UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 1997

or

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

Commission File Number 1-9861

FIRST EMPIRE STATE CORPORATION
(Exact name of registrant as specified in its charter)

New York (State or other jurisdiction of incorporation or organization)	16-0968385 (I.R.S. Employer Identification No.)
One M & T Plaza Buffalo, New York (Address of principal executive offices)	14240 (Zip Code)

(716) 842-5445
(Registrant's telephone number, including area code)

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

Number of shares of the registrant's Common Stock, $5 par value, outstanding as of the close of business on October 23, 1997: 6,597,859 shares.

FIRST EMPIRE STATE CORPORATION

FORM 10-Q

For the Quarterly Period Ended September 30, 1997

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (unaudited)

Dollars in thousands, except per share		September 30, 1997	December 31, 1996
Assets	Cash and due from banks	$ 349,571	324,659
	Money-market assets		
	Interest-bearing deposits at banks	796	47,325
	Federal funds sold and agreements to resell securities	31,765	125,326
	Trading account	43,805	37,317
	Total money-market assets	76,366	209,968
	Investment securities		
	Available for sale (cost: $1,584,796 at September 30, 1997; $1,400,976 at December 31,1996)	1,603,717	1,396,672
	Held to maturity (market value: $90,754 at September 30, 1997; $119,316 at December 31,1996)	90,248	118,616
	Other (market value: $58,280 at September 30,1997; $56,410 at December 31,1996)	58,280	56,410
	Total investment securities	1,752,245	1,571,698
	Loans and leases	11,570,275	11,120,221
	Unearned discount	(299,127)	(398,098)
	Allowance for possible credit losses	(272,308)	(270,466)
	Loans and leases, net	10,998,840	10,451,657
	Premises and equipment	121,497	128,521
	Accrued interest and other assets	376,614	257,412
	Total assets	$ 13,675,133	12,943,915
Liabilities	Noninterest-bearing deposits	$ 1,358,352	1,352,929
	NOW accounts	308,157	334,787
	Savings deposits	3,351,844	3,280,788
	Time deposits	5,949,017	5,352,749
	Deposits at foreign office	237,594	193,236
	Total deposits	11,204,964	10,514,489
	Federal funds purchased and agreements to repurchase securities	507,625	1,015,408
	Other short-term borrowings	300,820	134,779
	Accrued interest and other liabilities	252,279	195,578
	Long-term borrowings	427,887	178,002
	Total liabilities	12,693,575	12,038,256
Stockholders' equity	Preferred stock, $1 par, 1,000,000 shares authorized, none outstanding	--	--
	Common stock, $5 par, 15,000,000 shares authorized, 8,097,472 shares issued	40,487	40,487
	Additional paid-in-capital	101,531	96,597
	Retained earnings	1,051,093	937,072
	Unrealized investment gains (losses), net	11,244	(2,485)
	Treasury stock - common, at cost - 1,523,377 shares at September 30, 1997; 1,411,286 shares at December 31, 1996	(222,797)	(166,012)
	Total stockholders' equity	981,558	905,659
	Total liabilities and stockholders' equity	$ 13,675,133	12,943,915

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

Amounts in thousands, except per share		Three months ended September 30 1997	1996	Nine months ended September 30 1997	1996
Interest income	Loans and leases, including fees	$ 240,254	221,785	705,055	652,033
	Money-market assets				
	Deposits at banks	944	354	2,469	1,651
	Federal funds sold and agreements to resell securities	952	311	2,217	2,493
	Trading account	382	216	1,013	721
	Investment securities				
	Fully taxable	25,490	26,712	74,697	82,777
	Exempt from federal taxes	1,679	707	3,957	1,790
	Total interest income	269,701	250,085	789,408	741,465
Interest expense	NOW accounts	803	2,768	2,558	8,183
	Savings deposits	22,746	21,170	67,489	62,364
	Time deposits	85,889	74,706	241,900	209,082
	Deposits at foreign office	2,969	3,382	9,081	9,045
	Short-term borrowings	8,801	12,311	32,731	47,657
	Long-term borrowings	8,560	3,547	21,064	10,734
	Total interest expense	129,768	117,884	374,823	347,065
	Net interest income	139,933	132,201	414,585	394,400
	Provision for possible credit losses	12,000	10,475	34,000	31,850
	Net interest income after provision for possible credit losses	127,933	121,726	380,585	362,550
Other income	Mortgage banking revenues	12,748	11,289	36,995	32,955
	Service charges on deposit accounts	10,865	10,176	31,976	30,209
	Trust income	7,643	6,649	21,779	19,895
	Merchant discount and other credit card fees	4,514	5,160	13,979	12,435
	Trading account and foreign exchange gains	1,427	1,009	3,372	1,163
	Gain (loss) on sales of bank investment securities	(47)	(15)	(280)	412
	Other revenues from operations	13,032	10,625	32,267	25,538
	Total other income	50,182	44,893	140,088	122,607
Other expense	Salaries and employee benefits	56,270	52,517	165,390	153,778
	Equipment and net occupancy	13,302	13,506	39,690	39,621
	Printing, postage and supplies	3,334	3,719	10,157	11,401
	Deposit insurance	471	7,779	1,440	9,337
	Other costs of operations	31,329	30,137	94,383	87,759
	Total other expense	104,706	107,658	311,060	301,896
	Income before income taxes	73,409	58,961	209,613	183,261
	Income taxes	27,518	23,090	79,672	72,578
	Net income	$ 45,891	35,871	129,941	110,683
	Net income per common share				
	Primary	$ 6.62	5.05	18.60	15.61
	Fully diluted	6.57	5.05	18.50	15.36
	Cash dividends per common share	.80	.70	2.40	2.10
	Average common shares outstanding				
	Primary	6,927	7,104	6,985	7,032
	Fully diluted	6,982	7,106	7,024	7,205

