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

FORM 10-K

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 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	16-0968385
(State of incorporation)	(I.R.S. Employer Identification No.)
ONE M&T PLAZA, BUFFALO, NEW YORK	14240
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

COMMON STOCK, $5 PAR VALUE	AMERICAN STOCK EXCHANGE
(Title of each class)	(Name of each exchange on which registered)

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

8.234% CAPITAL SECURITIES OF FIRST EMPIRE CAPITAL TRUST I
(AND THE GUARANTEE OF FIRST EMPIRE STATE CORPORATION WITH RESPECT THERETO)
(Title of class)

8.234% JUNIOR SUBORDINATED DEBENTURES OF
FIRST EMPIRE STATE CORPORATION
(Title of class)

8.277% CAPITAL SECURITIES OF FIRST EMPIRE CAPITAL TRUST II
(AND THE GUARANTEE OF FIRST EMPIRE STATE CORPORATION WITH RESPECT THERETO)
(Title of class)

8.277% JUNIOR SUBORDINATED DEBENTURES OF
FIRST EMPIRE STATE CORPORATION
(Title of Class)

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, and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. / /

Aggregate market value of the Common Stock, $5 par value, held by non-affiliates of the registrant, computed by reference to the closing price as of the close of business on March 5, 1998: $2,261,267,227.

Number of shares of the Common Stock, $5 par value, outstanding as of the close of business on March 5, 1998: 6,666,230 shares.

DOCUMENTS INCORPORATED BY REFERENCE:

(1) PORTIONS OF THE PROXY STATEMENT FOR THE 1998 ANNUAL MEETING OF STOCKHOLDERS OF FIRST EMPIRE STATE CORPORATION IN PART III.

FIRST EMPIRE STATE CORPORATION

FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 1997

CROSS-REFERENCE SHEET--continued

CROSS-REFERENCE SHEET--continued

PART I

ITEM 1. BUSINESS.

First Empire State Corporation ("Registrant" or "First Empire") is a New York business corporation which is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended ("BHCA") and under Article III-A of the New York Banking Law ("Banking Law"). The principal executive offices of the Registrant are located at One M&T Plaza, Buffalo, New York 14240. The Registrant was incorporated in November 1969. The Registrant and its direct and indirect subsidiaries are collectively referred to herein as the "Company". As of December 31, 1997, the Company had consolidated total assets of $14.0 billion, deposits of $11.2 billion and stockholders' equity of $1.0 billion. The Company had 4,359 full-time and 724 part-time employees as of December 31, 1997.

At December 31, 1997, the Registrant had two wholly owned bank subsidiaries: Manufacturers and Traders Trust Company ("M&T Bank") and M&T Bank, National Association ("M&T Bank, N.A."). The banks offer a wide range of commercial banking, trust and investment services to their customers. The East New York Savings Bank ("East New York"), formerly a wholly owned savings bank subsidiary of the Registrant, was merged with and into M&T Bank on May 24, 1997. At December 31, 1997, M&T Bank represented 95% of consolidated assets of the Company.

On October 28, 1997, First Empire entered into a definitive agreement with ONBANCorp, Inc. ("ONBANCorp"), a bank holding company headquartered in Syracuse, New York, for a merger between the two companies. ONBANCorp operates two wholly owned banking subsidiaries, OnBank & Trust Co., which has 59 offices in upstate New York, and Franklin First Savings Bank in Wilkes-Barre, Pennsylvania, which has 19 offices in northeastern Pennsylvania. Upon consummation of the merger, the banking subsidiaries of ONBANCorp will be merged into M&T Bank. At December 31, 1997, ONBANCorp had $5.3 billion of assets. The merger, which will be accounted for as a purchase, is subject to a number of conditions, including the approval of stockholders of both companies, and is currently expected to be consummated on or about April 1, 1998. Under the terms of the merger agreement, stockholders of ONBANCorp will have the option to receive .161 of a share of First Empire common stock (and cash in lieu of any fractional share) or $69.50 in cash in exchange for each share of ONBANCorp common stock. The merger agreement provides that a minimum of 60% and a maximum of 70% of the total number of shares of ONBANCorp common stock issued and outstanding immediately prior to the merger will be exchanged for shares of First Empire common stock. In the event that ONBANCorp's stockholders as a whole elect to receive stock consideration with respect to fewer than 60% or more than 70% of the total number of outstanding shares of ONBANCorp common stock, the selection by ONBANCorp's common stockholders of the method of payment is subject to allocation and proration to ensure that the number of shares of ONBANCorp common stock that are converted into shares of First Empire common stock will be not less than 60% nor more than 70%, as the case may be, of the total number of shares of ONBANCorp common stock issued and outstanding immediately prior to the merger. At February 3, 1998 ONBANCorp had 12,712,196 shares of common stock issued and outstanding. The merger is subject to the approval of stockholders of both companies and is expected to be completed on or about April 1, 1998.

The Company from time to time considers acquiring banks, thrift institutions, branch offices or other businesses within markets currently served or in other nearby markets. The Company has pursued acquisition opportunities in the past, continues to review different opportunities, including the possibility of major acquisitions, and intends to continue this practice.

SUBSIDIARIES

M&T Bank is a banking corporation which is incorporated under the laws of the State of New York. M&T Bank is a member of the Federal Reserve System and the Federal Home Loan Bank System, and its deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to applicable limits. First Empire acquired all of the issued and outstanding shares of the capital stock of M&T Bank in December 1969. The stock of M&T Bank represents a major asset of First Empire. M&T Bank operates under a charter granted by the State of New York in 1892, and the continuity of its banking business is traced to the organization of the Manufacturers and Traders Bank in 1856. The principal executive offices of M&T Bank are located at One M&T Plaza, Buffalo, New York 14240. As of December 31, 1997, M&T Bank had 178 banking offices located throughout New York State, plus a branch in Nassau, The Bahamas. As of December 31, 1997, M&T Bank had consolidated total assets of $13.4 billion, deposits of $10.8 billion and stockholder's equity of $1.0 billion. The deposit liabilities of M&T Bank are insured by the FDIC through either its Bank Insurance Fund ("BIF") or its Savings Association Insurance Fund ("SAIF"). Of M&T Bank's $10.8 billion in assessable deposits at December 31, 1997, 89% were assessed as BIF-insured and the remainder as SAIF-insured deposits. As a commercial bank, M&T Bank offers a broad range of financial services to a diverse base of consumers, businesses, professional clients, governmental entities and financial institutions located in its markets. Lending is largely focused on consumers residing in New York State and on New York-based small and medium-size businesses, however certain of M&T Bank's subsidiaries conduct lending activities in markets outside of New York State. M&T Bank, or certain of its subsidiaries, also offer commercial mortgage loans secured by income producing properties or properties used by borrowers in a trade or business. Other financial services are also provided through operating subsidiaries.

M&T Bank, N.A., a national bank and a member of the Federal Reserve System and the FDIC, commenced operations on October 2, 1995. The deposit liabilities of M&T Bank, N.A. are insured by the FDIC through the BIF. The main office of M&T Bank, N.A. is located at 48 Main Street, Oakfield, New York 14125. M&T Bank, N.A. offers selected deposit and loan products on a nationwide basis, primarily through direct mail and telephone marketing techniques. M&T Bank, N.A. is also a licensed insurance agency, and offers long-term care, disability and life insurance services, primarily through banking offices of M&T Bank. As of December 31, 1997, M&T Bank, N.A. had total assets of $703 million, deposits of $651 million and stockholder's equity of $52 million.

M&T Capital Corporation ("M&T Capital"), a wholly owned subsidiary of M&T Bank, was incorporated as a New York business corporation in January 1968. M&T Capital is a federally-licensed small business investment company operating under the provisions of the Small Business Investment Act of 1958, as amended. During 1997, the Corporation's strategy was to continue the liquidation of its investments, while managing the remainder of its existing investment portfolio. Upon liquidation of its only significant remaining portfolio investment, it is the Company's current intention to surrender its license to the Small Business Administration. M&T Capital had assets and stockholder's equity of approximately $2 million as of December 31, 1997, and recorded approximately $2.9 million of revenues in 1997. The headquarters of M&T Capital are located at One M&T Plaza, Buffalo, New York 14240.

M&T Credit Corporation ("M&T Credit"), a wholly owned subsidiary of M&T Bank, was incorporated as a New York business corporation in April 1994. M&T Credit is a consumer credit company with headquarters at One M&T Plaza, Buffalo, New York 14240, and offices in Pennsylvania. As of December 31, 1997, M&T Credit had assets of $291 million and stockholder's equity of $1.4 million. M&T Credit recorded $24.9 million of revenues during 1997.

M&T Mortgage Corporation ("M&T Mortgage"), the wholly owned mortgage banking subsidiary of M&T Bank, was incorporated as a New York business corporation in November 1991. M&T Mortgage's principal activities are comprised of the origination of residential mortgage loans and providing residential mortgage loan servicing to M&T Bank, M&T Bank, N.A. and others. M&T Mortgage operates throughout New York State, and also maintains branch offices in Arizona, Colorado, Massachusetts, Ohio, Oregon, Utah and Washington. M&T Mortgage had assets of $393 million and stockholder's equity of $101 million as of December 31, 1997, and recorded approximately $82.0 million of revenues during 1997. Residential mortgage loans serviced by M&T Mortgage for non-affiliates totaled $7.5 billion at December 31, 1997. The headquarters of M&T Mortgage are located at M&T Center, One Fountain Plaza, Buffalo, New York 14203.

M&T Financial Corporation ("M&T Financial"), a New York business corporation, is a wholly owned subsidiary of M&T Bank which specializes in capital-equipment leasing. M&T Financial was formed in October 1985, had assets of $79 million and stockholder's equity of $17 million as of December 31, 1997, and recorded approximately $1.0 million of revenues in 1997. The headquarters of M&T Financial are located at One M&T Plaza, Buffalo, New York 14240.

M&T Real Estate, Inc.("M&T Real Estate") is a subsidiary of M&T Bank which was incorporated as a New York business corporation in August 1995. M&T Bank owns all of the outstanding common and 87.4% of the preferred stock of M&T Real Estate. The remaining 12.6% of M&T Real Estate's preferred stock is owned by officers or former officers of the Company. M&T Real Estate engages in commercial real estate lending and servicing activities. As of December 31, 1997, M&T Real Estate had assets and stockholder's equity of $4.1 billion. M&T Real Estate recorded $338 million of revenues in 1997. The headquarters of M&T Real Estate are located at M&T Center, One Fountain Plaza, Buffalo, New York 14203.

M&T Securities, Inc. ("M&T Securities") is a wholly owned subsidiary of M&T Bank which was incorporated as a New York business corporation in November 1985. M&T Securities is registered as a broker/dealer under the Securities Exchange Act of 1934, as amended, and as an investment advisor under the Investment Advisors Act of 1940, as amended, and is licensed as an insurance agent. It provides securities brokerage and investment advisory services. As of December 31, 1997, M&T Securities had assets of $7 million and stockholder's equity of $4 million. M&T Securities recorded $18 million of revenues during 1997. The headquarters of M&T Securities are located at One M&T Plaza, Buffalo, New York 14240.

Highland Lease Corporation ("Highland Lease"), a wholly owned subsidiary of M&T Bank, was incorporated as a New York business corporation in October 1994. Highland Lease is a consumer leasing company with headquarters at One M&T Plaza, Buffalo, New York 14240. As of December 31, 1997, Highland Lease had assets of $136 million and stockholder's equity of $10 million. Highland Lease recorded $10 million of revenues during 1997.

During 1997, the Company formed two Delaware business trusts to issue preferred capital securities ("Capital Securities"). First Empire Capital Trust I ("Trust I") issued $150 million of 8.234% Capital Securities on January 17, 1997, and First Empire Capital Trust II ("Trust II") issued $100 million of 8.277% Capital Securities on May 30, 1997. The common securities ("Common Securities") of Trust I and Trust II 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 Trusts 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 issuance of the Capital Securities and the Common Securities were used by the Trusts to purchase junior subordinated deferrable interest debentures issued by First Empire. 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. As of December 31, 1997, Trust I had assets of $160 million and stockholders' equity of $155 million, and during 1997 Trust I recorded $11.7 million of revenues. Trust II had assets of $104 million and stockholders' equity of $103 million at December 31, 1997, and during 1997 Trust II recorded $4.9 million of revenues.

The Registrant and its banking subsidiaries have a number of other special-purpose or inactive subsidiaries. These other subsidiaries represented, individually and collectively, an insignificant portion of the Company's consolidated assets, net income and stockholders' equity at December 31, 1997.

LINES OF BUSINESS, PRINCIPAL SERVICES, INDUSTRY SEGMENTS AND FOREIGN OPERATIONS

Commercial and retail banking, with activities incidental thereto, represents the sole significant line and/or segment of business of the Company. The Company's international activities are discussed in note 14 of Notes to Financial Statements filed herewith in Part II, Item 8, "Financial Statements and Supplementary Data". The only activities that, as a class, contributed 10% or more of the sum of consolidated interest income and other income in each of the last three years were lending and investment securities transactions. The amount of income from such sources during those years is set forth on the Company's Consolidated Statement of Income filed herewith in Part II, Item 8, "Financial Statements and Supplementary Data".

SUPERVISION AND REGULATION

The banking industry is subject to extensive state and federal regulation and continues to undergo significant change. In 1991, the Federal Deposit Insurance Corporation Improvement Act ("FDICIA") was enacted. FDICIA substantially amended the Federal Deposit Insurance Act ("FDI Act") and certain other statutes. Since FDICIA's enactment, the federal bank regulatory agencies have adopted regulations to implement its statutory provisions.

The following discussion summarizes certain aspects of the banking laws and regulations that affect the Company. Proposals to change the laws and regulations governing the banking industry are frequently raised in Congress, in state legislatures, and before the various bank regulatory agencies. The likelihood and timing of any changes and the impact such changes might have on the Company are impossible to determine with any certainty. A change in applicable laws or regulations, or a change in the way such laws or regulations are interpreted by regulatory agencies or courts, may have a material impact on the business, operations and earnings of the Company. To the extent that the following information describes statutory or regulatory provisions, it is qualified entirely by reference to the particular statutory or regulatory provision.

BANK HOLDING COMPANY REGULATION

As a registered bank holding company, the Registrant and its nonbank subsidiaries are subject to supervision and regulation under the BHCA by the Board of Governors of the Federal Reserve System ("Federal Reserve Board") and the New York State Banking Superintendent ("Banking Superintendent"). The Federal Reserve Board requires regular reports from the Registrant and is authorized by the BHCA to make regular examinations of the Registrant and its subsidiaries.

Under the BHCA, the Registrant may not acquire direct or indirect ownership or control of more than 5% of the voting shares of any company, including a bank, without the prior approval of the Federal Reserve Board, except as specifically authorized under the BHCA. The Registrant is also subject to regulation under the Banking Law with respect to certain acquisitions of domestic banks. Under the BHCA, the Registrant, subject to the approval of the Federal Reserve Board, may acquire shares of non-banking corporations the activities of which are deemed by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

The Federal Reserve Board has enforcement powers over bank holding companies and their non-banking subsidiaries, among other things, to interdict activities that represent unsafe or unsound practices or constitute violations of law, rule, regulation, administrative orders or written agreements with a federal bank regulator. These powers may be exercised through the issuance of cease-and-desist orders, civil money penalties or other actions.

Under the Federal Reserve Board's statement of policy with respect to bank holding company operations, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and to commit all available resources to support such institutions in circumstances where it might not do so absent such policy. Although this "source of strength" policy has been challenged in litigation, the Federal Reserve Board continues to take the position that it has authority to enforce it. For a discussion of circumstances under which a bank holding company may be required to guarantee the capital levels or performance of its subsidiary banks, SEE CAPITAL ADEQUACY, below. The Federal Reserve also has the authority to terminate any activity of a bank holding company that constitutes a serious risk to the financial soundness or stability of any subsidiary depository institution or to terminate its control of any bank or nonbank subsidiaries.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, as amended (the "Interstate Banking Act") generally permits bank holding companies to acquire banks in any state, and preempts all state laws restricting the ownership by a bank holding company of banks in more than one state. The Interstate Banking Act also permits a bank to merge with an out-of-state bank and convert any offices into branches of the resulting bank if both states have not opted out of interstate branching; permits a bank to acquire branches from an out-of-state bank if the law of the state where the branches are located permits the interstate branch acquisition; and permits banks to establish and operate DE NOVO interstate branches whenever the host state opts-in to DE NOVO branching. Bank holding companies and banks seeking to engage in transactions authorized by the Interstate Banking Act must be adequately capitalized and managed.

The Banking Law authorizes interstate branching by merger or acquisition on a reciprocal basis, and permits the acquisition of a single branch without restriction, but does not provide for DE NOVO interstate branching.

Bank holding companies and their subsidiary banks are also subject to the provisions of the Community Reinvestment Act of 1977 ("CRA"). Under the terms of the CRA, the Federal Reserve Board (or other appropriate bank regulatory agency) is required, in connection with its examination of a bank, to assess such bank's record in meeting the credit needs of the community served by that bank, including low-and moderate-income neighborhoods. Furthermore, such assessment is also required of any bank that has applied, among other things, to merge or consolidate with or acquire the assets or assume the liabilities of a federally-regulated financial institution, or to open or relocate a branch office. In the case of a bank holding company applying for approval to acquire a bank or bank holding company, the Federal Reserve Board will assess the record of each subsidiary bank of the applicant bank holding company in considering the application. The Banking Law contains provisions similar to the CRA which are applicable to New York-chartered banks.

SUPERVISION AND REGULATION OF BANK SUBSIDIARIES

The Registrant's banking subsidiaries are subject to supervision and regulation, and are examined regularly, by various bank regulatory agencies: M&T Bank by the Federal Reserve Board and the Banking Superintendent; and M&T Bank, N.A. by the Comptroller of the Currency (the "OCC"). The Registrant and its direct non-banking subsidiaries are affiliates, within the meaning of the Federal Reserve Act, of the Registrant's subsidiary banks and their subsidiaries. As a result, the Registrant's subsidiary banks and their subsidiaries are subject to restrictions on loans or extensions of credit to, purchases of assets from, investments in, and transactions with the Registrant and its direct non-banking subsidiaries and on certain other transactions with them or involving their securities.

Under the "cross-guarantee" provisions of the FDI Act, insured depository institutions under common control are required to reimburse the FDIC for any loss suffered by either the BIF or SAIF of the FDIC as a result of the default of a commonly controlled insured depository institution or for any assistance provided by the FDIC to a commonly controlled insured depository institution in danger of default. Thus, any insured depository institution subsidiary of First Empire could incur liability to the FDIC in the event of a default of another insured depository institution owned or controlled by First Empire. The FDIC's claim under the cross-guarantee provisions is superior to claims of stockholders of the insured depository institution or its holding company and to most claims arising out of obligations or liabilities owed to affiliates of the institution, but is subordinate to claims of depositors, secured creditors and holders of subordinated debt (other than affiliates) of the commonly controlled insured depository institution. The FDIC may decline to enforce the cross-guarantee provisions if it determines that a waiver is in the best interest of the BIF or SAIF or both.

DIVIDENDS FROM BANK SUBSIDIARIES

M&T Bank and M&T Bank, N.A. are subject, under one or more of the banking laws, to restrictions on the amount and frequency (no more often than quarterly) of dividend declarations. Future dividend payments to the Registrant by its subsidiary banks will be dependent on a number of factors, including the earnings and financial condition of each such bank, and are subject to the limitations referred to in note 19 of Notes to Financial Statements filed herewith in Part II, Item 8, "Financial Statements and Supplementary Data," and to other statutory powers of bank regulatory agencies.

Under FDICIA, an insured depository institution is prohibited from making any capital distribution to its owner, including any dividend, if, after making such distribution, the depository institution fails to meet the required minimum level for any relevant capital measure, including the risk-based capital adequacy and leverage standards discussed below.

CAPITAL ADEQUACY

The Federal Reserve Board, the FDIC and the OCC have adopted risk-based capital adequacy guidelines for bank holding companies and banks under their supervision. Under these guidelines, the so-called "Tier 1 capital" and "Total capital" as a percentage of risk-weighted assets and certain off-balance sheet instruments must be at least 4% and 8%, respectively.

The Federal Reserve Board, the FDIC and the OCC have also imposed a leverage standard to supplement their risk-based ratios. This leverage standard focuses on a banking institution's ratio of Tier 1 capital to average total assets, adjusted for goodwill and certain other items. Under these guidelines, banking institutions that meet certain criteria, including excellent asset quality, high liquidity, low interest rate exposure and good earnings, and that have received the highest regulatory rating must maintain a ratio of Tier 1 capital to total adjusted average assets of at least 3%. Institutions not meeting these criteria, as well as institutions with supervisory, financial or operational weaknesses, along with those experiencing or anticipating significant growth are expected to maintain a Tier 1 capital to total adjusted average assets ratio equal to at least 4 to 5%.

As reflected in the following table, the risk-based capital ratios and leverage ratios of the Registrant, M&T Bank and M&T Bank, N.A. as of December 31, 1997 exceeded the required capital ratios for classification as "well capitalized," the highest classification under the regulatory capital guidelines.

CAPITAL COMPONENTS AND RATIOS AT DECEMBER 31, 1997
(DOLLARS IN MILLIONS)

	REGISTRANT (CONSOLIDATED)	M&T BANK	M&T BANK, N.A.
Capital Components			
Tier 1 capital	$ 1,250	$ 1,001	$ 51
Total capital	1,558	1,305	55
Risk-weighted assets and off-balance sheet instruments	$ 11,699	$ 11,359	$ 345
Risk-based Capital Ratio			
Tier 1 capital	10.69%	8.81%	14.73%
Total capital	13.32%	11.48%	15.98%
Leverage Ratio	9.09%	7.63%	7.11%

FDICIA required the federal banking agencies, including the Federal Reserve Board and the OCC, to revise their risk-based capital standards in order to ensure that those standards take adequate account of interest rate risk, concentration of credit risk and the risk of nontraditional activities, as well as reflect the actual performance and expected risk of loss on certain multifamily housing loans.

Bank regulators periodically propose amendments to the risk-based capital guidelines and related regulatory framework. While the Company's management studies such proposals, the timing of adoption, ultimate form and effect of such proposed amendments on the Company's capital requirements and operations cannot be predicted.

FDICIA requires the federal banking agencies to take "prompt corrective action" in respect of depository institutions and their bank holding companies that do not meet minimum capital requirements. FDICIA established five capital tiers: "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized" and "critically undercapitalized". A depository institution's capital tier, or that of its bank holding company, depends upon where its capital levels are in relation to various relevant capital measures, including a risk-based capital measure and a leverage ratio capital measure, and certain other factors.

Under the implementing regulations adopted by the federal banking agencies, a bank holding company or bank is considered "well capitalized" if it has (i) a total risk-based capital ratio of 10% or greater, (ii) a Tier 1 risk-based capital ratio of 6% or greater, (iii) a leverage ratio of 5% or greater and (iv) is not subject to any order or written directive to meet and maintain a specific capital level for any capital measure. An "adequately capitalized" bank holding company or bank is defined as one that has (i) a total risk-based capital ratio of 8% or greater, (ii) a Tier 1 risk-based capital ratio of 4% or greater and (iii) a leverage ratio of 4% or greater (or 3% or greater in the case of a bank with a composite CAMELS rating of 1). A bank holding company or bank is considered (A) "undercapitalized" if it has (i) a total risk-based capital ratio of less than 8%, (ii) a Tier 1 risk-based capital ratio of less than 4% or (iii) a leverage ratio of less than 4% (or 3% in the case of a bank with a composite CAMELS rating of 1); (B) "significantly undercapitalized" if the bank has (i) a total risk-based capital ratio of less than 6%, or (ii) a Tier 1 risk-based capital ratio of less than 3% or (iii) a leverage ratio of less than 3% and (C)"critically undercapitalized" if the bank has a ratio of tangible equity to total assets equal to or less than 2%. The Federal Reserve Board may reclassify a "well capitalized" bank holding company or bank as "adequately capitalized" or subject an "adequately capitalized" or "undercapitalized" institution to the supervisory actions applicable to the next lower capital category if it determines that the bank holding company or bank is in an unsafe or unsound condition or deems the bank holding company or bank to be engaged in an unsafe or unsound practice and not to have corrected the deficiency. First Empire, M&T Bank and M&T Bank, N.A. currently meet the definition of "well capitalized" institutions.

"Undercapitalized" depository institutions, among other things, are subject to growth limitations, are prohibited, with certain exceptions, from making capital distributions, are limited in their ability to obtain funding from a Federal Reserve Bank and are required to submit a capital restoration plan. The federal banking agencies may not accept a capital plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. In addition, for a capital restoration plan to be acceptable, the depository institution's parent holding company must guarantee that the institution will comply with such capital restoration plan and provide appropriate assurances of performance. If a depository institution fails to submit an acceptable plan, including if the holding company refuses or is unable to make the guarantee described in the previous sentence, it is treated as if it is "significantly undercapitalized". Failure to submit or implement an acceptable capital plan also is grounds for the appointment of a conservator or a receiver. "Significantly undercapitalized" depository institutions may be subject to a number of additional requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. Moreover, the parent holding company of a significantly undercapitalized depository institution may be ordered to divest itself of the institution or of nonbank subsidiaries of the holding company. "Critically undercapitalized" institutions, among other things, are prohibited from making any payments of principal and interest on subordinated debt, and are subject to the appointment of a receiver or conservator.

FDICIA directs, among other things, that each federal banking agency prescribe standards for depository institutions and depository institution holding companies relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, a maximum ratio of classified assets to capital, minimum earnings sufficient to absorb losses, a minimum ratio of market value to book value for publicly traded shares and other standards as they deem appropriate. The Federal Reserve Board and OCC have adopted such standards.

FDICIA also contains a variety of other provisions that may affect the operations of the Company, including new reporting requirements, regulatory standards for real estate lending, "truth in savings" provisions, limitations on the amount of capitalized mortgage servicing rights and purchased credit card relationships includable in Tier 1 capital, and the requirement that a depository institution give prior notice to customers and regulatory authorities before closing any branch. FDICIA also contains a prohibition on the acceptance or renewal of brokered deposits by depository institutions that are not "well capitalized" or are "adequately capitalized" and have not received a waiver from the FDIC.

FDIC DEPOSIT INSURANCE ASSESSMENTS

As institutions with deposits insured by the BIF and the SAIF, M&T Bank and M&T Bank, N.A. are subject to FDIC deposit insurance assessments. Under current law the regular insurance assessments to be paid by BIF-insured and SAIF-insured institutions are specified in schedules issued by the FDIC that specify, at semiannual intervals, target reserve ratios designed to maintain the reserve ratios of each of those insurance funds at 1.25% of their estimated insured deposits. The FDIC is also authorized to impose one or more special assessments.

The FDIC has implemented a risk-based deposit premium assessment system under which each depository institution is placed in one of nine assessment categories based on the institution's capital classification under the prompt corrective action provisions described above, and whether such institution is considered by its supervisory agency to be financially sound or to have supervisory concerns. The adjusted assessment rates for both BIF-insured and SAIF-insured institutions under the current system range from .00% to .31% depending upon the assessment category into which the insured institution is placed. Neither of the Company's banking subsidiaries paid regular insurance assessments to the FDIC in 1997. However, the FDIC retains the ability to increase regular BIF and SAIF assessments and to levy special additional assessments.

In addition to deposit insurance fund assessments, beginning in 1997 the FDIC assessed BIF-assessable and SAIF-assessable deposits to fund the repayment of debt obligations of the Financing Corporation ("FICO"). FICO is a government agency-sponsored entity that was formed to borrow the money necessary to carry out the closing and ultimate disposition of failed thrift institutions by the Resolution Trust Corporation. The FDIC is required to set FICO assessments for BIF-assessable deposits at one-fifth the amount for SAIF-assessable deposits. The current annualized rates established by the FDIC for BIF-assessable and SAIF-assessable deposits are 1.26 basis points and 6.28 basis points, respectively.

Any significant increases in assessment rates or additional special assessments by the FDIC could have an adverse impact on the results of operations and capital of M&T Bank or M&T Bank, N.A.

GOVERNMENTAL POLICIES

The earnings of the Company are significantly affected by the monetary and fiscal policies of governmental authorities, including the Federal Reserve Board. Among the instruments of monetary policy used by the Federal Reserve Board to implement these objectives are open-market operations in U.S. Government securities and Federal funds, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These instruments of monetary policy are used in varying combinations to influence the overall level of bank loans, investments and deposits, and the interest rates charged on loans and paid for deposits. The Federal Reserve Board frequently uses these instruments of monetary policy, especially its open-market operations and the discount rate, to influence the level of interest rates and to affect the strength of the economy, the level of inflation or the price of the dollar in foreign exchange markets. The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of banking institutions in the past and are expected to continue to do so in the future. It is not possible to predict the nature of future changes in monetary and fiscal policies, or the effect which they may have on the Company's business and earnings.

COMPETITION

The Company competes in offering commercial and personal financial services with other banking institutions and with firms in a number of other industries, such as thrift institutions, credit unions, personal loan companies, sales finance companies, leasing companies, securities brokers and dealers, insurance companies and retail merchandising organizations. Furthermore, diversified financial services companies are able to offer a combination of these services to their customers on a nationwide basis. Compared to less extensively regulated financial services companies, the Company's operations are significantly impacted by state and federal regulations applicable to the banking industry. Moreover, the provisions of the Interstate Banking Act and the Banking Law may further ease entry into New York State by out-of-state banking institutions. As a result, the number of banking organizations with which the Registrant's subsidiary banks compete may grow in the future.

OTHER LEGISLATIVE INITIATIVES

From time to time, various proposals are introduced in the United States Congress and in the New York Legislature and before various bank regulatory authorities which would alter the powers of, and restrictions on, different types of banking organizations and which would restructure part or all of the existing regulatory framework for banks, bank holding companies and other financial institutions.

Moreover, a number of other bills have been introduced in Congress which would further regulate, deregulate or restructure the financial services industry. It is not possible to predict whether these or any other proposals will be enacted into law or, even if enacted, the effect which they may have on the Company's business and earnings.

STATISTICAL DISCLOSURE PURSUANT TO GUIDE 3

See cross-reference sheet for disclosures incorporated elsewhere in this Annual Report on Form 10-K. Additional information is included in the following tables.

