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, 1996
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)

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
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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. /X/

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 3, 1997: $1,539,636,841.

Number of shares of the Common Stock, $5 par value, outstanding as of the close of business on March 3, 1997: 6,690,722 shares.

Documents Incorporated By Reference:

(1) Portions of the Proxy Statement for the 1997 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, 1996

CROSS-REFERENCE SHEET

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, 1996, the Company had consolidated total assets of $12.9 billion, deposits of $10.5 billion and stockholders' equity of $906 million. The Company had 4,407 full-time and 773 part-time employees as of December 31, 1996.

At December 31, 1996, the Registrant had three wholly owned bank subsidiaries: Manufacturers and Traders Trust Company ("M&T Bank"), The East New York Savings Bank ("East New York") and M&T Bank, National Association ("M&T Bank, N.A."). Collectively, the banks offer a wide range of commercial banking, trust and investment services to their customers. The Registrant currently is in the process of merging M&T Bank and East New York, and it is anticipated that the merger will be completed during the first half of 1997. At December 31, M&T Bank represented 86% of consolidated assets of the Company and, after giving effect to the merger of M&T Bank and East New York, would represent 97% of the consolidated total assets of the Company.

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, currently continues to actively 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, the FDIC and the Federal Home Loan Bank System. 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, 1996, M&T Bank had 161 banking offices located throughout New York State plus a branch in Nassau, The Bahamas. As of December 31, 1996, M&T Bank had consolidated total assets of $11.1 billion, deposits of $8.3 billion and stockholder's equity of $687 million. 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 $8.2 billion in assessable deposits at December 31, 1996, 86% 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 also provides other financial services through its operating subsidiaries.

East New York was acquired by First Empire in December 1987. East New York, originally organized in 1868, is a New York-chartered capital stock savings bank and a member of the FDIC and of the Federal Home Loan Bank System. The deposit liabilities of East New York are insured by the FDIC through the BIF. The stock of East New York represents a major asset of First Empire. The principal executive offices of East New York are located at 2644 Atlantic Avenue, Brooklyn, New York 11207. Its banking business is conducted from 14 banking offices located in New York City and Nassau County, Long Island. As of December 31, 1996, East New York had consolidated total assets of $2.0 billion, deposits of $1.8 billion and stockholder's equity of $149 million. East New York takes deposits from, and offers other banking services to, a diverse base of customers located in its markets. East New York concentrates on marketing on behalf of the Company commercial mortgage loans that are secured by income producing properties that are primarily located throughout the metropolitan New York City area, especially apartment buildings and cooperative apartments.

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 54 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. As of December 31, 1996, M&T Bank, N.A. had total assets of $510 million, deposits of $468 million and stockholder's equity of $34 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 ("SBIA"). M&T Capital provides equity capital and long-term credit to "small-business concerns", as defined by the SBIA. M&T Capital had assets of $5 million and stockholder's equity of $4 million as of December 31, 1996, and recorded approximately $1.8 million of revenues in 1996. 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, 1996, M&T Credit had assets of $289 million and stockholder's equity of $0.8 million. M&T Credit recorded $17.1 million of revenues during 1996.

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, East New York, M&T, 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 $334 million and stockholder's equity of $88 million as of December 31, 1996, and recorded approximately $73.6 million of revenues during 1996. Residential mortgage loans serviced by M&T Mortgage for non-affiliates totaled $5.8 billion at December 31, 1996. 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 $81 million and stockholder's equity of $16 million as of December 31, 1996, and recorded approximately $0.7 million of revenues in 1996. 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 87.3% of the preferred stock of M&T Real Estate. The remaining 12.7% 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, 1996, M&T Real Estate had assets and stockholder's equity of $3.5 billion. M&T Real Estate recorded $299 million of revenues in 1996. 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 under the New York State Insurance Law. It provides securities brokerage and investment advisory services. As of December 31, 1996, M&T Securities had assets of $6 million and stockholder's equity of $.3 million. M&T Securities recorded $15 million of revenues during 1996. 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, 1996, Highland Lease had assets of $147 million and stockholder's equity of $8 million. Highland Lease recorded $10 million of revenues during 1996.

