate loans in the Company's loan portfolio, particularly the large concentration of loans secured by properties in New York

State, in general, and in the New York City metropolitan area, in particular; (ii) the amount of commercial and industrial loans to businesses in areas of New York State outside of the New York City metropolitan area that have historically experienced significantly less economic growth than the vast majority of other regions of the country; and (iii) significant growth in loans to individual consumers. The level of the allowance for credit losses is adjusted based on the results of management's analysis.

In ascertaining the adequacy of the level of the allowance for credit losses, the Company estimates losses attributable to specific troubled credits and also estimates losses inherent in other loans and leases. The total allowance for credit losses, therefore, includes both specific and inherent base level loss components, as well as inherent unallocated loss components, which are described in the following paragraphs.

The amount of specific loss components in the loan and lease portfolios is determined through a loan by loan analysis of all nonaccrual commercial and commercial real estate loans. Specific loss components are also established for certain classified commercial and commercial real estate loans greater than \$100,000 when it is determined that there is a differing risk of loss than otherwise prescribed under the inherent base level loss component calculation. Measurement of the specific loss components are typically based on expected future cash flows, collateral values and other factors that may impact the borrower's ability to pay. Impaired loans, as defined in SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," as amended, are evaluated for specific loss components. Except for consumer and residential mortgage loans that are considered smaller balance homogeneous loans and are evaluated collectively, the Company considers a loan to be impaired 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 or more.

The inherent base level loss components are generally determined by applying loss factors to specific loan balances based on loan type and man-

agement's classification of such loans under the Company's loan grading system. The Company utilizes an extensive ten-point loan grading system which is applied to all commercial and commercial real estate credits. 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 extensively monitored by the Company's loan review department to ensure consistency and strict adherence to the prescribed standards.

Loan balances utilized in the inherent base level loss component computations exclude loans and leases for which specific allocations are maintained. Loan grades are assigned loss component factors that reflect the Company's loss estimate for each group of loans and leases. Items considered in assigning loan grades and loss component factors include borrower-specific information related to expected future cash flows and operating results, collateral value, financial condition, payment status, and other factors; 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; national and local economic conditions and trends; and observed trends and practices in the banking industry.

The specific loss components and the inherent base level loss components together comprise the total base level or "allocated" allowance for credit losses. Such allocated portion of the allowance represents management's assessment of near-term charge-offs and losses existing in specific larger balance loans that are reviewed in detail by management and pools of other loans that are not individually analyzed.

The inherent unallocated portion of the allowance is intended to provide for probable losses that are not otherwise identifiable. The inherent unallocated allowance includes management's subjective determination of amounts necessary for such things as economic uncertainties; customer, industry and geographic concentrations; and expansion into new products and market areas. The unallocated portion of the allowance is intended to provide for probable losses that are not otherwise

## ALLOCATION OF THE ALLOWANCE FOR CREDIT LOSSES TO LOAN CATEGORIES

*Dollars in thousands*

December 31	2001	2000	1999	1998	1997
Commercial, financial, agricultural, etc.. . . . .	\$130,156	125,568	78,019	57,744	42,816
Real estate . . . . .	141,897	124,453	92,982	91,692	70,354
Consumer . . . . .	92,661	74,604	46,235	45,356	57,757
Unallocated . . . . .	60,294	50,078	98,929	111,555	103,729
Total . . . . .	\$425,008	374,703	316,165	306,347	274,656
As a percentage of gross loans and leases outstanding					
Commercial, financial, agricultural, etc.. . . . .	2.50%	2.43%	2.11%	1.76%	1.78%
Real estate . . . . .	.96	.92	.87	.94	1.00
Consumer . . . . .	1.72	1.76	1.45	1.53	2.47

identifiable resulting from (i) comparatively poorer economic conditions and an unfavorable business climate in many market regions served by the Company, specifically New York State and central Pennsylvania, that resulted in such regions not having experienced the same degree of economic growth in previous years as experienced by much of the rest of the country; (ii) portfolio concentrations regarding loan type, collateral type and geographic location, in particular the large concentration of commercial real estate loans secured by properties in the New York City metropolitan area and other areas of New York State; (iii) the effect of expansion into new markets, including market areas entered through acquisitions; (iv) the introduction of new loan product types, including expansion of automobile loan and leasing activities in recent years; and, (v) the possible use of imprecise estimates in determining the allocated portion of the allowance.

Commercial real estate valuations include many assumptions and, as a result, can be highly subjective. Commercial real estate values in the New York City metropolitan area can be significantly affected over relatively short periods of time by changes in business climate, economic conditions and interest rates, and, in many cases, the results of operations of businesses and other occupants of the real property. The tragic events of September 11, 2001 further dampened the economic outlook for the United States, which is now experiencing its first significant downturn in many years. The

economies of New York State, and New York City in particular, were specifically damaged by the events of September 11. Economic growth outside of New York City, especially in the industrialized upstate New York markets, continues to lag the rest of the country. Furthermore, consistent with other regions of the country, the unemployment rate in New York State grew significantly in 2001, rising to 5.8% at year-end. Slower job growth, coupled with a declining population base, has left the upstate New York region susceptible to credit problems, particularly related to commercial customers. After a brief stabilization in 2000, the central Pennsylvania economy again lagged the rest of the United States in 2001. Employment in central Pennsylvania declined by an average of .2% in 2001, compared with a .3% average increase nationally.

The accompanying table presents a comparative allocation of the allowance for credit losses for each of the past five year-ends. Amounts were allocated to specific loan categories based on information available to management at the time of each year-end assessment and using the methodology described herein. Variations in the allocation of the allowance by loan category as a percentage of those loans reflect changes in management's estimate of specific loss components and inherent base level loss components. Increased allocation percentages in the commercial loan and real estate loan portfolios from December 31, 2000 to December 31, 2001 reflect weakened economic conditions and an increased level of

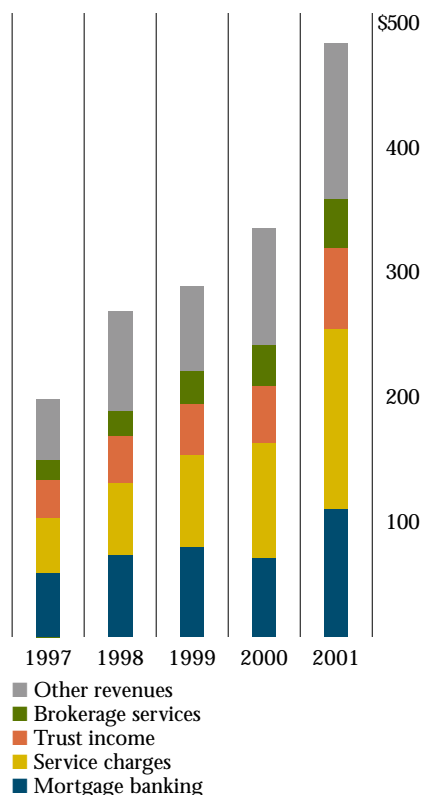
impaired and other classified loans. As described in note 4 of Notes to Financial Statements, loans considered impaired pursuant to the requirements of SFAS No. 114 increased to \$140 million at December 31, 2001 from \$81 million at December 31, 2000. The allocated portion of the allowance for credit losses related to such loans was \$21 million and \$12 million at December 31, 2001 and 2000, respectively. Increased allocation percentages in the commercial loan and real estate loan portfolios from December 31, 1999 to 2000's year end were largely attributable to the acquired Keystone loans, which were conservatively assigned loan grades based on facts known at the date of acquisition, pending more detailed analyses of such loans by the Company's loan review department. The increase in the allowance allocated to consumer loans as a percentage of such loans at the end of 2000 compared with December 31, 1999 was largely the result of a refinement in loss estimation techniques relating to certain past due consumer loans. The unallocated portion of the allowance for credit losses was equal to .24% and .22% of total loans outstanding at December 31, 2001 and 2000, respectively. Given the Company's high concentration of commercial loans and commercial real estate loans in New York State, including the upstate New York region, and central Pennsylvania, and considering the other factors already discussed herein, management considers the allocated and unallocated portions of the allowance for credit losses to be prudent and reasonable. Nevertheless, the Company's allowance is general in nature and is available to absorb losses from any loan or lease category.

Management believes that the aggregate allowance for credit losses at December 31, 2001 was adequate to absorb credit losses inherent in the portfolio as of that date. The allowance for credit losses was \$425 million or 1.69% of total loans at December 31, 2001, compared with \$375 million or 1.65% at December 31, 2000 and \$316 million or 1.82% at December 31, 1999. The ratio of the allowance to nonperforming loans at year-end 2001, 2000 and 1999 was 223%, 339% and 438%, respectively. The level of the allowance reflects management's evaluation of the loan and lease portfolio as of each



OTHER INCOME – EXCLUDING  
SECURITIES TRANSACTIONS

In millions



respective date. The increase in the allowance as a percentage of total loans at December 31, 2001 compared with the prior year-end also considered the weakened state of the economy in 2001 as well as the other specific factors and conditions described herein. The decline in the allowance as a percentage of total loans at December 31, 2000 as compared with year-end 1999 also reflects management's evaluation of the loan and lease portfolio as of each date, the relatively favorable and/or stable economic environment for many commercial borrowers during much of 2000, and other factors.

Commercial real estate loans secured by multifamily properties in the New York City metropolitan area represented 7% of loans outstanding at December 31, 2001. The Company had no concentrations of credit extended to any specific industry that exceeded 10% of total loans at December 31, 2001. Furthermore, the Company had no exposure to less developed countries and less than \$2 million of outstanding foreign loans at December 31, 2001.

Assets acquired in settlement of defaulted loans totaled \$16 million at December 31, 2001, compared with \$14 million a year earlier and \$10 million at the end of 1999.

OTHER INCOME

Other income grew 47% to \$477 million in 2001 from \$325 million in 2000. Approximately 55% of the increase was attributable to the impact of the Keystone and Premier acquisitions. Higher service charges on deposit accounts and mortgage banking revenues also significantly contributed to the increase from 2000. Other income totaled \$282 million in 1999. 2000's improvement from 1999 resulted from increases in service charges on deposit accounts, income from leasing activities, and brokerage services income, which were partially offset by lower mortgage banking revenues and losses from sales of bank investment securities. Approximately 40% of 2000's increase was attributable to revenues related to operations and/or market areas associated with the Keystone acquisition.

Mortgage banking revenues, which consist of residential mortgage loan servicing fees, gains from sales of residential mortgage loans and loan servicing rights, and other residential mortgage loan-related fees, increased 63% to \$103 million in 2001 from \$63 million in 2000. The higher revenues in 2001 were due largely to the impact of lower interest rates that produced a favorable environment for loan origination and refinancing activities by consumers. Mortgage banking revenues in 2000 were 12% lower than \$72 million in 1999, largely the result of higher interest rates initiated by the Federal Reserve in the second half of 1999 and first half of 2000 that negatively impacted mortgage loan origination volume in 2000 and tighter pricing margins that resulted from competitive pressures. Residential mortgage loans originated for sale to other investors totaled approximately \$5.0 billion in 2001, compared with \$2.4 billion and \$2.5 billion in 2000 and 1999, respectively. The Company maintains residential mortgage loan origination offices in New York State and Pennsylvania, as well as in Arizona, Colorado, Idaho, Massachusetts, New Jersey, Ohio, Oregon, Utah and

Washington. Realized gains from sales of residential mortgage loans and loan servicing rights and unrealized gains from recording residential mortgage loans held for sale, commitments to originate loans for sale and commitments to sell loans at fair market value aggregated \$50 million in 2001. As noted earlier, the Company adopted SFAS No. 133 as of January 1, 2001. SFAS No. 133 requires that changes in the fair value of hedged residential mortgage loans held for sale, commitments to sell loans, and commitments to originate residential mortgage loans for sale be recorded in the Company's results of operations. Such unrealized gains totaled approximately \$8 million (pre-tax) at December 31, 2001. Prior to the adoption of SFAS No. 133, residential mortgage loans originated for sale and related commitments to sell loans and to originate loans for sale were recorded in the consolidated balance sheet at the lower of aggregate cost or fair market value. The previously noted favorable interest rate environment for loan origination and refinancing activities was the major contributor to the higher realized gains from sales of loans and loan servicing rights in 2001. Realized gains from sales of residential mortgage loans and loan servicing rights totaled \$25 million in 2000 and \$40 million in 1999. The tighter pricing margins and a lower volume of originations contributed to the decrease in realized gains from 1999 to 2000. Revenues from servicing residential mortgage loans for others were \$44 million in 2001, up from \$32 million in 2000 and \$27 million in 1999. Residential mortgage loans serviced for others totaled \$9.6 billion at December 31, 2001, \$9.7 billion at December 31, 2000 and \$7.2 billion at December 31, 1999. Capitalized servicing assets were \$107 million, \$101 million and \$61 million at December 31, 2001, 2000 and 1999, respectively. The increase from December 31, 1999 to 2000 reflects the Keystone transaction, other purchased servicing rights and the previously noted securitization of \$1.0 billion of residential mortgage loans which added approximately \$15 million, \$21 million and \$14 million, respectively, to capitalized servicing assets in 2000. Additional information about the Company's capitalized

servicing assets is presented in note 7 of Notes to Financial Statements.

Service charges on deposit accounts rose 56% to \$144 million in 2001 from \$93 million in 2000, and 96% from \$74 million in 1999. Fees for services provided to customers in areas formerly served by Keystone and Premier contributed approximately 60% of the increase from 2000 to 2001. Also contributing to the higher level of service charges in 2001 were higher balances in transactional deposit accounts which generate higher levels of service charges than non-transactional accounts. The full-year effect in 2000 of a third quarter 1999 increase in fees and the impact of 1999 acquisitions were significant factors contributing to the increase from 1999 to 2000.

Additionally, fees for services provided to customers in the areas formerly served by Keystone contributed approximately 30% of the increase from 1999 to 2000.

Trust income increased 43% to \$64 million in 2001 from \$45 million in 2000 and 58% from \$41 million in 1999. The increases were largely attributable to the acquisition of Keystone. Brokerage services income, which includes revenues from the sale of mutual funds and annuities and securities brokerage fees, totaled \$39 million in 2001, up 20% from \$33 million in 2000 and 45% higher than \$27 million in 1999.

Trading account and foreign exchange activity resulted in gains of \$4 million in 2001, \$2 million in 2000 and \$315 thousand in 1999. In 1999, a loss of approximately \$3 million was incurred as a result of a counterparty defaulting on the settlement of outstanding foreign exchange contracts. During both 2001 and 1999, the Company sold bank investment securities resulting in gains of approximately \$2 million. Losses from sales of bank investment securities in 2000 reflect \$3 million of net losses incurred during the fourth quarter of 2000 from sales of investment securities following the acquisition of Keystone and the combination of the investment portfolios of Keystone and the Company. All sold securities had been previously classified as available for sale for financial reporting purposes.

Other revenues from operations rose to \$120 million in 2001 from \$92 million in 2000 and \$67 million in 1999. Approximately two-thirds of the

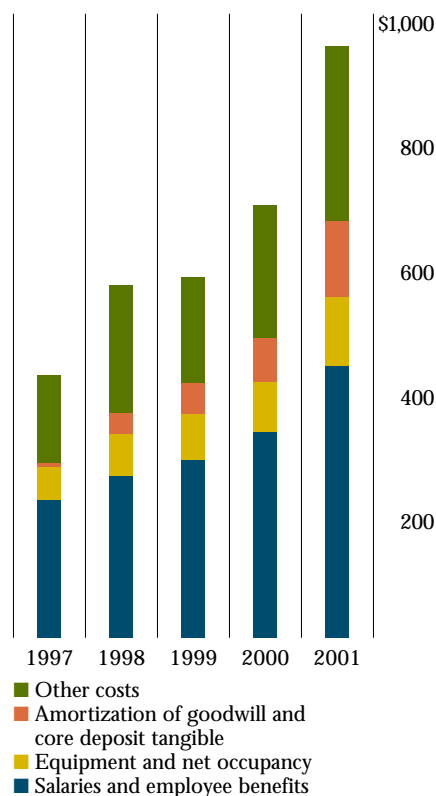
increase from 2000 to 2001 resulted from activities and/or market areas associated with the Keystone and Premier acquisitions, while approximately one-sixth of the increase from 1999 to 2000 resulted from operations related to Keystone. Other revenues from operations included \$35 million, \$26 million and \$23 million in 2001, 2000 and 1999, respectively, of tax-exempt income earned from bank owned life insurance, which includes increases in cash surrender value of life insurance policies and benefits received. Also included were revenues from merchant discount and credit card fees of \$13 million, \$9 million and \$8 million in 2001, 2000 and 1999, respectively. Other items that contributed to the increase in other revenues from operations in 2001 from 2000 and 1999 include higher letter of credit and other credit-related fees, insurance-related revenues, and automated teller machine ("ATM") usage fees. Letter of credit and other credit-related fees were \$24 million, \$18 million and \$16 million in 2001, 2000 and 1999, respectively. Insurance-related revenues totaled \$13 million in 2001, compared with \$7 million and \$1 million in 2000 and 1999, respectively. The impact of acquisitions was the leading factor contributing to higher insurance-related revenues. The increases in ATM usage fees, from \$5 million in 1999 to \$6 million in 2000 and to \$11 million in 2001 were largely the result of the Keystone transaction. Income from leasing activities in 2000 reflected a net gain of \$9 million resulting from a nonrecurring \$13 million gain from the sale of equipment previously leased to a commercial customer and an accrual of \$4 million for losses associated with selling automobiles and other vehicles leased to retail customers.

#### OTHER EXPENSE

Operating expenses, which exclude amortization of goodwill and core deposit intangible as well as nonrecurring merger-related expenses, were \$819 million in 2001, 37% higher than \$599 million in 2000 and 56% higher than \$525 million in 1999. Expenses related to acquired operations significantly contributed to the higher expense levels in 2001 and 2000. However, since the

#### OTHER EXPENSE

*In millions*



operating systems and support operations related to Keystone, Premier and other acquisitions completed in earlier years have been combined with those of the Company, the Company's operating expenses cannot be precisely divided between or attributed directly to the acquired operations or to the Company as it existed prior to each transaction. Components of other expense considered to be nonoperating in nature and therefore excluded from the operating expense totals noted above were amortization of goodwill and core deposit intangible of \$122 million in 2001, \$70 million in 2000 and \$50 million in 1999; and merger-related expenses of \$8 million, \$26 million and \$5 million in 2001, 2000 and 1999, respectively.

Salaries and employee benefits expense was \$435 million in 2001, an increase of 32% from \$329 million in 2000 and 53% higher than the \$285 million in 1999. Salaries and benefits related to acquired operations, merit salary increases, and higher expenses for incentive compensation arrangements and medical and other benefits were factors contributing to the increases in

2001 and 2000. The number of full-time equivalent employees was 8,803 at December 31, 2001, compared with 8,219 and 6,171 at December 31, 2000 and 1999, respectively.

Excluding the nonoperating expense items previously noted, non-personnel expense totaled \$384 million in 2001, 41% higher than \$272 million in 2000 and 60% higher than \$240 million in 1999. Higher expenses for equipment and occupancy; advertising, promotion and travel; amortization of capitalized servicing rights; and professional services and processing, all largely attributable to the impact of acquisitions, were significant factors contributing to the rise in nonpersonnel expenses from 2000 to 2001. Higher equipment and occupancy expenses, largely related to acquired operations, higher amortization of capitalized servicing rights and increased foreclosure-related expenses contributed to the increase in expense from 1999 to 2000.

#### INCOME TAXES

The provision for income taxes was \$206 million in 2001, compared with \$160 million in 2000 and \$153 million in 1999. The effective tax rates were 35.2% in 2001, 35.9% in 2000 and 36.5% in 1999. A reconciliation of income tax expense to the amount computed by applying the statutory federal income tax rate to pre-tax income is provided in note 11 of Notes to Financial Statements.

#### INTERNATIONAL ACTIVITIES

The Company's net investment in international assets was \$6 million and \$7 million at December 31, 2001 and 2000, respectively. Offshore deposits totaled \$778 million at December 31, 2001 and \$245 million at December 31, 2000.

#### LIQUIDITY, MARKET RISK, AND INTEREST RATE SENSITIVITY

As a financial intermediary the Company is exposed to various risks, including liquidity and market risk. Liquidity refers to the Company's ability to ensure that sufficient cash flow and liquid assets are available to satisfy demands for loans and deposit withdrawals, to fund operating costs, and to be used for other corporate purposes. Liquidity

#### MATURITY OF DOMESTIC CERTIFICATES OF DEPOSIT AND TIME DEPOSITS WITH BALANCES OF \$100,000 OR MORE

*In thousands*

December 31, 2001

Under 3 months . . . . .	\$1,469,343
3 to 6 months . . . . .	839,694
6 to 12 months . . . . .	623,481
Over 12 months . . . . .	295,223
Total . . . . .	\$3,227,741

risk arises whenever the maturities of financial instruments included in assets and liabilities differ.

Historically, core deposits have been the most significant funding source for the Company. Core deposits are generated from a large base of consumer, corporate and institutional customers, which over the past several years has become more geographically diverse as a result of acquisitions and expansion of the Company's businesses. Nevertheless, in recent years the Company has faced increased competition in offering services and products from a large array of financial market participants, including banks, thrifts, mutual funds, securities dealers and others. Core deposits financed 62% of the Company's earning assets at December 31, 2001, compared with 65% and 63% at December 31, 2000 and 1999, respectively.

The Company supplements funding provided through core deposits with various short-term and long-term wholesale borrowings, including federal funds purchased and securities sold under agreements to repurchase,

brokered certificates of deposit, and borrowings from the FHLB and others. M&T Bank had short-term and long-term credit facilities with the FHLB aggregating \$5.0 billion at December 31, 2001. Outstanding borrowings under the FHLB credit facilities totaled \$3.1 billion at December 31, 2001 and \$2.8 billion at December 31, 2000. Such borrowings are secured by loans and investment securities. M&T Bank and M&T Bank, N.A. had available lines of credit with the Federal Reserve Bank of New York at December 31, 2001 totaling approximately \$1.3 billion. The amounts of these lines are dependent upon the balance of loans and securities pledged as collateral. There were no borrowings outstanding under these lines at either December 31, 2001 or 2000. As previously noted, M&T Bank issued \$500 million of 8% fixed rate subordinated capital notes in October 2000 that provided liquidity and facilitated the acquisitions of Keystone and Premier. Informal and sometimes reciprocal sources of funding are available to the Company through various arrangements for unsecured short-term borrowings from a wide group of banks and other financial institutions. Short-term federal funds borrowings aggregated \$2.1 billion and \$1.4 billion at December 31, 2001 and 2000, respectively. In general, these borrowings were unsecured and matured within two business days. Should the Company experience a substantial deterioration in its financial condition or its debt rating, or should the availability of short-term funding become restricted, the Company's ability to obtain funding from these

#### MATURITY DISTRIBUTION OF SELECTED LOANS<sup>(a)</sup>

*In thousands*

December 31, 2001	Demand	2002	2003-2006	After 2006
Commercial, financial agricultural, etc. . . . .	\$3,071,913	759,689	811,849	294,747
Real estate - construction. . . . .	251,431	444,887	317,465	16,937
Total . . . . .	\$3,323,344	1,204,576	1,129,314	311,684
Floating or adjustable interest rates . . . . .			\$1,008,029	215,878
Fixed or predetermined interest rates . . . . .			121,285	95,806
Total . . . . .			\$1,129,314	311,684

<sup>(a)</sup> The data do not include nonaccrual loans.