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

SELECTED CONSOLIDATED YEAR-END BALANCES

ITEM 1, TABLE 1

	1997	1996	1995	1994	1993
	DOLLARS IN THOUSANDS				
Money-market assets					
Interest-bearing deposits at banks	$ 668	47,325	125,500	143	55,044
Federal funds sold and resell agreements	53,087	125,326	1,000	3,080	329,429
Trading account	57,291	37,317	9,709	5,438	9,815
Total money-market assets	111,046	209,968	136,209	8,661	394,288
Investment securities					
U.S. Treasury and federal agencies	1,081,247	1,023,038	1,087,005	999,407	1,387,395
Obligations of states and political subdivisions	38,018	41,445	35,250	55,787	49,230
Other	605,953	507,215	647,040	735,846	992,527
Total investment securities	1,725,218	1,571,698	1,769,295	1,791,040	2,429,152
Loans and leases					
Commercial, financial, leasing, etc	2,406,640	2,206,282	2,013,937	1,680,415	1,510,205
Real estate--construction	254,434	90,563	77,604	53,535	51,384
Real estate--mortgage	6,765,408	6,199,931	5,648,590	5,046,937	4,540,177
Consumer	2,339,051	2,623,445	2,133,592	1,666,230	1,337,293
Total loans and leases	11,765,533	11,120,221	9,873,723	8,447,117	7,439,059
Unearned discount	(268,965)	(398,098)	(317,874)	(229,824)	(177,960)
Allowance for possible credit losses	(274,656)	(270,466)	(262,344)	(243,332)	(195,878)
Loans and leases, net	11,221,912	10,451,657	9,293,505	7,973,961	7,065,221
Other real estate owned	8,413	8,523	7,295	10,065	12,222
Total assets	14,002,935	12,943,915	11,955,902	10,528,644	10,364,958
Noninterest-bearing deposits	1,458,241	1,352,929	1,184,359	1,087,102	1,052,258
NOW accounts	346,795	334,787	768,559	748,199	764,690
Savings deposits	3,344,697	3,280,788	2,765,301	3,098,438	3,364,983
Time deposits	5,762,497	5,352,749	4,596,053	3,106,723	1,982,272
Deposits at foreign office	250,928	193,236	155,303	202,611	189,058
Total deposits	11,163,158	10,514,489	9,469,575	8,243,073	7,353,261
Short-term borrowings	1,097,324	1,150,187	1,273,206	1,364,850	2,101,667
Long-term borrowings	427,819	178,002	192,791	96,187	75,590
Total liabilities	12,972,669	12,038,256	11,109,649	9,807,648	9,640,964
Stockholders' equity	1,030,266	905,659	846,253	720,996	723,994

STOCKHOLDERS, EMPLOYEES AND OFFICES

	1997	1996	1995	1994	1993
	NUMBER AT YEAR-END				
Stockholders	3,449	3,654	3,787	3,981	3,985
Employees	5,083	5,180	4,889	4,505	4,400
Offices	210	202	181	168	145

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED EARNINGS

ITEM 1, TABLE 2

	1997	1996	1995	1994	1993
	DOLLARS IN THOUSANDS				
INTEREST INCOME					
Loans and leases, including fees	$ 952,436	881,002	794,181	633,077	608,473
Money-market assets					
Deposits at banks	2,475	2,413	8,181	2,212	6,740
Federal funds sold and resell agreements	2,989	2,985	3,007	4,751	20,403
Trading account	1,781	980	1,234	361	1,242
Investment securities					
Fully taxable	99,640	107,415	118,791	104,185	101,187
Exempt from federal taxes	5,640	2,637	2,760	2,760	2,584
Total interest income	1,064,961	997,432	928,154	747,346	740,629
INTEREST EXPENSE					
NOW accounts	3,455	9,430	11,902	11,286	13,113
Savings deposits	90,907	84,822	87,612	84,804	90,392
Time deposits	327,611	286,088	239,882	97,067	98,508
Deposits at foreign office	12,160	12,399	6,952	5,894	3,243
Short-term borrowings	44,341	59,442	84,225	73,868	58,459
Long-term borrowings	29,619	14,227	11,157	6,287	6,158
Total interest expense	508,093	466,408	441,730	279,206	269,873
NET INTEREST INCOME	556,868	531,024	486,424	468,140	470,756
Provision for possible credit losses	46,000	43,325	40,350	60,536	79,958
Net interest income after provision for possible credit losses	510,868	487,699	446,074	407,604	390,798
OTHER INCOME					
Mortgage banking revenues	51,547	44,484	37,142	16,002	12,776
Service charges on deposit accounts	43,377	40,659	38,290	35,016	32,291
Trust income	30,688	27,672	25,477	22,574	23,865
Merchant discount and other credit card fees	19,395	18,266	10,675	8,705	7,932
Trading account and foreign exchange gains	3,690	2,421	2,783	738	3,518
Gain (loss) on sales of bank investment securities	(280)	(37)	4,479	128	870
Gain on sales of venture capital investments	2,677	3,175	2,619	802	2,896
Other revenues from operations	41,973	33,608	28,073	39,774	26,396
Total other income	193,067	170,248	149,538	123,739	110,544
OTHER EXPENSE					
Salaries and employee benefits	220,017	208,342	188,222	161,221	154,340
Equipment and net occupancy	53,299	51,346	50,526	49,132	47,823
Printing, postage and supplies	13,747	15,167	14,442	13,516	13,021
Deposit insurance	1,935	9,337	14,675	16,442	17,684
Other costs of operations	132,778	124,786	106,574	96,551	94,951
Total other expense	421,776	408,978	374,439	336,862	327,819
Income before income taxes	282,159	248,969	221,173	194,481	173,523
Income taxes	105,918	97,866	90,137	77,186	71,531
NET INCOME	$ 176,241	151,103	131,036	117,295	101,992
DIVIDENDS DECLARED					
Common	$ 21,207	18,617	16,224	14,743	13,054
Preferred	--	900	3,600	3,600	3,600

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

COMMON SHAREHOLDER DATA

ITEM 1, TABLE 3

	1997	1996	1995	1994	1993
Per Share					
Net income					
Basic	$ 26.60	22.54	19.61	16.90	14.32
Diluted	25.26	21.08	17.98	15.73	13.42
Cash dividends declared	3.20	2.80	2.50	2.20	1.90
Stockholders' equity at year-end	155.86	135.45	125.33	103.02	99.43
Dividend payout ratio	12.03%	12.39%	12.73%	12.97%	13.27%

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

CHANGES IN INTEREST INCOME AND EXPENSE*

ITEM 1, TABLE 4

	1997 COMPARED WITH 1996			1996 COMPARED WITH 1995		
		RESULTING FROM CHANGES IN:			RESULTING FROM CHANGES IN:	
	TOTAL CHANGE	VOLUME	RATE	TOTAL CHANGE	VOLUME	RATE
	INCREASE (DECREASE) IN THOUSANDS					
Interest income						
Loans and leases, including fees................	$ 71,264	74,326	(3,062)	$ 86,509	110,121	(23,612)
Money-market assets						
Deposits at banks.............................	62	200	(138)	(5,768)	(4,669)	(1,099)
Federal funds sold and agreements to resell securities.................................	4	19	(15)	(22)	409	(431)
Trading account...............................	837	1,121	(284)	(239)	107	(346)
Investment securities						
U.S. Treasury and federal agencies............	(3,055)	(4,941)	1,886	(225)	(2,555)	2,330
Obligations of states and political subdivisions...............................	154	137	17	(742)	(584)	(158)
Other...	(384)	(1,980)	1,596	(10,390)	(11,194)	804
Total interest income.........................	$ 68,882			$ 69,123		
Interest expense						
Interest-bearing deposits						
NOW accounts..................................	$ (5,975)	(5,416)	(559)	$ (2,472)	(1,523)	(949)
Savings deposits..............................	6,085	12,622	(6,537)	(2,790)	1,016	(3,806)
Time deposits.................................	41,523	38,400	3,123	46,206	57,335	(11,129)
Deposits at foreign office....................	(239)	(474)	235	5,447	5,500	(53)
Short-term borrowings...........................	(15,101)	(14,539)	(562)	(24,783)	(15,953)	(8,830)
Long-term borrowings............................	15,392	14,534	858	3,070	3,262	(192)
Total interest expense........................	$ 41,685			$ 24,678		

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

ITEM 2. PROPERTIES.

Both First Empire and M&T Bank maintain their executive offices at One M&T Plaza in Buffalo, New York. This twenty-one story headquarters building, containing approximately 276,000 rentable square feet of space, is owned in fee by M&T Bank, and was completed in 1967 at a cost of approximately $17 million. First Empire, M&T Bank and their subsidiaries occupy approximately 73% of the building and the remainder is leased to non-affiliated tenants. At December 31, 1997, the cost of this property, net of accumulated depreciation, was $10.2 million.

In September 1992, M&T Bank acquired an additional facility in Buffalo, New York with approximately 365,000 rentable square feet of space at a cost of approximately $12 million. Approximately 85% of this facility, known as M&T Center, is occupied by M&T Bank and its subsidiaries, with the remainder leased to non-affiliated tenants. At December 31, 1997, the cost of this building, including improvements made subsequent to acquisition and net of accumulated depreciation, was $15.5 million.

M&T Bank also owns and occupies two separate facilities in the Buffalo area which support certain back-office and operations functions of the Company. The total square footage of these facilities approximates 223,000 square feet and their combined cost, net of accumulated depreciation, was $12.8 million.

The cost, net of accumulated depreciation and amortization, of the Company's premises and equipment is detailed in note 5 of Notes to Financial Statements filed herewith in Part II, Item 8, "Financial Statements and Supplementary Data". Of the 178 domestic banking offices of the Registrant's subsidiary banks, 53 are owned in fee and 125 are leased.

ITEM 3. LEGAL PROCEEDINGS.

First Empire and its subsidiaries are subject in the normal course of business to various pending and threatened legal proceedings in which claims for monetary damages are asserted. Management, after consultation with legal counsel, does not anticipate that the aggregate ultimate liability, if any, arising out of litigation pending against First Empire or its subsidiaries will be material to First Empire's consolidated financial position, but at the present time is not in a position to determine whether such litigation will have a material adverse effect on First Empire's consolidated results of operations in any future reporting period.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

Information concerning the Registrant's executive officers is presented below as of March 5, 1998. Shown parenthetically is the year since which the officer has held the indicated position with the Registrant or its subsidiaries. In the case of each such corporation, officers' terms run until the first meeting of the board of directors after such corporation's annual meeting, and until their successors are elected and qualified.

ROBERT G. WILMERS, age 63, is chairman of the board (1994), president (1988), chief executive officer (1983) and a director (1982) of the Registrant. He is chairman of the board, chief executive officer (1983) and a director (1982) of M&T Bank, and served as president of M&T Bank from March 1984 to June 1996. Mr. Wilmers is a director of M&T Financial (1985). He is chairman of the board and a director of M&T Bank, N.A.(1995).

EMERSON L. BRUMBACK, age 46, is an executive vice president (1997) of the Registrant and M&T Bank, and is in charge of the Company's Retail Banking Division. Mr. Brumback is president and a director of Highland Lease (1997). He is a director of M&T Credit (1997), M&T Mortgage (1997), M&T Securities (1997), and M&T Bank, N.A. (1997). Mr. Brumback was executive vice president, national retail distribution, at BancOne Corporation prior to joining the Company

ATWOOD COLLINS, III, age 51, is president and chief executive officer, and a member of the Directors Advisory Council (1997) of M&T Bank's New York City Division. Previously, Mr. Collins served as president, chief executive officer and a director (1995) of East New York. Mr. Collins is an executive vice president of the Registrant (1997) and M&T Bank (1996). He is a director of M&T Real Estate (1995). In addition to managing all of M&T Bank's business segments in the New York City region, Mr. Collins has responsibility for managing the Company's Facilities Management and Services group.

MARK J. CZARNECKI, age 42, is an executive vice president of M&T Bank (1997) and is in charge of M&T Bank's Trust and Investment Services Division. Mr. Czarnecki is president of M&T Securities, Inc. (1996) and is an executive vice president of M&T Bank, N.A. Mr. Czarnecki has held a number of management positions with M&T Bank since 1977, most recently as senior vice president of the private client services group of the Trust and Investment Services Division (1994), and prior thereto as an administrative vice president and regional manager for the Retail Banking Division.

BRIAN E. HICKEY, age 45, is president and a member of the Directors Advisory Council (1994) of the Rochester Division of M&T Bank and is an executive vice president of the Registrant (1997) and M&T Bank (1996). Mr. Hickey is a director of M&T Financial (1996). In addition to managing all of M&T Bank's business segments in the Rochester market, Mr. Hickey has responsibility for managing the Company's Western New York Commercial Banking Division.

JAMES L. HOFFMAN, age 58, is president (1992) of the Hudson Valley Division of M&T Bank, and is an executive vice president of the Registrant (1997) and M&T Bank (1996). Mr. Hoffman served as chairman of the board, president, chief executive officer and a director (1983) of The First National Bank of Highland, which had been a wholly owned subsidiary of the Registrant prior to its merger with and into M&T Bank on February 29, 1992.

ADAM C. KUGLER, age 40, is an executive vice president and treasurer (1997) of the Registrant and M&T Bank, and is in charge of the Company's Treasury Division. Mr. Kugler is a director of M&T Financial (1997), M&T Securities (1997) and is an executive vice president, Treasurer and a director of M&T Bank, N.A. (1997). Mr Kugler was previously a senior vice president in the Treasury Division of M&T Bank.

JOHN L. PETT, age 49, is an executive vice president (1997) and chief credit officer (1995) of the Registrant and is an executive vice president and chief credit officer of M&T Bank (1996). Mr. Pett is chairman of the board and a director of Highland Lease(1997) and M&T Credit (1997). He is a director of M&T Bank, N.A. (1996). Mr. Pett served as senior vice president of the Registrant from 1991 to 1997.

MICHAEL P. PINTO, age 42, is an executive vice president and chief financial officer of the Registrant (1997) and M&T Bank (1996), and is in charge of the Company's Finance Division. Mr. Pinto is a director of M&T Capital (1996), M&T Financial (1996), M&T Mortgage (1996) and M&T Real Estate (1996). He is an executive vice president and chief financial officer of M&T Bank, N.A. (1996). Mr. Pinto served as senior vice president and controller of the Registrant from 1993 to 1997.

ROBERT E. SADLER, JR., age 52, is an executive vice president of the Registrant (1990), president and a director of M&T Bank (1996), and is in charge of the Company's Commercial Banking Division. Mr. Sadler is chairman of the board (1987) and a director of M&T Capital (1983); chairman of the board (1989) and a director of M&T Financial (1985); chairman of the board and a director of M&T Mortgage (1991); chairman of the board and a director of M&T Securities (1994); president, chief executive officer and a director of M&T Bank, N.A.(1995); and chairman of the board, president and a director of M&T Real Estate (1995).

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Registrant's common stock is traded under the symbol FES on the American Stock Exchange. See cross-reference sheet for disclosures incorporated elsewhere in this Annual Report on Form 10-K for market prices of the Registrant's common stock, approximate number of common stockholders at year-end, frequency and amounts of dividends on common stock and restrictions on the payment of dividends.

ITEM 6. SELECTED FINANCIAL DATA.

See cross-reference sheet for disclosures incorporated elsewhere in this Annual Report on Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

CORPORATE PROFILE AND SIGNIFICANT DEVELOPMENTS

First Empire State Corporation ("First Empire") is a bank holding company headquartered in Buffalo, New York with consolidated assets of $14.0 billion at December 31, 1997. First Empire and its consolidated subsidiaries are hereinafter referred to collectively as "the Company." First Empire's banking subsidiaries are Manufacturers and Traders Trust Company ("M&T Bank") and M&T Bank, National Association ("M&T Bank, N.A."), which are wholly owned. M&T Bank, with total assets of $13.4 billion at December 31, 1997, is a New York-chartered commercial bank with 178 offices throughout New York State and an office in Nassau, The Bahamas. M&T Bank, N.A., with $703 million in assets at December 31, 1997, is a national bank with an office in Oakfield, New York.

M&T Bank's subsidiaries include M&T Mortgage Corporation, a residential mortgage banking company; M&T Securities, Inc., a broker/dealer; M&T Real Estate, Inc., a commercial mortgage lender; M&T Financial Corporation, a commercial leasing company; M&T Capital Corporation, a venture capital company; M&T Credit Corporation, a consumer credit company; and Highland Lease Corporation, a consumer leasing company.

In October 1997, First Empire entered into a definitive agreement with ONBANCorp, Inc. ("ONBANCorp"), a bank holding company headquartered in Syracuse, New York, for a merger between the two companies. ONBANCorp operates two wholly-owned banking subsidiaries, OnBank & Trust Co., which has 59 offices in upstate New York and Franklin First Savings Bank in Wilkes-Barre, Pennsylvania which has 19 offices in Northeastern Pennsylvania. Upon consummation of the merger, the banking subsidiaries of ONBANCorp will be merged into M&T Bank. At December 31, 1997, ONBANCorp had approximately $5.3 billion of assets. Under the terms of the merger agreement, stockholders of ONBANCorp will have the option to receive .161 of a share of First Empire common stock (and cash in lieu of any fractional share) or $69.50 in cash in exchange for each share of ONBANCorp common stock. The merger agreement provides that a minimum of 60% and a maximum of 70% of the total number of shares of ONBANCorp common stock issued and outstanding immediately prior to the merger must be exchanged for shares of First Empire common stock. In the event that ONBANCorp stockholders as a whole elect to receive stock consideration with respect to fewer than 60% or more than 70% of the total number of outstanding shares of ONBANCorp common stock, the selection by ONBANCorp common stockholders of the method of payment is subject to allocation and proration to ensure that the number of shares of ONBANCorp common stock that are converted into shares of First Empire common stock will be 60% or 70%, as the case may be, of the total number of shares of ONBANCorp common stock issued and outstanding immediately prior to the merger. At

December 31, 1997 ONBANCorp had 12,721,689 shares of common stock issued and outstanding. The merger, which will be accounted for as a purchase, is subject to the approval of stockholders of both companies and is expected to be completed on or about April 1, 1998.

In January and June 1997, First Empire completed separate offerings of trust preferred securities raising a total of $250 million that qualifies as Tier 1 or core capital 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.

On May 24, 1997, The East New York Saving Bank ("East New York"), the former savings bank subsidiary of First Empire, was merged with and into M&T Bank. East New York's branch offices and business activities now operate as the New York City Division of M&T Bank.

OVERVIEW

The Company's net income in 1997 was $176.2 million, representing diluted earnings per common share of $25.26, increases of 17% and 20%, respectively, from $151.1 million or diluted earnings per common share of $21.08 in 1996. Basic earnings per common share rose 18% to $26.60 in 1997 from $22.54 in 1996. In 1995, net income was $131.0 million while diluted and basic earnings per common share were $17.98 and $19.61, respectively. The 1995 results include $4.5 million of gains from sales of bank investment securities. The impact from sales of bank investment securities in 1997 and 1996 was negligible. Excluding the after-tax impact of gains from sales of bank investment securities, net income for 1995 was $128.4 million, representing diluted and basic earnings per share of $17.62 and $19.21, respectively. All earnings per share amounts reflect the implementation of Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share." SFAS No. 128 establishes new standards for computing and presenting earnings per share and is effective for financial statements for both interim and annual periods ending after December 15, 1997. SFAS No. 128 requires that all prior period earnings per share data be restated to conform with the provisions of the statement.

Net income represented a return on average assets in 1997 of 1.32%, compared with 1.21% in 1996 and 1.14% in 1995. The return on average common stockholders' equity was 18.49% in 1997, 17.60% in 1996 and 17.16% in 1995. Excluding the effects of the 1995 securities gains, the return on average assets in 1995 was 1.12% and the return on average common stockholders' equity was 16.81%.

Resulting largely from growth in average loans outstanding, taxable-equivalent net interest income increased 5% in 1997 to $563 million from $536 million in 1996. Average loans totaled $11.0 billion in 1997, up 8% from $10.1 billion in 1996. Similarly, average earning assets increased 7%, to $12.8 billion in 1997 from $12.0 billion in 1996. A 9% increase in average earning assets, primarily loans, in 1996 was also the most significant factor for the rise in that year's net interest income from $491 million in 1995. Average loans and average earning assets in 1995 were $8.9 billion and $11.1 billion, respectively. Improvement in 1997's net interest income resulting from asset growth was partially offset by a reduction of the Company's net interest margin, or taxable-equivalent net interest income expressed as a percentage of average earning assets. Net interest margin in 1997 was 4.38%, compared with 4.45% in 1996 and 4.43% in 1995.

The provision for possible credit losses was $46.0 million in 1997, compared with $43.3 million in 1996 and $40.4 million in 1995. Net charge-offs in 1997 were $41.8 million, compared with $35.2 million in 1996 and $21.3 million in 1995. The increase in net charge-offs from prior years reflects higher levels of net consumer loan charge-offs which totaled $35.8 million in 1997, $28.5 million in 1996 and $11.3 million in 1995.

Noninterest income for 1997 totaled $193 million, 13% above the $170 million in 1996 and 33% above the $145 million in 1995 (excluding gains from sales of bank investment securities). Higher revenues associated with mortgage banking, trust activities, sales of mutual funds and annuities, and prior expansion of the Company's credit card business contributed to the growth of noninterest income. Noninterest expense was $422 million in 1997, up 3% from $409 million in 1996 and 13% from $374 million in 1995. Expenses associated with expansion of businesses providing mortgage banking services, indirect automobile loans, credit cards and the sale of mutual funds and annuities contributed to the rise in noninterest expense since 1995.

NET INTEREST INCOME/LENDING AND FUNDING ACTIVITIES

Taxable-equivalent net interest income rose 5% to $563 million in 1997 from $536 million in 1996, largely the result of growth in average earning assets, which increased $794 million or 7% to $12.8 billion in 1997 from $12.0 billion in 1996. Taxable-equivalent net interest income and average earning assets in 1995 were $491 million and $11.1 billion, respectively. The growth in average earning assets in 1997 and 1996 was attributable to increases in average loans outstanding. Average loans totaled $11.0 billion in 1997, up 8% from $10.1 billion in 1996. Average loans in 1996 were increased 14% from $8.9 billion in 1995. The accompanying table 4 summarizes average loans and leases outstanding in 1997 and percentage changes in the major components of the loan and lease portfolio over the past two years.

Loans secured by real estate, excluding $644 million of outstanding home equity loans and lines of credit which are classified as consumer loans, represented approximately 58% of the loan and lease portfolio during 1997, unchanged from 1996, but down from 60% in 1995. At December 31, 1997, the Company held approximately $4.4 billion of commercial real estate loans and $2.5 billion of consumer real estate loans, compared with $4.0 billion and $2.2 billion, respectively, at December 31, 1996.

Commercial real estate loans originated by the Company are predominately secured by properties in the New York City metropolitan area, including areas in neighboring states generally considered to be within commuting distance of New York City, and Western New York, which includes Buffalo, Niagara Falls, Rochester and surrounding areas. Commercial real estate loans are also originated in the Hudson Valley and Southern Tier regions of New York State. Most commercial real estate loans originated by the Company are fixed-rate instruments with monthly payments and a balloon payment of the remaining principal at maturity, usually five years after loan origination. For borrowers in good standing, the customer may extend the terms of the loan agreement for an additional five years at the then-current market rate of interest. The accompanying table 5 presents commercial real estate loans at December 31, 1997 by geographic area, type of collateral and size of the loans outstanding. Of the $2.4 billion of commercial real estate loans in the New York City metropolitan area, approximately 62% were secured by multi-family residential properties, 19% by retail space and 7% by office space. The Company's experience has been that office space and retail properties tend to demonstrate more volatile fluctuations in value through economic cycles and changing economic conditions than do multi-family residential properties. Approximately 51% of the aggregate dollar amount of New York City area loans were for $3 million or less, while loans of more than $10 million were approximately 17% of the total. Commercial real estate loans secured by properties elsewhere in New York State, mostly in Western New York, tend to have a greater diversity of collateral types and include a significant amount of lending to customers who use the mortgaged property in their trade or business. Approximately 66% of the aggregate dollar amount of loans in this segment of the portfolio were for $3 million or less.

Commercial real estate loans secured by properties located outside of New York State and outside of areas of neighboring states considered to be part of the New York City metropolitan area comprised less than 5% of total commercial real estate loans.

The Company normally refrains from commercial construction lending, except when the borrower has obtained a commitment for permanent financing upon project completion. As a result, the portfolio of commercial construction loans for which the Company has not committed to provide permanent financing totaled only $158 million, or 1% of total loans and leases at December 31, 1997.

Real estate loans secured by one-to-four family residential properties totaled $2.5 billion at December 31, 1997, approximately 62% of which were secured by properties located in New York State. At December 31, 1997, $189 million of residential real estate loans were held for sale by the Company's mortgage banking subsidiary, M&T Mortgage Corporation.

Consumer loans and leases represented approximately 21% of the loan portfolio during 1997, compared with 22% in 1996 and 20% in 1995. Automobile loans and home equity loans and lines of credit represent the largest components of the consumer loan portfolio. At December 31, 1997, 66% of the automobile loan portfolio was to borrowers in New York State, while the remainder was primarily to borrowers in Pennsylvania. Automobile loans and leases are generally originated through dealers, however, all applications submitted by dealers are subject to the Company's normal underwriting and loan approval procedures. During 1997, automobile loans and leases represented approximately 9% of the Company's average loan portfolio, while no other consumer loan product represented more than 6%. During 1997, the Company securitized and sold $100 million of automobile loans, resulting in a nominal gain. Growth in average credit card balances in recent years was the result of direct mail marketing campaigns and co-branding initiatives. Such initiatives involved developing relationships with retailers and other enterprises and issuing co-branded credit cards that provide cardholders the ability to earn rebates on purchases made with the cards. The Company bears the cost of these rebates. As discussed later, during 1997 the Company either terminated or agreed to terminate several co-branded credit card programs that had been initiated in 1996 or late-1995. Average outstanding balances related to these programs were $73 million in 1997, $76 million in 1996 and $9 million in 1995. At December 31, 1997, 67% of outstanding credit card balances were with customers in New York State.

The Company's portfolio of investment securities averaged $1.7 billion in 1997, $1.8 billion in 1996 and $2.0 billion in 1995. The size of the investment securities portfolio is influenced by such factors as demand for loans, which generally yield more than investment securities, ongoing repayments, the level of deposits, and management of balance sheet size and resulting capital ratios. The investment securities portfolio is largely comprised of adjustable-rate mortgage-backed securities, collateralized mortgage obligations, and shorter-term U.S. Treasury notes. When purchasing investment securities, the Company considers its overall interest-rate risk profile as well as the adequacy of expected returns relative to prepayment and other risks assumed. The Company occasionally sells investment securities as a result of changes in interest rates, actual or anticipated prepayments, or credit risk associated with a particular security.

The average balance of money-market assets, which are comprised of interest-bearing deposits at banks, trading account assets, Federal funds sold and agreements to resell securities, was $165 million in 1997, compared with $124 million in 1996 and $186 million in 1995.

Core deposits, consisting of noninterest-bearing deposits, interest-bearing transaction accounts, savings deposits and nonbrokered domestic time deposits under $100,000 represent the most significant source of funding to the Company. Core deposits generally carry lower interest rates than wholesale funds of comparable maturities. The Company's New York State branch network is its principal source of core deposits. Certificates of deposit under $100,000 generated on a nationwide basis by M&T Bank, N.A. are also included in core deposits. In 1997, average core deposits totaled $8.3 billion, up from $8.0 billion in 1996 and $7.4 billion in 1995. Average core deposits of M&T Bank, N.A., which began operations in the fourth quarter of 1995, were $432 million in 1997, $261 million in 1996 and $3 million in 1995. Funding provided by core deposits totaled 65% of average earning assets in 1997, compared with 66% in 1996 and 67% in 1995. An analysis of changes in the components of core deposits is presented in the accompanying table 7.

The Company also obtains funding through domestic time deposits of $100,000 or more, deposits originated through the Company's offshore branch office, and brokered certificates of deposit. Domestic time deposits over $100,000, excluding brokered certificates of deposit, averaged $1.0 billion in 1997, compared with $892 million in 1996 and $625 million in 1995. Offshore deposits, comprised primarily of accounts with balances of $100,000 or more, averaged $230 million in 1997, compared with $239 million and $133 million in 1996 and 1995, respectively. Brokered deposits averaged $1.4 billion in 1997, $1.1 billion in 1996 and $874 million in 1995, and totaled $1.4 billion at December 31, 1997. Brokered deposits are used as an alternative to short-term borrowings to lengthen the average maturity of interest-bearing liabilities. The weighted-average remaining term to maturity of brokered deposits at December 31, 1997 was 2.5 years. However, certain of the deposits have provisions that allow early redemption. 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.

In addition to deposits, the Company uses short-term borrowings from banks, securities dealers, the Federal Home Loan Bank of New York ("FHLB") and others as sources of funding. Short-term borrowings averaged $853 million in 1997, $1.1 billion in 1996 and $1.4 billion in 1995. In general, short-term borrowings have been used to fund the Company's discretionary investments in money-market assets and investment securities, and, if necessary, to replace deposit outflows. Also providing funding in 1997 were two separate issuances of trust preferred securities totaling $250 million. In January 1997, First Empire completed an offering of trust preferred securities that raised $150 million of capital. The 30-year offering of 8.234% fixed-rate cumulative trust preferred securities was sold through First Empire Capital Trust I. First Empire completed another offering of trust preferred securities in June 1997 raising $100 million of capital. This 30-year offering of 8.277% fixed-rate cumulative trust preferred securities was sold through First Empire Capital Trust II. The preferred securities provide investors with call protection for ten years. The trusts were formed solely to issue the trust preferred securities and advance proceeds to First Empire by purchasing First Empire's junior subordinated debt. The proceeds of the trust preferred securities qualify as Tier 1 or core capital for First Empire under the Federal Reserve Board's risk-based capital guidelines. Payments on the junior subordinated debt of First Empire, which are in turn passed through the trusts to the holders of the preferred securities, will be serviced through existing liquidity and cash flow sources of First Empire. Under current tax law, First Empire will be permitted to deduct interest payments on the junior subordinated debt in computing taxable income. Further information regarding the trust preferred securities is provided in note 7 of Notes to Financial Statements. These securities, along with $175 million of subordinated capital notes issued in prior years by M&T Bank, of which $75 million mature in 2002 and $100 million mature in 2005, are included in long-term borrowings. Long-term borrowings averaged $373 million in 1997, $189 million in 1996 and $146 million in 1995.

Net interest income is impacted by changes in the composition of the Company's earning assets and interest-bearing liabilities, as described herein, as well as changes in interest rates and spreads. Net interest spread, or the difference between the yield on earning assets and the rate paid on interest-bearing liabilities, was 3.70% in 1997, compared with 3.80% in 1996. A greater proportion of loans, which typically yield more than money-market assets and investment securities, in the composition of the earning asset portfolio resulted in the yield on earning assets increasing slightly, to 8.34% in 1997 from 8.32% in 1996. The rate paid on interest-bearing liabilities increased 12 basis points (hundredths of one percent) to 4.64% in 1997 from 4.52% in 1996 due to generally higher prevailing interest rates and the effect of the previously discussed issuances of $250 million of trust preferred securities. In 1995, the net interest spread was 3.77%, the yield on earning assets was 8.42% and the rate paid on interest-bearing liabilities was 4.65%. A greater proportion of loans in the composition of earning assets somewhat mitigated a general decrease in market interest rates in 1996 compared with 1995. Largely due to the changes in the net interest spread described herein, the Company's net interest margin was 4.38% in 1997, compared with 4.45% in 1996 and 4.43% in 1995.

