M&T BANK
CORPORATION

2 0 0 2
ANNUAL REPORT

COVER ART: The abstract work "The Sitting Printer" (1954-55) is by internationally known sculptor David Smith. It is one of thirteen works purchased in 1967 from the artist's estate by the Ralph E. Ogden Foundation, Inc. for the Storm King Art Center in Mountainville, located in the Hudson Valley of New York State.

Inspired by Smith's sculpture fields at Bolton Landing near Lake George, New York, Storm King founders Ralph E. Ogden and H. Peter Stern placed sculpture outdoors in ways that directly responded to the center's 500 acres of lawns, hills, fields and woodlands in the Hudson Valley. The Storm King Art Center currently features over one hundred outdoor sculptures, which permit viewers to celebrate the relationship between sculpture and nature.

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

DAVID SMITH (1906-1965).
The Sitting Printer, 1954-55, bronze, 7'3"x 15¼" x 17", Gift of the Ralph E. Ogden Foundation, Inc., Storm King Art Center, www.stormking.org, 845-534-3115.

Photograph by Jerry L. Thompson.

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ANNUAL MEETING

The annual meeting of stockholders will take place at 11:00 a.m. on May 20, 2003 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 $33.2 billion at December 31, 2002. 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.

Financial Highlights

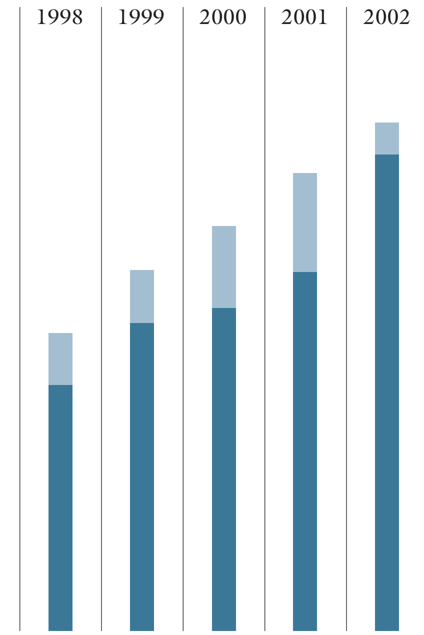
		2002	2001	Change
For the year				
Performance	Net income (thousands)	$485,092	378,075	+ 28%
	Return on			
	Average assets	1.52%	1.23%	
	Average common equity	16.15%	12.78%	
	Net interest margin	4.36%	4.23%	
	Net charge-offs/average loans	.42%	.31%	
	Efficiency ratio[a]	51.91%	56.94%	
Per common share data	Basic earnings	$ 5.25	3.95	+ 33%
	Diluted earnings	5.07	3.82	+ 33%
	Cash dividends	1.05	1.00	+ 5%
Cash (tangible) operating results[b]	Net income (thousands)[c]	$517,583	482,264	+ 7%
	Diluted earnings per common share[c]	5.41	4.87	+ 11%
	Return on			
	Average tangible assets	1.68%	1.63%	
	Average tangible common equity	28.62%	28.50%	
	Efficiency ratio[a]	49.01%	49.58%	
At December 31				
Balance sheet data (millions)	Loans and leases,			
	net of unearned discount	$ 25,728	25,188	+ 2%
	Total assets	33,175	31,450	+ 5%
	Deposits	21,665	21,580	–
	Stockholders' equity	3,182	2,939	+ 8%
Loan quality	Allowance for credit losses/net loans	1.70%	1.69%	
	Nonperforming loans ratio	.84%	.76%	
Capital	Tier 1 risk-based capital ratio	7.93%	7.37%	
	Total risk-based capital ratio	11.11%	10.72%	
	Leverage ratio	6.97%	6.55%	
	Common equity/total assets	9.59%	9.35%	
	Common equity (book value) per share	$ 34.53	31.33	+ 10%
	Tangible common equity per share	21.75	18.34	+ 19%
	Market price per share			
	Closing	79.35	72.85	+ 9%
	High	90.05	82.11	
	Low	67.70	59.80	

[a] *Excludes impact of merger-related expenses and net securities transactions.*

[b] *Excludes amortization and balances related to goodwill and core deposit and other intangible assets and merger-related expenses which, except in the calculation of the efficiency ratio, are net of applicable income tax effects. A reconciliation of cash (tangible) operating results with net income is included on page 23.*

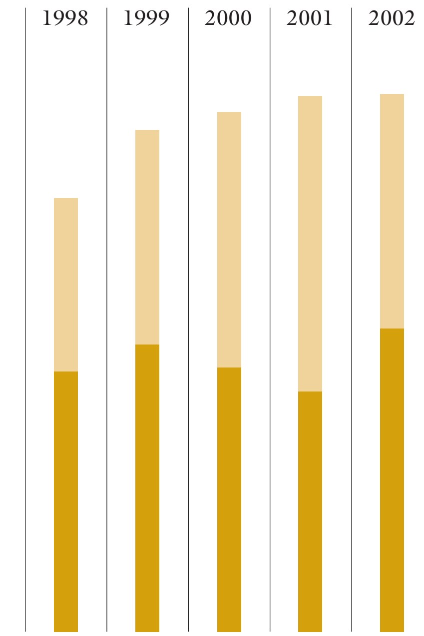
[c] *Cash net income excludes the after-tax impact of merger-related expenses of $5 million or $.05 per diluted share in 2001.*

DILUTED EARNINGS
PER COMMON SHARE



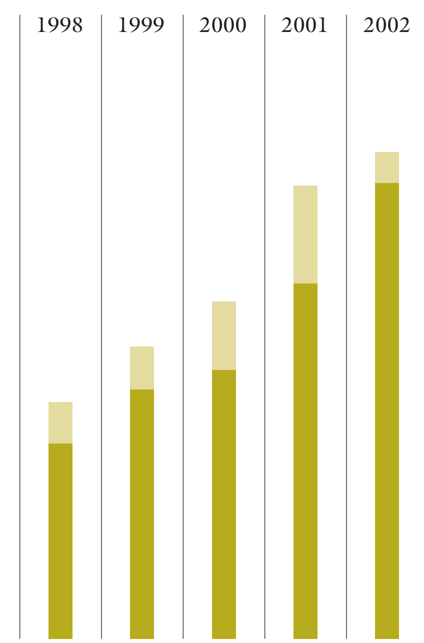
	1998	1999	2000	2001	2002
Cash diluted[a]	$3.17	$3.84	$4.31	$4.87	$5.41
Diluted	$2.62	$3.28	$3.44	$3.82	$5.07

RETURN ON AVERAGE COMMON
STOCKHOLDERS' EQUITY



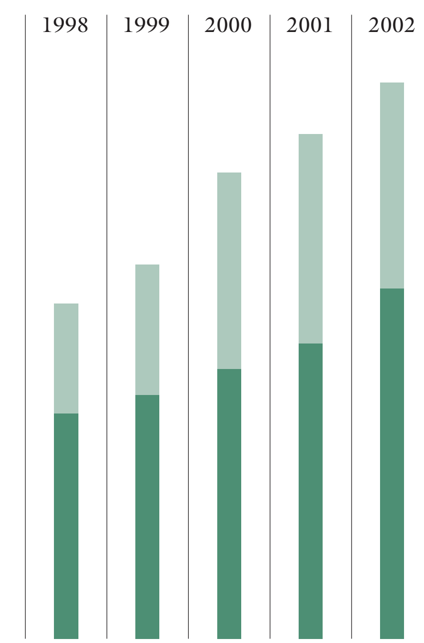
	1998	1999	2000	2001	2002
Cash return on average tangible common stockholders' equity[a]	23.08%	26.71%	27.65%	28.50%	28.62%
Return on average common stockholders' equity	13.86%	15.30%	14.07%	12.78%	16.15%

NET INCOME
In millions



	1998	1999	2000	2001	2002
Cash net income[a]	$251.9	$311.0	$358.6	$482.3	$517.6
Net income	$208.0	$265.6	$286.2	$378.1	$485.1

STOCKHOLDERS' EQUITY
PER COMMON SHARE AT YEAR-END



	1998	1999	2000	2001	2002
Stockholders' equity per common share at year-end	$20.79	$23.24	$28.93	$31.33	$34.53
Tangible stockholders' equity per common share at year-end	$13.99	$15.14	$16.74	$18.34	$21.75

[a] *Excludes merger-related expenses, net of applicable income tax effects. A reconciliation of cash (tangible) operating results with net income is included on page 23.*

MESSAGE TO STOCKHOLDERS

It is in the nature of communications such as this to reflect on the year past. And, indeed, there is much about 2002 at M&T of which to be proud. An unbroken pattern of double-digit increases in diluted cash earnings per share continued for a ninth consecutive year, notwithstanding a much-slowed economy. Although we were by no means immune from the risks and reverses visited this past year on the financial services industry as a whole, cash earnings, nonetheless, climbed by 7%, and diluted cash earnings per share by 11%. We have steered through the coincident challenges posed by an environment of declining interest rates, reduced loan demand by commercial customers, widespread refinancing of home mortgages and lower credit quality.

Before elaborating further, however, on the results and accomplishments of the year concluded, it is important to look forward. We are poised to take a next major step in our continuing growth. In September 2002, we announced the planned acquisition of Allfirst Financial Inc. (Allfirst), the U.S. subsidiary of the Dublin-based Allied Irish Banks, p.l.c. (AIB). There can be no doubt that this acquisition is a watershed for M&T. Not only do Allfirst's $17 billion in assets make it larger than any of our previous 17 acquisitions since 1987, but Allfirst alone is bigger than was the whole of M&T as recently as March 1998. Combining our operations will create a bank holding company that on a pro forma basis would rank 18th among the publicly-traded firms of its kind based in the U.S., as measured by total assets. It will add 258 branches to our network. Our system will then total some 708 branches and 1,656 automated teller machines in New York, Pennsylvania, Maryland, Virginia, West Virginia, Delaware and Washington, D.C. We will, moreover, be entering what are for us robust new markets, replete with opportunity, about which more follows below.

2002 RESULTS

In short, we were fortunate to have been in a position to move forward on such an important acquisition. For without question, 2002 proved to be extremely challenging for M&T Bank Corporation and others in our industry. Continued weakness in general economic conditions resulted in prolonged periods of sluggish demand for lending services by many of our commercial customers. These same conditions inhibited the capacity of some commercial borrowers to repay loans and led to higher levels of delinquencies, defaults and, in some cases, bankruptcies among such entities. Nevertheless, certain positive factors were evident throughout much of the year. Growth experienced in our consumer loan portfolio, predominantly in home equity lines of credit and automobile loans, and an improved net interest spread (the difference between the average yield earned on assets and the average rate paid on deposits and borrowings) were key ingredients in the business mix that allowed us to report increases in both cash net income and cash earnings per share for 2002.

Such factors, in conjunction with the repurchase of 3,007,585 shares of common stock in 2002, accounted for the double-digit percentage increase in diluted cash earnings per share. That measure of operating performance rose 11% last year to $5.41 from $4.87 in 2001. Expressed in total dollar amount cash net income was $518 million in 2002, a 7% increase from $482 million in 2001. Measured as a rate of return on average tangible assets and average tangible common stockholders' equity, 2002's cash net income was 1.68% and 28.62%, respectively. Both measures were improved from the 1.63% and 28.50% returns realized in 2001.

As has been our consistent practice for many years, our tally of cash net income and related measures removes merger-related expenses and the impact of intangible assets – both amortized and unamortized amounts. Such items are, of course, factored in when tabulating results in accordance with generally accepted accounting principles (GAAP). There were, however, no significant merger-related expenses incurred last year. In 2001, such expenses totaled $5 million after tax effect, or 5 cents per diluted share. The amortization of recorded intangible assets was also reduced. Effective January 1 of last year, we implemented a new accounting standard promulgated by the Financial Accounting Standards Board that required us, as of that date, to cease amortization of goodwill associated with corporate acquisitions. In 2001, goodwill amortization – a noncash charge that was not deductible for tax purposes – was $62 million, or 62 cents per diluted share. The amortization of core deposit and other intangible assets that are identified in business combinations is still required by GAAP. Noncash charges for amortization of these assets – which are adjusted for tax effect – totaled $32 million, or 34 cents per diluted share, in 2002. Similar after-tax effect charges aggregated $38 million, or 38 cents per diluted share, in 2001.

Factoring in both merger-related expenses and charges for amortization of intangible assets, M&T's GAAP-basis measurements of 2002's diluted earnings per share and net income were $5.07 and $485 million, respectively. The comparison of these amounts to 2001 is greatly distorted by the different treatment of goodwill amortization between the years. Reported GAAP-basis amounts for 2001 were $3.82 for diluted earnings per share and $378 million for net income. If goodwill amortization had not been required in 2001, that year's pro forma GAAP-basis diluted earnings per share and net income would have been $4.44 and $440 million, respectively.

GAAP-basis net income for 2002 expressed as a rate of return on average assets and average common stockholders' equity was 1.52% and 16.15%, respectively. Similar measures were 1.23% and 12.78% for 2001. The pro forma GAAP-basis return on average assets in 2001 was 1.43% and on average common stockholders' equity was 14.87%.

Earnings growth in 2002 was fueled by a higher average volume of consumer loans and a wider net interest spread. The blend of these and other elements yielded a 7% expansion in taxable-equivalent net interest income. That most significant component of our net income summed to $1.26 billion last year, up from $1.18 billion in 2001.

Net interest income was generated by $28.9 billion of average earning assets in 2002 and $27.8 billion in 2001. For all practical purposes, that $1.1 billion increase can be traced to a $1.2 billion rise in the average balance of outstanding consumer loans. Mostly as a result of growth in our portfolios of automobile loans and home equity lines of credit, the average outstanding balance of consumer loans increased to $6.8 billion in 2002. During the previous year, outstanding consumer loan balances averaged $5.6 billion.

The improved net interest spread helped explain the increase in taxable-equivalent net interest income. Because the average rate on total interest-bearing liabilities declined by 152 basis points (hundredths of one percent) – from 3.91% in 2001 to 2.39% last year – and the yield on total earning assets fell by 120 basis points to 6.42% in 2002 from 7.62% in 2001, the net interest spread improved by 32 basis points. That differential was 4.03% last year and 3.71% in 2001.

The year's results reflected the challenge posed by the deterioration of credit quality. Net charge-offs of loans – that is, the amount by which loans charged-off exceeded recoveries of loans previously charged-off – swelled to $108 million, or .42% of average loans outstanding. That was up from $75 million or .31% of average outstanding loans in 2001. We responded to 2002 economic events by lowering the year's income with a provision for credit losses totaling $122 million. The resulting allowance for credit losses at the 2002 year-end stood at $436 million, or 1.70% of the $25.7 billion of outstanding loans. A year earlier, the provision for loss was $104 million and the ending allowance was $425 million, or 1.69% of the $25.2 billion of loans then outstanding.

Fees for services and other noninterest sources of income totaled $512 million in 2002, an increase of 7% over the previous year's $477 million. Noninterest operating expenses, which exclude the same merger-related expenses and amortization charges eliminated in arriving at cash net income, rose 6% to $870 million from $819 million. The efficiency ratio – the name given to the quotient obtained from dividing noninterest operating expenses by the sum of taxable-equivalent net interest income and noninterest income (exclusive of securities transactions) – improved to 49.0% last year. In 2001, that measure of how much of our revenues were used to pay for operating expenses was 49.6%.

THE ALLFIRST ACQUISITION

Notwithstanding the accomplishments of the past year, this is not the time to dwell on them – in part because, in these uncertain times, one can hardly trumpet the likelihood of their recurrence. Still, we stand at a point in the history of the company at which one cannot help but look hopefully ahead. The acquisition of Allfirst is a key reason for such optimism.

The magnitude alone of this latest merger may contribute, understandably, to the impression that it is somehow different from the many which have preceded it at M&T over the course of the past two decades. And, in truth, both in scale and some other ways, it is different. We are taking on more branches than in any previous acquisition. This will not only mean we will significantly expand in markets in which we have already had a presence (in Harrisburg, for instance, we will have more than three times as many branches as previous) but, that, at the same time, we will be entering entirely new markets. Some, such as the Baltimore and Washington metropolitan areas, are qualitatively different for us, because of levels of economic growth and vitality that have historically been higher than those of the markets of western New York and central Pennsylvania in which we have previously operated.

Yet such differences of character aside, this latest acquisition, due to be consummated in the spring of 2003, is cut from the same cloth as previous ones – and, thus holds the potential to lead to the same good results.

In acquiring the $17 billion in assets and branches of Allfirst, we are – as when we came to Rochester, Syracuse and, later, Altoona and Harrisburg, among so many others – expanding into markets which are contiguous to ones in which we have already been successful. Although we will be significantly bigger after the Allfirst acquisition, we will continue to be a highly-concentrated regional bank. Our expanded footprint will be the equivalent of the sixth largest state in the nation, in terms of bank deposits, and the fifth in terms of population. We will command the top market share in that region. Our growth, in other words, is not leading us far afield. Rather, we are once again moving next door, into areas not at all distant from those in which our name is already well-known and respected.

The fact that our markets will continue to be concentrated and contiguous will, we hope, have many benefits. Once again, it will be possible and practical for M&T employees, well-versed in our philosophy of banking, to familiarize new employees with our spirit and business approach. We well understand, though, that we are merging with Allfirst, not submerging it. We recognize that we are fortunate, indeed, to inherit a workforce with deep roots in its communities and a proud banking history. If we are successful, it will be in large measure because of the efforts and experience of Allfirst's employees. Indeed, we have every reason to expect the Allfirst workforce will fit smoothly with our business approach, predicated, as it is, in the community banking philosophy described at length in this message last year and familiar to M&T

customers and investors. That approach is built on just the kind of extensive, regional network of banking outlets that Allfirst brings. Its network will give us the reach and breadth that will allow the pursuit of our banking philosophy in the same manner in which we have previously been successful: through our emphasis on consumer, small business, middle market, home mortgage and commercial real estate lending, linked with deposit and investment products and tied to excellent service attentive to the specific needs and characteristics of all our customers.

It is worth emphasizing that a successful acquisition cannot rely only on one firm imposing its style on another. It requires, too, that the acquirer appreciate, and take advantage of the assets it is acquiring – both people and facilities. This has always been the case with the mergers to which M&T has been party. We anticipate that, once again, we will benefit from the knowledge, tools and techniques which Allfirst will bring to M&T. The presence of Allfirst chairman Eugene Sheehy on the M&T executive management committee, as well as the presence of AIB chairman Michael Buckley on the M&T board, will help ensure that a healthy corporate cross-pollination will occur.

Another hallmark of our past acquisitions has been the efficiency gains we expected – and, indeed, have consistently realized – through the application of our management approaches and economies of scale. This latest acquisition holds similar potential, as reflected by the fact that Allfirst's efficiency ratio currently exceeds our own by a significant percentage. We fully expect that the sharing of such tools as our approach to measuring the profitability of our various businesses, and making adjustments in response, as well as other methods of expense reduction, will help make it possible to bring the efficiency of the former Allfirst operations in line with the overall M&T level.

In short, the acquisition of Allfirst provides us with new opportunities of the sort for which we are well-prepared. It would be less than candid, however, not to acknowledge that there are differences between the Allfirst acquisition and its predecessors. As noted above, we are moving into markets, such as those of Baltimore and metropolitan Washington, D.C., which have experienced higher rates of economic growth and lower unemployment than those in which we have historically done business. We will face new competitors and perhaps greater risk than we have confronted before. We would not have proceeded, however, without being convinced that M&T can meet this challenge. We've proved this time and again, as we've expanded, first in our Buffalo home base and as we have entered new markets.

If anything, we are, as a work force, even better prepared than in the past to take on new challenges – thanks to such efforts as the M&T Commitment, an initiative in which, of course, our new employees from Allfirst will now be included. Over the course of the past year, we've begun a top-to-bottom, and division-by-division effort to identify, and respond to, employee concerns. As a result, we've expanded access to the extensive employee training opportunities discussed in these pages last year. We've introduced more flexible work arrangements and established an employee stock purchase plan that allows employees to purchase M&T common stock at a discount. Our new Performance Management System has been designed to provide employees with the sort of detailed guidance which will help them improve their performance, upgrade their skills and plan their career path in the company. We believe that these steps will not only make for more satisfied employees but will, too, help lay the groundwork for a workforce willing and able to meet the challenges of growth.

The Allfirst acquisition will also be distinguished by the fact that AIB, Allfirst's parent, will become a major stockholder in M&T. This has not been the case in previous mergers, in part because most other companies which we acquired did not have a sole owner. Thus, purchase agreements which included stock in M&T did not imply a large ownership stake for any one group or individual. The terms of this purchase – the issuance of 26.7 million shares in combination with $886 million of cash – do mean that AIB will control a major portion of M&T stock. There are, however, several factors which mitigate the apparent magnitude of this change. First, the ownership stake taken by AIB in M&T is capped: it will stand at 22.5 percent at the time of closing and by agreement, it cannot exceed 25 percent. Indeed, should AIB ever move to sell its shares, the merger agreement gives M&T right of first refusal.

The acquisition of Allfirst, thus, can be viewed fundamentally as a means by which AIB has turned over the operation of its American banking subsidiary to a new management team – at the same time, retaining an interest in the firm that reflects its confidence in the American market and, of course, in M&T. This development should ring no alarm bells for those who have been part of the M&T story in the period since I first became chief executive officer in 1983. It portends no fundamental change in M&T upper management or in the way we do business. Rather, the acquisition of Allfirst and the consequent representation of AIB on the M&T board sets the stage for a fruitful partnership between our two firms, one in which each has, in effect, cast a vote of confidence in the other.

EXPENSING OF STOCK OPTIONS

This year will also see a significant change in M&T accounting practice. On September 19 of last year, we announced plans to account for the fair value of employee options to purchase company stock as compensation expense, beginning in January 2003. It is a decision which merits some elaboration here.

The granting of stock options to employees has been a considered and significant part of the M&T philosophy since 1983. Options are designed as a tool to align the interests of management and employees with those of shareholders. Their potential to do so has by no means been disproved by allegations that, in other firms in other industries, such options may have led to abuses. The theory underlying the granting of stock options has, in my view, successfully worked, in practice, at M&T. This is best evidenced by the fact that, since 1983, the market price of M&T common stock has appreciated at a compound annual rate of 23 percent – coincident with management, employees, directors and their affiliates consistently owning a significant share of M&T. Currently, such shareholders maintain beneficial ownership of approximately 27 percent of M&T. (This includes existing M&T shares and exercisable stock options.) That percentage will decline to 21 percent after the acquisition of Allfirst. Since 1983, the company has granted more than 7 million options to purchase shares of M&T common stock to those serving on its executive management committee at last year's end. Of those, some 2.3 million remained unexercised at December 31, 2002. As of that date, the executive management team, directly and indirectly, held 5.5 million shares of M&T common stock. So it is that M&T has simultaneously had one of the largest proportions of inside ownership among the fifty largest publicly-held bank holding companies headquartered in the U.S., and realized a higher compound annual growth rate in the market value of our common stock than did any of the top one hundred bank holding companies of 1983. In other words, as hoped and predicted, inside ownership has coincided with an increase in shareholder value. The use of options, coupled with an appreciating stock price, has allowed us to more closely align the interests of management and employees with those of shareholders.

It would be foolish indeed to diverge from an approach which has helped bring such good results. Yet it would be foolish, as well, to ignore concern among investors and the general public about the potential abuse of options by self-interested managers willing to manipulate earnings results so as to influence stock price for their own selfish benefit. Even before recent scandals, we have disclosed, as required, the extent of options granted and exercised. We are now going a step further and joining firms across the U.S. in expensing options as compensation. This reflects our commitment to strive for transparency in our reporting – and adhere to the highest, most clearly-understood standards of accounting and reporting. Indeed, because we have operated on the principle that stock options represent a form of employee compensation, it only makes sense we expense their fair value as such. In that light, beginning this year, we will recognize stock-based compensation expense in accordance with the fair value-based method of accounting. We estimate that, as a result, net income will be reduced by approximately $33 million. Had such compensation expense been recognized in 2002, that year's net income would have been $28 million lower.

In sum, despite the fact that the use of stock options has become controversial, it will continue to be part of the M&T philosophy. Because that philosophy also includes adherence to conservative accounting practices, we have now moved to change the way we account for options.

PUBLIC AFFAIRS: BUDGET DEFICITS AND REGULATORY ISSUES

For some years, I have expressed concern about the quality and character of government in M&T's markets. High levels of taxation, combined with (and correlated with) high levels of public employment have held back the economic performance of the markets we serve in upstate New York. Today, we face yet an additional public sector problem, one that applies, though in varying degrees, in the states in which all our major markets are located: New York, Pennsylvania and Maryland. State governments in all three jurisdictions have struggled with significant budget deficits and will likely continue to do so. At the local level, there are deficits of an even greater magnitude, as a percentage of overall budget.

To an extent this is a predictable, cyclical problem. In periods of recession or slow growth, tax proceeds decline. Still, the nature of government response to the current deficits will have a significant effect on the timing and extent of recovery and long-term growth. Periods of deficit are times in which governors, legislators, mayors and city council members must resist the impulse simply to raise taxes in order to keep programs running at pre-deficit levels. Instead, these are the times in which the effectiveness and extent of government must be examined in light of limited resources – and reductions and efficiencies realized. Tax increases cannot, of course, be entirely ruled out – but we must remember that new taxes during hard times risk prolonging the trough in our economic cycle.