**MATURITY AND TAXABLE-EQUIVALENT YIELD OF INVESTMENT SECURITIES**

*Dollars in thousands*

December 31, 2001	One year or less	One to five years	Five to ten years	Over ten years	Total
<i>Investment securities available for sale</i> <sup>(a)</sup>					
U.S. Treasury and federal agencies					
Carrying value . . . . .	\$ 6,875	162,111	81,029	978	250,993
Yield . . . . .	6.11%	4.57%	5.94%	6.84%	5.06%
Obligations of states and political subdivisions					
Carrying value . . . . .	11,052	67,115	47,000	77,987	203,154
Yield . . . . .	6.53%	7.01%	6.83%	8.15%	7.37%
Mortgage-backed securities <sup>(b)</sup>					
Government issued or guaranteed					
Carrying value . . . . .	51,352	212,856	270,716	662,480	1,197,404
Yield . . . . .	6.53%	6.55%	6.57%	6.64%	6.60%
Privately issued					
Carrying value . . . . .	40,609	154,947	55,264	184,043	434,863
Yield . . . . .	5.52%	5.70%	5.50%	4.95%	5.34%
Other debt securities					
Carrying value . . . . .	48,210	77,185	3,094	203,209	331,698
Yield . . . . .	6.87%	6.59%	2.61%	4.23%	5.12%
Equity securities					
Carrying value . . . . .	—	—	—	—	245,072
Yield . . . . .	—	—	—	—	6.21%
<b>Total investment securities available for sale</b>					
Carrying value . . . . .	\$158,098	674,214	457,103	1,128,697	2,663,184
Yield . . . . .	6.36%	5.93%	6.32%	6.01%	6.08%
<i>Investment securities held to maturity</i>					
Obligations of states and political subdivisions					
Carrying value . . . . .	\$ 78,355	11,793	9,001	4,465	103,614
Yield . . . . .	4.28%	6.76%	7.63%	7.62%	5.00%
Other debt securities					
Carrying value . . . . .	—	13,276	—	4,618	17,894
Yield . . . . .	—	9.64%	—	6.77%	8.90%
<b>Total investment securities held to maturity</b>					
Carrying value . . . . .	\$ 78,355	25,069	9,001	9,083	121,508
Yield . . . . .	4.28%	8.28%	7.63%	7.19%	5.57%
<i>Other investment securities</i> . . . . .					
	—	—	—	—	239,445
<b>Total investment securities</b>					
Carrying value . . . . .	\$236,453	699,283	466,104	1,137,780	3,024,137
Yield . . . . .	5.66%	6.02%	6.35%	6.02%	5.57%

<sup>(a)</sup> *Investment securities available for sale are presented at estimated fair value. Yields on such securities are based on amortized cost.*

<sup>(b)</sup> *Maturities are reflected based upon contractual payments due. Actual maturities are expected to be significantly shorter as a result of loan repayments in the underlying mortgage pools.*

sources could be negatively impacted. Information regarding the terms and maturities of all of the Company's short-term and long-term borrowings is provided in detail in note 8 of Notes to Financial Statements. In addition to deposits and borrowings, other sources of liquidity include maturities of money-market assets and investment securities, repayments of loans and investment securities, and cash generated from operations, such as fees collected for services.

M&T's primary source of funds to pay for operating expenses, stockholder dividends and treasury stock repurchases has historically been the receipt of dividends from its banking subsidiaries, which are subject to various regulatory limitations. These historic sources of cash flow have been augmented in the past by the issuance of trust preferred securities. Information regarding trust preferred securities is included in note 8 of Notes to Financial Statements. M&T also maintains a \$30 million line of

credit with an unaffiliated commercial bank, of which there were no borrowings outstanding at December 31, 2001. A similar \$30 million line of credit that expired during 2001 was entirely available for borrowing at December 31, 2000.

Management closely monitors the Company's liquidity position for compliance with internal policies and believes that available sources of liquidity are adequate to meet funding needs anticipated in the normal course of business. Management does not anticipate



SENSITIVITY OF NET INTEREST INCOME TO CHANGES IN INTEREST RATES

Dollars in thousands

Changes in interest rates	Calculated increase (decrease) in projected net interest income	
	December 31	
	2001	2000
+ 200 basis points . . . . .	\$(1,090)	6,040
+ 100 basis points . . . . .	(3,960)	(5,471)
- 100 basis points . . . . .	298	(12,494)
- 200 basis points . . . . .	2,364	(14,878)

engaging in any activities, either currently or in the long-term, which would cause a significant strain on liquidity at either M&T or its subsidiary banks.

Market risk is the risk of loss from adverse changes in market prices and/or interest rates of the Company's financial instruments. The primary market risk the Company is exposed to is interest rate risk. The core banking activities of lending and deposit-taking expose the Company to interest rate risk, which occurs when assets and liabilities reprice at different times and by different amounts as interest rates change. As a result, net interest income earned by the Company is subject to the effects of changing interest rates. The Company measures interest rate risk by calculating the variability of net interest income in future periods under various interest rate scenarios using projected balances for earning assets, interest-bearing liabilities and derivatives used to hedge interest rate risk. Management's philosophy toward interest rate risk management is to limit the variability of net interest income. The balances of financial instruments used in the projections are based on expected growth from forecasted business opportunities, anticipated prepayments of mortgage-related assets and expected maturities of investment securities, loans and deposits. Management supplements the modeling technique described above with analyses of market values of the Company's financial instruments. The Company has entered into interest rate swap agreements to help manage exposure to interest rate risk. At December 31, 2001, the aggregate notional amount of interest rate swaps entered into for interest rate risk management purposes was approximately \$576 million. Information about interest rate swaps entered into for interest rate risk

management purposes is included herein under "Net Interest Income/Lending and Funding Activities" and in note 16 of Notes to Financial Statements.

The Company's Asset-Liability Committee, which includes members of senior management, monitors interest rate sensitivity with the aid of a computer model that considers the impact of ongoing lending and deposit-gathering activities, as well as statistically derived interrelationships in the magnitude and timing of the repricing of financial instruments, including the effect of changing interest rates on expected prepayments and maturities. When deemed prudent, management has taken action, and intends to do so in the future, to mitigate exposure to interest rate risk through the use of on- or off-balance sheet financial instruments. Possible actions include, but are not limited to, changes in the pricing of loan and deposit products, modifying the composition of earning assets and interest-bearing liabilities, and modifying or terminating existing interest rate swap agreements or entering into additional interest rate swap agreements or other interest rate risk management financial instruments.

The accompanying table as of December 31, 2001 and 2000 displays the estimated impact on net interest income from non-trading financial instruments resulting from changes in interest rates during the first modeling year.

Many assumptions were utilized by the Company to calculate the impact that changes in interest rates may have on the Company's net interest income. The more significant assumptions related to the rate of prepayments of mortgage-related assets, cash flows from derivative and other financial instruments held for non-trading purposes, loan and deposit volumes and pricing, and deposit maturities. The Company also assumed

gradual changes in rates of 100 and 200 basis points up and down during a twelve-month period. These assumptions are inherently uncertain and, as a result, the Company cannot precisely predict the impact of changes in interest rates on net interest income. Actual results may differ significantly from those presented due to timing, magnitude and frequency of interest rate changes and changes in market conditions, as well as any actions, such as those previously described, which management may take to counter such changes.

In accordance with industry practice, the accompanying table presents cumulative totals of net assets (liabilities) repricing on a contractual basis within the specified time frames, as adjusted for the impact of interest rate swap agreements entered into for interest rate risk management purposes. Management believes this measure does not appropriately depict interest rate risk since changes in interest rates do not necessarily affect all categories of earning assets and interest-bearing liabilities equally nor, as assumed in the table, on the contractual maturity or repricing date. Furthermore, this static presentation of interest rate risk fails to consider the effect of ongoing lending and deposit gathering activities, projected changes in balance sheet composition or any subsequent interest rate risk management activities the Company is likely to implement.

The Company engages in limited trading activities to meet the financial needs of customers and to profit from perceived market opportunities. Trading activities are conducted utilizing financial instruments that include forward and futures contracts related to foreign currencies and mortgage-backed securities, U.S. Treasury and other government securities, mortgage-backed securities and interest rate contracts, such as swaps. The Company generally mitigates the foreign currency and interest rate risk associated with trading activities by entering into off-setting trading positions. The amounts of gross and net trading positions as well as the type of trading activities conducted by the Company are subject to a well-defined series of potential loss exposure limits established by the Asset-Liability Committee.

The notional amounts of interest rate and foreign currency and other option and futures contracts entered into for trading account purposes totaled \$1.4 billion and \$242 million, respectively, at December 31, 2001 and \$769 million and \$293 million, respectively, at December 31, 2000. The notional amounts of these trading contracts are not recorded in the consolidated balance sheet. However, the fair values of all financial instruments used for trading activities are recorded in the consolidated balance sheet. The fair values of all trading account assets and liabilities were \$39 million and \$27 million, respectively, at December 31, 2001 and \$37 million and \$22 million, respectively, at December 31, 2000.

Given the Company's policies, limits and positions, management believes that the potential loss exposure to the Company resulting from market risk associated with trading activities was not material as of December 31, 2001 and 2000. Additional information related to trading derivative contracts is included in notes 16 and 17 of Notes to Financial Statements.

#### CONTRACTUAL REPRICING DATA

*Dollars in thousands by repricing date*

	Three months or less	Four to twelve months	One to five years	After five years	Total
December 31, 2001					
Loans and leases, net . . . . .	\$ 9,507,668	2,634,596	7,073,277	5,972,219	25,187,760
Money-market assets . . . . .	57,308	100	150	50	57,608
Investment securities . . . . .	304,820	281,846	629,078	1,808,393	3,024,137
<i>Total earning assets . . . . .</i>	<i>9,869,796</i>	<i>2,916,542</i>	<i>7,702,505</i>	<i>7,780,662</i>	<i>28,269,505</i>
NOW accounts . . . . .	930,400	-	-	-	930,400
Savings deposits . . . . .	7,980,065	-	-	-	7,980,065
Time deposits . . . . .	3,461,221	3,228,530	1,413,764	84,521	8,188,036
Deposits at foreign office . . . . .	777,895	-	-	-	777,895
<i>Total interest-bearing deposits . . . . .</i>	<i>13,149,581</i>	<i>3,228,530</i>	<i>1,413,764</i>	<i>84,521</i>	<i>17,876,396</i>
Short-term borrowings . . . . .	3,045,830	-	-	-	3,045,830
Long-term borrowings . . . . .	1,169,672	217,499	441,165	1,633,433	3,461,769
<i>Total interest-bearing liabilities . . . . .</i>	<i>17,365,083</i>	<i>3,446,029</i>	<i>1,854,929</i>	<i>1,717,954</i>	<i>24,383,995</i>
Interest rate swaps . . . . .	(182,500)	(17,500)	145,000	55,000	
Periodic gap . . . . .	\$ (7,677,787)	(546,987)	5,992,576	6,117,708	
Cumulative gap . . . . .	(7,677,787)	(8,224,774)	(2,232,198)	3,885,510	
Cumulative gap as a % of total earning assets . . . . .	(27.2)%	(29.1)%	(7.9)%	13.7%	

#### CAPITAL

Stockholders' equity at December 31, 2001 was \$2.9 billion and represented 9.35% of total assets, compared with \$2.7 billion or 9.33% at December 31, 2000 and \$1.8 billion or 8.02% at December 31, 1999. Stockholders' equity per share increased 8% to \$31.33 at December 31, 2001 from \$28.93 at December 31, 2000, and was 35% higher than \$23.24 at December 31, 1999. Tangible equity per share, which excludes goodwill and core deposit intangible and applicable deferred tax balances, was \$18.34 at December 31, 2001, compared with \$16.74 at December 31, 2000 and \$15.14 at December 31, 1999. The ratio of average total stockholders' equity to average total assets was 9.60%, 8.59% and 8.24% in 2001, 2000 and 1999, respectively.

M&T issued shares of common stock in 2001, 2000 and 1999 to complete the acquisitions of Premier, Keystone and FNB, respectively. On February 9, 2001, M&T issued 2,440,812 shares of common stock to former holders of Premier common stock and assumed employee stock options to purchase

224,734 shares of M&T common stock, resulting in an addition to stockholders' equity of \$176 million. To complete the acquisition of Keystone on October 6, 2000, M&T issued 15,900,292 shares of common stock to former holders of Keystone common stock and assumed employee stock options to purchase 1,259,493 shares of M&T common stock, resulting in an addition to stockholders' equity of \$664 million. On June 1, 1999, M&T issued 1,225,160 shares (stated to give effect to a ten-for-one stock split in 2000) of common stock to former holders of FNB common stock resulting in an addition to stockholders' equity of \$59 million.

Included in stockholders' equity at December 31, 2001 was accumulated other comprehensive income, which reflected a gain of \$23 million, or \$.25 per common share, for the net after-tax impact of unrealized gains on investment securities classified as available for sale, compared with unrealized losses of \$432 thousand, or less than \$.01 per share, at December 31, 2000, and \$26 million, or \$.34 per share, at December 31, 1999. Such unrealized gains or losses are generally due to changes in interest rates and represent the difference, net of applicable income tax effect, between the estimated fair value and amortized cost of investment securities classified as available for sale. Accumulated other comprehensive income also reflects an unrealized loss of \$298 thousand, or less than \$.01 per share, at December 31, 2001, representing the after-tax effect of the estimated fair value of interest rate swaps designated as cash flow hedges.

On September 19, 2000, M&T's Board of Directors authorized a ten-for-one split of M&T's common stock in connection with the Keystone transaction. The additional shares were payable to stockholders of record as of September 29 and were distributed on October 5, 2000. The par value of each share of M&T's common stock was reduced from \$5.00 to \$.50 in conjunction with the stock split. All per share data presented herein, including earnings, dividends and the number of common shares authorized, issued, issuable or held in treasury, have been adjusted to reflect the ten-for-one stock split. Also in connection with the Keystone transaction, in the fourth quarter of 2000 M&T doubled the quarterly cash dividend

payable on its common stock to \$.25 on each post-split share.

Cash dividends paid in 2001 on M&T's common stock were \$96 million, compared with \$52 million and \$35 million in 2000 and 1999, respectively. As noted in the preceding paragraph, M&T increased its quarterly dividend on common stock in the fourth quarter of 2000 to \$.25 per share from \$.125 per share. In the third quarter of 1999, M&T's quarterly common stock dividend rate was increased to \$.125 per share from \$.10 per share. Dividends per common share totaled \$1.00 in 2001, up from \$.625 in 2000 and \$.45 in 1999.

M&T repurchased 4,396,303 shares of its common stock in 2001, 1,313,760 shares in 2000 and 1,678,330 shares in 1999, at a cost of \$324 million, \$55 million and \$80 million, respectively. In November 2001, M&T announced that it had been authorized by its Board of Directors to purchase up to 5,000,000 shares of its common stock. Through December 31, 2001, M&T had repurchased 624,513 shares of common stock pursuant to such plan at an average cost of \$71.70 per share. During 2001, M&T completed previously authorized repurchase plans that had been announced in November 1999 and June 2001.

Federal regulators generally require banking institutions to maintain "core capital" and "total capital" ratios of at least 4% and 8%, respectively, of risk-adjusted total assets. In addition to the risk-based measures, Federal bank regulators have also implemented a minimum "leverage" ratio guideline of 3% of the quarterly average of total assets. Core capital includes the \$318 million carrying value of trust preferred securities as described in note 8 of Notes to Financial Statements. As of December 31, 2001, total capital further included \$559 million of subordinated notes issued by M&T Bank in prior years. The capital ratios of the Company and its banking subsidiaries as of December 31, 2001 and 2000 are presented in note 20 of Notes to Financial Statements.

The Company generates significant amounts of regulatory capital. The rate of regulatory core capital generation, or cash net income (reduced by the impact of nonrecurring merger-related expenses) less dividends paid expressed

as a percentage of regulatory "core capital" at the beginning of each year, was 20.96% in 2001, 19.48% in 2000 and 19.89% in 1999.

#### FOURTH QUARTER RESULTS

Net income for the fourth quarter of 2001 was \$102 million, up 41% from \$72 million in the final quarter of 2000. Diluted and basic earnings per share in the recent quarter were \$1.05 and \$1.08, respectively, compared with \$.76 and \$.78, respectively, in the fourth quarter of 2000. Nonrecurring merger-related expenses lowered net income by \$14 million, or \$.15 per share during 2000's fourth quarter. There were no similar expenses incurred during the last quarter of 2001. Expressed as an annualized rate of return on average assets, net income for the recent quarter rose to 1.29% from 1.01% in 2000's fourth quarter. The annualized rate of return on average common stockholders' equity in the fourth quarter of 2001 was 13.70%, compared with 11.03% in the corresponding quarter of 2000. Cash net income in the recent quarter increased 17% to \$126 million from \$108 million earned in the year-earlier quarter. Diluted cash earnings per share rose 14% to \$1.30 in 2001's final quarter from \$1.14 in the fourth quarter of 2000. Cash return on average tangible assets was an annualized 1.67% in the recent quarter, up from 1.57% in the comparable 2000 quarter. Cash return on average tangible common equity rose to an annualized 29.43% in the fourth quarter of 2001 from 28.93% in the year-earlier quarter.

Taxable-equivalent net interest income increased to \$309 million in the final quarter of 2001, up 18% from \$262 million in the year-earlier period. A 10% increase in average earning assets and a widening of the Company's net interest margin were the most significant factors contributing to the improvement in net interest income. Average earning assets were \$28.2 billion and \$25.7 billion in the fourth quarter of 2001 and 2000, respectively. Average loans and leases for the recent quarter totaled \$25.0 billion, an increase of 13% from \$22.1 billion during the corresponding 2000 quarter. The impact of the previously

described lower interest rate environment contributed to a significant increase in the Company's net interest margin to 4.34% in the final quarter of 2001 from 4.05% in 2000's fourth quarter. The yield on earning assets was 6.97% in the recent quarter, down 150 basis points from 8.47% in the year-earlier period. The rate paid on interest-bearing liabilities was 3.03% in the final quarter of 2001, down 209 basis points from 5.12% in the comparable period of 2000. The resulting net interest spread was 3.94% in the recently completed quarter, compared with 3.35% in the final quarter of 2000.

The provision for credit losses rose to \$33 million in the fourth quarter of 2001 from \$14 million in the year-earlier period. Reflecting 2001's weakened economic conditions, net charge-offs increased to \$21 million in the recent quarter, compared with \$12 million in the fourth quarter of 2000. Net charge-offs as an annualized percentage of average loans and leases were .33% in the final 2001 quarter, compared with .22% in the comparable quarter of 2000.

Other income increased 24% to \$128 million in the fourth quarter of 2001 from \$103 million in the final quarter of 2000. Factors contributing to the increase in fourth quarter 2001 income include higher mortgage banking revenues, which rose 54% from the prior year's fourth quarter, and increased service charges on deposit accounts, which were up 31% from the fourth quarter of 2000. As previously noted, a favorable environment for loan origination and refinancing activities by consumers led to the higher mortgage banking revenues. The increase in service charges on deposit accounts was the result of higher transactional deposit account balances, which generate higher levels of service charges than non-transactional accounts, and the Keystone and Premier acquisitions. Additionally, there were no gains or losses from sales of investment securities in the recent quarter, while the final 2000 quarter reflected net losses of \$3 million from sales of investment securities following the acquisition of Keystone and the combination of the investment portfolios of Keystone and the Company. Offsetting the impact of 2001's increases was a net gain of \$9 million during the fourth quarter of 2000



relating to leasing activities which resulted from a \$13 million gain from the sale of equipment previously leased to a commercial customer and an accrual of \$4 million for losses associated with selling automobiles and other vehicles leased to retail customers.

Other expense increased 4% to \$244 million in 2001's final quarter from \$234 million in the comparable 2000 period. Nonrecurring merger-related expenses totaled \$22 million in the fourth quarter of 2000, while there were no similar expenses in the recently completed quarter. Contributing to the higher expenses in the fourth quarter of 2001 were salary costs, which rose \$11 million or 11% from the final 2000 quarter. The higher salary expenses were the result of increased costs relating to incentive compensation arrangements, including commissions, merit salary increases and an increase in full-time equivalent employees. Increased expenses for professional services and amortization of goodwill and core deposit intangible also contributed to the higher expense level in the final quarter of 2001.

#### SEGMENT INFORMATION

In accordance with the provisions of SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," the Company's reportable segments have been determined based upon its internal profitability reporting system, which is organized by strategic business unit. Certain strategic business units have been combined for segment information reporting purposes where the nature of the products and services, the type of customer, and the distribution of those products and services are similar. The reportable segments are Commercial Banking, Commercial Real Estate, Discretionary Portfolio, Residential Mortgage Banking and Retail Banking.

The financial information of the Company's segments was compiled utilizing the accounting policies described in note 19 of Notes to Financial Statements. The management accounting policies and processes utilized in compiling segment financial information are highly subjective and, unlike financial accounting, are not based on authoritative guidance similar to generally accepted

accounting principles. As a result, reported segments and the financial results of such segments are not necessarily comparable with similar information reported by other financial institutions. Furthermore, changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial data. Financial information about the Company's segments is presented in note 19 of Notes to Financial Statements.

The Commercial Banking segment provides a wide range of credit products and banking services for middle-market and large commercial customers, largely within the markets the Company serves. Among the services provided by this segment are commercial lending and leasing, deposit products, and cash management services. The Commercial Banking segment earned net income of \$114 million in 2001, up 15% from \$98 million in 2000. The rise in earnings in 2001 reflects a \$45 million, or 23%, increase in net interest income, due largely to a 25% increase in average loans and leases outstanding. Approximately one-half of the increase in net interest income was attributable to operations in market areas related to the Keystone acquisition. Partially offsetting the higher net interest income was a \$22 million increase in the provision for credit losses, resulting from higher net charge-offs. Net income for this segment in 1999 was \$78 million. The higher net income in 2000 when compared with 1999 resulted largely from an increase of \$35 million, or 22%, in net interest income. Net interest income from loans and leases increased \$24 million, as a result of a 23% increase in average balances outstanding, while the contribution to net interest income from deposits increased \$8 million, due to a higher net interest spread and a 9% increase in average balances outstanding. Growth in most markets already served by the Company, as well as the impact of balances obtained in acquisitions, contributed to the higher loan and deposit levels in 2000.

The Commercial Real Estate segment provides credit and deposit services to its customers. Loans are largely secured by properties in the New York City metropolitan area and in western New York, however, loans are also originated in the other regions in New York State,

in Pennsylvania and, to a lesser extent, in Maryland, West Virginia and the northwestern portion of the United States. Commercial real estate loans may be secured by apartment/multi-family buildings, office space, retail space, industrial space or other types of collateral. The Commercial Real Estate segment's earnings increased 15% to \$83 million in 2001 from \$72 million in 2000. Higher net interest income of \$22 million, the result of a 16% increase in average loan balances outstanding, was the major factor for the rise in net income. Approximately one-third of the increase in net interest income was attributable to operations in market areas associated with the Keystone acquisition. Net income for the Commercial Real Estate segment was \$64 million in 1999. The major factor for the rise in net income from 1999 to 2000 was a 17% increase in average loan balances outstanding which contributed to a \$12 million, or 10%, increase in net interest income. Loan growth in all markets served by the Company and the impact of commercial real estate loans obtained in the Keystone acquisition contributed to the increase in 2000's outstanding balances.

The Discretionary Portfolio segment includes securities, residential mortgage loans and other assets; short-term and long-term borrowed funds; brokered certificates of deposit and interest rate swaps related thereto; and offshore branch deposits. This segment also provides services to commercial customers and consumers that include foreign exchange, securities trading and municipal bond underwriting and sales. Net income for the Discretionary Portfolio segment totaled \$54 million in 2001, up from \$34 million in 2000 and \$38 million in 1999. The increase in 2001 was due, in part, to a \$10 million increase in tax-exempt income earned from bank owned life insurance and a \$14 million increase in net interest income, the result of increased balances of loans and investment securities and a higher net interest margin. Factors contributing to the decline in net income from 1999 to 2000 include an \$11 million, or 23%, decrease in net interest income and losses from sales of bank investment securities of \$3 million, offset, in part, by a \$3 million increase in tax-exempt income earned from bank owned life

insurance. The decline in net interest income largely reflected a narrowing of the segment's net interest margin.