Interest-free funds, consisting largely of noninterest-bearing deposits and stockholders' equity, contributed .68% to net interest margin in 1997, compared with .65% in 1996 and .66% in 1995. Average interest-free funds were $1.9 billion in 1997, $1.7 billion in 1996 and $1.6 billion in 1995.

Future changes in market interest rates or spreads, as well as changes in the composition of the Company's portfolios of earning assets and interest-bearing liabilities that result in reductions in spreads could adversely impact the Company's net interest margin and net interest income. Management assesses the potential impact of future changes in interest rates and spreads by projecting net interest income under a number of different interest rate scenarios. As part of the management of interest rate risk, the Company utilizes interest rate swap agreements 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, the rates paid on interest-bearing deposits. The notional amount of interest rate swaps entered into for interest rate risk management purposes as of December 31, 1997 was approximately $2.7 billion. 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 terms of a $33 million swap, the Company pays a fixed rate of interest and receives a variable rate. The average notional amounts of interest rate swaps entered into for interest rate risk management purposes and the related effect on net interest income and margin are presented in the accompanying table 8.

The Company estimates that as of December 31, 1997 it would have received approximately $16.4 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 reflected in the consolidated financial statements. Additional information about interest rate swaps is included in note 15 of Notes to Financial Statements.

The Financial Accounting Standards Board ("FASB") has issued a Proposed Statement of Financial Accounting Standards ("Proposed Statement") that would significantly change generally accepted accounting for interest rate swaps, other derivative financial instruments and hedging activities. The Proposed Statement would require that an entity recognize all derivatives (including interest rate swaps)as either assets or liabilities on the balance sheet and measure those instruments at fair value.

PROVISION FOR POSSIBLE CREDIT LOSSES

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. Management regularly assesses the adequacy of the allowance by performing 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 the borrowers operate, the level of delinquent loans and the value of any collateral. Significant loans are individually analyzed, while other smaller balance loans are evaluated by loan category. Based upon the results of such review, management believes that the allowance for possible credit losses at December 31, 1997 was adequate to absorb credit losses from existing loans and leases.

The provision for possible credit losses was $46.0 million in 1997, compared with $43.3 million in 1996 and $40.4 million in 1995. Net charge-offs for 1997 were $41.8 million, compared with $35.2 million in 1996 and $21.3 million in 1995. As a percentage of average loans outstanding, net charge-offs were .38% in 1997, .35% in 1996 and .24% in 1995. Nonperforming loans totaled $80.7 million or .70% of loans outstanding at December 31, 1997, compared with $97.9 million or .91% of loans a year earlier and $93.1 million or .97% at December 31, 1995. The allowance for possible credit losses was $274.7 million or 2.39% of net loans and leases at the end of 1997, compared with $270.5 million or 2.52% at December 31, 1996 and $262.3 million or 2.75% at December 31, 1995. The ratio of the allowance to nonperforming loans was 341%, 276% and 282% at year-end 1997, 1996 and 1995, respectively.

The accompanying table 10 presents a comparative allocation of the allowance for possible credit losses for each of the past five year-ends. Amounts were allocated to specific loan categories based upon management's classification of loans under the Company's internal loan grading system and assessment of near-term charge-offs and losses existing in specific larger balance loans that are reviewed in detail by the Company's internal loan review department and pools of other loans that are not individually analyzed. The unallocated portion of the allowance is intended to provide for probable losses that are not otherwise identifiable resulting from (i) generally poor economic conditions and an unfavorable business climate in market regions served by the Company, (ii) portfolio concentrations regarding loan type, collateral type and geographic location, (iii) the effect of expansion into new markets and/or loan product types and, (iv) the possible use of imprecise estimates in determining the allocated portion of the allowance. Nevertheless, the allowance is general in nature and is available to absorb losses from any loan category. Accordingly, the amounts presented in the table do not necessarily indicate future losses within the individual loan categories.

Several factors influence the Company's credit loss experience, including overall economic conditions affecting businesses and consumers, in general, and, due to the size of the Company's commercial real estate loan portfolio, real estate valuations, in particular. Nonperforming commercial real estate loans totaled $17.4 million, $27.1 million and $42.3 million at December 31, 1997, 1996 and 1995, respectively. At December 31, 1997, $7.0 million of nonperforming commercial real estate loans were secured by properties located in the New York City metropolitan area, compared with $10.3 million and $16.8 million at December 31, 1996 and 1995, respectively. Net charge-offs of commercial real estate loans were $.9 million in 1997, $1.5 million in 1996 and $6.6 million in 1995. Included in these totals are net charge-offs of commercial real estate loans secured by properties in the

New York City metropolitan area of $1.1 million, $.6 million and $3.2 million in 1997, 1996 and 1995, respectively.

Net charge-offs of consumer loans totaled $35.8 million in 1997, or 1.55% of average consumer loans outstanding during the year, compared with $28.5 million or 1.30% in 1996 and $11.3 million or .65% in 1995. Higher charge-offs of credit card balances and indirect automobile loans were the most significant factors contributing to the increased level of consumer loan charge-offs in 1997 and 1996 compared with 1995. Net credit card and indirect automobile loan charge-offs in 1997 were $19.0 million and $11.2 million, respectively, compared with $15.9 million and $9.6 million, respectively, in 1996 and $6.1 million and $3.1 million, respectively, in 1995. The increased levels of charge-offs of credit card and indirect automobile loans in 1997 and 1996 as compared to prior years can, in part, be attributed to higher levels of consumer bankruptcies and, in general, is consistent with trends reported by other financial institutions. Nonperforming consumer loans totaled $21.9 million or .99% of outstanding consumer loans at December 31, 1997, compared with $17.6 million or .73% at December 31, 1996 and $13.7 million or .70% at December 31, 1995.

Commercial real estate loans secured by multi-family properties in the New York City metropolitan area were 13% of loans outstanding at December 31, 1997. However, the Company had no concentrations of credit extended to any specific industry that exceeded 10% of total loans at December 31, 1997. Furthermore, the Company had no exposure to less developed countries, and only $5 million of foreign loans in total.

Assets taken in foreclosure of defaulted loans totaled $8.4 million at December 31, 1997, compared with $8.5 million and $7.3 million at the end of 1996 and 1995, respectively.

OTHER INCOME

Excluding the effect from sales of bank investment securities, other income increased 14% to $193 million in 1997 from $170 million in 1996 and was 33% higher than the $145 million earned in 1995.

Mortgage banking revenues, which consist of residential mortgage loan servicing fee income, gains from sales of residential mortgage loans and loan servicing rights, and other residential mortgage loan-related fees, increased to $51.5 million in 1997 from $44.5 million in 1996 and $37.1 million in 1995. Revenues from servicing residential mortgage loans for others were $25.7 million in 1997, $20.9 million in 1996 and $19.3 million in 1995. Gains from sales of residential mortgage loans and loan servicing rights increased to $23.1 million in 1997, compared with $21.6 million and $16.4 million in 1996 and 1995, respectively. The Company originates residential mortgage loans in New York State, as well as in Arizona, Colorado, Massachusetts, Ohio, Oregon, Utah and Washington. Originations of residential mortgage loans were $2.1 billion in 1997, $1.9 billion in 1996 and $1.3 billion in 1995. Residential mortgage loans serviced for others totaled $7.5 billion, $5.8 billion and $5.7 billion at December 31, 1997, 1996 and 1995, respectively. Capitalized servicing assets were $61.1 million at December 31, 1997, compared with $37.8 million at December 31, 1996 and $34.5 million at December 31, 1995.

Service charges on deposit accounts increased 7% to $43.4 million in 1997 from $40.7 million in 1996, and 13% from $38.3 million in 1995. Trust income of $30.7 million increased 11% from $27.7 million in 1996, and 20% from $25.5 million in 1995. Merchant discount and other credit card fees in 1997 totaled $19.4 million, compared with $18.3 million in 1996 and $10.7 million in 1995. Expansion of the Company's credit card business was the primary factor in the improvement in 1996's fees from 1995. Due to poorer than expected results, during 1997 the Company either terminated or agreed to terminate during the first quarter of 1998 several of its co-branded credit card programs. These programs were initiated during 1995 and 1996. Merchant discount and other credit card fees earned in connection with the programs were approximately $7 million, $8 million and $1 million in 1997, 1996 and 1995, respectively. Credit card balances related to these programs that remained outstanding at December 31, 1997 were $61 million, compared with $122 million a year earlier. Trading account and foreign exchange activity resulted in gains of $3.7 million in 1997, $2.4 million in 1996 and $2.8 million in 1995. Other revenues from operations totaled $44.7 million in 1997, compared with $36.8 million in 1996 and $30.7 million in 1995. Such amounts include revenues from sales of mutual funds and annuities of $15.3 million, $13.0 million and $9.4 million in 1997, 1996 and 1995, respectively. Income earned from venture capital and other investments also contributed to the increase in other revenues from operations in 1997.

OTHER EXPENSE

Other expense totaled $422 million in 1997, up from $409 million in 1996 when a $7 million charge was recognized for a special assessment to recapitalize the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation ("FDIC"). Other expense totaled $374 million in 1995.

Salaries and employee benefits expense was $220 million in 1997, an increase of $12 million or 6% from $208 million in 1996. The increase was due largely to higher incentive-based compensation arrangements, including stock appreciation rights, and merit salary increases. Personnel costs in 1996 increased $20 million or 11% from $188 million in 1995. Factors contributing to such increase were merit salary increases, costs associated with the opening of 27 supermarket banking locations in 1996 and the second half of 1995, and the expansion of subsidiaries providing residential mortgage banking services, indirect automobile loans and sales of mutual funds and annuities. The number of full-time equivalent employees was 4,781 at December 31, 1997, down from 4,832 at December 31, 1996, but up from 4,546 at December 31, 1995.

Nonpersonnel expenses for 1997 totaled $202 million, little changed from $201 million in 1996, but up 8% from $186 million in 1995. Excluding the $7 million charge in 1996 for the special assessment by the FDIC, nonpersonnel expense increased 4% in 1997 from 1996. Higher costs associated with the Company's mortgage banking business, including amortization of capitalized servicing rights, contributed to the increase. The increase in nonpersonnel expenses in 1996 from 1995 was largely caused by higher expenses associated with the expansion of businesses providing mortgage banking services, indirect automobile loans, credit cards and the sale of mutual funds and annuities, partially offset by lower deposit insurance expense. Customer rebates and other expenses based on card usage directly attributable to the terminated co-branded credit card programs previously noted were approximately $9 million in 1997, $11 million in 1996 and $1 million in 1995.

INCOME TAXES

The provision for income taxes in 1997 was $105.9 million, up from $97.9 million in 1996 and $90.1 million in 1995. The effective tax rates were 38% in 1997, 39% in 1996 and 41% in 1995. A reconciliation of income tax expense to the amount computed by applying the statutory federal income tax rate to pre-tax income is provided in note 11 of Notes to Financial Statements.

INTERNATIONAL ACTIVITIES

The Company's net investment in international assets was $12 million and $55 million at December 31, 1997 and 1996, respectively. Total offshore deposits were $251 million and $193 million at December 31, 1997 and 1996, respectively.

LIQUIDITY, MARKET RISK, AND INTEREST RATE SENSITIVITY

As a financial intermediary, the Company is exposed to various risks, including liquidity and market risk. Liquidity risk arises 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. The Company's core deposits have historically provided a significant source of funds. Such deposits are generated from a large base of consumer, corporate and institutional customers, which over the past several years has become more geographically diverse as a result of acquisitions and expansion of the Company's businesses. Nevertheless, in recent years the Company has faced increased competition in offering services and products from a large array of financial market participants, including banks, thrifts, mutual funds, securities dealers and others. As a result, and consistent with banking industry experience in general, the Company has experienced a reduction in the percentage of earning assets funded by core deposits. Core deposits financed 64% of the Company's earning assets at December 31, 1997, compared with 65% and 67% at December 31, 1996 and 1995, respectively.

The Company supplements funding from core deposits with various wholesale borrowings, such as Federal funds purchased and securities sold under agreements to repurchase, and brokered certificates of deposit. Additionally, M&T Bank has a credit facility with the FHLB aggregating $959 million, with any borrowings secured by loans and investment securities. Borrowings outstanding under such credit facility totaled $22 million and $2 million at December 31, 1997 and 1996, respectively. Although informal and sometimes reciprocal, sources of funding are available to the Company through various arrangements for unsecured short-term borrowings from a wide group of banks and other financial institutions. In addition to deposits and borrowings, other sources of liquidity include maturities of money-market assets, repayments of loans and investment securities, and cash generated from operations, such as fees collected for services.

First Empire's primary source of funds to pay for operating expenses, dividends and treasury stock repurchases has historically been the receipt of dividends from its banking subsidiaries, which are subject to various regulatory limitations. As previously discussed, during 1997 First Empire issued junior subordinated debt to two special purpose subsidiaries, which provided funding. Additional information regarding the junior subordinated debt is included in note 7 of Notes to Financial Statements. First Empire also maintains a $25 million line of credit with an unaffiliated commercial bank, all of which was available for borrowing at December 31, 1997.

The Company expects to have access to sufficient liquid assets to fund the cash portion of the previously discussed ONBANCorp acquisition and, accordingly, 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.

Market risk is the risk of loss from adverse changes in market prices and/or interest rates of the Company's financial instruments. The core banking activities of lending and deposit-taking expose the Company to interest rate risk. As a result of interest rate risk, net interest income earned by the Company is subject to the effects of changing interest rates.

The Company measures interest rate risk by calculating the variability of net interest income under various interest rate scenarios using projected balances for earning assets, interest-bearing liabilities and off-balance sheet financial instruments. Management's philosophy toward positioning the Company for interest rate movements is to attempt to limit such variability. The balances of both on-and off-balance sheet financial instruments used in the projections are based on expected growth from forecasted business opportunities, anticipated prepayments of mortgage-related assets and expected maturities of investment securities, loans and deposits. Management supplements the modeling technique described above with analyses of market values of the Company's financial instruments. As part of managing interest rate risk, the Company has entered into interest rate swap agreements having an aggregate notional amount of approximately $2.7 billion at December 31, 1997. Information about interest rate swaps entered into for interest rate risk management purposes is included herein under "Net Interest Income/Lending and Funding Activities" and in note 15 of Notes to Financial Statements.

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

The accompanying table 13 displays the estimated impact on net interest income from non-trading financial instruments resulting from changes in interest rates during the first modeling year.

The calculation of the impact of changes in interest rates on net interest income is based upon many assumptions, including prepayments of mortgage-related assets, cash flows from derivative and other financial instruments held for non-trading purposes, loan and deposit volumes and pricing, and deposit maturities. The Company also assumes gradual changes in rates of 100 and 200 basis points up and down during a twelve month period. These assumptions are inherently uncertain and, as a result, the Company cannot precisely predict the impact of changes in interest rates on net interest income. Actual results may differ significantly due to timing, magnitude, and frequency of interest rate changes and changes in market conditions, as well as any actions, such as those previously described, which management may take to counter these changes.

In accordance with industry practice, the accompanying table 15 presents cumulative totals of net assets (liabilities) repricing on a contractual basis within the specified time frames, as adjusted for the impact of interest rate swap agreements entered into for interest rate risk management purposes. Management believes this measure does not appropriately depict interest rate risk since changes in interest rates do not necessarily affect all categories of earning assets and interest-bearing liabilities equally nor, as assumed in the table, on the contractual maturity or repricing date. Furthermore, this static presentation of interest rate risk fails to consider the effect of ongoing lending and deposit gathering activities, projected changes in balance sheet composition or any subsequent interest rate risk management activities the Company is likely to implement.

The Company engages in trading activities to meet the financial needs of customers and to profit from perceived market opportunities. Trading activities are conducted utilizing financial instruments that include forward and futures contracts related to foreign currency exchange and mortgage-backed securities, U.S. Treasury and other government securities, and interest rate contracts such as swaps. As a result, the Company is exposed to foreign currency and interest rate risk resulting from its trading activities. However, the Company generally mitigates exposure arising from trading activities by entering into offsetting positions. Accordingly, the Company's exposure to interest rate, foreign exchange or other price risk related to trading activities as of December 31, 1997 was not considered material.

CAPITAL

Total stockholders' equity at December 31, 1997 was $1.0 billion or 7.36% of total assets, compared with $906 million or 7.00% at December 31, 1996 and $846 million or 7.08% at December 31, 1995. On a per share basis, common stockholders' equity was $155.86 at December 31, 1997, an increase of 15% from $135.45 at December 31, 1996 and 24% from $125.33 at December 31, 1995. The ratio of average total stockholders' equity to average total assets was 7.16%, 6.92% and 6.81% in 1997, 1996 and 1995, respectively.

Stockholders' equity at December 31, 1997 was increased by $12.0 million, or $1.82 per common share, for the net after-tax impact of unrealized gains on investment securities classified as available for sale, compared with a reduction for unrealized losses of $2.5 million, or $.37 per common share, at December 31, 1996 and $3.2 million, or $.49 per common share, at December 31, 1995. The unrealized gains at December 31, 1997 represent the amount by which the fair value of investment securities classified as available for sale exceeded amortized cost, net of applicable income taxes. 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.

Cash dividends on common stock of $21.2 million were paid in 1997, compared with $18.6 million in 1996 and $16.2 million in 1995. The quarterly common stock dividend rate remained at $.80 per share throughout 1997. In total, dividends per common share increased to $3.20 in 1997 from $2.80 in 1996 and $2.50 in 1995. On March 29, 1996, all shares of First Empire's 9% convertible preferred stock were converted by the holder of such stock into 506,930 shares of First Empire common stock at a contractual conversion price of $78.90625 per share. Dividends of $.9 million were paid to the preferred stockholder in 1996, compared with $3.6 million in 1995.

In February 1997, First Empire announced a plan to repurchase and hold as treasury stock up to 303,317 shares of common stock for reissuance upon the possible future exercise of outstanding stock options. As of December 31, 1997, First Empire had repurchased 178,011 common shares pursuant to such plan at an average cost of $331.78 per share. Including prior repurchase plans completed in 1997 and 1995, First Empire repurchased common shares totaling 207,073 in 1997, 336,220 in 1996 and 223,530 in 1995. The total cost of these common stock repurchases was $67.8 million, $80.8 million and $37.4 million in 1997, 1996 and 1995, respectively.

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. As of December 31, 1997 total capital further includes $160 million of the 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 December 31, 1997 are presented in note 19 of Notes to Financial Statements.

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 (excluding the after-tax effects of gains or losses from sales of bank investment securities) less dividends paid expressed as a percentage of average total stockholders' equity, was 16.28% in 1997, 15.25% in 1996 and 13.88% in 1995.

YEAR 2000 INITIATIVES

The Company is currently working to resolve the potential impact of "Year 2000" issues on the processing of date-sensitive information by the Company's computer systems. The Year 2000 problem relates to the ability of computer systems to be able to distinguish date data between the twentieth and twenty-first centuries. Management anticipates that the Company's computer systems will be Year 2000 compliant by the end of 1998 and has a planned program to test for such compliance. The Company could also be adversely affected if its customers rely on data processing systems that are not Year 2000 compliant prior to the end of 1999. The Company, therefore, is taking a proactive role to work with its data processing vendors and to provide information to its commercial customers regarding Year 2000 issues. The costs that have been incurred by the Company in addressing its potential Year 2000 problems have not had a material adverse impact on the Company's financial position, results of operations or cash flows. However, the inability of the Company or its customers to resolve Year 2000 issues in a timely manner could result in a material financial risk. Accordingly, the Company is devoting appropriate resources to resolve its Year 2000 issues in a timely manner and does not currently expect that doing so will have a material adverse impact on the Company's financial position, results of operations or cash flows in the future.

FOURTH QUARTER RESULTS

Net income in the fourth quarter of 1997 was $46.3 million, an increase of 15% from the final quarter of 1996 when net income was $40.4 million. Diluted earnings per common share increased 17% to $6.66 from $5.70 earned in the year-earlier quarter. Basic earnings per share increased 16% to $7.01 in 1997's final quarter from $6.03 in the comparable period in 1996. Taxable-equivalent net interest income increased to $143.9 million in the fourth quarter of 1997, up $6.0 million or 4% from $137.9 million in the corresponding 1996 quarter. Growth in average loans outstanding was the primary factor contributing to the improvement in net interest income. Average loans for the fourth quarter of 1997 totaled $11.3 billion, an 8% increase from the $10.5 billion average during the fourth quarter of 1996. In total, earning assets averaged $13.2 billion in the final quarter of 1997, up 7% from $12.3 billion in the corresponding 1996 quarter. The yield on earning assets increased to 8.34% in the final 1997 quarter from 8.31% in the year-earlier period, while the rate paid on interest-bearing liabilities increased to 4.70% from 4.54%. The higher rate paid on interest-bearing liabilities was due to generally higher interest rates and the effect of the previously discussed issuances of $250 million of trust preferred securities. The resulting net interest spread was 3.64% in the recent quarter, compared with 3.77% in the fourth quarter of 1996. Similarly, net interest margin decreased to 4.33% in the fourth quarter of 1997 from 4.46% in the year-earlier quarter.

The provision for possible credit losses was $12.0 million in the final 1997 quarter, compared with $11.5 million in the fourth quarter of 1996. Net charge-offs totaled $9.7 million in 1997's fourth quarter, down from $11.5 million in the year-earlier quarter. Net charge-offs as an annualized percentage of average loans and leases were .34% in the recent quarter, down from .43% in the corresponding 1996 quarter. Excluding the effects of sales of bank investment securities, other income rose 10% to $53.0 million in the fourth quarter of 1997 from $48.1 million in the year-earlier quarter. A $3.0 million increase in revenues from mortgage banking activities was the leading factor contributing to the rise. Other expense was $110.7 million in the fourth quarter of 1997, an increase of 3% from $107.1 million in the fourth quarter of 1996.

RECENTLY ISSUED ACCOUNTING STANDARDS NOT YET ADOPTED

SFAS No. 127, "Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125," was issued in December 1996 and defers until January 1, 1998, the effective date for certain provisions of SFAS No. 125 relating to repurchase agreement, dollar roll, securities lending and similar transactions and pledged collateral. SFAS No. 127 will be adopted by the Company in the first quarter of 1998, as required, and is not expected to have a material impact on the Company's results of operations.

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for reporting and displaying comprehensive income and its components, and requires that all items that are required to be recognized under accounting standards be reported in a financial statement that is displayed with the same prominence as other financial statements. SFAS No. 130 is effective for fiscal years beginning after December 15, 1997 and reclassification of financial statements for earlier periods provided for comparative purposes is required. The Company will adopt the provisions of SFAS No. 130 in the first quarter of 1998. When adopted, SFAS No. 130 is not expected to have a material impact on the Company.

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," also issued in June 1997, establishes new standards for reporting information about operating segments in annual and interim financial statements. SFAS No. 131 also requires descriptive information about the way the operating segments are determined, the products and services provided by the segments and the nature of differences between reportable segment measurements and those used for the consolidated enterprise. SFAS No. 131 is effective for years beginning after December 15, 1997. SFAS No. 131 need not be applied to interim financial statements in the initial year of application, but comparative information for interim periods in the initial year of application is to be reported in the financial statements for interim periods in the year after initial application. The Company will apply the provisions of SFAS No. 131 in 1998, as required.

In February 1998, the FASB issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS No. 132 revises current disclosure requirements for employers' pensions and other retiree benefits. SFAS No. 132 is effective for fiscal years beginning after December 15, 1997.

FORWARD-LOOKING STATEMENTS

This Financial Review and other sections of this Annual Report contain forward-looking statements that are based on current expectations, estimates and projections about the Company's business, management's beliefs and assumptions made by management. 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

FINANCIAL HIGHLIGHTS

TABLE 1

	1997	1996	CHANGE
FOR THE YEAR			
PERFORMANCE			
Net income (thousands)	$ 176,241	151,103	+17%
Return on			
Average assets	1.32%	1.21%	
Average common equity	18.49%	17.60%	
Net interest margin	4.38%	4.45%	
Net charge-offs/average loans	.38%	.35%	
Efficiency ratio	55.79%	57.95%	
PER COMMON SHARE DATA			
Basic earnings	$ 26.60	22.54	+18%
Diluted earnings	25.26	21.08	+20%
Cash dividends	3.20	2.80	+14%
AT DECEMBER 31			
BALANCE SHEET DATA (MILLIONS)			
Loans and leases, net of unearned discount	$ 11,497	10,722	+7%
Total assets	14,003	12,944	+8%
Deposits	11,163	10,514	+6%
Stockholders' equity	1,030	906	+14%
LOAN QUALITY			
Allowance for credit losses/net loans	2.39%	2.52%	
Nonperforming assets ratio	.77%	.99%	
CAPITAL			
Tier 1 risk-based capital ratio	10.69%	8.40%	
Total risk-based capital ratio	13.32%	11.32%	
Leverage ratio	9.09%	6.99%	
Common equity/total assets	7.36%	7.00%	
Common equity (book value) per share	$ 155.86	135.45	+15%
Market price per share			
Closing	465.00	288.00	+61%
High	468.00	289.63	
Low	281.00	209.00	

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

QUARTERLY TRENDS

TABLE 2

	1997 QUARTERS			
	FOURTH	THIRD	SECOND	FIRST
	AMOUNTS IN THOUSANDS, EXCEPT PER SHARE			
Taxable-equivalent basis				
EARNINGS AND DIVIDENDS				
Interest income	$277,166	271,305	265,301	257,029
Interest expense	133,270	129,768	125,734	119,321
Net interest income	143,896	141,537	139,567	137,708
Less: provision for possible credit losses	12,000	12,000	11,000	11,000
Other income	52,979	50,182	43,983	45,923
Less: other expense	110,716	104,706	102,070	104,284
Income before income taxes	74,159	75,013	70,480	68,347
Applicable income taxes	26,246	27,518	26,329	25,825
Taxable-equivalent adjustment	1,613	1,604	1,360	1,263
Net income	$ 46,300	45,891	42,791	41,259
Cash dividends on preferred stock	$ --	--	--	--
Per common share data				
Net income				
Basic	$ 7.01	6.96	6.46	6.17
Diluted	6.66	6.62	6.17	5.81
Net income, excluding securities transactions				
Basic	7.01	6.97	6.47	6.18
Diluted	6.66	6.63	6.19	5.81
Cash dividends	.80	.80	.80	.80
Average common shares outstanding				
Basic	6,599	6,592	6,627	6,685
Diluted	6,955	6,927	6,928	7,100
BALANCE SHEET DATA				
	DOLLARS IN MILLIONS, EXCEPT PER SHARE			
Average balances				
Total assets	$ 13,785	13,424	13,148	12,866
Earning assets	13,186	12,950	12,740	12,464
Investment securities	1,721	1,747	1,715	1,611
Loans and leases, net of unearned discount	11,327	11,002	10,842	10,715
Deposits	11,262	11,170	10,914	10,454
Stockholders' equity	1,007	962	925	917
At end of quarter				
Total assets	$ 14,003	13,675	13,441	13,122
Earning assets	13,333	13,100	12,903	12,621
Investment securities	1,725	1,752	1,708	1,693
Loans and leases, net of unearned discount	11,497	11,271	10,980	10,803
Deposits	11,163	11,205	11,186	10,533
Stockholders' equity	1,030	982	951	912
Equity per common share	$ 155.86	149.31	143.64	137.33
Performance ratios, annualized				
Return on				
Average assets	1.33%	1.36%	1.31%	1.30%
Average common stockholders' equity	18.25%	18.92%	18.55%	18.24%
Net interest margin on average earning assets	4.33%	4.34%	4.39%	4.48%
Nonperforming assets to total assets, at end of quarter	.64%	.69%	.79%	.81%
Market price per common share				
High	$ 468	415	343 1/2	336
Low	401	335	303	281
Closing	465	415	337	320

	1996 QUARTERS			
	FOURTH	THIRD	SECOND	FIRST
Taxable-equivalent basis				
EARNINGS AND DIVIDENDS				
Interest income	257,196	251,336	248,673	244,714
Interest expense	119,343	117,884	114,996	114,185
Net interest income	137,853	133,452	133,677	130,529
Less: provision for possible credit losses	11,475	10,475	11,700	9,675
Other income	47,641	44,893	41,463	36,251
Less: other expense	107,082	107,658	97,921	96,317
Income before income taxes	66,937	60,212	65,519	60,788
Applicable income taxes	25,288	23,090	25,790	23,698

Taxable-equivalent adjustment	1,229	1,251	1,070	937
Net income	40,420	35,871	38,659	36,153
Cash dividends on preferred stock	--	--	--	900
Per common share data				
Net income				
Basic	6.03	5.34	5.66	5.51
Diluted	5.70	5.05	5.36	4.97
Net income, excluding securities transactions				
Basic	6.07	5.34	5.65	5.48
Diluted	5.73	5.05	5.35	4.95
Cash dividends	.70	.70	.70	.70
Average common shares outstanding				
Basic	6,700	6,722	6,832	6,399
Diluted	7,098	7,104	7,212	7,269
BALANCE SHEET DATA				
Average balances				
Total assets	12,728	12,556	12,486	12,141
Earning assets	12,308	12,124	12,044	11,695
Investment securities	1,659	1,798	1,939	1,830
Loans and leases, net of unearned discount	10,527	10,253	9,997	9,672
Deposits	10,609	10,459	10,069	9,496
Stockholders' equity	891	857	855	849
At end of quarter				
Total assets	12,944	12,821	12,542	12,671
Earning assets	12,504	12,282	12,015	12,129
Investment securities	1,572	1,753	1,817	2,108
Loans and leases, net of unearned discount	10,722	10,437	10,129	9,912
Deposits	10,514	10,554	10,193	9,719
Stockholders' equity	906	878	861	847
Equity per common share	135.45	130.58	126.70	123.76
Performance ratios, annualized				
Return on				
Average assets	1.26%	1.14%	1.25%	1.20%
Average common stockholders' equity	18.05%	16.64%	18.18%	17.50%
Net interest margin on average earning assets	4.46%	4.38%	4.46%	4.49%
Nonperforming assets to total assets, at end of quarter	.82%	.82%	.75%	.71%
Market price per common share				
High	289 5/8	258	247	247 3/4
Low	250	239	232	209
Closing	288	249	241	246

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES
EARNINGS SUMMARY

DOLLARS IN MILLIONS

Table 3

INCREASE (DECREASE)* 1996 TO 1997 AMOUNT	%	1995 TO 1996 AMOUNT	%		1997	1996	1995	1994	1993	COMPOUND GROWTH RATE 5 YEARS 1992 TO 1997
$68.9	7	$69.1	7	Interest income**	$1,070.8	1,001.9	932.8	751.4	744.7	7%
41.7	9	24.7	6	Interest expense	508.1	466.4	441.7	279.2	269.9	9
27.2	5	44.4	9	Net interest income**	562.7	535.5	491.1	472.2	474.8	5
2.7	6	3.0	7	Less: provision for possible credit losses	46.0	43.3	40.4	60.5	80.0	(12)
(.3)	-	(4.5)	-	Gain (loss) on sales of bank investment securities	(.3)	-	4.5	.1	.9	-
23.1	14	25.2	17	Other income	193.3	170.3	145.1	123.6	109.7	15
				Less:						
11.7	6	20.1	11	Salaries and employee benefits	220.0	208.3	188.2	161.2	154.3	11
1.1	1	14.4	8	Other expense	201.8	200.7	186.3	175.6	173.5	2
34.5	14	27.6	12	Income before income taxes	287.9	253.5	225.8	198.6	177.6	11
				Less:						
1.3	30	(.2)	(3)	Taxable-equivalent adjustment**	5.8	4.5	4.7	4.1	4.1	-
8.1	8	7.7	9	Income taxes	105.9	97.9	90.1	77.2	71.5	10
$25.1	17	$20.1	15	Net income	$ 176.2	151.1	131.0	117.3	102.0	12%

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* Changes were calculated from unrounded amounts.

