UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 1994

or

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

Commission File Number 1-9861

FIRST EMPIRE STATE CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

Number of shares of the registrant's Common Stock, $5 par value, outstanding as of the close of business on August 3, 1994: 6,625,829 shares.

FIRST EMPIRE STATE CORPORATION

FORM 10-Q

For the Quarterly Period Ended June 30, 1994

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET Dollars in thousands, except per share		June 30, 1994 (unaudited)	December 31, 1993
Assets	Cash and due from banks	$ 400,739	195,792
	Money-market assets		
	Interest-bearing deposits at banks	410,143	55,044
	Federal funds sold and agreements to resell securities	35,973	329,429
	Trading account	7,280	9,815
	Total money-market assets	453,396	394,288
	Investment securities		
	Available for sale (cost: $1,763,361 at June 30, 1994; $2,158,262 at December 31, 1993)	1,721,918	2,174,067
	Held to maturity (market value: $216,989 at June 30, 1994; $223,617 at December 31, 1993)	221,572	223,331
	Other (market value: $41,442 at June 30, 1994; $31,754 at December 31, 1993)	41,442	31,754
	Total investment securities	1,984,932	2,429,152
	Loans and leases	7,602,481	7,439,059
	Unearned discount	(201,252)	(177,960)
	Allowance for possible credit losses	(223,128)	(195,878)
	Loans and leases, net	7,178,101	7,065,221
	Premises and equipment	127,232	134,874
	Accrued interest and other assets	191,238	145,631
	Total assets	$10,335,638	10,364,958
Liabilities	Noninterest-bearing deposits	$ 1,175,628	1,052,258
	NOW accounts	756,987	764,690
	Savings deposits	3,267,486	3,364,983
	Time deposits	1,979,070	1,982,272
	Deposits at foreign office	96,717	189,058
	Total deposits	7,275,888	7,353,261
	Federal funds purchased and agreements to repurchase securities	1,829,630	1,381,335
	Other short-term borrowings	342,318	720,332
	Accrued interest and other liabilities	94,564	110,446
	Long-term borrowings	75,000	75,000
	Obligations under capital leases	539	590
	Total liabilities	9,617,939	9,640,964
Stockholders' equity	Preferred stock, $1 par, 1,000,000 shares authorized, 40,000 shares issued, stated at aggregate liquidation value	40,000	40,000
	Common stock, $5 par, 15,000,000 shares authorized, 8,097,472 shares issued	40,487	40,487
	Surplus	97,908	97,787
	Undivided profits	643,026	595,322
	Unrealized investment gains (losses), net	(23,401)	9,148
	Treasury stock - common, at cost - 1,362,943 shares at June 30, 1994; 1,218,347 at December 31, 1993	(80,321)	(58,750)
	Total stockholders' equity	717,699	723,994
	Total liabilities and stockholders' equity	$10,335,638	10,364,958

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME (unaudited)
Amounts in thousands, except per share

		Three months ended June 30		Six months ended June 30	
		1994	1993	1994	1993
Interest income	Loans and leases, including fees	$ 152,586	153,153	301,069	305,996
	Money-market assets				
	Deposits at banks	57	1,780	211	3,290
	Federal funds sold and agreements to resell securities	1,390	6,468	2,833	12,474
	Trading account	91	557	223	826
	Investment securities				
	Fully taxable	25,472	25,804	51,714	48,189
	Exempt from federal taxes	574	649	1,290	1,332
	Total interest income	180,170	188,411	357,340	372,107
Interest expense	NOW accounts	2,814	3,198	5,660	6,849
	Savings deposits	20,921	22,694	41,610	46,912
	Time deposits	20,797	26,020	39,544	54,419
	Deposits at foreign office	817	790	1,745	1,628
	Short-term borrowings	17,391	14,820	31,892	24,210
	Long-term borrowings and capital leases	1,537	1,540	3,075	3,080
	Total interest expense	64,277	69,062	123,526	137,098
	Net interest income	115,893	119,349	233,814	235,009
	Provision for possible credit losses	14,022	20,215	33,884	38,530
	Net interest income after provision for possible credit losses	101,871	99,134	199,930	196,479
Other income	Trust income	5,770	5,748	11,205	11,416
	Service charges on deposit accounts	8,785	8,244	17,678	15,565
	Merchant discount and other credit card fees	2,197	1,979	4,093	3,963
	Trading account gain (loss)	93	280	(115)	1,034
	Gain (loss) on sales of bank investment securities	-	(21)	-	802
	Other revenues from operations	12,533	11,261	24,966	21,578
	Total other income	29,378	27,491	57,827	54,358
Other expense	Salaries and employee benefits	41,623	36,057	81,454	75,972
	Equipment and net occupancy	12,445	11,713	25,257	23,552
	Printing, postage and supplies	3,333	3,366	6,520	6,978
	Deposit insurance	4,080	4,603	8,224	9,142
	Other costs of operations	20,534	28,827	39,775	52,361
	Total other expense	82,015	84,566	161,230	168,005
	Income before income taxes	49,234	42,059	96,527	82,832
	Applicable income taxes	20,553	16,874	40,218	33,325
	Net income	$ 28,681	25,185	56,309	49,507
	Net income per common share				
	Primary	$3.96	3.42	$7.73	6.73
	Fully diluted	3.80	3.31	7.43	6.52
	Cash dividends per common share	$ .50	.50	1.00	.90
	Average common shares outstanding				
	Primary	7,014	7,102	7,048	7,086
	Fully diluted	7,541	7,609	7,578	7,598