The Residential Mortgage Banking segment originates and services residential mortgage loans for consumers and sells substantially all of those loans in the secondary market to investors or to bank subsidiaries of M&T. The Company maintains mortgage loan origination offices in New York State and Pennsylvania, as well as in Arizona, Colorado, Idaho, Massachusetts, New Jersey, Ohio, Oregon, Utah and Washington. The Company also periodically purchases the rights to service residential mortgage loans. Residential mortgage loans held for sale are included in this segment. Net income for this segment was \$44 million in 2001, up significantly from \$6 million a year earlier and \$21 million in 1999. The higher level of earnings in 2001 when compared with 2000 was largely due to the effects of substantially higher residential mortgage loan origination volumes, which resulted from a generally favorable interest rate environment for borrowers, and loan servicing fees. The higher loan origination volume in 2001 contributed to a \$48 million, or 118%, increase in realized and unrealized gains from sales of residential mortgage loans, including sales to the Discretionary Portfolio segment of the Company, and loan servicing rights. The previously described adoption of SFAS No. 133 contributed approximately \$8 million to such increase. Revenues from servicing residential mortgage loans for others, including the Discretionary Portfolio segment, increased by \$15 million, or 34%, from 2000 to 2001. Net interest income was \$33 million higher in 2001, predominately the result of a 152% increase in the average balance of loans held for sale. Reflecting the year's higher revenues, operating expenses increased by 34%, from \$106 million in 2000 to \$142 million in 2001. The significant decrease in net income from 1999 to 2000 was largely due to lower gains from sales of residential mortgage loans and loan servicing rights, which decreased \$15 million, and higher non-interest expenses of \$6 million resulting from increases in foreclosure expenses and amortization of capitalized servicing rights. The decline in revenue resulted from the impact that generally higher

interest rates in 2000 had on loan origination volume and from tighter pricing margins resulting from competitive pressures.

The Retail Banking segment offers a variety of consumer and small business services through several delivery channels which include traditional and "in-store" banking offices, automated teller machines, telephone banking and internet banking. The Company has banking offices in New York State, Pennsylvania, Maryland and West Virginia. The Retail Banking segment also offers certain deposit and loan products on a nationwide basis through M&T Bank, N.A. Credit services offered by this segment include consumer installment loans, student loans, automobile loans and leases (both directly and indirectly through dealers), home equity loans and lines of credit, and loans and leases to small businesses. The segment also offers to its customers deposit products, including demand, savings and time accounts; investment products, including mutual funds and annuities; and other services. The Retail Banking segment recorded net income of \$201 million in 2001, up 23% from \$164 million in 2000. Higher net interest income and deposit service charges of \$158 million and \$40 million, respectively, partially offset by higher operating expenses of \$137 million, were the leading factors contributing to the improvement in net income from 2000. Such increases in income and expenses were largely the result of the Keystone and Premier acquisitions. In 1999, this segment's net income was \$112 million. The increase from 1999 to 2000 was due largely to the impact of acquisitions completed in 2000 and 1999 that resulted in higher net interest income and service charges on deposit accounts, partially offset by increases in operating expenses. The full-year impact in 2000 of a third quarter 1999 increase in fees charged for deposit account services also contributed to the improvement.

#### RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS Nos. 141 and 142. SFAS No. 141, "Business Combinations," revised accounting standards and disclosure

requirements for business combinations. All business combinations are now required to be accounted for using the purchase method of accounting; use of the pooling-of-interests ("pooling") method of accounting is prohibited. SFAS No. 141 requires that goodwill be initially recognized as an asset in the financial statements and measured as the excess of the cost of an acquired entity over the net difference between amounts assigned to assets acquired and liabilities assumed. The statement also requires that an acquired intangible asset be recognized apart from goodwill if that asset arises from contractual or other legal rights. SFAS No. 141 stipulates that the pooling method of accounting may not be used for business combinations initiated after June 30, 2001. However, prior business combinations accounted for by the pooling method are "grandfathered." The provisions of SFAS No. 141 related to the application of the purchase method of accounting (including the separate recognition of identifiable intangible assets) were effective for any business combination completed after June 30, 2001.

SFAS No. 142, "Goodwill and Other Intangible Assets," revises accounting standards for all purchased intangible assets but not the accounting for internally developed intangible assets. SFAS No. 142, as amended, requires that most goodwill not be amortized, but rather that it be tested for impairment at the reporting unit level, which is either at the same level or one level below an operating segment. All acquired goodwill should be assigned to reporting units, then tested for impairment no less frequently than annually. Acquired intangible assets (other than goodwill) should be amortized over their useful economic lives and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." However, an acquired intangible asset (other than goodwill) with an indefinite useful economic life should not be amortized until its life is determined to be finite. SFAS No. 142 also stipulates various disclosures and financial statement presentation requirements relating to goodwill and intangible assets. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001, and companies are

required to perform the first impairment test on all goodwill within six months of initially applying the provisions of the statement. The useful economic life of previously recognized intangible assets should be reassessed upon adoption of the statement, remaining amortization periods should be adjusted accordingly, and intangible assets deemed to have an indefinite life should no longer be amortized.

The Company adopted SFAS No. 142 effective January 1, 2002. Historically, the Company has referred to certain unidentifiable intangible assets acquired in branch acquisitions as goodwill. SFAS No. 142 does not change the accounting for such unidentifiable intangible assets that was prescribed by SFAS No. 72, "Accounting for Certain Acquisitions of Banking or Thrift Institutions." As a result, subsequent to December 31, 2001 the Company will continue to amortize such intangible assets along with core deposit and other acquired intangible assets. Amortization expense relating to core deposit and other intangible assets is expected to approximate \$33 million (after-tax) in 2002. The after-tax impact of amortization of goodwill and core deposit and other intangible assets in 2001 was \$99 million. The Company is still evaluating whether or not any of its recorded goodwill should be considered impaired under the provisions of SFAS No. 142. Information about the Company's amortization of goodwill and other acquired intangible assets during the three-years ended December 31, 2001 is presented herein under the heading "Cash Operating Results."

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. SFAS No. 143 is effective for fiscal

years beginning after June 15, 2002, with earlier application encouraged.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addresses financial accounting and reporting for the impairment of long-lived assets and supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" and the provisions for the disposal of a segment of a business in Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 requires that long-lived assets to be disposed of be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. As a result, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively.

The provisions of SFAS Nos. 143 and 144 are not expected to have a material impact on the Company's consolidated financial statements.

#### FORWARD-LOOKING STATEMENTS

This Financial Review and other sections of this Annual Report contain forward-looking statements that are based on current expectations, estimates and projections about the Company's business, management's beliefs and assumptions made by management. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("Future Factors") which are difficult to predict. Therefore, actual outcomes and results

may differ materially from what is expressed or forecasted in such forward-looking statements. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Future Factors include changes in interest rates, spreads on earning assets and interest-bearing liabilities, and interest rate sensitivity; credit losses; sources of liquidity; legislation affecting the financial services industry as a whole, and/or M&T and its subsidiaries individually; regulatory supervision and oversight, including required capital levels; increasing price and product/service competition by competitors, including new entrants; rapid technological developments and changes; the ability to continue to introduce competitive new products and services on a timely, cost-effective basis; the mix of products/services; containing costs and expenses; governmental and public policy changes, including environmental regulations; protection and validity of intellectual property rights; reliance on large customers; technological, implementation and cost/financial risks in large, multi-year contracts; the outcome of pending and future litigation and governmental proceedings; continued availability of financing; financial resources in the amounts, at the times and on the terms required to support the Company's future businesses; and material differences in the actual financial results of merger and acquisition activities compared to the Company's initial expectations, including the full realization of anticipated cost savings and revenue enhancements. These are representative of the Future Factors that could affect the outcome of the forward-looking statements. In addition, such statements could be affected by general industry and market conditions and growth rates, general economic conditions, including interest rate and currency exchange rate fluctuations, and other Future Factors.

M&T BANK CORPORATION AND SUBSIDIARIES

Quarterly Trends

	2001 Quarters				2000 Quarters			
	Fourth	Third	Second	First	Fourth	Third	Second	First
<b>Earnings and dividends</b>								
<i>Amounts in thousands, except per share</i>								
Interest income (taxable-equivalent basis) . . . . .	\$495,783	526,226	544,424	552,965	548,345	424,212	409,710	401,064
Interest expense . . . . .	186,849	227,674	252,477	276,597	286,538	219,622	208,706	203,731
Net interest income . . . . .	308,934	298,552	291,947	276,368	261,807	204,590	201,004	197,333
Less: provision for credit losses . . . . .	33,000	28,000	24,000	18,500	14,000	9,000	6,000	9,000
Other income . . . . .	127,696	120,167	117,836	111,727	102,778	76,514	73,382	71,998
Less: other expense . . . . .	244,311	236,194	233,012	234,801	234,187	153,959	155,710	150,597
Income before income taxes . . . . .	159,319	154,525	152,771	134,794	116,398	118,145	112,676	109,734
Applicable income taxes . . . . .	53,515	52,401	53,164	46,741	40,672	41,397	38,888	39,293
Taxable-equivalent adjustment . . . . .	4,070	4,257	4,799	4,387	3,759	2,332	2,250	2,206
Net income . . . . .	\$101,734	97,867	94,808	83,666	71,967	74,416	71,538	68,235
<b>Per common share data</b>								
Basic earnings . . . . .	\$ 1.08	1.02	.98	.88	.78	.97	.93	.89
Diluted earnings . . . . .	1.05	.98	.94	.85	.76	.94	.91	.86
Cash dividends . . . . .	\$ .25	.25	.25	.25	.25	.125	.125	.125
Average common shares outstanding								
Basic . . . . .	94,269	96,115	97,125	95,427	91,987	76,748	76,631	77,112
Diluted . . . . .	97,179	99,597	100,722	98,605	95,088	79,417	78,876	79,222
<b>Performance ratios, annualized</b>								
Return on								
Average assets . . . . .	1.29%	1.25%	1.23%	1.14%	1.01%	1.36%	1.32%	1.22%
Average common stockholders' equity . . . . .	13.70%	12.93%	12.61%	11.84%	11.03%	15.64%	15.75%	15.14%
Net interest margin on average								
earning assets (taxable-equivalent basis) . . . . .	4.34%	4.22%	4.18%	4.16%	4.05%	4.05%	4.05%	3.94%
Nonperforming assets to total assets,								
at end of quarter . . . . .	.66%	.67%	.55%	.56%	.43%	.32%	.33%	.33%
Efficiency ratio <sup>(a)</sup> . . . . .	55.95%	56.44%	57.08%	58.45%	57.61%	53.49%	56.75%	55.92%
<b>Cash (tangible) operating results<sup>(b)</sup></b>								
Net income (in thousands) . . . . .	\$126,451	123,523	119,899	112,391	108,100	87,758	82,937	79,844
Diluted net income per common share . . . . .	1.30	1.24	1.19	1.14	1.14	1.11	1.05	1.00
Annualized return on								
Average tangible assets . . . . .	1.67%	1.64%	1.62%	1.59%	1.57%	1.64%	1.57%	1.47%
Average tangible common								
stockholders' equity . . . . .	29.43%	28.39%	27.99%	27.93%	28.93%	26.98%	27.46%	26.95%
Efficiency ratio <sup>(a)</sup> . . . . .	49.16%	49.03%	49.45%	50.77%	50.20%	48.57%	51.61%	50.57%
<b>Balance sheet data</b>								
<i>Dollars in millions, except per share</i>								
Average balances								
Total assets . . . . .	\$ 31,276	31,119	31,017	29,878	28,487	21,823	21,851	22,438
Earning assets . . . . .	28,224	28,099	27,993	26,937	25,746	20,098	19,976	20,147
Investment securities . . . . .	3,029	3,234	3,502	3,470	3,559	2,904	2,582	1,977
Loans and leases,								
net of unearned discount . . . . .	25,016	24,831	24,460	23,392	22,141	17,163	17,181	17,501
Deposits . . . . .	20,897	20,420	20,590	20,734	19,900	14,980	15,206	15,257
Stockholders' equity . . . . .	2,947	3,003	3,015	2,866	2,596	1,893	1,826	1,813
At end of quarter								
Total assets . . . . .	\$ 31,450	31,139	31,202	30,925	28,949	22,009	21,746	22,762
Earning assets . . . . .	28,270	28,118	28,200	27,895	26,089	20,143	19,893	20,389
Investment securities . . . . .	3,024	3,153	3,377	3,705	3,310	2,799	2,865	2,079
Loans and leases,								
net of unearned discount . . . . .	25,188	24,946	24,774	24,168	22,743	17,324	16,949	17,703
Deposits . . . . .	21,580	20,522	20,041	20,978	20,233	14,682	15,223	15,151
Stockholders' equity . . . . .	2,939	2,956	2,987	2,992	2,700	1,940	1,852	1,832
Equity per common share . . . . .	31.33	31.19	31.00	30.84	28.93	25.22	24.18	23.83
Tangible equity per common share . . . . .	18.34	17.85	17.68	17.33	16.74	17.52	16.28	15.79
<b>Market price per common share</b>								
High . . . . .	\$ 74.50	82.11	79.00	69.99	68.42	52.29	47.50	45.81
Low . . . . .	65.08	63.70	66.55	59.80	46.67	44.50	39.95	35.70
Closing . . . . .	72.85	74.00	75.50	69.90	68.00	51.00	45.00	44.65

<sup>(a)</sup> Excludes impact of nonrecurring merger-related expenses and net securities transactions.

<sup>(b)</sup> Excludes amortization and balances related to goodwill and core deposit intangible and nonrecurring merger-related expenses which, except in the calculation of the efficiency ratio, are net of applicable income tax effects.

## STATEMENT OF RESPONSIBILITY

M&T Bank Corporation (“M&T”) is responsible for the financial statements and the other information in this Annual Report. This responsibility includes the preparation of the statements in accordance with generally accepted accounting principles appropriate in the circumstances, the fairness of the estimates and judgments required, and the reliability of the underlying data.

The steps taken to meet this responsibility include maintaining a system of internal controls, providing for the training of personnel, promulgating written policies and codes of conduct and, in general, seeking to create an atmosphere conducive to proper reporting and ethical behavior.

M&T also assures that the internal auditors and the independent public accountants have full and free access to the Audit Committee of M&T’s board of directors and the examining committees of the bank subsidiaries’ boards.

No member of those committees is an officer or employee of M&T or its subsidiaries and none is otherwise involved in their day-to-day operations. Among the duties of the Audit Committee is recommending to M&T’s board of directors the firm to be selected as M&T’s independent public accountants.

On the basis of the above-mentioned and other controls, policies, and independent reviews, M&T believes that the responsibility described in the first paragraph has been fulfilled in all material aspects.



## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of M&T Bank Corporation:

We have audited the accompanying consolidated balance sheet of M&T Bank Corporation and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, cash flows and changes in stockholders' equity for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of M&T Bank Corporation and subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

*PricewaterhouseCoopers LLP*

Buffalo, New York

January 9, 2002

M&T BANK CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheet

		December 31	
		2001	2000
<i>Dollars in thousands, except per share</i>			
<b>Assets</b>	Cash and due from banks . . . . .	\$ 965,664	750,259
	Money-market assets		
	Interest-bearing deposits at banks . . . . .	4,341	3,102
	Federal funds sold and agreements to resell securities . . . . .	41,086	17,261
	Trading account . . . . .	38,929	37,431
	Total money-market assets . . . . .	84,356	57,794
	Investment securities		
	Available for sale (cost: \$2,627,509 in 2001; \$3,035,031 in 2000) . . . . .	2,663,184	3,034,304
	Held to maturity (market value: \$122,107 in 2001; \$77,959 in 2000) . . . . .	121,508	81,025
	Other (market value: \$239,445 in 2001; \$194,524 in 2000) . . . . .	239,445	194,524
	Total investment securities . . . . .	3,024,137	3,309,853
	Loans and leases . . . . .	25,395,468	22,970,314
	Unearned discount . . . . .	(207,708)	(227,500)
	Allowance for credit losses . . . . .	(425,008)	(374,703)
	Loans and leases, net . . . . .	24,762,752	22,368,111
	Premises and equipment . . . . .	261,877	257,975
	Goodwill and core deposit intangible . . . . .	1,267,826	1,199,407
	Accrued interest and other assets . . . . .	1,083,584	1,006,057
	Total assets . . . . .	\$31,450,196	28,949,456
<b>Liabilities</b>	Noninterest-bearing deposits . . . . .	\$ 3,704,004	3,344,913
	NOW accounts . . . . .	930,400	873,472
	Savings deposits . . . . .	7,980,065	6,105,689
	Time deposits . . . . .	8,188,036	9,664,088
	Deposits at foreign office . . . . .	777,895	244,511
	Total deposits . . . . .	21,580,400	20,232,673
	Federal funds purchased and agreements to repurchase securities . . . . .	2,133,558	1,440,887
	Other short-term borrowings . . . . .	912,272	631,937
	Accrued interest and other liabilities . . . . .	422,746	528,958
	Long-term borrowings . . . . .	3,461,769	3,414,516
	Total liabilities . . . . .	28,510,745	26,248,971
<b>Stockholders' equity</b>	Preferred stock, \$1 par, 1,000,000 shares authorized, none outstanding . . . . .	-	-
	Common stock, \$.50 par, 150,000,000 shares authorized, 97,139,347 shares issued in 2001; 93,244,101 shares issued in 2000 . . . . .	48,570	46,622
	Common stock issuable, 130,428 shares in 2001; 88,543 shares in 2000 . . . . .	6,162	4,077
	Additional paid-in capital . . . . .	1,096,340	914,575
	Retained earnings . . . . .	2,017,700	1,735,643
	Accumulated other comprehensive income, net . . . . .	22,819	(432)
	Treasury stock - common, at cost - 3,455,373 shares in 2001; none in 2000 . . . . .	(252,140)	-
	Total stockholders' equity . . . . .	2,939,451	2,700,485
	Total liabilities and stockholders' equity . . . . .	\$31,450,196	28,949,456

See accompanying notes to financial statements.

M&T BANK CORPORATION AND SUBSIDIARIES

Consolidated Statement of Income

		Year ended December 31		
		2001	2000	1999
<i>In thousands, except per share</i>				
<b>Interest income</b>	Loans and leases, including fees . . . . .	\$1,892,507	1,579,701	1,323,262
	Money-market assets			
	Deposits at banks . . . . .	116	308	87
	Federal funds sold and agreements to resell securities. . .	2,027	12,891	24,491
	Trading account . . . . .	348	1,009	3,153
	Investment securities			
	Fully taxable . . . . .	182,767	165,811	118,741
	Exempt from federal taxes . . . . .	24,120	13,064	8,897
	Total interest income . . . . .	2,101,885	1,772,784	1,478,631
<b>Interest expense</b>	NOW accounts . . . . .	8,548	7,487	4,683
	Savings deposits . . . . .	134,454	132,225	121,888
	Time deposits . . . . .	453,940	445,666	367,889
	Deposits at foreign office . . . . .	11,264	14,915	12,016
	Short-term borrowings . . . . .	124,810	172,466	104,911
	Long-term borrowings . . . . .	210,581	145,838	107,847
	Total interest expense. . . . .	943,597	918,597	719,234
	Net interest income . . . . .	1,158,288	854,187	759,397
	Provision for credit losses . . . . .	103,500	38,000	44,500
	Net interest income after provision for credit losses . . . . .	1,054,788	816,187	714,897
<b>Other income</b>	Mortgage banking revenues. . . . .	102,699	63,168	71,819
	Service charges on deposit accounts . . . . .	144,302	92,544	73,612
	Trust income . . . . .	64,395	45,165	40,751
	Brokerage services income . . . . .	39,349	32,795	27,140
	Trading account and foreign exchange gains . . . . .	4,462	2,351	315
	Gain (loss) on sales of bank investment securities . . . . .	1,873	(3,078)	1,575
	Other revenues from operations . . . . .	120,346	91,727	67,163
	Total other income . . . . .	477,426	324,672	282,375
<b>Other expense</b>	Salaries and employee benefits . . . . .	434,937	329,209	284,822
	Equipment and net occupancy . . . . .	111,403	80,960	73,131
	Printing, postage and supplies . . . . .	25,512	20,138	17,510
	Amortization of goodwill and core deposit intangible. . . .	121,636	69,576	49,715
	Other costs of operations . . . . .	254,830	194,570	153,780
	Total other expense . . . . .	948,318	694,453	578,958
	Income before income taxes . . . . .	583,896	446,406	418,314
	Income taxes . . . . .	205,821	160,250	152,688
	Net income . . . . .	\$ 378,075	286,156	265,626
<i>Net income per common share</i>				
	Basic . . . . .	\$ 3.95	3.55	3.41
	Diluted . . . . .	3.82	3.44	3.28

See accompanying notes to financial statements.

M&T BANK CORPORATION AND SUBSIDIARIES

Consolidated Statement of Cash Flows

		Year ended December 31		
<i>In thousands</i>		2001	2000	1999
<b>Cash flows from operating activities</b>	Net income . . . . .	\$ 378,075	286,156	265,626
	Adjustments to reconcile net income to net cash provided by operating activities			
	Provision for credit losses . . . . .	103,500	38,000	44,500
	Depreciation and amortization of premises and equipment . . . . .	40,604	30,164	27,488
	Amortization of capitalized servicing rights . . . . .	31,704	24,392	19,773
	Amortization of goodwill and core deposit intangible . . . . .	121,636	69,576	49,715
	Provision for deferred income taxes. . . . .	(21,625)	(5,911)	1,816
	Asset write-downs . . . . .	1,224	1,674	1,771
	Net gain on sales of assets . . . . .	(2,669)	(6,631)	(279)
	Net change in accrued interest receivable, payable . . . . .	(18,535)	25,540	473
	Net change in other accrued income and expense . . . . .	(14,453)	(27,901)	(124,772)
	Net change in loans held for sale . . . . .	(468,237)	(81,549)	206,448
Net change in trading account assets and liabilities. . . . .	3,078	(6,868)	114,062	
Net cash provided by operating activities . . . . .	154,302	346,642	606,621	
<b>Cash flows from investing activities</b>	Proceeds from sales of investment securities			
	Available for sale . . . . .	380,507	706,262	89,509
	Other . . . . .	–	65,553	7,224
	Proceeds from maturities of investment securities			
	Available for sale . . . . .	889,858	429,304	1,061,118
	Held to maturity. . . . .	67,420	68,821	55,096
	Purchases of investment securities			
	Available for sale . . . . .	(440,932)	(313,760)	(165,852)
	Held to maturity. . . . .	(87,563)	(55,507)	(52,793)
	Other . . . . .	(36,190)	(89,154)	(15,204)
	Additions to capitalized servicing rights. . . . .	(37,969)	(33,694)	(17,257)
	Net increase in loans and leases. . . . .	(1,068,942)	(1,467,187)	(1,429,849)
	Capital expenditures, net . . . . .	(23,738)	(18,784)	(22,933)
	Acquisitions, net of cash acquired:			
	Banks and bank holding companies . . . . .	(61,741)	174,215	(51,423)
	Deposits and banking offices. . . . .	–	–	529,754
Other companies. . . . .	–	(4,303)	–	
Purchases of bank owned life insurance . . . . .	–	(35,000)	–	
Other, net . . . . .	(25,799)	13,183	19,390	
Net cash provided (used) by investing activities. . . . .	(445,089)	(560,051)	6,780	
<b>Cash flows from financing activities</b>	Net decrease in deposits. . . . .	(36,862)	(321,735)	(508,240)
	Net increase (decrease) in short-term borrowings . . . . .	937,713	(830,214)	324,370
	Proceeds from long-term borrowings . . . . .	475,451	1,000,896	353,991
	Payments on long-term borrowings . . . . .	(458,614)	(32,224)	(165,593)
	Purchases of treasury stock . . . . .	(323,744)	(54,947)	(79,784)
	Dividends paid – common . . . . .	(95,872)	(51,987)	(35,128)
	Other, net . . . . .	31,945	34,830	10,435
	Net cash provided (used) by financing activities. . . . .	530,017	(255,381)	(99,949)
	Net increase (decrease) in cash and cash equivalents. . . . .	\$ 239,230	(468,790)	513,452
	Cash and cash equivalents at beginning of year . . . . .	767,520	1,236,310	722,858
Cash and cash equivalents at end of year . . . . .	\$ 1,006,750	767,520	1,236,310	
<b>Supplemental disclosure of cash flow information</b>	Interest received during the year . . . . .	\$ 2,144,338	1,751,074	1,484,098
	Interest paid during the year . . . . .	1,008,146	870,482	723,106
	Income taxes paid during the year . . . . .	189,562	147,009	252,484
<b>Supplemental schedule of noncash investing and financing activities</b>	Real estate acquired in settlement of loans . . . . .	\$ 18,415	11,880	11,631
	Acquisition of banks and bank holding companies			
	Common stock issued. . . . .	169,270	659,862	58,746
	Fair value of			
	Assets acquired (noncash) . . . . .	1,674,360	6,904,954	650,841
	Liabilities assumed . . . . .	1,461,449	6,376,489	540,672
	Stock options . . . . .	6,646	8,586	–
	Securitization of residential mortgage loans allocated to:			
Available for sale investment securities . . . . .	–	1,018,216	–	
Capitalized servicing rights. . . . .	–	14,282	–	

See accompanying notes to financial statements.

