M&T Bank Corporation

Robert G. Wilmers
Remarks to Annual Meeting of Shareholders

April 21, 2009

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

As has long been our custom on the day of this Annual Meeting, earlier this morning we reported the Company's first quarter financial results.

Some will, understandably, view these results as disappointing. And, yes, our net income is down, compared to the first quarter of the year past. Credit quality has deteriorated and we have had to increase our loan loss reserves. Times are tough—and we should expect to find many such indications of just how tough they are. Nonetheless, on balance, there are a good many reasons to be positive about M&T's situation, given the circumstances in which we find ourselves: the 16th month of a serious recession. Against the backdrop of an industry-wide loss in the banking sector for the fourth quarter, 2008—the first since 1991—we continued to be profitable. During the past year, out of the 20 largest U.S.-based commercial banks, a definition which excludes three banks whose primary business is trust and custody, 14 reported at least one quarterly loss. We have continued, in every single quarter, to report profits. Three of the banks among those 20 were acquired, two of them at fire-sale prices. Every bank among the 17 survivors recorded lower 2008 earnings compared with 2007. M&T's 16% decline in earnings per share in 2008 ranked us 2 second out of the 17 survivors and compares very favorably with the median 83% decline for the group.

While our year over year net charge-offs have increased in 2008, they comprise the second-lowest percentage of loans outstanding among that group of 17 survivors. This is not to say that we, like some of our peer institutions, did not make mistakes. I've been candid and apologetic about the ways, as I put it in this year's annual report, we "strayed from our traditional model of community banking." As ill-considered as they may have been, they were, still, minor parts of our portfolio—parts that we have either written off already or are effectively cleaning up without outside assistance. For the most part, we have hewed to our fundamental model: high underwriting standards in good times and bad; lending based in relationships within the communities in which we have branches. Just consider this: one of every three businesses in our leading markets—places like Baltimore, Harrisburg and here in Buffalo—with gross revenue of more than five million dollars—banks with M&T. We entered the downturn at the beginning of 2007 with the second-highest level of loan loss reserves relative to our loans among the largest U.S. banks. We were able to do so because we resisted the temptation to sustain our earnings growth by lowering our loan loss allowance during

the good times. Our general adherence, with minor exceptions, to these unchanging elements of prudent banking have meant that, while others have reduced or even eliminated their dividends, we have, to this point, done neither. Indeed, we are one of just two from the same group of 17 surviving banks out of the top 20 not to have done so. It's not a coincidence that we are the only two banks among that group that earned more than our dividend in 2008. Crucially, we continue to demonstrate our capacity to attract deposits and generate capital. In comparing our 2008 results, as measured by growth in earnings per share, with those of the group I just referenced, as a whole, we see that we ranked second for the year past, as we have over the past 11 years. In time, we may well look back on this as a period in which we performed consistently better than the industry.

These are no small matters. Indeed, they are significant positives and should, in my view, offer some reassurance to our shareholders, employees and our communities about the prospect for the future. Whether one measures by earnings, loan loss reserve coverage, dividend coverage or the performance of our stock, M&T is a strong bank.

Nor, despite the extraordinary time in which we are living—in which the world financial system has teetered on collapse such that government has had to intervene in unprecedented ways—are we the only bank which is sound and profitable. America's vast network of Main Street banks—our community-based banks which number some 8,305—have a limited number of so-called toxic assets on their books and, like M&T, stand ready and able to lend.

It must be acknowledged, of course, that some things which appear as positives for M&T and other community banks, are reflections of our recessionary environment and its high levels of business and consumer fear. That must certainly explain, in part, the dramatic increase we have seen in our deposits. Over the last six months, during the height of the financial "storm," customer deposits have increased by $3.1 billion or an annualized rate of 19.8%, far outpacing the three percent rate experienced over the preceding 10 years. In fact, at no time since 1990 have deposits grown by more than seven percent in any single year. We well recognize that that increase can be understood as a flight to safe, healthy institutions, as households are choosing not to spend but rather to protect their wealth in government-insured accounts—now protected to a level more than twice as high as they had been. So too is uncertainty among consumers and businesses evident in our lending activity. Demand for credit has plummeted, as both consumers and businesses hold back from spending and investment. Indeed, our loan closings for those businesses seeking new or renewed lines of credit has shrunk by at least half, compared to a year ago. The strongest area of demand for loans at present is for refinancing residential mortgages, demand for which has been stimulated by low, some would argue Government subsidized, interest rates. We see that banks are under fire for not lending as much as some would like—but we know that lending can't take place in the absence of demand, especially at a time when underwriting standards must not be compromised, lest mistakes that were made during the bubble years be repeated.