We must remember, too, that there is nothing inevitable about high levels of public employment and taxation. A close look at the variation among the states in which we are operating, and in which we will expand, makes this point quite clear. In upstate New York, fully one-fifth (20.9%) of all wages paid to workers come from state and local government jobs. If the upstate region were an independent state, this percentage would constitute the fourth highest share in the nation. In contrast, Maryland (13.8%, 32nd place) and Pennsylvania (13.0%, 40th place) are much less dependent on public sector payrolls.

It is worth noting that sharply higher per capita New York State expenditures are driven, to a significant extent, by higher spending on health care and education. The financing of the former is, unusually, a special burden for county governments, which, atypically, must pay a large share of the cost of the Medicaid health care program for the indigent. Including Medicaid outlays, government-funded health care costs in New York State as a percentage of personal income are 42 percent above the national average. New York State, as a whole, spent $7,687 per eligible Medicaid recipient in 2000, more than twice as much as the U.S. average of $3,799. In fact, New York's total fiscal year 2000 Medicaid payments actually exceeded those of California, even though New York's population is little more than half as large. We must seek ways to rein in such costs, which are significant at M&T as well as for the public sector.

Education, too, is more expensive per capita in New York State. New York as a whole spends 42% more per elementary and secondary pupil than the national average; as a percentage of personal income, upstate New York spends 44 percent more than the national average – higher than any state except Alaska. (Pennsylvania stands at only 1 percent above the national average, while Maryland is 15 percent below.) More specifically, New York State spent $9,846 per primary or secondary student in 1999-2000, compared to the U.S. average of $6,911. Yet this spending has not been justified by better results. New York State ranks 41st in the nation in average Scholastic Aptitude (SAT) examination score, trailing Maryland, which is 34th, despite New York's spending 42% more per pupil. New York State is caught in a vicious cycle – higher public spending leads to a higher tax burden; a higher tax burden discourages new enterprise; the lack of new enterprise causes New York residents, particularly upstate residents, to emigrate, thus robbing the region of our investment (higher-than-average) in their education. For instance, while the population of Maryland and central Pennsylvania rose by 1.2% and 0.3%, respectively, during 2000-01, the population of upstate New York fell by 0.1%. Worse still, during the period 1990-2000, the number of upstate New York residents in the key 18-29 year old age group – the future parents, consumers and community leaders of the region – declined by nearly 21%. Before the fall of the Iron Curtain, Communist governments justified their bans of emigration by noting the investment they had made in their citizens' education. We can hardly ban emigration from upstate New York. Instead, we must work to make it attractive, such that young people will choose to stay. Part of that effort must involve lowering the tax burden – which implies a more efficient public sector – and creating the opportunity for long-term employment.

BUFFALO

Our recent acquisitions highlight the fact that M&T has grown far afield from its historic roots in Buffalo. We remain, however, at heart, a local bank – but with an interest in more than one locality. That means we are focused on the specific needs and attributes of the many communities in which we now operate.

At the same time, we cannot help but take a special interest in the economic health of Buffalo, our headquarters city. Our growth has been a bright spot for a city whose economy has struggled. Recent acquisitions, and the upcoming consolidation with Allfirst, as well, will mean many new jobs in the Buffalo area. As one committed to the city and its people, the good news that M&T has brought to Buffalo has been a special source of pride. The city can count on this company's continuing interest and concern.

Those associated with M&T, moreover, can be certain that it will remain an ambitious institution but one that will never forget from whence we came – and that our customers, communities, investors and employees have been and will continue to be central to our growth and good fortune.

This report would not be complete without noting the departure of four members of the M&T Bank Corporation Board of Directors.

John H. Benisch, a trustee of The East New York Savings Bank at the time of its acquisition by M&T Bank Corporation, will retire as a member of the Board of Directors as of the 2003 Annual Meeting of Stockholders. He will continue as a member of M&T Bank's Directors Advisory Council – New York City Division.

Carl L. Campbell, who served as president and chief executive officer of Keystone Financial, Inc. from 1986 until its acquisition by M&T Bank Corporation in October 2000, will also retire as of the 2003 Annual Meeting from his positions as a vice chairman of the Boards of Directors of M&T and M&T Bank.

Samuel L. Hubbard, Jr., has resigned as a director of M&T Bank Corporation and M&T Bank. In addition to his service as a director, he had also been a member and the chairman of M&T Bank's Directors Advisory Council – Rochester Division since March of 1997.

John L. Vensel will retire as a member of the Boards of Directors of M&T Bank Corporation and M&T Bank effective as of the date of the 2003 Annual Meeting of Stockholders. He had served as a director of ONBANCorp, Inc., from 1989 through its acquisition by M&T Bank Corporation in 1998.

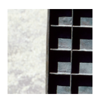
We have greatly valued the wise counsel, good suggestions and willingness to serve of Messrs. Benisch, Campbell, Hubbard and Vensel. We thank them for their contributions to the success of M&T.

It is not customary to use this message to note the retirement of individual employees. M&T is too large for all such occasions to be cited and one does not want to imply, by selection, that we do not value the contributions of each employee – for, indeed, we do. There are, however, some retirements for which an exception must be made – and one is that of James L. Hoffman, who retired last year as executive vice president, most recently overseeing the Company's businesses in Pennsylvania. Few others have played as crucial and central a role as Jim Hoffman in the growth and success of M&T. Since joining M&T Bank in 1960, Jim went on to take the helm of major parts of the bank, including our Hudson Valley and Pennsylvania divisions. Whether that meant leaving Buffalo for the Hudson Valley, or moving to central Pennsylvania after the Keystone merger, Jim was willing and able. Simply listing the positions he has held, however, far understates the importance of his advice and insight into all aspects of the company. His belief in its potential for growth and acquisition has inspired us time and again.

Robert G. Wilmers

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

February 20, 2003



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 $33.2 billion at December 31, 2002. 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 $32.7 billion at December 31, 2002, is a New York-chartered commercial bank with 449 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 $626 million at December 31, 2002, 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 September 26, 2002, M&T entered into a definitive agreement with Allied Irish Banks, p.l.c. ("AIB"), Dublin, Ireland, to acquire Allfirst Financial Inc. ("Allfirst"), a bank holding company headquartered in Baltimore, Maryland, and to merge it into M&T. Upon completion of the merger, Allfirst Bank, Allfirst's primary banking subsidiary, will be merged into M&T Bank. Allfirst Bank operates 258 banking offices in Maryland, Pennsylvania, Washington D.C., Virginia and Delaware. At December 31, 2002, Allfirst had $17.0 billion in assets, including $10.4 billion of loans and leases and $2.6 billion of investment securities, and $15.3 billion of liabilities, including $11.3 billion of deposits. The merger was approved by the stockholders of both M&T and AIB in December 2002 and, assuming approval by various regulatory agencies, is expected to be completed shortly after the end of the first quarter of 2003. Under the terms of the agreement between AIB and M&T, AIB will receive 26.7 million shares of M&T common stock (representing approximately 22.5% of M&T's post-merger outstanding common shares) and $886 million in cash in exchange for all outstanding Allfirst common shares. To fund a portion of the cash consideration and to maintain appropriate regulatory capital ratios, M&T Bank expects to issue up to $500 million of subordinated capital notes. Merger-related expenses associated with the pending Allfirst acquisition incurred during the year ended December 31, 2002 were not significant.

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 $1.8 billion, including $1.0 billion of loans and leases, and liabilities assumed were $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. As of the merger date, total assets acquired were $7.4 billion, including $4.8 billion of loans and leases and $1.2 billion of investment securities, and liabilities assumed were $6.4 billion, including $5.2 billion of deposits. 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.

In connection with the acquisitions of Premier and Keystone, the Company incurred expenses associated with systems conversions and other costs of integrating and conforming the acquired operations with and into the operations of M&T Bank. Such merger-related expenses associated with the Premier and Keystone acquisitions totaled approximately $8 million ($5 million after-tax) and $26 million ($16 million after-tax) during the years ended December 31, 2001 and 2000, respectively. Those merger-related 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 ("GAAP"), included in the determination of goodwill associated with the Premier and Keystone mergers were charges totaling $4 million and $30 million, respectively, net of applicable income taxes, for severance of former employees of the acquired entities; investment banking, legal and other professional fees; and termination of Premier and Keystone contracts for data processing and other services. As of December 31, 2002 and 2001, unpaid merger-related expenses and charges included in the determination of goodwill were insignificant.

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are described in note 1 of Notes to Financial Statements. In applying those accounting policies, management of the Company is required to exercise judgment in determining many of the methodologies, assumptions and estimates to be utilized. Certain of the critical accounting estimates are more dependent on such judgment and in some cases may contribute to volatility in the Company's reported financial performance should the assumptions and estimates used change over time due to changes in circumstances. Some of the more significant areas in which management of the Company applies critical assumptions and estimates include the following:

- 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. In estimating losses inherent in the loan and lease portfolio, assumptions and judgment are applied to measure expected future cash flows, collateral values and other factors used to determine the borrowers' abilities to repay obligations. Historical loss trends are also considered, as are economic conditions, industry trends, portfolio trends and borrower-specific financial data. Changes in the circumstances considered when determining management's estimates and assumptions could result in changes in those estimates and assumptions, which may result in adjustment of the allowance. A detailed discussion of facts and circumstances considered by management in assessing the adequacy of the allowance for credit losses is included herein under the heading "Provision for Credit Losses."
- Valuation methodologies – Management of the Company applies various valuation methodologies to assets and liabilities which often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets, such as trading assets, most investment securities, and residential real estate loans held for sale and related commitments. However, for those items for which an observable liquid market does not exist, management utilizes significant estimates and assumptions to value such items. Examples of these items include capitalized servicing assets, goodwill, core deposit and other intangible assets, pension and other postretirement benefit obligations, value ascribed to stock-based compensation, estimated residual values of property associated with commercial and consumer leases, and certain derivative and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Company's results of operations. Specific discussion of assumptions and estimates utilized by management are discussed in detail in notes 1, 4, 7, 8, 10, 11, 17 and 18 of Notes to Financial Statements.
- Commitments, contingencies and off-balance sheet arrangements – Information regarding the Company's commitments and contingencies, including guarantees and contingent liabilities arising from litigation and their potential effects on the Company's results of operations, is included in note 19 of Notes to Financial Statements. In addition, the Company is routinely subject to examinations from various governmental taxing authorities. Such examinations may result in challenges to the tax return treatment applied by the Company to specific transactions. Management believes that the assumptions and judgment used to record tax-related assets or liabilities have been appropriate. Should tax laws change or the tax authorities determine that management's assumptions were inappropriate, the result and adjustments required could have a material effect on the Company's results of operations. Information regarding permanent and temporary income tax differences is presented in note 12 of Notes to Financial Statements. Information relating to a qualified special purpose trust that is not included in the Company's consolidated financial statements is included in note 4 of Notes to Financial Statements.

OVERVIEW

The Company's net income in 2002 totaled $485 million or $5.07 of diluted earnings per common share, up 28% and 33%, respectively, from $378 million or $3.82 per diluted share in 2001. Basic earnings per common share rose 33% to $5.25 in 2002 from $3.95 in 2001. Net income in 2000 totaled $286 million, while diluted and basic earnings per share were $3.44 and $3.55, respectively. The after-tax impact of merger-related expenses associated with the Keystone and Premier acquisitions was $5 million ($8 million pre-tax) or $.05 of diluted and basic earnings per share in 2001 and $16 million ($26 million pre-tax) or $.20 of diluted and basic earnings per share in 2000. There were no significant similar expenses in 2002.

Net income represented a return on average assets in 2002 of 1.52%, up from 1.23% in 2001 and 1.21% in 2000. The return on average common stockholders' equity was 16.15% in 2002, 12.78% in 2001 and 14.07% in 2000. Excluding the impact of merger-related expenses, the rates of return on average assets and average common equity were 1.24% and 12.94%, respectively, in 2001 and 1.28% and 14.88%, respectively, in 2000.

EARNINGS SUMMARY

Dollars in millions

Increase (decrease)[a] 2001 to 2002 Amount	%	Increase (decrease)[a] 2000 to 2001 Amount	%		2002	2001	2000	1999	1998	Compound growth rate 5 years 1997 to 2002
$(263.3)	(12)	$336.1	19	Interest income[b]	$1,856.1	2,119.4	1,783.3	1,486.3	1,366.6	12%
(349.1)	(37)	25.0	3	Interest expense	594.5	943.6	918.6	719.2	687.5	3
85.8	7	311.1	36	Net interest income[b]	1,261.6	1,175.8	864.7	767.1	679.1	17
18.5	18	65.5	172	Less: provision for credit losses	122.0	103.5	38.0	44.5	43.2	22
(2.5)	–	5.0	–	Gain (loss) on sales of bank investment securities	(0.6)	1.9	(3.1)	1.6	1.8	–
37.0	8	147.7	45	Other income	512.5	475.5	327.8	280.8	261.2	22
				Less:						
21.5	5	105.7	32	Salaries and employee benefits	456.4	434.9	329.2	284.8	259.5	16
(48.8)	(10)	148.2	41	Other expense	464.6	513.4	365.2	294.1	306.6	18
129.1	21	144.4	32	Income before income taxes	730.5	601.4	457.0	426.1	332.8	20
				Less:						
(3.5)	(20)	7.0	67	Taxable-equivalent adjustment[b]	14.0	17.5	10.5	7.8	7.2	19
25.6	12	45.5	28	Income taxes	231.4	205.8	160.3	152.7	117.6	17
$ 107.0	28	$ 91.9	32	Net income	$ 485.1	378.1	286.2	265.6	208.0	22%

[a] *Changes were calculated from unrounded amounts.*

[b] *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 39% for 2002, 37% for 2001, 40% for 2000, and 41% for 1999 and 1998.*

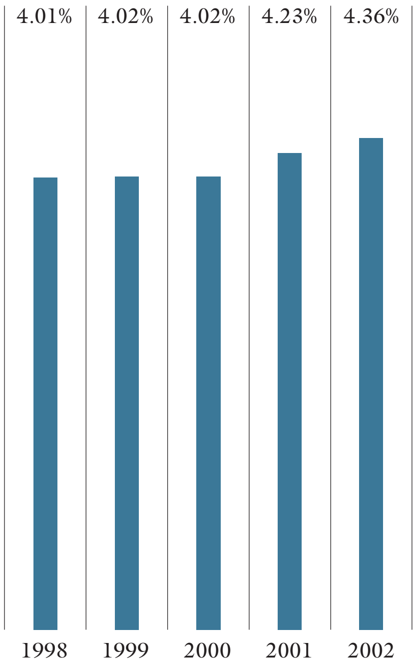
Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 revised accounting standards for all purchased intangible assets, but not the accounting for internally developed intangible assets. SFAS No. 142, as amended, requires that most goodwill not be amortized, but rather that it periodically be tested for impairment. Other intangible assets assumed to have been acquired but with finite lives, such as core deposit intangible assets, are required to be amortized over their assumed lives.

In accordance with SFAS No. 142, effective January 1, 2002 the Company ceased amortization of goodwill associated with corporate acquisitions. Amortization of such goodwill in 2001 and 2000, none of which was tax deductible, was $62 million ($.62 per diluted share) and $36 million ($.43 per diluted share), respectively. The after-tax impact of amortization of core deposit and other intangible assets for the years ended December 31, 2002, 2001 and 2000 was $32 million ($.34 per diluted share), $38 million ($.38 per diluted share) and $20 million ($.24 per diluted share), respectively. Pro forma net income, diluted earnings per share and basic earnings per share for 2001 and 2000, computed as if SFAS No. 142 had been effective in 2001 and 2000, were $440 million, $4.44 and $4.60 respectively, and $322 million, $3.87 and $3.99, respectively, while pro forma annualized returns on average assets and average common stockholders' equity in 2001 were 1.43% and 14.87%, respectively, and in 2000 were 1.36% and 15.83%, respectively.

In accordance with SFAS No. 142, for purposes of testing for impairment of goodwill the Company assigned all of its recorded goodwill to the reporting units originally intended to benefit from past business combinations and completed a transitional goodwill impairment test as of January 1, 2002. The Company determined that, pursuant to the provisions of SFAS No. 142, impairment of goodwill was not permitted or required as of January 1, 2002. During the fourth quarter of 2002, the Company again performed an impairment test and concluded that no adjustment of the carrying value of goodwill was permitted or required as of that time. At December 31, 2002 and 2001, the Company had goodwill of $1.1 billion recorded as assets. Core deposit and other intangible assets at December 31, 2002 totaled $119 million, compared with $170 million a year earlier.

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

TAXABLE-EQUIVALENT
NET INTEREST MARGIN



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, effective January 1, 2001 hedged residential real estate loans held for sale, commitments to originate loans for sale, and commitments to sell loans are 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 swap agreements to manage interest rate risk associated with other earning assets and interest-bearing liabilities was not significant.

Taxable-equivalent net interest income rose 7% to $1.26 billion in 2002 from $1.18 billion in 2001, reflecting a widening of the Company's net interest margin, or taxable-equivalent net interest income expressed as a percentage of average earning assets, and higher average earning assets, which increased 4% to $28.9 billion in 2002 from $27.8 billion in 2001. As a result of growth in the consumer loan portfolio, average loans and leases increased $1.1 billion or 4%, to $25.5 billion in 2002 from $24.4 billion in 2001. Net interest margin improved by 13 basis points (hundredths of one percent) to 4.36% in 2002 from 4.23% a year earlier, due largely to the full-year impact of the declining interest rate environment during 2001 and further changes in rates and spreads in 2002. A 29% increase in average earning assets in 2001, due in great part to the impact of loans obtained at the time of the acquisitions of Keystone and Premier, was the most significant factor contributing to the rise in that year's net interest income from $865 million in 2000. Average loans and leases during 2001 rose $5.9 billion or 32% from $18.5 billion in 2000. A 21 basis point improvement in the net interest margin from 4.02% in 2000 also contributed to 2001's higher level of net interest income.

Weakness in general economic conditions in 2002 and 2001, nationally and in the markets directly served by the Company, contributed to the Company's recognition of provisions for credit losses of $122 million in 2002 and $104 million in 2001, both up significantly from $38 million in 2000. Net charge-offs totaled $108 million in 2002, up from $75 million in 2001 and $29 million in 2000. Net charge-offs as a percentage of average loans and leases outstanding were .42%, .31% and .16% in 2002, 2001 and 2000, respectively.

Noninterest income totaled $512 million in 2002, up 7% from $477 million in 2001 and 58% higher than $325 million in 2000. Higher revenues from providing deposit account and mortgage banking services significantly contributed to the rise in noninterest income from 2001 to 2002. 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, and higher service charges on deposit accounts also contributed to 2001's increase in noninterest income.

Noninterest operating expenses, which exclude merger-related expenses and amortization of goodwill and core deposit and other intangible assets, aggregated $870 million in 2002, up from $819 million in 2001 and $599 million in 2000. Components of noninterest expenses considered to be nonoperating in nature and therefore excluded from the noninterest operating expense totals were amortization of core deposit and other intangible assets of $51 million in 2002, $60 million in 2001 and $34 million in 2000; amortization of goodwill of $62 million in 2001 and $36 million in 2000; and merger-related expenses totaling $8 million in 2001 and $26 million in 2000. A provision for the impairment of capitalized residential mortgage servicing rights of $32 million and higher costs for salaries, including commissions and incentive compensation, were large contributors to the 6% rise in operating expenses in 2002 as compared with 2001. Expenses related to the acquired operations of Keystone and Premier significantly contributed to the 37% increase in noninterest operating expense levels in 2001 compared with 2000. Also contributing to 2001's 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.

The efficiency ratio is a relative measure used by banking institutions that expresses noninterest operating expenses as a percentage of the sum of taxable-equivalent net interest income and noninterest income. The efficiency ratio measures how much of a company's revenue is used to pay 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 49.0% in 2002, improved from 49.6% in 2001 and 50.2% in 2000.

CASH OPERATING RESULTS

M&T has accounted for substantially all of its business combinations using the purchase method of accounting. As a result, the Company had recorded intangible assets consisting of goodwill and core deposit and other intangible assets totaling $1.2 billion at December 31, 2002 and 2000 and $1.3 billion at December 31, 2001. Included in such intangible assets was goodwill of $1.1 billion at December 31, 2002 and 2001, and $1.0 billion at December 31, 2000. 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 and other intangible assets and the related asset balances) represents a relevant measure of financial performance, and, as a result of the required prospective application of SFAS No. 142 as of January 1, 2002, provides meaningful comparative financial information. The supplemental cash basis data presented herein do not exclude the effect of non-cash operating expenses such as depreciation, provision for credit losses, provision for impairment of capitalized servicing rights, or deferred income taxes associated with the results of operations. Unless noted otherwise, cash basis data do, however, exclude the after-tax impact of the previously described merger-related expenses associated with acquisitions.

Cash net income increased 7% to $518 million in 2002 from $482 million in 2001. Diluted and basic cash earnings per share in 2002 both increased by 11%, to $5.41 and $5.60, respectively, from $4.87 and $5.04, respectively, in 2001. In 2000, cash net income totaled $359 million, while diluted and basic cash earnings per share were $4.31 and $4.45, respectively.

Expressed as a rate of return on average tangible assets, cash net income was 1.68% in 2002, improved from 1.63% in 2001 and 1.56% in 2000. Cash return on average tangible common equity was 28.62% in 2002, compared with 28.50% and 27.65% in 2001 and 2000, respectively. Including the effect of merger-related expenses, the cash return on average tangible assets for 2001 and 2000 was 1.62% and 1.49%, respectively, and the cash return on average tangible common equity was 28.22% and 26.38%, respectively.

A reconciliation of net income and diluted earnings per share, pro forma net income and pro forma diluted earnings per share (computed as if SFAS No. 142 had been effective in 2001 and 2000) and cash net income and diluted cash earnings per share is provided in the accompanying table.

NET INTEREST INCOME/LENDING AND FUNDING ACTIVITIES

Taxable-equivalent net interest income rose 7% to $1.26 billion in 2002 from $1.18 billion in 2001, largely the result of a widening of the Company's net interest margin and growth in average earning assets. The Company's average earning assets in 2002 were $28.9 billion, up 4% from $27.8 billion in 2001. The growth in such assets was largely attributable to higher average loans and leases outstanding, which totaled $25.5 billion in 2002, up 4% from 2001's average of $24.4 billion. Average outstanding balances of consumer loans and leases rose $1.2 billion, or 21%, from 2001 to 2002. Such growth, predominately in home equity lines of credit and automobile loans, more than offset declines in the commercial loan and lease and residential real estate loan portfolios. The lower average balances of commercial loans and leases were due in part to the sluggish economic conditions in the Company's core markets. The residential real estate loan portfolio's decline was due largely to customer repayments of

RECONCILIATION OF NET INCOME, PRO FORMA NET INCOME AND CASH NET INCOME

In thousands

December 31	2002	2001	2000
Net income	$485,092	378,075	286,156
Amortization of goodwill	–	61,820	35,760
Pro forma net income	485,092	439,895	321,916
Amortization of core deposit and other intangible assets[a]	32,491	37,525	20,325
Merger-related expenses[a]	–	4,844	16,398
Cash net income	$517,583	482,264	358,639
Diluted earnings per share	$ 5.07	3.82	3.44
Amortization of goodwill	–	.62	.43
Pro forma diluted earnings per share	5.07	4.44	3.87
Amortization of core deposit and other intangible assets[a]	.34	.38	.24
Merger-related expenses[a]	–	.05	.20
Diluted cash earnings per share	$ 5.41	4.87	4.31

[a] *After any related tax effect*

Average Balance Sheets and Taxable-Equivalent Rates

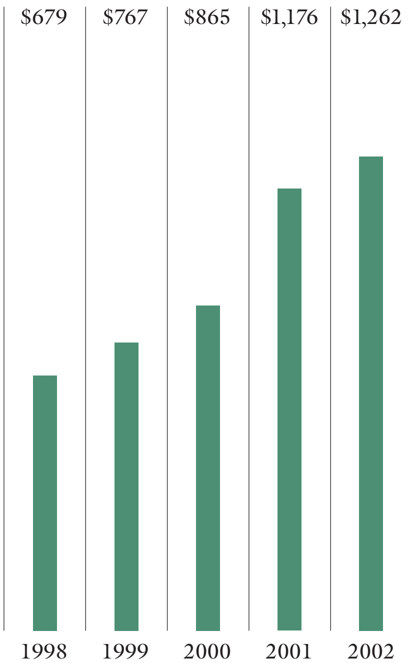
	2002			2001		
Average balance in millions; interest in thousands	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Assets						
Earning assets						
Loans and leases, net of unearned discount[a]						
Commercial, financial, etc.	$ 5,146	$ 261,867	5.09%	5,271	372,234	7.06%
Real estate – commercial	9,498	661,382	6.96	9,224	732,162	7.94
Real estate – consumer	4,087	285,055	6.98	4,354	328,979	7.55
Consumer	6,776	467,167	6.89	5,581	464,151	8.32
Total loans and leases, net	25,507	1,675,471	6.57	24,430	1,897,526	7.77
Money-market assets						
Interest-bearing deposits at banks	6	76	1.32	4	116	3.10
Federal funds sold and agreements to resell securities	272	4,455	1.63	63	2,027	3.22
Trading account	13	247	1.86	13	413	3.16
Total money-market assets	291	4,778	1.64	80	2,556	3.20
Investment securities[b]						
U.S. Treasury and federal agencies	1,292	81,412	6.30	1,709	113,908	6.67
Obligations of states and political subdivisions	279	17,828	6.40	332	24,483	7.37
Other	1,552	76,659	4.94	1,267	80,925	6.39
Total investment securities	3,123	175,899	5.63	3,308	219,316	6.63
Total earning assets	28,921	1,856,148	6.42	27,818	2,119,398	7.62
Allowance for credit losses	(438)			(409)		
Cash and due from banks	732			706		
Other assets	2,697			2,711		
Total assets	$31,912			30,826		
Liabilities and stockholders' equity						
Interest-bearing liabilities						
Interest-bearing deposits						
NOW accounts	$ 761	3,900	.51	722	8,548	1.18
Savings deposits	8,899	107,281	1.21	7,378	134,454	1.82
Time deposits	7,398	237,001	3.20	8,906	453,940	5.10
Deposits at foreign office	569	8,460	1.49	327	11,264	3.44
Total interest-bearing deposits	17,627	356,642	2.02	17,333	608,206	3.51
Short-term borrowings	3,125	52,723	1.69	3,280	124,810	3.81
Long-term borrowings	4,162	185,149	4.45	3,538	210,581	5.95
Total interest-bearing liabilities	24,914	594,514	2.39	24,151	943,597	3.91
Noninterest-bearing deposits	3,618			3,327		
Other liabilities	377			390		
Total liabilities	28,909			27,868		
Stockholders' equity	3,003			2,958		
Total liabilities and stockholders' equity	$31,912			30,826		
Net interest spread			4.03			3.71
Contribution of interest-free funds			.33			.52
Net interest income/margin on earning assets		$1,261,634	4.36%		1,175,801	4.23%