M&T BANK CORPORATION AND SUBSIDIARIES

Consolidated Statement of Changes in Stockholders' Equity

<i>In thousands, except per share</i>	Preferred stock	Common stock	Common stock issuable	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income, net	Treasury stock	Total
<b>1999</b>								
Balance – January 1, 1999 . . . . .	\$ –	40,508	3,752	480,014	1,271,071	2,869	(195,848)	1,602,366
Comprehensive income:								
Net income . . . . .	–	–	–	–	265,626	–	–	265,626
Other comprehensive income, net of tax:								
Unrealized losses on investment securities, net of reclassification adjustment . . . . .	–	–	–	–	–	(28,916)	–	(28,916)
Purchases of treasury stock . . . . .	–	–	–	–	–	–	(79,784)	236,710
Acquisition of FNB Rochester Corp.:								(79,784)
Common stock issued . . . . .	–	–	–	(718)	–	–	59,464	58,746
Stock-based compensation plans:								
Exercise of stock options . . . . .	–	–	–	(20,558)	–	–	33,791	13,233
Directors' stock plan . . . . .	–	–	–	8	–	–	300	308
Deferred compensation plan, net, including dividend equivalents . . . . .	–	–	185	(17)	(39)	–	466	595
Common stock cash dividends – \$ .45 per share . . . . .	–	–	–	–	(35,128)	–	–	(35,128)
Balance – December 31, 1999	\$ –	40,508	3,937	458,729	1,501,530	(26,047)	(181,611)	1,797,046
<b>2000</b>								
Comprehensive income:								
Net income . . . . .	–	–	–	–	286,156	–	–	286,156
Other comprehensive income, net of tax:								
Unrealized gains on investment securities, net of reclassification adjustment . . . . .	–	–	–	–	–	25,615	–	25,615
Purchases of treasury stock . . . . .	–	–	–	–	–	–	(54,947)	311,771
Acquisition of Keystone Financial, Inc.:								(54,947)
Common stock issued . . . . .	–	5,875	–	461,579	–	–	192,408	659,862
Fair value of stock options . . . . .	–	–	–	8,586	–	–	–	8,586
Management stock ownership program receivable . . . . .	–	–	–	(4,713)	–	–	–	(4,713)
Stock-based compensation plans:								
Exercise of stock options . . . . .	–	238	–	(9,679)	–	–	43,431	33,990
Directors' stock plan . . . . .	–	–	–	(9)	–	–	342	333
Deferred compensation plan, net, including dividend equivalents . . . . .	–	1	140	82	(56)	–	377	544
Common stock cash dividends – \$ .625 per share . . . . .	–	–	–	–	(51,987)	–	–	(51,987)
Balance – December 31, 2000	\$ –	46,622	4,077	914,575	1,735,643	(432)	–	2,700,485
<b>2001</b>								
Comprehensive income:								
Net income . . . . .	–	–	–	–	378,075	–	–	378,075
Other comprehensive income, net of tax:								
Unrealized gains on investment securities, net of reclassification adjustment . . . . .	–	–	–	–	–	23,549	–	23,549
Unrealized losses on cash flow hedge, net of reclassification adjustment . . . . .	–	–	–	–	–	(298)	–	(298)
Purchases of treasury stock . . . . .	–	–	–	–	–	–	(323,744)	401,326
Acquisition of Premier National Bancorp, Inc.:								(323,744)
Common stock issued . . . . .	–	1,220	–	168,050	–	–	–	169,270
Fair value of stock options . . . . .	–	–	–	6,646	–	–	–	6,646
Repayment of management stock ownership program receivable . . . . .	–	–	–	112	–	–	–	112
Stock-based compensation plans:								
Exercise of stock options . . . . .	–	722	–	6,568	–	–	70,794	78,084
Directors' stock plan . . . . .	–	2	–	225	–	–	415	642
Deferred compensation plans, net, including dividend equivalents . . . . .	–	4	2,085	164	(146)	–	395	2,502
Common stock cash dividends – \$1.00 per share . . . . .	–	–	–	–	(95,872)	–	–	(95,872)
Balance – December 31, 2001	\$ –	48,570	6,162	1,096,340	2,017,700	22,819	(252,140)	2,939,451

See accompanying notes to financial statements.

*Notes To Financial Statements***1. Significant accounting policies**

M&T Bank Corporation (“M&T”) is a bank holding company headquartered in Buffalo, New York. Through subsidiaries, M&T provides individuals, corporations and other businesses, and institutions with commercial and retail banking services, including loans and deposits, trust, mortgage banking, asset management, insurance and other financial services. Banking activities are largely focused on consumers residing in New York State and Pennsylvania, and on small and medium-size businesses based in those areas. Banking services are also provided in Maryland and West Virginia, while certain subsidiaries also conduct activities in other states.

The accounting and reporting policies of M&T and subsidiaries (“the Company”) conform to generally accepted accounting principles and to general practices within the banking industry. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The more significant accounting policies are as follows:

*Consolidation*

The consolidated financial statements include M&T and all of its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The financial statements of M&T included in note 21 report investments in subsidiaries under the equity method.

*Consolidated Statement of Cash Flows*

For purposes of this statement, cash and due from banks, federal funds sold and agreements to resell securities are considered cash and cash equivalents.

*Securities purchased under agreements to resell and securities sold under agreements to repurchase*

Securities purchased under agreements to resell and securities sold under agreements to repurchase are treated as collateralized financing transactions and are recorded at amounts equal to the cash or other consideration exchanged. It is generally the Company’s policy to take possession of collateral pledged to secure agreements to resell.

*Trading account*

Financial instruments used for trading purposes are stated at fair value. Realized gains and losses and unrealized changes in fair value of financial instruments utilized in trading activities are included in trading account and foreign exchange gains in the consolidated statement of income.

*Investment securities*

Investments in debt securities are classified as held to maturity and stated at amortized cost when management has the positive intent and ability to hold such securities to maturity. Investments in other debt securities and equity securities having readily determinable fair values are classified as available for sale and stated at estimated fair value. Except for investment securities for which the Company has entered into a related fair value hedge, unrealized gains or losses on investment securities available for sale are reflected in accumulated other comprehensive income, net of applicable income taxes.

Other securities are stated at cost and include stock of the Federal Reserve Bank of New York and the Federal Home Loan Bank of New York.

Amortization of premiums and accretion of discounts for investment securities available for sale and held to maturity are included

in interest income. The cost basis of individual securities is written down to estimated fair value through a charge to earnings when declines in value below amortized cost are considered to be other than temporary. Realized gains and losses on the sales of investment securities are determined using the specific identification method.

*Loans*

Interest income on loans is accrued on a level yield method. Loans are placed on nonaccrual status and previously accrued interest thereon is charged against income when principal or interest is delinquent 90 days, unless management determines that the loan status clearly warrants other treatment. Loan balances are charged off when it becomes evident that such balances are not fully collectible. Loan fees and certain direct loan origination costs are deferred and recognized as an interest yield adjustment over the life of the loan. Net deferred fees have been included in unearned discount as a reduction of loans outstanding. As discussed in the “Derivative financial instruments” section of this note, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended, effective January 1, 2001. Since commitments to sell residential real estate loans are utilized by the Company to hedge the exposure to changes in fair value of residential real estate loans held for sale, effective January 1, 2001 hedged residential real estate loans held for sale are recorded in the consolidated balance sheet at estimated fair market value. Prior to 2001, loans held for sale and related commitments were carried at the lower of aggregate cost or fair market value. Valuation adjustments made on these loans are included in mortgage banking revenues.

Except for consumer and residential mortgage loans that are considered smaller balance homogenous loans and are evaluated collectively, the Company considers a loan to be impaired 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. Impaired loans are classified as either nonaccrual or as loans renegotiated at below market rates. Loans less than 90 days delinquent are deemed to have an insignificant delay in payment and are generally not considered impaired. Impairment of a loan is measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s observable market price, or the fair value of collateral if the loan is collateral dependent. Interest received on impaired loans placed on nonaccrual status is applied to reduce the carrying value of the loan or, if principal is considered fully collectible, recognized as interest income.

*Allowance for credit losses*

The allowance for credit losses represents the amount which, in management’s judgment, will be adequate to absorb credit losses inherent in the loan and lease portfolio as of the balance sheet date. The adequacy of the allowance is determined by management’s evaluation of the loan and lease portfolio based on such factors as the differing economic risks associated with each loan category, the current financial condition of specific borrowers, the economic environment in which borrowers operate, any delinquency in payments, and the value of any collateral.

*Premises and equipment*

Premises and equipment are stated at cost less accumulated depreciation. Depreciation expense is computed principally using the straight-line method over the estimated useful lives of the assets.

*Capitalized servicing rights*

Servicing rights retained in a sale or securitization of financial assets are measured at the date of transfer by allocating the previous carrying



amount between the assets transferred and the servicing rights based on their relative fair values. Servicing assets purchased or servicing liabilities assumed are initially measured at fair value. Capitalized servicing assets are included in other assets and amortized in proportion to and over the period of estimated net servicing income.

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 predominant risk characteristics of 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 exceeds estimated fair value. Impairment is recognized through a valuation allowance.

#### *Goodwill and core deposit intangible*

The excess of the cost of acquired entities or operations over the fair value of identifiable assets acquired less liabilities assumed is recorded as goodwill. Through December 31, 2001, substantially all of the Company's goodwill was amortized using the straight-line method over twenty years. Core deposit intangibles are amortized using an accelerated method over estimated useful lives of seven to ten years. The Company periodically assesses whether events or changes in circumstances indicate that the carrying amounts of goodwill and core deposit intangible may be impaired.

#### *Derivative financial instruments*

On January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. SFAS No. 133 established accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available for sale security, or a foreign currency denominated forecasted transaction. Pursuant to SFAS No. 133, the accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. An entity that elects to apply hedge accounting is required to establish at the inception of the hedge the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. Those methods must be consistent with the entity's approach to managing risk.

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. For such agreements, amounts receivable or payable are recognized as accrued under the terms of the agreement and the net differential is recorded as an adjustment to interest income or expense of the related asset or liability. In accordance with SFAS No. 133, effective January 1, 2001 such agreements have been designated as either fair value hedges or cash flow hedges. In a fair value hedge, the fair value of the interest rate swaps and changes in the fair value of

the hedged items are recorded in the Company's consolidated balance sheet with the corresponding gain or loss being recognized in current earnings. The difference between changes in the fair value of interest rate swaps and the hedged items represents hedge ineffectiveness and is recorded in "other revenues from operations" in the Company's consolidated statement of income. In a cash flow hedge, the effective portion of the derivative's gain or loss is initially recorded as a component of other comprehensive income and subsequently reclassified into earnings when the forecasted transaction affects earnings. The ineffective portion of the gain or loss is reported in "other revenues from operations" immediately. Prior to January 1, 2001, interest rate swap agreements used to manage interest rate risk were not recorded at fair value in the consolidated balance sheet. Amounts receivable or payable under such agreements were recognized as accrued under the terms of the agreement and the net differential, including any amortization of premiums paid or accretion of discounts received, was recorded as an adjustment to interest income or expense of the related asset or liability. To qualify for such accounting treatment, an interest rate swap must (i) have been designated as having been entered into for interest rate risk management purposes and linked to a specific financial instrument or pool of similar financial instruments in the Company's consolidated balance sheet and (ii) have had interest rate and repricing characteristics that had a sufficient degree of correlation with the corresponding characteristics of the designated on-balance sheet financial instrument. Gains and losses resulting from early termination of interest rate swap agreements used to manage interest rate risk were amortized over the shorter of the remaining term or estimated life of the agreement or the on-balance sheet financial instrument to which the swap had been linked.

The Company utilizes commitments to sell residential real estate loans to hedge the exposure to changes in the fair value of residential real estate loans held for sale. As a result of adopting SFAS No. 133, hedged residential real estate loans held for sale, commitments to originate residential real estate loans to be held for sale, and commitments to sell residential real estate loans are now generally recorded in the consolidated balance sheet at estimated fair market value. Prior to January 1, 2001, residential real estate loans held for sale and related commitments were carried at the lower of aggregate cost or fair market value.

Derivative instruments, including financial futures commitments and interest rate swap agreements, that do not satisfy the hedge accounting requirements noted above are valued at fair value and classified as trading account assets or liabilities with resultant changes in fair value being recognized in trading account and foreign exchange gains in the Company's consolidated statement of income.

#### *Stock-based compensation*

Compensation expense is not recognized for stock option awards to employees under the Company's stock option plans since the exercise price of options is equal to the market price of the underlying stock at the date of grant. Compensation expense for stock appreciation rights issued separately from stock options is recognized based upon changes in the quoted market value of M&T's common stock. The pro forma effects of stock-based compensation arrangements are based on the estimated grant date fair value of stock options that are expected to vest calculated pursuant to the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Pro forma compensation expense, net of applicable income tax effect, is recognized over the vesting period.

#### *Income taxes*

Deferred tax assets and liabilities are recognized for the future tax effects attributable to differences between the financial statement value of existing assets and liabilities and their respective tax bases and carryforwards. Deferred tax assets and liabilities are measured using

enacted tax rates and laws. Investment tax credits related to leveraged leasing property are amortized into income tax expense over the life of the lease agreement.

#### *Earnings per common share*

Basic earnings per share excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding and common shares issuable under deferred compensation arrangements during the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in earnings. Proceeds assumed to have been received on such exercise or conversion are assumed to be used to purchase shares of M&T common stock at the average market price during the period, as required by the "treasury stock method" of accounting.

#### *Treasury stock*

Repurchases of shares of M&T common stock are recorded at cost as a reduction of stockholders' equity. Reissuances of shares of treasury stock are recorded at average cost.

## **2. Acquisitions**

On February 9, 2001, M&T completed the merger of Premier National Bancorp, Inc. ("Premier"), a bank holding company headquartered in Lagrangeville, New York, with and into Olympia Financial Corp. ("Olympia"), a wholly owned subsidiary of M&T. Following the merger, Premier National Bank, Premier's bank subsidiary, was merged into Manufacturers and Traders Trust Company ("M&T Bank"), M&T's principal bank subsidiary. Premier National Bank operated 34 banking offices in the mid-Hudson Valley region of New York State. After application of the election, allocation, and proration procedures contained in the merger agreement with Premier, M&T paid \$171 million in cash and issued 2,440,812 shares of M&T common stock in exchange for the Premier shares outstanding at the time of acquisition. In addition, based on the merger agreement and the exchange ratio provided therein, M&T converted outstanding and unexercised stock options granted by Premier into options to purchase 224,734 shares of M&T common stock. The purchase price was approximately \$347 million based on the cash paid to Premier shareholders, the fair value of M&T common stock exchanged, and the estimated fair value of Premier stock options converted into M&T stock options.

Acquired assets, loans and deposits of Premier on February 9, 2001 totaled approximately \$1.8 billion, \$1.0 billion and \$1.4 billion, respectively. The transaction has been accounted for using the purchase method of accounting and, accordingly, operations acquired from Premier have been included in the Company's financial results since the acquisition date. In connection with the acquisition, the Company recorded approximately \$178 million of goodwill and \$32 million of core deposit intangible. The core deposit intangible is being amortized over seven years using an accelerated method. Through December 31, 2001, the goodwill was being amortized over twenty years using the straight-line method.

On October 6, 2000, M&T completed the merger of Keystone Financial, Inc. ("Keystone"), a bank holding company headquartered in Harrisburg, Pennsylvania, with and into Olympia. Following the merger, Keystone Financial Bank, N.A., Keystone's bank subsidiary, was merged into M&T Bank. Keystone Financial Bank, N.A. operated banking offices in Pennsylvania, Maryland and West Virginia. After application of the election, allocation and proration procedures contained in the merger agreement with Keystone, M&T paid \$375 million in cash and issued 15,900,292 shares of M&T common stock in

exchange for the Keystone shares outstanding at the time of acquisition. In addition, based on the merger agreement and the exchange ratio provided therein, M&T converted outstanding and unexercised stock options granted by Keystone into options to purchase 1,259,493 shares of M&T common stock. The purchase price of the transaction was approximately \$1.0 billion based on the cash paid to Keystone shareholders, the market price of M&T common shares on May 16, 2000 before the terms of the merger were agreed to and announced by M&T and Keystone, and the estimated fair value of Keystone stock options converted into M&T stock options.

Acquired assets, loans and deposits of Keystone on October 6, 2000 totaled approximately \$7.4 billion, \$4.8 billion and \$5.2 billion, respectively. The transaction was accounted for using the purchase method of accounting and, accordingly, operations acquired from Keystone have been included in the Company's financial results since the acquisition date. In connection with the acquisition, the Company recorded approximately \$475 million of goodwill and \$121 million of core deposit intangible. Following the completion of an actuarial review and merger of the pension and other postretirement benefits plans of M&T and Keystone, in 2001 the Company adjusted the net prepaid benefit cost obtained in the acquisition of Keystone. The effect of such adjustment was to increase net prepaid benefit costs by approximately \$28 million and, after applicable tax effect, to decrease goodwill by approximately \$18 million. Such adjustment is reflected in the \$475 million of goodwill recorded in connection with the acquisition. The adjustment did not result in a material effect on the Company's results of operations for either of the years ended December 31, 2001 or 2000. The core deposit intangible is being amortized over seven years using an accelerated method. Through December 31, 2001, the goodwill was being amortized over twenty years using the straight-line method.

On March 1, 2000, M&T Bank completed the acquisition of Matthews, Bartlett & Dedecker, Inc. ("MBD"), an insurance agency located in Buffalo, New York for \$4.5 million in cash. MBD provides insurance services principally to the commercial market and operates as a subsidiary of M&T Bank. The acquisition has not had a material impact on the Company's financial position or its results of operations.

On March 31, 2000, The Chase Manhattan Bank ("Chase") transferred trust and fiduciary accounts with assets of approximately \$147 million to M&T Bank, completing a transaction that began in September 1999 with M&T Bank's acquisition from Chase of 29 branch offices in upstate New York and the investment management and custody accounts associated with those offices. At the time of closing in September 1999, the branches had approximately \$634 million of deposits and approximately \$44 million of retail installment and commercial loans, and the investment management and custody accounts had assets of approximately \$286 million. In connection with the transaction, the Company recorded approximately \$55 million of intangible assets that are being amortized over periods ranging from five to seven years.

On June 1, 1999, M&T completed the merger of FNB Rochester Corp. ("FNB"), a bank holding company headquartered in Rochester, New York, with and into Olympia. Following the merger with FNB, First National Bank of Rochester, a wholly owned subsidiary of FNB, was merged into M&T Bank. In accordance with the terms of the merger agreements with FNB, M&T paid \$76 million in cash and issued 1,225,160 shares of M&T common stock in exchange for FNB shares outstanding at the time of the acquisition. The purchase price of the transaction was approximately \$135 million based on the cash paid to FNB stockholders and the market price of M&T common shares on December 8, 1998 before the terms of the merger were agreed to and announced by M&T and FNB. Acquired assets, loans and deposits of FNB on June 1, 1999 totaled approximately \$676 million, \$393 million and \$511 million, respectively. The transaction



was accounted for using the purchase method of accounting and, accordingly, operations acquired from FNB have been included in the Company's financial results since the acquisition date. In connection with the acquisition, the Company recorded approximately \$86 million of goodwill and \$12 million of core deposit intangible. The core deposit intangible is being amortized over eight years using an accelerated method. Through December 31, 2001, the goodwill was being amortized over twenty years using the straight-line method.

In connection with the transactions described herein, the Company incurred expenses related to systems conversions and other costs of integrating and conforming the acquired operations with and into the Company of approximately \$8.0 million (\$4.8 million net of applicable income taxes) during 2001, approximately \$26.0 million (\$16.4 million net of applicable income taxes) during 2000, and approximately \$4.7 million (\$3.0 million net of applicable income taxes) during 1999. Expenses related to systems conversions and other costs of integration are included in the consolidated statement of income for the years ended December 31, 2001, 2000 and 1999 as follows:

<i>In thousands</i>	2001	2000	1999
Salaries and employee benefits . . .	\$ 275	2,117	188
Equipment and net occupancy . . .	309	820	149
Printing, postage and supplies . . .	438	2,062	685
Other costs of operations . . .	6,985	20,953	3,654
	\$8,007	25,952	4,676

The expenses noted above consisted largely of professional services and other temporary help fees associated with the conversion of systems and/or integration of operations; recruiting and other incentive compensation; initial marketing and promotion expenses designed to introduce the Company to customers of the acquired operations; travel; and printing, supplies and other costs.

Presented herein is certain unaudited pro forma information for 2000 as if Keystone and Premier had been acquired on January 1, 2000. These results combine the historical results of Premier and Keystone into the Company's consolidated statement of income and, while certain adjustments were made for the estimated impact of purchase accounting adjustments and other acquisition-related activity, they are not necessarily indicative of what would have occurred had the acquisitions taken place at that time. In particular, expenses related to systems conversions and other costs of integration associated with the acquisitions of Premier and Keystone are included in the periods in which such costs were incurred and, additionally, the Company expects to achieve further operating cost savings as a result of the mergers which are not reflected in the pro forma amounts presented. Pro forma information related to the acquisition of MBD is not presented since MBD's financial position and results of operations were not material to the Company's consolidated financial statements. Pro forma information for the year ended December 31, 2001 as if Premier had been acquired on January 1, 2001 is not presented since such pro forma results were not materially different from the Company's actual results.

*Pro forma amounts in thousands, except per share*

<i>Year ended December 31, 2000</i>	
Interest income . . . . .	\$2,288,463
Other income . . . . .	407,324
Net income . . . . .	303,294
Diluted earnings per common share . . . . .	3.10

### 3. Investment securities

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

<i>In thousands</i>	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
<i>December 31, 2001</i>				
Investment securities available for sale:				
U.S. Treasury and federal agencies . . .	\$ 244,019	6,974	-	250,993
Obligations of states and political subdivisions . . . . .	195,425	7,865	136	203,154
Mortgage-backed securities				
Government issued				
or guaranteed . . .	1,172,545	26,113	1,254	1,197,404
Privately issued . . .	429,754	6,270	1,161	434,863
Other debt securities . . .	336,118	8,049	12,469	331,698
Equity securities . . .	249,648	2,570	7,146	245,072
	2,627,509	57,841	22,166	2,663,184
Investment securities held to maturity:				
Obligations of states and political subdivisions . . . . .				
	103,614	840	-	104,454
Other debt securities . . .	17,894	-	241	17,653
	121,508	840	241	122,107
Other securities . . . . .	239,445	-	-	239,445
Total	\$2,988,462	58,681	22,407	3,024,736
<i>December 31, 2000</i>				
Investment securities available for sale:				
U.S. Treasury and federal agencies . . .	\$ 363,099	3,545	2,167	364,477
Obligations of states and political subdivisions . . . . .	181,990	3,149	5	185,134
Mortgage-backed securities				
Government issued				
or guaranteed . . .	1,614,222	10,088	4,440	1,619,870
Privately issued . . .	435,623	1,037	3,959	432,701
Other debt securities . . .	237,234	863	10,953	227,144
Equity securities . . . . .	202,863	4,577	2,462	204,978
	3,035,031	23,259	23,986	3,034,304
Investment securities held to maturity:				
Obligations of states and political subdivisions . . . . .				
	64,291	282	-	64,573
Other debt securities . . .	16,734	-	3,348	13,386
	81,025	282	3,348	77,959
Other securities . . . . .	194,524	-	-	194,524
Total	\$3,310,580	23,541	27,334	3,306,787

No investment in securities of a single non-U.S. Government or government agency issuer exceeded ten percent of stockholders' equity at December 31, 2001.