** Interest income data are on a taxable-equivalent basis. The taxable-equivalent adjustment represents additional income taxes that would be due if all interest income were subject to income taxes. This adjustment is primarily to interest received on qualified municipal securities and industrial revenue financings and is based on a composite income tax rate of approximately 41% for 1997, 42% for 1996, 1995 and 1993, and 43% for 1994.

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

AVERAGE LOANS AND LEASES

(NET OF UNEARNED DISCOUNT)

TABLE 4

DOLLARS IN MILLIONS	1997	PERCENT INCREASE FROM 1996 TO 1997	PERCENT INCREASE FROM 1995 TO 1996
Commercial, financial, etc	$ 2,257	11%	13%
Real estate--commercial	4,180	11	8
Real estate--consumer	2,228	5	17
Consumer			
Automobile	1,041	3	41
Home equity	644	6	4
Credit cards	268	4	47
Other	355	14	13
Total consumer	2,308	5	25
Total	$ 10,973	8%	14%

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

COMMERCIAL REAL ESTATE LOANS
(NET OF UNEARNED DISCOUNT)

DECEMBER 31, 1997

TABLE 5

DOLLARS IN MILLIONS	OUTSTANDINGS	PERCENT OF DOLLARS OUTSTANDING BY LOAN SIZE $0-1	$1-3	$3-10	$10+
Metropolitan New York City					
Apartments/Multifamily	$ 1,468.7	14%	20%	19%	10%
Office	161.9	1	2	3	2
Retail	447.9	3	7	6	2
Construction	20.4	--	--	--	--
Industrial	37.6	--	1	1	--
Other	228.0	1	2	3	3
Total Metropolitan New York City	$ 2,364.5	19%	32%	32%	17%
Other New York State					
Apartments/Multifamily	$ 340.2	6%	6%	6%	1%
Office	564.8	8	9	11	2
Retail	196.9	4	4	2	--
Construction	133.7	1	2	3	1
Industrial	156.0	5	2	1	--
Other	480.5	10	9	6	1
Total other New York State	$ 1,872.1	34%	32%	29%	5%
Other					
Apartments/Multifamily	$ 87.0	7%	21%	16%	--%
Office	6.5	1	1	2	--
Retail	46.3	--	6	17	--
Construction	3.4	--	--	1	--
Industrial	25.7	1	3	8	--
Other	30.5	4	3	9	--
Total other	$ 199.4	13%	34%	53%	--%
Total commercial real estate loans	$ 4,436.0	25%	32%	32%	11%

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

AVERAGE BALANCE SHEETS AND TAXABLE-EQUIVALENT RATES

TABLE 6

	1997 AVERAGE BALANCE	1997 INTEREST	1997 AVERAGE RATE	1996 AVERAGE BALANCE	1996 INTEREST	1996 AVERAGE RATE
	AVERAGE BALANCE IN MILLIONS; INTEREST IN THOUSANDS					
Assets						
Earning assets						
Loans and leases, net of unearned discount*						
Commercial, financial, etc..........	$ 2,257	$ 189,455	8.39%	2,031	166,022	8.17%
Real estate..........................	6,408	550,989	8.60	5,893	512,269	8.69
Consumer.............................	2,308	213,942	9.27	2,190	204,831	9.35
Total loans and leases, net.......	10,973	954,386	8.70	10,114	883,122	8.73
Money-market assets						
Interest-bearing deposits at banks............................	42	2,475	5.95	38	2,413	6.30
Federal funds sold and agreements to resell securities................	55	2,989	5.42	55	2,985	5.45
Trading account.....................	68	1,937	2.83	31	1,100	3.62
Total money-market assets.........	165	7,401	4.48	124	6,498	5.26
Investment securities**						
U.S. Treasury and federal agencies..........................	1,122	70,968	6.33	1,200	74,023	6.17
Obligations of states and political subdivisions......................	43	2,832	6.61	41	2,678	6.57
Other...............................	534	35,214	6.59	565	35,598	6.30
Total investment securities.......	1,699	109,014	6.42	1,806	112,299	6.22
Total earning assets.............	12,837	1,070,801	8.34	12,044	1,001,919	8.32
Allowance for possible credit losses..............................	(273)			(269)		
Cash and due from banks...............	308			334		
Other assets..........................	437			370		
Total assets......................	$ 13,309			12,479		
Liabilities and stockholders' equity						
Interest-bearing liabilities						
Interest-bearing deposits						
NOW accounts........................	$ 257	3,455	1.34	659	9,430	1.43
Savings deposits....................	3,420	90,907	2.66	2,956	84,822	2.87
Time deposits.......................	5,818	327,611	5.63	5,137	286,088	5.57
Deposits at foreign office..........	230	12,160	5.29	239	12,399	5.19
Total interest-bearing deposits...	9,725	434,133	4.46	8,991	392,739	4.37
Short-term borrowings.................	853	44,341	5.20	1,133	59,442	5.25
Long-term borrowings..................	373	29,619	7.94	189	14,227	7.51
Total interest-bearing liabilities.....................	10,951	508,093	4.64	10,313	466,408	4.52
Noninterest-bearing deposits..........	1,228			1,169		
Other liabilities.....................	177			134		
Total liabilities.................	12,356			11,616		
Stockholders' equity..................	953			863		
Total liabilities and stockholders' equity............	$ 13,309			12,479		
Net interest spread...................			3.70			3.80
Contribution of interest-free funds...			.68			.65
Net interest income/margin on earning assets..............................		$ 562,708	4.38%		535,511	4.45%

	1995 AVERAGE BALANCE	1995 INTEREST	1995 AVERAGE RATE
Assets			
Earning assets			
Loans and leases, net of unearned			

discount*			
Commercial, financial, etc..........	1,804	155,750	8.63%
Real estate.........................	5,301	471,714	8.90
Consumer............................	1,752	169,149	9.65
Total loans and leases, net.......	8,857	796,613	8.99
Money-market assets			
Interest-bearing deposits at banks.............................	110	8,181	7.44
Federal funds sold and agreements to resell securities.................	48	3,007	6.29
Trading account.....................	28	1,339	4.78
Total money-market assets.........	186	12,527	6.75
Investment securities**			
U.S. Treasury and federal agencies..........................	1,242	74,248	5.98
Obligations of states and political subdivisions......................	50	3,420	6.90
Other...............................	743	45,988	6.19
Total investment securities.......	2,035	123,656	6.08
Total earning assets..............	11,078	932,796	8.42
Allowance for possible credit losses..............................	(254)		
Cash and due from banks...............	326		
Other assets..........................	335		
Total assets......................	11,485		
Liabilities and stockholders' equity			
Interest-bearing liabilities			
Interest-bearing deposits			
NOW accounts........................	761	11,902	1.56
Savings deposits....................	2,922	87,612	3.00
Time deposits.......................	4,112	239,882	5.83
Deposits at foreign office..........	133	6,952	5.23
Total interest-bearing deposits...	7,928	346,348	4.37
Short-term borrowings.................	1,423	84,225	5.92
Long-term borrowings..................	146	11,157	7.64
Total interest-bearing liabilities.....................	9,497	441,730	4.65
Noninterest-bearing deposits..........	1,093		
Other liabilities.....................	112		
Total liabilities.................	10,702		
Stockholders' equity..................	783		
Total liabilities and stockholders' equity............	11,485		
Net interest spread...................			3.77
Contribution of interest-free funds...		.66	
Net interest income/margin on earning assets..............................		491,066	4.43%

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*   Includes nonaccrual loans.

** Includes available for sale securities at amortized cost.

(CONTINUED)

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

AVERAGE BALANCE SHEETS AND TAXABLE-EQUIVALENT RATES (CONTINUED)

TABLE 6

AVERAGE BALANCE IN MILLIONS; INTEREST IN THOUSANDS	1994 AVERAGE BALANCE	1994 INTEREST	1994 AVERAGE RATE	1993 AVERAGE BALANCE	1993 INTEREST	1993 AVERAGE RATE
Assets						
Earning assets						
Loans and leases, net of unearned discount*						
Commercial, financial, etc.	$ 1,487	$ 116,479	7.84%	1,420	112,568	7.93%
Real estate	4,562	390,681	8.56	4,387	379,832	8.66
Consumer	1,378	128,117	9.30	1,175	118,461	10.08
Total loans and leases, net	7,427	635,277	8.55	6,982	610,861	8.75
Money-market assets						
Interest-bearing deposits at banks	48	2,212	4.58	189	6,740	3.56
Federal funds sold and agreements to resell securities	109	4,751	4.35	610	20,403	3.35
Trading account	9	499	5.92	27	1,434	5.32
Total money-market assets	166	7,462	4.50	826	28,577	3.46
Investment securities**						
U.S. Treasury and federal agencies	1,167	56,685	4.86	1,300	62,420	4.80
Obligations of states and political subdivisions	53	3,072	5.77	41	2,600	6.40
Other	852	48,933	5.74	832	40,251	4.84
Total investment securities	2,072	108,690	5.24	2,173	105,271	4.84
Total earning assets	9,665	751,429	7.77	9,981	744,709	7.46
Allowance for possible credit losses	(223)			(174)		
Cash and due from banks	307			304		
Other assets	276			279		
Total assets	$ 10,025			10,390		
Liabilities and stockholders' equity						
Interest-bearing liabilities						
Interest-bearing deposits						
NOW accounts	$ 746	11,286	1.51	747	13,113	1.75
Savings deposits	3,274	84,804	2.59	3,500	90,392	2.58
Time deposits	2,179	97,067	4.45	2,249	98,508	4.38
Deposits at foreign office	156	5,894	3.79	120	3,243	2.71
Total interest-bearing deposits	6,355	199,051	3.13	6,616	205,256	3.10
Short-term borrowings	1,772	73,868	4.17	1,922	58,459	3.04
Long-term borrowings	77	6,287	8.13	76	6,158	8.14
Total interest-bearing liabilities	8,204	279,206	3.40	8,614	269,873	3.13
Noninterest-bearing deposits	1,011			976		
Other liabilities	87			130		
Total liabilities	9,302			9,720		
Stockholders' equity	723			670		
Total liabilities and stockholders' equity	$ 10,025			10,390		
Net interest spread			4.37			4.33
Contribution of interest-free funds			.52			.43
Net interest income/margin on earning assets		$ 472,223	4.89%		474,836	4.76%

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*   Includes nonaccrual loans.

** Includes available for sale securities at amortized cost.

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

AVERAGE CORE DEPOSITS

TABLE 7

DOLLARS IN MILLIONS		PERCENT INCREASE (DECREASE) FROM	
	1997	1996 TO 1997	1995 TO 1996
NOW accounts	$ 257	(61%)	(13%)
Savings deposits	3,420	16	1
Time deposits under $100,000	3,435	8	22
Noninterest-bearing deposits	1,228	5	7
Total	$ 8,340	5%	8%

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

INTEREST RATE SWAPS

TABLE 8

DOLLARS IN THOUSANDS	YEAR ENDED DECEMBER 31					
	1997		1996		1995	
	AMOUNT	RATE*	AMOUNT	RATE*	AMOUNT	RATE*
Increase (decrease) in:						
Interest income	$ (142)	---%	$ (34)	---%	$ (5,831)	(.05)%
Interest expense	(14,231)	(.13)	(15,488)	(.15)	(6,715)	(.07)
Net interest income/margin	$ 14,089	.11%	$ 15,454	.13%	$ 884	.01%
Average notional amount**	$ 2,691,638		$ 2,410,547		$ 2,536,329	
Rate received***		6.68%		6.66%		6.17%
Rate paid***		6.16%		6.02%		6.14%

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* Computed as an annualized percentage of average earning assets or interest-bearing liabilities.

** Excludes forward-starting interest rate swaps.

*** Weighted-average rate paid or received on interest rate swaps in effect during year.

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

LOAN CHARGE-OFFS, PROVISION AND ALLOWANCE FOR POSSIBLE CREDIT LOSSES

TABLE 9

DOLLARS IN THOUSANDS	1997	1996	1995	1994	1993
Allowance for possible credit losses beginning balance....	$ 270,466	262,344	243,332	195,878	151,690
Charge-offs during year					
Commercial, financial, agricultural, etc................	4,539	6,120	5,475	5,505	14,118
Real estate--construction...............................	--	--	--	--	150
Real estate--mortgage..................................	9,910	7,389	10,750	17,957	22,686
Consumer..	44,880	36,037	14,982	8,981	9,135
Total charge-offs....................................	59,329	49,546	31,207	32,443	46,089
Recoveries during year					
Commercial, financial, agricultural, etc................	2,609	3,671	3,967	7,877	5,403
Real estate--construction...............................	--	50	87	13	--
Real estate--mortgage..................................	5,869	3,049	2,137	4,515	1,772
Consumer..	9,041	7,573	3,678	3,418	3,144
Total recoveries.....................................	17,519	14,343	9,869	15,823	10,319
Net charge-offs..	41,810	35,203	21,338	16,620	35,770
Provision for possible credit losses......................	46,000	43,325	40,350	60,536	79,958
Allowance for possible credit losses acquired during the year..	--	--	--	3,538	--
Allowance for possible credit losses ending balance.......	$ 274,656	270,466	262,344	243,332	195,878
Net charge-offs as a percent of:					
Provision for possible credit losses....................	90.89%	81.25%	52.88%	27.45%	44.74%
Average loans and leases, net of unearned discount......	.38%	.35%	.24%	.22%	.51%
Allowance for possible credit losses as a percent of loans and leases, net of unearned discount, at year-end.......	2.39%	2.52%	2.75%	2.96%	2.70%

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

ALLOCATION OF THE ALLOWANCE FOR POSSIBLE CREDIT LOSSES TO LOAN CATEGORIES

TABLE 10

	DECEMBER 31				
	DOLLARS IN THOUSANDS				
	1997	1996	1995	1994	1993
Commercial, financial, agricultural, etc	$ 42,816	39,556	36,793	44,092	42,820
Real estate--mortgage	70,354	73,879	75,894	72,285	78,823
Consumer	57,757	34,224	23,385	17,532	13,630
Unallocated	103,729	122,807	126,272	109,423	60,605
Total	$ 274,656	270,466	262,344	243,332	195,878
	AS A PERCENTAGE OF GROSS LOANS AND LEASES OUTSTANDING				
Commercial, financial, agricultural, etc	1.78%	1.79%	1.83%	2.62%	2.84%
Real estate--mortgage	1.04	1.19	1.34	1.43	1.74
Consumer	2.47	1.30	1.10	1.05	1.02

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

NONPERFORMING ASSETS

TABLE 11

	DECEMBER 31				
	1997	1996	1995	1994	1993
	DOLLARS IN THOUSANDS				
Nonaccrual loans	$ 38,588	58,232	75,224	62,787	68,936
Loans past due 90 days or more	30,402	39,652	17,842	11,754	11,122
Renegotiated loans	11,660	--	--	2,994	2,195
Total nonperforming loans	80,650	97,884	93,066	77,535	82,253
Other real estate owned	8,413	8,523	7,295	10,065	12,222
Total nonperforming assets	$ 89,063	106,407	100,361	87,600	94,475
Government guaranteed nonperforming loans*	$ 17,712	25,847	7,779	7,883	9,089
Nonperforming loans to total loans and leases, net of unearned discount	.70%	.91%	.97%	.94%	1.13%
Nonperforming assets to total net loans and leases and other real estate owned	.77%	.99%	1.05%	1.06%	1.30%

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*   Included in total nonperforming loans.

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

MATURITY OF DOMESTIC CERTIFICATES OF DEPOSIT AND TIME DEPOSITS

WITH BALANCES OF $100,000 OR MORE

TABLE 12

DOLLARS IN THOUSANDS	DECEMBER 31, 1997
Under 3 months	$ 721,999
3 to 6 months	209,560
6 to 12 months	246,530
Over 12 months	1,204,250
Total	$ 2,382,339

TABLE 13

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

SENSITIVITY OF NET INTEREST INCOME
TO CHANGES IN INTEREST RATES

	CALCULATED INCREASE (DECREASE) IN PROJECTED NET INTEREST INCOME
	(DOLLARS IN THOUSANDS)
Changes in Interest Rates	
+200 basis points	$ (4,914)
+100 basis points	748
- -100 basis points	2,434
- -200 basis points	3,768

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

MATURITY DISTRIBUTION OF LOANS*

TABLE 14

DECEMBER 31, 1997	DEMAND	1998	1999 - 2002	AFTER 2002
	DOLLARS IN THOUSANDS			
Commercial, financial, agricultural, etc.	$ 1,501,936	220,314	434,745	151,421
Real estate--construction	54,370	136,898	60,033	2,975
Total	$ 1,556,306	357,212	494,778	154,396
Floating or adjustable interest rates			$ 381,391	91,867
Fixed or predetermined interest rates			113,387	62,529
Total			$ 494,778	154,396

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*The data do not include nonaccrual loans.

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

CONTRACTUAL REPRICING DATA

TABLE 15

	THREE MONTHS OR LESS	FOUR TO TWELVE MONTHS	ONE TO FIVE YEARS	AFTER FIVE YEARS	TOTAL
	DOLLARS IN THOUSANDS BY REPRICING DATE				
December 31, 1997					
Loans and leases, net	$ 4,551,428	1,324,274	3,536,094	2,084,772	11,496,568
Money-market assets	98,457	12,589	--	--	111,046
Investment securities	346,904	413,317	492,079	472,918	1,725,218
Total earning assets	4,996,789	1,750,180	4,028,173	2,557,690	13,332,832
NOW accounts	346,795	--	--	--	346,795
Savings deposits	3,344,697	--	--	--	3,344,697
Time deposits	1,350,062	2,064,157	2,194,503	153,775	5,762,497
Deposits at foreign office	250,928	--	--	--	250,928
Total interest-bearing deposits	5,292,482	2,064,157	2,194,503	153,775	9,704,917
Short-term borrowings	1,097,324	--	--	--	1,097,324
Long-term borrowings	434	63	76,040	351,282	427,819
Total interest-bearing liabilities	6,390,240	2,064,220	2,270,543	505,057	11,230,060
Interest rate swaps	(2,431,777)	380,905	1,934,241	116,631	--
Periodic gap	$(3,825,228)	66,865	3,691,871	2,169,264	
Cumulative gap	(3,825,228)	(3,758,363)	(66,492)	2,102,772	
Cumulative gap as a % of total earning assets	(28.7)%	(28.2)%	(0.5)%	15.8%	

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

MATURITY AND TAXABLE-EQUIVALENT YIELD OF INVESTMENT SECURITIES

TABLE 16

	ONE YEAR OR LESS	ONE TO FIVE YEARS	FIVE TO TEN YEARS	OVER TEN YEARS	TOTAL
	DOLLARS IN THOUSANDS				
December 31, 1997					
Investment securities available for sale*					
U.S. Treasury and federal agencies					
Carrying value	$ 111,214	$ 297,843	$ --	$ --	$ 409,057
Yield	7.12%	5.91%	--	--	6.24%
Mortgage-backed securities**					
Government issued or guaranteed					
Carrying value	17,638	93,514	133,203	395,950	640,305
Yield	6.21%	6.49%	6.69%	6.21%	6.35%
Privately issued					
Carrying value	33,784	97,427	42,159	61,350	234,720
Yield	6.15%	6.32%	6.22%	6.54%	6.34%
Other debt securities					
Carrying value	18	8,487	--	147,711	156,216
Yield	9.50%	6.87%	--	6.02%	6.07%
Equity securities					
Carrying value	--	--	--	--	142,975
Yield	--	--	--	--	8.13%
Total investment securities available for sale					
Carrying value	$ 162,654	$ 497,271	$ 175,362	$ 605,011	$1,583,273
Yield	6.82%	6.12%	6.58%	6.20%	6.43%
Investment securities held to maturity					
U.S. Treasury and federal agencies					
Carrying value	$ 31,885	$ --	$ --	$ --	$ 31,885
Yield	6.38%	--	--	--	6.38%
Obligations of states and political subdivisions					
Carrying value	35,291	2,122	565	40	38,018
Yield	6.32%	9.80%	10.60%	10.76%	6.58%
Other debt securities					
Carrying value	209	--	13,553	--	13,762
Yield	7.37%	--	9.49%	--	9.46%
Total investment securities held to maturity					
Carrying value	$ 67,385	$ 2,122	$ 14,118	$ 40	$ 83,665
Yield	6.35%	9.80%	9.53%	10.76%	6.98%
Other investment securities	$ --	$ --	$ --	$ --	$ 58,280
Total investment securities					
Carrying value	$ 230,039	$ 499,393	$ 189,480	$ 605,051	$1,725,218
Yield	6.68%	6.13%	6.80%	6.20%	6.24%

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

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

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK. Incorporated by reference to the discussion contained under the captions "Liquidity, Market Risk, and Interest Rate Sensitivity" and "Capital," and Table 13.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA. Financial Statements and Supplementary Data consist of the financial statements as indexed and presented below and Table 2 "Quarterly Trends" presented in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations".

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
First Empire State Corporation:

We have audited the accompanying consolidated balance sheet of First Empire State Corporation and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, cash flows and changes in stockholders' equity for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of First Empire State Corporation and subsidiaries at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

/s/ PRICE WATERHOUSE LLP

Buffalo, New York
January 9, 1998

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	DECEMBER 31 1997	DECEMBER 31 1996
	DOLLARS IN THOUSANDS, EXCEPT PER SHARE	
ASSETS		
Cash and due from banks	$ 333,805	324,659
Money-market assets		
Interest-bearing deposits at banks	668	47,325
Federal funds sold and agreements to resell securities	53,087	125,326
Trading account	57,291	37,317
Total money-market assets	111,046	209,968
Investment securities		
Available for sale (cost: $1,563,055 in 1997; $1,400,976 in 1996)	1,583,273	1,396,672
Held to maturity (market value: $84,176 in 1997; $119,316 in 1996)	83,665	118,616
Other (market value:$58,280 in 1997; $56,410 in 1996)	58,280	56,410
Total investment securities	1,725,218	1,571,698
Loans and leases	11,765,533	11,120,221
Unearned discount	(268,965)	(398,098)
Allowance for possible credit losses	(274,656)	(270,466)
Loans and leases, net	11,221,912	10,451,657
Premises and equipment	121,984	128,521
Accrued interest and other assets	488,970	257,412
Total assets	$ 14,002,935	12,943,915
LIABILITIES		
Noninterest-bearing deposits	$ 1,458,241	1,352,929
NOW accounts	346,795	334,787
Savings deposits	3,344,697	3,280,788
Time deposits	5,762,497	5,352,749
Deposits at foreign office	250,928	193,236
Total deposits	11,163,158	10,514,489
Federal funds purchased and agreements to repurchase securities	930,775	1,015,408
Other short-term borrowings	166,549	134,779
Accrued interest and other liabilities	284,368	195,578
Long-term borrowings	427,819	178,002
Total liabilities	12,972,669	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	103,233	96,597
Retained earnings	1,092,106	937,072
Unrealized investment gains (losses), net	12,016	(2,485)
Treasury stock--common, at cost--1,487,123 shares in 1997;1,411,286 shares in 1996	(217,576)	(166,012)
Total stockholders' equity	1,030,266	905,659
Total liabilities and stockholders' equity	$ 14,002,935	12,943,915

See accompanying notes to financial statements.

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

	YEAR ENDED DECEMBER 31		
	1997	1996	1995
	DOLLARS IN THOUSANDS, EXCEPT PER SHARE		
Interest income			
Loans and leases, including fees	$ 952,436	881,002	794,181
Money-market assets			
Deposits at banks	2,475	2,413	8,181
Federal funds sold and agreements to resell securities	2,989	2,985	3,007
Trading account	1,781	980	1,234
Investment securities			
Fully taxable	99,640	107,415	118,791
Exempt from federal taxes	5,640	2,637	2,760
Total interest income	1,064,961	997,432	928,154
Interest expense			
NOW accounts	3,455	9,430	11,902
Savings deposits	90,907	84,822	87,612
Time deposits	327,611	286,088	239,882
Deposits at foreign office	12,160	12,399	6,952
Short-term borrowings	44,341	59,442	84,225
Long-term borrowings	29,619	14,227	11,157
Total interest expense	508,093	466,408	441,730
Net interest income	556,868	531,024	486,424
Provision for possible credit losses	46,000	43,325	40,350
Net interest income after provision for possible credit losses	510,868	487,699	446,074
Other income			
Mortgage banking revenues	51,547	44,484	37,142
Service charges on deposit accounts	43,377	40,659	38,290
Trust income	30,688	27,672	25,477
Merchant discount and other credit card fees	19,395	18,266	10,675
Trading account and foreign exchange gains	3,690	2,421	2,783
Gain (loss) on sales of bank investment securities	(280)	(37)	4,479
Other revenues from operations	44,650	36,783	30,692
Total other income	193,067	170,248	149,538
Other expense			
Salaries and employee benefits	220,017	208,342	188,222
Equipment and net occupancy	53,299	51,346	50,526
Printing, postage and supplies	13,747	15,167	14,442
Deposit insurance	1,935	9,337	14,675
Other costs of operations	132,778	124,786	106,574
Total other expense	421,776	408,978	374,439
Income before income taxes	282,159	248,969	221,173
Income taxes	105,918	97,866	90,137
Net income	$ 176,241	151,103	131,036
Net income per common share			
Basic	$ 26.60	22.54	19.61
Diluted	25.26	21.08	17.98

See accompanying notes to financial statements.

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	1997	1996	1995
	YEAR ENDED DECEMBER 31		
	DOLLARS IN THOUSANDS		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 176,241	$ 151,103	$ 131,036
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for possible credit losses	46,000	43,325	40,350
Depreciation and amortization of premises and equipment	20,745	19,457	18,530
Amortization of capitalized servicing rights	14,366	10,509	7,251
Amortization of goodwill	7,291	6,292	6,294
Provision for deferred income taxes	(7,331)	(3,901)	(7,360)
Asset write-downs	1,501	1,043	3,852
Net gain on sales of assets	(1,002)	(1,539)	(12,121)
Net change in accrued interest receivable, payable	11,806	1,248	4,381
Net change in other accrued income and expense	80,439	23,808	54,911
Net change in loans held for sale	4,234	(8,662)	(136,303)
Net change in trading account assets and liabilities	5,094	(8,508)	(2,288)
Net cash provided by operating activities	359,384	234,175	108,533
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of investment securities			
Available for sale	217,221	275,627	448,532
Held to maturity	--	--	990
Proceeds from maturities of investment securities			
Available for sale	255,498	390,563	244,862
Held to maturity	89,161	125,480	115,986
Other	--	721	--
Purchases of investment securities			
Available for sale	(628,168)	(532,106)	(418,507)
Held to maturity	(54,218)	(58,274)	(295,582)
Other	(3,936)	(2,776)	(3,408)
Net (increase) decrease in interest-bearing deposits at banks	46,657	78,175	(125,357)
Additions to capitalized servicing rights	(29,818)	(14,846)	(13,141)
Net increase in loans and leases	(820,335)	(1,189,033)	(1,189,108)
Capital expenditures, net	(13,270)	(20,333)	(17,520)
Acquisitions, net of cash acquired:			
Deposits and banking offices	123,043	--	77,245
Mortgage banking operations	--	--	(24,947)
Purchases of bank owned life insurance	(200,000)	--	--
Other, net	(356)	19,278	17,219
Net cash used by investing activities	(1,018,521)	(927,524)	(1,182,736)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in deposits	508,930	1,042,108	1,139,555
Net decrease in short-term borrowings	(77,931)	(145,281)	(124,644)
Proceeds from issuance of subordinated debt	--	--	100,000
Proceeds from issuance of trust preferred securities	250,000	--	--
Payments on long-term borrowings	(189)	(14,900)	(3,529)
Purchases of treasury stock	(67,771)	(80,810)	(37,374)
Dividends paid--common	(21,207)	(18,617)	(16,224)
Dividends paid--preferred	--	(900)	(3,600)
Other, net	4,212	(2,385)	3,277
Net cash provided by financing activities	596,044	779,215	1,057,461
Net increase (decrease) in cash and cash equivalents	$ (63,093)	$ 85,866	$ (16,742)
Cash and cash equivalents at beginning of year	449,985	364,119	380,861
Cash and cash equivalents at end of year	$ 386,892	$ 449,985	$ 364,119
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest received during the year	$1,051,556	$ 985,287	$ 909,005
Interest paid during the year	487,576	459,963	408,221
Income taxes paid during the year	43,562	83,929	68,237
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Real estate acquired in settlement of loans	$ 9,142	$ 8,214	$ 7,372
Conversion of preferred stock to common stock	--	40,000	--

See accompanying notes to financial statements.