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)
Dollars in thousands

		Six months ended June 30	
		1994	1993
Cash flows from operating activities	Net income	$ 56,309	49,507
	Adjustments to reconcile net income to net cash provided by operating activities		
	Provision for possible credit losses	33,884	38,530
	Depreciation and amortization of premises and equipment	8,943	8,005
	Provision for deferred income taxes	(15,617)	(11,329
	Asset write-downs	1,141	6,526
	Net gain on sales of assets	(4,211)	(802)
	Net change in accrued interest receivable, payable	(1,716)	(9,509)
	Net change in other accrued income and expense	(10,935)	19,566
	Net change in loans held for sale	135,795	(38,918)
	Net change in trading account assets	2,535	(10,485)
	Net cash provided by operating activities	206,128	51,091
Cash flows from investing activities	Proceeds from maturities of investment securities	413,441	463,354
	Purchases of investment securities	(33,904)	(1,276,395)
	Net increase in interest-bearing deposits at banks	(355,099)	(210,003)
	Proceeds from sales of loans and leases	7,601	-
	Net increase in loans and leases	(287,687)	(15,275)
	Capital expenditures, net	(2,116)	(9,833)
	Other, net	2,510	7,151
	Net cash used by investing activities	(255,254)	(1,041,001)
Cash flows from financing activities	Net decrease in deposits	(77,288)	(485,199)
	Net increase in short-term borrowings	70,281	1,304,628
	Payments on long-term borrowings	(51)	(46)
	Purchases of treasury stock	(22,107)	-
	Dividends paid - common	(6,805)	(6,177)
	Dividends paid - preferred	(1,800)	(1,800)
	Other, net	(1,613)	3,863
	Net cash provided (used) by financing activities	(39,383)	815,269
	Net decrease in cash and cash equivalents	$ (88,509)	(174,641)
	Cash and cash equivalents at beginning of period	525,221	576,967
	Cash and cash equivalents at end of period	$ 436,712	402,326
Supplemental disclosure of cash flow information	Interest received during the period	$ 359,625	365,967
	Interest paid during the period	125,539	139,126
	Income taxes paid during the period	69,501	37,693
Supplemental schedule of noncash investing and financing activities	Real estate acquired in settlement of loans	$ 6,763	4,600

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (unaudited)
Dollars in thousands, except per share

	Preferred stock	Common stock	Surplus	Undivided profits	Unrealized investment gains(losses), net	Treasury stock	Total
1993							
Balance - January 1, 1993	$40,000	40,487	96,816	509,984	-	(60,492)	$626,795
Net income	-	-	-	49,507	-	-	49,507
Preferred stock cash dividends	-	-	-	(1,800)	-	-	(1,800)
Common stock cash dividends - $.90 per share	-	-	-	(6,177)	-	-	(6,177)
Exercise of stock options	-	-	270	-	-	1,649	1,919
Balance - June 30, 1993	$40,000	40,487	97,086	551,514	-	(58,843)	$670,244
1994							
Balance - January 1, 1994	$40,000	40,487	97,787	595,322	9,148	(58,750)	$723,994
Net income	-	-	-	56,309	-	-	56,309
Preferred stock cash dividends	-	-	-	(1,800)	-	-	(1,800)
Common stock cash dividends - $1.00 per share	-	-	-	(6,805)	-	-	(6,805)
Exercise of stock options	-	-	121	-	-	536	657
Purchases of treasury stock	-	-	-	-	-	(22,107)	(22,107)
Unrealized losses on investment securities available for sale, net	-	-	-	-	(32,549)	-	(32,549)
Balance - June 30, 1994	$40,000	40,487	97,908	643,026	(23,401)	(80,321)	$717,699

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

	Six months ended June 30 1994	Six months ended June 30 1993
Beginning balance	$195,878	151,690
Provision for possible credit losses	33,884	38,530
Net charge-offs		
Charge-offs	(15,929)	(22,514)
Recoveries	9,295	5,021
Total net charge-offs	(6,634)	(17,493)
Ending balance	$223,128	172,727

NOTES TO FINANCIAL STATEMENTS

1. Significant accounting policies

The consolidated financial statements of First Empire State Corporation and subsidiaries ("the Company") were compiled in accordance with the accounting policies set forth on pages 35 and 36 of the Company's 1993 Annual Report. In the opinion of management, all adjustments necessary for a fair presentation have been made and were all of a normal recurring nature. Certain reclassifications have been made to prior period financial statements to conform to current period presentation.

2. Investment securities

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

(in thousands)	Amortized cost	Estimated fair value
June 30, 1994		
Investment securities available for sale:		
Mortgage-backed securities		
Government issued or guaranteed	$ 969,025	940,468
Other	760,519	733,330
Other debt securities	20,770	21,015
Equity securities	13,047	27,105
	1,763,361	1,721,918
Investment securities held to maturity:		
U.S. Treasury and federal agency	173,105	168,288
Obligations of states and political subdivisions	47,636	47,925
Other debt securities	831	776
	221,572	216,989
Other securities	41,442	41,442
Total	$2,026,375	1,980,349
December 31, 1993		
Investment securities available for sale:		
Mortgage-backed securities		
Government issued or guaranteed	$1,210,921	1,214,202
Other	896,362	895,902
Other debt securities	39,893	40,831
Equity securities	11,086	23,132
	2,158,262	2,174,067
Investment securities held to maturity:		
U.S. Treasury and federal agency	173,193	172,871
Obligations of states and political subdivisions	49,230	49,880
Other debt securities	908	866
	223,331	223,617
Other securities	31,754	31,754
Total	$2,413,347	2,429,438

3. Interest rate swap contracts

At June 30, 1994, the Company had outstanding currently effective interest rate swap contracts entered into for interest rate risk management purposes with a notional amount of approximately $1.4 billion. The net effect of interest rate swaps was to increase net interest income by $3.2 million and $9.7 million during the three months ended June 30, 1994 and 1993, respectively, and by $9.8 million and $18.1 million during the six months ended June 30, 1994 and 1993, respectively. As of June 30, 1994, the Company had also entered into forward swaps with an aggregate notional amount of $575 million. These forward interest rate swap commitments had no effect on net income. The Company estimates that as of June 30, 1994, it would have had to pay approximately $71 million to terminate all interest rate swap contracts. Such estimate of the fair value of the swap contracts was based upon market quotations available to the Company. The swaps modify the repricing characteristics of certain portions of the loan and deposit portfolios. Since these swaps have been entered into for interest rate risk management purposes, the estimated amount noted above should be considered in the context of the entire balance sheet of the Company. The estimated market value of interest rate swaps entered into for interest rate risk management purposes is not recognized in the consolidated financial statements.