[a] *Includes nonaccrual loans.*

[b] *Includes available for sale securities at amortized cost.*

2000			1999			1998		
Average balance	Interest	Average rate	Average balance	Interest	Average rate	Average balance	Interest	Average rate
4,129	365,951	8.86%	3,331	268,279	8.05%	2,831	235,628	8.32%
7,188	615,304	8.56	5,908	497,247	8.42	4,999	434,906	8.70
3,266	249,224	7.63	3,805	276,619	7.27	3,362	250,910	7.46
3,920	352,331	8.99	3,371	283,565	8.41	3,094	279,417	9.03
18,503	1,582,810	8.55	16,415	1,325,710	8.08	14,286	1,200,861	8.41
6	308	5.41	2	87	3.78	10	400	3.86
212	12,891	6.08	467	24,491	5.24	153	8,293	5.43
21	1,069	5.08	48	3,221	6.71	67	4,524	6.79
239	14,268	5.97	517	27,799	5.37	230	13,217	5.75
1,603	105,104	6.56	920	53,108	5.77	1,448	88,030	6.08
122	8,890	7.27	74	4,660	6.28	73	4,566	6.29
1,033	72,259	7.00	1,150	75,064	6.53	887	59,962	6.76
2,758	186,253	6.75	2,144	132,832	6.20	2,408	152,558	6.33
21,500	1,783,331	8.30	19,076	1,486,341	7.79	16,924	1,366,636	8.08
(333)			(312)			(302)		
536			464			394		
1,955			1,829			1,293		
23,658			21,057			18,309		
486	7,487	1.54	389	4,683	1.21	327	4,851	1.48
5,507	132,225	2.40	5,163	121,888	2.36	4,430	115,345	2.60
7,674	445,666	5.81	7,074	367,889	5.20	7,022	388,185	5.53
250	14,915	5.95	254	12,016	4.73	288	14,973	5.20
13,917	600,293	4.31	12,880	506,476	3.93	12,067	523,354	4.34
2,715	172,466	6.35	2,056	104,911	5.10	1,923	105,582	5.49
2,086	145,838	6.99	1,748	107,847	6.17	835	58,567	7.02
18,718	918,597	4.91	16,684	719,234	4.31	14,825	687,503	4.64
2,425			1,965			1,666		
482			672			317		
21,625			19,321			16,808		
2,033			1,736			1,501		
23,658			21,057			18,309		
		3.39			3.48			3.44
		.63			.54			.57
	864,734	4.02%		767,107	4.02%		679,133	4.01%

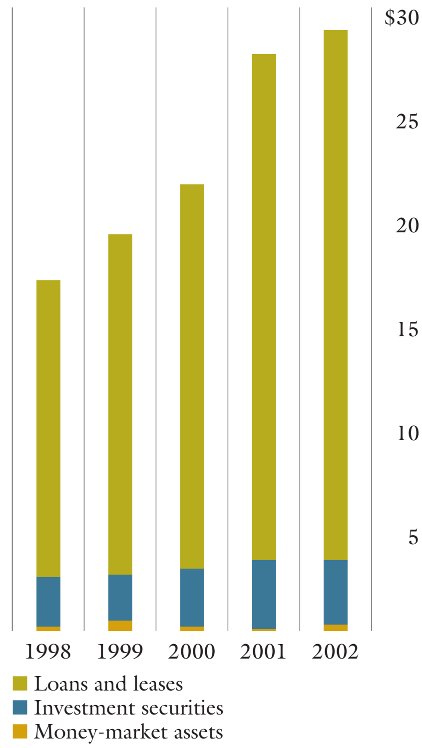
TAXABLE-EQUIVALENT
NET INTEREST INCOME
In millions



loans and the impact of a November 2002 securitization of approximately $1.1 billion of such loans. In connection with the securitization transaction, the Company transferred approximately $1.1 billion of one-to-four family residential mortgage loans to a qualified special purpose trust. The Company received $140 million in cash and retained approximately 88% of the resulting securities in exchange for the loans. The Company realized a $5 million gain on the transaction which has been included in other noninterest income. In accordance with GAAP, the qualified special purpose trust is not included in the Company's consolidated financial statements. Additional information about this transaction and the qualified special purpose trust is included in note 4 of Notes to Financial Statements. 2001's taxable-equivalent net interest income represented a 36% increase from $865 million in 2000, when average earning assets aggregated $21.5 billion. The increase in 2001's taxable-equivalent net interest income was also largely the result of higher balances of average earning assets and a widening of the net interest margin. Average loans and leases in 2001 were 32% higher than 2000's average of $18.5 billion. 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 $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 as compared with 2000 was attributable to net loan origination activities. Of such increase, approximately $450 million was attributable to higher average balances of residential mortgage loans held for sale. The accompanying table summarizes average loans and leases outstanding in 2002 and percentage changes in the major components of the portfolio over the past two years.

Commercial loans and leases, excluding loans secured by real estate, totaled $5.3 billion at December 31, 2002, representing 21% of total loans and leases. The accompanying table presents such commercial loans and leases as of December 31, 2002 by geographic area, size, and whether the loans are secured by collateral or unsecured. The Company provides financing for leases to commercial customers, primarily for equipment. Total commercial leases at December 31, 2002 were $148 million, of which 70% were secured by collateral located in New York State and 7% were secured by collateral in Pennsylvania. Of the $5.2 billion of commercial loans outstanding at the 2002 year-end, approximately $4.1 billion, or 79%, were secured, while 71% and 21% were granted to businesses in New York State and Pennsylvania, respectively.

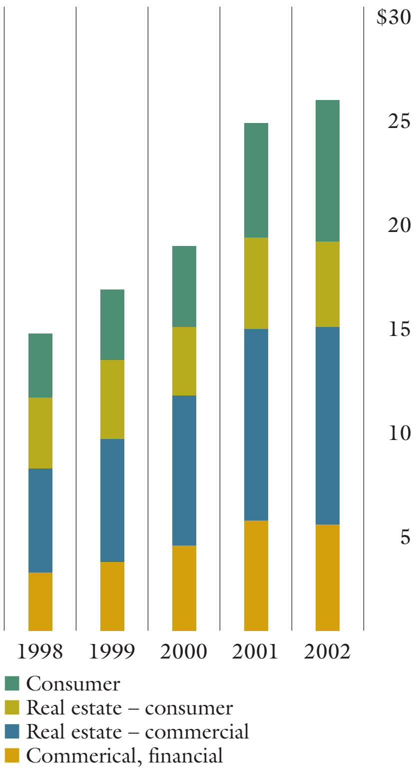
AVERAGE EARNING ASSETS
In billions



AVERAGE LOANS AND LEASES (NET OF UNEARNED DISCOUNT)

		Percent increase (decrease) from	
Dollars in millions	2002	2001 to 2002	2000 to 2001
Commercial, financial, etc.	$ 5,146	(2)%	28%
Real estate – commercial	9,498	3	28
Real estate – consumer	4,087	(6)	33
Consumer			
Automobile	2,847	34	47
Home equity lines	1,804	42	30
Home equity loans	745	(15)	64
Other	1,380	5	36
Total consumer	6,776	21	42
Total	$25,507	4 %	32%

AVERAGE LOANS AND LEASES
In billions



Loans secured by real estate, including outstanding balances of home equity loans and lines of credit which the Company classifies as consumer loans, represented approximately 63% of the loan and lease portfolio during 2002, compared with 64% in 2001 and 65% in 2000. At December 31, 2002, the Company held approximately $9.7 billion of commercial real estate loans, $3.2 billion of consumer real estate loans secured by one-to-four family residential properties and $2.7 billion of outstanding balances of home equity loans and lines of credit, compared with $9.4 billion, $4.6 billion and $2.3 billion, respectively, at December 31, 2001.

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. The Company also originates fixed-rate commercial real estate loans with maturities of greater than five years, generally having original maturity terms of approximately ten years, and adjustable-rate commercial real estate loans, which represented approximately 42% of the commercial real estate loan portfolio as of December 31, 2002. The table on page 28 presents commercial real estate loans by geographic area, type of collateral and size of the loans outstanding at December 31, 2002. Of the $4.2 billion of commercial real estate loans in the New York City metropolitan area, approximately 37% were secured by multifamily residential properties, 22% 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 multi-family residential properties. Approximately 47% 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 36% of the total. 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. Approximately 76% of the outstanding balance of commercial real estate loans in Pennsylvania were also 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

COMMERCIAL LOANS AND LEASES, NET OF UNEARNED DISCOUNT
(EXCLUDING LOANS SECURED BY REAL ESTATE)

December 31, 2002

		Percent of dollars outstanding by loan size			
Dollars in millions	Outstandings	$0-1	$1-5	$5-10	$10+
New York State					
Secured	$2,869.6	30%	26%	12%	8%
Unsecured	802.1	6	8	3	4
Leases	104.0	2	1	–	–
Total New York State	3,775.7	38%	35%	15%	12%
Pennsylvania					
Secured	899.6	30%	23%	12%	17%
Unsecured	191.3	7	4	3	3
Leases	10.3	1	–	–	–
Total Pennsylvania	1,101.2	38%	27%	15%	20%
Other					
Secured	341.4	19%	24%	19%	15%
Unsecured	70.8	5	4	3	3
Leases	33.5	1	2	5	–
Total other	445.7	25%	30%	27%	18%
Total commercial loans and leases	$5,322.6	37%	33%	16%	14%

COMMERCIAL REAL ESTATE LOANS (NET OF UNEARNED DISCOUNT)

December 31, 2002

Dollars in millions	Outstandings	Percent of dollars outstanding by loan size $0-1	$1-5	$5-10	$10+
Metropolitan New York City					
Apartments/Multifamily	$1,546.7	5%	17%	6%	9%
Office	581.3	1	3	2	8
Retail	948.2	2	10	3	7
Construction	78.8	–	1	1	–
Industrial	54.2	1	–	–	–
Other	993.6	1	6	5	12
Total Metropolitan New York City	4,202.8	10%	37%	17%	36%
Other New York State					
Apartments/Multifamily	312.7	3%	6%	1%	–%
Office	981.8	9	14	6	3
Retail	321.8	4	5	1	1
Construction	196.7	1	2	2	1
Industrial	242.9	4	3	1	–
Other	999.7	13	12	5	3
Total other New York State	3,055.6	34%	42%	16%	8%
Pennsylvania					
Apartments/Multifamily	189.3	8%	3%	2%	1%
Office	197.2	5	6	1	2
Retail	129.1	4	4	1	–
Construction	90.2	1	5	1	–
Industrial	80.0	3	2	–	1
Other	682.3	20	15	3	12
Total Pennsylvania	1,368.1	41%	35%	8%	16%
Other					
Apartments/Multifamily	255.4	4%	9%	4%	6%
Office	85.0	1	2	2	3
Retail	243.4	1	4	6	11
Construction	103.7	–	2	3	4
Industrial	52.9	1	2	–	2
Other	360.8	5	13	8	7
Total other	1,101.2	12%	32%	23%	33%
Total commercial real estate loans	$9,727.7	22%	37%	16%	25%

York City metropolitan area, comprised 11% of total commercial real estate loans as of December 31, 2002.

Of the $469 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, 2002.

Real estate loans secured by one-to-four family residential properties totaled $3.2 billion at December 31, 2002, including approximately 47% secured by properties located in New York State and 17% secured by properties located in Pennsylvania. At December 31, 2002, $1.1 billion of residential real estate loans were held for sale by M&T Mortgage Corporation, the Company's residential mortgage banking subsidiary, compared with $1.0 billion at December 31, 2001. Loans to finance the construction of one-to-four family residential properties totaled $529 million at December 31, 2002, or approximately 2% of total loans and leases.

Consumer loans and leases represented approximately 27% of the average loan portfolio during 2002, up from 23% during 2001 and 21% during 2000. Automobile loans and leases and outstanding balances of home equity lines of credit represent the largest components of the consumer loan portfolio. Approximately 80% of home equity lines of credit outstanding at December 31, 2002 were secured by properties in New York State and 17% were secured by properties in Pennsylvania. At December 31, 2002, 36% and 40% 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 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 11% of the Company's average loan portfolio during 2002, while no other consumer loan product represented more than 7%. The average outstanding balance of automobile leases was approximately $556 million in 2002, $587 million in 2001 and $375 million in 2000. The increase from 2000 to 2001 reflects automobile leases acquired in the Keystone transaction that totaled $231 million on October 6, 2000.

The accompanying table presents the composition of the Company's loan and lease portfolio at December 31, 2002, including outstanding balances to businesses and consumers in New York State, Pennsylvania and other states. Approximately 64% of total loans and leases at the 2002 year-end were to New York State customers and 21% were to Pennsylvania customers.

The investment securities portfolio averaged $3.1 billion in 2002, compared with $3.3 billion in 2001 and $2.8 billion in 2000. The previously discussed retention of mortgage-backed securities related to the November 2002 securitization of $1.1 billion of residential real estate loans added approximately $147 million to average investment securities in 2002, which was more than offset by maturities and prepayments on mortgage-backed securities and collateralized mortgage obligations. 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. The impact on 2001 average balances of the Keystone and

LOANS AND LEASES (NET OF UNEARNED DISCOUNT)

December 31, 2002

		Percent of dollars outstanding		
Dollars in millions	Outstandings	New York State	Pennsylvania	Other
Real estate				
Residential	$ 3,247.7	47%	17%	36%
Commercial	9,727.7	75[a]	14	11
Total real estate	12,975.4	68%	15%	17%
Commercial, financial, etc.	5,174.8	71%	21%	8%
Consumer				
Secured or guaranteed	6,507.0	54	28	18
Unsecured	395.9	52	36	12
Total consumer	6,902.9	54%	29%	17%
Total loans	25,053.1	65%	20%	15%
Leases				
Commercial	147.8	70%	7%	23%
Consumer	526.9	23	52	25
Total leases	674.7	34%	42%	24%
Total loans and leases	$25,727.8	64%	21%	15%

[a] *Includes loans secured by properties located in neighboring states generally considered to be within commuting distance of New York City.*

Premier acquisitions was approximately $359 million and $300 million, respectively. 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, debt and preferred equity securities issued by government-sponsored agencies and certain financial institutions and short-term commercial paper. 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. 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 $291 million in 2002, compared with $80 million in 2001 and $239 million in 2000. 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 and money market assets, ongoing repayments, the level of deposits, and management of balance sheet size and resulting capital ratios.

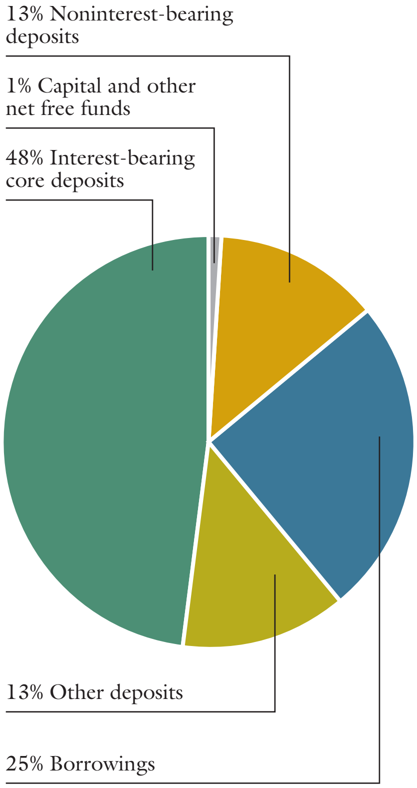
The most significant source of funding for the Company is core deposits, which are comprised of noninterest-bearing deposits, interest-bearing transaction accounts, nonbrokered savings deposits and nonbrokered domestic time deposits under $100,000. The Company's branch network is its principal source of core deposits, which generally carry lower interest rates than wholesale funds of comparable maturities. Certificates of deposit under $100,000 generated on a nationwide basis by M&T Bank, N.A. are also included in core deposits. Average core deposits were $17.6 billion in 2002 and 2001, and $13.6 billion in 2000. The significant increase in average core deposits in 2001 was largely due to the full-year impact of the $4.7 billion of core deposits obtained on October 6, 2000 in connection with the Keystone acquisition as well as the $1.2 billion of core deposits obtained on February 9, 2001 in connection with the Premier transaction. The Company experienced a significant shift in the composition of core deposits throughout 2001 and 2002, largely as a result of the low interest rate environment. Reflecting a change in customer saving trends, average core savings and noninterest-bearing deposits rose during 2001 and 2002, while average time deposits under $100,000 decreased in 2002. Average core deposits of M&T Bank, N.A. were $342 million in 2002, $521 million in 2001 and $643 million in 2000. Funding provided by core deposits totaled 61% of average earning assets in 2002, compared with 63% in 2001 and 2000. The accompanying table summarizes average core deposits in 2002 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 deposits. Domestic time deposits over $100,000, excluding brokered certificates of deposit, averaged $1.2 billion in 2002, compared with $2.0 billion in 2001 and $1.8 billion in 2000. Offshore branch deposits, primarily comprised of

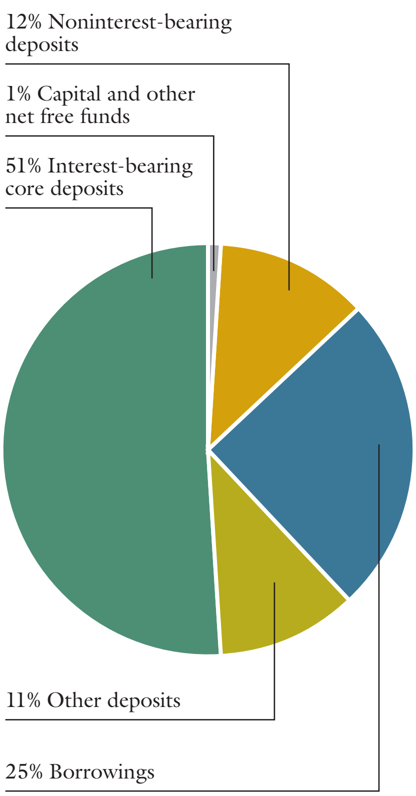
AVERAGE CORE DEPOSITS

		Percent increase (decrease) from	
Dollars in millions	2002	2001 to 2002	2000 to 2001
NOW accounts	$ 761	5%	49%
Savings deposits	8,840	20	34
Time deposits under $100,000	4,347	(29)	19
Noninterest-bearing deposits	3,618	9	37
Total	$17,566	–%	30%

2002 AVERAGE FUNDING SOURCES



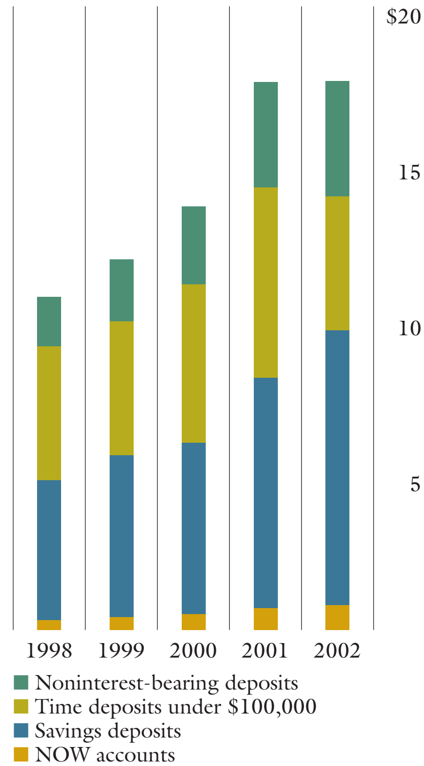
2001 AVERAGE FUNDING SOURCES



accounts with balances of $100,000 or more, averaged $569 million in 2002, compared with $327 million and $250 million in 2001 and 2000, respectively. Brokered time deposits, which have been used as an alternative to short-term borrowings, averaged $1.9 billion in 2002, $794 million in 2001 and $696 million in 2000, and totaled $1.5 billion at December 31, 2002. The weighted-average remaining term to maturity of brokered deposits at December 31, 2002 was 7 months. 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 substantially similar to the amounts and terms of $270 million of brokered deposits. The Company also had brokered money-market deposit accounts which averaged $59 million in 2002. 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 $3.1 billion in 2002, $3.3 billion in 2001 and $2.7 billion in 2000. Amounts borrowed from the FHLB and included in short-term borrowings averaged $904 million in 2002, $814 million in 2001 and $574 million in 2000. The remaining short-term borrowings were predominately comprised of unsecured federal funds borrowings, which generally mature daily. Additionally, in November 2002 the Company entered into a $500 million revolving asset-backed structured borrowing secured by automobile loans that were transferred to M&T Auto Receivables I, LLC, a special purpose subsidiary of M&T Bank. The subsidiary, the loans and the borrowings are included in the consolidated financial statements of the Company. Additional information about M&T Auto Receivables I, LLC and the revolving borrowing agreement

AVERAGE CORE DEPOSITS
In billions



is included in note 9 of Notes to Financial Statements. The average balance of long-term borrowings was $4.2 billion in 2002, $3.5 billion in 2001 and $2.1 billion in 2000. Included in average long-term borrowings were amounts borrowed from the FHLB of $3.0 billion in 2002, $2.4 billion in 2001 and $1.4 billion in 2000 and subordinated capital notes issued by M&T Bank of $668 million in 2002, $674 million in 2001 and $295 million in 2000. The increase in the average balance of subordinated capital notes from 2000 to 2001 reflects M&T Bank's issuance of $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 9 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 borrowings. Further information on such interest rate swap agreements is provided in note 17 of Notes to Financial Statements.

Net interest income can be impacted by 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. The Federal Reserve took numerous actions throughout 2001 to lower the level of interest rates by reducing its benchmark overnight federal funds target rate by 475 basis points. A further reduction of 50 basis points was initiated in November 2002. In general, such actions contributed to a greater decline in short-term rates on deposits and borrowings as compared with the decline in yields on loans and other earning assets. The impact of changing interest rates 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 2002 and 2001. The yield on the Company's earning assets decreased 120 basis points to 6.42% in 2002 from 7.62% in 2001, while the rate paid on interest-bearing liabilities in 2002 was 2.39%, down 152 basis points from 3.91% in 2001. The impact of the more rapid repricing of interest-bearing liabilities than earning assets combined with the full-year impact of the magnitude of 2001's interest rate reductions led to a 32 basis point increase in the Company's net interest spread, from 3.71% in 2001 to 4.03% in 2002. As a result of a decline in short-term interest rates and a general steepening of the yield curve, the net interest spread in 2001 was also improved by 32 basis points as compared to a year earlier. In 2000, the net interest spread was 3.39%, the yield on earning assets was 8.30% and the rate paid on interest-bearing liabilities was 4.91%.

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 and other intangible assets. Average net interest-free funds totaled $4.0 billion in 2002, $3.7 billion in 2001 and $2.8 billion in 2000. The increases in average net interest-free funds in 2002 and 2001 as compared with 2000 were largely the result of higher levels of noninterest-bearing deposits and stockholders' equity. Net interest-free funds contributed .33% to net interest margin in 2002, compared with .52% in 2001 and .63% in 2000. The decline in the contribution to net interest margin ascribed to net interest-free funds in 2002 and 2001 from 2000 resulted largely from the impact of lower interest rates on interest-bearing liabilities used to value such contribution. Goodwill and core deposit and other intangible assets averaged $1.2 billion in 2002, $1.3 billion in 2001 and $766 million in 2000, while the cash surrender value of bank owned life insurance averaged $604 million in 2002, $573 million in 2001 and $458 million in 2000. 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." Reflecting the changes to the net interest spread and the contribution of interest-free funds as described herein, the Company's net interest margin was 4.36% in 2002, improved from 4.23% in 2001 and 4.02% in 2000.