As of December 31, 2001, the latest available investment ratings of all privately issued mortgage-backed securities were A or better, with the exception of one unrated security with an amortized cost and estimated fair value of \$20,520,000 and \$20,820,000, respectively.

The amortized cost and estimated fair value of collateralized mortgage obligations included in mortgage-backed securities were as follows:

<i>In thousands</i>	December 31	
	2001	2000
Amortized cost . . . . .	\$525,664	725,372
Estimated fair value . . . . .	533,731	724,429

Gross realized gains on the sale of investment securities were \$4,097,000 in 2001, \$6,281,000 in 2000 and \$1,626,000 in 1999. Gross realized losses on the sale of investment securities were \$2,224,000 in 2001, \$9,359,000 in 2000 and \$51,000 in 1999.

At December 31, 2001, the amortized cost and estimated fair value of debt securities by contractual maturity were as follows:

<i>In thousands</i>	Amortized cost	Estimated fair value
Debt securities available for sale:		
Due in one year or less . . . . .	\$ 65,442	66,137
Due after one year through five years . . . . .	297,886	306,411
Due after five years through ten years . . . . .	127,675	131,123
Due after ten years . . . . .	284,559	282,174
	775,562	785,845
Mortgage-backed securities available for sale . . . . .		
	1,602,299	1,632,267
	\$2,377,861	2,418,112
Debt securities held to maturity:		
Due in one year or less . . . . .	\$ 78,355	78,553
Due after one year through five years . . . . .	25,069	25,216
Due after five years through ten years . . . . .	9,001	9,246
Due after ten years . . . . .	9,083	9,092
	\$ 121,508	122,107

At December 31, 2001, investment securities with a carrying value of \$1,934,349,000, including \$1,700,562,000 of investment securities available for sale, were pledged to secure demand notes issued to the U.S. Treasury, borrowings from the Federal Home Loan Bank of New York and the Federal Home Loan Bank of Pittsburgh (together, the "Federal Home Loan Banks"), repurchase agreements, governmental deposits and interest rate swap agreements.

Investment securities pledged by the Company to secure obligations whereby the secured party is permitted by contract or custom to sell or repledge such collateral totaled \$54,428,000 at December 31, 2001. The pledged securities are included in government issued or guaranteed mortgage-backed securities available for sale.

At December 31, 2001, collateral accepted by the Company, which by contract or custom can be sold or repledged, consisted of investment securities with a fair value of \$41,148,000 purchased under agreements to resell.

#### 4. Loans and leases

Total gross loans and leases outstanding were comprised of the following:

<i>In thousands</i>	December 31	
	2001	2000
Loans		
Commercial, financial,		
agricultural, etc. . . . .	\$ 5,014,868	5,007,053
Real estate:		
Residential . . . . .	4,901,264	4,427,285
Commercial . . . . .	8,865,178	8,226,951
Construction . . . . .	1,034,362	900,170
Consumer . . . . .	4,715,506	3,579,515
Total loans . . . . .	24,531,178	22,140,974
Leases		
Commercial . . . . .	190,966	164,906
Consumer . . . . .	673,324	664,434
Total leases . . . . .	864,290	829,340
Total loans and leases . . . . .	\$25,395,468	22,970,314

One-to-four family residential mortgage loans held for sale were \$1.0 billion at December 31, 2001 and \$525.1 million at December 31, 2000. One-to-four family residential mortgage loans serviced for others totaled approximately \$9.6 billion and \$9.7 billion at December 31, 2001 and 2000, respectively. As of December 31, 2001, approximately \$15 million of one-to-four family residential mortgage loans serviced for others have been sold with recourse. The total credit loss exposure resulting from residential mortgage loans sold with recourse was considered negligible. Commercial mortgage loans serviced for others totaled approximately \$472 million and \$458 million at December 31, 2001 and 2000, respectively.

Included in the preceding table are nonperforming loans (loans on which interest was not being accrued or had been renegotiated at below-market interest rates) of \$190,472,000 at December 31, 2001 and \$110,639,000 at December 31, 2000. If nonaccrual and renegotiated loans had been accruing interest at their originally contracted terms, interest income on these loans would have amounted to \$18,054,000 in 2001 and \$9,289,000 in 2000. The actual amount included in interest income during 2001 and 2000 on these loans was \$5,741,000 and \$2,108,000, respectively.

The recorded investment in loans considered impaired was \$139,750,000 and \$80,773,000 at December 31, 2001 and 2000, respectively. The recorded investment in loans considered impaired for which there was a related valuation allowance for impairment included in the allowance for credit losses and the amount of such impairment allowance were \$84,818,000 and \$20,956,000, respectively, at December 31, 2001 and \$36,602,000 and \$11,542,000, respectively, at December 31, 2000. The recorded investment in loans considered impaired for which there was no related valuation allowance for impairment was \$54,932,000 and \$44,171,000 at December 31, 2001 and 2000, respectively. The average recorded investment in impaired loans during 2001, 2000 and 1999 was \$116,841,000, \$47,475,000 and \$43,858,000, respectively. Interest income recognized on impaired loans totaled \$3,310,000, \$2,947,000 and \$3,324,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

Borrowings by directors and certain officers of M&T and its banking subsidiaries, and by associates of such persons, exclusive of loans aggregating less than \$60,000, amounted to \$198,114,000 and \$132,356,000 at December 31, 2001 and 2000, respectively. During 2001, new borrowings by such persons amounted to \$103,070,000 (including borrowings of new directors or officers that were outstanding at the time of their election) and repayments and other reductions were \$37,312,000.

At December 31, 2001, approximately \$2.4 billion of commercial mortgage loans and one-to-four family residential mortgage loans were pledged to secure outstanding borrowings.

### 5. Allowance for credit losses

Changes in the allowance for credit losses were as follows:

<i>In thousands</i>	Year ended December 31		
	2001	2000	1999
Beginning balance . . . . .	\$374,703	316,165	306,347
Provision for credit losses . . .	103,500	38,000	44,500
Allowance obtained through acquisitions . . . . .	22,112	49,518	5,636
Net charge-offs			
Charge-offs . . . . .	(94,154)	(42,931)	(59,655)
Recoveries . . . . .	18,847	13,951	19,337
Net charge-offs . . . . .	(75,307)	(28,980)	(40,318)
Ending balance . . . . .	\$425,008	374,703	316,165

### 6. Premises and equipment

The detail of premises and equipment was as follows:

<i>In thousands</i>	December 31	
	2001	2000
Land . . . . .	\$ 34,537	31,586
Buildings – owned . . . . .	175,882	165,638
Buildings – capital leases . . . . .	2,904	2,881
Leasehold improvements . . . . .	65,351	60,571
Furniture and equipment – owned . . . . .	198,444	205,277
Furniture and equipment – capital leases . . . . .	978	978
	478,096	466,931
Less: accumulated depreciation and amortization		
Owned assets . . . . .	213,666	206,745
Capital leases . . . . .	2,553	2,211
	216,219	208,956
Premises and equipment, net . . . . .	\$261,877	257,975

Net lease expense for all operating leases totaled \$31,659,000 in 2001, \$27,849,000 in 2000 and \$24,168,000 in 1999. The Company occupies certain banking offices and uses certain equipment under noncancellable operating lease agreements expiring at various dates over the next 19 years. Minimum lease payments under noncancellable operating leases are summarized as follows:

<i>In thousands</i>	
Year ending December 31:	
2002 . . . . .	\$ 25,666
2003 . . . . .	23,618
2004 . . . . .	20,916
2005 . . . . .	18,278
2006 . . . . .	15,287
Later years . . . . .	65,191
Total minimum lease payments . . . . .	\$168,956

Payments required under capital leases are not material.

### 7. Capitalized servicing assets

Changes in capitalized servicing assets were as follows:

<i>In thousands</i>	Year ended December 31		
	2001	2000	1999
Beginning balance . . . . .	\$100,927	60,902	63,995
Originations . . . . .	23,288	28,244	17,240
Purchases . . . . .	14,720	36,235	1,089
Amortization . . . . .	(31,704)	(24,392)	(19,773)
Sales . . . . .	(58)	(62)	(1,649)
	107,173	100,927	60,902
Valuation allowance . . . . .	(50)	(50)	(50)
Ending balance, net . . . . .	\$107,123	100,877	60,852

During 2000 the Company securitized approximately \$1.0 billion of one-to-four family residential mortgage loans previously held in the Company's loan portfolio. In connection with the securitization transaction, the Company allocated \$14.3 million of the carrying value of the loans to capitalized servicing assets. Such amount is included above in capitalized servicing assets from originations.

There was no provision for impairment added to the allowance for the years ended December 31, 2001, 2000 and 1999. During 1999, the valuation allowance was reduced by \$1,748,000 since for most strata the estimated fair value of capitalized servicing assets exceeded carrying value. The estimated fair value of capitalized servicing assets was approximately \$163 million at December 31, 2001 and \$147 million at December 31, 2000. Such amounts were estimated using discount rates ranging from 10.8% to 11.9% at December 31, 2001 and 11.0% to 12.0% at December 31, 2000, and contemporaneous prepayment assumptions. The estimated market value of capitalized servicing rights may vary significantly in subsequent periods due to changing interest rates and the effect thereof on prepayment speeds.

The key economic assumptions used to determine the fair value of capitalized servicing rights at December 31, 2001 and the sensitivity of such value to changes in those assumptions are summarized in the table that follows. These calculated sensitivities are hypothetical and actual changes in the fair value of capitalized servicing rights may differ significantly from the amounts presented herein. The effect of a variation in a particular assumption on the fair value of the servicing rights is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another which may magnify or counteract the sensitivities. The changes in assumptions are presumed to be instantaneous.

Weighted-average prepayment speeds	
(constant prepayment rate) . . . . .	12.22%
Impact on fair value of 10% adverse change . . . . .	\$ (6,709,000)
Impact on fair value of 20% adverse change . . . . .	(12,936,000)
Weighted-average discount rate . . . . .	10.94%
Impact on fair value of 10% adverse change . . . . .	\$ (5,556,000)
Impact on fair value of 20% adverse change . . . . .	(10,698,000)

## 8. Borrowings

The amounts and interest rates of short-term borrowings were as follows:

<i>Dollars in thousands</i>	Federal funds purchased and repurchase agreements	Other short-term borrowings	Total
<i>At December 31, 2001</i>			
Amount outstanding . . . . .	\$2,133,558	912,272	3,045,830
Weighted-average interest rate . . . . .	1.56%	1.64%	1.58%
<i>For the year ended December 31, 2001</i>			
Highest amount at a month-end . . . . .	\$3,191,427	1,144,408	
Daily-average amount outstanding . . . . .	2,389,004	890,778	3,279,782
Weighted-average interest rate . . . . .	3.78%	3.88%	3.81%
<i>At December 31, 2000</i>			
Amount outstanding . . . . .	\$1,440,887	631,937	2,072,824
Weighted-average interest rate . . . . .	6.35%	6.31%	6.34%
<i>For the year ended December 31, 2000</i>			
Highest amount at a month-end . . . . .	\$2,659,812	993,764	
Daily-average amount outstanding . . . . .	2,047,381	667,347	2,714,728
Weighted-average interest rate . . . . .	6.38%	6.28%	6.35%
<i>At December 31, 1999</i>			
Amount outstanding . . . . .	\$1,788,858	765,301	2,554,159
Weighted-average interest rate . . . . .	5.29%	5.36%	5.31%
<i>For the year ended December 31, 1999</i>			
Highest amount at a month-end . . . . .	\$1,809,403	765,301	
Daily-average amount outstanding . . . . .	1,609,964	446,623	2,056,587
Weighted-average interest rate . . . . .	5.09%	5.15%	5.10%

In general, federal funds purchased and short-term repurchase agreements outstanding at December 31, 2001 matured within two days following year-end. Other short-term borrowings included borrowings from the Federal Home Loan Banks, the U.S. Treasury and others having original maturities of one year or less.

At December 31, 2001, the Company had lines of credit under formal agreements as follows:

<i>In thousands</i>	M&T	M&T Bank	M&T Bank, N.A.
Outstanding borrowings . . . . .	\$ -	3,101,933	-
Unused . . . . .	30,000	2,902,665	328,408

M&T has a revolving credit agreement with an unaffiliated commercial bank whereby M&T may borrow up to \$30 million at its discretion through December 13, 2002. At December 31, 2001, M&T Bank had borrowing facilities available with the Federal Home Loan

Banks whereby M&T Bank could borrow up to approximately \$5.0 billion. Additionally, M&T Bank and M&T Bank, National Association ("M&T Bank, N.A."), a wholly owned subsidiary of M&T, had available lines of credit with the Federal Reserve Bank of New York totaling approximately \$1.3 billion, under which there were no borrowings outstanding at December 31, 2001 or 2000. M&T Bank and M&T Bank, N.A. are required to pledge loans or investment securities as collateral for these borrowing facilities.

Long-term borrowings were as follows:

<i>In thousands</i>	December 31	
	2001	2000
<i>Subordinated notes of M&amp;T Bank:</i>		
8.125% due 2002 . . . . .	\$ 75,000	75,000
7% due 2005 . . . . .	100,000	100,000
8% due 2010 . . . . .	500,594	499,415
<i>Senior medium term notes:</i>		
7.3% due 2004 . . . . .	74,091	99,269
6.5% due 2008 . . . . .	27,136	26,689
<i>Advances from Federal Home Loan Banks:</i>		
Variable rates . . . . .	1,240,000	1,270,000
Fixed rates . . . . .	1,063,423	985,627
<i>Preferred capital securities:</i>		
M&T Capital Trust I - 8.234% . . . . .	150,000	150,000
M&T Capital Trust II - 8.277% . . . . .	100,000	100,000
M&T Capital Trust III - 9.25% . . . . .	68,153	68,478
Other . . . . .	63,372	40,038
	\$3,461,769	3,414,516

The subordinated notes of M&T Bank are unsecured and are subordinate to the claims of depositors and other creditors of M&T Bank. The senior medium term notes were issued in 1997 and 1998 by Keystone Financial Mid-Atlantic Funding Corp., previously a wholly owned subsidiary of Keystone, but now a wholly owned subsidiary of Olympia. The notes provide for semi-annual interest payments at fixed rates of interest and are guaranteed by Olympia.

Long-term variable rate advances from the Federal Home Loan Banks had contractual interest rates that ranged from 1.89% to 2.42% at December 31, 2001 and from 6.56% to 6.83% at December 31, 2000. The weighted-average contractual interest rates were 2.08% and 6.74% at December 31, 2001 and 2000, respectively. Long-term fixed-rate advances from the Federal Home Loan Banks had contractual interest rates ranging from 4.05% to 8.29%. The weighted-average contractual interest rates payable were 5.53% and 5.67% at December 31, 2001 and 2000, respectively. Advances from the Federal Home Loan Banks mature at various dates through 2029 and are secured by residential real estate loans, commercial real estate loans and investment securities.

In 1997, M&T Capital Trust I ("Trust I"), M&T Capital Trust II ("Trust II"), and M&T Capital Trust III ("Trust III" and, together with Trust I and Trust II, the "Trusts"), issued \$310 million of preferred capital securities. The financial statement carrying value of the preferred capital securities of Trust III include the unamortized portion of a purchase accounting adjustment to reflect estimated fair value at the April 1, 1998 acquisition of the common securities of Trust III.

Other than the following payment terms (and the redemption terms described below), the preferred capital securities issued by the Trusts ("Capital Securities") are 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

The common securities of Trust I and II are wholly owned by M&T and the common securities of Trust III are wholly owned by Olympia. The common securities of each trust (“Common Securities”) 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 and are classified in the Company’s consolidated balance sheet as long-term borrowings with accumulated distributions on such securities included in interest expense. Under the Federal Reserve Board’s current risk-based capital guidelines, the Capital Securities are includable in M&T’s Tier 1 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 in the case of Trust I and Trust II and Olympia in the case of Trust III 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.

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.

Holders of the Capital Securities receive preferential cumulative cash distributions semi-annually on each distribution date at the stated distribution rate unless M&T, in the case of Trust I or Trust II, or Olympia, in the case of Trust III, exercise the right to extend the payment of interest on the Junior Subordinated Debentures for up to ten semi-annual periods, in which case payment of distributions on the Capital Securities will be deferred for a comparable period. During an extended interest period, M&T and/or Olympia may not pay dividends or distributions on, or repurchase, redeem or acquire any shares of the respective company’s capital stock. The agreements governing the Capital Securities, in the aggregate, provide a full, irrevocable and unconditional guarantee by M&T in the case of Trust I or Trust II, or Olympia, in the case of Trust III, 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 and Olympia.

The Capital Securities are mandatorily redeemable in whole, but not in part, upon repayment at the stated maturity dates of the Junior Subordinated Debentures or the earlier redemption of the Junior Subordinated Debentures in whole upon the occurrence of one or more events (“Events”) set forth in the indentures relating to the Capital Securities, and in whole or in part at any time after the stated optional redemption dates (February 1, 2007 in the case of Trust I and Trust III, and June 1, 2007 in the case of Trust II) contemporaneously with the Company’s optional redemption of the related Junior Subordinated Debentures in whole or in part. The Junior Subordinated Debentures are redeemable prior to their stated maturity dates at M&T’s option in the case of Trust I and Trust II and Olympia’s option in the case of

Trust III (i) on or after the stated optional redemption dates, in whole at any time or in part from time to time, or (ii) in whole, but not in part, at any time within 90 days following the occurrence and during the continuation of one or more of the Events, in each case subject to possible regulatory approval. The redemption price of the Capital Securities upon early redemption will be expressed as a percentage of the liquidation amount plus accumulated but unpaid distributions. In the case of Trust I, such percentage adjusts annually and ranges from 104.117% at February 1, 2007 to 100.412% for the annual period ending January 31, 2017, after which the percentage is 100%, subject to a make-whole amount if the early redemption occurs prior to February 1, 2007. In the case of Trust II, such percentage adjusts annually and ranges from 104.139% at June 1, 2007 to 100.414% for the annual period ending May 31, 2017, after which the percentage is 100%, subject to a make-whole amount if the early redemption occurs prior to June 1, 2007. In the case of Trust III, such percentage adjusts annually and ranges from 104.625% at February 1, 2007 to 100.463% for the annual period ending January 31, 2017, after which the percentage is 100%, subject to a make-whole amount if the early redemption occurs prior to February 1, 2007.

Long-term borrowings at December 31, 2001 mature as follows:

<i>In thousands</i>	
<i>Year ending December 31:</i>	
2002	\$ 372,171
2003	697,793
2004	275,448
2005	326,722
2006	156,202
Later years	1,633,433
	<u>\$3,461,769</u>

## 9. Stock-based compensation plans

### *Stock option plans*

M&T had two stock option plans at December 31, 2001. The 1983 Stock Option Plan (“1983 Plan”) allowed the grant of stock options and stock appreciation rights (either in tandem with options or independently) at prices which could not be less than the fair market value of the common stock on the date of grant. Except as described below, awards granted under the 1983 Plan generally vest over four years and are exercisable over terms not exceeding ten years and one day from the date of grant. When exercisable, the stock appreciation rights issued in tandem with stock options entitle grantees to receive cash, stock or a combination equal to the amount of stock appreciation between the dates of grant and exercise. During 2001, the remaining shares available for grant under the 1983 Plan were awarded. Stock appreciation rights that had been issued independently of stock options pursuant to the 1983 Plan contained similar terms as the stock options, although upon exercise the holder was only entitled to receive cash instead of purchasing shares of M&T’s common stock. In 1999, the Company granted options to substantially all employees who had not previously received awards under the 1983 Plan. The options granted under this award vest three years after the grant date and are exercisable for a period of seven years thereafter.

In April 2001, stockholders approved the 2001 Stock Option Plan (“2001 Plan”). Options granted under the 2001 Plan contain similar terms as the 1983 Plan, other than the 2001 Plan does not permit the granting of stock appreciation rights, either in tandem with options or as stand-alone grants. Under the 2001 Plan, a maximum of 10,000,000 shares of stock may be issued upon the exercise of options granted.

A summary of stock option and stock appreciation rights activity follows:

	Stock options outstanding	Cash-only appreciation rights outstanding	Weighted-average exercise price Stock options	Cash-only appreciation rights
<b>1999</b>				
Beginning balance . . . . .	8,099,130	354,000	\$22.97	\$6.14
Granted . . . . .	2,131,400	-	49.78	-
Exercised . . . . .	(796,230)	(165,000)	16.30	6.40
Cancelled . . . . .	(293,540)	-	37.60	-
At year-end . . . . .	9,140,760	189,000	29.33	5.91
<b>2000</b>				
Granted . . . . .	2,108,840	-	42.72	-
Acquired (note 2) . . . . .	1,259,493	-	53.90	-
Exercised . . . . .	(1,562,135)	(189,000)	22.99	5.91
Cancelled . . . . .	(337,850)	-	45.33	-
At year-end . . . . .	10,609,108	-	35.34	-
<b>2001</b>				
Granted . . . . .	2,047,904	-	65.95	-
Acquired (note 2) . . . . .	224,734	-	45.47	-
Exercised . . . . .	(2,706,931)	-	26.63	-
Cancelled . . . . .	(269,545)	-	71.09	-
At year-end . . . . .	9,905,270	-	\$43.30	\$ -
<b>Exercisable at:</b>				
December 31, 2001	4,368,555	-	\$30.98	\$ -
December 31, 2000	5,648,499	-	27.72	-
December 31, 1999	4,462,230	189,000	17.00	5.91

At December 31, 2001 and 2000, respectively, there were 9,877,747 and 1,901,700 shares available for future grant. A summary of stock options at December 31, 2001 follows:

Range of exercise price	Outstanding			Exercisable	
	Number of stock options	Weighted-average Exercise price	Life (in years)	Number of stock options	Weighted-average exercise price
\$ 7.85 to \$19.89	1,315,537	\$13.81	2.1	1,315,537	\$13.81
21.10 to 39.83	1,518,753	26.24	4.5	1,510,473	26.18
40.19 to 55.41	4,802,952	45.67	7.2	1,299,138	45.89
55.77 to 81.25	2,268,028	66.82	8.7	243,407	74.04
	9,905,270	\$43.30	6.5	4,368,555	\$30.98

The Company used a binomial option pricing model to estimate the grant date present value of stock options granted in 2001, 2000 and 1999. The weighted-average estimated value per option was \$20.62 in 2001, \$13.37 in 2000 and \$11.58 in 1999. The values were calculated using the following weighted-average assumptions: an option term of 6.5 years (representing the estimated period between grant date and exercise date based on historical data); a risk-free interest rate of 5.17% in 2001, 6.80% in 2000 and 4.97% in 1999 (representing the yield on a U.S. Treasury security with a remaining term equal to the expected option term); expected volatility of 29% in 2001, 22% in 2000 and 19% in 1999; and estimated dividend yields of 1.52% in 2001, 1.19% in 2000 and .85% in 1999 (representing the approximate annualized cash dividend rate paid with respect to a share of common stock at or near the grant date). The Company reduced the estimated value per option to reflect an estimate of the probability of forfeiture prior to vesting. Based on historical data and projected employee

turnover rates, the weighted-average estimated forfeiture rate was 10% in 2001 and 2000, and 21% in 1999.