4. Acquisitions

On April 1, 1994, First Empire State Corporation ("First Empire") announced that it had entered into a definitive agreement to acquire Ithaca Bancorp, Inc. of Ithaca, New York ("Ithaca Bancorp"). At acquisition, Ithaca Bancorp's savings bank subsidiary, Citizens Savings Bank, F.S.B., will be merged into First Empire's commercial bank subsidiary, Manufacturers and Traders Trust Company ("M&T Bank"). First Empire will pay the common stockholders of Ithaca Bancorp cash consideration of $19 per share, subject to increase or decrease based on the level of Ithaca Bancorp's adjusted stockholders' equity and loan loss reserves at or near the closing. Assuming no adjustment to the per share price, the aggregate cash consideration will be approximately $46 million. Consummation of the transaction is subject to a number of conditions, including regulatory approvals. Subject to the satisfaction of these conditions, it is anticipated that the transaction will be completed in the second half of 1994. The transaction will be accounted for under the purchase method of accounting. Citizens Savings Bank, F.S.B. operates twelve banking offices in central and southern New York. At June 30, 1994, Ithaca Bancorp reported total assets of $449 million, loans of $362 million, deposits of $333 million and stockholders' equity of $26.0 million.

On April 9, 1994, M&T Bank entered into an agreement to acquire from Chemical Bank seven branch offices in the Hudson Valley region of New York State and assume approximately $175 million in deposits associated with the branches. Consummation of the transaction is subject to a number of conditions, including regulatory approvals, but is anticipated to occur n the second half of 1994.

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

Overview

Net income of First Empire State Corporation ("First Empire") was $28.7 million or $3.96 per common share in the second quarter of 1994, increases of 14% and 16%, respectively, from the second quarter of 1993 when net income was $25.2 million or $3.42 per common share. For the six months ended June 30, 1994, net income was $56.3 million or $7.73 per common share, up 14% and 15%, respectively, from $49.5 million or $6.73 per common share earned during the comparable period of 1993. The rate of return on average assets for First Empire and its consolidated subsidiaries ("the Company") in the second quarter of 1994 was 1.16%, up from .96% in the year-earlier quarter and 1.11% in 1994's first quarter. The return on average common stockholders' equity was 16.32% in the second quarter of 1994, up from 15.74% in the second quarter of 1993 and 15.68% in the first quarter of 1994. In the first half of 1994 the return on average assets was 1.14%, up from 0.98% for the corresponding 1993 period. Through the first half of 1994, the return on average common stockholders' equity was 16.00%, compared with 15.80% in the first half of 1993.

On April 1, 1994, First Empire announced that it had entered into a definitive agreement to acquire Ithaca Bancorp, Inc. of Ithaca, New York ("Ithaca Bancorp"). At acquisition, Ithaca Bancorp's savings bank subsidiary, Citizens Savings Bank, F.S.B., which operates twelve branch offices in central and southern New York State, will be merged into First Empire's commercial bank subsidiary, Manufacturers and Traders Trust Company ("M&T Bank"). First Empire will pay the common stockholders of Ithaca Bancorp cash consideration of $19 per share, subject to increase or decrease based on the level of Ithaca Bancorp's adjusted stockholders' equity and loan loss reserves at or near the closing. Assuming no adjustment to the per share price, the aggregate cash consideration would be approximately $46 million. Consummation of the transaction is subject to a number of conditions, including regulatory approvals. Subject to the satisfaction of these conditions, it is anticipated that the transaction will be completed in the second half of 1994.

At June 30, 1994, Ithaca Bancorp reported total assets of $449 million, loans of $362 million, deposits of $333 million and stockholders' equity of $26.0 million.

On April 9, 1994, M&T Bank entered into an agreement to acquire from Chemical Bank seven branch offices in the Hudson Valley region of New York State and assume the deposits associated with such offices totaling approximately $175 million. Consummation of the transaction is subject to regulatory approval and other conditions, but is anticipated to occur in the second half of 1994.

Taxable-Equivalent Net Interest Income

Net interest income expressed on a taxable-equivalent basis was $116.9 million in the second quarter of 1994, down $3.5 million from $120.4 million earned in the second quarter of 1993 and $2.0 million lower than $118.9 million earned in the first quarter of 1994. The decline from the second quarter of 1993 was primarily the result of a 41 basis point (hundredths of one percent) decrease to 8.45% in the yield on loans, partially offset by a $309 million increase in average loans outstanding, and a 90 basis point increase to 3.93% in the rate on short-term borrowings. The decline in net interest income from the first quarter of 1994 was largely due to increases in interest rates paid on short-term borrowings and deposits of 79 basis points and 13 basis points, respectively. In general, interest rates paid on interest-bearing liabilities increased more than yields on interest earning assets in the second quarter of 1994.

For the first six months of 1994, taxable-equivalent net interest income was $235.8 million, down from $237.0 million in the corresponding 1993 period. The factors contributing to this decline include a larger decrease in the yield on loans than in the rate paid on deposits and a 49 basis point increase to 3.53% in the rate paid on short-term borrowings resulting from increases in money-market interest rates during the first half of 1994.