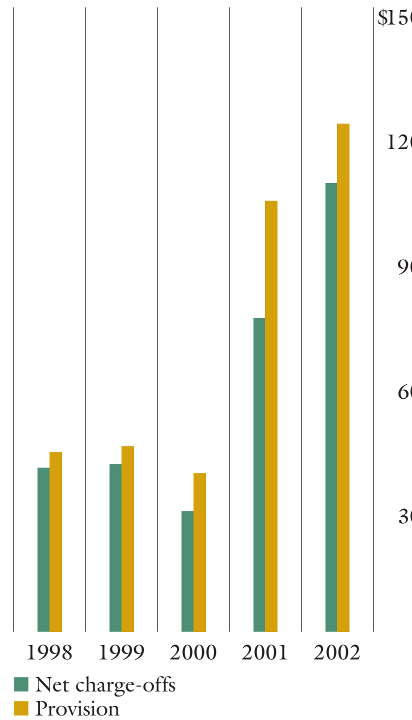
Future changes in market interest rates or spreads, as well as changes in the composition of the Company's portfolios of earning assets and interest-bearing liabilities that result in reductions in spreads, could adversely impact the Company's net interest margin and net interest income. Management assesses the potential impact of future changes in interest rates and spreads by projecting net interest income under several 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 swap agreements entered into for interest rate risk management purposes as of December 31, 2002 was $495 million. In general, under the terms of these swap agreements, 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 $100 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 swap agreements, with an aggregate notional amount of approximately $421 million. Under the terms of the terminated swap agreements, the Company would have made fixed-rate payments and received variable-rate payments. The termination of these swap 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 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 for the years ended December 31, 2002, 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 17 of Notes to Financial Statements. As of December 31, 2002, $395 million of the Company's interest rate swap agreements entered into for risk management purposes 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 agreement) 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 swap agreements 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 2002 and 2001 was not material to the Company’s results of operations. The estimated fair value of interest rate swap agreements designated as fair value hedges was a gain of approximately $8 million at December 31, 2002 compared with a gain of $5 million at December 31, 2001. The fair values of such swap agreements were substantially offset by unrealized losses on the fair values of the hedged items. The estimated fair value of the interest rate swap agreements designated as cash flow hedges was a loss of approximately $1 million at December 31, 2002, compared with a loss of $461 thousand at December 31, 2001. Net of applicable income taxes, such losses were approximately $622 thousand and $298 thousand, respectively, and have 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 swap agreements and the hedged items result from the effects of changing interest rates. Prior to the January 1, 2001 adoption of SFAS No. 133, the fair value of interest rate swap agreements 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 swap agreements at December 31, 2000 was a pre-tax gain of approximately $1 million. The average notional amounts of interest rate swap agreements 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 FOR CREDIT LOSSES

The Company maintains an allowance for credit losses that in management’s judgment is adequate to absorb losses inherent in the loan and lease portfolio. A provision for credit losses is recorded to adjust the level of the allowance as deemed necessary by management. The provision for credit losses was $122 million in 2002, up from $104 million in 2001 and $38 million in 2000. Continued weakness in general economic conditions across the United States, as a whole, and in markets directly served by the Company, contributed to net loan charge-offs in 2002 and 2001 of $108 million and $75 million, respectively, up significantly from $29 million in 2000. Net loan charge-offs as a percentage of average loans outstanding were .42% in 2002, compared with .31% in 2001 and .16% in 2000. 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 $215 million or .84% of loans and leases outstanding at December 31, 2002, compared with $190 million or .76% at December 31, 2001 and $111 million or .49% at December 31, 2000. The higher level of nonperforming loans in 2002 and 2001 as compared with 2000 and earlier years reflects a prolonged weakness in the economy and its impact on the Company’s customers. Nonperforming loans at the 2002 year-end included three commercial loans totaling $49 million that were classified as such during 2002. The increase in nonperforming

PROVISION AND
NET CHARGE-OFFS
In millions



INTEREST RATE SWAPS

Dollars in thousands	2002 Amount	2002 Rate(a)	2001 Amount	2001 Rate(a)	2000 Amount	2000 Rate(a)
	Year ended December 31					
Increase (decrease) in:						
Interest income	$ (673)	– %	$ (360)	– %	$ 793	–%
Interest expense	(9,495)	(.04)	(7,080)	(.03)	780	–
Net interest income/margin	$ 8,822	.03 %	$ 6,720	.03 %	$ 13	–%
Average notional amount(b)	$693,910		$522,730		$875,933	
Rate received(c)		3.48 %		5.75 %		6.43%
Rate paid(c)		2.21 %		4.47 %		6.43%

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

loans in 2001 from 2000 reflects two larger-balance commercial loans totaling $40 million at 2001's year-end that were classified as nonperforming during that year. The increase in nonperforming loans in 2000 largely reflects the impact of the Keystone acquisition.

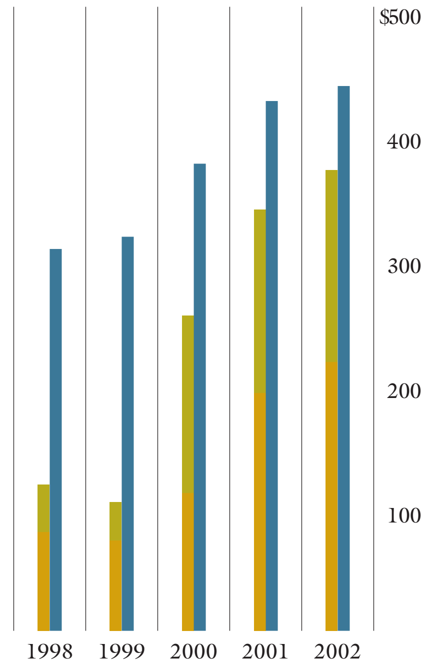
Accruing loans past due 90 days or more were $154 million or .60% of total loans and leases at December 31, 2002, compared with $147 million or .58% at December 31, 2001 and $142 million or .62% at December 31, 2000. Such loans included $123 million, $108 million and $93 million at December 31, 2002, 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 them, including a requirement to advance principal and interest payments that had not been received from individual mortgagors. In general, the remaining portion of accruing loans past due 90 days or more were either also guaranteed by government agencies or well-secured by collateral. A summary of nonperforming assets and certain past due loan data is presented in the table on page 34.

Factors that influence the Company's credit loss experience include 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 are based upon many assumptions and, as a result, can be highly subjective. Such 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 2002 were $7 million, compared with $5 million in 2001. During 2000, the Company realized net recoveries of previously charged-off commercial real estate loans of $383 thousand. Nonperforming commercial real estate loans totaled $49 million at December 31, 2002, compared with $39 million and $37 million at December 31, 2001 and 2000, respectively.

During 2002, net charge-offs of commercial loans and leases totaled $54 million, compared with $32 million in 2001 and $6 million in 2000. The

ALLOWANCE AND NONPERFORMING AND PAST DUE LOANS
In millions



LOAN CHARGE-OFFS, PROVISION AND ALLOWANCE FOR CREDIT LOSSES

Dollars in thousands	2002	2001	2000	1999	1998
Allowance for credit losses beginning balance	$425,008	374,703	316,165	306,347	274,656
Charge-offs during year					
Commercial, financial, agricultural, etc.	57,401	35,555	6,943	19,246	5,457
Real estate – construction	88	–	–	–	950
Real estate – mortgage	13,969	13,849	7,133	5,159	7,182
Consumer	53,124	44,750	28,855	35,250	42,712
Total charge-offs	124,582	94,154	42,931	59,655	56,301
Recoveries during year					
Commercial, financial, agricultural, etc.	3,129	3,949	1,199	2,244	2,783
Real estate – construction	–	–	–	406	–
Real estate – mortgage	2,333	4,027	3,551	3,180	2,893
Consumer	11,370	10,871	9,201	13,507	11,211
Total recoveries	16,832	18,847	13,951	19,337	16,887
Net charge-offs	107,750	75,307	28,980	40,318	39,414
Provision for credit losses	122,000	103,500	38,000	44,500	43,200
Allowance for credit losses acquired during the year	–	22,112	49,518	5,636	27,905
Allowance related to loans sold or securitized	(2,786)	–	–	–	–
Allowance for credit losses ending balance	$436,472	425,008	374,703	316,165	306,347
Net charge-offs as a percent of:					
Provision for credit losses	88.32%	72.76%	76.26%	90.60%	91.24%
Average loans and leases, net of unearned discount	.42%	.31%	.16%	.25%	.28%
Allowance for credit losses as a percent of loans and leases, net of unearned discount, at year-end	1.70%	1.69%	1.65%	1.82%	1.94%

NONPERFORMING ASSETS AND PAST DUE LOAN DATA

Dollars in thousands

December 31	2002	2001	2000	1999	1998
Nonaccrual loans	$207,038	180,344	100,951	61,816	70,999
Renegotiated loans	8,252	10,128	9,688	10,353	8,262
Total nonperforming loans	215,290	190,472	110,639	72,169	79,261
Real estate and other assets owned	17,380	16,387	13,619	10,000	11,129
Total nonperforming assets	$232,670	206,859	124,258	82,169	90,390
Accruing loans past due 90 days or more[a]	$153,803	146,899	141,843	31,017	37,784
Government guaranteed loans included in totals above:					
Nonperforming loans	$ 11,885	10,196	8,625	5,239	4,033
Accruing loans past due 90 days or more	129,114	113,600	102,505	11,290	10,283
Nonperforming loans to total loans and leases, net of unearned discount	.84%	.76%	.49%	.41%	.50%
Nonperforming assets to total net loans and leases and real estate and other assets owned	.90%	.82%	.55%	.47%	.57%
Accruing loans past due 90 days or more to total loans and leases, net of unearned discount	.60%	.58%	.62%	.18%	.24%

[a] *Predominately residential mortgage loans and consumer loans.*

higher levels of charge-offs in 2002 and 2001 compared with 2000 were largely a function of the sluggish economic environment faced by commercial customers throughout much of the past two years. Included in 2002's net charge-offs was the entire $17 million outstanding balance of two leases to a major airline company that filed for bankruptcy protection in the third quarter of that year. Reflecting the weakened economy and the previously noted loans totaling $49 million and $40 million at December 31, 2002 and 2001 respectively, nonperforming commercial loans and leases totaled $102 million at December 31, 2002 and $85 million a year earlier, compared with $26 million at December 31, 2000.

Net charge-offs of residential real estate loans were $5 million in 2002 and $4 million in 2001 and 2000. Residential real estate loans classified as nonperforming at December 31, 2002 totaled $37 million, compared with $35 million and $33 million at December 31, 2001 and 2000, respectively. Residential real estate loans past due ninety days or more and accruing interest totaled $142 million, $135 million and $115 million at December 31, 2002, 2001 and 2000, respectively. As already highlighted, a substantial portion of such amounts relate to loans repurchased from GNMA which are fully guaranteed by government agencies.

Net charge-offs of consumer loans and leases were $42 million in 2002, representing .62% of average consumer loans and leases outstanding during the year, compared with $34 million or .61% in 2001 and $20 million or .50% in 2000. Indirect automobile loans and leases represented the most significant category of consumer loan charge-offs in each of the past three years. Net indirect automobile loan and lease charge-offs during 2002 were $21 million, compared with $12 million and $7 million in 2001 and 2000, respectively. Consumer loans and leases classified as nonperforming totaled $27 million or .37% of outstanding consumer loans and leases at December 31, 2002, compared with $31 million or .51% at December 31, 2001 and $15 million or .30% at December 31, 2000. Consumer loans and leases past due 90 days or more and accruing interest totaled $3 million, $5 million and $21 million at December 31, 2002, 2001 and 2000, respectively. During 2001's first quarter, 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. 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 each respective 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 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. Factors also considered by management when performing its assessment, in addition to general economic conditions and the other factors described above, 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 and in central Pennsylvania that have historically experienced less economic growth and vitality than the vast majority of other regions of the country; and (iii) significant growth in loans to individual consumers, which historically have experienced higher net charge-offs as a percentage of loans outstanding than other loan types. The level of the allowance for credit losses is adjusted based on the results of management's analysis.

In ascertaining the adequacy 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 is 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 loans and residential real estate 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. Loans less than 90 days delinquent are deemed to have a minimum delay in payment and are generally not considered to be impaired.

The inherent base level loss components are generally determined by applying loss factors to specific loan balances based on loan type and management's classification of such loans under the Company's loan grading system. The Company utilizes a 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 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 in 2001 and 2002 experienced 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, 2001. Economic growth outside of New York City, especially in the industrialized upstate New York markets, continues to lag most other regions of the country. The unemployment rate in New York State grew in 2002 and 2001, rising to 6.1% at December 31, 2002. Slow job growth, coupled with a declining population base, has left the upstate New York region susceptible to credit problems, particularly related to commercial

ALLOCATION OF THE ALLOWANCE FOR CREDIT LOSSES TO LOAN CATEGORIES

Dollars in thousands

December 31	2002	2001	2000	1999	1998
Commercial, financial, agricultural, etc..	$120,627	130,156	125,568	78,019	57,744
Real estate	152,758	139,848	122,218	91,967	90,778
Consumer	113,711	94,710	76,839	47,250	46,270
Unallocated	49,376	60,294	50,078	98,929	111,555
Total	$436,472	425,008	374,703	316,165	306,347
As a percentage of gross loans and leases outstanding					
Commercial, financial, agricultural, etc..	2.23%	2.50%	2.43%	2.11%	1.76%
Real estate	1.17	1.00	.97	.90	.97
Consumer	1.51	1.52	1.49	1.30	1.35

customers. The central Pennsylvania economy has also remained depressed, with employment declining by an average of .5% in 2002, compared with a .1% increase in 2001. However, the region's job losses were roughly half the overall .9% average decrease for the United States in 2002.

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. At December 31, 2002, the amount of allowance allocated to the commercial loan and lease portfolio as a percentage of total loans was lower than a year earlier, largely due to a decrease in outstanding balances of classified loans having estimated inherent losses at those respective year-ends. The increased allocation percentage for real estate loans at December 31, 2002 as compared with December 31, 2001 was the result of higher levels of classified loans in the commercial real estate portfolio. 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 $164 million at December 31, 2002 from $140 million at December 31, 2001. Such impaired loans totaled $81 million at December 31, 2000. The allocated portion of the allowance for credit losses related to impaired loans was $18 million and $21 million at December 31, 2002 and 2001, respectively. The unallocated portion of the allowance for credit losses was equal to .19% and .24% of gross loans outstanding at December 31, 2002 and 2001, respectively. The slight decrease in the unallocated allowance as a percentage of loans from the 2001 year-end to December 31, 2002 reflects the modest impact of improving economic conditions at the recent year's end. The effect of the September 11, 2001 terrorist attacks on the economic outlook at December 31, 2001 and in early 2002 diminished later in the year as indications of a gradual economic recovery emerged. 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 allowance for credit losses at December 31, 2002 was adequate to absorb credit losses inherent in the portfolio as of that date. The allowance for credit losses was $436 million or 1.70% of total loans at December 31, 2002, compared with $425 million or 1.69% at December 31, 2001 and $375 million or 1.65% at December 31, 2000. The ratio of the allowance to nonperforming loans at year-end 2002, 2001 and 2000 was 203%, 223% and 339%, respectively. The level of the allowance reflects management's evaluation of the loan and lease portfolio as of each respective date. The increases in the allowance as a percentage of total loans at December 31, 2002 and 2001 compared with December 31, 2000 also considered the weakened state of the economy in 2002 and 2001, as well as the other specific factors and conditions described herein.

Commercial real estate loans secured by multifamily properties in the New York City metropolitan area represented 6% of loans outstanding at December 31, 2002. The Company had no concentrations of credit extended to any specific industry that exceeded 10% of total loans at December 31, 2002. Furthermore, the Company had no exposure to less developed countries and less than $3 million of outstanding foreign loans at December 31, 2002.

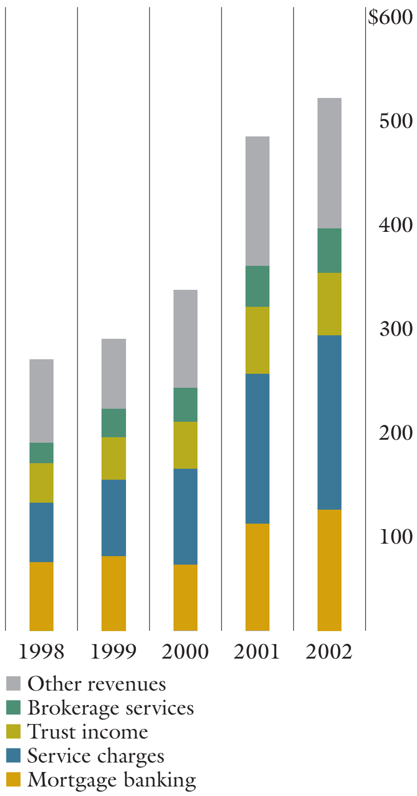
Assets acquired in settlement of defaulted loans totaled $17 million at December 31, 2002, compared with $16 million a year earlier and $14 million at the end of 2000.

OTHER INCOME

Other income rose 7% to $512 million in 2002 from $477 million in 2001. Higher revenues from providing deposit account and mortgage banking services significantly contributed to the increase from 2001. Other income in 2001 was 47% higher than the $325 million earned in 2000. Approximately 55% of such increase was attributable to the impact of the Keystone and Premier acquisitions. Higher service charges on deposit accounts and mortgage banking revenues were also large contributors to the increase from 2000 to 2001.

Mortgage banking revenues, which consist of gains from sales of

OTHER INCOME – EXCLUDING SECURITIES TRANSACTIONS
In millions



residential mortgage loans and loan servicing rights, residential mortgage loan servicing fees, and other residential mortgage loan-related fees and income, increased 13% to $116 million in 2002 from $103 million in 2001. The higher revenues in 2002 were due to the impact of historically low levels of interest rates that produced a favorable environment for loan origination and refinancing activities by consumers. Mortgage banking revenues in 2001 were 63% higher than $63 million in 2000, also largely due to the impact of lower interest rates. Residential mortgage loans originated for sale to other investors totaled approximately $5.7 billion in 2002, compared with $5.0 billion and $2.4 billion in 2001 and 2000, respectively. 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 $54 million and $50 million in 2002 and 2001, respectively. 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 $15 million (pre-tax) and $8 million (pre-tax) at December 31, 2002 and 2001, respectively. In general, unrealized gains are realized in subsequent periods as the related loans are sold. 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. Realized gains from sales of residential mortgage loans and loan servicing rights totaled $25 million in 2000. Revenues from servicing residential mortgage loans for others were $53 million in 2002, up from $44 million in 2001 and $32 million in 2000. Residential mortgage loans serviced for others totaled $12.6 billion at December 31, 2002, $11.0 billion at December 31, 2001 and $10.9 billion at December 31, 2000. Capitalized servicing assets, net of applicable valuation allowances for possible impairment, were $103 million, $107 million and $101 million at December 31, 2002, 2001 and 2000, respectively. Additional information about the Company's capitalized servicing assets is presented herein under the heading "Other Expense" and in note 7 of Notes to Financial Statements.

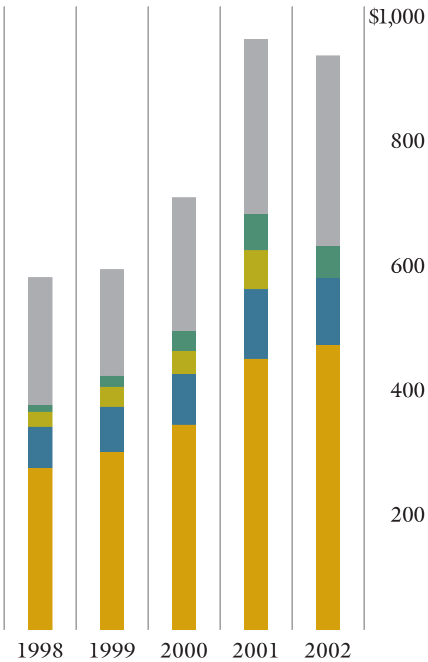
Service charges on deposit accounts grew 16% to $168 million in 2002 from $144 million in 2001. Services charges in 2001 were up 56% from $93 million in 2000. Higher transactional deposit account balances, which generate higher levels of service charges than non-transactional accounts, contributed to the higher service charge income levels in 2002 and 2001. Fees for services provided to customers in areas formerly served by Keystone and Premier also contributed approximately 60% of the increase from 2000 to 2001.

Reflecting general declines in market values of equity securities, trust income declined 7% to $60 million in 2002 from $64 million in 2001. Trust income in 2001 was 43% higher than 2000's $45 million due largely to the impact of the Keystone acquisition. Brokerage services income, which includes revenues from the sale of mutual funds and annuities and securities brokerage fees, totaled $43 million in 2002, an increase of 10% from $39 million in 2001 that resulted from higher revenues from sales of annuity products. Largely the result of the Keystone acquisition, brokerage services income in 2001 was up 20% from the $33 million of such income earned in 2000. Trading account and foreign exchange activity resulted in gains of $3 million in 2002, $4 million in 2001 and $2 million in 2000. The Company sold bank investment securities resulting in losses of $608 thousand in 2002 and $3 million in 2000, compared with gains of $2 million in 2001. Losses 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 totaled $122 million in 2002, compared with $120 million in 2001. The previously discussed $5 million gain on the sale of the 12% portion of the residential real estate loans that were securitized in November 2002 offset, in part, by lower benefits income from bank owned life insurance, contributed to the increase. Other revenues from operations were $92 million in 2000. Approximately two-thirds of the increase from 2000 to 2001 resulted from activities and/or market areas associated with the Keystone and Premier acquisitions. Other items that contributed to the increase in other revenues from operations in 2001 from 2000 include higher letter of credit and other credit-related fees, insurance-related revenues, and automated teller machine ("ATM") usage fees.

Other revenues from operations included $33 million, $35 million and $26 million in 2002, 2001 and 2000, respectively, of tax-exempt income earned from bank owned life insurance, which includes increases in cash surrender value of life insurance policies and

OTHER EXPENSE
In millions



benefits received. Also included were revenues from merchant discount and credit card fees of $13 million in 2002 and 2001 and $9 million in 2000. Letter of credit and other credit-related fees were $26 million, $24 million and $18 million in 2002, 2001 and 2000, respectively. Insurance-related revenues totaled $15 million in 2002, compared with $13 million and $7 million in 2001 and 2000, respectively. The impact of acquisitions was the leading factor contributing to 2001's higher insurance-related revenues as compared with 2000. ATM usage fees totaled $12 million in 2002, compared with $11 million in 2001 and $6 million in 2000. The increase in such usage fees from 2000 to 2001 was also largely the result of the Keystone transaction. Income from leasing activities in 2000 reflected a net gain of $9 million resulting 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

Operating expenses, which exclude merger-related expenses and amortization of goodwill and core deposit and other intangible assets, were $870 million in 2002, 6% higher than $819 million in 2001. A provision for the impairment of capitalized residential mortgage servicing rights of $32 million and higher costs for salaries, including commissions and incentive compensation, largely contributed to the higher level of operating expenses in 2002. Operating expenses in 2001 were up 37% from $599 million in 2000. Expenses related to acquired operations significantly contributed to the higher expense levels in 2001 as compared with 2000. Components of other expense considered to be nonoperating in nature and therefore excluded from the operating expense totals noted above were amortization of core deposit and other intangible assets of $51 million in 2002, $60 million in 2001 and $34 million in 2000; amortization of goodwill of $62 million and $36 million in 2001 and 2000, respectively; and merger-related expenses of $8 million and $26 million in 2001 and 2000, respectively.

Salaries and employee benefits expense was $456 million in 2002, an increase of 5% from $435 million in 2001. The higher level of salaries and benefits expense in 2002 was largely the result of merit salary increases and higher commissions and incentive compensation costs. Also contributing to the rise in 2002's expense were higher pension costs, which rose from $2 million in 2001 to $6 million in 2002. Reflecting poor investment performance in recent years of assets held by the Company's funded pension plans, the Company contributed $19 million to such plans during the fourth quarter of 2002. That was the first pension plan contribution made by the Company since 1995. The Company anticipates that pension expense in 2003 will exceed 2002's expense by approximately $7 million (excluding the Allfirst transaction impact). Information about the Company's pension plans, including significant assumptions utilized in completing actuarial calculations for the plans, is included in note 11 of Notes to Financial Statements. Salaries and employee benefits expense rose 32% in 2001 from $329 million in 2000. 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 increase. The number of full-time equivalent employees was 8,726 at December 31, 2002, compared with 8,803 and 8,219 at December 31, 2001 and 2000, respectively.

Excluding the nonoperating expense items previously noted, nonpersonnel expense totaled $413 million in 2002, 8% higher than $384 million in 2001. Nonpersonnel expense was $272 million in 2000. The most significant factor contributing to the rise in such expenses in 2002 as compared with 2001 was the aforementioned $32 million provision for impairment of capitalized residential mortgage servicing rights. Reflecting the impact on customer refinancings of outstanding mortgage loans that the low interest rate environment is expected to have on residential mortgage prepayment speeds, the Company recognized impairment of certain strata of residential mortgage loan servicing rights in 2002. There was no such provision for the years ended December 31, 2001 or 2000. Higher amortization of residential mortgage servicing rights also contributed to the higher 2002 expense level. 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.

INCOME TAXES

The provision for income taxes was $231 million in 2002, compared with $206 million in 2001 and $160 million in 2000. The effective tax rates were 32.3% in 2002, 35.2% in 2001 and 35.9% in 2000. The lower tax rate in 2002 was the result of the Company ceasing to amortize non-deductible goodwill in connection with the implementation of SFAS No. 142 effective January 1, 2002. 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 12 of Notes to Financial Statements.

INTERNATIONAL ACTIVITIES

The Company's net investment in international assets was $6 million at December 31, 2002 and 2001. Offshore deposits totaled $1.2 billion at December 31, 2002 and $778 million at December 31, 2001.