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	UNREALIZED INVESTMENT GAINS (LOSSES), NET	TREASURY STOCK	TOTAL
	DOLLARS IN THOUSANDS, EXCEPT PER SHARE						
1995							
Balance--January 1, 1995............	$ 40,000	40,487	98,014	694,274	(50,555)	(101,224)	$ 720,996
Net income..........................	--	--	--	131,036	--	--	131,036
Preferred stock cash dividends......	--	--	--	(3,600)	--	--	(3,600)
Common stock cash dividends -- $2.50 per share...................	--	--	--	(16,224)	--	--	(16,224)
Exercise of stock options...........	--	--	643	--	--	3,376	4,019
Purchases of treasury stock.........	--	--	--	--	--	(37,374)	(37,374)
Unrealized losses on investment securities available for sale, net...............................	--	--	--	--	47,400	--	47,400
Balance--December 31, 1995..........	$ 40,000	40,487	98,657	805,486	(3,155)	(135,222)	$ 846,253
1996							
Net income..........................	--	--	--	151,103	--	--	151,103
Preferred stock cash dividends......	--	--	--	(900)	--	--	(900)
Common stock cash dividends -- $2.80 per share...................	--	--	--	(18,617)	--	--	(18,617)
Exercise of stock options...........	--	--	4,474	--	--	3,486	7,960
Purchases of treasury stock.........	--	--	--	--	--	(80,810)	(80,810)
Conversion of preferred stock into 506,930 shares of common stock....	(40,000)	--	(6,534)	--	--	46,534	--
Unrealized gains on investment securities available for sale, net...............................	--	--	--	--	670	--	670
Balance--December 31, 1996..........	$ --	40,487	96,597	937,072	(2,485)	(166,012)	$ 905,659
1997							
Net income..........................	--	--	--	176,241	--	--	176,241
Common stock cash dividends -- $3.20 per share...................	--	--	--	(21,207)	--	--	(21,207)
Exercise of stock options...........	--	--	6,636	--	--	16,207	22,843
Purchases of treasury stock.........	--	--	--	--	--	(67,771)	(67,771)
Unrealized gains on investment securities available for sale, net...............................	--	--	--	--	14,501	--	14,501
Balance--December 31, 1997..........	$ --	40,487	103,233	1,092,106	12,016	(217,576)	$ 1,030,266

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

First Empire State Corporation ("First Empire") is a bank holding company headquartered in Buffalo, New York. Through subsidiaries, First Empire provides individuals, corporations and institutions with commercial and retail banking services, including loans and deposits, trust, mortgage banking, asset management and other financial services. Banking activities are largely focused on consumers residing in New York State and in New York-based small and medium-size businesses. However, certain subsidiaries conduct activities in markets outside of New York State. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The accounting and reporting policies of First Empire State Corporation and subsidiaries ("the Company") conform to generally accepted accounting principles and to general practices within the banking industry. The more significant accounting policies are as follows:

CONSOLIDATION

The consolidated financial statements include First Empire and all of its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The financial statements of First Empire included in note 20 report investments in subsidiaries under the equity method.

CONSOLIDATED STATEMENT OF CASH FLOWS

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

TRADING ACCOUNT

Financial instruments used for trading purposes are stated at fair value. Realized gains and losses and unrealized changes in fair value are included in trading account and foreign exchange gains in the Consolidated Statement of Income.

INVESTMENT SECURITIES

Investments in debt securities are classified as held to maturity and stated at amortized cost when management has the positive intent and ability to hold such securities to maturity. Investments in other debt securities and equity securities having readily determinable fair values are classified as available for sale and stated at estimated fair value. Unrealized gains or losses related to investment securities available for sale are reflected in stockholders' equity, net of applicable income taxes.

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

Amortization of premiums and accretion of discounts for investment securities available for sale and held to maturity are included in interest income. The cost basis of individual securities is written down to estimated fair value through a charge to earnings when declines in value below

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENT SECURITIES (CONTINUED)

amortized cost are considered to be other than temporary. Realized gains and losses on the sales of investment securities are determined using the specific identification method.

LOANS

Interest income on loans is accrued on a level yield method. Loans are placed on nonaccrual status and previously accrued interest thereon is charged against income when principal or interest is delinquent 90 days, unless management determines that the loan status clearly warrants other treatment. Loan balances are charged off when it becomes evident that such balances are not fully collectible. Loan fees and certain direct loan origination costs are deferred and recognized as an interest yield adjustment over the life of the loan. Net deferred fees have been included in unearned discount as a reduction of loans outstanding. Loans held for sale are carried at the lower of aggregate cost or fair market value. Valuation adjustments made on these loans are included in mortgage banking revenues.

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

ALLOWANCE FOR POSSIBLE CREDIT LOSSES

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

PREMISES AND EQUIPMENT

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITALIZED SERVICING RIGHTS

Effective January 1, 1997, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," not deferred by SFAS No. 127, "Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125." SFAS No. 125 supersedes SFAS No. 122, "Accounting for Mortgage Servicing Rights." As a result, the Company recognizes as separate assets or liabilities rights to service financial instruments for others. Retroactive application of the provisions of SFAS No. 125 to prior years is not permitted.

Servicing rights retained in a sale or securitization of financial assets are measured at the date of transfer by allocating the previous carrying amount between the assets transferred and the servicing rights based on their relative fair values. Servicing assets purchased or servicing liabilities assumed are initially measured at fair value. Capitalized servicing assets are included in other assets and amortized in proportion to and over the period of estimated net servicing income.

To estimate the fair value of servicing rights, the Company considers market prices for similar assets and the present value of expected future cash flows associated with the servicing rights calculated using assumptions that market participants would use in estimating future servicing income and expense. Such assumptions include estimates of the cost of servicing loans, loan default rates, an appropriate discount rate, and prepayment speeds. For purposes of evaluating and measuring impairment of capitalized servicing rights, the Company stratifies such assets based on predominant risk characteristics of underlying financial instruments that are expected to have the most impact on projected prepayments, cost of servicing and other factors affecting future cash flows associated with the servicing rights. Such factors may include financial asset or loan type, note rate and term. The amount of impairment recognized is the amount by which the carrying value of the capitalized servicing rights for a stratum exceeds estimated fair value. Impairment is recognized through a valuation allowance.

GOODWILL

The excess of the cost of acquired entities or operations over the fair value of identifiable assets acquired less liabilities assumed is recorded as goodwill and included in other assets. Goodwill is amortized on a straight-line basis over periods which may vary depending on the circumstances of each acquisition. For acquisitions completed through December 31, 1997, such amortization periods have generally not exceeded five years. The Company periodically assesses whether events or changes in circumstances indicate that the carrying amount of goodwill may be impaired. Impairment is measured using estimates of future cash flows or earnings potential of the operations acquired. The aggregate amount of goodwill totaled $17,288,000 and $18,923,000 at December 31, 1997 and 1996, respectively.

STOCK-BASED COMPENSATION

Compensation expense is not recognized for stock option awards to employees under the Company's stock option plan since the exercise price of options is equal to the market price of the underlying stock at the date of grant. Compensation expense for stock appreciation rights issued separately from

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STOCK-BASED COMPENSATION (CONTINUED)

stock options is recognized based upon changes in the quoted market value of First Empire's common stock. The pro forma effects of stock-based compensation arrangements are based on the estimated grant date fair value of stock options that are expected to vest calculated pursuant to the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Pro forma compensation expense, net of applicable income tax effect, is recognized over the vesting period, which is generally four years.

INCOME TAXES

Deferred tax assets and liabilities are recognized for the future tax effects attributable to differences between the financial statement value of existing assets and liabilities and their respective tax bases and carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates and laws. Investment tax credits related to leveraged leasing property are amortized into income tax expense over the life of the lease agreement.

FINANCIAL FUTURES

Outstanding financial futures contracts represent future commitments and are not included in the Consolidated Balance Sheet. Futures contracts used in trading activities are marked to market and the resulting gains or losses are recognized in trading account and foreign exchange gains. On occasion the Company uses interest rate futures contracts as part of its management of interest rate risk. Gains and losses on futures contracts designated as hedges are amortized as an adjustment to interest income or expense over the life of the item hedged.

INTEREST RATE SWAP AGREEMENTS

For interest rate swap agreements used to manage interest rate risk arising from financial assets and liabilities, amounts receivable or payable are recognized as accrued under the terms of the agreement and the net interest differential, including any amortization of premiums paid or accretion of discounts received, is recorded as an adjustment to interest income or expense of the related asset or liability. To qualify for such accounting treatment, an interest rate swap must (i) be designated as having been entered into for interest rate risk management purposes and linked to a specific financial instrument or pool of similar financial instruments in the Company's Consolidated Balance Sheet and (ii) have interest rate and repricing characteristics that have a sufficient degree of correlation with the corresponding characteristics of the designated on-balance sheet financial instrument. Gains or losses resulting from early termination of interest rate swap agreements used to manage interest rate risk are amortized over the shorter of the remaining term or estimated life of the agreement or the on-balance sheet financial instrument to which the swap had been linked. Agreements and commitments that do not satisfy the requirements noted above, including those entered into for trading purposes, are marked to market with resulting gains or losses recorded in trading account and foreign exchange gains.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EARNINGS PER COMMON SHARE

The Company adopted SFAS No. 128, "Earnings Per Share," in the fourth quarter of 1997. SFAS No. 128 establishes new standards for computing and presenting earnings per share and is effective for financial statements for both interim and annual periods ending after December 15, 1997. SFAS No. 128 requires that all prior period earnings per share data be restated to conform with the provisions of the statement. SFAS No. 128 eliminates primary earnings per share and fully diluted earnings per share and requires the presentation of basic and diluted earnings per share.

Basic earnings per share excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding 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. Proceeds assumed to have been received on such exercise or conversion are assumed to be used to purchase shares of First Empire common stock at the average market price during the period, as required by the "treasury stock method" of accounting.

TREASURY STOCK

Repurchases of shares of First Empire common stock are recorded at cost as a reduction of stockholders' equity. Reissuances of shares of treasury stock are recorded at average cost.

2. INVESTMENT SECURITIES

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

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
	(IN THOUSANDS)			
DECEMBER 31, 1997				
Investment securities available for sale:				
U.S. Treasury and federal agencies	$ 408,462	595	--	409,057
Mortgage-backed securities				
Government issued or guaranteed	641,266	8,805	9,766	640,305
Privately issued	234,144	922	346	234,720
Other debt securities	157,568	326	1,678	156,216
Equity securities	121,615	21,460	100	142,975
	1,563,055	32,108	11,890	1,583,273
Investment securities held to maturity:				
U.S. Treasury and federal agencies	31,885	139	--	32,024
Obligations of states and political subdivisions	38,018	289	16	38,291
Other debt securities	13,762	99	--	13,861
	83,665	527	16	84,176
Other securities	58,280	--	--	58,280
Total	$ 1,705,000	32,635	11,906	1,725,729

2. INVESTMENT SECURITIES (CONTINUED)

DECEMBER 31, 1996				
Investment securities available for sale:				
U.S. Treasury and federal agencies	$ 458,570	1,751	867	459,454
Mortgage-backed securities				
Government issued or guaranteed	494,515	3,801	11,408	486,908
Privately issued	400,216	758	2,961	398,013
Other debt securities	1,311	21	--	1,332
Equity securities	46,364	4,625	24	50,965
	1,400,976	10,956	15,260	1,396,672
Investment securities held to maturity:				
U.S. Treasury and federal agencies	76,676	429	--	77,105
Obligations of states and political subdivisions	41,445	302	31	41,716
Other debt securities	495	--	--	495
	118,616	731	31	119,316
Other securities	56,410	--	--	56,410
Total	$ 1,576,002	11,687	15,291	1,572,398

No investment in securities of a single non-U.S. Government or government agency issuer exceeded ten percent of stockholders' equity at December 31, 1997.

As of December 31, 1997, the latest available investment ratings of all privately issued mortgage-backed securities were AA or better.

Investment securities issued by U.S. Treasury and federal agencies and classified as held to maturity at December 31, 1997 and 1996 consisted of structured notes issued by the Federal Home Loan Banks.

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

	DECEMBER 31	
	1997	1996
	(IN THOUSANDS)	
Amortized cost	$ 284,943	406,498
Estimated fair value	278,588	396,808

2. INVESTMENT SECURITIES (CONTINUED)

Gross realized gains on the sale of investment securities available for sale were $1,179,000 in 1997, $820,000 in 1996 and $5,113,000 in 1995. Gross realized losses on the sale of investment securities available for sale were $1,459,000 in 1997, $857,000 in 1996 and $624,000 in 1995.

During 1995, the Company sold a municipal bond with an amortized cost of $1,000,000 that had been classified as held to maturity. Such bond was sold for an insignificant loss immediately following the downgrading of the municipality's credit rating by several rating agencies.

At December 31, 1997, the amortized cost and estimated fair value of debt securities by contractual maturity were as follows:

	AMORTIZED COST	ESTIMATED FAIR VALUE
	(IN THOUSANDS)	
Debt securities available for sale:		
Due in one year or less	$ 111,008	111,232
Due after one year through five years	305,757	306,330
Due after five years through ten years	--	--
Due after ten years	149,265	147,711
	566,030	565,273
Mortgage-backed securities available for sale	875,410	875,025
	$ 1,441,440	1,440,298
Debt securities held to maturity:		
Due in one year or less	$ 67,385	67,565
Due after one year through five years	2,122	2,263
Due after five years through ten years	14,118	14,300
Due after ten years	40	48
	$ 83,665	84,176

At December 31, 1997, investment securities with a carrying value of $891,675,000, including $856,408,000 of investment securities available for sale, were pledged to secure demand notes issued to the U.S. Treasury, borrowings from the Federal Home Loan Bank of New York, repurchase agreements, governmental deposits and interest rate swap agreements.

3. LOANS AND LEASES

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

	DECEMBER 31	
	1997	1996
	(IN THOUSANDS)	
Loans		
Commercial, financial, agricultural, etc.	$ 2,318,468	2,122,903
Real estate:		
Residential	2,457,508	2,267,174
Commercial	4,307,900	3,932,757
Construction	254,434	90,563
Consumer	2,203,890	2,465,856
Total loans	11,542,200	10,879,253
Leases		
Commercial	88,172	83,379
Consumer	135,161	157,589
Total leases	223,333	240,968
Total loans and leases	$ 11,765,533	11,120,221

One-to-four family residential mortgage loans held for sale were $189.4 million at December 31, 1997 and $193.6 million at December 31, 1996. One-to-four family residential mortgage loans serviced for others totaled approximately $7.5 billion and $5.8 billion at December 31, 1997 and 1996, respectively. As of December 31, 1997, approximately $13.0 million of one-to-four family residential mortgage loans serviced for others have been sold with recourse. The total credit loss exposure resulting from loans sold with recourse was considered negligible.

Included in the preceding table are nonperforming loans (loans on which interest was not being accrued, or which were ninety days or more past due or had been renegotiated at below-market interest rates) of $80,650,000 at December 31, 1997 and $97,884,000 at December 31, 1996. If nonaccrual and renegotiated loans had been accruing interest at their originally contracted terms, interest income on these loans would have amounted to $7,264,000 in 1997 and $6,854,000 in 1996. The actual amount included in interest income during 1997 and 1996 on these loans was $2,445,000 and $1,506,000, respectively.

The recorded investment in loans considered impaired was $32,772,000 and $40,218,000 at December 31, 1997 and 1996, respectively. The recorded investment in loans for which there was a related valuation allowance for possible impairment included in the allowance for possible credit losses and the amount of such impairment allowance were $23,963,000 and $3,095,000, respectively, at December 31, 1997 and $35,608,000 and $4,652,000, respectively, at December 31, 1996. The recorded investment in loans considered impaired for which there was no related valuation allowance for possible impairment was $8,809,000 and $4,610,000 at December 31, 1997 and 1996, respectively. The average recorded investment in impaired loans during 1997, 1996 and 1995 was $37,732,000, $48,146,000 and $52,357,000, respectively. Interest income recognized on impaired loans totaled $2,051,000, $1,571,000 and $1,151,000 for the years ended December 31, 1997, 1996 and 1995, respectively.

3. LOANS AND LEASES (CONTINUED)

Borrowings by directors and certain officers of First Empire and its banking subsidiaries, and by associates of such persons, exclusive of loans aggregating less than $60,000, amounted to $29,870,000 and $51,603,000 at December 31, 1997 and 1996, respectively. During 1997, new borrowings by such persons amounted to $3,754,000 (including borrowings of new directors or officers that were outstanding at the time of their election) and repayments and other reductions equaled $25,487,000.

At December 31, 1997, approximately $25 million of one-to-four family residential mortgage loans were pledged to secure borrowings.

4. ALLOWANCE FOR POSSIBLE CREDIT LOSSES

Changes in the allowance for possible credit losses were as follows:

	1997	1996	1995
		(IN THOUSANDS)	
Beginning balance	$ 270,466	262,344	243,332
Provision for possible credit losses	46,000	43,325	40,350
Net charge-offs			
Charge-offs	(59,329)	(49,546)	(31,207)
Recoveries	17,519	14,343	9,869
Net charge-offs	(41,810)	(35,203)	(21,338)
Ending balance	$ 274,656	270,466	262,344

5. PREMISES AND EQUIPMENT

The detail of premises and equipment was as follows:

	DECEMBER 31	
	1997	1996
	(IN THOUSANDS)	
Land	$ 12,050	12,741
Buildings-owned	91,486	91,406
Buildings-capital leases	1,773	1,773
Leasehold improvements	31,103	29,349
Furniture and equipment-owned	127,687	128,317
Furniture and equipment-capital leases	429	429
	264,528	264,015
Less: accumulated depreciation and amortization		
Owned assets	140,644	133,695
Capital leases	1,900	1,799
	142,544	135,494
Premises and equipment, net	$ 121,984	128,521

5. PREMISES AND EQUIPMENT (CONTINUED)

Net lease expense for all operating leases totaled $16,983,000 in 1997, $12,223,000 in 1996 and $13,091,000 in 1995. The Company occupies certain banking offices and uses certain equipment under noncancellable operating lease agreements expiring at various dates over the next 20 years. Minimum lease payments under noncancellable operating leases are summarized as follows:

	(IN THOUSANDS)
Year ending December 31:	
1998	$ 10,786
1999	10,814
2000	9,650
2001	7,792
2002	6,153
Later years	44,440
Total minimum lease payments required	$ 89,635

Payments required under capital leases are not material.

6. CAPITALIZED SERVICING ASSETS

Changes in capitalized servicing assets were as follows:

	YEAR ENDED DECEMBER 31		
	1997	1996	1995
	(IN THOUSANDS)		
Beginning balance	$ 38,890	35,588	10,048
Originations	7,819	11,060	12,515
Purchases	26,262	3,786	22,980
Amortization	(14,366)	(10,509)	(7,251)
Sales	--	(1,035)	(2,704)
Write-downs	(802)	--	--
Reclassification of excess servicing receivables	4,074	--	--
	61,877	38,890	35,588
Valuation allowance	(798)	(1,100)	(1,100)
Ending balance, net	$ 61,079	37,790	34,488

As a result of impairment of certain strata of capitalized servicing assets, additions to the valuation allowance totaling $500,000 and $1,100,000 were recorded during 1997 and 1996, respectively. During 1997, the valuation allowance was reduced by $802,000 to reflect the write-down of the recorded value of certain capitalized servicing assets related to loans that had been repaid by borrowers. There were no additions or reductions to the valuation allowance recorded during 1996. SFAS No. 125 requires that for each servicing contract in existence before January 1, 1997 previously recognized servicing rights and excess servicing receivables that do not exceed contractually specified servicing fees be combined. The carrying value of such excess servicing receivables at January 1, 1997 was $4,074,000. The estimated fair value of capitalized servicing rights was approximately $84 million at December 31, 1997 and $59 million at December 31, 1996. Such amounts were estimated using discounted cash flows that reflect current prepayment and discount rate assumptions as of each year-end.

7. BORROWINGS

The amount and interest rate of short-term borrowings were as follows:

	FEDERAL FUNDS PURCHASED AND REPURCHASE AGREEMENTS	OTHER SHORT-TERM BORROWINGS	TOTAL
	(DOLLARS IN THOUSANDS)		
At December 31, 1997			
Amount outstanding	$ 930,775	166,549	1,097,324
Weighted-average interest rate	6.51%	3.90%	6.11%
For the year ended December 31, 1997			
Highest amount at a month-end	$ 930,775	344,363	
Daily-average amount outstanding	611,689	241,626	853,315
Weighted-average interest rate	5.43%	4.60%	5.20%
At December 31, 1996			
Amount outstanding	$ 1,015,408	134,779	1,150,187
Weighted-average interest rate	7.03%	3.89%	6.66%
For the year ended December 31, 1996			
Highest amount at a month-end	$ 1,550,880	337,168	
Daily-average amount outstanding	1,014,923	117,528	1,132,451
Weighted-average interest rate	5.29%	4.90%	5.25%
At December 31, 1995			
Amount outstanding	$ 1,213,372	59,834	1,273,206
Weighted-average interest rate	5.83%	5.32%	5.81%
For the year ended December 31, 1995			
Highest amount at a month-end	$ 1,944,924	524,359	
Daily-average amount outstanding	1,176,935	246,560	1,423,495
Weighted-average interest rate	5.91%	5.95%	5.92%

7. BORROWINGS (CONTINUED)

In general, Federal funds purchased and repurchase agreements outstanding at December 31, 1997 mature within two days following year-end. Other short-term borrowings consisted of trading account liabilities and borrowings from the U.S. Treasury, the Federal Home Loan Bank of New York and others having original maturities of one year or less. Noninterest-bearing trading account liabilities included in other short-term borrowings were $46,416,000, $22,271,000 and $3,194,000 at December 31, 1997, 1996 and 1995, respectively, and averaged $41,312,000, $10,993,000 and $7,383,000 in 1997, 1996 and 1995, respectively.

At December 31, 1997, First Empire and Manufacturers and Traders Trust Company ("M&T Bank"), a wholly owned subsidiary of First Empire, had lines of credit under formal agreements as follows:

	FIRST EMPIRE	M&T BANK
	(IN THOUSANDS)	
Outstanding borrowings	$ --	22,375
Unused	25,000	936,907

Long-term borrowings were as follows:

	DECEMBER 31 1997	DECEMBER 31 1996
	(IN THOUSANDS)	
Subordinated notes of M&T Bank:		
8 1/8% due 2002	$ 75,000	75,000
7% due 2005	100,000	100,000
Preferred capital securities:		
First Empire Capital Trust I -- 8.234%	150,000	--
First Empire Capital Trust II -- 8.277%	100,000	--
Advances from Federal Home Loan Bank of New York	2,375	2,370
Other	444	632
	$ 427,819	178,002

The subordinated notes of M&T Bank are unsecured and are subordinate to the claims of depositors and other creditors of M&T Bank. Long-term borrowings from the Federal Home Loan Bank of New York had fixed rates of interest ranging from 7.72% to 8.45% at December 31, 1997 and 1996. Such advances mature at various dates through 2006 and are secured by residential mortgage loans.

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.

7. BORROWINGS (CONTINUED)

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

7. BORROWINGS (CONTINUED)

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 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.

Long-term borrowings at December 31, 1997 mature as follows:

	(IN THOUSANDS)
Year ending December 31:	
1998	$ 497
1999	108
2000	319
2001	317
2002	75,296
Later years	351,282
	$ 427,819

8. PREFERRED STOCK

On March 29, 1996, the holder of all of the then outstanding shares of First Empire's 9% convertible preferred stock converted such shares into 506,930 shares of First Empire common stock at a contractual conversion price of $78.90625 per common share. Dividends paid on the 40,000 shares of preferred stock, which had been issued on March 15, 1991 for $40 million, were deducted from net income in calculating basic earnings per share. Calculations of diluted earnings per common share for periods prior to the conversion reflect the assumption that the preferred stock had been converted to 506,930 shares of common stock at issuance and that no preferred stock dividends were paid.

9. STOCK-BASED COMPENSATION PLANS

STOCK OPTION PLAN

The stock option plan allows the grant of stock options and stock appreciation rights (either in tandem with options or independently) at prices which may not be less than the fair market value of the common stock on the date of grant. Awards granted under the stock option plan generally vest over four years and are exercisable over terms not exceeding ten years and one day. When exercisable, the stock appreciation rights issued in tandem with stock options entitile grantees to receive cash, stock or a combination equal to the amount of stock appreciation between the dates of grant and exercise. Stock appreciation rights issued independently of stock options contain similar terms as the stock options, although upon exercise the holder is only entitled to receive cash instead of purchasing shares of First Empire's common stock. Of the stock options outstanding at December 31, 1997, 751,606 were granted with limited stock appreciation rights attached thereto. A summary of related activity follows:

			WEIGHTED-AVERAGE EXERCISE PRICE	
	STOCK OPTIONS OUTSTANDING	CASH-ONLY APPRECIATION RIGHTS OUTSTANDING	STOCK OPTIONS	CASH-ONLY APPRECIATION RIGHTS
1995				
Beginning balance	611,237	90,600	$ 95.58	$ 60.17
Granted	165,185	--	143.39	--
Exercised	(47,175)	(29,000)	66.57	60.69
Canceled	(9,250)	--	133.82	--
At year-end	719,997	61,600	107.96	59.93
1996				
Granted	173,246	--	211.42	--
Exercised	(115,378)	(6,650)	109.14	56.48
Canceled	(8,650)	--	155.86	--
At year-end	769,215	54,950	130.54	60.34
1997				
Granted	151,077	--	297.37	--
Exercised	(138,723)	(8,500)	87.66	57.00
Canceled	(4,375)	--	221.65	--
At year-end	777,194	46,450	170.11	60.95
Exercisable at:				
December 31, 1997	344,757	46,450	110.39	60.95
December 31, 1996	352,571	54,950	86.17	60.34
December 31, 1995	315,612	61,600	71.02	59.93

At December 31, 1997 and 1996, respectively, there were 170,488 and 317,190 shares available for future grant. During 1995, the number of shares authorized for issuance under the stock option plan was increased to 2,000,000 shares from 1,500,000.

9. STOCK-BASED COMPENSATION PLANS (CONTINUED)

STOCK OPTION PLAN (CONTINUED)

A summary of stock options at December 31, 1997 follows:

RANGE OF EXERCISE PRICE	STOCK OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE LIFE (IN YEARS)	STOCK OPTIONS EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$ 40.25 to $105.13.........	159,233	$ 71.68	2.3	159,233	$ 71.68
133.88 to 198.00.........	317,213	140.25	6.3	171,820	138.20
211.00 to 368.50.........	300,748	253.73	8.6	13,704	211.53
	777,194	$ 170.11	6.4	344,757	$ 110.39

The Company used a binomial option pricing model to estimate the grant date present value of stock options granted in 1997, 1996 and 1995. The estimated value per option was $79.26 in 1997, $49.75 in 1996 and $44.36 in 1995. The values were calculated using the following assumptions: an option term of 6.5 years (representing the estimated period between grant date and exercise date based on historical data since inception of the plan), a risk-free interest rate of 6.37% in 1997, 5.48% in 1996 and 7.70% in 1995 (representing the yield on a U.S. Treasury security with a remaining term equal to the expected option term), expected volatility of 14% in 1997, 15% in 1996 and 16% in 1995, and estimated dividend yields of 0.97% in 1997, 1.28% in 1996 and 1.70% in 1995 (representing the approximate annualized cash dividend rate paid with respect to a share of common stock at or near the grant date). The Company also deducted 10% to reflect an estimate of the probability of forfeiture prior to vesting. The estimated forfeiture rate was based on historical data since inception of the stock option plan.

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for the stock option plan. Accordingly, no compensation expense was recognized in 1997, 1996 and 1995 for stock option awards since the exercise price of stock options granted under the stock option plan was not less than the fair market value of the common stock at date of grant. Compensation expense recognized for cash-only stock appreciation rights was $8,510,000 in 1997, $3,974,000 in 1996 and $6,002,000 in 1995. Had compensation expense for stock option awards granted in 1997, 1996 and 1995 been determined consistent with SFAS No. 123, net income and earnings per share would be reduced to the pro forma amounts indicated below:

	YEAR ENDED DECEMBER 31		
	1997	1996	1995
	(IN THOUSANDS, EXCEPT PER SHARE)		
Net income:			
As reported..	$ 176,241	151,103	131,036
Pro forma..	169,432	146,394	128,776
Basic earnings per share:			
As reported..	$ 26.60	22.54	19.61
Pro forma..	25.57	21.83	19.26
Diluted earnings per share:			
As reported..	$ 25.26	21.08	17.98
Pro forma..	24.40	20.53	17.74

9. STOCK-BASED COMPENSATION PLANS (CONTINUED)

STOCK OPTION PLAN (CONTINUED)

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

DEFERRED BONUS PLAN

In connection with the deferred bonus plan, the Company provides a deferred bonus plan to eligible employees which allows such employees to elect to defer all or a portion of their current annual incentive compensation awards and allocate such awards to several investment options, including First Empire common stock. Participants may elect the timing of distributions from the plan. Such distributions are payable in cash, with the exception of balances allocated to First Empire common stock which effective January 1, 1998, will be distributable in the form of First Empire common stock. As of January 1, 1998, $3,281,000 was distributable in the form of 7,056 shares of First Empire common stock. In connection with the deferred bonus plan, 15,000 shares of First Empire common stock are authorized for issuance.

DIRECTORS' STOCK PLAN

Effective January 1, 1998, the Company initiated a compensation plan for non-employee directors which provides that annual compensation payable to such directors shall be paid fifty percent in cash and fifty percent in shares of First Empire common stock. In connection with the directors' stock plan, 5,000 shares of First Empire common stock are authorized for issuance.

10. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

The Company has a noncontributory defined benefit pension plan covering substantially all full-time employees. Pension benefits accrue to participants based on their level of compensation and number of years of service. With respect to employees added as a result of acquisitions, service with the acquired entities has generally been counted in the pension formula for vesting, but not for benefit accrual purposes. The Company contributes to the pension plan amounts sufficient to meet Internal Revenue Code funding standards.

Net periodic pension cost consisted of the following:

	1997	1996	1995
	(IN THOUSANDS)		
Service cost	$ 4,931	4,298	3,304
Interest cost on projected benefit obligation	6,657	6,491	6,026
Actual return on assets	(28,497)	(16,865)	(19,666)
Net amortization and deferral	17,871	7,886	11,390
Net periodic pension cost	$ 962	1,810	1,054

10. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

Data relating to the funding position of the pension plan were as follows:

	1997	1996
	(IN THOUSANDS)	
Vested accumulated benefit obligation	$ (78,332)	(71,915)
Total accumulated benefit obligation	(84,917)	(76,448)
Projected benefit obligation	(105,043)	(93,526)
Plan assets at fair value	144,893	120,856
Plan assets in excess of projected benefit obligation	39,850	27,330
Unrecognized net asset	(344)	(1,202)
Unrecognized past service cost	(403)	(448)
Unrecognized net gain	(29,650)	(15,265)
Pension asset	$ 9,453	10,415

Plan assets included common stock of First Empire with a fair value of $13,072,000 and $8,096,000 at December 31, 1997 and 1996, respectively.

The assumed rates used in the actuarial computations were as follows:

	1997	1996
Discount rate	7.00%	7.25%
Rate of increase in future compensation levels	5.10%	5.00%
Long-term rate of return on assets	9.00%	9.00%

In addition, the Company has an unfunded supplemental pension plan for certain key executives. Net periodic pension cost was $186,000, $253,000 and $290,000 in 1997, 1996 and 1995, respectively.

The Company also provides health care and life insurance benefits for qualified retired employees who reached the age of 55 while working for the Company. Substantially all salaried employees are covered in the plan.