The Company's net interest margin, which is taxable-equivalent net interest income expressed as an annualized percentage of average earning assets, was 4.93% in the second quarter of 1994 compared with 4.79% in the second quarter of 1993 and 4.99% in the first quarter of 1994. The increase from the second quarter of 1993 was the result of a 9 basis point increase in the net interest spread, or the difference between the yield on interest-earning assets and the rate paid on interest-bearing liabilities, to 4.45% and a 5 basis point increase in the contribution of interest-free funds to .48%. The improved net interest spread resulted from changes in the Company's portfolio of earning assets to include an increased proportion of loans, which generally yield more than money-market assets and investment securities, and decreased discretionary holdings of money-market assets. Combined, these two factors were largely responsible for the 10 basis point increase to 7.64% in the yield on earning assets in the second quarter of 1994 from the second quarter of 1993. Partially offsetting the improved yield on earning assets was a slight increase of 1 basis point to 3.19% in the cost of interest-bearing liabilities during the three months ended June 30, 1994 from the comparable period in 1993. The higher contribution of interest-free funds resulted primarily from an increased amount of net funds on which the Company does not pay interest.

The 6 basis point decrease in net interest margin from the first quarter of 1994 was primarily the result of an 11 basis point decline in net interest spread from 4.56% to 4.45%. Although rising rates and a higher concentration of loans in the earning assets mix raised the yield on earning assets in the second quarter by 16 basis points from 7.48% in 1994's first quarter, the spread was compressed because the cost of interest-bearing liabilities rose by 27 basis points from 2.92%. A 79 basis point increase in rates paid on short-term borrowings was the largest single factor in the increased cost of interest-bearing liabilities. The decline in spread was offset partially by an increase of 5 basis points in the contribution of interest-free funds, resulting from the aforementioned increase in the cost of interest-bearing liabilities which is used to value these funds.

Compared with the corresponding period in 1993, during the first six months of 1994 the net interest margin rose 8 basis points to 4.96% reflecting a 7 basis point increase to 4.51% in the net interest spread and a 1 basis point increase to .45% in the contribution from interest-free funds. The improvement in net interest-spread resulted from a greater decline in the cost of interest-bearing liabilities to 3.05% in 1994 from 3.26% in 1993 than in the yield on earning assets which declined to 7.56% from 7.70%.

Despite recent increases in short-term interest rates, the spread between the prime rate and other money-market rates has remained at historically high levels, resulting in an interest rate environment that has been favorable to many banks. However, management believes that further changes in the rate environment or reductions in spreads could adversely impact the Company's net interest income. Further, management believes that higher interest rates will likely have a short-term detrimental effect on the Company's net interest income, but that over a longer period net interest income would benefit from rising interest rates. Management closely monitors the Company's exposure to changing interest rates and spreads and stands ready to take action to mitigate such exposure when deemed prudent to do so.

As part of its overall interest rate risk management program, the Company has entered into several interest rate swap agreements. Revenue and expense arising from these transactions are reflected in both the yields on loans and rates paid on interest-bearing deposits. The aggregate notional amount of interest rate swap agreements used as part of the Company's interest rate risk management program in effect at June 30, 1994 and 1993 was $1.40 billion and $1.35 billion, respectively. The effect of interest rate swaps on the Company's net interest income and margin as well as average notional amounts are presented in the accompanying table.

INTEREST RATE SWAPS
Dollars in thousands

	Three months ended June 30			
	1994		1993	
	Amount	Average Rate(1)	Amount	Average Rate(1)
Increase (decrease) in:				
Interest income	$ 2,699	0.12 %	$ 7,704	0.30 %
Interest expense	(478)	(0.03)	(2,015)	(0.09)
Net interest income/margin	$ 3,177	0.14	$ 9,719	0.38
Average notional amount (2)	$1,335,165		$1,314,835	

	Six months ended June 30			
	1994		1993	
	Amount	Average Rate(1)	Amount	Average Rate(1)
Increase (decrease) in:				
Interest income	$ 7,404	0.16 %	$14,194	0.29 %
Interest expense	(2,414)	(0.06)	(3,900)	(0.09)
Net interest income/margin	$ 9,818	0.21	$18,094	0.38
Average notional amount (2)	$1,273,152		$1,161,464	

(1) Computed as an annualized percentage of interest-earning assets or interest-bearing liabilities

(2) Excludes forward-starting interest rate swaps

Additionally, as of June 30, 1994, the Company had entered into forward-starting interest rate swap agreements with an aggregate notional amount of $575 million. These forward starting swaps had no effect on net income through June 30, 1994.

The Company estimates that as of June 30, 1994, it would have had to pay approximately $71 million to terminate all interest rate swap contracts entered into as part of the interest rate risk management program. Such estimate of the fair value of the swap contracts was based upon market quotations available to the Company. The swaps modify, in a cost and capital efficient manner, the repricing characteristics of certain portions of the loan and deposit portfolios. Since these swaps have been entered into for interest rate risk management purposes, the estimated amount noted above should be considered in the context of the entire balance sheet of the Company. The estimated market value of interest rate swaps entered into for interest rate risk management purposes is not recognized in the consolidated financial statements.

Average earning assets declined to $9.5 billion in the second quarter of 1994 from $10.1 billion in the second quarter of 1993 and $9.7 billion in the first quarter of 1994. The decline from the prior year's second quarter was the result of an $897 million decline in money-market assets, partially offset by a $309 million increase in average loans. The Company's decision to reduce holdings of money-market assets was based on the desire to limit the amount of short-term borrowings, which had been used to fund such assets, and to reduce the size of the balance sheet, thereby strengthening capital ratios, in anticipation of completing the pending acquisitions.

Average investment securities totaled $2.1 billion in the second quarter of both 1994 and 1993, but were down from $2.3 billion in the first quarter of 1994. Ongoing repayments on securities, growth in loans, which generally yield more than investment securities, and the level of deposits largely determined the size of the portfolio of investment securities.

Average loans and leases increased 4% to $7.3 billion in the second quarter of 1994 from $7.0 billion in the corresponding 1993 quarter and 1% from $7.2 billion in the first quarter of 1994. This growth occurred primarily in the Company's portfolio of consumer loans and consists of increases in the outstanding balances of automobile and credit card loans. The accompanying table summarizes quarterly changes in the major components of the loan and lease portfolio.