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

Core deposits have historically been the most significant funding source for the Company and 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 60% of the Company's earning assets at December 31, 2002, compared with 62% and 65% at December 31, 2001 and 2000, 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 $5.1 billion at December 31, 2002. Outstanding borrowings under these credit facilities totaled $4.2 billion and $3.1 billion at December 31, 2002 and 2001, respectively. 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, 2002 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 of credit at either December 31, 2002 or 2001. As an additional source of funding, in November 2002, the Company entered into a $500 million revolving asset-backed structured borrowing which is collateralized by approximately $560 million of automobile loans and related assets. The automobile loans and related assets have been transferred to a special purpose consolidated subsidiary of M&T Bank. As existing automobile loans of the subsidiary pay down, monthly proceeds, after payment of certain fees and debt service costs, are used to purchase additional automobile loans to replenish the collateral and maintain the existing borrowing base. Additional information about this borrowing is included in note 9 of Notes to Financial Statements. M&T Bank also 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 at December 31, 2002 and 2001. In general, these borrowings were unsecured and matured within two 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 or other 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 note 9 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, shareholder

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

In thousands

December 31, 2002	
Under 3 months	$ 938,753
3 to 6 months	948,511
6 to 12 months	391,897
Over 12 months	250,167
Total	$2,529,328

MATURITY DISTRIBUTION OF SELECTED LOANS[a]

In thousands

December 31, 2002	Demand	2003	2004-2007	After 2007
Commercial, financial agricultural, etc.	$2,658,520	736,779	1,328,941	399,176
Real estate – construction	209,679	574,194	199,661	13,069
Total	$2,868,199	1,310,973	1,528,602	412,245
Floating or adjustable interest rates			$ 945,466	274,647
Fixed or predetermined interest rates			583,136	137,598
Total			$1,528,602	412,245

[a] *The data do not include nonaccrual loans.*

MATURITY AND TAXABLE-EQUIVALENT YIELD OF INVESTMENT SECURITIES

Dollars in thousands

December 31, 2002	One year or less	One to five years	Five to ten years	Over ten years	Total
Investment securities available for sale [(a)]					
U.S. Treasury and federal agencies					
Carrying value	$139,967	18,653	22,345	1,998	182,963
Yield	4.43%	4.46%	2.14%	4.95%	4.15%
Obligations of states and political subdivisions					
Carrying value	17,868	60,614	37,348	56,969	172,799
Yield	6.81%	6.46%	6.72%	7.94%	7.02%
Mortgage-backed securities [(b)]					
Government issued or guaranteed					
Carrying value	50,142	218,318	253,035	504,722	1,026,217
Yield	6.10%	5.66%	6.04%	6.36%	6.12%
Privately issued					
Carrying value	449,931	221,774	264,740	710,097	1,646,542
Yield	2.68%	6.05%	6.06%	6.07%	5.14%
Other debt securities					
Carrying value	59,407	70,891	3,610	213,836	347,744
Yield	2.78%	6.57%	3.01%	3.79%	4.14%
Equity securities					
Carrying value	–	–	–	–	222,870
Yield	–	–	–	–	4.87%
Total investment securities available for sale					
Carrying value	717,315	590,250	581,078	1,487,622	3,599,135
Yield	3.37%	5.96%	5.92%	5.88%	5.33%
Investment securities held to maturity					
Obligations of states and political subdivisions					
Carrying value	63,414	8,395	7,901	3,514	83,224
Yield	2.95%	6.64%	7.54%	7.41%	3.95%
Other debt securities					
Carrying value	–	–	–	3,173	3,173
Yield	–	–	–	6.60%	6.60%
Total investment securities held to maturity					
Carrying value	63,414	8,395	7,901	6,687	86,397
Yield	2.95%	6.64%	7.54%	7.02%	4.04%
Other investment securities	–	–	–	–	269,618
Total investment securities					
Carrying value	$780,729	598,645	588,979	1,494,309	3,955,150
Yield	3.33%	5.97%	5.94%	5.89%	4.93%

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

(b) *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.*

dividends and treasury stock repurchases has historically been the receipt of dividends from its banking subsidiaries, which are subject to various 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 two preceding years. For purposes of the test, at December 31, 2002 approximately $407 million was available for payment of dividends to M&T from banking subsidiaries without prior regulatory approval. 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 9 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, 2002. A similar $30 million line of credit that expired during 2002 was entirely available for borrowing at December 31, 2001.

In connection with the pending acquisition of Allfirst, M&T Bank expects to issue up to $500 million of subordinated capital notes. As a result, sufficient liquid assets are expected to be available to fund the cash portion of the consideration to be paid in connection with the acquisition. On an ongoing basis, 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 in the normal course of business. Management does not anticipate engaging in any activities, either currently or in the long-term, for which adequate funding would not be available and would therefore result in 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. Therefore, 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, 2002, the aggregate notional amount of interest rate swap agreements entered into for interest rate risk management purposes was $495 million. Information about interest rate swap agreements entered into for interest rate risk management purposes is included herein under "Net Interest Income/Lending and Funding Activities" and in note 17 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 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 actions, 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 financial instruments used for risk management purposes.

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, 2002	2001
+200 basis points	$12,223	(1,090)
+100 basis points	5,311	(3,960)
−100 basis points	12,507	298
−200 basis points	13,055	2,364

The accompanying table as of December 31, 2002 and 2001 displays the estimated impact on net interest income from non-trading financial instruments resulting from parallel changes in interest rates across repricing categories during the first modeling year.

Many assumptions were utilized by the Company to calculate the impact that changes in interest rates may have on 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 across repricing categories 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 due to the timing, magnitude and frequency of changes in interest rates, market conditions, and interest rate differentials (spreads) between maturity/repricing categories, as well as any actions, such as those previously described, which management may take to counter such changes. In light of the uncertainties and assumptions associated with the process, the amounts presented in the table and changes in such amounts are not considered significant to the Company's past or projected net interest income.

In accordance with industry practice, the table on page 42 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. Financial instruments utilized in trading activities have included 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 swap agreements. The Company generally mitigates the foreign currency and interest rate risk associated with trading activities by entering into offsetting 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, however, as with any non-government guaranteed financial instrument, the Company is exposed to credit risk associated with counter parties to the Company's trading activities.

The notional amounts of interest rate contracts entered into for trading purposes totaled $1.3 billion at December 31, 2002 and $1.4 billion at December 31, 2001. The notional amounts of foreign currency and other option and futures contracts entered into for trading purposes were $290 million and $242 million at December 31, 2002 and 2001, respectively. 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 $52 million and $36 million, respectively, at December 31, 2002 and $39 million and $27 million, respectively, at December 31, 2001.

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. Additional information related to trading derivative contracts is included in notes 17 and 18 of Notes to Financial Statements.

CAPITAL

Stockholders' equity at December 31, 2002 was $3.2 billion or 9.59% of total assets, compared with $2.9 billion or 9.35% at December 31, 2001 and $2.7 billion or 9.33% at December 31, 2000. On a per share basis, stockholders' equity increased 10% to $34.53 at the 2002 year-end from $31.33 at December 31, 2001, and was 19% higher than $28.93 at December 31, 2000. Tangible equity per share, which excludes goodwill and core deposit and other intangible assets and applicable deferred tax balances, was $21.75 at December 31, 2002, up from $18.34 a year earlier and $16.74 at December 31, 2000. The ratio of average total stockholders' equity to average total assets was 9.41%, 9.60% and 8.59% in 2002, 2001 and 2000, respectively.

M&T issued shares of common stock in 2001 and 2000 to complete the acquisitions of Premier and Keystone, 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.

Included in stockholders' equity was accumulated other comprehensive income which reflects the net after-tax impact of unrealized gains or losses on investment securities classified as available for sale and the estimated fair value of interest rate swaps designated as cash flow hedges. Net unrealized gains on available-for-sale investment securities were $55 million, or $.60 per common share, at December 31, 2002 and $23 million, or $.25 per common share, at December 31, 2001. Unrealized losses, also net of tax effect, on similarly classified investment securities were $432 thousand, or less than $.01 per share, at December 31, 2000. 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. Unrealized losses, net of tax effect, on interest rate swaps designated as cash flow hedges were $622 thousand and $298 thousand at December 31, 2002 and 2001, respectively, representing less than $.01 per share at those respective dates.

CONTRACTUAL REPRICING DATA

Dollars in thousands by repricing date

December 31, 2002	Three months or less	Four to twelve months	One to five years	After five years	Total
Loans and leases, net	$10,918,116	2,432,960	7,520,955	4,855,753	25,727,784
Money-market assets	342,992	350	450	–	343,792
Investment securities	1,508,246	332,264	480,544	1,634,096	3,955,150
Total earning assets	12,769,354	2,765,574	8,001,949	6,489,849	30,026,726
NOW accounts	1,029,060	–	–	–	1,029,060
Savings deposits	9,156,678	–	–	–	9,156,678
Time deposits	2,596,119	1,925,294	1,620,432	104,539	6,246,384
Deposits at foreign office	1,160,400	316	–	–	1,160,716
Total interest-bearing deposits	13,942,257	1,925,610	1,620,432	104,539	17,592,838
Short-term borrowings	3,429,414	–	–	–	3,429,414
Long-term borrowings	2,448,090	81,618	387,419	1,580,247	4,497,374
Total interest-bearing liabilities	19,819,761	2,007,228	2,007,851	1,684,786	25,519,626
Interest rate swaps	(145,000)	(40,000)	105,000	80,000	–
Periodic gap	$ (7,195,407)	718,346	6,099,098	4,885,063	
Cumulative gap	(7,195,407)	(6,477,061)	(377,963)	4,507,100	
Cumulative gap as a % of total earning assets	(24.0)%	(21.6)%	(1.3)%	15.0%	

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 2002 on M&T's common stock were $97 million, compared with $96 million and $52 million in 2001 and 2000, respectively. M&T increased its quarterly dividend on common stock in the fourth quarter of 2002 to $.30 per share from $.25 per share. As noted in the preceding paragraph, M&T's quarterly common stock dividend rate was increased to $.25 per share from $.125 per share in the fourth quarter of 2000. Dividends per common share totaled $1.05 in 2002, up from $1.00 in 2001 and $.625 in 2000.

M&T repurchased 3,007,585 shares of its common stock in 2002, 4,396,303 shares in 2001 and 1,313,760 shares in 2000, at a cost of $240 million, $324 million and $55 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, 2002, M&T had repurchased a total of 3,632,098 shares of common stock pursuant to such plan at an average cost of $78.49 per share. M&T discontinued purchases of its common stock during the third quarter of 2002, determining instead that going forward it would use the Company's internal generation of capital to support the acquisition of Allfirst. 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 9 of Notes to Financial Statements. As of December 31, 2002, total capital further included $540 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, 2002 and 2001 are presented in note 21 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 merger-related expenses) less dividends paid expressed as a percentage of regulatory "core capital" at the beginning of each year, was 21.42% in 2002, 20.96% in 2001 and 19.48% in 2000.

FOURTH QUARTER RESULTS

The Company's net income was $126 million during the final quarter of 2002, up 24% from $102 million in the year-earlier quarter. Diluted and basic earnings per share were $1.33 and $1.37, respectively, in 2002's final quarter, compared with $1.05 and $1.08, respectively, in the corresponding 2001 quarter. Expressed as an annualized rate of return on average assets, net income for the fourth quarter of 2002 improved to 1.51% from 1.29% in 2001's last quarter. The annualized rate of return on average common stockholders' equity in the last three months of 2002 was 16.05%, up from 13.70% in the similar quarter of 2001. Cash net income in the fourth quarter of 2002 increased 5% to $133 million from $126 million earned in 2001's final quarter. Diluted cash earnings per share rose 8% to $1.40 in 2002's fourth quarter from $1.30 in the year-earlier quarter. The annualized cash returns on average tangible assets and average tangible common equity were 1.65% and 27.38%, respectively, in the recent quarter, compared with 1.67% and 29.43%, respectively, in the comparable 2001 quarter. There were no significant merger-related expenses incurred during the fourth quarters of 2002 or 2001.

As previously noted, in accordance with SFAS No. 142, effective January 1, 2002 the Company ceased amortization of goodwill associated with corporate acquisitions. Amortization of such goodwill during the fourth quarter of 2001, none of which was tax deductible, was $16 million ($.16 per diluted share). Amortization expense related to core deposit and other intangible assets was $7 million (after-tax), or $.07 per diluted share, during the fourth quarter of 2002, compared with $9 million (after-tax), or $.09 per diluted share, during the year-earlier quarter. Pro forma net income, diluted earnings per share and basic earnings per share for last year's fourth quarter, computed as if SFAS No. 142 had been in effect during 2001, were $117 million, $1.21 and $1.24, respectively. Pro forma annualized returns on average assets and average common stockholders' equity for the final quarter of 2001 were 1.49% and 15.79%, respectively, after excluding the impact of goodwill amortization.

Taxable-equivalent net interest income increased to $325 million in the fourth quarter of 2002, up 5% from $309 million in the similar quarter of 2001. A 7% increase in average earning assets offset, in part, by a narrowing of the Company's net interest margin, resulted in the improvement in net interest income. Average earning assets were $30.1 billion and $28.2 billion in the final quarter of 2002 and 2001, respectively. Average loans and leases for the recently completed quarter totaled $25.9 billion, an increase of 3% from $25.0 billion during the year-earlier quarter. Damping the year-over-year fourth quarter loan growth was the November 2002 securitization of $1.1 billion of residential real estate loans already discussed. The yield on earning assets was 6.08% in the final three months of 2002, down 89 basis points from 6.97% in the comparable 2001 period. The rate paid on interest-bearing liabilities was 2.09% in the fourth quarter of 2002, down 94 basis points from 3.03% in the comparable period of 2001. The resulting net interest spread was 3.99% in the fourth quarter of 2002, compared with 3.94% in the corresponding 2001 period. A decrease in the imputed contribution of interest-free funds in the final 2002 quarter more than offset the improved net interest spread. As a result, the Company's net interest margin declined to 4.28% in the fourth quarter of 2002 from 4.34% in the year-earlier quarter.

The provision for credit losses was $33 million in the final quarter of both 2002 and 2001. Net charge-offs increased to $31 million in the recent quarter from $21 million in the fourth quarter of 2001. Net charge-offs as an annualized percentage of average loans and leases were .48% in the final 2002 quarter, compared with .33% in the corresponding 2001 period.

Other income increased 8% to $138 million in the final quarter of 2002 from $128 million in the year-earlier period. The major factors contributing to the higher level of income were increased mortgage banking revenues, which rose 28% from the prior year's corresponding quarter, and higher service charges on deposit accounts, which were up 15% from the last three months of 2001. As previously noted, a favorable environment for loan origination and refinancing activities by consumers, including the lowest residential mortgage interest rates in over 40 years, led to the higher mortgage banking revenues.

Operating expenses, which as previously discussed exclude merger-related expenses and the amortization of goodwill and core deposit and other intangible assets, rose $14 million or 7% to $229 million in the fourth quarter of 2002 from $215 million in the year-earlier period. A $13 million provision for the impairment of capitalized residential mortgage servicing rights in 2002's final quarter and higher salary costs relating to incentive compensation arrangements and merit salary increases were the predominant contributors to the higher level of operating expenses in the 2002 period.

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 20 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 GAAP. As a result, reported segments and the financial information of the reported 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 20 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 contributed $103 million to the Company's earnings in 2002, down from $109 million in 2001. The decline in net income from 2001 was attributable to a $14 million decrease in net interest income, due to a 26 basis point narrowing of the net interest margin, partially offset by a $4 million increase in deposit service charges. Earnings for this segment totaled $96 million in 2000. The rise in earnings in 2001 as compared with 2000 reflects a $42 million, or 22%, 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 $23 million increase in the provision for credit losses, resulting from higher net charge-offs.

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/multifamily buildings; office, retail and industrial space; or other types of collateral. Net income for the Commercial Real Estate segment was $93 million in 2002, up 7% from $87 million in 2001. The increase was due largely to an $11 million increase in net interest income, the result of a 12 basis point widening of the net interest margin on loans and a 5% increase in average loan balances outstanding. Net income for this segment was $74 million in 2000. Higher net interest income of $25 million, led by a 18% increase in average loan balances outstanding, was the major factor for the rise in net income from 2000 to 2001. Approximately one-quarter of the increase in net interest income was attributable to operations in market areas associated with the Keystone acquisition.

The Discretionary Portfolio segment includes investment and trading 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 contributed by the Discretionary Portfolio segment totaled $65 million in 2002, up 21% from $54 million in 2001. The higher net income in 2002 was predominately the result of an $18 million increase in net interest income, largely the result of a 34 basis point rise in the net interest margin on investment securities. Net income for the Discretionary Portfolio was $34 million in 2000. The increase from 2000 to 2001 was due, in part, to a $9 million rise 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 4 basis point increase in 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. In addition to the geographic regions served by or contiguous with the Company's branch network, the Company maintains mortgage loan origination offices in several states in the western United States. The Company also periodically purchases the rights to service residential mortgage loans. Residential mortgage loans held for sale are included in this segment. The Residential Mortgage Banking segment's net income for 2002 was $39 million, down 12% from $44 million in 2001. The decrease from the previous year was attributable to a $29 million increase in the provision for impairment of capitalized residential mortgage loan servicing rights and a $19 million increase in salaries, commissions and other operating expenses, offset in large part by a $27 million increase in net interest income, the result of a higher loan net interest margin and higher balances outstanding; increased loan servicing revenues of $7 million, largely the result of purchased servicing rights; and a $6 million increase in revenues from loan origination and sales activities, including gains from sales of loans to the Company's Discretionary Portfolio segment. In 2000, this segment's net income was $6 million. The higher level of earnings in 2001 when compared with 2000 was largely due to the impact of lower interest rates. Higher loan origination volume in 2001 contributed to a $48 million increase in revenues from loan origination and sales activities, including sales to the Discretionary Portfolio segment of the Company. 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 from 2000 to 2001. Net interest income in 2001 was $33 million higher than in 2000, predominately the result of an increase in loan balances outstanding. Reflecting the year's higher revenues, 2001's operating expenses increased by $36 million, or 34%, from 2000.

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 (originated 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 $163 million in 2002, down 19% from $201 million in 2001. A $44 million reduction in net interest income was a significant contributor to the decline in net income. The reduced net interest income reflects an $82 million decline that resulted from a lower deposit net interest margin of 42 basis points that was largely attributable to the impact of the year's low interest rate environment and a 6% decline in retail deposit balances. Partially offsetting this decline was higher loan net interest income of $38 million, primarily the result of a 14% increase in average loan balances outstanding. Also contributing to the lower earnings was a $15 million increase in the provision for credit losses and increased operating expenses of $22 million, offset, in part, by an $18 million increase in service charges on deposit accounts. Net income for this segment in 2000 was $164 million. Higher net interest income and service charges on deposit accounts 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 during 2001 were largely the result of the Keystone and Premier acquisitions.

The "All Other" category consists largely of other activities of the Company that are not directly attributable to the reported segments as determined in accordance with SFAS No. 131. Included in this category are the amortization of goodwill (prior to 2002) and core deposit and other intangible assets, merger-related expenses resulting from acquisitions, and the net impact of the Company's allocation methodologies for internal funds transfer pricing and the provision for credit losses. This category also includes the previously described charge-off of $17 million during the third quarter of 2002 related to two commercial leases to a major airline company that filed for bankruptcy protection. The various components comprising the "All Other" category resulted in net income of $22 million in 2002, compared with net losses of $117 million and $88 million in 2001 and 2000, respectively. The improvement from 2001 was due to the Company's allocation methodologies for internal funds transfer pricing, combined with the cessation of amortization of goodwill resulting from the January 1, 2002 adoption of SFAS No. 142, offset, in part, by the commercial lease charge-off. The decrease in net contribution in 2001 from 2000 was largely due to increases in the amortization of goodwill and core deposit intangible and other expenses relating to the Keystone and Premier acquisitions, and the effects of the Company's allocation methodologies.

RECENT ACCOUNTING DEVELOPMENTS

In June 2001, the Financial Accounting Standards Board ("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, 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. The provisions of SFAS No. 143 are not expected to have a material impact on the Company's consolidated financial statements.

In June 2002, the FASB issued SFAS No. 145, "Recission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 addresses a number of different issues and is effective at various dates in 2002 and 2003, with earlier application encouraged. None of the provisions of SFAS No. 145 had or are expected to have a material impact on the Company's consolidated financial statements.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. SFAS No. 142 does not apply to costs associated with an exit activity that involves an entity newly acquired in a business combination. The Company believes that adopting SFAS No. 146 will not have a material impact on the Company's consolidated financial position, but that adoption could affect the timing of when certain costs associated with exit or disposal activities are recognized.

In October 2002, the FASB issued SFAS No. 147, "Acquisitions of Certain Financial Institutions." SFAS No. 147 amends SFAS No. 72, SFAS No. 144 and FASB Interpretation No. 9, and clarifies that acquisitions of all or part of financial institutions, including branch acquisitions that meet the definition of a business combination, should be accounted for in accordance with SFAS No. 141, "Business Combinations" and SFAS No. 142. SFAS No. 147 requires that if an acquisition is not a business combination because the transferred net assets and activities do not constitute a business, that transaction shall be accounted for as an acquisition of net assets that does not result in the recognition of non-amortizing goodwill, in accordance with paragraphs 4-8 of SFAS No. 141. The provisions of SFAS No. 147 relating to the application of the purchase method of accounting are effective for acquisitions for which the date of acquisition is on or after October 1, 2002. The provisions related to accounting for the impairment or disposal of certain long-term customer relationship intangible assets were effective on October 1, 2002. Transition provisions for previously recognized unidentifiable intangible assets were effective on October 1, 2002, with earlier application permitted. The adoption of SFAS No. 147 did not have a material impact on the Company's consolidated financial statements.

FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," was issued in November 2002. FASB Interpretation No. 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of FASB Interpretation No. 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company has complied with the required disclosure requirements in its 2002 annual financial statements. The Company adopted the recognition and measurement provisions of FASB Interpretation No. 45 effective January 1, 2003. Such adoption is not expected to have a material impact on the Company's consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – An Amendment of FASB Statement No. 123." SFAS No. 148 provides alternative methods of transition for voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

If an entity elects to adopt the recognition provisions of SFAS No. 148 for stock-based compensation in a fiscal year beginning before December 16, 2003, that change in accounting principle must be reported using any one of three methods, as follows:

1. Prospective method. The recognition provisions must be applied to all employee awards granted, modified or settled after the beginning of the fiscal year in which the recognition provisions are first applied.
2. Modified prospective method. Stock-based employee compensation cost must be recognized from the beginning of the fiscal year in which the recognition provisions are first applied as if the fair value based accounting method specified in SFAS No. 123 had been used to account for all employee awards granted, modified or settled in fiscal years beginning after December 15, 1994.
3. Retroactive restatement method. All periods presented must be restated to reflect stock-based employee compensation cost under the fair value based accounting method specified in SFAS No. 123 for all employee awards granted, modified or settled in fiscal years beginning after December 15, 1994. Restatement of periods prior to those presented is permitted but not required.

The amendments to SFAS No. 123 as provided in SFAS No. 148 are effective for financial statements for fiscal years ending after December 15, 2002, while the interim reporting requirements are effective for financial reports containing condensed financial statements for interim periods beginning after December 15, 2002. The Company adopted the recognition provisions of SFAS No. 123, as amended by SFAS No. 148, effective January 1, 2003 using the retroactive restatement method. Information regarding the impact of such adoption on the Company's consolidated financial statements is included in note 1 of Notes to Financial Statements.

FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," was issued in January 2003. FASB Interpretation No. 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FASB Interpretation No. 46 requires an enterprise to consolidate a variable interest entity if that enterprise has a variable interest (or combination of variable interests) that will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's expected returns if they occur, or both. It also requires that both the primary beneficiary and all other enterprises with a significant variable interest in a variable interest entity make certain disclosures. FASB Interpretation No. 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company has provided the required transition disclosures with respect to its involvement with variable interest entities in notes 4, 9, and 19 of Notes to Financial Statements. The Company does not expect to change its accounting for its existing interests in variable interest entities upon adoption of the consolidation provisions of FASB Interpretation No. 46.

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; common shares outstanding; common stock price volatility; fair value of and number of stock options to be issued in future periods; legislation affecting the financial services industry as a whole, and/or M&T and its subsidiaries individually or collectively; 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.