Net postretirement benefit cost consisted of the following:

	1997	1996	1995
	(IN THOUSANDS)		
Service cost	$ 146	147	94
Interest cost on projected benefit obligation	996	1,062	1,022
Actual return on assets	(34)	(360)	(547)
Net amortization and deferral	(465)	(50)	16
Net postretirement benefit cost	$ 643	799	585

10. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

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

	1997	1996
	(IN THOUSANDS)	
Accumulated benefit obligation:		
Retirees	$ 11,532	13,038
Active employees		
Fully eligible	1,123	1,043
Other	1,278	1,263
Plan assets at fair value	(5,147)	(6,325)
Accumulated benefit obligation in excess of plan assets	8,786	9,019
Unrecognized net loss	(1,202)	(2,151)
Unrecognized past service cost	2,039	2,243
Accrued postretirement benefit cost	$ 9,623	9,111

The Company on occasion funds a portion of these postretirement benefit obligations through contributions to a Voluntary Employee Benefit Association trust account.

The assumed rates used in the actuarial computations were as follows:

	1997	1996
Discount rate	7.00%	7.25%
Long-term rate of return on assets	8.00%	8.00%
Medical inflation rate	9.00%	11.00%

The medical inflation rate was assumed to gradually reduce to 5% over eight years.

The Company's 1997 service cost, interest cost and accumulated benefit obligation assuming a 1% increase in the medical inflation rate assumption are as follows:

	(IN THOUSANDS)
Accumulated postretirement benefit obligation	$ 14,797
Service cost	146
Interest cost	1,055

The Company has a retirement savings plan ("Savings Plan") that is a defined contribution plan in which eligible employees of the Company may defer up to 10% of qualified compensation via contributions to the plan. The Company makes an employer matching contribution in an amount equal to 75% of an employee's contribution, up to 4.5% of the employee's qualified compensation. Employees' accounts, including employee contributions, employer matching contributions and accumulated earnings thereon, are at all times fully vested and nonforfeitable. The Company's contributions to the Savings Plan totaled $5,221,000, $4,724,000 and $4,086,000 in 1997, 1996 and 1995, respectively.

11. INCOME TAXES

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

	1997	1996	1995
	(IN THOUSANDS)		
Current			
Federal	$ 96,819	85,220	79,194
State and city	16,430	16,547	18,303
Total current	113,249	101,767	97,497
Deferred			
Federal	(5,334)	(3,155)	(7,875)
State and city	(1,997)	(746)	515
Total deferred	(7,331)	(3,901)	(7,360)
Total income taxes applicable to pre-tax income	$ 105,918	97,866	90,137

The Company files a consolidated federal income tax return reflecting taxable income earned by all subsidiaries. Prior to 1996, applicable federal tax law allowed First Empire the option of deducting as bad debt expense for tax purposes, under the reserve method, 8% of taxable income resulting from the banking operations of a subsidiary. Effective January 1, 1996, the reserve method is no longer available and deductions for bad debts for federal income tax purposes are now limited to actual losses. Recapture of the bad debt reserve established by prior application of the reserve method will result in taxable income if M&T Bank fails to maintain bank status as defined in the Internal Revenue Code or charges are made to the reserve for other than bad debt losses. At December 31, 1997 the bad debt reserve resulting from application of the reserve method for which no federal income taxes have been provided was $46,717,000. No actions are planned which would cause this reserve to become wholly or partially taxable.

The portion of income taxes attributable to gains or losses on sales of bank investment securities was a benefit of $114,000 in 1997 and an expense of $1,872,000 in 1995. The effect on income taxes from sales of bank investment securities was insignificant in 1996. No alternative minimum tax expense was recognized in 1997, 1996 or 1995.

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

	1997	1996	1995
	(IN THOUSANDS)		
Income taxes at statutory rate	$ 98,756	87,139	77,411
Increase (decrease) in taxes:			
Tax-exempt income	(3,794)	(2,000)	(2,195)
State and city income taxes, net of federal income tax effect	9,381	10,271	12,232
Other	1,575	2,456	2,689
	$ 105,918	97,866	90,137

11. INCOME TAXES (CONTINUED)

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

	1997	1996	1995
	(IN THOUSANDS)		
Interest on loans	$ 5,165	5,603	5,335
Depreciation and amortization	8,130	7,900	5,943
Losses on loans and other assets	105,190	105,338	102,183
Postretirement and other supplemental employee benefits	7,163	7,434	7,041
Incentive compensation plans	12,302	9,090	10,932
Unrealized investment losses	--	1,819	2,343
Other	11,140	10,060	6,990
Gross deferred tax assets	149,090	147,244	140,767
Retirement benefits	(3,459)	(4,457)	(5,194)
Leasing transactions	(83,347)	(81,300)	(71,717)
Restructured interest rate swap agreements	(3,999)	(8,564)	(13,746)
Capitalized servicing rights	(7,448)	(7,597)	(7,981)
Unrealized investment gains	(8,202)	--	--
Other	(45)	(46)	(226)
Gross deferred tax liabilities	(106,500)	(101,964)	(98,864)
Net deferred tax asset	$ 42,590	45,280	41,903

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

The income tax credits shown in the Statement of Income of First Empire in note 20 arise principally from operating losses before dividends from subsidiaries.

12. EARNINGS PER SHARE

The computations of basic earnings per share follow:

	YEAR ENDED DECEMBER 31		
	1997	1996	1995
	(IN THOUSANDS, EXCEPT PER SHARE)		
Net income	$ 176,241	151,103	131,036
Less: preferred stock dividends	--	(900)	(3,600)
Income available to common stockholders	176,241	150,203	127,436
Weighted-average shares outstanding	6,625	6,663	6,499
Basic earnings per share	$ 26.60	22.54	19.61

12. EARNINGS PER SHARE (CONTINUED)

The computations of diluted earnings per share follow:

	YEAR ENDED DECEMBER 31		
	1997	1996	1995
Income available to common stockholders	$ 176,241	150,203	127,436
Plus: preferred stock dividends	--	900	3,600
Income available to common stockholders plus assumed conversion	176,241	151,103	131,036
Weighted-average shares outstanding	6,625	6,663	6,499
Plus: incremental shares from assumed conversions of			
-- stock options	352	385	282
-- preferred stock	--	122	507
Adjusted weighted-average shares outstanding	6,977	7,170	7,288
Diluted earnings per share	$ 25.26	21.08	17.98

13. OTHER INCOME AND OTHER EXPENSE

The following items, which exceeded 1% of total revenues in the respective period, were included in either other revenues from operations or other costs of operations in the Consolidated Statement of Income:

	1997	1996	1995
	(IN THOUSANDS)		
Other income:			
Mutual fund and annuity sales	$ 15,336	13,000	
Other expense:			
Professional services	22,845	20,402	22,522
Advertising		11,933	

14. INTERNATIONAL ACTIVITIES

The Company engages in certain international activities consisting primarily of purchasing Eurodollar placements, collecting Eurodollar deposits and engaging in foreign currency trading. Net assets identified with international activities amounted to $11,514,000 and $55,420,000 at December 31, 1997 and 1996, respectively.

15. DERIVATIVE FINANCIAL INSTRUMENTS

As part of managing interest rate risk, the Company has entered into several interest rate swap agreements. The swaps modify the repricing characteristics of certain portions of the Company's loan and deposit portfolios. Under terms of most of the agreements the Company receives a fixed rate of interest and pays a variable rate based on London Inter-Bank Offered Rates ("LIBOR"). Interest rate swap agreements are generally entered into with counterparties that meet established credit standards and most contain collateral provisions protecting the at-risk party. The Company considers the credit risk inherent in these contracts to be negligible. Information about interest rate swaps entered into for interest rate risk management purposes summarized by type of financial instrument the swaps were intended to modify follows:

	NOTIONAL AMOUNT	AVERAGE MATURITY	WEIGHTED-AVERAGE RATE		ESTIMATED FAIR VALUE-GAIN (LOSS)
			FIXED	VARIABLE	
	(IN THOUSANDS)	(IN YEARS)			(IN THOUSANDS)
DECEMBER 31, 1997					
Variable rate loans:					
Amortizing	$ 99,287	0.2	5.82%	5.75%	$ 28
Non-amortizing	1,147,731	1.7	6.00%	5.84%	2,888
	1,247,018	1.6	5.99%	5.83%	2,916
Fixed rate loans:					
Amortizing(a)	33,061	9.5	7.17%	5.97%	(2,394)
Fixed rate time deposits:					
Non-amortizing	1,439,500	2.8	6.69%	5.73%	15,915
	$ 2,719,579	2.3	6.37%	5.78%	$ 16,437
DECEMBER 31, 1996					
Variable rate loans:					
Amortizing	$ 237,972	.9	5.91%	5.51%	$ 54
Non-amortizing	909,576	2.2	5.78%	5.52%	(4,777)
	1,147,548	1.9	5.81%	5.52%	(4,723)
Fixed rate loans:					
Amortizing(a)	33,841	10.2	7.17%	5.56%	(1,226)
Fixed rate time deposits:					
Non-amortizing	1,181,000	1.8	6.75%	5.39%	11,473
	$ 2,362,389	2.0	6.30%	5.45%	$ 5,524

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(a) Under the terms of this swap, the Company receives interest at a variable rate and pays at a fixed rate. Under all other swap agreements, the Company receives interest at a fixed rate and pays at a variable rate.

15. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The estimated fair value of interest rate swap agreements represents the amount the Company would have expected to receive (pay) to terminate such contracts. Since these swaps have been entered into for interest rate risk management purposes, the estimated market appreciation or depreciation should be considered in the context of the entire balance sheet of the Company. The estimated fair value of interest rate swaps entered into for interest rate risk management purposes is not recognized in the consolidated financial statements.

The notional amount of the amortizing swap linked to fixed rate loans declines by the amount of scheduled principal payments of the loans. The notional amounts of other amortizing swaps may, following an initial lock-out period, vary depending on the level of interest rates or the repayment behavior of mortgage-backed securities to which individual swaps are indexed. The notional amount of a non-amortizing swap does not change during the term of an agreement.

At December 31, 1997 the notional amount of interest rate swaps outstanding mature as follows:

	AMORTIZING	NON-AMORTIZING
	(IN THOUSANDS)	
Year ending December 31:		
1998	$ 100,139	437,231
1999	930	674,000
2000	1,016	845,000
2001	1,110	213,000
2002	1,213	213,000
Later years	27,940	205,000
	$ 132,348	2,587,231

The net effect of interest rate swaps was to increase net interest income by $14,089,000 in 1997, $15,454,000 in 1996 and $884,000 in 1995. The average notional amount of interest rate swaps impacting net interest income which were entered into for interest rate risk management purposes were $2,691,638,000 in 1997, $2,410,547,000 in 1996 and $2,536,329,000 in 1995.

During 1995 and 1994, the Company restructured several interest rate swap agreements with notional amounts of $260 million and $500 million, respectively, from amortizing to non-amortizing. The purpose of the restructurings was to enhance the effectiveness of the swaps in managing the Company's exposure to changing interest rates in future years. Losses resulting from the early termination of the amortizing swaps and equal amounts of purchase discount received on the restructured non-amortizing swaps were recognized as a result of these transactions and included in the carrying amount of loans which the swaps modified. The deferred losses and purchase discounts totaled $9.5 million and $15.8 million, respectively, at December 31, 1997 and $20.8 million and $25.4 million, respectively, at December 31, 1996. The deferred losses are being amortized and the purchase discounts accreted to interest income over the remaining terms of the original swaps and restructured swaps, respectively. Such amortization and accretion were $11.3 million and $9.6 million, respectively, in 1997, $12.1 million and $9.8 million, respectively, in 1996 and $11.1 million and $8.8 million, respectively, in 1995.

15. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The net increase (decrease) in interest income in future years from amortization and accretion of balances resulting from interest rate swap restructurings is as follows:

	(IN THOUSANDS)
YEAR ENDING DECEMBER 31:	
1998	$ (104)
1999	5,960
2000	403

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

	1997	1996
	(IN THOUSANDS)	
December 31:		
Gross unrealized gains	$ 46,343	23,780
Gross unrealized losses	46,405	22,261
Year ended December 31:		
Average gross unrealized gains	$ 41,701	13,565
Average gross unrealized losses	41,302	10,983

Net gains arising from derivative financial instruments used for trading purposes were $2,072,000 in 1997, $2,689,000 in 1996 and $1,375,000 in 1995.

16. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires disclosure of the estimated "fair value" of financial instruments. "Fair value" is generally defined as the price a willing buyer and a willing seller would exchange for a financial instrument in other than a distressed sale situation. Disclosures related to fair value presented herein are as of December 31, 1997 and 1996.

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

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

16. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

higher discount rate was assumed with respect to estimated cash flows associated with nonaccrual loans.

As more fully described in note 2, the carrying value and estimated fair value of investment securities were as follows:

	CARRYING VALUE	ESTIMATED FAIR VALUE
	(IN THOUSANDS)	
DECEMBER 31		
1997	$ 1,725,218	1,725,729
1996	1,571,698	1,572,398

The following table presents the carrying value and calculated estimates of fair value of loans and commitments related to loans originated for sale:

	CARRYING VALUE	CALCULATED ESTIMATE
	(IN THOUSANDS)	
DECEMBER 31, 1997		
Commercial loans and leases	$ 2,378,827	2,378,248
Commercial real estate loans	4,436,014	4,487,740
Residential real estate loans	2,462,945	2,484,377
Consumer loans and leases	2,218,782	2,207,609
	$ 11,496,568	11,557,974
DECEMBER 31, 1996		
Commercial loans and leases	$ 2,182,034	2,178,530
Commercial real estate loans	3,956,184	3,975,921
Residential real estate loans	2,185,749	2,182,508
Consumer loans and leases	2,398,156	2,424,384
	$ 10,722,123	10,761,343

The allowance for possible credit losses represents the Company's assessment of the overall level of credit risk inherent in the loan and lease portfolio and totaled $274,656,000 and $270,466,000 at December 31, 1997 and 1996, respectively.

As described in note 17, in the normal course of business, various commitments and contingent liabilities are outstanding, such as loan commitments, credit guarantees and letters of credit. The Company's pricing of such financial instruments is based largely on credit quality and relationship, probability of funding and other requirements. Commitments generally have fixed expiration dates and contain termination and other clauses which provide for relief from funding in the event of significant deterioration in the credit quality of the customer. The rates and terms of the Company's loan commitments, credit guarantees and letters of credit are competitive with other financial institutions operating in markets served by the Company. The Company believes that the carrying amounts are reasonable estimates of the fair value of these financial instruments. Such carrying amounts, comprised principally of unamortized fee income, are included in other liabilities and totaled $4,911,000 and $3,619,000 at December 31, 1997 and 1996, respectively.

SFAS No. 107 requires that the estimated fair value ascribed to noninterest-bearing deposits, savings deposits and NOW accounts be established at carrying value because of the customers' ability to withdraw funds

16. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

immediately. Additionally, time deposit accounts are required to be revalued based upon prevailing market interest rates for similar maturity instruments.

The following summarizes the results of these calculations:

	CARRYING VALUE	CALCULATED ESTIMATE
	(IN THOUSANDS)	
DECEMBER 31, 1997		
Noninterest-bearing deposits	$ 1,458,241	1,458,241
Savings deposits and NOW accounts	3,691,492	3,691,492
Time deposits	5,762,497	5,792,345
Deposits at foreign office	250,928	250,928
DECEMBER 31, 1996		
Noninterest-bearing deposits	$ 1,352,929	1,352,929
Savings deposits and NOW accounts	3,615,575	3,615,575
Time deposits	5,352,749	5,367,028
Deposits at foreign office	193,236	193,236

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

As more fully described in note 15, the Company had entered into interest rate swap agreements for purposes of managing the Company's exposure to changing interest rates. The estimated fair value of interest rate swap agreements represents the amount the Company would have expected to receive or pay to terminate such swaps. The following table includes information about the estimated fair value of interest rate swaps entered into for interest rate risk management purposes:

	NOTIONAL AMOUNT	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE-GAIN (LOSS)
	(IN THOUSANDS)			
DECEMBER 31				
1997	$ 2,719,579	22,060	(5,623)	16,437
1996	2,362,389	15,013	(9,489)	5,524

As described in note 15, the Company also uses certain derivative financial instruments as part of its trading activities. Interest rate swaps entered into for trading purposes had notional values and estimated fair value gains of $210 million and $152,000, respectively, at December 31, 1997 and notional values and estimated fair value losses of $50 million and $42,000, respectively, at December 31, 1996. The Company also entered into foreign exchange and other option and futures contracts totaling approximately $3.3 billion and $1.6 billion at December 31, 1997 and 1996, respectively. Such contracts were valued at losses of $214,000 at December 31, 1997 and gains of $1,561,000 at December 31, 1996. All trading account assets and liabilities

16. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

are recorded in the Consolidated Balance Sheet at estimated fair value.

Due to the near maturity of other money-market assets and short-term borrowings, the Company estimates that the carrying value of such instruments approximates estimated fair value. The carrying value and estimated fair value of long-term borrowings were $427,819,000 and $453,113,000, respectively, at December 31, 1997 and $178,002,000 and $180,793,000, respectively, at December 31, 1996.

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

Many of the fair value estimates presented herein are based upon the use of highly subjective information and assumptions and, accordingly, the results may not be precise. Management believes that fair value estimates may not be comparable between financial institutions due to the wide range of permitted valuation techniques and numerous estimates which must be made.

Furthermore, since the disclosed fair value amounts were estimated as of the balance sheet date, the amounts actually realized or paid upon maturity or settlement of the various financial instruments could be significantly different.

17. COMMITMENTS AND CONTINGENCIES

In the normal course of business, various commitments and contingent liabilities are outstanding, such as commitments to extend credit guarantees and "standby" letters of credit (approximately $193,838,000 and $171,420,000 at December 31, 1997 and 1996, respectively) which are not reflected in the consolidated financial statements. No material losses are expected as a result of these transactions. Additionally, the Company had outstanding loan commitments of approximately $2.9 billion and $2.7 billion at December 31, 1997 and 1996, respectively. Because many loan commitments and almost all credit guarantees and "standby" letters of credit expire without being funded in whole or part, the contract amounts are not estimates of future cash flows. Commitments to sell one-to-four family residential mortgage loans totaled $266,145,000 at December 31, 1997 and $251,110,000 at December 31, 1996.

In October 1997, First Empire entered into a definitive agreement with ONBANCorp, Inc. ("ONBANCorp"), a bank holding company headquartered in Syracuse, New York, for a merger between the two companies. At December 31, 1997, ONBANCorp had $5.3 billion of assets. The merger, which will be accounted for as a purchase, is subject to the approval of stockholders of both companies and is expected to be accomplished on or about April 1, 1998. Under the terms of the merger agreement, stockholders of ONBANCorp will have the option to receive .161 of a share of First Empire common stock (and cash in lieu of any fractional share) or $69.50 in cash in exchange for each share of ONBANCorp common stock. The merger agreement provides that a minimum of 60% and a maximum of 70% of the total number of shares of ONBANCorp common stock issued and outstanding immediately prior to the merger must be exchanged for shares of First Empire common stock. In the event that ONBANCorp

17. COMMITMENTS AND CONTINGENCIES (CONTINUED)

stockholders as a whole elect to receive stock consideration with respect to fewer than 60% or more than 70% of the total number of outstanding shares of ONBANCorp common stock, the selection by ONBANCorp common stockholders of the method of payment is subject to allocation and proration to ensure that the number of shares of ONBANCorp common stock that are converted into shares of First Empire common stock will be 60% or 70%, as the case may be, of the total number of shares of ONBANCorp common stock issued and outstanding immediately prior to the merger. At December 31, 1997 ONBANCorp had 12,721,689 shares of common stock issued and outstanding.

First Empire and its subsidiaries are subject in the normal course of business to various pending and threatened legal proceedings in which claims for monetary damages are asserted. Management, after consultation with legal counsel, does not anticipate that the aggregate ultimate liability, if any, arising out of litigation pending against First Empire or its subsidiaries will be material to the Company's consolidated financial position, but at the present time is not in a position to determine whether such litigation will have a material adverse effect on the Company's consolidated results of operations in any future reporting period.

18. REVOLVING CREDIT AGREEMENT OF FIRST EMPIRE

First Empire has a revolving credit agreement with an unaffiliated commercial bank whereby First Empire may borrow up to $25,000,000 at its discretion through November 24, 1998. The agreement provides for a facility fee assessed on the entire amount of the commitment (whether or not utilized) ranging from .08% to .187% depending on the credit rating of the subordinated notes of M&T Bank. A usage fee equal to .10% per annum is assessed if the balance of outstanding loans exceeds 50% of the commitment amount during any quarter. Under the revolving credit agreement, First Empire may borrow at either a variable rate based upon the higher of the Federal funds rate plus 1/2 of 1% or the lender's prime rate, or a fixed rate based upon a premium over LIBOR ranging from .15% to .30% depending on the credit rating of the subordinated notes of M&T Bank. At December 31, 1997 and 1996, there were no outstanding balances under such agreement.

19. REGULATORY MATTERS

Payment of dividends by First Empire's banking subsidiaries is restricted by various legal and regulatory limitations. Dividends from any banking subsidiary to First Empire are limited by the amount of earnings of the banking subsidiary in the current year and the preceding two years. For purposes of this test, at December 31, 1997, approximately $262,187,000 was available for payment of dividends to First Empire from banking subsidiaries without prior regulatory approval.

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

The banking subsidiaries are required to maintain noninterest-earning reserves against certain deposit liabilities. During the maintenance periods that included December 31, 1997 and 1996, cash and due from banks included a daily average of $124,132,000 and $128,398,000, respectively, for such purpose.

19. REGULATORY MATTERS (CONTINUED)

Federal regulators have adopted capital adequacy guidelines for bank holding companies and banks. Failure to meet minimum capital requirements can result in certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a material effect on the Company's financial statements. Under the capital adequacy guidelines, the so-called "Tier 1 capital" and "Total capital" as a percentage of risk-weighted assets and certain off-balance sheet financial instruments must be at least 4% and 8%, respectively. In addition to these risk-based measures, regulators also require banking institutions that meet certain qualitative criteria to maintain a minimum "leverage" ratio of "Tier 1 capital" to average total assets, adjusted for goodwill and certain other items, of at least 3% to be considered adequately capitalized. As of December 31, 1997, First Empire and each of its banking subsidiaries exceeded all applicable capital adequacy requirements.

As of December 31, 1997 and 1996, the most recent notifications from federal regulators categorized each of First Empire's banking subsidiaries as well capitalized under the regulatory framework for prompt corrective action. To be considered well capitalized, a banking institution must maintain Tier 1 risk-based capital, total risk-based capital and leverage ratios of at least 6%, 10% and 5%, respectively. Management is unaware of any conditions or events since the latest notifications from federal regulators that have changed the capital adequacy category of First Empire's banking subsidiaries.

19. REGULATORY MATTERS (CONTINUED)

The capital ratios and amounts of the Company and its banking subsidiaries as of December 31, 1997 and 1996 are presented below:

	FIRST EMPIRE (CONSOLIDATED)	M&T BANK(d)	M&T BANK,N.A.
	(DOLLARS IN THOUSANDS)		
As of December 31, 1997:			
TIER 1 CAPITAL			
Amount	$ 1,250,330	1,000,963	50,771
Ratio(a)	10.69%	8.81%	14.73%
Minimum required amount(b)	467,942	454,353	13,787
TOTAL CAPITAL			
Amount	1,558,147	1,304,528	55,084
Ratio(a)	13.32%	11.48%	15.98%
Minimum required amount(b)	935,884	908,705	27,574
LEVERAGE			
Amount	1,250,330	1,000,963	50,771
Ratio(c)	9.09%	7.63%	7.11%
Minimum required amount(b)	412,649	393,602	21,429
As of December 31, 1996:			
TIER 1 CAPITAL			
Amount	$ 889,221	822,319	33,754
Ratio(a)	8.40%	7.92%	15.23%
Minimum required amount(b)	423,594	415,244	8,864
TOTAL CAPITAL			
Amount	1,198,299	1,128,768	36,542
Ratio(a)	11.32%	10.87%	16.49%
Minimum required amount(b)	847,188	830,487	17,727
LEVERAGE			
Amount	889,221	822,319	33,754
Ratio(c)	6.99%	6.61%	6.59%
Minimum required amount(b)	381,394	373,224	15,370

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(a) The ratio of capital to risk-weighted assets, as defined by regulation.

(b) Minimum amount of capital to be considered adequately capitalized, as defined by regulation.

(c) The ratio of capital to average assets, as defined by regulation.

(d) M&T Bank's capital ratio information as of December 31, 1996 has been restated to include The East New York Savings Bank, which was merged with and into M&T Bank on May 24, 1997.

20. PARENT COMPANY FINANCIAL STATEMENTS

See other notes to financial statements.

CONDENSED BALANCE SHEET

	DECEMBER 31	
	1997	1996
	DOLLARS IN THOUSANDS	
ASSETS		
Cash		
In subsidiary bank	$ 1,015	434
Other	19	19
Total cash	1,034	453
Due from subsidiaries		
Money-market assets	172,237	18,056
Current income tax receivable	12,927	3,183
Total due from subsidiaries	185,164	21,239
Investments in subsidiaries		
Banks	1,071,258	870,423
Other	7,736	109
Other assets	34,887	13,683
Total assets	$ 1,300,079	905,907
LIABILITIES		
Accrued expenses and other liabilities	$ 12,080	248
Long-term borrowings	257,733	--
Total liabilities	269,813	248
STOCKHOLDERS' EQUITY	1,030,266	905,659
Total liabilities and stockholders' equity	$ 1,300,079	905,907

	YEAR ENDED DECEMBER 31		
	1997	1996	1995
	DOLLARS IN THOUSANDS, EXCEPT PER SHARE		
INCOME			
Dividends from bank subsidiaries	$ 192	116,038	88,358
Other income	8,558	933	812
Total income	8,750	116,971	89,170
EXPENSE			
Interest on short-term borrowings	--	242	556
Interest on long-term borrowings	16,762	--	--
Other expense	2,710	1,968	2,365
Total expense	19,472	2,210	2,921
Income (loss) before income taxes and equity in undistributed income of subsidiaries	(10,722)	114,761	86,249
Income tax credits	4,496	552	944
Income (loss) before equity in undistributed income of subsidiaries	(6,226)	115,313	87,193
EQUITY IN UNDISTRIBUTED INCOME OF SUBSIDIARIES			
Net income			
Bank subsidiaries	182,659	151,724	132,201
Other subsidiaries	--	104	--
Less: dividends received	(192)	(116,038)	(88,358)
Equity in undistributed income of subsidiaries	182,467	35,790	43,843
Net income	$ 176,241	151,103	131,036
Net income per common share			
Basic	$ 26.60	22.54	19.61
Diluted	25.26	21.08	17.98

20. PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)

CONDENSED STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31		
	1997	1996	1995
	DOLLARS IN THOUSANDS		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 176,241	151,103	131,036
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed income of subsidiaries	(182,467)	(35,790)	(43,843)
Dividend-in-kind from subsidiary	(83)	(1,538)	(11,858)
Provision for deferred income taxes	810	(153)	(221)
Net gain on sales of assets	--	--	(179)
Net change in accrued income and expense	(327)	530	7,616
Net cash provided (used) by operating activities	(5,826)	114,152	82,551
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in subsidiary	(19,734)	(7,000)	(20,248)
Other, net	(767)	(39)	871
Net cash used by investing activities	(20,501)	(7,039)	(19,377)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net decrease in short-term borrowings	--	--	(3,000)
Proceeds from issuance of junior subordinated debt to subsidiaries	257,733	--	--
Purchases of treasury stock	(67,771)	(80,810)	(37,374)
Dividends paid--common	(21,207)	(18,617)	(16,224)
Dividends paid--preferred	--	(900)	(3,600)
Other, net	12,334	4,329	2,968
Net cash provided (used) by financing activities	181,089	(95,998)	(57,230)
Net increase in cash and cash equivalents	$ 154,762	11,115	5,944
Cash and cash equivalents at beginning of year	18,509	7,394	1,450
Cash and cash equivalents at end of year	$ 173,271	18,509	7,394
Supplemental disclosure of cash flow information			
Interest received during the year	$ 4,743	686	279
Interest paid during the year	10,550	242	558
Income taxes received during the year	2,027	507	7,393

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE. NONE.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT. The term in office of the following director of the Registrant will end on May 19, 1998, and he is not a nominee for reelection to the Board of Directors at the 1998 Annual Meeting of Stockholders:

Raymond D. Stevens, Jr., age 71, has been a director of First Empire since 1970, and of M&T Bank since 1963. He retired as chairman and a director of Pratt & Lambert United, Inc. upon the consummation of its merger with The Sherwin-Williams Company on January 10, 1996. Mr. Stevens is a Director of M&T Bank.

The identification of the Registrant's directors is incorporated by reference to the caption "NOMINEES FOR DIRECTOR" contained in the Registrant's definitive Proxy Statement for its 1998 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or before April 10, 1998. The identification of the Registrant's executive officers is presented under the caption "Executive Officers of the Registrant" contained in Part I of this Annual Report on Form 10-K.

Disclosure of compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, by the Registrant's directors and executive officers, and persons who are the beneficial owners of more than 10% of the Registrant's common stock, is incorporated by reference to the caption "Section 16(a) Beneficial Ownership Reporting Compliance" contained in the Registrant's definitive Proxy Statement for its 1998 Annual Meeting of Stockholders which will be filed with the Securities and Exchange Commission on or before April 10, 1998.

ITEM 11. EXECUTIVE COMPENSATION. Incorporated by reference to the Registrant's definitive Proxy Statement for its 1998 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or before April 10, 1998.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT. Incorporated by reference to the Registrant's definitive Proxy Statement for its 1998 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or before April 10, 1998.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS. Incorporated by reference to the Registrant's definitive Proxy Statement for its 1998 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or before April 10, 1998.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) Financial statements and financial statement schedules filed as part of this Annual Report on Form 10-K. See Part II, Item 8. "Financial Statements and Supplementary Data."

Financial statement schedules are not required or are inapplicable, and therefore have been omitted.

(b) Reports on Form 8-K.

On November 7, 1997, the Registrant filed a Current Report on Form 8-K dated October 28, 1997, reporting on its October 28, 1997 public announcement that the Registrant would acquire ONBANCorp, Inc.

(c) Exhibits required by Item 601 of Regulation S-K.

The exhibits listed on the Exhibit Index on pages 99 through 101 of this Annual Report on Form 10-K have been previously filed, are filed herewith or are incorporated herein by reference to other filings.

(d) Additional financial statement schedules.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on the 5th day of March, 1998.