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, 1996.

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 15 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.

On September 29, 1994, the Riegle-Neal Interstate Banking Efficiency Act of 1994 (the "Interstate Banking Act") was enacted into law. Generally, the Interstate Banking Act permits bank holding companies to acquire banks in any state as of September 29, 1995, 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, prior to June 1, 1997, a bank to merge with an out-of-state bank and convert any offices into branches of the resulting bank if the home states of both banks expressly permit interstate bank mergers; permits, beginning June 1, 1997, 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, beginning June 1, 1997, 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.

On January 29, 1996, New York State enacted into law an interstate branching law which enables New York to "opt-in" early to interstate branching by merger and acquisition, as permitted under the Interstate Banking Act. The law adopted in New York (the "New York Interstate Branching Law") provides for the immediate opt-in of branching by merger or acquisition on a reciprocal basis until June 1, 1997, and is thereafter unrestricted. The New York Interstate Branching Law permits the acquisition of a single branch on a reciprocal basis until June 1, 1997, and thereafter 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 regulation, and are examined regularly, by various bank regulatory agencies: M&T Bank by the Federal Reserve Board and the Banking Superintendent; East New York by the FDIC and the Banking Superintendent; and M&T Bank, N.A. by the Comptroller of the Currency. 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, East New York 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 Office of the Comptroller of the Currency ("OCC") have adopted risk-based capital adequacy guidelines for bank holding companies and banks under their supervision. Under the 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, East New York and M&T Bank, N.A. as of December 31, 1996 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, 1996
(dollars in millions)

	Registrant (Consolidated)	M&T Bank	East New York	M&T Bank N.A.
Capital Components				
Tier 1 capital	$ 889	$ 673	$ 149	$ 34
Total capital	1,198	966	164	37
Risk-weighted assets and off-balance sheet instruments	$10,590	$9,301	$1,192	$222
Risk-based Capital Ratio				
Tier 1 capital	8.40%	7.24%	12.50%	15.23%
Total capital	11.32	10.39	13.76	16.49
Leverage Ratio	6.99	6.22	7.47	6.59

FDICIA required each federal banking agency, including the Federal Reserve Board, to revise its risk-based capital standards within 18 months of the enactment of the statute into law on December 19, 1991 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.

On December 29, 1993, the Federal Reserve Board amended the risk-based capital guidelines, effective December 31, 1993, lowering from 100 percent to 50 percent the risk weight assigned to certain multifamily housing loans.

On December 7, 1994, the Federal Reserve Board adopted a final rule, effective December 31, 1994, providing that institutions regulated by the Federal Reserve Board could net for risk-based capital purposes the positive and negative market values of interest and exchange rate contracts subject to a qualifying, legally enforceable, bilateral netting contract to calculate one current exposure for that netting contract.

On December 8, 1994, the Federal Reserve Board amended its risk-based capital guidelines effective December 31, 1994, directing institutions to generally not include in regulatory capital the "net unrealized holding gains (losses) on securities available for sale", determined pursuant to the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," when preparing financial statements in accordance with generally accepted accounting principles. Net unrealized losses on marketable equity securities (i.e., equity securities with readily determinable fair values), however, continue to be deducted from Tier 1 capital. This rule has the general effect of valuing available for sale securities at amortized cost (i.e., based on historical cost), rather than at fair value (i.e., generally at market value), for purposes of calculating the risk-based and leverage ratios.

On December 15, 1994, the Federal Reserve Board issued a final rule, effective January 17, 1995, addressing concentration of credit risk and risks of nontraditional activities. Accordingly, risk-based capital guidelines were amended to explicitly cite concentrations of credit risk and an institution's ability to monitor and control them as important factors in assessing an institution's overall capital adequacy. Institutions identified through the examination process as having significant exposure to concentration of credit risk or as not adequately managing concentration risk will be required to hold capital in excess of the regulatory minimums. The risk-based capital guidelines were further amended to explicitly cite the risks arising from nontraditional activities and management's ability to monitor and control these risks as important factors to consider in assessing an institution's overall capital adequacy. The rule requires that as banking institutions begin to engage in, or significantly expand their participation in, a nontraditional activity, the risks of that activity be promptly analyzed and the activity given appropriate capital treatment by the agencies.