Our own view of the situation, however, does not change the fact that banks truly are under fire today. Indeed, during a recent meeting of the Financial Services Roundtable, which represents the 150 largest financial services firms in the country, I heard, again and again from our elected officials in Washington, of the deep unpopularity of banks and bankers—that the public believes that it is we who are responsible for

this financial crisis. Let me say this as plainly as I can: it was not the actions of banks like this one which got us into this mess—and it's important to understand, if we are to cope effectively with this crisis, just who did get us into it and how it was allowed to happen.

There is no doubt in my mind that at the heart of the problem lie the complex, indeed opaque, derivative securities created not by Main Street but by Wall Street and done so—and this is just as important—with the passive complicity of regulators. Last year at this meeting, I described such activity as a "virtual casino"—and the passing of time has made the phrase no less apt. The key players were those who built what has come to be called the "shadow banking industry" that came to account for as much as two-thirds of all lending. Investment banks whose capital markets' divisions created, originated and sold an alphabet soup of derivative securities—unleashed a flood of credit which caused a vast excess of housing to be built in a gold rush atmosphere. In the collapse that has followed, billions of dollars worth of mortgage-backed securities and their ilk have now been written off. It was instruments such as these, not middle market business loans nor other standard lending originated by Main Street banks, that have weakened the capital structure of the banking industry and undermined popular confidence in banks. Worse, the effects have spread throughout the world economy, as people have stopped buying goods and materials, causing a meltdown in the world stock markets. This meltdown led to a $9.1 trillion loss in the value of financial assets held by U.S. households since the second quarter of 2007. At the same time, the decline in real estate values has contributed to an additional $3.8 trillion decrease in household net worth. As a result, over $12.9 trillion has disappeared into thin air, which will certainly affect the vast majority of civilization for a very long time to come.

There are many who must be deemed responsible—but today I would like to focus on three examples that I believe highlight the most egregious part of the problem—and one other which could be in the process of causing additional, serious damage to the banking system, including to banks like M&T. This is a tragedy with an uncounted number of authors. But I will focus, for purposes of this talk, on just four. These four include the world's most successful and best-known investment bank, what used to be the largest commercial bank in the United States, and two bank regulators—the Office of Thrift Supervision and the Federal Deposit Insurance Corporation. They all are both proximate causes and appropriate symbols of the financial crisis. And their actions have left the community-based banks of Main Street to literally pay the price to try to put Humpty-Dumpty together again. We are, as a result, saddled with the cost of government interventions not designed, in any way, with healthy banks like M&T in mind. Indeed, we gain little or nothing as a result of the life-support extended to the profligate and imprudent. Instead their assistance becomes our collateral damage. Let me explain.

Let's start with Wall Street's most successful investment bank. It was in the forefront in creating, originating and selling derivative securities. As a result it made a lot of money. It made still more when, just before the market realized that these securities were of questionable value, it shorted the market for sub-prime mortgages and securities, betting that the value would fall. The entrepreneurial spirit is what made us a great nation, but something must have been out of kilter when over two years, 2006 and 2007, the top five people in this one firm's management received total compensation of $503 million. The conversion of this once-great investment bank into a giant hedge fund—with huge payouts for

executives—went unchecked and largely unremarked upon by regulators, despite the fact that it constituted a radical change in our financial system. It hardly seems a coincidence that this same investment bank, from 1998 to 2008, spent $40.6 million on lobbying expenditures and campaign contributions. In 2008 alone, this one investment bank spent $8,970,000 for those same purposes—almost 11% more than similar spending by the Financial Services Roundtable, the trade organization which represents the top 150 financial institutions. What's more, this same firm has consistently sent its top officials to Washington to serve at the highest levels of government, there, in fact, to oversee directly the current restructuring of the financial industry. One must be concerned about such interlocks and overlaps. One hopes that it is only a coincidence that there was certain reluctance on the part of regulators to reveal that this same investment bank is one of the institutions which benefited from bailout funds channeled to the insurance firm, AIG. As an institution with counterparty exposure to AIG, they were effectively allowed to liquidate their risk position without loss. The sheer size and complexity of the counterparty positions between this investment house and AIG, which amounted to some $12.9 billion, is daunting enough. The fact that risks of this magnitude were not subject to oversight by the banking regulators is mind-boggling.