FIRST EMPIRE STATE CORPORATION

By: /s/ ROBERT G. WILMERS

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
Principal Executive Officer:		
/s/ ROBERT G. WILMERS ------------------------------ Robert G. Wilmers	Chairman of the Board, President and Chief Executive Officer	March 5, 1998
Principal Financial Officer:		
/s/ MICHAEL P. PINTO ------------------------------ Michael P. Pinto	Executive Vice President and Chief Financial Officer	March 5, 1998
Principal Accounting Officer:		
/s/ MICHAEL R. SPYCHALA ------------------------------ Michael R. Spychala	Administrative Vice President and Controller	March 5, 1998

A majority of the board of directors:

- --	
Brent D. Baird	
/s/ JOHN H. BENISCH	March 5, 1998
- --	
John H. Benisch	
/s/ C. ANGELA BONTEMPO	March 5, 1998
- --	
C. Angela Bontempo	
/s/ ROBERT T. BRADY	March 5, 1998
- --	
Robert T. Brady	
/s/ PATRICK J. CALLAN	March 5, 1998
- --	
Patrick J. Callan	
- --	
Richard E. Garman	
/s/ JAMES V. GLYNN	March 5, 1998
- --	
James V. Glynn	
- --	
Roy M. Goodman	
/s/ PATRICK W.E. HODGSON	March 5, 1998
- --	
Patrick W.E. Hodgson	
- --	
Samuel T. Hubbard, Jr.	
/s/ LAMBROS J. LAMBROS	March 5, 1998
- --	
Lambros J. Lambros	
/s/ WILFRED J. LARSON	March 5, 1998
- --	
Wilfred J. Larson	
/s/ JORGE G. PEREIRA	March 5, 1998
- --	
Jorge G. Pereira	
/s/ RAYMOND D. STEVENS, JR.	March 5, 1998
- --	
Raymond D. Stevens, Jr.	

- ---
Herbert L. Washington

/s/ JOHN L. WEHLE, JR.	March 5, 1998
John L. Wehle. Jr.	
/s/ ROBERT G. WILMERS	March 5, 1998
Robert G. Wilmers	

EXHIBIT INDEX

2.1 Agreement and Plan of Reorganization dated as of October 28, 1997, by and among First Empire State Corporation, Olympia Financial Corp. and ONBANCorp, Inc. Incorporated by reference to Exhibit No. 2 to the Form 8-K dated October 28, 1997 (File No. 1-9861).

2.2 Stock Option Agreement dated as of October 28, 1997 by and between First Empire State Corporation and ONBANCorp, Inc. Incorporated by reference to Exhibit No. 99.1 to the Form 8-K dated October 28, 1997 (File No. 1-9861).

2.3 Agreement and Plan of Merger dated as of October 28, 1997, by and among First Empire State Corporation, Olympia Financial Corp. and ONBANCorp, Inc. Incorporated by references to Exhibit No. 2 to the Form 8-K dated January 9, 1998 (File No. 1-9861).

3.1 Restated Certificate of Incorporation of First Empire State Corporation dated May 7, 1997. Incorporated by reference to Exhibit No. 3.1 to the Form 10-Q for the quarter ended March 31, 1997 (File No. 1-9861).

3.2 By-Laws of First Empire State Corporation as last amended on July 16, 1991. Incorporated by reference to Exhibit No. 3.2 to the Form 10-K for the year ended December 31, 1991 (File No. 1-9861).

4.1 Instruments defining the rights of security holders, including indentures. Incorporated by reference to Exhibit Nos. 3.1, 3.2, 10.1 and 10.2 hereof.

4.2 Amended and Restated Trust Agreement dated as of January 31, 1997 by and among First Empire State Corporation, Bankers Trust Company, Bankers Trust (Delaware), and the Administrators named therein. Incorporated by reference to Exhibit No. 4.1 to the Form 8-K dated January 31, 1997 (File No. 1-9861).

4.3 Junior Subordinated Indenture dated as of January 31, 1997 by and between First Empire State Corporation and Bankers Trust Company. Incorporated by reference to Exhibit No. 4.2 to the Form 8-K dated January 31, 1997 (File No. 1-9861).

4.4 Guarantee Agreement dated as of January 31, 1997 by and between First Empire State Corporation and Bankers Trust Company. Incorporated by reference to Exhibit No. 4.3 to Form 8-K dated January 31, 1997 (File No. 1-9861).

4.5 Amended and Restated Trust Agreement dated as of June 6, 1997 by and among First Empire State Corporation, Bankers Trust Company, Bankers Trust (Delaware), and the Administrators named therein. Incorporated by reference to Exhibit No. 4.1 to the Form 8-K dated June 6, 1997 (File No. 1-9861).

4.6 Junior Subordinated Indenture dated as of June 6, 1997 by and between First Empire State Corporation and Bankers Trust Company. Incorporated by reference to Exhibit No. 4.2 to the Form 8-K dated June 6, 1997 (File No. 1-9861).

4.7 Guarantee Agreement dated as of June 6, 1997 by and between First Empire State Corporation and Bankers Trust Company. Incorporated by reference to Exhibit No. 4.3 to Form 8-K dated June 6, 1997 (File No. 1-9861).

10.1 Revolving Credit Agreement, dated as of November 24, 1995, between First Empire State Corporation and The First National Bank of Boston. Incorporated by reference to Exhibit No. 10.1 to the Form 10-K for the year ended December 31, 1995 (File No. 1-9861).

10.2 First Empire State Corporation 1983 Stock Option Plan as amended and restated (File No. 1-9861). Filed herewith.

10.3 First Empire State Corporation Annual Executive Incentive Plan. Incorporated by reference to Exhibit No. 10.4 to the Form 10-K for the year ended December 31, 1992 (File No. 1 -9861).

Supplemental Deferred Compensation Agreements between Manufacturers and Traders Trust Company and:

10.4 Robert E. Sadler, Jr. dated as of March 7, 1985. Incorporated by reference to Exhibit Nos. (10)(d) (A) and (B), respectively, to the Form 10-K for the year ended December 31, 1984 (File No. 0-4561);

10.5 Brian E. Hickey dated as of July 21, 1994. Incorporated by reference to Exhibit No. 10.8 to the Form 10-K for the year ended December 31, 1995 (File No. 1-9861).

10.6 Supplemental Deferred Compensation Agreement, dated July 17, 1989, between The East New York Savings Bank and Atwood Collins, III. Incorporated by reference to Exhibit No. 10.11 to the Form 10-K for the year ended December 31, 1991 (File No. 1-9861).

10.7 First Empire State Corporation Supplemental Pension Plan. Incorporated by reference to Exhibit No. 10.12 to the Form 10-K for the year ended December 31, 1994 (File No. 1-9861).

10.8 First Empire State Corporation Supplemental Retirement Savings Plan. Incorporated by reference to Exhibit No. 10.13 to the Form 10-K for the year ended December 31, 1994 (File No. 1-9861).

10.9 First Empire State Corporation Deferred Bonus Plan, as amended and restated. Incorporated by reference to Exhibit 4.1 to the Form S-8 dated December 24, 1997 (File No. 333-43175).

10.10 First Empire State Corporation Directors' Stock Plan. Incorporated by reference to Exhibit 4.1 to the Form S-8 dated December 24, 1997 (File No. 333-43171).

11.1 Statement re: Computation of Earnings Per Common Share. Filed herewith.

21.1 Subsidiaries of the Registrant. Incorporated by reference to the caption "Subsidiaries" contained in Part I, Item 1 hereof.

23.1 Consent of Price Waterhouse re: Registration Statement Nos. 33-32044 and 333-16077. Filed herewith.

23.2 Consent of Price Waterhouse re: Registration Statements Nos. 33-12207, 33-58500, 33-63917, 333-43171 and 333-43175. Filed herewith.

27.1 Article 9 Financial Data Schedule for the year ended December 31, 1997. Filed herewith.

99.1 First Empire State Corporation Retirement Savings Plan and Trust Financial Statements and Additional Information for the years ended December 31, 1997 and 1996. Filed herewith.

Exhibit 10.2

FIRST EMPIRE STATE CORPORATION
1983 STOCK OPTION PLAN
(COMPOSITE COPY AS OF FEBRUARY 17, 1998)

1. Definitions

In this Plan, except where the context otherwise indicates, the following definitions apply:

(a) "Agreement" means the written agreement implementing a grant of an Option and/or Right.

(b) "Board" means the Board of Directors of the Company.

(c) "Code" means the Internal Revenue Code of 1986, as amended.

(d) "Committee" means the committee of the Board meeting the standards of Rule 16b-3(d)(1) and Treasury Regulations Section 1.162-27(c)(4), or any similar successor rules or regulations, appointed by the Board to administer this Plan. Unless otherwise determined by the Board, the Compensation Committee of the Board shall be the Committee.

(e) "Common Stock" means the authorized but unissued or reacquired Common Stock, par value $5.00 per share, of the Company.

(f) "Company" means First Empire State Corporation.

(g) "Date of Exercise" means the date on which the Company receives notice pursuant to Article 8 of the exercise of an Option or Right.

(h) "Date of Grant" means the date on which an Option or Right is granted by the action of the Committee or such later date as may be specified by the Committee in taking such action.

(i) "Director" means any person who is a director of the Company or any Subsidiary.

(j) "Employee" means any person determined by the Committee to be an employee of the Company or any Subsidiary.

(k) "Exchange Act" means the Securities and Exchange Act of 1934, as amended.

(l) "Fair Market Value" of a share of Common Stock means the amount equal to the closing price for a share of Common Stock on the American Stock Exchange as reported by such source as the Committee may select, or, if such price quotation for a share of Common Stock is not so reported, then the fair market value of such stock as determined by the Committee pursuant to a reasonable method adopted in good faith for such purpose, in each case subject to adjustment under Article 10.

(m) "Grant Price" means (i) in the case of a Right that is not a Related Right, the Fair Market Value per share on the Date of Grant of the Right, (ii) in the case of a Right that is a Related Right to a Nonstatutory Stock Option and not to another Right, either (A) the Option Price per share as provided in the Related Option or (B) the Fair Market Value per share on the Date of Grant of the Right, as designated by the Committee in the Agreement granting the Right, (iii) in the case of a Right that is a Related Right to an Incentive Stock Option, the Option Price per share as provided in the Related Option, (iv) in the case of a Right that is a Related Right to another Right and not to an Option, either (A) the Fair Market Value per share on the Date of Grant of the Right or (B) the Fair Market Value per share on the Date of Grant of its Related Right, as designated by the Committee in the Agreement granting the Right, or (v) in the case of a Right that is a Related Right both to a Nonstatutory Stock Option and to another Right, (A) the Option Price per share as provided in the Related Option, (B) the Fair Market Value per share on the Date of Grant of the Right, or (C) the Fair Market Value per share on the Date of Grant of its Related Right, as designated by the Committee in the Agreement granting the Right.

(n) "Incentive Stock Option" means an Option granted under the Plan that qualifies as an incentive stock option under section 422 of the Code and that the Company designates as such in the Agreement granting the Option.

(o) "Key Employee" means (i) an Employee who is an officer of the Company or a Subsidiary, or who is determined by the Committee to be in a managerial, professional, or other key position of the Company or a Subsidiary, or (ii) a former trustee or officer of The East New York Savings Bank who, upon closing of the acquisition by the Company of The East New York Savings Bank, was granted nonstatutory stock options under the Plan pursuant to the terms of Section 5(i) of the Merger Agreement by and between First Empire State Corporation, The East New York Savings Bank and the incorporators of West Interim Savings Bank.

(p) "Limited Right" means a limited stock appreciation right granted under the Plan.

(q) "Limited Right Period" means the period during which a Limited Right may be exercised as provided in Paragraph 7(h) hereof.

(r) "Nonlimited Right" means a nonlimited stock appreciation right granted under the Plan.

(s) "Nonlimited Right Period" means the period during which a Nonlimited Right may be exercised as provided in Paragraph 7(g) hereof.

(t) "Nonstatutory Stock Option" means an Option granted under the Plan which is not an Incentive Stock Option.

(u) "Offer" means any tender offer or exchange offer for the Company's Common Stock made by an Offeror which might, if consummated pursuant to its terms or pursuant to any power reserved in its terms, cause the Offeror to become the beneficial owner of twenty percent or more of the outstanding Common Stock. As used in this definition, "beneficial owner" shall have the meaning ascribed to it from time to time under the rules and regulations promulgated by the SEC under Section 13(d) of the Exchange Act, or in the event of the repeal or alteration of such section, such meaning as may from time to time be ascribed to "beneficial owner" under the rules and regulations promulgated by the SEC under any similar federal law.

(v) "Offer Price per Share" with respect to the exercise of a Limited Right means the greater of (i) the highest price per share of Common Stock paid in any Offer which Offer is in effect at any time during the period beginning on the ninetieth day prior to the Date of Exercise of such Limited Right and ending on the Date of Exercise of such Limited Right or (ii) the highest Fair Market Value per share of Common Stock during such period. Any securities or property that is part or all of the consideration paid for shares in the Offer shall be valued in determining the Offer Price per Share at the higher of (A) the valuation placed on such securities or property by the corporation, person or other entity making such Offer or (B) the valuation placed on such securities or property by the Committee.

(w) "Offeror" means any person, other than the Company or any of its Subsidiaries, who makes an Offer. As used in this definition, "person" shall include any natural person, corporation, partnership, trust, association, business entity, or any group of persons, whose ownership of Common Stock would be required to be reported collectively pursuant to Section 13(d) of the Exchange Act and the rules and regulations promulgated by the SEC thereunder, as from time to time in effect, or in the event of the repeal or alteration of such section, such reporting requirements as may from time to time be prescribed by any similar federal law.

(x) "Option" means an Incentive Stock Option or Nonstatutory Stock Option granted under the Plan.

(y) "Option Period" means the period during which an Option may be exercised.

(z) "Option Price" means the price per share at which an Option may be exercised. The Option Price shall be determined by the Committee, but in no event shall the Option Price be less than the greater of the Fair Market Value of the Common Stock determined as of the Date of Grant or the par value of the Common Stock, except that in connection with grants of Options to those Key Employees who were granted Options upon the closing of the Company's acquisition of The East New York Savings Bank as described in Section 1(o)(ii) hereof, the Option Price of Options granted upon closing of the acquisition may not be less than the price at which Common Stock was sold to the public pursuant to the underwritten offering in connection with the

Company's acquisition of The East New York Savings Bank.

(aa) "Optionee" means a Key Employee to whom an Option or Right has been granted.

(bb) "Plan" means the First Empire State Corporation 1983 Stock Option Plan, as amended.

(cc) "Related Option" means an Option in connection with which, or by amendment to which, a specified Right is granted.

(dd) "Related Right" means a Right granted in connection with, or by amendment to, a specified Option or other Right.

(ee) "Right" means a Limited Right or Nonlimited Right granted under the Plan.

(ff) "Rule 16b-3" means Rule 16b-3 of the rules and regulations as promulgated and amended from time to time by the SEC under Section 16(b) of the Exchange Act.

(gg) "SEC" means the Securities and Exchange Commission.

(hh) "Subsidiary" means a corporation at least fifty percent of the total combined voting power of all classes of stock of which is owned by the Company, either directly or through one or more other Subsidiaries.

2. Purpose

This Plan is intended to aid in maintaining and developing strong management through encouraging the ownership of Common Stock by Key Employees and through stimulating their efforts by giving suitable recognition, in addition to their other remuneration, to the ability and industry which contribute materially to the success of the Company's business interests, and to provide an incentive to the continued service of such Key Employees.

3. Administration

This Plan shall be administered by the Committee. In addition to any other powers granted to the Committee, it shall have the following powers, subject to the express provisions of the Plan:

(a) subject to the provisions of Articles 4, 6 and 7, to determine in its discretion the Key Employees to whom Options or Rights shall be granted under the Plan, the number of shares to be subject to each Option or Right, and the terms upon which, the times at which, and the periods within which such Options or Rights may be acquired and exercised;

(b) to determine all other terms and provisions of each Agreement, which need not be identical;

(c) without limiting the foregoing, to provide in its discretion in an Agreement:

(i) for an agreement by the Optionee to render services to the Company or a Subsidiary upon such terms and conditions as may be specified in the Agreement, provided that the Committee shall not have the power to commit the Company or any Subsidiary to employ or otherwise retain any Optionee;

(ii) for restrictions on the transfer, sale or other disposition of the Common Stock issued to the Optionee upon the exercise of an Option or Right;

(iii) for an agreement by the Optionee to resell to the Company, under specified conditions, stock issued upon the exercise of an Option or Right; and

(iv) for the form of payment of the Option Price upon the exercise of an Option, including without limitation in cash, by delivery (including constructive delivery) of shares of Common Stock valued at Fair Market Value on the Date of Exercise of the Option, or by a combination of cash and Common Stock;

(d) to construe and interpret the Agreements and the Plan;

(e) to require, whether or not provided for in the pertinent Agreement, of any person exercising an Option or Right granted under the Plan, at the time of such exercise, the making of any representations or agreements which the Committee may deem necessary or advisable in order to comply with the securities laws of the United States or of any state;

(f) to provide for satisfaction of an Optionee's tax liabilities arising in connection with the Plan through, without limitation, retention by the Company of shares of Common Stock otherwise issuable on the exercise of a Nonstatutory Stock Option or Nonlimited Right or through delivery of shares of Common Stock to the Company by the Optionee under such terms and conditions as the Committee deems appropriate; and

(g) to make all other determinations and take all other actions necessary or advisable for the administration of the Plan.

Any determinations or actions made or taken by the Committee pursuant to this Article shall be binding and final.

4. Eligibility

Options and Rights may be granted only to Key Employees, provided, however, that the members of the Committee are not eligible to receive Options or Rights under the Plan. A Key Employee who has been granted an Option or Right may be granted additional Options and Rights.

5. Stock Subject to the Plan

(a) There is hereby reserved for issuance upon the exercise of Options and Rights granted under this Plan an aggregate of 2,500,000 shares of Common Stock, subject to the provisions of Article 10; provided, however, that no Key Employee shall be granted in any fiscal year of the Company Options and Rights (including Rights that may be exercised only for cash) for more than 50,000 shares, provided that a newly-hired Key Employee who will serve as an executive officer of the Company may receive an additional one-time grant of Options and/or Rights covering up to 50,000 shares of the Common Stock upon commencement of employment with the Company, and provided further that such limits shall be subject to such adjustment, if any, as the Committee deems appropriate to reflect such events as stock dividends, stock splits, recapitalizations, mergers, consolidations or reorganizations of or by the Company; and

(b) Shares of Common Stock available under this Plan shall be reduced by the sum of the aggregate number of shares of Common Stock which become subject to outstanding Options and Rights. To the extent that shares of Common Stock are not issued or delivered by reason of the settlement in cash (if permitted in the applicable Agreement, expiration, termination, cancellation or forfeiture of such Options or Rights, or by reason of the delivery or withholding of shares of Common Stock to pay all or a portion of the exercise price of an award, if any, or to satisfy all or a portion of the tax withholding obligations relating to an award, then such shares of Common Stock shall again be available under the Plan. The Committee is authorized to modify or amend this Section 5(b) in such manner as the Committee deems appropriate for the administration of the Plan.

6. Options

(a) Pursuant to the terms of the Plan, the Committee is hereby authorized to grant Nonstatutory Stock Options and Incentive Stock Options to Key Employees.

(b) All Agreements granting Options shall contain a statement that the Option is intended to be either (i) a Nonstatutory Stock Option or (ii) an Incentive Stock Option.

(c) The Option Period shall be determined by the Committee and specifically set forth in the Agreement, provided, however, that an Option shall not be exercisable after ten years from the Date of Grant in the case of an Incentive Stock Option and after ten years and one day from the Date of Grant in the case of a Nonstatutory Stock Option.

(d) The aggregate Fair Market Value (determined as of the date an Incentive Stock Option is granted) of the Common Stock with respect to which all Incentive Stock Options granted to any one person at any time (under all stock option plans of the person's employer corporation and its "parent" and "subsidiary" corporations) may first become exercisable in any calendar year shall not exceed $100,000. For purposes of this Paragraph (d), the terms "parent" and "subsidiary" corporations shall have the respective meanings given to them in section 424 of the Code.

(e) All Incentive Stock Options granted under the Plan shall comply with the provisions of the Code governing incentive stock options and with all other applicable rules and regulations.

(f) All other terms of Options granted under this Plan shall be determined by the Committee in its sole discretion.

7. Rights

(a) Pursuant to the terms of the Plan, the Committee is hereby authorized to grant Rights.

(b) A Nonlimited Right may be granted under the Plan as follows:

(i) in connection with, and at the same time as, the grant of an Option or a Limited Right under the Plan;

(ii) by amendment of an outstanding Nonstatutory Stock Option or Limited Right granted under the Plan; or

(iii) independently of any Option or Limited Right granted under the Plan.

(c) A Limited Right may be granted under the Plan as follows:

(i) in connection with, and at the same time as, the grant of an Option or a Nonlimited Right under the Plan;

(ii) by amendment of an outstanding Nonstatutory Stock Option or nonlimited Right granted under the Plan; or

(iii) independently of any Option or Nonlimited Right granted under the Plan.

(d) A Related Right may apply, in the Committee's discretion, to all or a portion of the Common Stock subject to its Related Right or Related Option.

(e) A Nonlimited Right granted under the Plan may be exercised in whole or in part as provided in the Agreement and, subject to the provisions of the Agreement and Paragraph (l) of this Article, entitles its Optionee to receive, without any payment to the Company, either cash or that number of shares of Common Stock (up to the highest whole number of shares), or a combination thereof, in the amount of or having a Fair Market Value determined as of the Date of Exercise equal to the number of shares of Common Stock subject to the portion of the Nonlimited Right exercised multiplied by an amount equal to the excess of (i) the Fair Market Value per share on the Date of Exercise of the Nonlimited Right over (ii) the Grant Price of the Nonlimited Right.

(f) A Limited Right granted under the Plan may be exercised in whole or in part as provided in the Agreement and entitles its Optionee to receive, without any payment to the Company, cash in an amount equal to the number of shares of Common Stock subject to the portion of the Limited Right exercised multiplied by an amount equal to the excess of (i) in the case of a Limited Right that is not a Related Right to an Incentive Stock Option, (A) the Offer Price per Share over (B) the Grant Price of the Limited Right or (ii) in the case of a Limited Right that is a Related Right to an Incentive Stock Option, (A) the Fair Market Value per share on the Date of Exercise of such Limited Right over (B) the Grant Price of the Limited Right.

(g) Subject to the provisions of Paragraph (i) of this Article, the Nonlimited Right Period shall be determined by the Committee and set forth in the Agreement.

(h) Subject to the provisions of Paragraph (i) of this Article, the Limited Right Period shall be the period beginning on the first day following the date of the first purchase of shares of Common Stock pursuant to any Offer and ending on the date ninety days thereafter.

(i) Notwithstanding any other provision of this Plan or any provision of any Agreement, the following rules shall apply:

(i) a Right will expire no later than the earlier of (A) ten years from the Date of Grant or (B) in the case of a Related Right, the expiration of its Related Right or Related Option;

(ii) a Right may be exercised only when the Fair Market Value of a share of Common Stock on the Date of Exercise exceeds the Grant Price of the Right;

(iii) a Right that is a Related Right to an Incentive Stock Option may be exercised only when and to the extent the Related Option is exercisable; and

(iv) a Limited Right that is a Related Right to a Nonstatutory Stock Option or to a Nonlimited Right may be exercised with respect to all or any portion of the shares subject to the Limited Right whether or not its Related Right or Related Option is then exercisable to that extent.

(j) The Company intends that this Article shall comply with the requirements of Rule 16b-3 during the term of this Plan. Should any provision of this Article not be necessary to comply with the requirements of Rule 16b-3 or should any additional provisions be necessary for this Article to comply with the requirements of Rule 16b-3, the Board or the Committee may amend this Plan to delete, add to or modify the provisions of the Plan accordingly. The Company's failure for any reason whatsoever to comply with any requirements of Rule 16b-3, and any resultant unavailability of Rule 16b-3 to Optionees shall not impose any liability on the Company to any Optionee or to any other party.

(k) The exercise, in whole or in part, of a Related Right shall cause a reduction in the number of shares of Common Stock subject to its Related Right or Related Option equal to the number of shares of Common Stock with respect to which the Right being exercised is exercised. Similarly, the exercise, in whole or in part, of a Related Option shall cause a reduction in the number of shares subject to the Related Right equal to the number of shares with respect to which the Related Option is exercised.

(l) Subject to the limitations of the Agreement and this Paragraph (l), an Optionee may (A) elect to receive cash upon exercise of a Right and exercise such Right or (B) exercise a Right exercisable only for cash, and upon such election and exercise or such exercise, the Company shall settle its obligations arising out of the exercise of the Right by the payment of cash in the amount set forth in Paragraph (e) of this Article if the Right is a Nonlimited Right, or in the amount set forth in Paragraph (f) of this Article if the Right is a Limited Right; provided, however, that the Committee shall have the sole discretion to consent to or to disapprove the election of any Optionee to receive cash in full or partial settlement of a Right.

Any election by an Optionee for settlement in cash must be made in the notice of exercise of the Right. In cases where an election of settlement in cash must be consented to by the Committee, the Committee may consent to, or disapprove, such election at any time after such election, or within such period for taking such action as is specified in the notice of exercise and election, and failure to give such consent shall be disapproval. Such consent may be given in whole or as to a portion of the Right surrendered by the Optionee. If such election to receive cash is disapproved in whole or in part, the Right shall be deemed to have been exercised for stock, or, if so specified in the notice of exercise and election, not to have been exercised, to the extent such election to receive cash is disapproved.

8. Exercise

An Option or Right may be exercised, subject to the provisions of the Agreement under which it was granted, in whole or in part by the delivery to the Company of written notice of the exercise, in such form as the Committee may prescribe, accompanied, in the case of an Option, by either (a) full payment for the Common Stock with respect to which the Option is exercised; (b) delivery of shares of Common Stock (including constructive delivery) having a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said option shall be exercised; or (c) a properly executed exercise notice and irrevocable instructions to a broker promptly to deliver to the Company cash equal to the exercise price.

9. Nontransferability

Except as otherwise provided in an Agreement, Options and Rights granted under the Plan shall not be transferable otherwise than by will or the laws of descent and distribution, and an Option or Right may be exercised, during the Optionee's lifetime, only by the Optionee or, in the event of the Optionee's legal disability, by the Optionee's legal representative. A Related Right is transferable only when its Related Right or Related Option is transferable and only with its Related Right or Related Option and under the same conditions.

10. Capital Adjustments

The number, class and Fair Market Value of shares subject to each outstanding Option or Right, the Option Price and the aggregate number and class of shares for which grants thereafter may be made shall be subject to such adjustment, if any, as the Committee in its sole discretion deems appropriate to reflect such events as stock dividends, stock splits, recapitalizations, mergers, consolidations or reorganizations of or by the Company.

11. Termination or Amendment

The Board shall have the power to terminate the Plan and to amend it in any respect, provided that after the Plan has been approved by the stockholders of the Company, the Board may not amend the Plan, without the approval of the stockholders of the Company, if such amendment would be required to be approved by the stockholders of the Company under the laws of the State of New York, in order for the Plan to continue to satisfy the conditions of Rule 16b-3, in order for Incentive Stock Options to qualify as such under section 422 of the Code, or under the rules of any securities exchange on which shares of Common Stock are listed. No termination or amendment of the Plan shall affect adversely the rights or obligations of the holder of any Option or Right granted under the Plan without the holder's consent.

12. Modification, Extension and Renewal of Options and Rights

Subject to the terms and conditions and within the limitations of the Plan, the Committee may modify, extend or renew outstanding Options and Rights granted under the Plan; or may accept the surrender of outstanding Options and Rights (to the extent not exercised theretofore) granted under the Plan, or outstanding options and rights (to the extent not exercised theretofore) granted under any other stock option, stock purchase, stock appreciation rights, or other stock-related plan of the Company or of a company which has been merged or consolidated with the Company or a Subsidiary or which has become a Subsidiary through the acquisition by the Company or by a Subsidiary of stock or assets of the company, and authorize the granting of new Options and Rights pursuant to the Plan in substitution therefor (to the extent not exercised theretofore), and the substituted Options and Rights may specify terms different than the surrendered options and rights or have any other provisions which are authorized by the Plan; or may assume options and rights granted by such other company, and such options and rights shall not reduce the number of shares of Common Stock available for the grant of Options and Rights under this Plan, except to the extent that such options and rights are granted under this Plan pursuant to a provision of a plan or agreement of merger of such other company with the Company, and to the extent that such options and rights, if granted under this Plan, would reduce the number of shares of Common Stock available pursuant to the provisions of Article 5. The Company may grant options and rights otherwise than under the provisions of this Plan and may adopt other stock option plans or stock purchase, stock appreciation rights, or other stock-related plans, and such options and rights and the options, rights, and stock granted or issued under such plans shall not reduce the number of shares of Common Stock available for the grant of Options and Rights under this Plan. Neither the adoption or amendment of this Plan nor the submission of the Plan or amendments for stockholder approval shall be deemed to impose any limitation on the powers of the Company to grant or assume options or rights otherwise than under this Plan or to adopt other stock option plans or stock purchase, stock appreciation rights, or other stock-related plans, nor shall they be deemed to impose any requirement of stockholder approval upon the same. Notwithstanding the foregoing, however, no modification of an Option or Right granted under the Plan shall alter or impair the rights or obligations of the holder of such Option or Right without the consent of the holder.

13. Effectiveness of the Plan

The Plan and any amendments which require stockholder approval pursuant to Article 11 are subject to approval by vote of the stockholders of the Company within twelve months after their adoption by the Board. Subject to such approval, the Plan and any amendments are effective on the date on which they are adopted by the Board. Options and Rights may be granted prior to stockholder approval of the Plan or amendments, but each such Option or Right granted shall be subject to the approval, if required, of the Plan or amendments by the stockholders. Except as otherwise required to satisfy the requirements of Rule 16b-3, the day on which any Option or Right granted prior to required stockholder approval of the Plan or amendments is granted shall be the Date of Grant for all purposes as if the Option or Right had not been subject to such approval. No Option or Right granted may be exercised prior to such required stockholder approval.

14. Term of the Plan

Unless sooner terminated by the Board pursuant to Article 11, the Plan shall terminate ten years from the date on which the Board approves the most recent amendment to the Plan that changes either the aggregate number of shares of Common Stock that may be issued under the Plan or the class of persons eligible to receive Options or Rights under the Plan, and which amendment subsequently is approved by the stockholders of the Company. No Options or Rights may be granted after termination. Termination of the Plan shall not affect the validity of any Option or Right outstanding on the date of termination.

15. Indemnification of Committee

In addition to such other rights of indemnification as they may have as Directors or as members of the Committee, the members of the Committee shall be indemnified by the Company against the reasonable expenses, including attorneys' fees, actually and reasonably incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any Option or Right granted hereunder, and against all amounts reasonably paid by them in settlement thereof or paid by them in satisfaction of a judgment in any such action, suit or proceeding, if such members acted in good faith and in a manner which they believed to be in, and not opposed to, the best interests of the Company.

16. General Provisions

(a) The establishment of the Plan shall not confer upon any Employee or Key Employee any legal or equitable right against the Company, any Subsidiary or the Committee except as expressly provided in the Plan.