Quarterly Trends

	2002 Quarters				2001 Quarters			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Earnings and dividends								
Amounts in thousands, except per share								
Interest income (taxable-equivalent basis)	$461,515	464,801	465,046	464,786	495,783	526,226	544,424	552,965
Interest expense	136,358	146,080	151,949	160,127	186,849	227,674	252,477	276,597
Net interest income	325,157	318,721	313,097	304,659	308,934	298,552	291,947	276,368
Less: provision for credit losses	33,000	37,000	28,000	24,000	33,000	28,000	24,000	18,500
Other income	138,178	128,346	121,179	124,228	127,696	120,167	117,836	111,727
Less: other expense	240,757	233,826	223,216	223,233	244,311	236,194	233,012	234,801
Income before income taxes	189,578	176,241	183,060	181,654	159,319	154,525	152,771	134,794
Applicable income taxes	60,460	55,496	57,945	57,491	53,515	52,401	53,164	46,741
Taxable-equivalent adjustment	3,299	3,530	3,621	3,599	4,070	4,257	4,799	4,387
Net income	$125,819	117,215	121,494	120,564	101,734	97,867	94,808	83,666
Per common share data								
Basic earnings	$ 1.37	1.27	1.31	1.29	1.08	1.02	.98	.88
Diluted earnings	1.33	1.23	1.26	1.25	1.05	.98	.94	.85
Cash dividends	$ .30	.25	.25	.25	.25	.25	.25	.25
Average common shares outstanding								
Basic	92,060	92,017	92,608	93,265	94,269	96,115	97,125	95,427
Diluted	94,953	95,036	96,188	96,494	97,179	99,597	100,722	98,605
Performance ratios, *annualized*								
Return on								
Average assets	1.51%	1.46%	1.56%	1.56%	1.29%	1.25%	1.23%	1.14%
Average common stockholders' equity	16.05%	15.47%	16.49%	16.63%	13.70%	12.93%	12.61%	11.84%
Net interest margin on average earning assets (taxable-equivalent basis)	4.28%	4.38%	4.43%	4.37%	4.34%	4.22%	4.18%	4.16%
Nonperforming loans to total loans and leases, net of unearned discount	.84%	.86%	.66%	.73%	.76%	.79%	.65%	.67%
Efficiency ratio[a]	51.97%	52.23%	51.38%	52.07%	55.95%	56.44%	57.08%	58.45%
Cash (tangible) operating results[b]								
Net income (in thousands)	$133,028	125,171	130,027	129,357	126,451	123,523	119,899	112,391
Diluted net income per common share	1.40	1.32	1.35	1.34	1.30	1.24	1.19	1.14
Annualized return on								
Average tangible assets	1.65%	1.62%	1.73%	1.75%	1.67%	1.64%	1.62%	1.59%
Average tangible common stockholders' equity	27.38%	27.34%	29.69%	30.38%	29.43%	28.39%	27.99%	27.93%
Efficiency ratio[a]	49.42%	49.32%	48.35%	48.91%	49.16%	49.03%	49.45%	50.77%
Balance sheet data								
Dollars in millions, except per share								
Average balances								
Total assets	$ 33,148	31,885	31,327	31,270	31,276	31,119	31,017	29,878
Earning assets	30,118	28,891	28,375	28,281	28,224	28,099	27,993	26,937
Investment securities	3,745	2,942	2,888	2,910	3,029	3,234	3,502	3,470
Loans and leases, net of unearned discount	25,864	25,828	25,214	25,109	25,016	24,831	24,460	23,392
Deposits	21,508	20,991	21,210	21,272	20,897	20,420	20,590	20,734
Stockholders' equity	3,109	3,007	2,956	2,940	2,947	3,003	3,015	2,866
At end of quarter								
Total assets	$ 33,175	34,148	31,686	31,296	31,450	31,139	31,202	30,925
Earning assets	30,027	30,749	28,627	28,337	28,270	28,118	28,200	27,895
Investment securities	3,955	4,181	2,961	2,861	3,024	3,153	3,377	3,705
Loans and leases, net of unearned discount	25,728	26,309	25,604	25,138	25,188	24,946	24,774	24,168
Deposits	21,665	22,540	21,858	21,624	21,580	20,522	20,041	20,978
Stockholders' equity	3,182	3,059	2,977	2,947	2,939	2,956	2,987	2,992
Equity per common share	34.53	33.25	32.29	31.67	31.33	31.19	31.00	30.84
Tangible equity per common share	21.75	20.36	19.34	18.68	18.34	17.85	17.68	17.33
Market price per common share								
High	$ 85.08	86.50	90.05	82.24	74.50	82.11	79.00	69.99
Low	67.70	70.09	79.80	71.19	65.08	63.70	66.55	59.80
Closing	79.35	78.81	85.76	80.37	72.85	74.00	75.50	69.90

[a] *Excludes impact of merger-related expenses and net securities transactions.*

[b] *Excludes amortization and balances related to goodwill and core deposit and other intangible assets and merger-related expenses which, except in the calculation of the efficiency ratio, are net of applicable income tax effects. A reconciliation of cash (tangible) operating results with net income is included on page 23.*

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.

Robert G. Wilmers

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

Michael P. Pinto
Executive Vice President and
Chief Financial Officer

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 (the "Company") as of December 31, 2002 and 2001, 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, 2002. 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, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8 to the financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," as of January 1, 2002, which changed its method of accounting for goodwill and other intangible assets.

PricewaterhouseCoopers LLP

Buffalo, New York
January 10, 2003

Consolidated Balance Sheet

Dollars in thousands, except per share		December 31 2002	2001
Assets	Cash and due from banks	$ 963,772	965,664
	Money-market assets		
	Interest-bearing deposits at banks	7,856	4,341
	Federal funds sold and agreements to resell securities	320,359	41,086
	Trading account	51,628	38,929
	Total money-market assets	379,843	84,356
	Investment securities		
	Available for sale (cost: $3,508,300 in 2002; $2,627,509 in 2001)	3,599,135	2,663,184
	Held to maturity (market value: $87,893 in 2002; $122,107 in 2001)	86,397	121,508
	Other (market value: $269,618 in 2002; $239,445 in 2001)	269,618	239,445
	Total investment securities	3,955,150	3,024,137
	Loans and leases	25,936,942	25,395,468
	Unearned discount	(209,158)	(207,708)
	Allowance for credit losses	(436,472)	(425,008)
	Loans and leases, net	25,291,312	24,762,752
	Premises and equipment	238,986	261,877
	Goodwill	1,097,553	1,097,553
	Core deposit and other intangible assets	118,790	170,273
	Accrued interest and other assets	1,129,119	1,083,584
	Total assets	$33,174,525	31,450,196
Liabilities	Noninterest-bearing deposits	$ 4,072,085	3,704,004
	NOW accounts	1,029,060	930,400
	Savings deposits	9,156,678	7,980,065
	Time deposits	6,246,384	8,188,036
	Deposits at foreign office	1,160,716	777,895
	Total deposits	21,664,923	21,580,400
	Federal funds purchased and agreements to repurchase securities	2,067,834	2,133,558
	Other short-term borrowings	1,361,580	912,272
	Accrued interest and other liabilities	400,991	422,746
	Long-term borrowings	4,497,374	3,461,769
	Total liabilities	29,992,702	28,510,745
Stockholders' equity	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	48,570	48,570
	Common stock issuable, 126,670 shares in 2002; 130,428 shares in 2001	6,190	6,162
	Additional paid-in capital	1,058,389	1,096,340
	Retained earnings	2,405,801	2,017,700
	Accumulated other comprehensive income, net	54,772	22,819
	Treasury stock – common, at cost – 5,110,736 shares in 2002; 3,455,373 shares in 2001	(391,899)	(252,140)
	Total stockholders' equity	3,181,823	2,939,451
	Total liabilities and stockholders' equity	$33,174,525	31,450,196

See accompanying notes to financial statements.

Consolidated Statement of Income

In thousands, except per share		Year ended December 31 2002	2001	2000
Interest income	Loans and leases, including fees	$1,670,412	1,892,507	1,579,701
	Money-market assets			
	Deposits at banks	76	116	308
	Federal funds sold and agreements to resell securities	4,455	2,027	12,891
	Trading account	202	348	1,009
	Investment securities			
	Fully taxable	148,221	182,767	165,811
	Exempt from federal taxes	18,733	24,120	13,064
	Total interest income	1,842,099	2,101,885	1,772,784
Interest expense	NOW accounts	3,900	8,548	7,487
	Savings deposits	107,281	134,454	132,225
	Time deposits	237,001	453,940	445,666
	Deposits at foreign office	8,460	11,264	14,915
	Short-term borrowings	52,723	124,810	172,466
	Long-term borrowings	185,149	210,581	145,838
	Total interest expense	594,514	943,597	918,597
	Net interest income	1,247,585	1,158,288	854,187
	Provision for credit losses	122,000	103,500	38,000
	Net interest income after provision for credit losses	1,125,585	1,054,788	816,187
Other income	Mortgage banking revenues	116,408	102,699	63,168
	Service charges on deposit accounts	167,531	144,302	92,544
	Trust income	60,030	64,395	45,165
	Brokerage services income	43,261	39,349	32,795
	Trading account and foreign exchange gains	2,860	4,462	2,351
	Gain (loss) on sales of bank investment securities	(608)	1,873	(3,078)
	Other revenues from operations	122,449	120,346	91,727
	Total other income	511,931	477,426	324,672
Other expense	Salaries and employee benefits	456,411	434,937	329,209
	Equipment and net occupancy	107,822	111,403	80,960
	Printing, postage and supplies	25,378	25,512	20,138
	Amortization of goodwill	–	61,820	35,760
	Amortization of core deposit and other intangible assets	51,484	59,816	33,816
	Other costs of operations	279,937	254,830	194,570
	Total other expense	921,032	948,318	694,453
	Income before income taxes	716,484	583,896	446,406
	Income taxes	231,392	205,821	160,250
	Net income	$ 485,092	378,075	286,156
	Net income per common share			
	Basic	$ 5.25	3.95	3.55
	Diluted	5.07	3.82	3.44

See accompanying notes to financial statements.

Consolidated Statement of Cash Flows

In thousands		Year ended December 31 2002	2001	2000
Cash flows from operating activities	Net income	$ 485,092	378,075	286,156
	Adjustments to reconcile net income to net cash provided by operating activities			
	Provision for credit losses	122,000	103,500	38,000
	Depreciation and amortization of premises and equipment	38,497	40,604	30,164
	Amortization of capitalized servicing rights	39,806	31,704	24,392
	Amortization of goodwill	–	61,820	35,760
	Amortization of core deposit and other intangible assets	51,484	59,816	33,816
	Provision for deferred income taxes	(25,465)	(21,625)	(5,911)
	Asset write-downs	1,235	1,224	1,674
	Net gain on sales of assets	(7,514)	(2,669)	(6,631)
	Net change in accrued interest receivable, payable	(33,470)	(18,535)	25,540
	Net change in other accrued income and expense	(7,243)	(14,453)	(27,901)
	Net change in loans held for sale	(22,279)	(468,237)	(81,549)
	Net change in trading account assets and liabilities	(3,723)	3,078	(6,868)
	Net cash provided by operating activities	638,420	154,302	346,642
Cash flows from investing activities	Proceeds from sales of investment securities			
	Available for sale	47,525	380,507	706,262
	Other	55,546	–	65,553
	Proceeds from maturities of investment securities			
	Available for sale	2,117,278	889,858	429,304
	Held to maturity	115,038	67,420	68,821
	Purchases of investment securities			
	Available for sale	(2,073,617)	(440,932)	(313,760)
	Held to maturity	(80,072)	(87,563)	(55,507)
	Other	(85,719)	(36,190)	(89,154)
	Additions to capitalized servicing rights	(68,187)	(37,969)	(33,694)
	Net increase in loans and leases	(1,595,888)	(1,068,942)	(1,467,187)
	Capital expenditures, net	(16,835)	(23,738)	(18,784)
	Acquisitions, net of cash acquired:			
	Banks and bank holding companies	(2,650)	(61,741)	174,215
	Other companies	–	–	(4,303)
	Purchases of bank owned life insurance	–	–	(35,000)
	Other, net	4,367	(25,799)	13,183
	Net cash used by investing activities	(1,583,214)	(445,089)	(560,051)
Cash flows from financing activities	Net increase (decrease) in deposits	88,109	(36,862)	(321,735)
	Net increase (decrease) in short-term borrowings	383,591	937,713	(830,214)
	Proceeds from long-term borrowings	1,401,197	475,451	1,000,896
	Payments on long-term borrowings	(370,682)	(458,614)	(32,224)
	Purchases of treasury stock	(240,314)	(323,744)	(54,947)
	Dividends paid – common	(96,858)	(95,872)	(51,987)
	Other, net	57,132	31,945	34,830
	Net cash provided (used) by financing activities	1,222,175	530,017	(255,381)
	Net increase (decrease) in cash and cash equivalents	277,381	239,230	(468,790)
	Cash and cash equivalents at beginning of year	1,006,750	767,520	1,236,310
	Cash and cash equivalents at end of year	$ 1,284,131	1,006,750	767,520
Supplemental disclosure of cash flow information	Interest received during the year	$ 1,850,213	2,144,338	1,751,074
	Interest paid during the year	635,898	1,008,146	870,482
	Income taxes paid during the year	250,332	189,562	147,009
Supplemental schedule of noncash investing and financing activities	Real estate acquired in settlement of loans	$ 17,038	18,415	11,880
	Acquisition of banks and bank holding companies			
	Common stock issued	–	169,270	659,862
	Fair value of			
	Assets acquired (noncash)	–	1,674,360	6,904,954
	Liabilities assumed	–	1,461,449	6,376,489
	Stock options	–	6,646	8,586
	Securitization of residential mortgage loans allocated to:			
	Available for sale investment securities	977,387	–	1,018,216
	Capitalized servicing rights	7,212	–	14,282

See accompanying notes to financial statements.

Consolidated Statement of Changes in Stockholders' Equity

In thousands, except per share	Preferred stock	Common stock	Common stock issuable	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income, net	Treasury stock	Total
2000								
Balance – January 1, 2000	$ –	40,508	3,937	458,729	1,501,530	(26,047)	(181,611)	1,797,046
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
								311,771
Purchases of treasury stock	–	–	–	–	–	–	(54,947)	(54,947)
Acquisition of Keystone Financial, Inc.:								
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
2001								
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)
								401,326
Purchases of treasury stock	–	–	–	–	–	–	(323,744)	(323,744)
Acquisition of Premier National Bancorp, Inc.:								
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
2002								
Comprehensive income:								
Net income	–	–	–	–	485,092	–	–	485,092
Other comprehensive income, net of tax:								
Unrealized gains on investment securities, net of reclassification adjustment	–	–	–	–	–	32,277	–	32,277
Unrealized losses on cash flow hedge, net of reclassification adjustment	–	–	–	–	–	(324)	–	(324)
								517,045
Purchases of treasury stock	–	–	–	–	–	–	(240,314)	(240,314)
Stock-based compensation plans:								
Exercise of stock options	–	–	–	(37,687)	–	–	98,854	61,167
Directors' stock plan	–	–	–	35	–	–	994	1,029
Deferred compensation plans, net, including dividend equivalents	–	–	28	(299)	(133)	–	707	303
Common stock cash dividends – $1.05 per share	–	–	–	–	(96,858)	–	–	(96,858)
Balance – December 31, 2002	$ –	48,570	6,190	1,058,389	2,405,801	54,772	(391,899)	3,181,823

See accompanying 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 22 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, the level of delinquent loans 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.

Sales and securitizations of financial assets

Transfers of financial assets for which the Company has surrendered control of the financial assets are accounted for as sales to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. Retained interests 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 any retained interests based on their relative estimated fair values. The fair values of retained debt securities are generally determined through reference to independent pricing information. The fair values of retained servicing rights and any other retained interests are determined based on the present value of expected future cash flows associated with those interests and by reference to market prices for similar assets.

Capitalized servicing rights

Servicing assets purchased or servicing liabilities assumed that are not recognized in connection with the sale or securitization of financial assets 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 and other intangible assets

Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 revised the accounting for purchased intangible assets and, in general, requires that goodwill no longer 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. Other acquired intangible assets with finite lives, such as core deposit intangibles, are required to be amortized over their estimated lives. Prior to January 1, 2002, substantially all of the Company's goodwill was amortized using the straight line method over twenty years. Core deposit and other intangible assets are amortized using accelerated methods over estimated useful lives of five to ten years. The Company periodically assesses whether events or changes in circumstances indicate that the carrying amounts of goodwill and core deposit and other intangible assets may be impaired.

Derivative financial instruments

Effective January 1, 2001, the Company adopted SFAS No. 133, 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 values of the interest rate swap agreements and changes in the fair values 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 values of interest rate swap agreements 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 unrealized 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 unrealized 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 agreement 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 agreement 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 are generally 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

Through December 31, 2002, the Company applied the intrinsic value method prescribed by Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for stock-based compensation awards to employees. Accordingly, no compensation expense was recognized for stock option awards to employees under the Company's stock option plans since the exercise price of stock options granted was equal to the market price of the underlying stock at date of grant. Compensation expense for stock appreciation rights issued separately from stock options was recognized based upon changes in the quoted market value of M&T's common stock. Compensation expense was not recognized for stock purchase plan rights as such rights were considered to be noncompensatory under APB No. 25.

The pro forma effects of stock-based compensation plans are based on the estimated grant date fair value of stock options and stock purchase plan rights that are expected to vest calculated pursuant to the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." Pro forma compensation expense, net of applicable income tax effect, is recognized over the vesting period. Information on the determination of the estimated value of stock options and stock purchase plan rights used to calculate pro forma compensation expense is included in note 10. Had compensation expense for stock option awards and stock purchase plan rights been determined consistent with SFAS No. 123, as amended, net income and earnings per share would be reduced to the pro forma amounts indicated as follows:

	Year ended December 31		
In thousands, except per share	2002	2001	2000
Net income:			
As reported	$485,092	378,075	286,156
Stock-based employee compensation expense determined under the fair value based method, net of applicable tax effects	(28,323)	(24,987)	(17,962)
Pro forma	$456,769	353,088	268,194
Basic earnings per share:			
As reported	$5.25	3.95	3.55
Pro forma	4.94	3.69	3.33
Diluted earnings per share:			
As reported	$5.07	3.82	3.44
Pro forma	4.78	3.58	3.24

The pro forma effects are presented in accordance with the requirements of SFAS No. 123, as amended, 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.

Effective January 1, 2003, the Company adopted the recognition provisions of SFAS No. 123, as amended. The Company elected the retroactive restatement transition method. The Company expects that stock-based employee compensation determined under the fair value method, net of applicable tax effects, will be approximately $33 million in 2003.

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 September 26, 2002, M&T entered into a definitive agreement with Allied Irish Banks, p.l.c. ("AIB"), Dublin, Ireland, to acquire Allfirst Financial Inc. ("Allfirst"), a wholly owned bank holding company subsidiary of AIB headquartered in Baltimore, Maryland, and to merge it into M&T. Upon completion of the merger, Allfirst Bank, Allfirst's primary banking subsidiary, will be merged into Manufacturers and Traders Trust Company ("M&T Bank"), M&T's principal banking subsidiary. Allfirst Bank operates 258 banking offices in Maryland, Pennsylvania, Washington D.C., Virginia and Delaware. At December 31, 2002, Allfirst had $17.0 billion of assets, including $10.4 billion of loans and leases and $2.6 billion of investment securities, and $15.3 billion of liabilities, including $11.3 billion of deposits. The merger was approved by the stockholders of both M&T and AIB in December 2002 and, assuming approval by various regulatory agencies, is expected to be completed shortly after the end of the first quarter of 2003. Under the terms of the agreement between AIB and M&T, AIB will receive 26.7 million shares of M&T common stock (representing approximately 22.5% of M&T's post-merger outstanding common shares) and $886 million in cash in exchange for all outstanding Allfirst common shares. Merger-related expenses associated with the pending Allfirst acquisition incurred during the year ended December 31, 2002 were not significant.

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 M&T Bank. 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 was 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. 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.

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. 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.

The Company incurred merger expenses related to systems conversions and other costs of integrating and conforming acquired operations with and into the Company of approximately $8 million ($5 million net of applicable income taxes) during 2001 and approximately $26 million ($16 million net of applicable income taxes) during 2000. There were no significant similar expenses in 2002. Merger-related expenses are included in the consolidated statement of income for the years ended December 31, 2001 and 2000 as follows:

In thousands	2001	2000
Salaries and employee benefits	$ 275	2,117
Equipment and net occupancy	309	820
Printing, postage and supplies	438	2,062
Other costs of operations	6,985	20,953
	$8,007	25,952

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.

3. Investment securities

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

In thousands	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
December 31, 2002				
Investment securities available for sale:				
U.S. Treasury and federal agencies	$ 178,522	4,441	–	182,963
Obligations of states and political subdivisions	160,399	12,430	30	172,799
Mortgage-backed securities				
Government issued or guaranteed	981,143	45,128	54	1,026,217
Privately issued	1,606,737	41,467	1,662	1,646,542
Other debt securities	350,217	13,418	15,891	347,744
Equity securities	231,282	2,119	10,531	222,870
	3,508,300	119,003	28,168	3,599,135
Investment securities held to maturity:				
Obligations of states and political subdivisions	83,224	1,496	–	84,720
Other debt securities	3,173	–	–	3,173
	86,397	1,496	–	87,893
Other securities	269,618	–	–	269,618
Total	$3,864,315	120,499	28,168	3,956,646

In thousands	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
(continued)				
December 31, 2001				
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

No investment in securities of a single non-U.S. Government or government agency issuer exceeded ten percent of stockholders' equity at December 31, 2002.

As of December 31, 2002, the latest available investment ratings of all privately issued mortgage-backed securities were A or better, with the exception of four securities with an aggregate amortized cost and estimated fair value of $33,940,000 and $33,616,000, respectively.

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

In thousands	December 31 2002	2001
Amortized cost	$1,830,371	525,664
Estimated fair value	1,873,079	533,731

Gross realized gains on the sale of investment securities were $245,000 in 2002, $4,097,000 in 2001 and $6,281,000 in 2000. Gross realized losses on the sale of investment securities were $853,000 in 2002, $2,224,000 in 2001 and $9,359,000 in 2000.

At December 31, 2002, the amortized cost and estimated fair value of debt securities by contractual maturity were as follows:

In thousands	Amortized cost	Estimated fair value
Debt securities available for sale:		
Due in one year or less	$ 214,051	217,242
Due after one year through five years	142,006	150,158
Due after five years through ten years	60,358	63,303
Due after ten years	272,723	272,803
	689,138	703,506
(continued)		
Mortgage-backed securities available for sale	2,587,880	2,672,759
	$3,277,018	3,376,265
Debt securities held to maturity:		
Due in one year or less	$ 63,414	63,543
Due after one year through five years	8,395	8,907
Due after five years through ten years	7,901	8,526
Due after ten years	6,687	6,917
	$ 86,397	87,893

At December 31, 2002, investment securities with a carrying value of $2,913,156,000, including $2,647,280,000 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 $29,545,000 at December 31, 2002. The pledged securities are included in government issued or guaranteed mortgage-backed securities available for sale.

At December 31, 2002, collateral accepted by the Company, which by contract or custom can be sold or repledged, consisted of investment securities with a fair value of $301,880,000 purchased under agreements to resell.

4. Loans and leases

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

In thousands	December 31 2002	2001
Loans		
Commercial, financial, agricultural, etc.	$ 5,222,184	5,014,868
Real estate:		
Residential	2,711,133	4,063,924
Commercial	9,299,331	8,865,178
Construction	1,001,553	1,034,362
Consumer	6,922,530	5,552,846
Total loans	25,156,731	24,531,178
Leases		
Commercial	177,554	190,966
Consumer	602,657	673,324
Total leases	780,211	864,290
Total loans and leases	$25,936,942	25,395,468

One-to-four family residential mortgage loans held for sale were $1.1 billion at December 31, 2002 and $1.0 billion at December 31, 2001. One-to-four family residential mortgage loans serviced for others totaled approximately $12.6 billion and $11.0 billion at December 31, 2002 and 2001, respectively. As of December 31, 2002, approximately $10 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 $644 million and $472 million at December 31, 2002 and 2001, respectively.

In November 2002, the Company transferred approximately $1.1 billion of one-to-four family residential mortgage loans to Manufacturers and Traders Trust Company Mortgage Trust 2002-1 ("M&T Trust"), a qualified special purpose trust, in a non-recourse securitization transaction. The Company received $140 million in cash and retained approximately 88% of the resulting securities in exchange for the loans. The Company realized a $5 million gain on the transaction and allocated $977 million and $7 million of the carrying value of the loans to the retained securities and to capitalized servicing assets, respectively. All of the retained securities were classified as investment securities available for sale. The Company received $47 million in principal and interest payments on the retained securities and $355,000 in servicing fees from M&T Trust in 2002. At December 31, 2002, retained securities had an aggregate amortized cost of $936 million and an aggregate estimated fair value of $972 million. Securities included therein rated A or higher had an amortized cost and an estimated fair value of $920 million and $955 million, respectively, and securities rated BBB or lower had an amortized cost and an estimated fair value of $16 million and $17 million, respectively. The estimated fair values were obtained from independent pricing sources and management does not anticipate that a hypothetical adverse change from expected pricing assumptions would have a significant impact on the fair value of the subordinated retained securities. The hypothetical effect of adverse changes on the retained capitalized servicing assets at December 31, 2002 is included in note 7. As a qualified special purpose trust, M&T Trust is not included in the Company's consolidated financial statements. At December 31, 2002, M&T Trust held $1.0 billion of residential mortgage loans, $70,000 of which were past due 30 days or more. M&T Trust had no credit losses in 2002. Because the transaction was non-recourse, the Company's maximum exposure to loss as a result of its association with M&T Trust is limited to realizing the carrying value of the retained securities and servicing rights.

In 2000, the Company securitized approximately $1.0 billion of one-to-four family residential mortgage loans in a guaranteed mortgage securitization with the Federal National Mortgage Association. The Company recognized no gain or loss on the transaction as it retained all of the resulting securities and allocated $14 million of the carrying value of the loans to capitalized servicing assets. All of the resulting securities were classified as investment securities available for sale.

Nonperforming loans (loans on which interest was not being accrued or had been renegotiated at below-market interest rates) totaled $215,290,000 at December 31, 2002 and $190,472,000 at December 31, 2001. If nonaccrual and renegotiated loans had been accruing interest at their originally contracted terms, interest income on these loans would have amounted to $17,555,000 in 2002 and $18,054,000 in 2001. The actual amount included in interest income during 2002 and 2001 on these loans was $6,483,000 and $5,741,000, respectively.