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

Dollars in thousands		Nine months ended September 30 1997	1996
Cash flows from operating activities	Net income	$ 129,941	110,683
	Adjustments to reconcile net income to net cash provided by operating activities		
	Provision for possible credit losses	34,000	31,850
	Depreciation and amortization of premises and equipment	15,679	15,304
	Amortization of capitalized mortgage servicing rights	10,147	7,691
	Provision for deferred income taxes	(11,389)	(45)
	Asset write-downs	905	817
	Net gain on sales of assets	(1,232)	(2,549)
	Net change in accrued interest receivable, payable	17,869	12,977
	Net change in other accrued income and expense	56,036	10,424
	Net change in loans held for sale	23,077	(16,455)
	Net change in trading account assets and liabilities	30,974	(538)
	Net cash provided by operating activities	306,007	170,159
Cash flows from investing activities	Proceeds from sales of investment securities		
	Available for sale	217,221	151,781
	Proceeds from maturities of investment securities		
	Available for sale	176,680	329,650
	Held to maturity	67,561	78,729
	Other	--	721
	Purchases of investment securities		
	Available for sale	(576,468)	(502,527)
	Held to maturity	(39,201)	(46,749)
	Other	(3,936)	(2,776)
	Net decrease in interest-bearing deposits at banks	46,529	66,083
	Additions to capitalized mortgage servicing rights	(16,000)	(11,934)
	Net increase in loans and leases	(604,303)	(890,799)
	Capital expenditures, net	(7,517)	(11,831)
	Acquisitions, net of cash acquired	123,043	--
	Purchases of bank owned life insurance	(100,000)	--
	Other, net	(3,460)	(1,789)
	Net cash used by investing activities	(719,851)	(841,441)
Cash flows from financing activities	Net increase in deposits	557,360	1,082,457
	Net decrease in short-term borrowings	(379,204)	(268,431)
	Proceeds from issuance of trust preferred securities	250,000	--
	Payments on long-term borrowings	(120)	(4,682)
	Purchases of treasury stock	(67,771)	(64,115)
	Dividends paid - common	(15,920)	(13,932)
	Dividends paid - preferred	--	(900)
	Other, net	850	(1,031)
	Net cash provided by financing activities	345,195	729,366
	Net increase (decrease) in cash and cash equivalents	$ (68,649)	58,084
	Cash and cash equivalents at beginning of period	449,985	364,119
	Cash and cash equivalents at end of period	$ 381,336	422,203
Supplemental disclosure of cash flow information	Interest received during the period	$ 784,005	742,188
	Interest paid during the period	354,753	338,346
	Income taxes paid during the period	40,915	74,834
Supplemental schedule of noncash investing and financing activities	Real estate acquired in settlement of loans	$ 6,522	7,247
	Conversion of preferred stock to common stock	--	40,000

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (unaudited)

Dollars in thousands, except per share	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Unrealized investment gains (losses) net	Treasury stock	Total
1996							
Balance - January 1, 1996	$ 40,000	40,487	98,657	805,486	(3,155)	(135,222)	$ 846,253
Net income	--	--	--	110,683	--	--	110,683
Preferred stock cash dividends	--	--	--	(900)	--	--	(900)
Common stock cash dividends - $2.10 per share	--	--	--	(13,932)	--	--	(13,932)
Exercise of stock options	--	--	2,987	--	--	1,625	4,612
Purchases of treasury stock	--	--	--	--	--	(64,115)	(64,115)
Conversion of preferred stock into 506,930 shares of common stock	(40,000)	--	(6,534)	--	--	46,534	--
Unrealized losses on investment securities available for sale, net	--	--	--	--	(4,944)	--	(4,944)
Balance - September 30, 1996	$ --	40,487	95,110	901,337	(8,099)	(151,178)	$ 877,657
1997							
Balance - January 1, 1997	$ --	40,487	96,597	937,072	(2,485)	(166,012)	$ 905,659
Net income	--	--	--	129,941	--	--	129,941
Common stock cash dividends - $2.40 per share	--	--	--	(15,920)	--	--	(15,920)
Exercise of stock options	--	--	4,934	--	--	10,986	15,920
Purchases of treasury stock	--	--	--	--	--	(67,771)	(67,771)
Unrealized gains on investment securities available for sale, net	--	--	--	--	13,729	--	13,729
Balance - September 30,1997	$ --	40,487	101,531	1,051,093	11,244	(222,797)	$ 981,558

CONSOLIDATED SUMMARY OF CHANGES IN ALLOWANCE FOR POSSIBLE CREDIT LOSSES (unaudited)

Dollars in thousands	Nine months ended September 30 1997	1996
Beginning balance	$ 270,466	262,344
Provision for possible credit losses	34,000	31,850
Net charge-offs		
Charge-offs	(44,332)	(34,510)
Recoveries	12,174	10,779
Total net charge-offs	(32,158)	(23,731)
Ending balance	$ 272,308	270,463

NOTES TO FINANCIAL STATEMENTS

1. Significant accounting policies

The consolidated financial statements of First Empire State Corporation and subsidiaries ("the Company") were compiled in accordance with the accounting policies set forth on pages 41 and 42 of the Company's 1996 Annual Report. In the opinion of management, all adjustments necessary for a fair presentation have been made and were all of a normal recurring nature.

2. Borrowings

In January 1997, First Empire Capital Trust I ("Trust I"), a Delaware business trust organized by the Company on January 17, 1997, issued $150 million of 8.234% preferred capital securities. In June 1997, First Empire Capital Trust II ("Trust II" and, together with Trust I, the "Trusts"), a Delaware business trust organized by the Company on May 30, 1997, issued $100 million of 8.277% preferred capital securities.

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

The common securities of each Trust ("Common Securities") are wholly owned by First Empire, and such 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 First Empire's Tier 1 capital.

The proceeds from the issuances of the Capital Securities and Common Securities were used by the Trusts to purchase the following amounts of junior subordinated deferrable interest debentures ("Junior Subordinated Debentures") issued by First Empire:

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.

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 First Empire exercises its 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, First Empire may not pay dividends or distributions on, or repurchase, redeem or acquire any shares of its capital stock. The agreements governing the Capital Securities, in the aggregate, provide a full, irrevocable and unconditional guarantee by First Empire of the payment of distributions on, the redemption of, and any liquidation distribution with respect to the Capital Securities. The obligations of First Empire under such guarantee and the Capital Securities are subordinate and junior in right of payment to all senior indebtedness of First Empire.

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 June 1, 2007 in the case of Trust II) contemporaneously with First Empire'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 First Empire's option (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 their 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.

3. Earnings per share

During the first quarter of 1997, Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share," was issued. SFAS No. 128 establishes standards for computing and presenting earnings per share and applies to entities with publicly held common stock or potential common stock. SFAS No. 128 replaces the presentation of primary earnings per share required by Accounting Principles Board Opinion No. 15, "Earnings per Share," with a presentation of basic earnings per share. It also requires dual presentation of basic and diluted earnings per share on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator in the basic earnings per share computation to the numerator and denominator in the diluted earnings per share computation.

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 for 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.

SFAS No. 128 is effective for financial statements for periods ending after December 15, 1997, including interim periods. Earlier application is not permitted, however, after the effective date all prior period earnings per share data presented shall be restated to conform with the provisions of SFAS No. 128.

Pro forma amounts for basic and diluted earnings per share as if SFAS No. 128 was effective January 1, 1996 were $6.96 and $6.62, respectively, for the three months ended September 30, 1997 and $5.34 and $5.05, respectively, for the three months ended September 30, 1996. Pro forma amounts for basic and diluted earnings per share for the nine months ended September 30, 1997 were $19.59 and $18.60, respectively, and for the nine months ended September 30, 1996 were $16.51 and $15.38, respectively.