(b) The Plan does not constitute inducement or consideration for the employment of any Employee, nor is it a contract between the Company or any Subsidiary and any Employee or Key Employee. Participation in the Plan shall not give any Employee or Key Employee any right to be retained in the service or employ of the Company or any Subsidiary. The Company and its Subsidiaries retain the right to hire and discharge any Employee at any time, with or without cause, as if the Plan never had been adopted.

(c) The interests of any Optionee under the Plan are not subject to the claims of creditors and may not be assigned, alienated or encumbered in any way.

(d) The Plan shall be governed, construed and administered in accordance with the laws of the State of New York and the intention of the Company that Incentive Stock Options granted under the Plan qualify as such under section 422 of the Code.

Exhibit 11.1

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

COMPUTATION OF EARNINGS PER COMMON SHARE

Amounts in thousands, except per share	1997	1996	1995
	Year ended December 31		
Basic			
Average common shares outstanding	6,625	6,663	6,499
Basic common shares outstanding	6,625	6,663	6,499
Net income	$176,241	151,103	131,036
Less: Preferred stock dividends	--	900	3,600
Net income available to common shareholders	176,241	150,203	127,436
Earnings per common share - Basic	$ 26.60	$ 22.54	$ 19.61
Diluted			
Average common shares outstanding	6,625	6,663	6,499
Common stock equivalents*	352	385	282
Assumed conversion of convertible preferred stock	--	122	507
Diluted average common shares outstanding	6,977	7,170	7,288
Net income	$176,241	151,103	131,036
Earnings per common share - Diluted	$ 25.26	21.08	17.98

* Represents shares issuable upon the assumed exercise of outstanding common stock options under the "treasury stock" method of accounting.

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-32044 and 333-16077) of First Empire State Corporation of our report dated January 9, 1998, appearing on page 55 of this Form 10-K. We also consent to the incorporation by reference of our report dated March 10, 1998 appearing on page 3 of First Empire State Corporation Retirement Savings Plan and Trust Financial Statements and Additional Information for the years ended December 31, 1997 and 1996 filed herewith as Exhibit 99.1 of this Annual Report on Form 10-K. We consent to the reference to us under the heading "Experts" in such Registration Statements.

/s/ PRICE WATERHOUSE LLP

Buffalo, New York
March 16, 1998

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-12207, 33-58500, 33-63917, 333-43171 and 333-43175) of First Empire State Corporation of our report dated January 9, 1998 appearing on page 55 of this Form 10-K. We also consent to the reference to us under the heading "Experts" in Registration Statements (Nos. 33-12207, 33-58500, 333-43171 and 333-43175).

/s/ PRICE WATERHOUSE LLP

Buffalo, New York
March 16, 1998

12-MOS
DEC-31-1997
DEC-31-1997
333,805
668
53,087
57,291
1,583,273
141,945
142,456
11,765,533
274,656
14,002,935
11,163,158
1,097,324
284,368
427,819
0
0
40,487
989,779
14,002,935
952,436
105,280
7,245
1,064,961
434,133
508,093
556,868
46,000
(280)
421,776
282,159
176,241
0
0
176,241
26.60
25.26
4.38
38,588
30,402
11,660
0
270,466
59,329
17,519
274,656
170,927
0
103,729

Exhibit 99.1

FIRST EMPIRE STATE CORPORATION
RETIREMENT SAVINGS PLAN AND TRUST

FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION
December 31, 1997 and 1996

INDEX

REPORT OF INDEPENDENT ACCOUNTANTS

To the Participants and Administrative Committee of
the First Empire State Corporation
Retirement Savings Plan and Trust

We have audited the accompanying statement of net assets available for plan benefits of the First Empire State Corporation Retirement Savings Plan and Trust (the Plan) as of December 31, 1997 and 1996 and the related statement of changes in net assets available for plan benefits for the years then ended. These financial statements are the responsibility of the Plan's Administrative Committee. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to in the first paragraph of this report present fairly, in all material respects, the net assets available for plan benefits of the First Empire State Corporation Retirement Savings Plan and Trust at December 31, 1997 and 1996, and the changes in its net assets available for plan benefits for the years then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information included in Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic financial statements but is additional information required by ERISA. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ PRICE WATERHOUSE LLP

BUFFALO, NEW YORK
March 10, 1998

FIRST EMPIRE STATE CORPORATION RETIREMENT SAVINGS PLAN AND TRUST

STATEMENT OF NET ASSETS AVAILABLE FOR PLAN BENEFITS

	DECEMBER 31 1997	DECEMBER 31 1996
Assets		
Cash	$ 229,356	5,914,067
Investments, at current value:		
Short-term investments (cost: $180,378 in 1997 and $27,300,067 in 1996)	180,378	27,300,067
Common stock (cost: $32,526,509 in 1997 and $27,304,900 in 1996)	105,777,270	62,420,544
Mutual fund investments:		
Money market fund (cost: $9,381,619 in 1997 and $10,190,613 in 1996)	9,381,619	10,190,613
Capital appreciation equity fund (cost: $7,447,974 in 1997)	8,130,948	--
Growth & income equity fund (cost: $30,329,520 in 1997)	30,744,915	--
U.S. Government securities fund (cost: $5,412,869 in 1997)	5,546,110	--
International stock fund (cost: $2,638,388 in 1997)	2,531,197	--
Loans to participants (cost: $3,938,409 in 1997 and $3,103,865 in 1996)	3,938,409	3,103,865
Total investments	166,230,846	103,015,089
Receivables:		
Due from broker	67,400	758,309
Employee contributions	276,501	227,730
Employer contributions	156,473	129,898
Interest and dividends	--	31,363
Total receivables	500,374	1,147,300
Total assets	166,960,576	110,076,456
Liabilities		
Due to broker	314,800	--
Net assets available for plan benefits	$166,645,776	110,076,456

See accompanying notes to financial statements.

FIRST EMPIRE STATE CORPORATION RETIREMENT SAVINGS PLAN AND TRUST
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS

	YEAR ENDED DECEMBER 31	
	1997	1996
Additions to net assets available for plan benefits		
Net investment income:		
Interest	$ 816,306	1,276,752
Dividends	7,313,262	937,337
Net realized gain on sale of investments	491,325	3,720,698
Net appreciation in current value of investments	39,916,110	14,335,054
Total net investment income	48,537,003	20,269,841
Contributions:		
Employee	10,102,904	9,935,774
Employer	5,220,624	4,723,965
Total contributions	15,323,528	14,659,739
	63,860,531	34,929,580
Deductions from net assets available for plan benefits		
Benefit payments to participants	(7,291,211)	(5,745,436)
Net increase in net assets available for plan benefits	56,569,320	29,184,144
Net assets available for plan benefits at beginning of year	110,076,456	80,892,312
Net assets available for plan benefits at end of year	$ 166,645,776	110,076,456

See accompanying notes to financial statements.

1. DESCRIPTION OF PLAN

GENERAL

The following description of the First Empire State Corporation Retirement Savings Plan and Trust ("the Plan") is provided for general information purposes and is qualified in its entirety by reference to the Plan. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

ELIGIBILITY AND PARTICIPATION

The Plan is a defined contribution plan and exists for the benefit of permanent employees of First Empire State Corporation and its subsidiaries ("the Company"). Persons who are at least 21 years of age and have completed 12 months of continuous service are eligible to participate in the Plan. Effective January 1, 1997, eligible employees could elect to participate in the Plan as of the first day of the month subsequent to the month in which the employees become eligible. Prior thereto eligible employees could elect to participate in the Plan effective the first day of any January, April, July or October subsequent to meeting the eligibility criteria.

ADMINISTRATION

The Plan is administered by a committee ("Administrative Committee") which is appointed by the Board of Directors of Manufacturers and Traders Trust Company ("M&T Bank"), a wholly owned subsidiary of First Empire State Corporation ("First Empire"). The assets of the Plan are held by M&T Bank, as Trustee. Watson Wyatt & Company, an actuarial and consulting firm, provides recordkeeping services on an individual participant basis to the Plan.

The Board of Directors of M&T Bank has the right to terminate, amend or modify the Plan at any time subject to the Plan provisions. Upon Plan termination, participants would receive the assets allocated to their accounts.

CONTRIBUTIONS

Contributions to the Plan are made by participants through salary reduction and by the Company through employer matching contributions. Participants may elect to reduce their compensation by a specified whole percentage not to exceed 10%, subject to certain limitations under Section 401(k) and Section 415 of the Internal Revenue Code. The Company remits to the Plan on behalf of each participant the amount by which the participant's compensation is reduced. In addition, the Company makes an employer matching contribution in an amount equal to 75% of the participant's contribution. Such matching contribution is limited to 4.5% of the participant's compensation. Compensation is generally defined in the Plan to mean a participant's base salary and 75% of participants' sales commissions, for those participants paid primarily by commissions, for the calendar year, but excluding any other form of additional compensation. Generally, total annual employee contributions may not exceed the lesser of 25% of compensation, as defined in the Internal Revenue Code, or $30,000, adjusted for inflation. An individual participant's pre-tax contribution was limited to $9,500 in 1997 and 1996. Contributions above this limit were treated as post-tax contributions.

Participants' accounts, including all salary reduction contributions, employer matching contributions and increments thereon are at all times fully vested and nonforfeitable.

1. DESCRIPTION OF PLAN (CONTINUED)

INVESTMENT PROGRAMS

Effective January 1, 1997, participants could invest their salary reduction contributions in 5% increments in any of six investment options:

First Empire stock fund--funds are invested in the common stock of First Empire.

Money-market fund--funds are invested in shares of a mutual fund that invests mainly in short-term fixed income securities.

Capital appreciation equity fund--funds are invested in shares of a mutual fund that invests mainly in common stocks issued by mid-size companies, with the primary objective of maximizing long-term capital appreciation.

Growth and income equity fund--funds are invested in shares of a mutual fund that invests primarily in common stocks of mid-size companies, which seeks long-term growth of capital and income.

U.S. Government securities fund--funds are invested in shares of a mutual fund that invests largely in securities issued by the U.S. Government or its agencies.

International stock fund--funds are invested in shares of a mutual fund that invests in common stock of international companies.

Prior to January 1, 1997, fund allocations were required to be made in 25% increments. A separate account is maintained for each participant's interest in each fund. There were 3,803 participants in the First Empire stock fund, 1,335 in the money-market fund, 1,658 in the capital appreciation equity fund, 3,211 in the growth and income equity fund, 1,199 in the U.S. Government securities fund, and 1,139 in the international stock fund at December 31, 1997. A total of 4,317 employees of the Company were active participants in the Plan at December 31, 1997. The allocation of net assets available for Plan benefits to investment programs and allocation of changes in net assets available for Plan benefits to investment programs are set forth in Exhibit I and II, respectively.

Effective January 1, 1997, participants could, in accordance with the rules of the Plan, transfer existing balances among the available investment funds, reduce or increase the percentage of salary reduction elected and/or redirect their current salary reduction contributions into different funds effective the first day of any month. Prior thereto, election changes were effective the first day of January, April, July and October. Contributions may be suspended at any time.

EMPLOYER MATCHING CONTRIBUTIONS

Employer matching contributions have been invested in the above funds in the same proportion as elected by the participants.

DESCRIPTION OF PLAN (CONTINUED)

LOANS TO PARTICIPANTS

Upon written application to the Administrative Committee, participants may borrow from their account an amount not to exceed the lesser of (1) 50% of the participant's vested account balance as of the most recent valuation date or (2) $50,000 reduced by the participant's highest outstanding loan balance in the twelve months prior to the date of loan origination. The minimum loan amount is $1,000. Loans bear interest at one percentage point above prime as designated by M&T Bank and are repaid in equal installments through after-tax payroll deductions for a period of up to five years.

WITHDRAWALS AND DISTRIBUTIONS

A participant undergoing financial hardship may make withdrawals from the Plan while employed by the Company, subject to Plan limitations. Upon termination of employment for any reason, participants are entitled to a distribution of the full amount of individual account balances as of the revaluation date immediately following such termination of service.

Unless the participant elects otherwise, distribution of the full amount of the participant's account balance will be made no later than 60 days after the close of the calendar year in which the last of the following occurs: (a) the participant attains age 65, (b) the tenth anniversary of the year in which participation began, or (c) the participant terminates service with the Company. The participant may elect to defer distribution of either the minimum required under Internal Revenue Code Section 401 (a)(9) or the entire balance, until no later than April 1 of the calendar year following the year in which age 70-1/2 is attained or until the participant's termination of employment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The accounts of the plan are maintained on the accrual basis. Certain prior year balances have been reclassified to conform with the current year presentation.

INVESTMENTS

Investments are reported on a current value basis. Investments of the First Empire stock fund, money-market fund, capital appreciation equity fund, growth and income equity fund, U.S. Government securities fund and the international stock fund are traded on national securities exchanges and are valued using the last reported sales price prior to the close of the Plan year. Investments representing 5% or more of net assets available for plan benefits consisted of the common stock of First Empire, the Vision Group of Funds, Inc. Growth and Income Fund and the Vision Group of Funds, Inc. Money Market Fund at December 31, 1997 and the common stock of First Empire and the Vision Group of Funds, Inc. Money Market Fund at December 31, 1996. Loans to participants are valued by the Administrative Committee as no active market exists for such loans. The current value of loans, which are fully secured by a portion of the participant's vested benefits, approximates the outstanding principal balance of the loans at both December 31, 1997 and 1996.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS (CONTINUED)

Investment income of the First Empire stock fund, money-market fund, capital appreciation equity fund, growth and income equity fund, U.S. Government securities fund and the international stock fund is allocated to participants based on their proportionate share of the net assets of the respective investment fund. Interest income on loans to participants is allocated to participants based on their respective loan agreement.

BENEFIT PAYMENTS TO PARTICIPANTS

Benefit payments to participants are recorded when paid.

Net assets available for plan benefits and benefit payments to participants reported on Internal Revenue Service Form 5500 differ from the amounts included in the financial statements by amounts payable to participants who have elected to make withdrawals from the Plan. Such amounts were $605,290 and $845,546 at December 31, 1997 and 1996, respectively.

ADMINISTRATIVE EXPENSES

Expenses related to administration of the Plan are paid by the Company. Brokerage commissions, transfer taxes and similar costs of acquiring or selling securities are paid by the Plan. The Plan incurred brokerage commissions in 1997 and 1996 totaling $1,659 and $89,236, respectively. These amounts have been included in the statement of changes in net assets available for plan benefits in net realized gain on sale of investments for securities sold and net appreciation in current value of investments for securities acquired during the year.

3. INCOME TAXES

The Internal Revenue Service issued a favorable determination letter in 1995 regarding the qualified and tax-exempt status of the Plan under Sections 401 and 501 of the Internal Revenue Code. Subsequent to receipt of the favorable determination letter the Plan was amended. The Administrative Committee is of the opinion that these amendments do not affect the qualified and tax-exempt status of the Plan and, accordingly, no provision has been made for income taxes.

Participants are not subject to Federal or state income tax on employer matching contributions and pre-tax participant salary reduction contributions until such contributions are withdrawn or distributed. Participants are also not subject to Federal or state income tax on the earnings and appreciation of the assets of the Plan until such amounts are withdrawn or distributed.

4. PLAN AMENDMENTS

Effective January 1, 1997, the plan was amended to enable participants to direct employee contributions in 5% increments in any of six investment options. The diversified equity fund and bond fund liquidated their long-term fixed income and equity investment securities at December 31, 1996 in order to facilitate their transition to two new mutual fund investment options; a growth and income equity fund, and a U.S. government securities fund, respectively. Two additional mutual funds, a capital appreciation equity fund and an international stock fund, were offered to participants effective January 1, 1997.

4. PLAN AMENDMENTS (CONTINUED)

Effective January 1, 1997, participants may elect to change their investment options and allocations monthly. Additionally, newly eligible employees may elect to participate in the Plan as of the first day of the month subsequent to the month in which the employee becomes eligible.

The Plan has been further amended such that, effective April 1, 1998, participants will be able to direct contributions into an equity income mutual fund.

5. RELATED PARTY TRANSACTIONS

During 1997, the Plan acquired in the open market, in 34 transactions, 17,608 shares of First Empire common stock at a cost of $6,130,503. The Plan disposed of, in 24 transactions, 6,868 shares of First Empire common stock which resulted in proceeds of $1,837,420 and realized gains of $271,952. At December 31, 1997, the Plan held 227,478 shares of First Empire common stock with a total cost of $32,526,509 and a current value of $105,777,270.

During 1996, the Plan acquired in the open market, in 29 transactions, 28,398 shares of First Empire common stock at a cost of $6,929,874. The Plan disposed of, in 22 transactions, 9,754 shares of First Empire common stock which resulted in proceeds of $2,399,040 and realized gains of $370,164. At December 31, 1996, the Plan held 216,738 shares of First Empire common stock with a total cost of $27,304,900 and a current value of $62,420,544.

6. Net realized gain (loss) on sale of investments

Net realized gain (loss) on sale of investments is comprised of the following:

	TOTAL PROCEEDS	BASIS OF ASSETS SOLD	NET REALIZED GAIN (LOSS)
For the year ended December 31, 1997:			
First Empire common stock	$ 1,837,420	1,565,468	$ 271,952
Mutual fund investments:			
Capital appreciation equity fund	180,250	172,618	7,632
Growth & income equity fund	2,946,084	2,738,211	207,873
U.S. Government securities fund	908,748	908,407	341
International stock fund	231,076	227,549	3,527
	$ 6,103,578	5,612,253	$ 491,325
For the year ended December 31, 1996:			
First Empire common stock	$ 2,399,040	2,028,876	$ 370,164
Other common stock	43,707,738	40,187,901	3,519,837
U.S. government and agency obligations	7,767,988	7,900,005	(132,017)
Corporate bonds	3,182,987	3,220,273	(37,286)
	$ 57,057,753	53,337,055	$ 3,720,698

In accordance with the requirements of ERISA, the basis of assets sold is equal to either the current value at the beginning of the period, for securities held as of that date, or cost, for securities acquired during the year.

7. Net appreciation (depreciation) in current value of investments

Net appreciation(depreciation)in current value of investments is comprised of the following:

	CURRENT VALUE AT END OF PERIOD	BASIS OF ASSETS HELD AT END OF PERIOD	NET APPRECIATION (DEPRECIATION)
For the year ended December 31, 1997:			
First Empire common stock	$ 105,777,270	66,985,579	$ 38,791,691
Mutual fund investments:			
Capital appreciation equity fund	8,130,948	7,447,974	682,974
Growth & income equity fund	30,744,915	30,329,520	415,395
U.S. Government securities fund	5,546,110	5,412,869	133,241
International stock fund	2,531,197	2,638,388	(107,191)
			$ 39,916,110
For the year ended December 31, 1996:			
First Empire common stock	$ 62,420,544	48,085,490	$ 14,335,054

In accordance with the requirements of ERISA, the basis of assets held at end of period is equal to either the current value at the beginning of the period, for securities held as of that date, or cost, for securities acquired during the year.

EXHIBIT I

FIRST EMPIRE STATE CORPORATION RETIREMENT SAVINGS PLAN AND TRUST

ALLOCATION OF NET ASSETS AVAILABLE FOR PLAN BENEFITS TO INVESTMENT PROGRAMS
DECEMBER 31, 1997

	FIRST EMPIRE STOCK FUND	MONEY-MARKET FUND	CAPITAL APPRECIATON EQUITY FUND	GROWTH & INCOME EQUITY FUND	U.S. GOVERNMENT SECURITIES FUND	INTERNATIONAL STOCK FUND	PARTICIPANT LOAN ACCOUNT	TOTAL
Assets								
Cash.............	$ 5,954	33,009	4,157	8,626	30,292	147,318	--	$ 229,356
Investments, at current value								
Short-term investments (cost: $180,378)......	180,378	--	--	--	--	--	--	180,378
Common stock (cost: $32,526,509)...	105,777,270	--	--	--	--	--	--	105,777,270
Mutual fund investments:								
Money market fund (cost: $9,381,619)	--	9,381,619	--	--	--	--	--	9,381,619
Capital appreciation equity fund (cost: $7,447,974)	--	--	8,130,948	--	--	--	--	8,130,948
Growth & income equity fund (cost:$30,329,520)	--	--	--	30,744,915	--	--	--	30,744,915
U.S. Government securities fund (cost: $5,412,869)	--	--	--	--	5,546,110	--	--	5,546,110
International stock fund (cost: $2,638,388)	--	--	--	--	--	2,531,197	--	2,531,197
Loans to participants (cost: $3,938,409)	--	--	--	--	--	--	3,938,409	3,938,409
Total investments....	105,957,648	9,381,619	8,130,948	30,744,915	5,546,110	2,531,197	3,938,409	166,230,846
Receivables:								
Due from broker.........	--	--	--	41,800	25,600	--	--	67,400
Employee contributions..	131,382	14,380	38,262	65,083	12,112	15,282	--	276,501
Employer contributions..	73,186	8,970	20,967	37,578	7,170	8,602	--	156,473
Total receivables....	204,568	23,350	59,229	144,461	44,882	23,884	--	500,374
Total assets.....	$ 106,168,170	9,437,978	8,194,334	30,898,002	5,621,284	2,702,399	3,938,409	$166,960,576
Liabilities								
Due to broker....	180,210	--	--	--	--	134,590	--	$ 314,800
Net assets available for plan benefits..	$ 105,987,960	9,437,978	8,194,334	30,898,002	5,621,284	2,567,809	3,938,409	$166,645,776

EXHIBIT I
(continued)

FIRST EMPIRE STATE CORPORATION RETIREMENT SAVINGS PLAN AND TRUST

ALLOCATION OF NET ASSETS AVAILABLE FOR PLAN BENEFITS TO INVESTMENT PROGRAMS
DECEMBER 31, 1996

	FIRST EMPIRE STOCK FUND	DIVERSIFIED EQUITY FUND	MONEY-MARKET FUND	BOND FUND	PARTICIPANT LOAN ACCOUNT	TOTAL
Assets						
Cash	$1,802	31,483	46,773	5,834,009	--	$ 5,914,067
Investments, at current value						
Short-term investments (cost:$27,300,067)	432,752	26,591,333	--	275,982	--	27,300,067
Common stock (cost:$27,304,900)	62,420,544	--	--	--	--	62,420,544
Mutual fund investments:						
Money market fund (cost: $10,190,613)	--	--	10,190,613	--	--	10,190,613
Loans to participants (cost: $3,103,865)	--	--	--	--	3,103,865	3,103,865
Total investments	62,853,296	26,591,333	10,190,613	275,982	3,103,865	103,015,089
Receivables:						
Due from broker..	758,309	--	--	--	--	758,309
Employee contributions	126,512	73,315	15,061	12,842	--	227,730
Employer contributions..	70,797	42,072	9,380	7,649	--	129,898
Interest and dividends..	--	21,186	--	10,177	--	31,363
Total receivables..	955,618	136,573	24,441	30,668	--	1,147,300
Net assets available for plan benefits..	$ 63,810,716	26,759,389	10,261,827	6,140,659	3,103,865	$ 110,076,456

EXHIBIT II

FIRST EMPIRE STATE CORPORATION RETIREMENT SAVINGS PLAN AND TRUST

ALLOCATION OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS
TO INVESTMENT PROGRAMS

YEAR ENDED DECEMBER 31, 1997

	FIRST EMPIRE STOCK FUND	DIVERSIFIED EQUITY FUND	MONEY-MARKET FUND	BOND FUND	CAPITAL APPRECIATION EQUITY FUND
Additions to net assets available for plan benefits					
Net investment income:					
Interest	$ 6,389	--	481,667	--	1,263
Dividends	709,702	--	--	--	498,478
Net realized gain on sale of investments	271,952	--	--	--	7,632
Net appreciation (depreciation) in current value of investments	38,791,691	--	--	--	682,974
Total net investment income	39,779,734	--	481,667	--	1,190,347
Contributions:					
Employee	4,604,255	--	581,218	--	1,268,562
Employer	2,404,761	--	333,223	--	584,846
Total contributions	7,009,016	--	914,441	--	1,853,408
	46,788,750	--	1,396,108	--	3,043,755
Deductions from net assets available for plan benefits					
Benefit payments to participants	(3,554,481)	--	(923,440)	--	(114,543)
Interfund transfers					
Loans, net of repayments	201,728	--	(329,683)	--	18,184
Reallocation of investments -additions (deductions)	(1,258,753)	(26,759,389)	(966,834)	(6,140,659)	5,246,938
	(1,057,025)	(26,759,389)	(1,296,517)	(6,140,659)	5,265,122
Net increase(decrease) in net assets available for plan benefits	$ 42,177,244	(26,759,389)	(823,849)	(6,140,659)	8,194,334

	GROWTH & INCOME EQUITY FUND	U.S. GOVERNMENT SECURITIES FUND	INTERNATIONAL STOCK FUND	PARTICIPANT LOAN ACCOUNT	TOTAL
Additions to net assets available for plan benefits					
Net investment income:					
Interest	6,959	1,537	717	317,774	$ 816,306
Dividends	5,629,038	341,454	134,590	--	7,313,262
Net realized gain on sale of investments	207,873	341	3,527	--	491,325
Net appreciation (depreciation) in current value of investments	415,395	133,241	(107,191)	--	39,916,110
Total net investment income	6,259,265	476,573	31,643	317,774	48,537,003
Contributions:					
Employee	2,585,706	502,164	560,999	--	10,102,904
Employer	1,346,256	270,493	281,045	--	5,220,624
Total contributions	3,931,962	772,657	842,044	--	15,323,528
	10,191,227	1,249,230	873,687	317,774	63,860,531
Deductions from net assets available for plan benefits					
Benefit payments to participants	(2,186,987)	(419,390)	(92,370)	--	(7,291,211)
Interfund transfers					
Loans, net of repayments	(593,516)	(186,142)	54,885	834,544	--
Reallocation of investments -additions (deductions)	23,487,278	4,977,586	1,731,607	(317,774)	--
	22,893,762	4,791,444	1,786,492	516,770	--
Net increase(decrease) in net assets available for plan benefits	30,898,002	5,621,284	2,567,809	834,544	$ 56,569,320

FIRST EMPIRE STATE CORPORATION RETIREMENT SAVINGS PLAN AND TRUST

ALLOCATION OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS TO INVESTMENT PROGRAMS

YEAR ENDED DECEMBER 31, 1996

	FIRST EMPIRE STOCK FUND	DIVERSIFIED EQUITY FUND	MONEY-MARKET FUND	BOND FUND	PARTICIPANT LOAN ACCOUNT	TOTAL
Additions to net assets available for plan benefits						
Net investment income:						
Interest......................	$ 6,032	79,065	538,656	395,337	257,662	$ 1,276,752
Dividends.....................	589,308	348,029	--	--	--	937,337
Net realized gain (loss) on sale of investments.........	370,164	3,519,837	--	(169,303)	--	3,720,698
Net appreciation in current value of investments........	14,335,054	--	--	--	--	14,335,054
Total net investment income...	15,300,558	3,946,931	538,656	226,034	257,662	20,269,841
Contributions:						
Employee......................	4,831,299	3,373,541	983,179	747,755	--	9,935,774
Employer......................	2,259,225	1,642,226	453,274	369,240	--	4,723,965
Total contributions...........	7,090,524	5,015,767	1,436,453	1,116,995	--	14,659,739
	22,391,082	8,962,698	1,975,109	1,343,029	257,662	34,929,580
Deductions from net assets available for plan benefits						
Benefit payments to participants................	(2,395,988)	(1,654,459)	(1,179,344)	(515,645)	--	(5,745,436)
Interfund transfers						
Loans, net of repayments......	224,748	(218,297)	(341,014)	(120,528)	455,091	--
Reallocation of investments -additions (deductions).....	299,205	1,307,566	(617,547)	(731,562)	(257,662)	--
	523,953	1,089,269	(958,561)	(852,090)	197,429	--
Net increase(decrease) in net assets available for plan benefits....................	$ 20,519,047	8,397,508	(162,796)	(24,706)	455,091	$ 29,184,144

SCHEDULE I

FIRST EMPIRE STATE CORPORATION RETIREMENT SAVINGS PLAN AND TRUST

SCHEDULE OF ASSETS HELD FOR INVESTMENT

DECEMBER 31, 1997

NAME AND TITLE OF ISSUE	NUMBER OF SHARES OR PRINCIPAL AMOUNT	UNIT COST	TOTAL COST	CURRENT VALUE PER UNIT	CURRENT VALUE TOTAL
Short-term investments					
Vision Group of Funds, Inc.					
Money Market Fund.............	180,378	$ 1.000	$ 180,378	$ 1.000	$ 180,378
Common stock					
Financial:					
First Empire State					
Corporation*................	227,478	142.987	32,526,509	465.000	105,777,270
Mutual fund investments					
Vision Group of Funds, Inc.					
Money Market Fund.............	9,381,619	1.000	9,381,619	1.000	9,381,619
Vision Group of Funds, Inc.					
Capital Appreciation Fund.....	611,349	12.183	7,447,974	13.300	8,130,948
Vision Group of Funds, Inc.					
Growth & Income Equity Fund...	1,997,720	15.182	30,329,520	15.390	30,744,915
Vision Group of Funds, Inc.					
U.S. Government Securities					
Fund........................	577,119	9.379	5,412,869	9.610	5,546,110
T. Rowe Price Investment Services, Inc.					
International Stock Fund......	188,614	13.988	2,638,388	13.420	2,531,197
Loans to participants					
7.00%-10.50%, fully secured by vested benefits, due 1998					
through 2002................	3,938,409	--	3,938,409	--	3,938,409
Total investments.............			$ 91,855,666		$ 166,230,846

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* See note 5 to the financial statements

SCHEDULE II

FIRST EMPIRE STATE CORPORATION RETIREMENT SAVINGS PLAN AND TRUST

SCHEDULE OF TRANSACTIONS IN EXCESS OF 5% OF FAIR VALUE OF PLAN ASSETS

FOR THE YEAR ENDED DECEMBER 31, 1997

	PURCHASES		SALES/DISTRIBUTIONS			
DESCRIPTION OF ASSET	NUMBER OF TRANSACTIONS	COST	NUMBER OF TRANSACTIONS	PROCEEDS	BASIS	GAIN
Short-term investments:						
Vision Group of Funds, Inc. Money Market Fund...........	399	$ 59,307,554	274	$ 86,427,243	86,427,243	$ --
Common stock:						
First Empire State Corporation.................	34	6,130,503	24	1,837,420	1,565,468	271,952
Mutual fund investments:						
Vision Group of Funds, Inc. Money Market Fund.............	76	11,526,669	35	12,335,663	12,335,663	--
Vision Group of Funds, Inc. Capital Appreciation Fund.....	51	7,620,592	14	180,250	172,618	7,632
Vision Group of Funds, Inc. Growth & Income Equity Fund...	48	33,067,731	40	2,946,084	2,738,211	207,873
Vision Group of Funds, Inc. U.S. Government Securities Fund........................	41	6,321,276	29	908,748	908,407	341