On December 22, 1994, the Federal Reserve Board revised its capital adequacy guidelines, effective April 1, 1995, to establish a limitation on the amount of certain deferred tax assets that may be included in (that is, not deducted from) Tier 1 capital for purpose of risk-based capital and leverage ratios. Under the revised guidelines, deferred tax assets that can only be realized if an institution earns taxable income in the future are limited for regulatory capital purposes to the amount that the institution expects to realize, based on projections of taxable income, within one year of each quarter-end report date or 10 percent of Tier 1 capital, whichever is less.

On August 2, 1995, the federal banking agencies issued final rules under which exposure to interest rate risk will be measured as the effect that a change in interest rates would have on the net economic value of a bank. This economic perspective considers the effect that changing interest rates may have on the value of a bank's assets, liabilities and off-balance sheet positions. Exposure estimates collected through a new proposed supervisory measurement process, a bank's historical financial performance, and it's earnings exposure to interest rate movements will be quantitative factors used by examiners to determine the adequacy of a bank's capital for interest rate risk. Examiners will also consider qualitative factors, including the adequacy of a bank's internal interest rate risk management. As a result, the final supervisory judgement on a bank's capital adequacy may differ significantly from conclusions that might be drawn solely from the level of the bank's risk-based capital ratio.

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 CAMEL 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 CAMEL 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, East New York 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 adopted such standards in 1993.

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, East New York 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. None of the Company's banking subsidiaries paid regular insurance assessments to the FDIC in 1996. However, the FDIC retains the ability to increase regular BIF and SAIF assessments and to levy special additional assessments.

On September 30, 1996, President Clinton signed into law legislation that required the FDIC to impose a one-time special assessment to recapitalize the SAIF and increase its reserve ratio to 1.25% of estimated insured deposits. As a result, for the quarter ended September 30, 1996, the Company recorded a pre-tax charge of $7.0 million for this assessment that was related to the SAIF-insured deposits of M&T Bank.

In addition to deposit insurance fund assessments, in 1997 the FDIC will assess 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. Under the September 1996 legislation, 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 1.30 basis points and 6.48 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, East New York 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 New York State Interstate Branching 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

Item 1, Table 1

SELECTED CONSOLIDATED YEAR-END BALANCES

DOLLARS IN THOUSANDS	1996	1995	1994	1993	1992
Money-market assets					
Interest-bearing deposits at banks	$ 47,325	125,500	143	55,044	110,041
Federal funds sold and resell agreements	125,326	1,000	3,080	329,429	312,461
Trading account	37,317	9,709	5,438	9,815	53,515
Total money-market assets	209,968	136,209	8,661	394,288	476,017
Investment securities					
U.S. Treasury and federal agencies	1,023,038	1,087,005	999,407	1,387,395	916,621
Obligations of states and political subdivisions	41,445	35,250	55,787	49,230	53,789
Other	507,215	647,040	735,846	992,527	750,154
Total investment securities	1,571,698	1,769,295	1,791,040	2,429,152	1,720,564
Loans and leases					
Commercial, financial, leasing, etc	2,206,282	2,013,937	1,680,415	1,510,205	1,478,555
Real estate--construction	90,563	77,604	53,535	51,384	35,831
Real estate--mortgage	6,199,931	5,648,590	5,046,937	4,540,177	4,422,730
Consumer	2,623,445	2,133,592	1,666,230	1,337,293	1,211,401
Total loans and leases	11,120,221	9,873,723	8,447,117	7,439,059	7,148,517
Unearned discount	(398,098)	(317,874)	(229,824)	(177,960)	(164,713)
Allowance for possible credit losses	(270,466)	(262,344)	(243,332)	(195,878)	(151,690)
Loans and leases, net	10,451,657	9,293,505	7,973,961	7,065,221	6,832,114
Other real estate owned	8,523	7,295	10,065	12,222	16,694
Total assets	12,943,915	11,955,902	10,528,644	10,364,958	9,587,931
Demand deposits	1,352,929	1,184,359	1,087,102	1,052,258	1,078,690
NOW accounts	334,787	768,559	748,199	764,690	770,618
Savings deposits	3,280,788	2,765,301	3,098,438	3,364,983	3,573,717
Time deposits	5,352,749	4,596,053	3,106,723	1,982,272	2,536,309
Deposits at foreign office	193,236	155,303	202,611	189,058	117,776
Total deposits	10,514,489	9,469,575	8,243,073	7,353,261	8,077,110
Short-term borrowings	1,150,187	1,273,206	1,364,850	2,101,667	692,691
Long-term borrowings	178,002	192,791	96,187	75,590	75,685
Total liabilities	12,038,256	11,109,649	9,807,648	9,640,964	8,961,136
Stockholders' equity	905,659	846,253	720,996	723,994	626,795