AVERAGE LOANS AND LEASES
(net of unearned discount)

dollars in millions

		Percent increase (decrease) from	
	2nd Qtr. 1994	2nd Qtr. 1993	1st Qtr. 1993
Commercial, financial, etc.	$ 1,463	3 %	(1)%
Real estate - commercial	3,086	7	2
Real estate - consumer	1,385	(8)	(3)
Consumer	1,332	16	6
Total	$ 7,266	4 %	1 %

Core deposits, which include noninterest-bearing demand deposits, interest-bearing transaction accounts, savings deposits and domestic time deposits under $100,000, represent a significant source of funding, at generally lower interest rates than are available on wholesale funds of similar expected maturities. In response to lower interest rates in recent years, depositors have sought potentially higher returns by redeploying deposits, primarily time deposits, out of the banking system and into alternative investment vehicles, such as mutual funds. This trend was the leading factor in the decline in average core deposits to $6.8 billion in the second quarter of 1994 from $7.3 billion in the comparable quarter of 1993. Compared with the first quarter of 1994, deposit outflows slowed in the second quarter and, as a result, average core deposits were little changed in the recently completed quarter, during which interest rates on deposits increased. The accompanying table provides an analysis of quarterly changes in the components of average core deposits.

AVERAGE CORE DEPOSITS
Dollars in millions

		Percent increase (decrease) from	
	2nd Qtr. 1994	2nd Qtr. 1993	1st Qtr. 1994
NOW accounts	$ 751	6 %	(1)%
Savings deposits	3,380	(5)	(1)
Time deposits under $100,000	1,659	(18)	-
Demand deposits	992	3	(1)
Total	$ 6,782	(6)%	(1)%

In addition to core 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 $1.8 billion in the second quarter of 1994, compared with $2.0 billion in the second quarter of 1993 and $1.9 billion in the first quarter of 1994. In general, short-term borrowings have been used to fund money-market investments and investment securities, and to supplement deposits as a source of funds. Maturities of money-market assets, repayments of loans and investment securities, and cash generated from operations also provide the Company with sources of funding.

Additionally, through membership in the FHLB, as well as other available borrowing facilities, First Empire's banking subsidiaries have access to funding aggregating several times anticipated needs.

First Empire's ability to pay dividends and fund parent company operating expenses is primarily dependent on the receipt of dividend payments from its banking subsidiaries, which are subject to various regulatory limitations. First Empire also maintains a line of credit with an unaffiliated commercial bank. Management does not anticipate engaging in any activity, either currently or in the long-term, which would cause a significant strain on liquidity at either First Empire or its subsidiary banks. Further, management believes that available sources of liquidity are more than adequate to meet anticipated funding needs.

Provision for Possible Credit Losses

The provision for possible credit losses was $14.0 million in the second quarter of 1994, down from $20.2 million in the second quarter of 1993 and $19.9 million in the first quarter of 1994. Net loan charge-offs totaled $3.9 million in the recent quarter, compared with $9.3 million in the corresponding 1993 quarter and $2.7 million in this year's first quarter. Net charge-offs as an annualized percentage of average loans outstanding were .22% in the second quarter of 1994, compared with .54% in the corresponding 1993 quarter and .15% in the first quarter of 1994.

Nonperforming loans were $80.3 million or 1.09% of total loans at June 30, 1994, compared to $91.9 million or 1.31% at June 30, 1993 and $86.8 million or 1.20% at March 31, 1994. Nonperforming commercial real estate loans totaled $49.4 million at June 30, 1994, $55.3 million at June 30, 1993 and $56.2 million at March 31, 1994. Included in nonperforming commercial real estate loans were loans secured by properties in the metropolitan New York City area aggregating $35.3 million and $34.2 million at June 30, 1994 and 1993, respectively, and $37.3 million at March 31, 1994. The amount of repossessed assets taken in foreclosure of defaulted loans totaled $12.4 million at June 30, 1994, $11.9 million at March 31, 1994, and $14.1 million at June 30, 1993.

As a result of some signs of economic recovery in market areas served by the Company and following recent declines in net charge-offs, management believed it was appropriate to record a provision for possible credit losses that was lower than the amounts recorded in any quarter since the second quarter of 1991. Nevertheless, management continues to remain cautious about the sustainability and magnitude of economic recovery in market areas served by the Company. As a result of its ongoing evaluation of the loan portfolio, including such factors as the differing economic risks associated with each loan category, the current financial condition of specific borrowers, the economic environment in which borrowers operate, the level of delinquent loans and the value of any collateral, management believes that the allowance for possible credit losses at June 30, 1994 was adequate to absorb credit losses from existing loans, leases and credit commitments.

The allowance for possible credit losses was $223.1 million or 3.01% of total loans and leases at June 30, 1994, compared with $172.7 million or 2.46% a year earlier, $195.9 million or 2.70% at December 31, 1993 and $213.0 million or 2.94% at March 31, 1994. The ratio of the allowance to nonperforming loans was 278% at June 30, 1994, up from 188% a year earlier, 238% at December 31, 1993 and 245% at March 31, 1994.

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

NONPERFORMING ASSETS
Dollars in thousands

	1994 Quarters Second	1994 Quarters First	1993 Quarters Fourth	1993 Quarters Third	1993 Quarters Second
Nonaccrual loans	$ 68,881	74,951	68,936	69,436	79,511
Loans past due 90 days or more	11,444	11,890	11,122	14,007	12,364
Renegotiated loans	-	-	2,195	2,200	-
Total nonperforming loans	80,325	86,841	82,253	85,643	91,875
Other real estate owned	12,418	11,916	12,222	14,554	14,054
Total nonperforming assets	$ 92,743	98,757	94,475	100,197	105,929
Nonperforming loans to total loans, net of unearned discount	1.09%	1.20%	1.13%	1.21%	1.31%
Nonperforming assets to total net loans and other real estate owned	1.25%	1.36%	1.30%	1.41%	1.51%

Other Income

Other income in the second quarter of 1994 totaled $29.4 million, 7% higher than $27.5 million earned during the second quarter of 1993 and 3% higher than the first quarter of 1994. Other income for the first six months of 1994 was $57.8 million, up 6% from $54.4 million in the comparable period of 1993.