4. Contingencies

Information regarding legal proceedings is included in Part II, Item I, ("Legal Proceedings") of this Quarterly Report on Form 10-Q.

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

Overview

First Empire State Corporation ("First Empire") earned $45.9 million or $6.57 per fully diluted common share in the third quarter of 1997, increases of 28% and 30%, respectively, from the third quarter of 1996 when net income was $35.9 million or $5.05 per common share on a fully diluted basis. Net income was $42.8 million or $6.15 per fully diluted common share in the second quarter of 1997. Primary earnings per share increased to $6.62 in the recent quarter from $5.05 in the year-earlier quarter and $6.17 in the second quarter of 1997. Results for the third quarter of 1996 were impacted by a $7.0 million charge for a special assessment by the Federal Deposit Insurance Corporation ("FDIC") to recapitalize the Savings Association Insurance Fund ("SAIF"). Excluding the after-tax impact of the one-time assessment, which reduced net income by $4.1 million, or $.58 per common share, both fully diluted and primary earnings per share in the third quarter of 1996 would have been $5.63.

For the nine months ended September 30, 1997, net income was $129.9 million or $18.50 per fully diluted common share, up 17% and 20%, respectively, from $110.7 million or $15.36 per share during the comparable 1996 period. Primary earnings per share rose 19% to $18.60 for the first nine months of 1997 from $15.61 for the corresponding period in 1996.

The annualized rate of return on average assets for First Empire and its consolidated subsidiaries ("the Company") in the third quarter of 1997 was 1.36%, up from 1.14% in the year-earlier quarter and 1.31% in 1997's second quarter. The annualized return on average common stockholders' equity was 18.92% in the recent quarter, up from 16.64% in the third quarter of 1996 and 18.55% in the second quarter of 1997. During the first nine months of 1997, the annualized rates of return on average assets and average common stockholders' equity were 1.32% and 18.58%, respectively, compared with 1.19% and 17.44%, respectively, in the corresponding 1996 period.

In January and June of 1997, First Empire completed separate offerings of trust preferred securities that raised a total of $250 million that qualifies as Tier 1 or core capital for First Empire under the Federal Reserve Board's risk-based capital guidelines. The trust preferred securities are classified as long-term borrowings and accumulated distributions on the securities are included in interest expense.

Taxable-equivalent Net Interest Income

Net interest income expressed on a taxable-equivalent basis was $141.5 million in the third quarter of 1997, up $8.1 million or 6% from $133.5 million in the year-earlier quarter and slightly higher than the $139.6 million earned in the second quarter of 1997. Growth in average loans and leases was the most significant factor contributing to the improvement in net interest income. Average loans and leases increased $749 million, or 7%, to $11.0 billion in the third quarter of 1997 from $10.3 billion in the year-earlier quarter, lead by growth in the commercial real estate and commercial loan portfolios. Continuing to reflect a decline in the rate of growth that began last quarter, as compared with the five preceding quarterly periods, average loans and leases in the recent quarter were $160 million, or 1%, higher than the second quarter of 1997. Compared with the second quarter of 1997, growth in the Company's residential and commercial real estate loan portfolios during the recent quarter was partially offset by a slight decrease in average commercial loans. The accompanying table summarizes quarterly changes in the major components of the loan and lease portfolio.

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

	3rd Qtr. 1997	Percent increase (decrease) from 3rd Qtr. 1996	2nd Qtr. 1997
Commercial, financial, etc.	$ 2,226	10%	(2)%
Real estate - commercial	4,223	11	3
Real estate - consumer	2,245	3	5
Consumer			
Automobile	1,041	(1)	(3)
Home equity	646	6	1
Credit cards	256	(7)	1
Other	365	14	7
Total consumer	2,308	2	-
Total	$11,002	7%	1%

For the first nine months of 1997, taxable-equivalent net interest income was $418.8 million, up 5% from $397.7 million in the corresponding 1996 period. The leading factor contributing to this improvement was a 9% increase in average loans and leases.

Average holdings of investment securities were $1.7 billion for the quarters ended September 30, 1997 and June 30, 1997, down slightly from $1.8 billion in the third quarter of 1996. Money-market assets averaged $201 million in 1997's third quarter, compared with $73 million in the year-earlier quarter and $183 million in the second quarter of 1997. In general, the size of the investment securities and money-market assets portfolios is influenced by such factors as demand for loans, which generally yield more than investment securities and money-market assets, ongoing repayments, the levels of deposits, and management of balance sheet size and resulting capital ratios.

Average earning assets increased 7% to $13.0 billion in the third quarter of 1997 from $12.1 billion in the third quarter of 1996. Average earning assets were $12.7 billion in the second quarter of 1997 and aggregated $12.7 billion and $12.0 billion for the nine months ended September 30, 1997 and 1996, respectively.

Core deposits, which include noninterest-bearing deposits, interest-bearing transaction accounts, savings deposits and nonbrokered domestic time deposits under $100,000, represent a significant source of funding to the Company. The Company's New York State branch network is the principal source of core deposits, which generally carry lower interest rates than wholesale funds of comparable maturities. Core deposits include certificates of deposit under $100,000 generated on a nationwide basis by M&T Bank, National Association ("M&T Bank, N.A."), a commercial bank subsidiary of First Empire. Average core deposits increased to $8.4 billion in the third quarter of 1997, up from $8.2 billion in the year-earlier quarter and $8.3 billion in the second quarter of 1997. Average core deposits of M&T Bank, N.A. were $453 million in the recently completed quarter, compared with $348 million in the third quarter of 1996 and $440 million in the second quarter of 1997. The accompanying table provides an analysis of quarterly changes in the components of average core deposits. For the nine months ended September 30, 1997 and 1996, core deposits averaged $8.3 billion and $7.9 billion, respectively.

AVERAGE CORE DEPOSITS
Dollars in millions

	3rd Qtr. 1997	Percent increase (decrease) from 3rd Qtr. 1996	2nd Qtr. 1997
NOW accounts	$ 234	(71)%	(9)%
Savings deposits	3,443	21	1
Time deposits less than $100,000	3,496	5	1
Noninterest-bearing deposits	1,251	5	6
Total	$8,424	3%	1%

The Company also obtains funding through domestic time deposits of $100,000 or more, deposits originated through the Company's offshore branch office, and brokered certificates of deposit. Brokered deposits averaged $1.5 billion during the third quarter of 1997 and totaled $1.6 billion at September 30, 1997, compared with an average balance of $1.2 billion during the comparable 1996 period and a total balance of $1.2 billion at September 30, 1996. Brokered deposits averaged $1.3 billion in the second quarter of 1997. Such deposits are used to reduce short-term borrowings and lengthen the average maturity of interest-bearing liabilities. The weighted average remaining term to maturity of brokered deposits at September 30, 1997 was 2.4 years. 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 uses short-term borrowings from banks, securities dealers, the Federal Home Loan Bank of New York ("FHLB") and others as supplemental sources of funding. Short-term borrowings averaged $686 million in the recent quarter, compared with $928 million in the third 1996 quarter and $789 million in the second quarter of 1997. The previously discussed issuances of $250 million of trust preferred securities also provided funding during 1997. These securities, along with $175 million of subordinated notes issued in prior years by M&T Bank, are included in long-term borrowings. Long-term borrowings averaged $428 million and $188 million in the third quarter of 1997 and 1996, respectively, and $355 million in the second quarter of 1997.