STOCKHOLDERS, EMPLOYEES AND OFFICES

NUMBER AT YEAR-END	1996	1995	1994	1993	1992
Stockholders	3,654	3,787	3,981	3,985	4,157
Employees	5,180	4,889	4,505	4,400	4,275
Banking offices	202	181	168	145	151

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

Item 1, Table 2

CONSOLIDATED EARNINGS

DOLLARS IN THOUSANDS	1996	1995	1994	1993	1992
Interest income					
Loans and leases, including fees	$ 881,002	794,181	633,077	608,473	602,932
Money-market assets					
Deposits at banks	2,413	8,181	2,212	6,740	1,083
Federal funds sold and resell agreements	2,985	3,007	4,751	20,403	18,100
Trading account	980	1,234	361	1,242	2,927
Investment securities					
Fully taxable	107,415	118,791	104,185	101,187	125,529
Exempt from federal taxes	2,637	2,760	2,760	2,584	5,906
Total interest income	997,432	928,154	747,346	740,629	756,477
Interest expense					
NOW accounts	9,430	11,902	11,286	13,113	16,544
Savings deposits	84,822	87,612	84,804	90,392	110,142
Time deposits	286,088	239,882	97,067	98,508	153,588
Deposits at foreign office	12,399	6,952	5,894	3,243	4,348
Short-term borrowings	59,442	84,225	73,868	58,459	38,386
Long-term borrowings	14,227	11,157	6,287	6,158	590
Total interest expense	466,408	441,730	279,206	269,873	323,598
Net interest income	531,024	486,424	468,140	470,756	432,879
Provision for possible credit losses	43,325	40,350	60,536	79,958	84,989
Net interest income after provision for possible credit losses	487,699	446,074	407,604	390,798	347,890
Other income					
Mortgage banking revenues	44,484	37,142	16,002	12,776	10,943
Service charges on deposit accounts	40,659	38,290	35,016	32,291	28,372
Trust income	27,672	25,477	22,574	23,865	16,905
Merchant discount and other credit card fees	18,266	10,675	8,705	7,932	6,728
Trading account and foreign exchange gains	2,421	2,783	738	3,518	5,391
Gain (loss) on sales of bank investment securities	(37)	4,479	128	870	28,050
Gain on sales of venture capital investments	3,175	2,619	802	2,896	3,230
Other revenues from operations	33,608	28,073	39,774	26,396	26,607
Total other income	170,248	149,538	123,739	110,544	126,226
Other expense					
Salaries and employee benefits	208,342	188,222	161,221	154,340	130,751
Equipment and net occupancy	51,346	50,526	49,132	47,823	41,659
Printing, postage and supplies	15,167	14,442	13,516	13,021	13,111
Deposit insurance	9,337	14,675	16,442	17,684	17,783
Other costs of operations	124,786	106,574	96,551	94,951	108,034
Total other expense	408,978	374,439	336,862	327,819	311,338
Income before income taxes	248,969	221,173	194,481	173,523	162,778
Income taxes	97,866	90,137	77,186	71,531	64,841
Net income	$ 151,103	131,036	117,295	101,992	97,937
Dividends declared					
Common	$ 18,617	16,224	14,743	13,054	10,780
Preferred	900	3,600	3,600	3,600	3,600