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for the stock option plans. Accordingly, no compensation expense was recognized in 2001, 2000 and 1999 for stock option awards since the exercise price of stock options granted under the stock option plans was not less than the fair market value of the common stock at date of grant. Compensation expense (benefit) recognized for cash-only stock appreciation rights was \$976,000 in 2000 and \$(2,199,000) in 1999. Had compensation expense for stock option awards been determined consistent with SFAS No. 123, net income and earnings per share would be reduced to the pro forma amounts indicated as follows:

<i>In thousands, except per share</i>	Year ended December 31		
	2001	2000	1999
<b>Net income:</b>			
As reported . . . . .	\$378,075	286,156	265,626
Pro forma . . . . .	353,088	268,194	252,401
<b>Basic earnings per share:</b>			
As reported . . . . .	\$3.95	3.55	3.41
Pro forma . . . . .	3.69	3.33	3.24
<b>Diluted earnings per share:</b>			
As reported . . . . .	\$3.82	3.44	3.28
Pro forma . . . . .	3.58	3.24	3.13

The pro forma effects are presented in accordance with the requirements of SFAS No. 123, however, such effects are not representative of the effects to be reported in future years due to the fact that options vest over several years and additional awards generally are made each year.

#### *Deferred bonus plan*

The Company provides a deferred bonus plan pursuant to which eligible employees may elect to defer all or a portion of their current annual incentive compensation awards and allocate such awards to several investment options, including M&T common stock. Participants may elect the timing of distributions from the plan. Such distributions are payable in cash with the exception of balances allocated to M&T common stock which are distributable in the form of M&T common stock. Shares of M&T common stock distributable pursuant to the terms of the deferred bonus plan were 84,743 and 88,543 at December 31, 2001 and 2000, respectively. In connection with the deferred bonus plan, 150,000 shares of M&T common stock were authorized for issuance, of which 36,154 shares have been issued. The obligation to issue such shares is included in common stock issuable in the consolidated balance sheet.

#### *Directors' stock plan*

The Company maintains a compensation plan for non-employee members of the Company's boards of directors and directors advisory councils that allows such members to receive all or a portion of their compensation in shares of M&T common stock. In connection with the directors' stock plan, 100,000 shares of M&T common stock were authorized for issuance, of which 26,828 shares have been issued.

In connection with the Keystone acquisition, the Company assumed an obligation to issue shares of M&T common stock related to a deferred directors compensation plan. Shares of common stock issuable under such plan were 45,685 at December 31, 2001. The obligation to issue such shares is included in common stock issuable in the consolidated balance sheet.

*Management stock ownership program*

Keystone had a management stock ownership program which established stock ownership goals for senior management of Keystone. In order to assist senior management in attaining their goals, a related plan provided for nonrecourse, noninterest-bearing loans to be used to purchase Keystone common stock at fair market value. The Company acquired these loans as a result of the Keystone transaction. The loans are secured by collateral having an initial value of 120% of the loan amount and consisting of M&T common stock (Keystone stock purchased with the loan) plus additional shares of stock or other acceptable collateral owned by the executive. At December 31, 2001 and 2000, the amount owed M&T for the financed stock purchased totaled \$4,601,000 and \$4,713,000, respectively, and is classified as a reduction of additional paid-in capital in the consolidated balance sheet. The amounts are due to M&T no later than October 5, 2010.

**10. 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 pension expense consisted of the following:

<i>In thousands</i>	Year ended December 31		
	2001	2000	1999
Service cost . . . . .	\$ 11,371	8,213	8,202
Interest cost on projected benefit obligation . . . . .	17,847	11,801	9,225
Expected return on plan assets . . . . .	(27,215)	(17,712)	(14,308)
Amortization of prior service cost . . . . .	11	1,615	84
Recognized net actuarial (gain) loss. . . . .	45	(1,431)	-
Settlements and curtailments . . . . .	-	-	349
Net periodic pension expense . . . . .	\$ 2,059	2,486	3,552

Net postretirement benefits expense consisted of the following:

<i>In thousands</i>	Year ended December 31		
	2001	2000	1999
Service cost . . . . .	\$ 398	307	325
Interest cost on projected benefit obligation . . . . .	1,832	1,379	1,150
Expected return on plan assets . . . . .	(52)	(111)	(180)
Amortization of prior service cost . . . . .	170	83	14
Recognized net actuarial loss. . . . .	83	28	39
Net postretirement benefits expense . . . . .	\$ 2,431	1,686	1,348

Data relating to the funding position of the plans were as follows:

<i>In thousands</i>	Pension benefits		Postretirement benefits	
	2001	2000	2001	2000
Change in benefit obligation:				
Benefit obligation at beginning of year . . . . .	\$249,137	127,038	21,437	16,762
Service cost . . . . .	11,371	8,213	398	307
Interest cost . . . . .	17,847	11,801	1,832	1,379
Plan participants' contributions . . . . .	-	-	228	230
Amendments . . . . .	656	2,689	(1,267)	2,979
Actuarial (gain) loss . . . . .	18,729	(6,109)	2,749	2,009
Business combinations . . . . .	(14,949)	112,771	4,193	-
Benefits paid. . . . .	(12,902)	(7,266)	(2,052)	(2,229)
Benefit obligation at end of year . . . . .	\$269,889	249,137	27,518	21,437
Change in plan assets:				
Fair value of plan assets at beginning of year . . . . .	\$280,218	159,356	2,122	3,359
Actual return on plan assets . . . . .	(4,601)	5,418	96	457
Employer contributions . . . . .	-	64	-	-
Plan participants' contributions . . . . .	-	-	725	535
Business combinations . . . . .	9,665	122,487	90	-
Benefits and other payments . . . . .	(12,202)	(7,107)	(2,027)	(2,229)
Fair value of plan assets at end of year . . . . .	\$273,080	280,218	1,006	2,122
Funded status . . . . .	\$ 3,191	31,081	(26,512)	(19,315)
Unrecognized net actuarial (gain) loss . . . . .	37,427	(16,808)	4,993	2,371
Unrecognized prior service cost . . . . .	432	(212)	1,780	3,217
Prepaid (accrued) benefit cost . . . . .	\$ 41,050	14,061	(19,739)	(13,727)
Amounts recognized in the consolidated balance sheet were:				
Prepaid benefit cost (asset) . . . . .	\$ 60,570	32,640	-	-
Accrued benefit cost (liability) . . . . .	(19,520)	(18,579)	(19,739)	(13,727)
	\$ 41,050	14,061	(19,739)	(13,727)

In 2001, following the completion of actuarial reviews and mergers of the pension and other postretirement benefits plans of M&T and Keystone, the Company increased the net prepaid benefit cost obtained in the acquisition of Keystone by approximately \$28 million.



The Company has an unfunded supplemental pension plan for certain key executives. The projected benefit obligation and accumulated benefit obligation included in the preceding data related to such plans were \$19,905,000 and \$19,896,000, respectively, as of December 31, 2001 and \$15,062,000 and \$14,769,000, respectively, as of December 31, 2000.

The assumed rates used in the actuarial computations were:

	Pension benefits		Postretirement benefits	
	2001	2000	2001	2000
Discount rate . . . . .	7.25%	7.50%	7.25%	7.50%
Long-term rate of return on plan assets . . . . .	8.75%	9.00%	4.25%	4.25%
Rate of increase in future compensation levels . . . . .	4.94%	5.00%	-	-

For measurement purposes, a 10.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2002. The rate was assumed to decrease gradually to 5.5% over 5 years and remain constant thereafter. A one-percentage point change in assumed health care cost trend rates would have the following effects:

<i>In thousands</i>	+1%	-1%
Increase (decrease) in:		
Service and interest cost . . . . .	\$ 72	(65)
Accumulated postretirement benefit obligation . . . . .	1,155	(1,035)

Pension plan assets included common stock of M&T with a fair value of \$23,889,000 and \$22,299,000 at December 31, 2001 and 2000, respectively.

The Company has a retirement savings plan ("Savings Plan") that is a defined contribution plan in which eligible employees of the Company may defer up to 15% of qualified compensation via contributions to the plan. The Company makes an employer matching contribution in an amount equal to 75% of an employee's contribution, up to 4.5% of the employee's qualified compensation. Employees' accounts, including employee contributions, employer matching contributions and accumulated earnings thereon, are at all times fully vested and nonforfeitable. The Company's contributions to the Savings Plan totaled \$10,103,000, \$7,699,000 and \$6,935,000 in 2001, 2000 and 1999, respectively.

## 11. Income taxes

The components of income tax expense (benefit) were as follows:

<i>In thousands</i>	Year ended December 31		
	2001	2000	1999
Current			
Federal . . . . .	\$218,021	156,941	139,946
State and city . . . . .	9,425	9,220	10,926
Total current . . . . .	227,446	166,161	150,872
Deferred			
Federal . . . . .	(17,140)	(4,947)	1,508
State and city . . . . .	(4,485)	(964)	308
Total deferred . . . . .	(21,625)	(5,911)	1,816
Total income taxes applicable to pre-tax income . . . . .	\$205,821	160,250	152,688

The Company files a consolidated federal income tax return reflecting taxable income earned by all subsidiaries. In prior years, applicable federal tax law allowed certain financial institutions the option of deducting as bad debt expense for tax purposes amounts in excess of actual losses. In accordance with generally accepted accounting principles, such financial institutions were not required to provide deferred income taxes on such excess. Recapture of the excess tax bad debt reserve established under the previously allowed method will result in taxable income if M&T Bank fails to maintain bank status as defined in the Internal Revenue Code or charges are made to the reserve for other than bad debt losses. At December 31, 2001 M&T Bank's tax bad debt reserve for which no federal income taxes have been provided was \$74,021,000. No actions are planned that would cause this reserve to become wholly or partially taxable.

The portion of income taxes attributable to gains or losses on sales of bank investment securities was an expense of \$724,000 and \$639,000 in 2001 and 1999, respectively, and a benefit of \$1,216,000 in 2000. No alternative minimum tax expense was recognized in 2001, 2000 or 1999.

Total income taxes differed from the amount computed by applying the statutory federal income tax rate to pre-tax income as follows:

<i>In thousands</i>	Year ended December 31		
	2001	2000	1999
Income taxes at statutory rate . . . . .	\$204,364	156,242	146,410
Increase (decrease) in taxes:			
Tax-exempt income . . . . .	(22,566)	(14,792)	(12,137)
State and city income taxes, net of federal income tax effect . . . . .	3,211	5,366	7,302
Amortization of goodwill . . . . .	21,706	12,575	11,117
Other . . . . .	(894)	859	(4)
	\$205,821	160,250	152,688

Deferred tax assets (liabilities) were comprised of the following at December 31:

<i>In thousands</i>	Year ended December 31		
	2001	2000	1999
Losses on loans and other assets . . . . .	\$ 172,392	146,309	128,043
Postretirement and other supplemental employee benefits . . . . .	13,000	14,416	9,276
Incentive compensation plans . . . . .	14,873	14,168	14,041
Depreciation and amortization . . . . .	-	-	11,090
Interest on loans . . . . .	6,443	10,897	-
Unrealized investment losses . . . . .	-	295	17,906
Other . . . . .	19,041	22,466	11,998
Gross deferred tax assets . . . . .	225,749	208,551	192,354
Leasing transactions . . . . .	(166,126)	(163,581)	(115,586)
Capitalized servicing rights . . . . .	(21,657)	(18,185)	(12,159)
Retirement benefits . . . . .	(13,701)	(9,776)	(4,077)
Depreciation and amortization . . . . .	(652)	(7,454)	-
Interest on loans . . . . .	-	-	(5,495)
Unrealized investment gains . . . . .	(12,558)	-	-
Other . . . . .	(12,399)	(9,782)	(3,202)
Gross deferred tax liabilities . . . . .	(227,093)	(208,778)	(140,519)
Net deferred tax asset (liability) . . . . .	\$ (1,344)	(227)	51,835

The Company believes that it is more likely than not that the deferred tax assets will be realized through taxable earnings or alternative tax strategies.

The income tax credits shown in the statement of income of M&T in note 21 arise principally from operating losses before dividends from subsidiaries.

## 12. Earnings per share

The computations of basic earnings per share follow:

<i>In thousands, except per share</i>	Year ended December 31		
	2001	2000	1999
Income available to common stockholders:			
Net income . . . . .	\$378,075	286,156	265,626
Weighted-average shares outstanding (including common stock issuable) . . . . .	95,732	80,640	78,003
Basic earnings per share . . . . .	\$ 3.95	3.55	3.41

The computations of diluted earnings per share follow:

<i>In thousands, except per share</i>	Year ended December 31		
	2001	2000	1999
Income available to common stockholders . . . . .	\$378,075	286,156	265,626
Weighted-average shares outstanding . . . . .	95,732	80,640	78,003
Plus: incremental shares from assumed conversion of stock options . . . . .	3,292	2,531	2,902
Adjusted weighted-average shares outstanding . . . . .	99,024	83,171	80,905
Diluted earnings per share . . . . .	\$ 3.82	3.44	3.28

## 13. Comprehensive income

The following table displays the components of other comprehensive income:

<i>In thousands</i>	Before-tax amount	Income taxes	Net
<i>For the year ended December 31, 2001</i>			
Unrealized gains on investment securities:			
Unrealized holding gains . . . . .	\$ 38,275	(13,577)	24,698
Less: reclassification adjustment for gains realized in net income . . . . .	1,873	(724)	1,149
	36,402	(12,853)	23,549
Unrealized losses on cash flow hedge . . . . .	(461)	163	(298)
Net unrealized gains . . . . .	\$ 35,941	(12,690)	23,251
<i>For the year ended December 31, 2000</i>			
Unrealized gains on investment securities:			
Unrealized holding gains . . . . .	\$ 40,148	(16,395)	23,753
Less: reclassification adjustment for losses realized in net income . . . . .	(3,078)	1,216	(1,862)
Net unrealized gains . . . . .	\$ 43,226	(17,611)	25,615

<i>In thousands</i>	Before-tax amount	Income taxes	Net
<i>(continued)</i>			
<i>For the year ended December 31, 1999</i>			
Unrealized losses on investment securities:			
Unrealized holding losses . . . . .	\$(47,178)	19,198	(27,980)
Less: reclassification adjustment for gains realized in net income . . . . .	1,575	(639)	936
Net unrealized losses . . . . .	\$(48,753)	19,837	(28,916)

## 14. Other income and other expense

The following items, which exceeded 1% of total interest income and other income in the respective period, were included in either other revenues from operations or other costs of operations in the consolidated statement of income:

<i>In thousands</i>	Year ended December 31		
	2001	2000	1999
Other income:			
Bank owned life insurance . . . . .	\$35,409	25,533	22,487
Other expense:			
Professional services . . . . .	49,701	35,363	31,527
Amortization of capitalized servicing rights . . . . .	31,704	24,392	19,773

## 15. International activities

The Company engages in certain international activities consisting largely of collecting Eurodollar deposits, engaging in foreign currency trading and providing credit to support the international activities of domestic companies. Net assets identified with international activities amounted to \$6,374,000 and \$7,209,000 at December 31, 2001 and 2000, respectively. Deposits at M&T Bank's offshore branch office were \$777,895,000 and \$244,511,000 at December 31, 2001 and 2000, respectively.

## 16. Derivative financial instruments

As described in note 1, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, as of January 1, 2001. The January 1, 2001 transition adjustment prescribed by SFAS No. 133 was not material to the Company's consolidated financial position or its results of operations.

As part of managing interest rate risk, the Company has entered into several interest rate swap agreements. The agreements modify the repricing characteristics of certain portions of the Company's portfolios of earning assets and interest-bearing liabilities. Interest rate swap agreements are generally entered into with counterparties that meet established credit standards and most contain collateral provisions protecting the at-risk party. The Company considers the credit risk inherent in these contracts to be negligible.

Beginning January 1, 2001, the Company has designated its interest rate swap agreements utilized in the management of interest rate risk as either fair value hedges or cash flow hedges as defined in SFAS No. 133. The Company utilizes interest rate swap agreements designated as fair value hedges to protect its exposure to changes in the fair value of certain recognized assets and liabilities. The Company also utilizes an interest rate swap agreement designated as a cash flow hedge to protect against the variability in cash flows of variable rate long-term borrowings.

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 or modify follows:

<i>Dollars in thousands</i>	Notional amount	Average maturity (in years)	Weighted-average rate		Estimated fair value-gain (loss)
			Fixed	Variable	
<i>December 31, 2001</i>					
Fair value hedges:					
Fixed rate					
available for sale investment securities <sup>(a)</sup> . . . . .	\$ 16,500	.9	6.57%	2.01%	\$ (618)
Fixed rate					
time deposits <sup>(b)</sup> . . . . .	334,000	1.5	5.37%	2.14%	2,225
Fixed rate long-term					
borrowings <sup>(b)</sup> . . . . .	125,000	2.7	5.38%	2.27%	3,302
	475,500	1.8	5.41%	2.17%	4,909
Cash flow hedge:					
Variable rate long-term					
borrowings <sup>(a)</sup> . . . . .	100,000	.4	3.78%	2.02%	(461)
	\$575,500	1.6	5.13%	2.14%	\$4,448
<i>December 31, 2000</i>					
Fixed rate					
available for sale investment securities <sup>(a)</sup> . . . . .	\$ 16,500	1.9	6.57%	6.75%	\$ (214)
Fixed rate					
time deposits <sup>(b)</sup> . . . . .	467,000	1.4	6.45%	6.68%	1,049
Fixed rate long-term					
borrowings <sup>(b)</sup> . . . . .	50,000	2.6	5.85%	6.76%	(15)
	\$533,500	1.5	6.40%	6.69%	\$ 820

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

The estimated fair value of interest rate swap agreements represents the amount the Company would have expected to receive (pay) to terminate such contracts. At December 31, 2001, the estimated fair value of interest rate swap agreements designated as fair value hedges was substantially offset by unrealized gains and losses on the changes in fair value of the hedged items. The estimated fair value of interest rate swap agreements designated as cash flow hedges, net of applicable income taxes, is included in "accumulated other comprehensive income, net" in the Company's consolidated balance sheet at December 31, 2001. For periods prior to January 1, 2001, the estimated fair value of interest rate swap agreements entered into for interest rate risk management purposes was not recognized in the consolidated financial statements, except for swap agreements that modified the repricing characteristics of investment securities classified as available for sale. Changes in the fair value of such swap agreements and investment securities were included in other comprehensive income, net of applicable income taxes.

At December 31, 2001 the notional amount of interest rate swaps outstanding mature as follows:

<i>In thousands</i>	
<i>Year ending December 31:</i>	
2002 . . . . .	\$375,500
2003 . . . . .	60,000
2004 . . . . .	-
2005 . . . . .	75,000
2006 . . . . .	10,000
Later years . . . . .	55,000
	\$575,500

The net effect of interest rate swap agreements was to increase net interest income by \$6,720,000 in 2001, \$13,000 in 2000 and \$26,100,000 in 1999. The average notional amount of interest rate swap agreements impacting net interest income which were entered into for interest rate risk management purposes were \$522,730,000 in 2001, \$875,933,000 in 2000 and \$1,944,813,000 in 1999.

In anticipation of M&T Bank's issuance of \$500 million of fixed rate subordinated capital notes in October 2000, the Company terminated certain interest rate swap agreements, including forward-starting agreements, with an aggregate notional amount of \$421 million. Under the terms of the terminated agreements, the Company was required to make fixed-rate payments and receive variable-rate payments. The termination of the agreements, which had been entered into to hedge interest rate risk associated with fixed-rate commercial real estate loans, resulted in a net deferred gain of \$15,460,000 which is being recognized in income over the designated hedge period of the agreements. Income recognized in 2001 and 2000 related to the terminated swap agreements totaled \$1,834,000 and \$311,000, respectively. The net increase in interest income in future years from amortization of the deferred gain related to the interest rate swap terminations is as follows:

<i>In thousands</i>	
<i>Year ending December 31:</i>	
2002 . . . . .	\$ 2,163
2003 . . . . .	2,163
2004 . . . . .	2,163
2005 . . . . .	2,068
2006 . . . . .	1,927
Later years . . . . .	2,831
	\$13,315

The Company utilizes commitments to sell residential real estate loans to hedge the exposure to changes in the fair value of residential real estate loans held for sale. Beginning January 1, 2001, such commitments have been designated as fair value hedges and, as a result, the commitments and the hedged loans are recorded at estimated fair value. The Company also utilizes commitments to sell residential real estate loans to offset the exposure to changes in the fair value of certain commitments to originate residential real estate loans for sale. As a result of these activities, included in mortgage banking revenues for 2001 were net unrealized pre-tax gains related to loans held for sale, commitments to originate loans for sale, and commitments to sell loans of approximately \$8 million. Prior to the adoption of SFAS No. 133, residential real estate loans held for sale and related commitments to sell loans and to originate loans for sale were recorded at the lower of aggregate cost or fair market value.

The amount of hedge ineffectiveness of both fair value and cash flow hedges recognized in 2001 was not material to the Company's results of operations.

Derivative financial instruments used for trading purposes included foreign exchange and other option contracts, foreign exchange forward and spot contracts, interest rate swap contracts and financial futures. The following table includes information about the estimated fair value of derivative financial instruments used for trading purposes:

<i>In thousands</i>	2001	2000
<i>December 31</i>		
Gross unrealized gains . . . . .	\$26,749	20,996
Gross unrealized losses . . . . .	25,851	21,358
<i>Year ended December 31:</i>		
Average gross unrealized gains . . . . .	\$25,456	30,445
Average gross unrealized losses . . . . .	24,809	30,694

Net gains realized from derivative financial instruments used for trading purposes were \$2,945,000 and \$1,597,000 in 2001 and 2000, respectively. Net losses of \$1,699,000 were incurred in 1999.

### 17. Disclosures about fair value of financial instruments

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires disclosure of the estimated "fair value" of financial instruments. "Fair value" is generally defined as the price a willing buyer and a willing seller would exchange for a financial instrument in other than a distressed sale situation. Disclosures related to fair value presented herein are as of December 31, 2001 and 2000.

With the exception of marketable securities, certain off-balance sheet financial instruments and one-to-four family residential mortgage loans originated for sale, the Company's financial instruments are not readily marketable and market prices do not exist. The Company, in attempting to comply with the provisions of SFAS No. 107, has not attempted to market its financial instruments to potential buyers, if any exist. Since negotiated prices in illiquid markets depend greatly upon the then present motivations of the buyer and seller, it is reasonable to assume that actual sales prices could vary widely from any estimate of fair value made without the benefit of negotiations. Additionally, changes in market interest rates can dramatically impact the value of financial instruments in a short period of time.

The estimated fair values of investments in readily marketable debt and equity securities were based on quoted market prices at the respective year-end. In arriving at estimated fair value of other financial instruments, the Company generally used calculations based upon discounted cash flows of the related financial instruments. In general, discount rates used for loan products were based on the Company's pricing at the respective year-end. A higher discount rate was assumed with respect to estimated cash flows associated with nonaccrual loans.