Let me contrast the way we are treated by regulators with that of the investment bank to which I refer. When M&T proposed to acquire a modest-sized community bank in Utica, New York, it took 10 weeks and a promise to divest three branches before we were given permission to proceed. When this investment house, searching for a port in the financial storm, decided to seek a commercial bank charter — permission to proceed was obtained in less than one week. By obtaining this charter, they received access to the Federal Reserve Discount Window as well as to the FDIC, which has since guaranteed $21.7 billion of their debt securities, equal to nine percent of all funds guaranteed under the Temporary Liquidity Guarantee Program. The FDIC, of course, is funded by dues from 8,305 community-based banks across the United States. Today, as faint signs of stability appear on the horizon, this firm seeks to repay the $10 billion received from the Treasury's Troubled Asset Relief Program. Thus it appears that this institution, judged too big to fail, is offered the benefit of any and all government programs, when and as needed.

The same pattern—of lobbying expenditures, campaign contributions and an open tap from the federal government to protect it from its own mistakes—characterizes the situation of what is now the nation's second largest commercial bank.

It too, chose to operate with high rates of leverage—indeed, it constructed, by the admission of its own executives, off-balance sheet investment vehicles intended to allow it to increase the extent of that leverage. It was not reined in by regulators, to the point that it is in business today only because it has received the life-support of government capital. This bank, which spent $70.5 million on lobbying and made $19.9 million in campaign contributions over the past decade, was rewarded with $50 billion in government assistance, $245 billion in loans guaranteed by the Federal Reserve and another $10 billion guaranteed by the FDIC. In 2008, this one bank spent more on lobbying and campaign contributions than the leading investment bank—and also more than the American Bankers Association, the leading trade organization for the entire banking industry. In each of the eight years since 2002, this bank has been fined, sanctioned or forced into a legal settlement. These total more than 20, in six different countries—at a

cost exceeding $3.8 billion. Yet so confident was this bank of the support of regulators, who took the view that it was "too big to fail," that, even as it required a huge infusion of federal money, it moved to acquire one of the largest commercial banks in the country. Incredibly, its senior management went unpunished—and remained in place. Indeed, this bank's chief executive officer received no less than $10.8 million in total compensation this past year. It is certainly the case that when smaller banks fail, their management does not get such a mulligan, as it were. I think of a local bank, incorporated not far from here in Williamsville, New York, which recently saw a change in management. A cease-and-desist order from FDIC included dozens of mandated changes in operations it was required to adopt just to stay in business. These tough requirements included an increase in capital within just 60 days and "a clear and concise description of the needed experience and pay for each job." It is simply not clear to me why the same approach should not be applied to institutions which played an infinitely more important role in getting us into the mess we're in.

The job of repairing our financial system, after several decades of mismanagement, will be extremely complex and daunting. At M&T we admire and applaud what the administration is attempting to accomplish. At the same time, we hope that both the Federal Reserve and the White House will keep in mind the famous words of the economist Allan Meltzer: "Capitalism without failure is like religion without sin." Memo to Washington: Propping up insolvent institutions is not a long-run strategy. The time may be here for public policy to acknowledge the same—and to sweep out the management teams whose decisions got us into this mess.

Such unfortunate and unprecedented developments reflect the fact we have allowed a banking oligopoly to develop. The country's five largest banks had, as of the end of last year, some 37% of the nation's total domestic deposits—and during 2008, $53.5 billion in charge-offs. Federal Reserve Chairman Bernanke has raised the question of whether, if some financial institutions are to be judged too big to allow to fail, we should have allowed them to get that big in the first place. Thomas Hoenig, who serves as president of the Kansas City Federal Reserve Bank, made a similar point in his remarks last month, entitled "Too Big Has Failed." Indeed, the five largest banks, together with two other institutions which were granted a fast track to bank holding company status, have received $172.6 billion or 52.5% of all the federal assistance provided by the Troubled Asset Relief Program. Including three other, non-bank institutions that participated, the total increases to $237.4 billion or 72.2% of TARP funds distributed to date. Over a 10-year period, the 10 largest recipients of TARP funds spent $523.6 million in lobbying expenditures and political contributions. Indeed, although 555 institutions have accepted TARP funds, just five large companies—including three of the four largest U.S. banks—accounted for 55% of all lobbying expense incurred by TARP recipients.