The recorded investment in loans considered impaired was $164,497,000 and $139,750,000 at December 31, 2002 and 2001, 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 $110,064,000 and $17,626,000, respectively, at December 31, 2002 and $84,818,000 and $20,956,000, respectively, at December 31, 2001. The recorded investment in loans considered impaired for which there was no related valuation allowance for impairment was $54,433,000 and $54,932,000 at December 31, 2002 and 2001, respectively. The average recorded investment in impaired loans during 2002, 2001 and 2000 was $143,118,000, $116,841,000 and $47,475,000, respectively. Interest income recognized on impaired loans totaled $4,180,000, $3,310,000 and $2,947,000 for the years ended December 31, 2002, 2001 and 2000, 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 $153,054,000 and $198,114,000 at December 31, 2002 and 2001, respectively. During 2002, new borrowings by such persons amounted to $22,180,000 (including borrowings of new directors or officers that were outstanding at the time of their election) and repayments and other reductions were $67,240,000.

At December 31, 2002, approximately $1.9 billion of commercial mortgage loans, $1.1 billion of one-to-four family residential mortgage loans and $525 million of consumer loans were pledged to secure outstanding borrowings.

5. Allowance for credit losses

Changes in the allowance for credit losses were as follows:

	Year ended December 31		
In thousands	2002	2001	2000
Beginning balance	$ 425,008	374,703	316,165
Provision for credit losses	122,000	103,500	38,000
Allowance obtained through acquisitions	–	22,112	49,518
Allowance related to loans sold or securitized	(2,786)	–	–
Net charge-offs			
Charge-offs	(124,582)	(94,154)	(42,931)
Recoveries	16,832	18,847	13,951
Net charge-offs	(107,750)	(75,307)	(28,980)
Ending balance	$ 436,472	425,008	374,703

6. Premises and equipment

The detail of premises and equipment was as follows:

	December 31	
In thousands	2002	2001
Land	$ 30,961	34,537
Buildings – owned	170,301	175,882
Buildings – capital leases	2,904	2,904
Leasehold improvements	67,161	65,351
Furniture and equipment – owned	195,335	198,444
Furniture and equipment – capital leases	2,035	978
	468,697	478,096
Less: accumulated depreciation and amortization		
Owned assets	226,867	213,666
Capital leases	2,844	2,553
	229,711	216,219
Premises and equipment, net	$238,986	261,877

Net lease expense for all operating leases totaled $31,202,000 in 2002, $31,659,000 in 2001 and $27,849,000 in 2000. The Company occupies certain banking offices and uses certain equipment under noncancellable operating lease agreements expiring at various dates over the next 18 years. Minimum lease payments under noncancellable operating leases are summarized as follows:

In thousands	
Year ending December 31:	
2003	$ 26,615
2004	24,126
2005	21,152
2006	17,996
2007	13,805
Later years	59,133
Total minimum lease payments	$162,827

Payments required under capital leases are not material.

7. Capitalized servicing assets

Changes in capitalized servicing assets were as follows:

	Year ended December 31		
In thousands	2002	2001	2000
Beginning balance	$107,173	100,927	60,902
Originations	39,460	23,288	13,962
Purchases	21,037	14,720	36,235
Assumed in loan securitizations (note 4)	7,212	–	14,282
Amortization	(39,806)	(31,704)	(24,392)
Sales	–	(58)	(62)
	135,076	107,173	100,927
Valuation allowance	(32,500)	(50)	(50)
Ending balance, net	$102,576	107,123	100,877

During 2002 a provision for impairment of $32,450,000 was added to the valuation allowance since the carrying value of certain strata of capitalized servicing assets exceeded estimated fair value. There was no provision for impairment added to the allowance for the years ended December 31, 2001 and 2000. The estimated fair value of capitalized servicing assets was approximately $115 million at December 31, 2002 and $163 million at December 31, 2001. Such amounts were estimated using discount rates ranging from 9.5% to 10.1% at December 31, 2002 and 10.8% to 11.9% at December 31, 2001, 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, 2002 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)	26.28%
Impact on fair value of 10% adverse change	$ (7,574,000)
Impact on fair value of 20% adverse change	(14,385,000)
Weighted-average discount rate	9.60%
Impact on fair value of 10% adverse change	$ (2,557,000)
Impact on fair value of 20% adverse change	(4,961,000)

8. Goodwill and other intangible assets

As a result of the adoption of SFAS No. 142, the Company ceased amortization of goodwill associated with corporate acquisitions effective January 1, 2002. As prescribed by SFAS No. 142, the following is a reconciliation of reported net income and earnings per share and net income and earnings per share adjusted to exclude the impact of amortization of goodwill for the years ended December 31, 2001 and 2000:

	Year ended December 31	
In thousands, except per share	2001	2000
Net income:		
As reported	$378,075	286,156
Amortization of goodwill	61,820	35,760
Adjusted net income	$439,895	321,916
Basic earnings per share:		
As reported	$3.95	3.55
Amortization of goodwill	.65	.44
Adjusted basic earnings per share	$4.60	3.99
Diluted earnings per share:		
As reported	$3.82	3.44
Amortization of goodwill	.62	.43
Adjusted diluted earnings per share	$4.44	3.87

In accordance with the provisions of SFAS No. 142, the Company continues to amortize core deposit and other intangible assets over the estimated remaining life of each respective asset. Amortizing intangible assets were comprised of the following:

In thousands	Gross carrying amount	Accumulated amortization	Net carrying amount
December 31, 2002			
Core deposit	$249,960	143,272	106,688
Other	35,016	22,914	12,102
Total	$284,976	166,186	118,790
December 31, 2001			
Core deposit	$249,960	98,800	151,160
Other	35,016	15,903	19,113
Total	$284,976	114,703	170,273

Amortization of core deposit and other intangible assets was generally computed using accelerated methods over original amortization periods of five to ten years. The weighted average original amortization period was approximately seven years. The remaining weighted average amortization period as of December 31, 2002 was approximately four years. Amortization expense for core deposit and other intangible assets was $51,484,000, $59,816,000 and $33,816,000 for the years ended December 31, 2002, 2001 and 2000, respectively. Estimated amortization expense in future years for such intangible assets is as follows:

In thousands	
Year ending December 31:	
2003	$ 43,705
2004	33,919
2005	21,361
2006	13,449
2007	5,984
Later years	372
	$118,790

Also in accordance with the provisions of SFAS No. 142, the Company completed a transitional goodwill impairment test and an annual goodwill impairment test as of January 1 and October 1, 2002, respectively. For purposes of testing for impairment, the Company assigned all recorded goodwill to the reporting units originally intended to benefit from past business combinations. Goodwill was generally assigned based on the implied fair value of the acquired goodwill applicable to the benefited reporting units at the time of each respective acquisition. The implied fair value of the goodwill was determined as the difference between the estimated incremental overall fair value of the reporting unit and the estimated fair value of the net assets assigned to the reporting unit as of each respective acquisition date. To test for goodwill impairment at each evaluation date, the Company compared the estimated fair value of each of its reporting units to their respective carrying amounts and certain other assets and liabilities assigned to the reporting unit, including goodwill and core deposit and other intangible assets. The methodologies used to estimate fair values of reporting units as of the acquisition dates and as of the evaluation dates were similar. For the Company's core customer relationship business reporting units, fair value was estimated as the present value of the expected future cash flows of the reporting unit. The Company's non-relationship business reporting units were individually analyzed and fair value was largely determined by comparisons to market transactions for similar businesses. Based on the results of the transitional and annual goodwill impairment tests, the Company concluded that the amount of recorded goodwill was not impaired.

A summary of goodwill assigned to each of the Company's reportable segments for purposes of testing for impairment was as follows:

In thousands	
Commercial Banking	$ 236,012
Commercial Real Estate	114,883
Discretionary Portfolio	–
Residential Mortgage Banking	–
Retail Banking	627,564
All Other	119,094
Total	$1,097,553

9. Borrowings

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

Dollars in thousands	Federal funds purchased and repurchase agreements	Other short-term borrowings	Total
At December 31, 2002			
Amount outstanding	$2,067,834	1,361,580	3,429,414
Weighted-average interest rate	1.24%	1.26%	1.24%
For the year ended December 31, 2002			
Highest amount at a month-end	$2,598,647	1,361,580	
Daily-average amount outstanding	2,101,700	1,022,976	3,124,676
Weighted-average interest rate	1.69%	1.69%	1.69%
(continued)			
At December 31, 2001			
Amount outstanding	$2,133,558	912,272	3,045,830
Weighted-average interest rate	1.56%	1.64%	1.58%
For the year ended December 31, 2001			
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%
At December 31, 2000			
Amount outstanding	$1,440,887	631,937	2,072,824
Weighted-average interest rate	6.35%	6.31%	6.34%
For the year ended December 31, 2000			
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%

In general, federal funds purchased and short-term repurchase agreements outstanding at December 31, 2002 matured within two days following year-end. Other short-term borrowings included borrowings from the Federal Home Loan Banks and others having original maturities of one year or less. Other short-term borrowings at December 31, 2002 included $750 million of borrowings from the Federal Home Loan Banks that matured in two days and a $500 million revolving asset-backed structured borrowing with an unaffiliated conduit lender, which was entered into in November 2002. At December 31, 2002, the revolving asset-backed structured borrowing was secured by $560 million of automobile loans and related assets that had been transferred to M&T Auto Receivables I, LLC, a special purpose consolidated subsidiary of M&T Bank. The special purpose subsidiary's activities are generally restricted to purchasing and owning automobile loans for the purpose of securing this revolving borrowing arrangement. Proceeds from payments on the automobile loans are required to be applied in priority order for fees, principal and interest on the borrowing, and funding the monthly replenishment of automobile loans. Any remaining proceeds are available for distribution to M&T Bank. The secured borrowing is non-recourse to M&T Bank and the Company, therefore, the Company's exposure to loss is generally restricted to the amount that such borrowing is overcollateralized. The borrowing is prepayable, in whole or in part, at any time and 80% of the borrowing can be put back to M&T Bank upon demand.

At December 31, 2002, the Company had lines of credit under formal agreements as follows:

In thousands	M&T	M&T Bank	M&T Bank, N.A.
Outstanding borrowings	$ –	4,183,305	–
Unused	30,000	2,032,689	240,370

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 12, 2003. At December 31, 2002, M&T Bank had borrowing facilities available with the Federal Home Loan Banks whereby M&T Bank could borrow up to approximately $5.1 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, 2002 or 2001. 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:

	December 31	
In thousands	2002	2001
Subordinated notes of M&T Bank:		
8.125% due 2002	$ –	75,000
7% due 2005	100,000	100,000
8% due 2010	504,811	500,594
Senior medium term notes:		
7.3% due 2004	74,253	74,091
6.5% due 2008	27,582	27,136
Advances from Federal Home Loan Banks:		
Variable rates	2,415,000	1,240,000
Fixed rates	1,020,385	1,063,423
Preferred capital securities:		
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%	67,828	68,153
Other	37,515	63,372
	$4,497,374	3,461,769

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 1.38% to 1.80% at December 31, 2002 and from 1.89% to 2.42% at December 31, 2001. The weighted-average contractual interest rates were 1.49% and 2.08% at December 31, 2002 and 2001, 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 5.52% and 5.53% at December 31, 2002 and 2001, 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, 2002 mature as follows:

In thousands	
Year ending December 31:	
2003	$1,204,708
2004	475,721
2005	1,027,010
2006	156,489
2007	28,198
Later years	1,605,248
	$4,497,374

10. Stock-based compensation plans

Stock option plans

M&T had two stock option plans at December 31, 2002. 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 vested 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	Weighted-average exercise price: Cash-only appreciation rights
2000				
Beginning balance	9,140,760	189,000	$29.33	$5.91
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	–
2001				
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	–
2002				
Granted	1,898,918	–	75.81	–
Exercised	(1,431,190)	–	38.10	–
Cancelled	(167,183)	–	60.64	–
At year-end	10,205,815	–	$49.80	–
Exercisable at:				
December 31, 2002	4,976,171	–	$36.57	–
December 31, 2001	4,368,555	–	30.98	–
December 31, 2000	5,648,499	–	27.72	–

At December 31, 2002 and 2001, respectively, there were 7,978,829 and 9,877,747 shares available for future grant. Compensation expense recognized for cash-only stock appreciation rights was $976,000 in 2000.

A summary of stock options at December 31, 2002 follows:

Range of exercise price	Outstanding: Number of stock options	Outstanding: Weighted-average Exercise price	Outstanding: Weighted-average Life (in years)	Exercisable: Number of stock options	Exercisable: Weighted-average exercise price
$13.39 to $19.89	1,006,084	$13.88	1.2	1,006,084	$13.88
21.10 to 39.83	1,228,146	25.96	3.6	1,221,706	25.90
40.19 to 55.41	4,073,642	45.60	6.3	2,383,750	46.43
55.77 to 82.58	3,897,943	70.96	8.4	364,631	70.39
	10,205,815	$49.80	6.3	4,976,171	$36.57

The Company used an option pricing model to estimate the grant date present value of stock options granted. The weighted-average estimated value per option was $22.97 in 2002, $20.62 in 2001 and

$13.37 in 2000. 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 4.74% in 2002, 5.17% in 2001 and 6.80% in 2000 (representing the yield on a U.S. Treasury security with a remaining term equal to the expected option term); expected volatility of 29% in 2002 and 2001 and 22% in 2000; and estimated dividend yields of 1.32% in 2002, 1.52% in 2001 and 1.19% in 2000 (representing the approximate annualized cash dividend rate paid with respect to a share of common stock at or near the grant date). Based on historical data and projected employee turnover rates, the Company reduced the estimated value per option by 10% to reflect an estimate of the probability of forfeiture prior to vesting.

Stock purchase plan

The Company began offering a stock purchase plan to employees in 2002, pending stockholder approval at the Company's 2003 Annual Meeting of Stockholders. The stock purchase plan provides eligible employees of the Company with the right to purchase shares of M&T common stock through accumulated payroll deductions. Shares of M&T common stock will be issued at the end of an option period, the first of which is one year long and ends on September 2, 2003. In connection with the employee stock purchase plan, 1,000,000 shares of M&T common stock were authorized for issuance.

Similar to the stock option plans, the Company used an option pricing model to estimate the grant date present value of purchase rights under the stock purchase plan. The estimated value per right was $12.47, which was calculated using the following assumptions: a term of 1 year (representing the period between grant date and exercise date); a risk-free interest rate of 1.62% (representing the yield on a U.S. Treasury security with a one year term); expected volatility of 24%; and an estimated dividend yield of 1.21% (representing the approximate annualized cash dividend rate paid with respect to a share of common stock at or near the grant date).

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 83,072 and 84,743 at December 31, 2002 and 2001, respectively. The obligation to issue such shares is included in common stock issuable in the consolidated balance sheet. In connection with the deferred bonus plan, 150,000 shares of M&T common stock were authorized for issuance, of which 44,597 shares have been issued.

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 39,816 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 43,598 and 45,685 at December 31, 2002 and 2001, respectively. 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, 2002 and 2001, the amount owed M&T for the financed stock purchased totaled $4,601,000 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.

11. 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:

	Year ended December 31		
In thousands	2002	2001	2000
Service cost	$ 12,776	11,371	8,213
Interest cost on projected benefit obligation	19,268	17,847	11,801
Expected return on plan assets	(26,371)	(27,215)	(17,712)
Amortization of prior service cost	27	11	1,615
Recognized net actuarial (gain) loss	58	45	(1,431)
Net periodic pension expense	$ 5,758	2,059	2,486

Net postretirement benefits expense consisted of the following:

	Year ended December 31		
In thousands	2002	2001	2000
Service cost	$ 426	398	307
Interest cost on projected benefit obligation	1,958	1,832	1,379
Expected return on plan assets	(38)	(52)	(111)
Amortization of prior service cost	170	170	83
Recognized net actuarial loss	200	83	28
Net postretirement benefits expense	$ 2,716	2,431	1,686

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

In thousands	Pension benefits 2002	2001	Postretirement benefits 2002	2001
Change in benefit obligation:				
Benefit obligation at beginning of year	$269,889	249,137	27,518	21,437
Service cost	12,776	11,371	426	398
Interest cost	19,268	17,847	1,958	1,832
Plan participants' contributions	–	–	841	228
Amendments	190	656	–	(1,267)
Actuarial (gain) loss	23,677	18,729	2,410	2,749
Business combinations	–	(14,949)	–	4,193
Benefits paid	(13,024)	(12,902)	(3,610)	(2,052)
Benefit obligation at end of year	$312,776	269,889	29,543	27,518
Change in plan assets:				
Fair value of plan assets at beginning of year	$273,080	280,218	1,006	2,122
Actual return on plan assets	(25,527)	(4,601)	9	96
Employer contributions	19,050	–	–	–
Plan participants' contributions	–	–	841	725
Business combinations	–	9,665	–	90
Benefits and other payments	(12,184)	(12,202)	(1,856)	(2,027)
Fair value of plan assets at end of year	$254,419	273,080	–	1,006
Funded status	$ (58,357)	3,191	(29,543)	(26,512)
Unrecognized net actuarial (gain) loss	112,945	37,427	7,232	4,993
Unrecognized prior service cost	595	432	1,610	1,780
Prepaid (accrued) benefit cost	$ 55,183	41,050	(20,701)	(19,739)
Amounts recognized in the consolidated balance sheet were:				
Prepaid benefit cost (asset)	$ 75,552	60,570	–	–
Accrued benefit cost (liability)	(20,369)	(19,520)	(20,701)	(19,739)
	$ 55,183	41,050	(20,701)	(19,739)

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 $21,981,000 and $21,840,000, respectively, as of December 31, 2002 and $19,905,000 and $19,896,000, respectively, as of December 31, 2001.

The assumed rates used in the actuarial computations were:

	Pension benefits 2002	2001	Postretirement benefits 2002	2001
Discount rate	6.75%	7.25%	6.75%	7.25%
Long-term rate of return on plan assets	8.50%	8.75%	–	4.25%
Rate of increase in future compensation levels	4.96%	4.94%	–	–

For measurement purposes, a 9.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2003. The rate was assumed to decrease gradually to 5.5% over 4 years and remain constant thereafter. A one-percentage point change in assumed health care cost trend rates would have the following effects:

In thousands	+1%	–1%
Increase (decrease) in:		
Service and interest cost	$ 83	(74)
Accumulated postretirement benefit obligation	1,297	(1,161)

Pension plan assets included common stock of M&T with a fair value of $26,021,000 and $23,889,000 at December 31, 2002 and 2001, 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 $10,724,000, $10,103,000 and $7,699,000 in 2002, 2001 and 2000, respectively.

12. Income taxes

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

In thousands	Year ended December 31 2002	2001	2000
Current			
Federal	$249,459	218,021	156,941
State and city	7,398	9,425	9,220
Total current	256,857	227,446	166,161
Deferred			
Federal	(21,221)	(17,140)	(4,947)
State and city	(4,244)	(4,485)	(964)
Total deferred	(25,465)	(21,625)	(5,911)
Total income taxes applicable to pre-tax income	$231,392	205,821	160,250

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, 2002 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 a benefit of $221,000 and $1,216,000 in 2002 and 2000, respectively, and an expense of $724,000 in 2001. No alternative minimum tax expense was recognized in 2002, 2001 or 2000.

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

	Year ended December 31		
In thousands	2002	2001	2000
Income taxes at statutory rate	$ 250,769	204,364	156,242
Increase (decrease) in taxes:			
Tax-exempt income	(19,972)	(22,566)	(14,792)
State and city income taxes, net of federal income tax effect	2,050	3,211	5,366
Amortization of goodwill	–	21,637	12,516
Other	(1,455)	(825)	918
	$ 231,392	205,821	160,250

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

In thousands	2002	2001	2000
Losses on loans and other assets	$ 191,005	172,392	146,309
Postretirement and other supplemental employee benefits	19,105	13,000	14,416
Incentive compensation plans	14,650	14,873	14,168
Depreciation and amortization	11,286	–	–
Interest on loans	14,163	6,443	10,897
Unrealized investment losses	–	–	295
Other	18,104	19,041	22,466
Gross deferred tax assets	268,313	225,749	208,551
Leasing transactions	(181,476)	(166,126)	(163,581)
Capitalized servicing rights	(8,834)	(21,657)	(18,185)
Retirement benefits	(28,798)	(13,701)	(9,776)
Depreciation and amortization	–	(652)	(7,454)
Unrealized investment gains	(35,441)	(12,558)	–
Other	(12,911)	(12,399)	(9,782)
Gross deferred tax liabilities	(267,460)	(227,093)	(208,778)
Net deferred tax asset (liability)	$ 853	(1,344)	(227)

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 22 arise principally from operating losses before dividends from subsidiaries.

13. Earnings per share

The computations of basic earnings per share follow:

	Year ended December 31		
In thousands, except per share	2002	2001	2000
Income available to common stockholders:			
Net income	$485,092	378,075	286,156
Weighted-average shares outstanding (including common stock issuable)	92,483	95,732	80,640
Basic earnings per share	$ 5.25	3.95	3.55

The computations of diluted earnings per share follow:

	Year ended December 31		
In thousands, except per share	2002	2001	2000
Income available to common stockholders	$485,092	378,075	286,156
Weighted-average shares outstanding	92,483	95,732	80,640
Plus: incremental shares from assumed conversion of stock options	3,180	3,292	2,531
Adjusted weighted-average shares outstanding	95,663	99,024	83,171
Diluted earnings per share	$ 5.07	3.82	3.44

14. Comprehensive income

The following table displays the components of other comprehensive income:

In thousands	Before-tax amount	Income taxes	Net
For the year ended December 31, 2002			
Unrealized gains on investment securities:			
Unrealized holding gains	$54,552	(22,662)	31,890
Less: reclassification adjustment for losses realized in net income	(608)	221	(387)
	55,160	(22,883)	32,277
Unrealized losses on cash flow hedge	(558)	234	(324)
Net unrealized gains	$54,602	(22,649)	31,953
For the year ended December 31, 2001			
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

In thousands	Before-tax amount	Income taxes	Net
(continued)			
For the year ended December 31, 2000			
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

15. 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:

	Year ended December 31		
In thousands	2002	2001	2000
Other income:			
Bank owned life insurance	$32,625	35,409	25,533
Other expense:			
Professional services	49,200	49,701	35,363
Amortization of capitalized servicing rights	39,806	31,704	24,392
Provision for impairment of capitalized servicing rights	32,450		

16. 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 $6,258,000 and $6,374,000 at December 31, 2002 and 2001, respectively. Deposits at M&T Bank's offshore branch office were $1,160,716,000 and $777,895,000 at December 31, 2002 and 2001, respectively.

17. Derivative financial instruments

As described in note 1, the Company adopted SFAS No. 133, 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:

Dollars in thousands	Notional amount	Average maturity (in years)	Weighted-average rate Fixed	Weighted-average rate Variable	Estimated fair value-gain (loss)
December 31, 2002					
Fair value hedges:					
Fixed rate time deposits[b]	$270,000	2.5	2.99%	1.42%	$ 1,432
Fixed rate long-term borrowings[b]	125,000	1.7	5.38%	1.64%	6,658
	395,000	2.2	3.75%	1.49%	8,090
Cash flow hedge:					
Variable rate long-term borrowings[a]	100,000	.7	2.90%	1.42%	(1,019)
	$495,000	1.9	3.58%	1.48%	$ 7,071
December 31, 2001					
Fair value hedges:					
Fixed rate available for sale investment securities[a]	$ 16,500	.9	6.57%	2.01%	$ (618)
Fixed rate time deposits[b]	334,000	1.5	5.37%	2.14%	2,225
Fixed rate long-term borrowings[b]	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[a]	100,000	.4	3.78%	2.02%	(461)
	$575,500	1.6	5.13%	2.14%	$4,448

(a) *Under the terms of these agreements, the Company receives settlement amounts at a variable rate and pays at a fixed rate.*
(b) *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, 2002, the estimated fair value of interest rate swap agreements designated as fair value hedges was substantially offset by unrealized gains and losses resulting from changes in the fair values 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. 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, 2002 the notional amount of interest rate swap agreements outstanding mature as follows:

In thousands	
Year ending December 31:	
2003	$310,000
2004	–
2005	85,000
2006	20,000
2007	–
Later years	80,000
	$495,000

The net effect of interest rate swap agreements was to increase net interest income by $8,822,000 in 2002, $6,720,000 in 2001 and $13,000 in 2000. The average notional amount of interest rate swap agreements impacting net interest income which were entered into for interest rate risk management purposes were $693,910,000 in 2002, $522,730,000 in 2001 and $875,933,000 in 2000.

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 2002, 2001 and 2000 related to the terminated swap agreements totaled $2,239,000, $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:

In thousands	
Year ending December 31:	
2003	$ 2,156
2004	2,156
2005	2,060
2006	1,920
2007	1,888
Later years	896
	$11,076

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, at December 31, 2002 and 2001 net unrealized pre-tax gains related to loans held for sale, commitments to originate loans for sale, and commitments to sell loans were approximately $15 million and $8 million, respectively. Such unrealized gains are included in mortgage banking revenues and, in general, are realized in subsequent periods as the related loans are sold. 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 2002 and 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:

In thousands	2002	2001
December 31		
Gross unrealized gains	$36,051	26,749
Gross unrealized losses	34,834	25,851
Year ended December 31:		
Average gross unrealized gains	$27,427	25,456
Average gross unrealized losses	26,325	24,809

Net gains realized from derivative financial instruments used for trading purposes were $2,205,000, $2,945,000 and $1,597,000 in 2002, 2001 and 2000, respectively.

18. 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, 2002 and 2001.