Net interest income is impacted by changes in the composition of the Company's earning assets and interest-bearing liabilities, as well as changes in interest rates and spreads. Net interest spread, or the difference between the taxable-equivalent yield on earning assets and the rate paid on interest-bearing liabilities, was 3.64% in the third quarter of 1997, compared with 3.73% in the year-earlier quarter. The rate paid on interest-bearing liabilities increased 15 basis points (hundredths of one percent) to 4.67% in the third quarter of 1997 from 4.52% in the third quarter of 1996 due to generally higher interest rates and the effect of the previously discussed issuances of $250 million of trust preferred securities. Such increase was partially offset by a 6 basis point increase in the yield on earning assets to 8.31% in the third quarter of 1997 from 8.25% in the corresponding 1996 quarter. The net interest spread was 3.71% in the second quarter of 1997 when the yield on earning assets was 8.35% and the rate paid on interest-bearing liabilities was 4.64%.

Largely due to the changes in the net interest spread described above, the Company's net interest margin, or taxable equivalent net interest income expressed as an annualized percentage of average earning assets, was 4.34% in 1997's third quarter, compared with 4.38% in the comparable quarter of 1996 and 4.39% in the second 1997 quarter. During the first nine months of 1997 and 1996, the net interest margin was 4.40% and 4.44%, respectively.

The contribution to net interest margin of interest-free funds was .70% in the third quarter of 1997, up from .65% in the corresponding 1996 quarter. Average interest-free funds, consisting largely of noninterest-bearing deposits and stockholders' equity, totaled $1.9 billion in the third quarter of 1997, up from $1.7 billion a year earlier. The 15 basis point increase in the rate paid on interest-bearing liabilities used to value these funds was a factor in the improvement in the contribution of interest-free funds to net interest margin. The contribution to net interest margin of interest-free funds was .68% in the second quarter of 1997 when such funds averaged $1.9 billion.

Management assesses the potential impact of future changes in interest rates and spreads by projecting net interest income under a number of different interest rate scenarios. 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 the loan and deposit portfolios. Revenue and expense arising from these agreements are reflected in either the yields earned on loans or, as appropriate, rates paid on interest-bearing deposits. The notional amount of interest rate swap agreements used as part of the Company's management of interest rate risk in effect at September 30, 1997 and 1996 was $3.0 billion and $2.5 billion, respectively. In general, under the terms of these swaps, the Company receives payments based on the outstanding notional amount of the swaps at fixed rates of interest and makes payments at variable rates. However, under the terms of a $33 million swap, the Company pays a fixed rate of interest and receives a variable rate. At September 30, 1997 the weighted average rates to be received and paid under interest rate swap agreements were 6.36% and 5.68%, respectively. The average notional amounts of interest rate swaps and the related effect on net interest income and margin are presented in the accompanying table.

INTEREST RATE SWAPS
Dollars in thousands

	Three months ended September 30			
	1997		1996	
	Amount	Rate *	Amount	Rate *
Increase (decrease) in:				
Interest income	$ (96)	--%	$ (210)	(.01)%
Interest expense	(3,830)	(.13)	(4,065)	(.16)
Net interest income/margin	$ 3,734	.12%	$ 3,855	.13%
Average notional amount **	$ 2,972,119		$ 2,500,199	

	Nine months ended September 30			
	1997		1996	
	Amount	Rate *	Amount	Rate *
Increase (decrease) in:				
Interest income	$ (48)	--%	$ 69	--%
Interest expense	(10,455)	(.13)	(11,205)	(.15)
Net interest income/margin	$ 10,407	.11%	$ 11,274	.13%
Average notional amount **	$ 2,629,053		$ 2,382,589	

* Computed as an annualized percentage of average earning assets or interest-bearing liabilities.
** Excludes forward-starting interest rate swaps.

The Company estimates that as of September 30, 1997 it would have received approximately $13.4 million if all interest rate swap agreements entered into for interest rate risk management purposes had been terminated. This estimated fair value of the interest rate swap portfolio results from the effects of changing interest rates and should be considered in the context of the entire balance sheet and the Company's overall interest rate risk profile. Changes in the estimated fair value of interest rate swaps entered into for interest rate risk management purposes are not recorded in the consolidated financial statements.

Giving consideration to interest rate swaps in place at September 30, 1997 and utilizing a computer model which aids management in assessing the potential impact of future changes in interest rates and spreads, management estimates that the projected amount of net interest income will be largely unaffected by changes in interest rates in the next two years. However, additional interest rate risk management actions may be necessary to counter any detrimental effect which a sustained decrease in interest rates could have on net interest income in later years.

As a financial intermediary, the Company is exposed to liquidity risk whenever the maturities of financial instruments included in assets and liabilities differ. Accordingly, a critical element in managing a financial institution is ensuring that sufficient cash flow and liquid assets are available to satisfy demands for loans and deposit withdrawals, to fund operating expenses, and to be used for other corporate purposes. Deposits and borrowings, maturities of money-market assets, repayments of loans and investment securities, and cash generated from operations, such as fees collected for services, provide the Company with other sources of liquidity. Through membership in the FHLB, as well as other available borrowing facilities, First Empire's banking subsidiaries have access to additional funding sources. In addition to the proceeds passed through to First Empire from the issuance of the $250 million of trust preferred securities noted earlier, First Empire utilizes dividend payments from its banking subsidiaries, which are subject to various regulatory limitations, to pay dividends, repurchase treasury stock, and fund debt service and other operating expenses. First Empire also maintains a $25 million line of credit with an unaffiliated commercial bank, all of which was available for borrowing at September 30, 1997. Management does not anticipate engaging in any activities, either currently or in the long-term, which would cause a significant strain on liquidity at either First Empire or its subsidiary banks. Furthermore, management closely monitors the Company's liquidity position for compliance with internal policies and believes that available sources of liquidity are adequate to meet anticipated funding needs.