The examples I have cited raise a broader and extremely important issue that has seldom been raised in our current dialogue about the financial crisis—the role of lobbying expenses and campaign contributions. One has to wonder why the 10 largest recipients of TARP funds felt the need to spend $82.4 million on lobbying expenses and campaign contributions in 2008. Does this money improve the banking system on which millions of businesses and citizens rely? Or was it even motivated by philosophical purposes, to improve the quality of life in the United States?

Someone has to say it: this sort of behavior is just plain wrong. Corporate leaders have an obligation to set the right tone—a moral tone—lest public confidence in our private enterprise system erode. The management of large banks should be paid to manage the banks—not to take entrepreneurial risks with insured deposits, nor to try to change the rules of the game to favor their own companies. The average bank does not have the same access to the government as the oligopoly of banks which spends so much on lobbying and political contributions—such that they confirm the worst fears of Thomas Jefferson, who wrote, to his Secretary of the Treasury Albert Gallatin, in 1802, that "our banking institutions are more dangerous to our liberties than standing armies."

If government, in other words, is not alert, the financial system can lead us into crisis. And government, over the course of the past two decades, was complicit in letting the casino to which I referred operate without adult supervision, in the first place. Exhibit A: the Office of Thrift Supervision, the arm of the Treasury Department responsible for regulating 9.7% of the nation's banking system. Its record is of great concern. Of 25 banks which failed in 2008, five were supervised by the Office of Thrift Supervision (OTS). Those five failures were especially significant. They cost the FDIC $13.3 billion or 77% of its total cost for bank failures in the year past. Indeed, OTS-related failures have represented nearly 70% of FDIC costs throughout the 21st century. The numbers I've cited do not even include the costs of making whole the depositors of the Washington Mutual bank, whose demise was the largest in American history and for which the FDIC has certain contingent liabilities the extent of which have not been made public—but whose assets represented 79% of all assets of banks that have failed in the 21st century.

There is additional, important context to understand about the OTS. In 1999, Congress passed legislation allowing banks, insurance companies and securities firms to compete with each other. Since then, 315 institutions have received federal banking charters. Of these, 102 received OTS charters—including a number which have been implicated in our current crisis. These include AIG, whose London subsidiary, at one point in 2008 owned derivative securities which had notional value of $2.7 trillion. Other prominent companies which sought the oversight of the OTS included General Electric, H&R Block and Archer-Daniels Midland. It would appear that in terms of regulatory performance, as well as ease of charter approval, the OTS was the place to go. One can understand that if management of an institution wanted to be an aggressive player in the banking industry, with a minimum of supervision, the OTS was the regulator of choice.

This is not how things should be. Failure by an agency in the public sector should be punished just as surely as failure in the private sector. The Office of Thrift Supervision falls under the direct supervision of the Secretary of the Treasury. It would not be difficult for the Secretary to merge it into another regulatory agency run both more professionally—and more effectively.

It is good to see that the Treasury Department is beginning to consider restructuring our regulatory regime—but much damage has already been done—and M&T and other healthy, prudent banks will bear the costs of the behavior of the imprudent. They will affect the earnings and value of the firm for years to come—an effect that will far outweigh any of our errors in judgment.

Here are two key cases in point: the increases in dues we will have to pay to the FDIC and the cost of interest we will owe the federal government as a result of the advent of the Troubled Asset Relief Program. As a result, in part, of ineffective oversight, M&T's "contribution," as it were, to the FDIC insurance fund will, thanks to bank failures and the prospect of more, skyrocket this year from $6.7 million to as much as $89 million. This is a substantial drain on our prospective earnings per share. I fear, moreover, that matters will only get worse. The FDIC faces, for instance, a contingent liability of unknown dimensions for the failed Washington Mutual. Even more worrisome, it is taking on new sorts of risks which will only add to its exposure. It has moved to guarantee loans at two of our three largest banks, incurring a contingent liability of $12.5 billion—and it has said it will insure up to $1 trillion in loans which the Treasury will make to private investors to help them buy "toxic assets" as part of the so-called Public Private Investment Program. Ominously, the New York Times has reported, based on comments made by the FDIC's chair, that if the corporation incurs losses as a result of this unprecedented action, "it will assess the financial industry a fee." What the Times might have said is: this would not be a fee imposed on those newly chartered financial institutions such as insurance companies and investment banks. It would effectively be a tax only on banks with deposits.