Including the effect of revised fee schedules, service charges on deposit accounts totaled $8.8 million in the second quarter of 1994, an increase of 7% from $8.2 million in the second quarter of 1993, but little changed from $8.9 million in the first quarter of 1994. Trust income was $5.8 million in the second quarter of 1994, compared with $5.7 million in the year earlier quarter and $5.4 million in the first three months of this year. Merchant discount and credit card fees increased to $2.2 million in the second quarter of 1994 from $2.0 million in the second quarter of 1993 and $1.9 million in the first quarter of 1994.

Trading account activity resulted in a net gain of $93 thousand in the second quarter of 1994, compared with a net gain of $280 thousand in the corresponding quarter of 1993 and a net loss of $208 thousand for the first three months of 1994. Other revenues from operations totaled $12.5 million in the second quarter of 1994, an increase of 11% from $11.3 million in the second quarter of 1993 and virtually unchanged from the $12.4 million earned in the first quarter of 1994. Higher revenues from the sale and servicing of loans contributed to the increase in other revenues from operations from the second quarter of 1993.

For the first six months of the year, service charges on deposit accounts increased 14% to $17.7 million in 1994 from $15.6 million in 1993, reflecting the impact of the revised fee schedules referred to above which went into effect in January 1994. Compared with the same period in 1993, trust income declined 2% to $11.2 million during the first six months of 1994 while merchant discount and credit card fees increased 3% to $4.1 million. Trading account activity resulted in a loss of $115 thousand for the first six months of 1994, compared with income of $1.0 million in the first half of 1993. Other revenues from operations increased 16% to $25.0 million in the first six months of 1994 from $21.6 million in the comparable 1993 period, primarily as a result of increased income from residential mortgage loan servicing and higher gains on sales of loans. Residential mortgage loans serviced for others totaled $3.6 billion and $2.3 billion at June 30, 1994 and 1993, respectively.

Other Expense

Other expense totaled $82.0 million in the second quarter of 1994, a decrease of 3% from $84.6 million in the second quarter of 1993, but up nearly 4% from this year's first quarter. Through the first half of 1994, other expense was $161.2 million or 4% lower than in the comparable 1993 period.

Salaries and employee benefits expense was $41.6 million in the recent quarter, 15% higher than a year earlier and 4% above the first quarter of 1994. Salaries and benefits expense totaled $81.5 million for the first half of 1994, up 7% from $76.0 million in the comparable 1993 period. Higher expenses associated with stock appreciation rights granted in 1990 and 1991, merit salary increases and higher benefit costs were largely responsible for the increases.

Nonpersonnel expenses totaled $40.4 million in the second quarter of 1994, down 17% or $8.1 million from the second quarter of 1993, but nearly 3% above the first quarter of 1994. Such expenses were $79.8 million during the first six months of 1994, down 13% from $92.0 million during the comparable period of 1993. Significant factors contributing to the declines in 1994 from 1993 were reduced expenses for professional services, printing, postage, other real estate owned and advertising and promotion activities, along with reductions of write-downs in the carrying value of excess servicing fees receivable and purchased mortgage servicing rights associated with residential mortgage loans serviced for others. There were no such write-downs in the second quarter of 1994 and only $500 thousand were necessary in the first half of 1994, compared with $1.2 million and $3.9 million during the three and six month periods ended June 30, 1993, respectively. At June 30, 1994, the Company had approximately $17.0 million of excess servicing fees receivable and purchased mortgage servicing rights recorded as assets.

Capital

Common stockholders' equity totaled $677.7 million at June 30, 1994, compared with $630.2 million a year earlier and $684.0 million at December 31, 1993. On a per share basis, common stockholders' equity was $100.63 at June 30, 1994, an increase of 10% from $91.67 at June 30, 1993 and 1% from $99.43 at December 31, 1993. Total stockholders' equity at June 30, 1994 was $717.7 million or 6.94% of total assets, compared with $670.2 million or 6.41% of total assets a year earlier and $724.0 million or 6.99% of total assets at December 31, 1993.

Stockholders' equity at June 30, 1994 included a reduction of $23.4 million,

or $3.47 per common share, for the net after-tax impact of unrealized losses on investment securities classified as available for sale pursuant to the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities", which the Company adopted on December 31, 1993. Such unrealized losses represent the amount by which amortized cost exceeded the fair value of such investment securities, net of applicable income taxes. At December 31, 1993, stockholders' equity included $9.1 million, or $1.33 per common share, of net unrealized gains from securities classified as available for sale.

In December of 1993, First Empire announced a plan to repurchase up to 506,930 shares of common stock to be held as treasury stock for reissuance upon the possible future conversion of its 9% convertible preferred stock. As of June 30, 1994, First Empire had repurchased 157,500 common shares pursuant to such plan at an average cost of $140.36.

Federal regulators have implemented risk-based capital measures to assess the capital adequacy of banking institutions. Generally, a banking institution is required to maintain risk-based "core capital" and "total capital" ratios of at least 4% and 8%, respectively. 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. The accompanying table presents the capital ratios of First Empire and its consolidated subsidiaries, M&T Bank and The East New York Savings Bank ("East New York"), as of June 30, 1994.