As more fully described in note 3, the carrying value and estimated fair value of investment securities were as follows:

<i>In thousands</i>	Carrying value	Estimated fair value
<i>December 31</i>		
2001 . . . . .	\$3,024,137	3,024,736
2000 . . . . .	3,309,853	3,306,787

The following table presents the carrying value and calculated estimates of fair value of loans:

<i>In thousands</i>	Carrying value	Calculated estimate
<i>December 31, 2001</i>		
Commercial loans and leases . . . . .	\$ 5,140,207	5,144,035
Commercial real estate loans . . . . .	9,366,017	9,445,168
Residential real estate loans . . . . .	5,395,367	5,458,065
Consumer loans and leases . . . . .	5,286,169	5,325,325
	\$25,187,760	25,372,593
<i>December 31, 2000</i>		
Commercial loans and leases . . . . .	\$ 5,116,085	5,119,700
Commercial real estate loans . . . . .	8,716,114	8,758,551
Residential real estate loans . . . . .	4,782,060	4,782,166
Consumer loans and leases . . . . .	4,128,555	4,104,518
	\$22,742,814	22,764,935

The allowance for credit losses represented the Company's assessment of the overall level of credit risk inherent in the portfolio and totaled \$425,008,000 and \$374,703,000 at December 31, 2001 and 2000, respectively.

As described in note 16, the Company enters into various commitments to originate residential real estate loans for sale and commitments to sell residential real estate loans. In accordance with SFAS No. 133, beginning January 1, 2001 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 based on quoted market prices for commitments to sell residential real estate loans to certain government sponsored entities and other parties. The Company's commitments to originate residential real estate loans for sale represented aggregate fair value gains (losses) of \$(2,795,000) at December 31, 2001 and \$2,740,000 at December 31, 2000. The Company's commitments to sell residential real estate loans represented aggregate fair value gains (losses) of \$8,862,000 at December 31, 2001 and \$(4,176,000) at December 31, 2000. Unrealized fair value gains and losses at December 31, 2001 are included in other assets and other liabilities, respectively, in the consolidated balance sheet. Unrealized fair value gains and losses at December 31, 2000 were not recognized in the consolidated balance sheet because the aggregate market value of residential real estate loans held for sale and related commitments to sell loans and to originate loans for sale exceeded the cost of such items.

As described in note 18, in the normal course of business, various commitments and contingent liabilities are outstanding, such as loan commitments, credit guarantees and letters of credit. The Company's pricing of such financial instruments is based largely on credit quality and relationship, probability of funding and other requirements. Commitments generally have fixed expiration dates and contain termination and other clauses which provide for relief from funding in the event of significant deterioration in the credit quality of the customer. The rates and terms of the Company's loan commitments, credit guarantees and letters of credit are competitive with other financial institutions operating in markets served by the Company. The Company believes that the carrying amounts are reasonable estimates of the fair value of these financial instruments. Other than residential real estate loan-related commitments described above, such carrying amounts, comprised principally of unamortized fee income, are included in other liabilities and totaled \$7,733,000 and \$8,624,000 at December 31, 2001 and 2000, respectively.

SFAS No. 107 requires that the estimated fair value ascribed to noninterest-bearing deposits, savings deposits and NOW accounts be

established at carrying value because of the customers' ability to withdraw funds immediately. Additionally, time deposit accounts are required to be revalued based upon prevailing market interest rates for similar maturity instruments.

The following summarizes the results of these calculations:

<i>In thousands</i>	Carrying value	Calculated estimate
<i>December 31, 2001</i>		
Noninterest-bearing deposits . . . . .	\$3,704,004	3,704,004
Savings deposits and NOW accounts . . . . .	8,910,465	8,910,465
Time deposits . . . . .	8,188,036	8,295,639
Deposits at foreign office . . . . .	777,895	777,895
<i>December 31, 2000</i>		
Noninterest-bearing deposits . . . . .	\$3,344,913	3,344,913
Savings deposits and NOW accounts . . . . .	6,979,161	6,979,161
Time deposits . . . . .	9,664,088	9,713,668
Deposits at foreign office . . . . .	244,511	244,511

The Company believes that deposit accounts have a value greater than that prescribed by SFAS No. 107. The Company feels, however, that the value associated with these deposits is greatly influenced by characteristics of the buyer, such as the ability to reduce the costs of servicing the deposits and deposit attrition which often occurs following an acquisition. Accordingly, estimating the fair value of deposits with any degree of certainty is not practical.

As more fully described in note 16, the Company had entered into interest rate swap agreements for purposes of managing the Company's exposure to changing interest rates. The estimated fair value of interest rate swap agreements represents the amount the Company would have expected to receive or pay to terminate such agreements. The following table includes information about the estimated fair value of interest rate swaps entered into for interest rate risk management purposes:

<i>In thousands</i>	Notional amount	Gross unrealized gains	Gross unrealized losses	Estimated fair value- gain
<i>December 31</i>				
2001 . . . . .	\$575,500	6,266	(1,818)	4,448
2000 . . . . .	533,500	2,021	(1,201)	820

As described in note 16, the Company also uses certain derivative financial instruments as part of its trading activities. Interest rate contracts entered into for trading purposes had notional values and estimated fair value gains of \$1.4 billion and \$1,083,000, respectively, at December 31, 2001 and notional values and estimated fair value gains of \$769 million and \$81,000, respectively, at December 31, 2000. The Company also entered into foreign exchange and other option and futures contracts totaling approximately \$242 million and \$293 million at December 31, 2001 and 2000, respectively. Such contracts were valued at losses of \$185,000 and \$444,000 at December 31, 2001 and 2000, respectively. All trading account assets and liabilities are recorded in the consolidated balance sheet at estimated fair value. The fair values of all trading account assets and liabilities were \$39 million and \$27 million, respectively, at December 31, 2001 and \$37 million and \$22 million, respectively, at December 31, 2000.

Due to the near maturity of other money-market assets and short-term borrowings, the Company estimates that the carrying value of such instruments approximates estimated fair value. The carrying value and estimated fair value of long-term borrowings were \$3,461,769,000 and \$3,505,520,000, respectively, at December 31,

2001 and \$3,414,516,000 and \$3,392,049,000, respectively, at December 31, 2000.

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

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

## 18. Commitments and contingencies

In the normal course of business, various commitments and contingent liabilities are outstanding, such as commitments to extend credit guarantees and "standby" letters of credit (approximately \$884,517,000 and \$894,170,000 at December 31, 2001 and 2000, respectively) which are not reflected in the consolidated financial statements. No material losses are expected as a result of these transactions. Additionally, the Company had outstanding commitments to originate loans of approximately \$5.5 billion and \$5.0 billion at December 31, 2001 and 2000, respectively. Since many loan commitments, credit guarantees and "standby" letters of credit expire without being funded in whole or part, the contract amounts are not necessarily indicative of future cash flows. Commitments to sell one-to-four family residential mortgage loans totaled \$1.3 billion at December 31, 2001 and \$555 million at December 31, 2000.

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, if any, 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.

## 19. Segment information

In accordance with the provisions of SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," reportable segments have been determined based upon the Company's internal profitability reporting system, which is organized by strategic business units. Certain strategic business units have been combined for segment information reporting purposes where the nature of the products and services, the type of customer and the distribution of those products and services are similar. The reportable segments are Commercial Banking, Commercial Real Estate, Discretionary Portfolio, Residential Mortgage Banking and Retail Banking.

The financial information of the Company's segments has been compiled utilizing the accounting policies described in note 1 with certain exceptions. The more significant of these exceptions are described herein. The Company allocates interest income or interest expense using a methodology that charges users of funds (assets) interest expense and credits providers of funds (liabilities) with income based on the maturity, prepayment and/or repricing characteristics of

the assets and liabilities. The net effect of this allocation is recorded in the "All Other" category. A provision for credit losses is allocated to segments in an amount based largely on actual net charge-offs incurred by the segment during the period plus or minus an amount necessary to adjust the segment's allowance for credit losses due to changes in loan balances. In contrast, the level of the consolidated provision for credit losses is determined using the methodologies described in note 1 to assess the overall adequacy of the allowance for credit losses. Indirect fixed and variable expenses incurred by certain centralized support areas are allocated to segments based on actual usage (for example, volume measurements) and other criteria. Certain types of administrative expenses and bankwide expense accruals (including amortization of goodwill and core deposit intangible) are generally not allocated to segments. Income taxes are allocated to segments based on the Company's marginal statutory tax rate adjusted for any tax-exempt income or non-deductible expenses. Equity is allocated to the segments based on regulatory capital requirements and in proportion to an assessment of the inherent risks associated with the business of the segment (including interest, credit and operating risk).

The management accounting policies and processes utilized in compiling segment financial information are highly subjective and, unlike financial accounting, are not based on authoritative guidance similar to generally accepted accounting principles. As a result, reported segment results are not necessarily comparable with similar information reported by other financial institutions. Furthermore, changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial data. Information about the Company's segments is presented in the accompanying table.

The Commercial Banking segment provides a wide range of credit products and banking services for middle-market and large commercial customers, largely within the markets the Company serves. Among the services provided by this segment are commercial lending and leasing, deposit products and cash management services. The Commercial Real Estate segment provides credit services which are secured by various types of multifamily residential and commercial real estate and deposit services to its customers. The Discretionary Portfolio segment includes securities, residential mortgage loans and other assets; short-term and long-term borrowed funds; brokered

certificates of deposit and interest rate swap agreements related thereto; and offshore branch deposits. This segment also provides services to commercial customers and consumers which include foreign exchange, securities trading and municipal bond underwriting and sales. The Residential Mortgage Banking segment originates and services residential mortgage loans for consumers and sells substantially all of those loans in the secondary market to investors or to bank subsidiaries of M&T. Residential mortgage loans held for sale are included in the Residential Mortgage Banking segment. The Retail Banking segment offers a variety of consumer and small business services through several delivery channels which include traditional and "in-store" banking offices, automated teller machines, telephone banking and internet banking. The "All Other" category includes other operating activities of the Company that are not directly attributable to the reported segments as determined in accordance with SFAS No. 131, the difference between the provision for credit losses and the calculated provision allocated to the reportable segments, goodwill and core deposit intangible resulting from acquisitions of financial institutions, the net impact of the Company's internal funds transfer pricing methodology, eliminations of transactions between reportable segments, certain nonrecurring transactions, the residual effects of unallocated support systems and general and administrative expenses, and the impact of interest rate risk management strategies. The amount of intersegment activity eliminated in arriving at consolidated totals was included in the "All Other" category as follows:

<i>In thousands</i>	Year ended December 31		
	2001	2000	1999
Revenues . . . . .	\$(66,450)	(34,997)	(41,829)
Expenses . . . . .	(20,578)	(18,584)	(29,353)
Income taxes (benefit) . . . . .	(18,665)	(6,678)	(5,076)
Net income (loss) . . . . .	(27,207)	(9,735)	(7,400)

The Company conducts substantially all of its operations in the United States. There are no transactions with a single customer that in the aggregate result in revenues that exceed ten percent of consolidated total revenues.



<i>In thousands, except asset data</i>	Commercial Banking	Commercial Real Estate	Discretionary Portfolio	Residential Mortgage Banking	Retail Banking	All Other	Total
<i>For the year ended December 31, 2001</i>							
Net interest income <sup>(a)</sup>	\$237,124	156,072	50,230	59,161	642,979	12,722	1,158,288
Noninterest income	45,145	5,907	38,372	151,478	172,515	64,009	477,426
	282,269	161,979	88,602	210,639	815,494	76,731	1,635,714
Provision for credit losses	29,444	266	3,057	46	51,194	19,493	103,500
Amortization of goodwill and core deposit intangible	-	-	-	-	-	121,636	121,636
Depreciation and other amortization	425	243	3,154	21,097	20,052	27,337	72,308
Other noninterest expense <sup>(b)</sup>	59,389	17,459	16,246	121,080	405,452	134,748	754,374
Income (loss) before taxes	193,011	144,011	66,145	68,416	338,796	(226,483)	583,896
Income tax expense (benefit)	79,473	60,897	12,518	24,392	138,281	(109,740)	205,821
Net income (loss)	\$113,538	83,114	53,627	44,024	200,515	(116,743)	378,075
Average total assets (in millions)	\$ 6,584	5,694	7,359	1,361	8,015	1,813	30,826
Capital expenditures (in millions)	\$ -	-	-	2	6	16	24
<i>For the year ended December 31, 2000</i>							
Net interest income <sup>(a)</sup>	\$192,343	133,970	36,576	25,666	485,136	(19,504)	854,187
Noninterest income	34,311	5,127	23,016	86,687	106,859	68,672	324,672
	226,654	139,097	59,592	112,353	591,995	49,168	1,178,859
Provision for credit losses	7,309	(1,774)	1,941	69	26,798	3,657	38,000
Amortization of goodwill and core deposit intangible	-	-	-	150	-	69,426	69,576
Depreciation and other amortization	392	307	2,277	23,183	14,712	13,685	54,556
Other noninterest expense <sup>(b)</sup>	51,633	15,492	15,639	82,717	273,612	131,228	570,321
Income (loss) before taxes	167,320	125,072	39,735	6,234	276,873	(168,828)	446,406
Income tax expense (benefit)	68,956	52,953	5,801	(263)	113,189	(80,386)	160,250
Net income (loss)	\$ 98,364	72,119	33,934	6,497	163,684	(88,442)	286,156
Average total assets (in millions)	\$ 5,274	4,839	6,431	662	5,186	1,266	23,658
Capital expenditures (in millions)	\$ -	-	-	1	12	6	19
<i>For the year ended December 31, 1999</i>							
Net interest income <sup>(a)</sup>	\$157,818	121,675	47,530	26,854	375,803	29,717	759,397
Noninterest income	30,177	4,351	22,766	104,164	86,493	34,424	282,375
	187,995	126,026	70,296	131,018	462,296	64,141	1,041,772
Provision for credit losses	11,316	(143)	3,833	22	25,480	3,992	44,500
Amortization of goodwill and core deposit intangible	-	-	-	810	-	48,905	49,715
Depreciation and other amortization	442	333	153	20,587	12,462	13,284	47,261
Other noninterest expense <sup>(b)</sup>	44,145	14,402	17,183	78,836	235,767	91,649	481,982
Income (loss) before taxes	132,092	111,434	49,127	30,763	188,587	(93,689)	418,314
Income tax expense (benefit)	54,457	47,190	10,898	9,984	77,046	(46,887)	152,688
Net income (loss)	\$ 77,635	64,244	38,229	20,779	111,541	(46,802)	265,626
Average total assets (in millions)	\$ 4,277	4,118	6,827	635	4,244	956	21,057
Capital expenditures (in millions)	\$ -	-	-	-	12	11	23

<sup>(a)</sup> Net interest income is the difference between actual taxable-equivalent interest earned on assets and interest paid on liabilities owned by a segment and a funding charge (credit) based on the Company's internal funds transfer pricing 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 \$17,513,000 in 2001, \$10,547,000 in 2000 and \$7,710,000 in 1999 and is eliminated in "All Other" net interest income and income tax expense (benefit).

<sup>(b)</sup> Including the impact in the "All Other" category of the nonrecurring merger-related expenses described in note 2.

## 20. Regulatory matters

Payment of dividends by M&T's banking subsidiaries is restricted by various legal and regulatory limitations. Dividends from any banking subsidiary to M&T are limited by the amount of earnings of the banking subsidiary in the current year and the preceding two years. For purposes of this test, at December 31, 2001, approximately \$443,435,000 was available for payment of dividends to M&T from banking subsidiaries without prior regulatory approval.

Banking regulations prohibit extensions of credit by the subsidiary banks to M&T unless appropriately secured by assets. Securities of affiliates are not eligible as collateral for this purpose.

The bank subsidiaries are required to maintain noninterest-earning reserves against certain deposit liabilities. During the maintenance periods that included December 31, 2001 and 2000, cash and due from banks included a daily average of \$287,830,000 and \$242,028,000, respectively, for such purpose.

Federal regulators have adopted capital adequacy guidelines for bank holding companies and banks. Failure to meet minimum capital requirements can result in certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a material effect on the Company's financial statements. Under the capital adequacy guidelines, the so-called "Tier 1 capital" and "Total capital" as a percentage of risk-weighted assets and certain off-balance sheet financial instruments must be at least 4% and 8%, respectively. In addition to these risk-based measures, regulators also require banking institutions that meet certain qualitative criteria to maintain a minimum "leverage" ratio of "Tier 1 capital" to average total assets, adjusted for goodwill and certain other items, of at least 3% to be considered adequately capitalized. As of December 31, 2001, M&T and each of its banking subsidiaries exceeded all applicable capital adequacy requirements.

As of December 31, 2001 and 2000, the most recent notifications from federal regulators categorized each of M&T's bank subsidiaries as well capitalized under the regulatory framework for prompt corrective action. To be considered well capitalized, a banking institution must maintain Tier 1 risk-based capital, total risk-based capital and leverage ratios of at least 6%, 10% and 5%, respectively. Management is unaware of any conditions or events since the latest notifications from federal regulators that have changed the capital adequacy category of M&T's bank subsidiaries.

The capital ratios and amounts of the Company and its banking subsidiaries as of December 31, 2001 and 2000 are presented below:

<i>Dollars in thousands</i>	M&T (Consolidated)	Olympia	M&T Bank	M&T Bank, N.A.
<i>December 31, 2001:</i>				
Tier 1 capital				
Amount . . . . .	\$1,963,993	1,852,110	1,907,237	67,779
Ratio <sup>(a)</sup> . . . . .	7.37%	7.07%	7.29%	13.54%
Minimum required amount <sup>(b)</sup> . . . . .	1,065,880	1,047,176	1,046,276	20,020
Total capital				
Amount . . . . .	2,857,690	2,739,983	2,794,832	72,475
Ratio <sup>(a)</sup> . . . . .	10.72%	10.47%	10.68%	14.48%
Minimum required amount <sup>(b)</sup> . . . . .	2,131,761	2,094,351	2,092,551	40,041
Leverage				
Amount . . . . .	1,963,993	1,852,110	1,907,237	67,779
Ratio <sup>(c)</sup> . . . . .	6.55%	6.31%	6.51%	8.23%
Minimum required amount <sup>(b)</sup> . . . . .	899,010	880,463	879,074	24,696

<i>Dollars in thousands</i>	M&T (Consolidated)	Olympia	M&T Bank	M&T Bank, N.A.
<i>(continued)</i>				
<i>December 31, 2000:</i>				
Tier 1 capital				
Amount . . . . .	\$1,819,987	1,729,945	1,772,024	59,095
Ratio <sup>(a)</sup> . . . . .	7.49%	7.28%	7.47%	10.71%
Minimum required amount <sup>(b)</sup> . . . . .	972,521	950,167	949,253	22,076
Total capital				
Amount . . . . .	2,720,141	2,622,882	2,664,679	63,636
Ratio <sup>(a)</sup> . . . . .	11.19%	11.04%	11.23%	11.53%
Minimum required amount <sup>(b)</sup> . . . . .	1,945,042	1,900,335	1,898,505	44,152
Leverage				
Amount . . . . .	1,819,987	1,729,945	1,772,024	59,095
Ratio <sup>(c)</sup> . . . . .	6.66%	6.55%	6.72%	6.47%
Minimum required amount <sup>(b)</sup> . . . . .	819,209	792,347	791,037	27,384

- <sup>(a)</sup> *The ratio of capital to risk-weighted assets, as defined by regulation.*  
<sup>(b)</sup> *Minimum amount of capital to be considered adequately capitalized, as defined by regulation.*  
<sup>(c)</sup> *The ratio of capital to average assets, as defined by regulation.*

## 21. Parent company financial statements

### Condensed Balance Sheet

<i>In thousands</i>	December 31	
	2001	2000
<b>Assets</b>		
Cash		
In subsidiary bank . . . . .	\$ 7,487	983
Other . . . . .	1	21
Total cash . . . . .	7,488	1,004
Due from subsidiaries		
Money-market assets . . . . .	25,068	14,962
Current income tax receivable . . . . .	4,427	7,686
Total due from subsidiaries . . . . .	29,495	22,648
Investments in subsidiaries		
Banks and bank holding company . . . . .	3,145,836	2,919,577
Other . . . . .	7,734	7,734
Other assets . . . . .	12,898	13,546
Total assets . . . . .	\$3,203,451	2,964,509
<b>Liabilities</b>		
Accrued expenses and other liabilities . . . . .	\$ 6,267	6,291
Long-term borrowings . . . . .	257,733	257,733
Total liabilities . . . . .	264,000	264,024
<b>Stockholders' equity</b> . . . . .	2,939,451	2,700,485
Total liabilities and stockholders' equity . . . . .	\$3,203,451	2,964,509

### Condensed Statement of Income

<i>In thousands, except per share</i>	Year ended December 31		
	2001	2000	1999
<b>Income</b>			
Dividends from bank and bank holding company subsidiaries . . . . .	\$ 362,000	130,000	76,000
Other income . . . . .	3,721	3,484	2,618
Total income . . . . .	365,721	133,484	78,618
<b>Expense</b>			
Interest on short-term borrowings . . . . .	75	705	103
Interest on long-term borrowings . . . . .	21,516	21,516	21,516
Other expense . . . . .	3,277	2,987	2,635
Total expense . . . . .	24,868	25,208	24,254
Income before income taxes and equity in undistributed income of subsidiaries . . . . .	340,853	108,276	54,364
Income tax credits . . . . .	8,196	8,066	8,621
<i>Income before equity in undistributed income of subsidiaries . . . . .</i>	<i>349,049</i>	<i>116,342</i>	<i>62,985</i>
<b>Equity in undistributed income of subsidiaries</b>			
Net income of subsidiaries . . . . .	391,026	299,814	278,641
Less: dividends received . . . . .	(362,000)	(130,000)	(76,000)
Equity in undistributed income of subsidiaries . . . . .	29,026	169,814	202,641
<i>Net income . . . . .</i>	<i>\$ 378,075</i>	<i>286,156</i>	<i>265,626</i>
<i>Net income per common share</i>			
<i>Basic . . . . .</i>	<i>\$ 3.95</i>	<i>3.55</i>	<i>3.41</i>
<i>Diluted . . . . .</i>	<i>3.82</i>	<i>3.44</i>	<i>3.28</i>

### Condensed Statement of Cash Flows

<i>In thousands</i>	Year ended December 31		
	2001	2000	1999
<b>Cash flows from operating activities</b>			
Net income . . . . .	\$ 378,075	286,156	265,626
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed income of subsidiaries . . . . .	(29,026)	(169,814)	(202,641)
Provision for deferred income taxes . . . . .	823	707	(209)
Net change in accrued income and expense . . . . .	37,564	12,988	13,780
Net cash provided by operating activities . . . . .	387,436	130,037	76,556
<b>Cash flows from investing activities</b>			
Other, net . . . . .	(384)	(2)	(34)

<i>In thousands</i>	Year ended December 31		
	2001	2000	1999
<i>(continued)</i>			
<b>Cash flows from financing activities</b>			
Net increase (decrease) in short-term borrowings . . . . .	-	(29,000)	29,000
Purchases of treasury stock . . . . .	(323,744)	(54,947)	(79,784)
Dividends paid - common . . . . .	(95,872)	(51,987)	(35,128)
Other, net . . . . .	49,154	19,730	2,587
Net cash used by financing activities . . . . .	(370,462)	(116,204)	(83,325)
Net increase (decrease) in cash and cash equivalents . . . . .	\$ 16,590	13,831	(6,803)
Cash and cash equivalents at beginning of year . . . . .	15,966	2,135	8,938
Cash and cash equivalents at end of year . . . . .	\$ 32,556	15,966	2,135
<b>Supplemental disclosure of cash flow information</b>			
Interest received during the year . . . . .	\$ 1,727	476	459
Interest paid during the year . . . . .	21,342	22,323	21,266
Income taxes received during the year . . . . .	43,201	13,828	16,965

### 22. Subsequent event

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," as of January 1, 2002. SFAS No. 142 revises the accounting for purchased intangible assets and, in general, requires that goodwill no longer be amortized, but rather that it be tested for impairment. Other acquired intangible assets with finite lives, such as core deposit intangibles, are required to be amortized over their estimated useful economic lives and be reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Effective January 1, 2002, the Company ceased amortization of substantially all of its goodwill, which will have a material impact on future results of operations. Had SFAS No. 142 been in effect prior to January 1, 2002, amortization of core deposit and other intangible assets would have been approximately \$60 million, \$34 million and \$18 million during the years ended December 31, 2001, 2000 and 1999, respectively. Amortization of such assets is expected to be approximately \$51 million in 2002. SFAS No. 142 requires entities to complete a transitional test for impairment of goodwill within six months of adoption. The Company has not yet completed such transitional impairment test and, therefore, the full impact of adoption of SFAS No. 142 is not yet estimable.