Provision for Possible Credit Losses

The provision for possible credit losses in the third quarter of 1997 was $12.0 million, up from $10.5 million in the third quarter of 1996 and $11.0 million in the second quarter of 1997. The purpose of the provision is to replenish or build the Company's allowance for possible credit losses to a level necessary to maintain an adequate reserve position. Net loan charge-offs totaled $11.6 million in the third quarter of 1997, compared with $10.0 million in the year-earlier quarter and $12.6 million in 1997's second quarter. As an annualized percentage of average loans and leases, net charge-offs were .42% in the recent quarter, compared with .39% in the corresponding 1996 quarter and .47% in the second quarter of 1997. Net charge-offs of consumer loans in the third quarter of 1997 were $8.2 million, compared with $7.3 million in the third quarter of 1996 and $9.7 million in 1997's second quarter. Net consumer loan charge-offs as an annualized percentage of average consumer loans and leases were 1.42% in the recent quarter, compared with 1.28% in the comparable 1996 quarter and 1.68% in 1997's second quarter.

Through September 30, the provision for possible credit losses was $34.0 million in 1997 and $31.9 million in 1996. Net charge-offs during the nine months ended September 30, 1997 were $32.2 million, compared with $23.7 million for the corresponding 1996 period, representing an annualized percentage of average loans and leases of .40% and .32%, respectively. Net charge-offs of consumer loans totaled $26.8 million and $18.9 million during the nine months ended September 30, 1997 and 1996, respectively. The most significant factors contributing to the increased level of consumer loan charge-offs in 1997 compared with 1996 were higher charge-offs of credit card balances and indirect automobile loans.

Nonperforming loans were $85.8 million or .76% of total loans and leases outstanding at September 30, 1997, compared with $96.5 million or .92% at September 30, 1996 and $97.1 million or .88% at June 30, 1997. Included in such amounts are loans that are guaranteed by government agencies totaling $17.9 million and $27.5 million at September 30, 1997 and 1996, respectively, and $20.7 million at June 30, 1997. Nonperforming commercial real estate loans totaled $24.9 million at September 30, 1997, $28.1 million at September 30, 1996 and $29.2 million at June 30, 1997. Nonperforming commercial real estate loans include loans secured by properties located in the New York City metropolitan area of $10.1 million at September 30, 1997, $10.9 million at September 30, 1996 and $11.9 million at June 30, 1997. Nonperforming consumer loans totaled $19.5 million at September 30, 1997, compared with $16.5 million at September 30, 1996 and $16.4 million at June 30, 1997. As a percentage of consumer loan balances outstanding, nonperforming consumer loans were .84% at September 30, 1997, compared with .70% at September 30, 1996 and .71% at June 30, 1997. Assets taken in foreclosure of defaulted loans were $8.2 million at September 30, 1997, $8.5 million at September 30, 1996 and $9.7 million at June 30, 1997.

A comparative summary of nonperforming assets and certain credit quality ratios is presented in the accompanying table.

NONPERFORMING ASSETS
Dollars in thousands

	1997 Quarters			1996 Quarters	
	Third	Second	First	Fourth	Third
Nonaccrual loans	$50,369	62,525	57,366	58,232	59,517
Loans past due 90 days or more	29,979	31,810	36,857	39,652	36,958
Renegotiated loans	5,413	2,741	2,741	--	--
Total nonperforming loans	85,761	97,076	96,964	97,884	96,475
Other real estate owned	8,239	9,698	8,694	8,523	8,467
Total nonperforming assets	$94,000	106,774	105,658	106,407	104,942
Government guaranteed nonperforming loans*	$17,853	20,656	22,753	25,847	27,475
Nonperforming loans to total loans and leases, net of unearned discount	.76%	.88%	.90%	.91%	.92%
Nonperforming assets to total net loans and other real estate owned	.83%	.97%	.98%	.99%	1.00%

* Included in total nonperforming loans.

The allowance for possible credit losses was $272.3 million, or 2.42% of total loans and leases at September 30, 1997, compared with $270.5 million or 2.59% a year earlier, $270.5 million or 2.52% at December 31, 1996 and $271.9 million or 2.48% at June 30, 1997. The ratio of the allowance for possible credit losses to nonperforming loans was 318% at the most recent quarter-end, compared with 280% a year earlier, 276% at December 31, 1996 and 280% at June 30, 1997. In assessing the adequacy of the allowance for possible credit losses, management performs an ongoing evaluation 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. Based upon the results of such review, management believes that the allowance for possible credit losses at September 30, 1997 was adequate to absorb credit losses from existing loans and leases.

Other Income

Other income totaled $50.2 million in the third quarter of 1997, compared with $44.9 million in the year-earlier quarter and $44.0 million in the second quarter of 1997. For the first nine months of 1997, other income was $140.1 million, up 14% from $122.6 million in the comparable 1996 period.

Mortgage banking revenues were $12.7 million in the recent quarter, compared with $11.3 million in the corresponding 1996 quarter and $12.2 million in the second quarter of 1997. Residential mortgage loan servicing fees totaled $6.2 million in the third quarter of 1997, up from $5.3 million in the year-earlier quarter and equal to the second 1997 quarter. Gains from sales of residential mortgage loans and loan servicing rights were $5.8 million in the recently completed quarter, compared with $5.5 million in the third quarter of last year and $5.4 million in 1997's second quarter. Residential mortgage loans serviced for others totaled $6.5 billion and $5.7 billion at September 30, 1997 and 1996, respectively. Capitalized servicing assets were $48.8 million and $44.5 million at September 30, 1997 and 1996, respectively.

Service charges on deposit accounts totaled $10.9 million in 1997's third quarter, up from $10.2 million in the third quarter of 1996 and $10.7 million in the second quarter of 1997. Trust income was $7.6 million in the third quarter of 1997, compared with $6.6 million in the corresponding quarter of last year and $7.2 million in the second quarter of 1997. Higher corporate trust revenues contributed to the increase over the prior quarters. Merchant discount and credit card fees were $4.5 million in the recent quarter, down from $5.2 million in the year-earlier period, but up from $4.2 million in the second 1997 quarter. The decrease from the year-earlier quarter reflects the March 28, 1997 termination of a co-branded credit card program that had been initiated in May 1996. Merchant discount and other credit card fees earned in connection with the terminated program were $35 thousand and $1.6 million during the three and nine month periods ended September 30, 1997, respectively, and $1.6 million and $2.3 million, respectively, for the comparable periods in 1996. Credit card balances related to this program that remained outstanding at September 30, 1997 were $4.4 million, compared with $53.7 million a year earlier. Trading account and foreign exchange activity resulted in gains of $1.4 million in the third quarter of 1997, compared with gains of $1.0 million and $596 thousand in the third quarter of 1996 and the second quarter of 1997, respectively. Other revenue from operations totaled $13.0 million in the recent quarter, up $2.4 million from $10.6 million in the corresponding quarter of 1996, in part due to higher revenues from the sale of mutual funds and annuities. Also during the recent quarter, a gain of $2.3 million was realized by the Company from the sale of venture capital investments, while in the year-earlier quarter, a $2.1 million gain was realized from the sale of $39 million of deposits and selected assets of a branch office of the Company. Other revenue from operations totaled $9.2 million in the second quarter of 1997.