REGULATORY CAPITAL RATIOS
June 30, 1994

	First Empire (Consolidated)	M&T Bank	East New York
Core capital	9.53%	9.16%	9.21%
Total capital	11.76%	11.60%	10.47%
Leverage	7.48%	6.96%	7.46%

The Company has maintained capital ratios well in excess of minimum regulatory guidelines largely through a high rate of internal capital generation. The rate of internal capital generation, or net income less dividends paid expressed as an annualized percentage of average total stockholders' equity, was 13.55% and 13.23% during the three and six month periods ended June 30, 1994, respectively, compared with 12.69%, and 12.91% during the comparable periods of 1993.

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

FINANCIAL HIGHLIGHTS
Amounts in thousands, except per share

	Three months ended June 30			Six months ended June 30		
	1994	1993	Change	1994	1993	Change
FOR THE PERIOD						
Net income	$28,681	25,185	+ 14 %	$56,309	49,507	+ 14 %
Per common share						
Net income						
Primary	$3.96	3.42	+ 16	$7.73	$6.73	+ 15
Fully diluted	3.80	3.31	+ 15	7.43	6.52	+ 14
Cash dividends	.50	.50	-	1.00	.90	+ 11
Average common shares outstanding						
Primary	7,014	7,102	- 1	7,048	7,086	- 1
Fully diluted	7,541	7,609	- 1	7,578	7,598	-
Annualized return on						
Average total assets	1.16 %	.96 %		1.14 %	.98 %	
Average common stockholders' equity	16.32 %	15.74 %		16.00 %	15.80 %	
Market price per common share						
Closing	$156.50	137.00	+ 14	$156.50	137.00	+ 14
High	156.50	159.00		156.50	159.00	
Low	136.75	133.13		135.00	130.25	
AT JUNE 30						
Loans and leases, net of unearned discount	$7,401,229	7,020,603	+ 5 %			
Total assets	10,335,638	10,456,807	- 1			
Total deposits	7,275,888	7,590,933	- 4			
Total stockholders' equity	717,699	670,244	+ 7			
Stockholders' equity per common share	$100.63	91.67	+ 10			

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

AVERAGE BALANCE SHEETS AND ANNUALIZED TAXABLE-EQUIVALENT RATES
Average balance in millions; interest in thousands

	1994 Second quarter			1994 First quarter		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Assets						
Earning assets						
Loans and leases, net of unearned discount*						
Commercial, financial, etc.	$ 1,463	$ 27,993	7.68 %	1,475	26,080	7.17 %
Real estate	4,471	95,067	8.50	4,457	93,058	8.35
Consumer	1,332	30,071	9.06	1,256	29,884	9.65
Total loans and leases, net	7,266	153,131	8.45	7,188	149,022	8.41
Money-market assets						
Interest-bearing deposits at banks	5	57	4.38	18	154	3.55
Federal funds sold and agreements to resell securities	138	1,390	4.03	155	1,443	3.76
Trading account	9	126	5.65	11	177	6.81
Total money-market assets	152	1,573	4.14	184	1,774	3.92
Investment securities						
U.S. Treasury and federal agency	1,186	13,217	4.47	1,297	14,673	4.59
State and municipal	54	740	5.49	52	731	5.66
Other	857	12,510	5.86	944	11,960	5.14
Total investment securities	2,097	26,467	5.06	2,293	27,364	4.84
Total earning assets	9,515	181,171	7.64	9,665	178,160	7.48
Allowance for possible credit losses	(219)			(203)		
Cash and due from banks	309			308		
Other assets	281			286		
Total assets	$ 9,886			10,056		
Liabilities and stockholders' equity						
Interest-bearing liabilities						
Interest-bearing deposits						
NOW accounts	$ 751	2,814	1.50	761	2,846	1.52
Savings deposits	3,380	20,921	2.48	3,400	20,689	2.47
Time deposits	1,993	20,797	4.18	1,992	18,747	3.82
Deposits at foreign office	104	817	3.14	137	928	2.75
Total interest-bearing deposits	6,228	45,349	2.92	6,290	43,210	2.79
Short-term borrowings	1,775	17,391	3.93	1,872	14,501	3.14
Obligations under capital leases	1	13	10.06	1	15	10.19
Other long-term borrowings	75	1,524	8.15	75	1,523	8.24
Total interest-bearing liabilities	8,079	64,277	3.19	8,238	59,249	2.92
Demand deposits	992			997		
Other liabilities	92			90		
Total liabilities	9,163			9,325		
Stockholders' equity	723			731		
Total liabilities and stockholders' equity	$ 9,886			10,056		
Net interest spread			4.45			4.56
Contribution of interest-free funds			0.48			0.43
Net interest income/margin on earning assets		$ 116,894	4.93 %		118,911	4.99 %

*Includes nonaccruing loans

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

AVERAGE BALANCE SHEETS AND ANNUALIZED TAXABLE-EQUIVALENT RATES (continued)
Average balance in millions; interest in thousands

	1993 Fourth quarter			1993 Third quarter		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Assets						
Earning assets						
Loans and leases, net of unearned discount*						