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:

In thousands	Carrying value	Estimated fair value
December 31		
2002	$3,955,150	3,956,646
2001	3,024,137	3,024,736

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

In thousands	Carrying value	Calculated estimate
December 31, 2002		
Commercial loans and leases	$ 5,322,590	5,316,894
Commercial real estate loans	9,727,743	9,853,932
Residential real estate loans	3,247,716	3,301,880
Consumer loans and leases	7,429,735	7,514,362
	$25,727,784	25,987,068
December 31, 2001		
Commercial loans and leases	$ 5,140,207	5,144,035
Commercial real estate loans	9,366,017	9,445,168
Residential real estate loans	4,575,748	4,601,237
Consumer loans and leases	6,105,788	6,182,153
	$25,187,760	25,372,593

The allowance for credit losses represented the Company's assessment of the overall level of credit risk inherent in the portfolio and totaled $436,472,000 and $425,008,000 at December 31, 2002 and 2001, respectively.

As described in note 17, 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 of $10,075,000 at December 31, 2002 and aggregate fair value losses of $2,795,000 at December 31, 2001. The Company's commitments to sell residential real estate loans represented aggregate fair value losses of $15,139,000 at December 31, 2002 and aggregate fair value gains of $8,862,000 at December 31, 2001. Unrealized fair value gains and losses at December 31, 2002 and 2001 are included in other assets and other liabilities, respectively, in the consolidated balance sheet.

As described in note 19, 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 $12,486,000 and $7,733,000 at December 31, 2002 and 2001, 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. 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:

In thousands	Carrying value	Calculated estimate
December 31, 2002		
Noninterest-bearing deposits	$ 4,072,085	4,072,085
Savings deposits and NOW accounts	10,185,738	10,185,738
Time deposits	6,246,384	6,341,366
Deposits at foreign office	1,160,716	1,160,716
December 31, 2001		
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

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 17, 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:

In thousands	Notional amount	Gross unrealized gains	Gross unrealized losses	Estimated fair value-gain
December 31				
2002	$495,000	8,103	(1,032)	7,071
2001	575,500	6,266	(1,818)	4,448

As described in note 17, 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 $1.3 billion and $1,096,000, respectively, at December 31, 2002 and notional values and estimated fair value gains of $1.4 billion and $1,083,000, respectively, at December 31, 2001. The Company also entered into foreign exchange and other option and futures contracts totaling approximately $290 million and $242 million at December 31, 2002 and 2001, respectively. Such contracts were valued at gains of $121,000 and losses of $185,000 at December 31, 2002 and 2001, 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 $52 million and $36 million, respectively, at December 31, 2002 and $39 million and $27 million, respectively, at December 31, 2001.

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 $4,497,374,000 and $4,692,771,000, respectively, at December 31, 2002 and $3,461,769,000 and $3,505,520,000, respectively, at December 31, 2001.

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.

19. Commitments and contingencies

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

In thousands	2002	2001
December 31		
Commitments to extend credit		
Home equity lines of credit	$2,056,259	1,581,798
Commercial real estate and construction	1,128,823	1,361,713
Residential real estate	825,330	713,789
Commercial and other	2,250,516	1,911,682
Standby letters of credit	833,715	840,338
Commercial letters of credit	25,556	24,806
Financial guarantees and indemnification contracts	121,312	51,790
Commitments to sell residential real estate loans	1,453,966	1,253,051

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

In December 2002, M&T Bank entered into a mandatory purchase agreement with an unaffiliated asset-backed security trust. The agreement provides for M&T Bank to guarantee the purchase of the outstanding Class A-1, AAA rated securities of the special purpose trust at par value less credit losses in the event that the trust's scheduled sale of the underlying collateral is not achieved. Such sale is scheduled to occur when the remaining principal balance of the Class A-1 securities is less than $56 million, which represents 35% of the aggregate principal balance of the securities at the date of original issuance (estimated to be four years). The original par value of the Class A-1 securities issued from the trust was $160 million. The securities are backed by approximately $300 million of residential and commercial real estate loans held by the trust. The Company's maximum exposure to loss as a result of this guarantee is equal to the par value of the Class A-1 securities, less credit losses, at the time it may be necessary to perform under the purchase guarantee agreement. Management believes that the probability of a loss of that magnitude is remote and currently estimates no material losses will occur as a result of the agreement.

Since many loan commitments, standby letters of credit, and guarantees and indemnification contracts expire without being funded in whole or in part, the contract amounts are not necessarily indicative of future cash flows.

The Company utilizes commitments to sell residential real estate loans to hedge exposure to changes in the fair value of residential real estate loans held for sale. Such commitments are considered derivatives in accordance with SFAS No. 133, and along with commitments to originate residential real estate loans to be held for sale and hedged residential real estate loans held for sale are now generally recorded in the consolidated balance sheet at estimated fair market value. Additional information about such derivative financial instruments is included in note 17.

The Company also has commitments under long-term operating leases as described in note 6.

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.

20. 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 and other intangible assets) 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 to 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 and other intangible assets resulting from acquisitions of financial institutions, the net impact of the Company's internal funds transfer pricing methodology, eliminations of transactions between reportable segments, merger-related expenses, 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:

	Year ended December 31		
In thousands	2002	2001	2000
Revenues	$(70,229)	(66,450)	(34,997)
Expenses	(19,356)	(20,578)	(18,584)
Income taxes (benefit)	(20,700)	(18,665)	(6,678)
Net income (loss)	(30,173)	(27,207)	(9,735)

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.

In thousands, except asset data	Commercial Banking[c]	Commercial Real Estate[c]	Discretionary Portfolio	Residential Mortgage Banking	Retail Banking	All Other	Total
For the year ended December 31, 2002							
Net interest income[a]	$215,785	174,200	68,205	85,869	599,261	104,265	1,247,585
Noninterest income	50,493	7,262	38,293	168,047	189,564	58,272	511,931
	266,278	181,462	106,498	253,916	788,825	162,537	1,759,516
Provision for credit losses	29,704	495	572	777	66,414	24,038	122,000
Amortization of goodwill	–	–	–	–	–	–	–
Amortization of core deposit and other intangible assets	–	–	–	–	–	51,484	51,484
Depreciation and other amortization	412	164	3,230	37,937	18,536	18,024	78,303
Other noninterest expense	60,266	19,264	17,305	152,280	428,790	113,340	791,245
Income (loss) before taxes	175,896	161,539	85,391	62,922	275,085	(44,349)	716,484
Income tax expense (benefit)	72,679	68,219	20,707	24,030	112,165	(66,408)	231,392
Net income	$103,217	93,320	64,684	38,892	162,920	22,059	485,092
Average total assets (in millions)	$ 6,273	6,234	7,072	1,618	9,059	1,656	31,912
Capital expenditures (in millions)	$ –	–	–	1	12	4	17
For the year ended December 31, 2001							
Net interest income[a]	$229,518	163,678	50,230	59,161	642,979	12,722	1,158,288
Noninterest income	44,913	6,139	38,372	151,478	172,515	64,009	477,426
	274,431	169,817	88,602	210,639	815,494	76,731	1,635,714
Provision for credit losses	29,860	(150)	3,057	46	51,194	19,493	103,500
Amortization of goodwill	–	–	–	–	–	61,820	61,820
Amortization of core deposit and other intangible assets	–	–	–	–	–	59,816	59,816
Depreciation and other amortization	425	243	3,154	29,746	20,052	18,688	72,308
Other noninterest expense[b]	58,137	18,711	16,246	112,431	405,452	143,397	754,374
Income (loss) before taxes	186,009	151,013	66,145	68,416	338,796	(226,483)	583,896
Income tax expense (benefit)	76,624	63,746	12,518	24,392	138,281	(109,740)	205,821
Net income (loss)	$109,385	87,267	53,627	44,024	200,515	(116,743)	378,075
Average total assets (in millions)	$ 6,317	5,961	7,359	1,361	8,015	1,813	30,826
Capital expenditures (in millions)	$ –	–	–	2	6	16	24
For the year ended December 31, 2000							
Net interest income[a]	$187,609	138,704	36,576	25,666	485,136	(19,504)	854,187
Noninterest income	34,322	5,116	23,016	86,687	106,859	68,672	324,672
	221,931	143,820	59,592	112,353	591,995	49,168	1,178,859
Provision for credit losses	6,824	(1,289)	1,941	69	26,798	3,657	38,000
Amortization of goodwill	–	–	–	150	–	35,610	35,760
Amortization of core deposit and other intangible assets	–	–	–	–	–	33,816	33,816
Depreciation and other amortization	392	307	2,277	23,183	14,712	13,685	54,556
Other noninterest expense[b]	50,728	16,397	15,639	82,717	273,612	131,228	570,321
Income (loss) before taxes	163,987	128,405	39,735	6,234	276,873	(168,828)	446,406
Income tax expense (benefit)	67,596	54,313	5,801	(263)	113,189	(80,386)	160,250
Net income (loss)	$ 96,391	74,092	33,934	6,497	163,684	(88,442)	286,156
Average total assets (in millions)	$ 5,079	5,034	6,431	662	5,186	1,266	23,658
Capital expenditures (in millions)	$ –	–	–	1	12	6	19

[a] *Net interest income is the difference between actual taxable-equivalent interest earned on assets and interest paid on liabilities 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 $14,049,000 in 2002, $17,513,000 in 2001 and $10,547,000 in 2000 and is eliminated in "All Other" net interest income and income tax expense (benefit).*

[b] *Including the impact in the "All Other" category of the merger-related expenses described in note 2.*

[c] *During 2002, a strategic business unit which had previously been included in the Commercial Banking segment was moved to the Commercial Real Estate segment for internal profitability reporting purposes. As a result, approximately $270 million of loans were transferred from the Commercial Banking segment to the Commercial Real Estate segment. Reflecting this change, net income decreased in the Commercial Banking segment and increased in the Commercial Real Estate segment from the amounts previously reported by approximately $4 million and $2 million in 2001 and 2000, respectively. Financial information for such years has been reclassified to conform to current year presentation.*

21. 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, 2002, approximately $407,168,000 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, 2002 and 2001, cash and due from banks included a daily average of $311,810,000 and $287,830,000, 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, 2002, M&T and each of its banking subsidiaries exceeded all applicable capital adequacy requirements.

As of December 31, 2002 and 2001, 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, 2002 and 2001 are presented below:

Dollars in thousands	M&T (Consolidated)	Olympia	M&T Bank	M&T Bank, N.A.
December 31, 2002:				
Tier 1 capital				
Amount	$2,223,139	2,049,878	2,112,928	78,661
Ratio[(a)]	7.93%	7.41%	7.65%	19.73%
Minimum required amount[(b)]	1,121,084	1,106,033	1,105,052	15,948
Total capital				
Amount	3,114,076	2,936,125	2,998,872	82,302
Ratio[(a)]	11.11%	10.62%	10.86%	20.64%
Minimum required amount[(b)]	2,242,169	2,212,065	2,210,105	31,897
Leverage				
Amount	2,223,139	2,049,878	2,112,928	78,661
Ratio[(c)]	6.97%	6.53%	6.74%	12.09%
Minimum required amount[(b)]	956,484	942,230	941,151	19,514

Dollars in thousands	M&T (Consolidated)	Olympia	M&T Bank	M&T Bank, N.A.
(continued)				
December 31, 2001:				
Tier 1 capital				
Amount	$1,963,993	1,852,110	1,907,237	67,779
Ratio[(a)]	7.37%	7.07%	7.29%	13.54%
Minimum required amount[(b)]	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[(a)]	10.72%	10.47%	10.68%	14.48%
Minimum required amount[(b)]	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[(c)]	6.55%	6.31%	6.51%	8.23%
Minimum required amount[(b)]	899,010	880,463	879,074	24,696

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

22. Parent company financial statements

Condensed Balance Sheet

In thousands	December 31 2002	2001
Assets		
Cash		
In subsidiary bank	$ 6,629	7,487
Other	1	1
Total cash	6,630	7,488
Due from subsidiaries		
Money-market assets	78,989	25,068
Current income tax receivable	2,139	4,427
Total due from subsidiaries	81,128	29,495
Investments in subsidiaries		
Banks and bank holding company	3,337,192	3,145,836
Other	7,734	7,734
Other assets	13,032	12,898
Total assets	$3,445,716	3,203,451
Liabilities		
Accrued expenses and other liabilities	$ 6,160	6,267
Long-term borrowings	257,733	257,733
Total liabilities	263,893	264,000
Stockholders' equity	3,181,823	2,939,451
Total liabilities and stockholders' equity	$3,445,716	3,203,451

During December 2002, stockholders of M&T approved increasing the number of common shares authorized for issuance from 150 million to 250 million. The certificate required to effectuate such increase is expected to be filed with the New York Secretary of State in 2003.

Condensed Statement of Income

In thousands, except per share	Year ended December 31 2002	2001	2000
Income			
Dividends from bank and bank holding company subsidiaries	$ 340,000	362,000	130,000
Other income	1,545	3,721	3,484
Total income	341,545	365,721	133,484
Expense			
Interest on short-term borrowings	–	75	705
Interest on long-term borrowings	21,516	21,516	21,516
Other expense	2,886	3,277	2,987
Total expense	24,402	24,868	25,208
Income before income taxes and equity in undistributed income of subsidiaries	317,143	340,853	108,276
Income tax credits	8,798	8,196	8,066
Income before equity in undistributed income of subsidiaries	325,941	349,049	116,342
Equity in undistributed income of subsidiaries			
Net income of subsidiaries	499,151	391,026	299,814
Less: dividends received	(340,000)	(362,000)	(130,000)
Equity in undistributed income of subsidiaries	159,151	29,026	169,814
Net income	$ 485,092	378,075	286,156
Net income per common share			
Basic	$ 5.25	3.95	3.55
Diluted	5.07	3.82	3.44

Condensed Statement of Cash Flows

In thousands	Year ended December 31 2002	2001	2000
Cash flows from operating activities			
Net income	$ 485,092	378,075	286,156
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed income of subsidiaries	(159,151)	(29,026)	(169,814)
Provision for deferred income taxes	(797)	823	707
Net change in accrued income and expense	18,963	37,564	12,988
Net cash provided by operating activities	344,107	387,436	130,037
Cash flows from investing activities			
Other, net	(17)	(384)	(2)
Cash flows from financing activities			
Net decrease in short-term borrowings	–	–	(29,000)
Purchases of treasury stock	(240,314)	(323,744)	(54,947)
Dividends paid – common	(96,858)	(95,872)	(51,987)
Other, net	46,145	49,154	19,730
Net cash used by financing activities	(291,027)	(370,462)	(116,204)
Net increase in cash and cash equivalents	$ 53,063	16,590	13,831
Cash and cash equivalents at beginning of year	32,556	15,966	2,135
Cash and cash equivalents at end of year	$ 85,619	32,556	15,966
Supplemental disclosure of cash flow information			
Interest received during the year	$ 2,079	1,727	476
Interest paid during the year	21,266	21,342	22,323
Income taxes received during the year	25,676	43,201	13,828

Officers and Directors

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Maid of the Mist Corporation

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Selected Consolidated Year-End Balances

In thousands	2002	2001	2000	1999	1998
Money-market assets					
Interest-bearing deposits at banks	$ 7,856	4,341	3,102	1,092	674
Federal funds sold and resell agreements	320,359	41,086	17,261	643,555	229,066
Trading account	51,628	38,929	37,431	641,114	173,122
Total money-market assets	379,843	84,356	57,794	1,285,761	402,862
Investment securities					
U.S. Treasury and federal agencies	1,209,180	1,448,397	1,984,347	737,586	1,321,000
Obligations of states and political subdivisions	256,023	306,768	249,425	79,189	73,789
Other	2,489,947	1,268,972	1,076,081	1,083,747	1,390,775
Total investment securities	3,955,150	3,024,137	3,309,853	1,900,522	2,785,564
Loans and leases					
Commercial, financial, leasing, etc.	5,399,738	5,205,834	5,171,959	3,697,058	3,211,427
Real estate – construction	1,001,553	1,034,362	900,170	525,241	489,112
Real estate – mortgage	12,010,464	12,929,102	11,732,168	9,712,803	8,869,634
Consumer	7,525,187	6,226,170	5,166,017	3,637,759	3,435,528
Total loans and leases	25,936,942	25,395,468	22,970,314	17,572,861	16,005,701
Unearned discount	(209,158)	(207,708)	(227,500)	(166,090)	(214,171)
Allowance for credit losses	(436,472)	(425,008)	(374,703)	(316,165)	(306,347)
Loans and leases, net	25,291,312	24,762,752	22,368,111	17,090,606	15,485,183
Goodwill	1,097,553	1,097,553	1,000,837	540,561	487,398
Core deposit and other intangible assets	118,790	170,273	198,570	107,479	58,638
Real estate and other assets owned	17,380	16,387	13,619	10,000	11,129
Total assets	33,174,525	31,450,196	28,949,456	22,409,115	20,583,891
Noninterest-bearing deposits	4,072,085	3,704,004	3,344,913	2,260,432	2,066,814
NOW accounts	1,029,060	930,400	873,472	583,471	509,307
Savings deposits	9,156,678	7,980,065	6,105,689	5,198,681	4,830,678
Time deposits	6,246,384	8,188,036	9,664,088	7,088,345	7,027,083
Deposits at foreign office	1,160,716	777,895	244,511	242,691	303,270
Total deposits	21,664,923	21,580,400	20,232,673	15,373,620	14,737,152
Short-term borrowings	3,429,414	3,045,830	2,072,824	2,554,159	2,229,976
Long-term borrowings	4,497,374	3,461,769	3,414,516	1,775,133	1,567,543
Total liabilities	29,992,702	28,510,745	26,248,971	20,612,069	18,981,525
Stockholders' equity	3,181,823	2,939,451	2,700,485	1,797,046	1,602,366

Stockholders, Employees and Offices

Number at year-end	2002	2001	2000	1999	1998
Stockholders	11,587	12,565	11,936	4,991	5,207
Employees	9,197	9,291	8,736	6,569	6,467
Offices	493	513	488	310	283

Consolidated Earnings

In thousands	2002	2001	2000	1999	1998
Interest income					
Loans and leases, including fees	$1,670,412	1,892,507	1,579,701	1,323,262	1,198,639
Money-market assets					
Deposits at banks	76	116	308	87	400
Federal funds sold and resell agreements	4,455	2,027	12,891	24,491	8,293
Trading account	202	348	1,009	3,153	4,403
Investment securities					
Fully taxable	148,221	182,767	165,811	118,741	139,731
Exempt from federal taxes	18,733	24,120	13,064	8,897	7,984
Total interest income	1,842,099	2,101,885	1,772,784	1,478,631	1,359,450
Interest expense					
NOW accounts	3,900	8,548	7,487	4,683	4,851
Savings deposits	107,281	134,454	132,225	121,888	115,345
Time deposits	237,001	453,940	445,666	367,889	388,185
Deposits at foreign office	8,460	11,264	14,915	12,016	14,973
Short-term borrowings	52,723	124,810	172,466	104,911	105,582
Long-term borrowings	185,149	210,581	145,838	107,847	58,567
Total interest expense	594,514	943,597	918,597	719,234	687,503
Net interest income	1,247,585	1,158,288	854,187	759,397	671,947
Provision for credit losses	122,000	103,500	38,000	44,500	43,200
Net interest income after provision for credit losses	1,125,585	1,054,788	816,187	714,897	628,747
Other income					
Mortgage banking revenues	116,408	102,699	63,168	71,819	65,646
Service charges on deposit accounts	167,531	144,302	92,544	73,612	57,357
Trust income	60,030	64,395	45,165	40,751	38,211
Brokerage services income	43,261	39,349	32,795	27,140	19,587
Trading account and foreign exchange gains	2,860	4,462	2,351	315	3,963
Gain (loss) on sales of bank investment securities	(608)	1,873	(3,078)	1,575	1,761
Other revenues from operations	122,449	120,346	91,727	67,163	76,414
Total other income	511,931	477,426	324,672	282,375	262,939
Other expense					
Salaries and employee benefits	456,411	434,937	329,209	284,822	259,487
Equipment and net occupancy	107,822	111,403	80,960	73,131	66,553
Printing, postage and supplies	25,378	25,512	20,138	17,510	17,603
Amortization of goodwill	–	61,820	35,760	31,737	23,333
Amortization of core deposit and other intangible assets	51,484	59,816	33,816	17,978	11,154
Other costs of operations	279,937	254,830	194,570	153,780	187,993
Total other expense	921,032	948,318	694,453	578,958	566,123
Income before income taxes	716,484	583,896	446,406	418,314	325,563
Income taxes	231,392	205,821	160,250	152,688	117,589
Net income	$ 485,092	378,075	286,156	265,626	207,974
Dividends declared – Common	$ 96,858	95,872	51,987	35,128	28,977

Common Shareholder Data

	2002	2001	2000	1999	1998
Per Share					
Net income					
Basic	$ 5.25	3.95	3.55	3.41	2.73
Diluted	5.07	3.82	3.44	3.28	2.62
Cash dividends declared	1.05	1.00	.625	.45	.38
Stockholders' equity at year-end	34.53	31.33	28.93	23.24	20.79
Tangible stockholders' equity at year-end	21.75	18.34	16.74	15.14	13.99
Dividend payout ratio	19.99%	25.40%	18.19%	13.22%	13.93%

Changes in Interest Income and Expense[a]

	2002 compared with 2001			2001 compared with 2000		
Increase (decrease) in thousands	Total change	Resulting from changes in: Volume	Rate	Total change	Resulting from changes in: Volume	Rate
Interest income						
Loans and leases, including fees	$(222,055)	80,883	(302,938)	314,716	469,548	(154,832)
Money-market assets						
Deposits at banks	(40)	45	(85)	(192)	(85)	(107)
Federal funds sold and agreements to resell securities	2,428	3,859	(1,431)	(10,864)	(6,507)	(4,357)
Trading account	(166)	5	(171)	(656)	(330)	(326)
Investment securities						
U.S. Treasury and federal agencies	(32,496)	(26,481)	(6,015)	8,804	7,015	1,789
Obligations of states and political subdivisions	(6,655)	(3,668)	(2,987)	15,593	15,469	124
Other	(4,266)	16,182	(20,448)	8,666	15,364	(6,698)
Total interest income	$(263,250)			336,067		
Interest expense						
Interest-bearing deposits						
NOW accounts	$ (4,648)	436	(5,084)	1,061	3,074	(2,013)
Savings deposits	(27,173)	23,938	(51,111)	2,229	38,681	(36,452)
Time deposits	(216,939)	(67,856)	(149,083)	8,274	66,546	(58,272)
Deposits at foreign office	(2,804)	5,623	(8,427)	(3,651)	3,763	(7,414)
Short-term borrowings	(72,087)	(5,642)	(66,445)	(47,656)	30,923	(78,579)
Long-term borrowings	(25,432)	33,228	(58,660)	64,743	89,149	(24,406)
Total interest expense	$(349,083)			25,000		

[a] *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.*

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Private Investor

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MANUFACTURERS AND TRADERS TRUST COMPANY AND SUBSIDIARIES

Condensed Consolidated Balance Sheet

In thousands		December 31 2002	2001
Assets	Cash and due from banks	$ 963,779	965,667
	Money-market assets	380,970	286,978
	Investment securities		
	Available for sale (cost: $3,342,710 in 2002; $2,446,295 in 2001)	3,425,465	2,474,300
	Held to maturity (market value: $87,893 in 2002; $122,107 in 2001)	86,397	121,508
	Other (market value: $268,302 in 2002; $238,129 in 2001)	268,302	238,129
	Total investment securities	3,780,164	2,833,937
	Loans and leases, net of unearned discount	25,394,944	24,536,975
	Allowance for credit losses	(432,831)	(420,812)
	Loans and leases, net	24,962,113	24,116,163
	Other assets	2,577,095	2,601,696
	Total assets	$32,664,121	30,804,441
Liabilities	Deposits		
	Noninterest-bearing	$ 4,099,521	3,741,012
	Interest-bearing	17,309,320	17,398,340
	Total deposits	21,408,841	21,139,352
	Short-term borrowings	3,429,414	3,045,830
	Accrued interest and other liabilities	363,533	379,634
	Long-term borrowings	4,077,711	3,042,389
	Total liabilities	29,279,499	27,607,205
Stockholder's equity		3,384,622	3,197,236
	Total liabilities and stockholder's equity	$32,664,121	30,804,441

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350 Park Avenue
New York, New York 10022

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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
585/258-8264
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

In thousands		December 31 2002	2001
Assets	Cash and due from banks	$ 2,568	4,059
	Investment securities		
	Available for sale (cost: $133,230 in 2002; $147,244 in 2001)	139,637	152,601
	Other (market value: $1,316 in 2002 and 2001)	1,316	1,316
	Total investment securities	140,953	153,917
	Loans, net of unearned discount	482,840	650,785
	Allowance for credit losses	(3,641)	(4,196)
	Loans, net	479,199	646,589
	Other assets	3,223	5,328
	Total assets	$625,943	809,893
Liabilities	Deposits		
	Noninterest-bearing	$ 28	256
	Interest-bearing	362,507	503,124
	Total deposits	362,535	503,380
	Short-term borrowings	63,100	211,200
	Accrued interest and other liabilities	17,621	24,294
	Long-term borrowings	100,000	–
	Total liabilities	543,256	738,874
Stockholder's equity		82,687	71,019
	Total liabilities and stockholder's equity	$625,943	809,893

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
Richard A. Lammert
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
Alfred F. Luhr, III
William H. Mabee
Michael S. Piemonte
Matthew N. Schiro
Michael R. Spychala
Michael P. Wallace
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
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

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

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

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 48.

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