## M&T BANK CORPORATION

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Chief Executive Officer  
Crucible Materials Corporation*

Herbert L. Washington  
*President  
H.L.W. Fast Track, Inc.*

#### DIRECTORS ADVISORY COUNCIL

Arthur Levitt, Jr.  
*Senior Advisor  
The Carlyle Group*

Heath B. McLendon  
*Managing Director  
Salomon Smith Barney Inc.*

M&T BANK CORPORATION AND SUBSIDIARIES

*Selected Consolidated Year-End Balances*

<i>In thousands</i>	2001	2000	1999	1998	1997
<b>Money-market assets</b>					
Interest-bearing deposits at banks . . . . .	\$ 4,341	3,102	1,092	674	668
Federal funds sold and resell agreements . . . . .	41,086	17,261	643,555	229,066	53,087
Trading account . . . . .	38,929	37,431	641,114	173,122	57,291
<b>Total money-market assets . . . . .</b>	<b>84,356</b>	<b>57,794</b>	<b>1,285,761</b>	<b>402,862</b>	<b>111,046</b>
<b>Investment securities</b>					
U.S. Treasury and federal agencies . . . . .	1,448,397	1,984,347	737,586	1,321,000	1,081,247
Obligations of states and political subdivisions . . . . .	306,768	249,425	79,189	73,789	38,018
Other . . . . .	1,268,972	1,076,081	1,083,747	1,390,775	605,953
<b>Total investment securities . . . . .</b>	<b>3,024,137</b>	<b>3,309,853</b>	<b>1,900,522</b>	<b>2,785,564</b>	<b>1,725,218</b>
<b>Loans and leases</b>					
Commercial, financial, leasing, etc. . . . .	5,205,834	5,171,959	3,697,058	3,211,427	2,406,640
Real estate – construction . . . . .	1,034,362	900,170	525,241	489,112	254,434
Real estate – mortgage . . . . .	13,766,442	12,654,236	10,152,905	9,289,521	6,765,408
Consumer . . . . .	5,388,830	4,243,949	3,197,657	3,015,641	2,339,051
<b>Total loans and leases . . . . .</b>	<b>25,395,468</b>	<b>22,970,314</b>	<b>17,572,861</b>	<b>16,005,701</b>	<b>11,765,533</b>
Unearned discount . . . . .	(207,708)	(227,500)	(166,090)	(214,171)	(268,965)
Allowance for credit losses . . . . .	(425,008)	(374,703)	(316,165)	(306,347)	(274,656)
<b>Loans and leases, net . . . . .</b>	<b>24,762,752</b>	<b>22,368,111</b>	<b>17,090,606</b>	<b>15,485,183</b>	<b>11,221,912</b>
Goodwill and core deposit intangible . . . . .	1,267,826	1,199,407	648,040	546,036	17,288
Real estate and other assets owned . . . . .	16,387	13,619	10,000	11,129	8,413
<b>Total assets . . . . .</b>	<b>31,450,196</b>	<b>28,949,456</b>	<b>22,409,115</b>	<b>20,583,891</b>	<b>14,002,935</b>
<b>Noninterest-bearing deposits</b>					
NOW accounts . . . . .	3,704,004	3,344,913	2,260,432	2,066,814	1,458,241
Savings deposits . . . . .	930,400	873,472	583,471	509,307	346,795
Time deposits . . . . .	7,980,065	6,105,689	5,198,681	4,830,678	3,344,697
Deposits at foreign office . . . . .	8,188,036	9,664,088	7,088,345	7,027,083	5,762,497
	777,895	244,511	242,691	303,270	250,928
<b>Total deposits . . . . .</b>	<b>21,580,400</b>	<b>20,232,673</b>	<b>15,373,620</b>	<b>14,737,152</b>	<b>11,163,158</b>
Short-term borrowings . . . . .	3,045,830	2,072,824	2,554,159	2,229,976	1,050,918
Long-term borrowings . . . . .	3,461,769	3,414,516	1,775,133	1,567,543	427,819
<b>Total liabilities . . . . .</b>	<b>28,510,745</b>	<b>26,248,971</b>	<b>20,612,069</b>	<b>18,981,525</b>	<b>12,972,669</b>
<b>Stockholders' equity . . . . .</b>	<b>2,939,451</b>	<b>2,700,485</b>	<b>1,797,046</b>	<b>1,602,366</b>	<b>1,030,266</b>

*Stockholders, Employees and Offices*

<i>Number at year-end</i>	2001	2000	1999	1998	1997
Stockholders . . . . .	12,565	11,936	4,991	5,207	3,449
Employees . . . . .	9,291	8,736	6,569	6,467	5,083
Offices . . . . .	513	488	310	283	210



M&T BANK CORPORATION AND SUBSIDIARIES

*Consolidated Earnings*

<i>In thousands</i>	2001	2000	1999	1998	1997
<b>Interest income</b>					
Loans and leases, including fees . . . . .	\$1,892,507	1,579,701	1,323,262	1,198,639	954,974
Money-market assets					
Deposits at banks . . . . .	116	308	87	400	2,475
Federal funds sold and resell agreements . . . . .	2,027	12,891	24,491	8,293	2,989
Trading account . . . . .	348	1,009	3,153	4,403	1,781
Investment securities					
Fully taxable . . . . .	182,767	165,811	118,741	139,731	99,640
Exempt from federal taxes . . . . .	24,120	13,064	8,897	7,984	5,640
<b>Total interest income . . . . .</b>	<b>2,101,885</b>	<b>1,772,784</b>	<b>1,478,631</b>	<b>1,359,450</b>	<b>1,067,499</b>
<b>Interest expense</b>					
NOW accounts . . . . .	8,548	7,487	4,683	4,851	3,455
Savings deposits . . . . .	134,454	132,225	121,888	115,345	90,907
Time deposits . . . . .	453,940	445,666	367,889	388,185	327,611
Deposits at foreign office . . . . .	11,264	14,915	12,016	14,973	12,160
Short-term borrowings . . . . .	124,810	172,466	104,911	105,582	44,341
Long-term borrowings . . . . .	210,581	145,838	107,847	58,567	29,619
<b>Total interest expense . . . . .</b>	<b>943,597</b>	<b>918,597</b>	<b>719,234</b>	<b>687,503</b>	<b>508,093</b>
<b>Net interest income . . . . .</b>	<b>1,158,288</b>	<b>854,187</b>	<b>759,397</b>	<b>671,947</b>	<b>559,406</b>
Provision for credit losses . . . . .	103,500	38,000	44,500	43,200	46,000
<b>Net interest income after provision for credit losses . . . . .</b>	<b>1,054,788</b>	<b>816,187</b>	<b>714,897</b>	<b>628,747</b>	<b>513,406</b>
<b>Other income</b>					
Mortgage banking revenues . . . . .	102,699	63,168	71,819	65,646	51,547
Service charges on deposit accounts . . . . .	144,302	92,544	73,612	57,357	43,377
Trust income . . . . .	64,395	45,165	40,751	38,211	30,688
Brokerage services income . . . . .	39,349	32,795	27,140	19,587	16,550
Trading account and foreign exchange gains . . . . .	4,462	2,351	315	3,963	3,690
Gain (loss) on sales of bank investment securities . . . . .	1,873	(3,078)	1,575	1,761	(280)
Other revenues from operations . . . . .	120,346	91,727	67,163	76,414	44,957
<b>Total other income . . . . .</b>	<b>477,426</b>	<b>324,672</b>	<b>282,375</b>	<b>262,939</b>	<b>190,529</b>
<b>Other expense</b>					
Salaries and employee benefits . . . . .	434,937	329,209	284,822	259,487	220,017
Equipment and net occupancy . . . . .	111,403	80,960	73,131	66,553	53,299
Printing, postage and supplies . . . . .	25,512	20,138	17,510	17,603	13,747
Amortization of goodwill and core deposit intangible . . . . .	121,636	69,576	49,715	34,487	7,291
Other costs of operations . . . . .	254,830	194,570	153,780	187,993	127,422
<b>Total other expense . . . . .</b>	<b>948,318</b>	<b>694,453</b>	<b>578,958</b>	<b>566,123</b>	<b>421,776</b>
<b>Income before income taxes . . . . .</b>	<b>583,896</b>	<b>446,406</b>	<b>418,314</b>	<b>325,563</b>	<b>282,159</b>
Income taxes . . . . .	205,821	160,250	152,688	117,589	105,918
<b>Net income . . . . .</b>	<b>\$ 378,075</b>	<b>286,156</b>	<b>265,626</b>	<b>207,974</b>	<b>176,241</b>
<b>Dividends declared – Common . . . . .</b>	<b>\$ 95,872</b>	<b>51,987</b>	<b>35,128</b>	<b>28,977</b>	<b>21,207</b>

M&T BANK CORPORATION AND SUBSIDIARIES

*Common Shareholder Data*

	2001	2000	1999	1998	1997
Per Share					
Net income					
Basic . . . . .	\$ 3.95	3.55	3.41	2.73	2.66
Diluted . . . . .	3.82	3.44	3.28	2.62	2.53
Cash dividends declared. . . . .	1.00	.625	.45	.38	.32
Stockholders' equity at year-end. . . . .	31.33	28.93	23.24	20.79	15.59
Tangible stockholders' equity at year-end . . . . .	18.34	16.74	15.14	13.99	15.32
Dividend payout ratio. . . . .	25.40%	18.19%	13.22%	13.93%	12.03%

*Changes in Interest Income and Expense<sup>(a)</sup>*

<i>Increase (decrease) in thousands</i>	2001 compared with 2000			2000 compared with 1999		
	Total change	Resulting from changes in: Volume	Rate	Total change	Resulting from changes in: Volume	Rate
Interest income						
Loans and leases, including fees. . . . .	\$314,716	469,548	(154,832)	257,100	176,459	80,641
Money-market assets						
Deposits at banks. . . . .	(192)	(85)	(107)	221	172	49
Federal funds sold and agreements to resell securities . . . . .	(10,864)	(6,507)	(4,357)	(11,600)	(15,023)	3,423
Trading account . . . . .	(656)	(330)	(326)	(2,152)	(1,501)	(651)
Investment securities						
U.S. Treasury and federal agencies. . . . .	8,804	7,015	1,789	51,996	43,880	8,116
Obligations of states and political subdivisions . . . . .	15,593	15,469	124	4,230	3,398	832
Other . . . . .	8,666	15,364	(6,698)	(2,805)	(7,985)	5,180
Total interest income . . . . .	\$336,067			296,990		
Interest expense						
Interest-bearing deposits						
NOW accounts . . . . .	\$ 1,061	3,074	(2,013)	2,804	1,342	1,462
Savings deposits. . . . .	2,229	38,681	(36,452)	10,337	8,241	2,096
Time deposits. . . . .	8,274	66,546	(58,272)	77,777	32,630	45,147
Deposits at foreign office . . . . .	(3,651)	3,763	(7,414)	2,899	(168)	3,067
Short-term borrowings. . . . .	(47,656)	30,923	(78,579)	67,555	38,286	29,269
Long-term borrowings. . . . .	64,743	89,149	(24,406)	37,991	22,511	15,480
Total interest expense . . . . .	\$ 25,000			199,363		

<sup>(a)</sup> Interest income data are on a taxable-equivalent basis. The apportionment of changes resulting from the combined effect of both volume and rate was based on the separately determined volume and rate changes.

# MANUFACTURERS AND TRADERS TRUST COMPANY

## Officers and Directors

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*Chairman of the Board and  
Chief Executive Officer*

Carl L. Campbell  
*Vice Chairman*

Robert E. Sadler, Jr.  
*President*

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Atwood Collins, III  
John F. Cook  
Mark J. Czarnecki  
Brian E. Hickey  
James L. Hoffman  
Adam C. Kugler  
Ray E. Logan  
John L. Pett  
Michael P. Pinto

#### Senior Vice Presidents

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Keith M. Belanger  
Stephen J. Braunscheidel  
J. Michael Carter  
Robert L. Cieslica  
Steven M. Coen  
Janet M. Coletti  
Scott E. Dagenais  
Michael A. Drury  
Donald I. Dussing, Jr.  
William F. Dwyer  
Stewart H. Feldman  
Dennis Ferguson  
Gregory L. Ford  
Andrew D. Fornarola  
James A. Gately  
Saverio Giarrusso  
Richard S. Gold  
Salvatore Guerrieri  
Rene F. Jones  
Carl W. Jordan  
Frederick R. Kulikowski  
Richard A. Lammert  
Michele V. Langdon  
Jeffrey M. Levy  
Alfred F. Luhr, III  
William H. Mabee  
Thomas J. Massung  
Paul D. Moore  
Gary S. Paul  
Kenneth W. Paulin  
Kevin J. Pearson  
Michael S. Piemonte  
Robert F. Rivers

William J. Rossman  
Thomas J. Scanlon, Jr.  
Matthew N. Schiro  
Michael R. Spychala  
Linda A. Szenina  
Alan R. Teraji  
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#### Administrative Vice Presidents

Rohini Ashruff  
Cornell S. Babcock, Jr.  
Jeffrey L. Barbeau  
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Daniel M. Boscarino  
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Timothy L. Brenner  
Albert E. Broadbent, Jr.  
Maureen E. Burns  
Nicholas L. Buscaglia  
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Bernard J. Casserly  
David K. Chamberlain  
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Lee DeAmicis  
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Stephen A. Foreman  
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Carol A. Goulding  
Thomas A. Hayes  
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Robert E. Rahal  
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Cathleen A. Schmidt  
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### DIRECTORS

Robert G. Wilmers  
*Chairman of the Board and  
Chief Executive Officer*

Carl L. Campbell  
*Vice Chairman*

Jorge G. Pereira  
*Vice Chairman  
Private Investor*

Robert E. Sadler, Jr.  
*President*

William F. Allyn  
*President  
Welch Allyn Ventures, LLC*

Brent D. Baird  
*Private Investor*

Robert J. Bennett  
*Former Chairman of the Board  
M&T Bank Corporation*

C. Angela Bontempo  
*President and Chief Executive Officer  
Saint Vincent Health System*

Robert T. Brady  
*Chairman of the Board and  
Chief Executive Officer  
Moog Inc.*

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*Chancellor Emeritus  
New York State Board of Regents*

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*Former Chairman of the Board and  
Chief Executive Officer  
Premier National Bancorp, Inc.*

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*Chairman of the Board  
The Blair Companies*

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*Retired President and  
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Chief Executive Officer  
Maid of the Mist Corporation*

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*President  
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and Chief Executive Officer  
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Chief Executive Officer  
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*President and Chief Executive Officer  
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Rich Entertainment Group*

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*Chairman of the Board  
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John L. Vensel  
*Chairman of the Board and  
Chief Executive Officer  
Crucible Materials Corporation*

Herbert L. Washington  
*President  
H.L.W. Fast Track, Inc.*

## MANUFACTURERS AND TRADERS TRUST COMPANY

### *Regional Management and Directors Advisory Councils*

#### **REGIONAL PRESIDENTS**

Donald I. Dussing, Jr.  
*Buffalo*

Jeffrey M. Levy  
*Capital District*

Atwood Collins, III  
*Hudson Valley*

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*New York City*

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Western Pennsylvania, Maryland  
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Glenn R. Small  
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Allan W. Holman  
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William J. Santoro  
F. Dale Schoeneman  
Jesse Stine  
Frank J. Toole, Jr.  
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Elmo M. Clemente  
Peter J. O'Donnell, Jr.  
Carl J. Schmitt, Jr.  
Henry W. Schultz  
Robert S. Tippet  
William J. Umphred, Sr.

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Timothy J. Crotty  
James E. Douthat  
Steven P. Johnson  
Joe W. Kleinbauer  
Richard L. Knoebel  
Randall D. Kramm  
Kenneth R. Levitzky  
Robert E. More  
William R. Phillips  
Bernard D. Rell  
John D. Rinehart  
Don A. Rosini  
Hugh H. Sides  
J. David Smith  
Donald E. Stringfellow  
Sharon Verbos  
Paul M. Walison  
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Christopher B. French  
Ruth S. Gehring  
Philip C. Herr, II  
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John A. Salvatore  
Robert W. Sorrell  
Steven L. Sugarman  
Ronald C. Unterberger  
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Jack C. Barr  
Carl Belt  
Dale E. Blauch  
Clifford R. Coldren  
Paul I. Detweiler, Jr.  
Philip E. Devorris  
Thomas B. Finan, Jr.  
Mark J. Folk  
Charlene A. Friedman  
Edward A. Friedman  
Edward G. Huber, Jr.  
Kay F. Kustanbauter  
Maurice A. Lawruk  
John McMullen  
Max A. Messenger  
Robert W. Montler  
Robert F. Pennington  
Neil M. Port  
Thomas E. Schwartz  
Sheri Sensabaugh  
Joseph S. Sheetz  
G. William Ward

MANUFACTURERS AND TRADERS TRUST COMPANY

Condensed Consolidated Balance Sheet

<i>In thousands</i>		December 31	
		2001	2000
<b>Assets</b>	Cash and due from banks . . . . .	\$ 965,667	749,848
	Money-market assets . . . . .	286,978	58,030
	Investment securities		
	Available for sale (cost: \$2,446,295 in 2001; \$2,834,801 in 2000) . . . . .	2,474,300	2,833,489
	Held to maturity (market value: \$122,107 in 2001; \$77,959 in 2000) . . . . .	121,508	81,025
	Other (market value: \$238,129 in 2001; \$193,208 in 2000) . . . . .	238,129	193,208
	Total investment securities . . . . .	2,833,937	3,107,722
	Loans and leases, net of unearned discount . . . . .	24,536,975	22,012,468
	Allowance for credit losses . . . . .	(420,812)	(370,162)
	Loans and leases, net . . . . .	24,116,163	21,642,306
	Other assets . . . . .	2,601,696	2,447,043
	Total assets . . . . .	\$30,804,441	28,004,949
<b>Liabilities</b>	Deposits		
	Noninterest-bearing . . . . .	\$ 3,741,012	3,412,000
	Interest-bearing . . . . .	17,398,340	16,104,412
	Total deposits . . . . .	21,139,352	19,516,412
	Short-term borrowings . . . . .	3,045,830	2,072,824
	Accrued interest and other liabilities . . . . .	379,634	474,996
	Long-term borrowings . . . . .	3,042,389	2,970,080
	Total liabilities . . . . .	27,607,205	25,034,312
<b>Stockholder's equity</b>		3,197,236	2,970,637
	Total liabilities and stockholder's equity . . . . .	\$30,804,441	28,004,949

Member FDIC and Federal Reserve System  
One M&T Plaza, Buffalo, New York 14203 716/842-4200

**New York City Offices and  
International Banking Facility**  
212/350-2000  
350 Park Avenue  
New York, New York 10022

**Cayman Islands Branch**  
Cardinal Avenue No. 6  
George Town, Grand Cayman  
Cayman Islands, British West Indies

**Highland Lease Corporation**  
716/848-3233  
Consumer leasing

**M&T Credit Corporation**  
716/848-3233  
Consumer lending

Commercial lending  
and leasing

**M&T Financial Corporation**  
585/258-8264  
Capital equipment leasing

**M&T Mortgage Corporation**  
716/848-4848  
Residential mortgage lending

**M&T Real Estate, Inc.**  
716/848-3808  
Commercial real estate lending

**M&T Securities, Inc.**  
716/635-9308  
Securities brokerage and  
investment advisory services

**Matthews, Bartlett &  
Dedecker, Inc.**  
716/853-7960

Insurance agency

M&T BANK, NATIONAL ASSOCIATION

Condensed Balance Sheet

		December 31	
		2001	2000
<i>In thousands</i>			
<b>Assets</b>	Cash and due from banks . . . . .	\$ 4,059	3,372
	Investment securities		
	Available for sale (cost: \$147,244 in 2001; \$165,564 in 2000) . . . . .	152,601	165,283
	Other (market value: \$1,316 in 2001 and 2000) . . . . .	1,316	1,316
	Total investment securities . . . . .	153,917	166,599
	Loans, net of unearned discount . . . . .	650,785	730,346
	Allowance for credit losses . . . . .	(4,196)	(4,541)
	Loans, net . . . . .	646,589	725,805
	Other assets . . . . .	5,328	6,859
	Total assets . . . . .	\$809,893	902,635
<b>Liabilities</b>	Deposits		
	Noninterest-bearing . . . . .	\$ 256	536
	Interest-bearing . . . . .	503,124	798,907
	Total deposits . . . . .	503,380	799,443
	Short-term borrowings . . . . .	211,200	8,500
	Accrued interest and other liabilities . . . . .	24,294	35,690
	Total liabilities . . . . .	738,874	843,633
<b>Stockholder's equity</b>		71,019	59,002
	Total liabilities and stockholder's equity . . . . .	\$809,893	902,635

Member FDIC  
48 Main Street, Oakfield, New York 14125 800/528-6532

Officers and Directors

**OFFICERS**

Robert G. Wilmers  
*Chairman of the Board*

Robert E. Sadler, Jr.  
*President and  
Chief Executive Officer*

*Executive Vice Presidents*  
Emerson L. Brumback

Mark J. Czarnecki

Adam C. Kugler

John L. Pett

Michael P. Pinto

*Senior Vice Presidents*

Robert L. Cieslica

Gregory L. Ford

Andrew D. Fornarola

James A. Gately

Richard S. Gold

Frederick R. Kulikowski

Richard A. Lammert

Alfred F. Luhr, III

William H. Mabee

Gary S. Paul

Michael S. Piemonte

Matthew N. Schiro

Michael R. Spychala

D. Scott N. Warman

John H. Zachau, Jr.

*Administrative Vice Presidents*

O. Patrick Brady

Timothy L. Brenner

Jeffrey A. Evershed

Carol A. Goulding

Christopher J. Henderson

Clifford P. Johnson

Timothy G. McEvoy

Michael R. Nowicki

Michael J. Quinlivan

Michael P. Wallace

Mark W. Warren

**DIRECTORS**

Robert G. Wilmers  
*Chairman of the Board*

Robert E. Sadler, Jr.  
*President and  
Chief Executive Officer*

Emerson L. Brumback  
*Executive Vice President*

Adam C. Kugler  
*Executive Vice President and  
Treasurer*

John L. Pett  
*Executive Vice President*

Michael P. Pinto  
*Executive Vice President and  
Chief Financial Officer*

## M&T BANK CORPORATION

### DIVIDEND REINVESTMENT PLAN

A plan is available to common stockholders whereby they may invest their dividends and voluntary cash payments in additional shares of M&T Bank Corporation's common stock.

### INQUIRIES

Requests for information about the Dividend Reinvestment Plan and questions about stock certificates or dividend checks should be addressed to M&T Bank Corporation's transfer agent, registrar and dividend disbursing agent:

Registrar and Transfer Company  
10 Commerce Drive  
Cranford, NJ 07016-3572  
800/368-5948  
Internet address: [www.rtco.com](http://www.rtco.com)

Questions on other matters and requests for SEC Form 10-K may be directed to:

M&T Bank Corporation  
Investor Relations Department  
One M&T Plaza, 12th Floor  
P.O. Box 223  
Buffalo, NY 14203-2399  
716/842-5445

### INTERNET ADDRESS

[www.mandtbank.com](http://www.mandtbank.com)

### QUOTATION AND TRADING OF COMMON STOCK

M&T Bank Corporation's common stock is traded under the symbol MTB on the New York Stock Exchange. Quarterly information on the market price of the stock is included in the table on page 45.

### AVAILABILITY OF SEC FORM 10-K

A copy of M&T Bank Corporation's Annual Report as filed with the Securities and Exchange Commission (Form 10-K) will be available at no charge.



 M&T Bank Corporation

[www.mandtbank.com](http://www.mandtbank.com)