We will also bear significant costs because of the TARP—an injection of federally-provided capital on to our balance sheet which we accepted, lest we appear to be too weak not to do so. It is important to note that, although we did accept TARP funds, we were the only one of the top 25 banks to accept the minimum amount allowed—just one percent of assets. We did our best, in other words, to make the best of a bad situation. But in accepting TARP funds—in the form of federal ownership of preferred shares of M&T—we are now required to pay a guaranteed five percent dividend to Washington, a requirement that will cost us the pretax equivalent of $58.7 million this year alone. This supposed bailout constitutes a huge tax—on top of the huge increase in FDIC dues. You can do the math: increased FDIC dues plus the dividends we will have to pay for the TARP funds could exceed $148 million. And make no mistake: this will not be a one-time fee but an ongoing cost we will have to pay annually for many years.

The pattern is clear: the bailout money and the perks are concentrated amongst the big banks—the ones who pay the lobbyists and make the campaign contributions—while the healthy banks pay the freight.

If we must pay such costs, we are owed, in return, regulatory reform that is both broad and deep—in order to prevent repetition of the mistakes which have been allowed to occur. As Federal Reserve Chairman Bernanke told the Council on Foreign Relations last month, "It is not too soon for policymakers to begin thinking about the reforms to the financial architecture, broadly conceived, that could help prevent a similar crisis from developing in the future." In his excellent remarks, Chairman Bernanke rightly pointed out that "strong and effective regulation and supervision of banking institutions, although necessary for reducing systemic risk, are not sufficient by themselves to achieve this aim." In other words, the shadow banking system which did so much to cause our current crisis cannot continue to be opaque, with no restrictions on its debt and leverage —and the extent and nature of its risks unknown. Strict regulation for a relatively small portion of the global credit market—that linked to traditional banks such as this one—while letting huge credit flows go

unchecked simply makes no sense. Improved regulation will require great attention to detail. At M&T, we spent several months, for instance, analyzing just one small part of the financial system which caused problems—the managing and servicing of residential mortgages. We found that, in order for this system to be simpler and more effective for investors, mortgage holders and banks alike, there was a need for as many as 12 changes in laws and regulations.

The specifics of the new regulatory regime overall necessarily go beyond that for which I have time this morning. But beginning to address them is no less urgent a matter than resolving the fate of those institutions which have already failed. None of this means that I am less than optimistic about M&T's prospects. One must recognize, however, that our own prudence is necessary but not sufficient for our return to robust health. For that, we must hope for a broad economic recovery. To achieve that, we must finally and fully close the book on past mistakes, while laying the groundwork for a 21st century system of financial regulation.

Let me close on some special notes. First, a salute to community bankers across these United States who have been unfairly blamed for the financial crisis and recession into which we have fallen. Day in and day out, they protect their depositors by making prudent loans to people whom they know—and who have the capacity to repay. This is the foundation of a healthy economy. Second, notwithstanding, the criticisms and suggestions I've offered here this morning, no one should doubt my appreciation for the pressure under which our public officials now labor to cope with this financial crisis, nor the accomplishments they've achieved to date, despite that pressure. Specifically, the Federal Reserve has demonstrated tremendous creativity and imagination in coping with problems no one could have anticipated. Finally, to the 13,000 M&T employees—superb professionals and great community citizens—I well understand that this is not the easiest time in which to say you work for a bank. Polls tell us so; so do the barbs of late-night comedians. Never forget that you form the foundation of a bank of which you can be proud—and that you play a vital role in the communities we serve.

I spoke earlier of the need for those in business to set a moral tone. Our employees do just that. Indeed, 1,151 M&T employees serve on the boards of 1,745 community organizations. The work you do on behalf of your customers and the contributions you make to your communities brings out the best in M&T, and makes me proud to be associated with you and confident in this company's future. Thank you very much.