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

Item 1, Table 3

COMMON SHAREHOLDER DATA

DOLLARS IN THOUSANDS	1996	1995	1994	1993	1992
Per Share					
Net income	$ 21.31	18.79	16.35	13.87	13.41
Cash dividends declared	2.80	2.50	2.20	1.90	1.60
Stockholders' equity at year-end	135.45	125.33	103.02	99.43	85.79
Dividend payout ratio	12.39%	12.73%	12.97%	13.27%	11.43%

Item 1, Table 4

CHANGES IN INTEREST INCOME AND EXPENSE*

	1996 COMPARED WITH 1995			1995 COMPARED WITH 1994		
		RESULTING FROM CHANGES IN:			RESULTING FROM CHANGES IN:	
INCREASE (DECREASE) IN THOUSANDS	TOTAL CHANGE	VOLUME	RATE	TOTAL CHANGE	VOLUME	RATE
Interest income						
Loans and leases, including fees	$ 86,509	110,121	(23,612)	$161,336	127,303	34,033
Money-market assets						
Deposits at banks	(5,768)	(4,669)	(1,099)	5,969	4,005	1,964
Federal funds sold and agreements to resell securities	(22)	409	(431)	(1,744)	(3,335)	1,591
Trading account	(239)	107	(346)	840	952	(112)
Investment securities						
U.S. Treasury and federal agencies	(225)	(2,555)	2,330	17,563	3,841	13,722
Obligations of states and political subdivisions	(742)	(584)	(158)	348	(227)	575
Other	(10,390)	(11,194)	804	(2,945)	(6,562)	3,617
Total interest income	$ 69,123			$181,367		
Interest expense						
Interest-bearing deposits						
NOW accounts	$ (2,472)	(1,523)	(949)	$ 616	237	379
Savings deposits	(2,790)	1,016	(3,806)	2,808	(9,704)	12,512
Time deposits	46,206	57,335	(11,129)	142,815	105,852	36,963
Deposits at foreign office	5,447	5,500	(53)	1,058	(953)	2,011
Short-term borrowings	(24,783)	(15,953)	(8,830)	10,357	(16,495)	26,852
Long-term borrowings	3,070	3,262	(192)	4,870	5,272	(402)
Total interest expense	$ 24,678			$162,524		

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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, 1996, the cost of this property, net of accumulated depreciation, was $9.7 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 84% 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, 1996, the cost of this building, including improvements made subsequent to acquisition and net of accumulated depreciation, was $15.8 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 $12.5 million.

The cost, net of accumulated depreciation and amortization, of the Company's premises and equipment is detailed in note 6 of Notes to Financial Statements filed herewith in Part II, Item 8, "Financial Statements and Supplementary Data". Of the 175 domestic banking offices of the Registrant's subsidiary banks, 56 are owned in fee and 119 are leased.

Item 3. Legal Proceedings.

M&T Bank, N.A., is party to a co-branded credit card agreement with Giant of Maryland, Inc. ("Giant"). In October 1996, M&T Bank, N.A. notified Giant of its intent to terminate the agreement under its termination provisions. In December 1996, Giant filed a complaint against M&T Bank, N.A. in the United States District Court for the District of Maryland alleging that M&T Bank, N.A. breached the agreement by attempting to terminate and that M&T Bank, N.A. negligently misrepresented certain information provided to Giant. The complaint sought interlocutory and permanent injunctive relief, specific performance for the five-year term of the agreement, and damages for breach of contract and negligent misrepresentation in the amount of $40 million. Subsequent to filing of the complaint, Giant withdrew its request for injunctive relief, agreed to dismiss the litigation, and consented to arbitration of the claims of M&T Bank, N.A. and Giant against each other. Management believes that M&T Bank, N.A. has meritorious defenses to Giant's claims and is vigorously defending against them.