For the first nine months of 1997, mortgage banking revenues increased 12% to $37.0 million from $33.0 million in the corresponding 1996 period, primarily due to higher servicing fees. Compared with the same period in 1996, service charges on deposit accounts increased 6% to $32.0 million during the first nine months of 1997, while trust income increased 9% to $21.8 million. Reflecting previous expansion of the Company's co-branded credit card business, during the first nine months of 1997 merchant discount and credit card fees increased 12% to $14.0 million from $12.4 million in the similar period of 1996. Trading account and foreign exchange activity resulted in gains of $3.4 million for the initial nine months of 1997, compared with gains of $1.2 million during the first nine months of 1996. Including a $2.2 million increase in fees earned from the sales of mutual funds and annuities and the previously mentioned venture capital gains of $2.3 million, other revenues from operations increased 26% to $32.3 million in the first nine months of 1997 from $25.5 million in the comparable 1996 period.

Other Expense

Other expense totaled $104.7 million in the third quarter of 1997, down 3% from $107.7 million in the third quarter of 1996 but up 3% from $102.1 million in the second quarter of 1997. The year-earlier quarter's results reflect the previously discussed $7.0 million charge for the special assessment by the FDIC to recapitalize the Savings Association Insurance Fund. Through the first nine months of 1997, other expense totaled $311.1 million or 3% higher than $301.9 million in the comparable 1996 period.

Salaries and employee benefits expense was $56.3 million in the recent quarter, 7% higher than the $52.5 million in the corresponding 1996 quarter and 5% above the $53.6 million in the second quarter of 1997. For the first nine months of 1997, salaries and employee benefits expense increased 8% to $165.4 million from $153.8 million in the corresponding 1996 period. Factors contributing to the higher expenses over the prior periods were higher costs associated with incentive-based compensation arrangements, including stock appreciation rights, as well as merit salary increases.

Nonpersonnel expense totaled $48.4 million in the third quarter of 1997, little changed from the third quarter of 1996, after excluding the one-time FDIC assessment, or the second quarter of 1997. Such expenses were $145.7 million during the first nine months of 1997, a decrease of 2% from $148.1 million during the corresponding 1996 period. Excluding the FDIC charge, nonpersonnel expense for the nine months ended September 30, 1997 increased 3% from the corresponding 1996 period. Contributing to the increase were higher amortization expenses relating to capitalized servicing rights and credit card co-brand rebate expenses. Rebate and other operating expenses based on card usage directly attributable to the co-branded credit card program terminated in March 1997 were approximately $1 thousand and $2.3 million during the three and nine month periods ended September 30, 1997, respectively, and $2.1 million and $3.1 million, respectively, for the comparable periods in 1996.

Capital

Stockholders' equity at September 30, 1997 was $982 million or 7.18% of total assets, compared with $878 million or 6.85% of total assets a year earlier and $906 million or 7.00% at December 31, 1996. On a per share basis, stockholders' equity was $149.31 at September 30, 1997, up from $130.58 and $135.45 at September 30 and December 31, 1996, respectively.

Stockholders' equity at September 30, 1997 reflected a gain of $11.2 million, or $1.71 per share, for the net after-tax impact of unrealized gains on investment securities classified as available for sale, compared with unrealized losses of $8.1 million or $1.20 per share at September 30, 1996 and $2.5 million or $.37 per share at December 31, 1996. Such unrealized gains and losses represent the difference, net of applicable income tax effect, between the amortized cost and estimated fair value of investment securities classified as available for sale. The market valuation of investment securities should be considered in the context of the entire balance sheet of the Company. With the exception of investment securities classified as available for sale, trading account assets and liabilities, and residential mortgage loans held for sale, the carrying values of financial instruments in the balance sheet are generally not adjusted for appreciation or depreciation in market value resulting from changes in interest rates.

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. Under regulatory guidelines, unrealized gains or losses on investment securities classified as available for sale are not recognized in determining regulatory capital. As previously noted, core capital includes the $250 million of trust preferred securities issued in 1997. Total capital further includes $175 million of subordinated notes issued by M&T Bank in prior years. The capital ratios of the Company and its banking subsidiaries, M&T Bank and M&T Bank, N.A., as of September 30, 1997 are presented in the accompanying table.

REGULATORY CAPITAL RATIOS
September 30, 1997

	First Empire (Consolidated)	M&T Bank	M&T Bank, N.A.
Core capital	10.63%	8.70%	13.69%
Total capital	13.44%	11.56%	14.94%
Leverage	8.97%	7.47%	7.35%

The Company has historically maintained capital ratios in excess of minimum regulatory guidelines largely through a high rate of internal capital generation. The rate of internal capital generation, or net income less dividends paid expressed as an annualized percentage of average total stockholders' equity, was 16.75% and 16.30% during the three and nine month periods ended September 30, 1997, respectively, compared with 14.46% and 15.00% during the comparable periods of 1996.

In February 1997, First Empire announced a plan to repurchase and hold as treasury stock up to 303,317 shares of its common stock for reissuance upon the exercise of outstanding stock options. As of September 30, 1997, First Empire had repurchased 178,011 common shares pursuant to the plan at an average cost of $331.78 per share. Including a prior repurchase plan completed in February 1997, First Empire repurchased 207,073 common shares during the first nine months of 1997 at a total cost of $67.8 million.

Forward-Looking Statements

Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this quarterly 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. Words such as "anticipates," "believes," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. 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. First Empire 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; 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; and financial resources in the amounts, at the times and on the terms required to support the Company's future businesses. 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.