Commercial, financial, etc.	$ 1,443	$ 26,278	7.23 %	1,387	27,931	7.99 %
Real estate	4,410	93,670	8.50	4,411	94,939	8.61
Consumer	1,227	30,362	9.82	1,193	30,469	10.13
Total loans and leases, net	7,080	150,310	8.42	6,991	153,339	8.70
Money-market assets						
Interest-bearing deposits at banks	174	1,553	3.55	212	1,897	3.55
Federal funds sold and agreements to resell securities	577	4,976	3.42	343	2,953	3.41
Trading account	19	268	5.61	17	265	6.11
Total money-market assets	770	6,797	3.50	572	5,115	3.54
Investment securities						
U.S. Treasury and federal agency	1,492	17,072	4.54	1,497	17,065	4.52
State and municipal	47	677	5.74	34	579	6.75
Other	982	10,694	4.32	853	8,971	4.17
Total investment securities	2,521	28,443	4.48	2,384	26,615	4.43
Total earning assets	10,371	185,550	7.10	9,947	185,069	7.38
Allowance for possible credit losses	(194)			(179)		
Cash and due from banks	310			306		
Other assets	288			274		
Total assets	$ 10,775			10,348		
Liabilities and stockholders' equity						
Interest-bearing liabilities						
Interest-bearing deposits						
NOW accounts	$ 773	3,060	1.57	769	3,204	1.65
Savings deposits	3,430	21,372	2.47	3,479	22,108	2.52
Time deposits	2,024	20,590	4.04	2,166	23,499	4.30
Deposits at foreign office	115	788	2.70	121	827	2.72
Total interest-bearing deposits	6,342	45,810	2.87	6,535	49,638	3.01
Short-term borrowings	2,517	19,412	3.06	1,949	14,837	3.02
Obligations under capital leases	1	15	9.97	1	16	9.98
Other long-term borrowings	75	1,524	8.06	75	1,523	8.06
Total interest-bearing liabilities	8,935	66,761	2.96	8,560	66,014	3.06
Demand deposits	1,010			981		
Other liabilities	127			127		
Total liabilities	10,072			9,668		
Stockholders' equity	703			680		
Total liabilities and stockholders' equity	$ 10,775			10,348		
Net interest spread			4.14			4.32
Contribution of interest-free funds			0.40			0.43
Net interest income/margin on earning assets		$ 118,789	4.54 %		119,055	4.75 %

*Includes nonaccruing loans

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

AVERAGE BALANCE SHEETS AND ANNUALIZED TAXABLE-EQUIVALENT RATES (continued)
average balance in millions; interest in thousands

	1993 Second quarter		
	Average balance	Interest	Average rate
Assets			
Earning assets			
Loans and leases, net of unearned discount*			
Commercial, financial, etc.	$ 1,414	$ 29,308	8.31 %
Real estate	4,395	95,295	8.67
Consumer	1,148	29,158	10.19
Total loans and leases, net	6,957	153,761	8.86
Money-market assets			
Interest-bearing deposits at banks	200	1,780	3.57
Federal funds sold and agreements to resell securities	805	6,468	3.22
Trading account	45	596	5.32
Total money-market assets	1,050	8,844	3.38
Investment securities			
U.S. Treasury and federal agency	1,258	15,561	4.96
State and municipal	38	628	6.63
Other	767	10,623	5.56
Total investment securities	2,063	26,812	5.21

Total earning assets	10,070	189,417	7.54
Allowance for possible credit losses	(168)		
Cash and due from banks	305		
Other assets	276		
Total assets	$ 10,483		
Liabilities and stockholders' equity			
Interest-bearing liabilities			
Interest-bearing deposits			
NOW accounts	$ 710	3,198	1.81
Savings deposits	3,542	22,694	2.57
Time deposits	2,315	26,020	4.51
Deposits at foreign office	118	790	2.68
Total interest-bearing deposits	6,685	52,702	3.16
Short-term borrowings	1,960	14,820	3.03
Obligations under capital leases	1	16	10.09
Other long-term borrowings	75	1,524	8.15
Total interest-bearing liabilities	8,721	69,062	3.18
Demand deposits	964		
Other liabilities	139		
Total liabilities	9,824		
Stockholders' equity	659		
Total liabilities and stockholders' equity	$ 10,483		
Net interest spread			4.36
Contribution of interest-free funds			0.43
Net interest income/margin on earning assets		$ 120,355	4.79 %

*Includes nonaccruing loans

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

A number of lawsuits were pending against First Empire and its subsidiaries at June 30, 1994. In the opinion of management, the potential liabilities, if any, arising from such litigation will not have a materially adverse impact on the Company's consolidated financial condition. Moreover, management believes that First Empire or its subsidiaries have substantial defenses in such litigation, but that there can be no assurance that the potential liabilities, if any, arising from such litigation will not have a materially adverse impact on the Company's consolidated results of operations in the future.

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

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

Item 4. Submission of Matters to a Vote of Security Holders.

Information concerning the re-election of directors at First Empire's Annual Meeting of Stockholders held on April 19, 1994 was previously reported in response to Item 4 of Part II of First Empire's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1994.

Item 5. Other Information. None.

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

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

Exhibit No.	
11	Statement re: Computation of Earnings Per Common Share. Filed herewith.

(b) Reports on Form 8-K.

On April 12, 1994, First Empire filed a Current Report on Form 8-K with the Securities and Exchange Commission dated April 1, 1994 reporting on First Empire's April 1, 1994 announcement that it had entered into a definitive agreement with Ithaca Bancorp, Inc. ("Ithaca Bancorp"), Ithaca, New York, pursuant to which Ithaca Bancorp will be acquired by First Empire upon the satisfaction of a number of conditions.

SIGNATURES

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

FIRST EMPIRE STATE CORPORATION

Date: August 1, 1994

By: /s/ James L. Vardon

James L. Vardon
Executive Vice President
and Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	
11	Statement re: Computation of Earnings Per Common Share. Filed herewith.

Exhibit No. 11

FIRST EMPIRE STATE CORPORATION

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

		Three months ended June 30		Six months ended June 30	
		1994	1993	1994	1993
Primary	Average common shares outstanding	6,797	6,873	6,834	6,861
	Common stock equivalents *	217	229	214	225
	Primary common shares outstanding	7,014	7,102	7,048	7,086
	Net income	$28,681	25,185	56,309	49,507
	Less: Cash dividends on preferred stock	900	900	1,800	1,800
	Net income available to common shareholders	$27,781	24,285	54,509	47,707
	Earnings per common share - primary	$3.96	3.42	7.73	6.73
Fully diluted	Average common shares outstanding	6,797	6,873	6,834	6,861
	Common stock equivalents *	237	229	237	230
	Assumed conversion of 9% cumulative convertible preferred stock	507	507	507	507
	Fully diluted average common shares outstanding	7,541	7,609	7,578	7,598
	Net income	$28,681	25,185	56,309	49,507
	Earnings per common share - fully diluted	$3.80	3.31	7.43	6.52

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