First Empire and its subsidiaries are subject in the normal course of business to various other pending and threatened legal proceedings in which claims for monetary damages are asserted. Management, after consultation with legal counsel, does not anticipate that the aggregate ultimate liability, if any, arising out of litigation pending against First Empire or its subsidiaries will be material to 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 3, 1997. 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 62, 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 East New York (1988) and M&T Financial (1985). He is chairman of the board and a director of M&T Bank, N.A.(1995).

Atwood Collins, III, age 50, is president, chief executive officer and a director (1995) of East New York. Previously, Mr. Collins served as executive vice president and chief operating officer of East New York (1988). Mr. Collins is an executive vice president of the Registrant (1997) and of M&T Bank (1996). He is a director of M&T Real Estate (1995). Mr. Collins held a number of management positions with Morgan Guaranty Trust Company of New York from 1972 to 1988, including the position of senior vice president and manager of treasury operations which he held immediately prior to joining East New York.

Mark J. Czarnecki, age 41, 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). 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 44, is president (1994) of the Rochester Division of M&T Bank and is an executive vice president of the Registrant (1997) and of M&T Bank (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. Before joining M&T Bank, Mr. Hickey served as regional president, Rochester/Southern Region of Marine Midland Bank, which he joined as a regional executive in 1989. Mr. Hickey is a director of M&T Financial (1996).

James L. Hoffman, age 57, is president (1992) of the Hudson Valley Division of M&T Bank, and is an executive vice president of the Registrant (1997) and of 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. He served as an executive vice president of M&T Bank from 1974 to 1984.

Barbara L. Laughlin, age 52, is an executive vice president of the Registrant (1993) and of M&T Bank (1990), and is in charge of the Company's Technology and Banking Operations Division. Ms. Laughlin is an executive vice president and a director of M&T Bank, N.A.(1995). Ms. Laughlin was executive vice president of retail banking and technology at The Seamen's Bank for Savings from June 1986 to April 1990 before joining 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 41, 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.

William C. Rappolt, age 51, is an executive vice president and treasurer of the Registrant (1993) and M&T Bank (1984), and executive vice president of East New York (1994). Mr. Rappolt is in charge of the Company's Treasury Division. Mr. Rappolt is a director of M&T Financial (1985), M&T Securities (1985), and is an executive vice president and a director of M&T Bank, N.A.(1995).

Robert E. Sadler, Jr., age 51, is an executive vice president of the Registrant (1990), president and a director of M&T Bank (1996), and executive vice president of East New York (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).

Harry R. Stainrook, age 60, is an executive vice president of the Registrant (1993) and of M&T Bank (1985), and was in charge of M&T Bank's Trust and Investment Services Division from 1985 until February 1997. Mr. Stainrook is a director of M&T Securities (1994), and is an executive vice president of M&T Bank, N.A. (1996). Mr. Stainrook has announced his retirement from the Registrant and all of its subsidiaries, effective March 31, 1997.

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 $12.9 billion at December 31, 1996. 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"), The East New York Savings Bank ("East New York") and M&T Bank, National Association ("M&T Bank, N.A."), all of which are wholly owned. M&T Bank, with total assets of $11.1 billion at December 31, 1996, is a New York-chartered commercial bank with 161 offices throughout New York State and an office in Nassau, The Bahamas. East New York, with $2.0 billion in assets at December 31, 1996, is a New York-chartered savings bank with 14 offices in metropolitan New York City. M&T Bank, N.A., with $510 million in assets at December 31, 1996, 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.

On March 29, 1996, National Indemnity Company, a subsidiary of Berkshire Hathaway Inc., the holder of all outstanding shares of First Empire's 9% convertible preferred stock, converted such shares into 506,930 shares of First Empire common stock. The 40,000 shares of preferred stock had been issued on March 15, 1991 for $40 million and were converted into shares of common stock at a contractual price of $78.90625 per share. As of December 31, 1996, common shares outstanding totaled 6,686,186, up from 6,433,166 and 6,610,503 at December 31, 1995 and 1994, respectively.

In December 1996, First Empire announced plans to merge East New York with and into M&T Bank. The merger is subject to regulatory approvals and is expected to be completed in the second quarter of 1997. Following the merger, East New York's business activities will operate as the New York City Division of M&T Bank.