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

QUARTERLY TRENDS

	1997 Quarters			1996 Quarters			
Taxable-equivalent basis	Third	Second	First	Fourth	Third	Second	First
Earnings and dividends							
Amounts in thousands, except per share							
Interest income	$271,305	265,301	257,029	257,196	251,336	248,673	244,714
Interest expense	129,768	125,734	119,321	119,343	117,884	114,996	114,185
Net interest income	141,537	139,567	137,708	137,853	133,452	133,677	130,529
Less: provision for possible credit losses	12,000	11,000	11,000	11,475	10,475	11,700	9,675
Other income	50,182	43,983	45,923	47,641	44,893	41,463	36,251
Less: other expense	104,706	102,070	104,284	107,082	107,658	97,921	96,317
Income before income taxes	75,013	70,480	68,347	66,937	60,212	65,519	60,788
Applicable income taxes	27,518	26,329	25,825	25,288	23,090	25,790	23,698
Taxable-equivalent adjustment	1,604	1,360	1,263	1,229	1,251	1,070	937
Net income	$ 45,891	42,791	41,259	40,420	35,871	38,659	36,153
Cash dividends on preferred stock	$ --	--	--	--	--	--	900
Per common share data							
Net income							
Primary	6.62	6.17	5.81	5.70	5.05	5.36	5.20
Fully diluted	6.57	6.15	5.80	5.68	5.05	5.36	4.96
Net income, excluding securities transactions							
Primary	6.63	6.19	5.81	5.73	5.05	5.36	5.17
Fully diluted	6.58	6.17	5.80	5.71	5.05	5.36	4.93
Cash dividends	$ .80	.80	.80	.70	.70	.70	.70
Average common shares outstanding							
Primary	6,927	6,928	7,100	7,098	7,104	7,212	6,778
Fully diluted	6,982	6,950	7,114	7,121	7,106	7,216	7,295
Balance sheet data							
Dollars in millions, except per share							
Average balances							
Total assets	$ 13,424	13,148	12,866	12,728	12,556	12,486	12,141
Earning assets	12,950	12,740	12,464	12,308	12,124	12,044	11,695
Investment securities	1,747	1,715	1,611	1,659	1,798	1,939	1,830
Loans and leases, net of unearned discount	11,002	10,842	10,715	10,527	10,253	9,997	9,672
Deposits	11,170	10,914	10,454	10,609	10,459	10,069	9,496
Stockholders' equity	962	925	917	891	857	855	849
At end of quarter							
Total assets	$ 13,675	13,441	13,122	12,944	12,821	12,542	12,671
Earning assets	13,100	12,903	12,621	12,504	12,282	12,015	12,129
Investment securities	1,752	1,708	1,693	1,572	1,753	1,817	2,108
Loans and leases, net of unearned discount	11,271	10,980	10,803	10,722	10,437	10,129	9,912
Deposits	11,205	11,186	10,533	10,514	10,554	10,193	9,719
Stockholders' equity	982	951	912	906	878	861	847
Equity per common share	149.31	143.64	137.33	135.45	130.58	126.70	123.76
Performance ratios,annualized							
Return on							
Average assets	1.36 %	1.31 %	1.30 %	1.26 %	1.14 %	1.25 %	1.20 %
Average common stockholders' equity	18.92 %	18.55 %	18.24 %	18.05 %	16.64 %	18.18 %	17.50 %
Net interest margin on average earning assets	4.34 %	4.39 %	4.48 %	4.46 %	4.38 %	4.46 %	4.49 %
Nonperforming assets to total assets,							
at end of quarter	.69 %	.79 %	.81 %	.82 %	.82 %	.75 %	.71 %
Market price per common share							
High	$ 415	343 1/2	336	289 5/8	258	247	247 3/4
Low	335	303	281	250	239	232	209
Closing	415	337	320	288	249	241	246

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

AVERAGE BALANCE SHEETS AND ANNUALIZED TAXABLE-EQUIVALENT RATES

Average balance in millions; interest in thousands	1997 Third quarter Average balance	Interest	Average rate	1997 Second quarter Average balance	Interest	Average rate
Assets						
Earning assets						
Loans and leases, net of unearned discount*						
Commercial, financial, etc	$ 2,226	$ 47,527	8.47%	2,260	47,680	8.46%
Real estate	6,468	139,184	8.61	6,265	134,710	8.60
Consumer	2,308	54,025	9.28	2,317	53,347	9.23
Total loans and leases, net	11,002	240,736	8.68	10,842	235,737	8.72
Money-market assets						
Interest-bearing deposits at banks	63	944	5.91	54	816	6.01
Federal funds sold and agreements to resell securities	69	952	5.47	64	860	5.40
Trading account	69	414	2.39	65	443	2.74
Total money-market assets	201	2,310	4.56	183	2,119	4.64
Investment securities**						
U.S. Treasury and federal agencies	1,132	17,959	6.29	1,192	19,002	6.39
Obligations of states and political subdivisions	45	755	6.61	44	728	6.59
Other	570	9,545	6.64	479	7,715	6.46
Total investment securities	1,747	28,259	6.42	1,715	27,445	6.42
Total earning assets	12,950	271,305	8.31	12,740	265,301	8.35
Allowance for possible credit losses	(273)			(272)		
Cash and due from banks	303			307		
Other assets	444			373		
Total assets	$ 13,424			13,148		
Liabilities and stockholders' equity						
Interest-bearing liabilities						
Interest-bearing deposits						
NOW accounts	$ 234	803	1.36	259	835	1.30
Savings deposits	3,443	22,746	2.62	3,406	22,495	2.65
Time deposits	6,021	85,889	5.66	5,852	82,254	5.64
Deposits at foreign office	221	2,969	5.32	216	2,873	5.33
Total interest-bearing deposits	9,919	112,407	4.50	9,733	108,457	4.47
Short-term borrowings	686	8,801	5.09	789	10,230	5.20
Long-term borrowings	428	8,560	7.94	355	7,047	7.93
Total interest-bearing liabilities	11,033	129,768	4.67	10,877	125,734	4.64
Noninterest-bearing deposits	1,251			1,181		
Other liabilities	178			165		
Total liabilities	12,462			12,223		
Stockholders' equity	962			925		
Total liabilities and stockholders' equity	$ 13,424			13,148		
Net interest spread			3.64			3.71
Contribution of interest-free funds			.70			.68
Net interest income/margin on earning assets		$ 141,537	4.34%		139,567	4.39%

Average balance in millions; interest in thousands	1997 First quarter Average balance	Interest	Average rate
Assets			
Earning assets			
Loans and leases, net of unearned discount*			
Commercial, financial, etc	2,187	44,623	8.27%
Real estate	6,139	131,135	8.54
Consumer	2,389	54,311	9.22
Total loans and leases, net	10,715	230,069	8.71
Money-market assets			
Interest-bearing deposits at banks	48	709	6.01
Federal funds sold and agreements to resell securities	32	405	5.22
Trading account	58	255	1.78

Total money-market assets	138	1,369	4.04
Investment securities**			
U.S. Treasury and federal agencies	1,064	16,679	6.36
Obligations of states and political subdivisions	41	677	6.66
Other	506	8,235	6.61
Total investment securities	1,611	25,591	6.44
Total earning assets	12,464	257,029	8.36
Allowance for possible credit losses	(272)		
Cash and due from banks	298		
Other assets	376		
Total assets	12,866		
Liabilities and stockholders' equity			
Interest-bearing liabilities			
Interest-bearing deposits			
NOW accounts	281	920	1.33
Savings deposits	3,346	22,248	2.70
Time deposits	5,410	73,757	5.53
Deposits at foreign office	255	3,239	5.16
Total interest-bearing deposits	9,292	100,164	4.37
Short-term borrowings	1,075	13,700	5.17
Long-term borrowings	278	5,457	7.96
Total interest-bearing liabilities	10,645	119,321	4.55
Noninterest-bearing deposits	1,162		
Other liabilities	142		
Total liabilities	11,949		
Stockholders' equity	917		
Total liabilities and stockholders' equity	12,866		
Net interest spread			3.81
Contribution of interest-free funds			.67
Net interest income/margin on earning assets		137,708	4.48%

*Includes nonaccrual loans.

(continued)

**Includes available for sale securities at amortized cost.

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

AVERAGE BALANCE SHEETS AND ANNUALIZED TAXABLE-EQUIVALENT RATES (continued)

Average balance in millions; interest in thousands	1996 Fourth quarter Average balance	Interest	Average rate	1996 Third quarter Average balance	Interest	Average rate
Assets						
Earning assets						
Loans and leases, net of unearned discount*						
Commercial, financial, etc	$ 2,072	$ 42,480	8.16%	2,023	41,322	8.12%
Real estate	6,082	131,894	8.67	5,972	128,704	8.62
Consumer	2,373	55,118	9.24	2,258	52,268	9.21
Total loans and leases, net	10,527	229,492	8.67	10,253	222,294	8.62
Money-market assets						
Interest-bearing deposits at banks	50	762	6.03	24	354	5.98
Federal funds sold and agreements to resell securities	37	492	5.32	23	311	5.46
Trading account	35	283	3.21	26	247	3.73
Total money-market assets	122	1,537	5.01	73	912	5.00
Investment securities**						
U.S. Treasury and federal agencies	1,097	17,069	6.19	1,208	18,719	6.16
Obligations of states and political subdivisions	41	682	6.54	44	711	6.43
Other	521	8,416	6.43	546	8,700	6.34
Total investment securities	1,659	26,167	6.27	1,798	28,130	6.23
Total earning assets	12,308	257,196	8.31	12,124	251,336	8.25
Allowance for possible credit losses	(271)			(271)		
Cash and due from banks	325			345		
Other assets	366			358		
Total assets	$ 12,728			12,556		
Liabilities and stockholders' equity						
Interest-bearing liabilities						
Interest-bearing deposits						
NOW accounts	$ 327	1,247	1.52	794	2,768	1.39
Savings deposits	3,291	22,458	2.71	2,854	21,170	2.95
Time deposits	5,516	77,006	5.55	5,359	74,706	5.55
Deposits at foreign office	258	3,354	5.16	257	3,382	5.23
Total interest-bearing deposits	9,392	104,065	4.41	9,264	102,026	4.38
Short-term borrowings	881	11,785	5.32	928	12,311	5.28
Long-term borrowings	186	3,493	7.47	188	3,547	7.48
Total interest-bearing liabilities	10,459	119,343	4.54	10,380	117,884	4.52
Noninterest-bearing deposits	1,217			1,195		
Other liabilities	161			124		
Total liabilities	11,837			11,699		
Stockholders' equity	891			857		
Total liabilities and stockholders' equity	$ 12,728			12,556		
Net interest spread			3.77			3.73
Contribution of interest-free funds			.69			.65
Net interest income/margin on earning assets		$ 137,853	4.46%		133,452	4.38%

*Includes nonaccrual loans.
**Includes available for sale securities at amortized cost.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

On August 29, 1997, M&T Bank, N.A. and Giant of Maryland, Inc. ("Giant") settled the arbitration proceeding which was commenced to determine the rights and liabilities of the parties to each other in connection with the termination of their co-branded credit card agreement. The terms of the settlement had no material impact on the Company's consolidated financial condition or results of operations. Such arbitration and the prior litigation between M&T Bank, N.A. and Giant were previously reported in First Empire's Quarterly Reports on Form 10-Q for the fiscal quarters ended June 30, 1997 and March 31, 1997, in First Empire's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, and in First Empire's Current Report on Form 8-K dated January 9, 1997.

First Empire and its subsidiaries are subject in the normal course of business to various other 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 First Empire or its subsidiaries will be material to the Company's consolidated financial condition, 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.

Item 2. Changes in Securities.
(Not applicable.)

Item 3. Defaults Upon Senior Securities.
(Not applicable.)

Item 4. Submission of Matters to a Vote of Security Holders.
(Not applicable.)

Item 5. Other Information. (None.)

Item 6. Exhibits and Reports on Form 8-K.

(a) The following exhibits are filed as a part of this report:

Exhibit No.	
11.1	Statement re: Computation of Earnings Per Common Share. Filed herewith.
27.1	Financial Data Schedule. Filed herewith.

(b) Reports on Form 8-K.

First Empire did not file any Current Reports on Form 8-K during the fiscal quarter ended September 30, 1997.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST EMPIRE STATE CORPORATION

Date: October 27, 1997   By: /s/ Michael P. Pinto

Michael P. Pinto
Executive Vice President
and Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	
11.1	Statement re: Computation of Earnings Per Common Share. Filed herewith.
27.1	Financial Data Schedule. Filed herewith.

Exhibit No.11.1

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

COMPUTATION OF EARNINGS PER COMMON SHARE
Amounts in thousands, except per share

		Three months ended September 30		Nine months ended September 30	
		1997	1996	1997	1996
Primary	Average common shares outstanding	6,592	6,722	6,634	6,651
	Common stock equivalents *	335	382	351	381
	Primary common shares outstanding	6,927	7,104	6,985	7,032
	Net income	$45,891	35,871	129,941	110,683
	Less: Cash dividends on preferred stock	--	--	--	900
	Net income available to common shareholders	$45,891	35,871	129,941	109,783
	Earnings per common share --primary	$ 6.62	5.05	18.60	15.61
Fully diluted	Average common shares outstanding	6,592	6,722	6,634	6,651
	Common stock equivalents *	390	384	390	391
	Assumed conversion of 9% convertible preferred stock	--	--	--	163
	Fully diluted average common shares outstanding	6,982	7,106	7,024	7,205
	Net income	$45,891	35,871	129,941	110,683
	Earnings per common share - fully diluted	$ 6.57	5.05	18.50	15.36

* Represents shares of First Empire's common stock issuable upon the assumed exercise of outstanding stock options granted pursuant to the First Empire State Corporation 1983 Stock Option Plan under the "treasury stock" method of accounting.

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9-MOS
DEC-31-1997
SEP-30-1997
349,571
796
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40,487
941,071
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705,055
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321,028
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34,000
(280)
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129,941
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18.50
4.40
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5,413
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12,174
272,308
168,337
0
103,971