During 1996 M&T Bank opened 20 branches in supermarkets, bringing the total number of supermarket branches opened in 1996 and 1995 to 27. Supermarket banking provides convenient access for customers to the banking services of M&T Bank.

Overview

Net income in 1996 was $151.1 million or $21.31 per common share, increases of 15% and 13%, respectively, from $131.0 million or $18.79 per common share in 1995. Fully diluted earnings per common share rose 18% to $20.97 in 1996 from $17.78 in 1995. In 1994, net income was $117.3 million while primary and fully diluted earnings per common share were $16.35 and $15.71, respectively. The 1995 results include $4.5 million of gains from sales of investment securities. The impact from sales of securities in 1996 and 1994 was negligible. Excluding the after-tax impact of gains from sales of investment securities, net income for 1995 was $128.4 million, representing primary and fully diluted earnings per share of $18.41 and $17.43, respectively.

The Company achieved a return on average assets in 1996 of 1.21%, compared with 1.14% in 1995 and 1.17% in 1994. The return on average common stockholders' equity was 17.60% in 1996, 17.16% in 1995 and 16.64% in 1994. 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%.

Taxable-equivalent net interest income increased 9% in 1996 to $536 million from $491 million in 1995. The chief factor contributing to improved net interest income was 14% growth in average loans, which resulted in a 9% increase in average earning assets from 1995 to 1996. A 15% increase in average earning assets, primarily loans, in 1995 was also the most significant factor for the rise in that year's net interest income from $472 million in 1994. Average earning assets totaled $12.0 billion in 1996, up from $11.1 billion in 1995 and $9.7 billion in 1994. Net interest margin, or taxable-equivalent net interest income expressed as a percentage of average earning assets, in 1996 was 4.45%, little changed from 4.43% in 1995, but down 44 basis points (hundredths of one percent) from 4.89% in 1994.

The provision for possible credit losses was $43.3 million in 1996, compared with $40.4 million in 1995 and $60.5 million in 1994. Net charge-offs in 1996 were $35.2 million, compared with $21.3 million in 1995 and $16.6 million in 1994. The increase from prior years reflects a higher level of consumer loan charge-offs.

In December 1994, First Empire transferred appreciated investment securities with a fair value of $15.7 million to an affiliated, tax-exempt charitable foundation. As a result of the transfer, in 1994 the Company recognized charitable contributions expense and tax-exempt other income of $13.8 million and $10.4 million, respectively, resulting in an after-tax increase in 1994 net income of $2.4 million.

Noninterest income for 1996 totaled $170 million, 17% above the $145 million in 1995 (excluding gains from sales of investment securities) and 50% above the $113 million in 1994 (excluding $10.4 million related to the December 1994 transfer of securities to the affiliated foundation). Higher revenues associated with mortgage banking and credit card activities were significant factors contributing to the growth of noninterest income. Noninterest expense was $409 million in 1996, up 9% from $374 million in 1995 and 27% from $323 million in 1994 (excluding $13.8 million related to the December 1994 transfer of investment securities). Expenses associated with expansion of businesses providing mortgage banking services, indirect automobile loans, credit cards and the sale of mutual funds and annuities, as well as the impact of acquisitions completed in 1995 and 1994, contributed to the rise in noninterest expense.

Net Interest Income/Lending and Funding Activities

Growth in average earning assets, which rose $966 million or 9% to $12.0 billion in 1996, was the primary factor contributing to a corresponding 9% increase in taxable-equivalent net interest income to $536 million in 1996 from $491 million in 1995. Taxable-equivalent net interest income and average earning assets in 1994 were $472 million and $9.7 billion, respectively. The growth in average earning assets in 1996 and 1995 was predominately attributable to increased demand for loans offered by the Company, including the effects of expansion of the Company's businesses which provide residential mortgage loans, indirect automobile loans and credit cards. The accompanying table summarizes average loans and leases outstanding in 1996 and percentage changes in the major components of the loan and lease portfolio over the past two years.

Loans secured by real estate, excluding $610 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 1996, down from 60% in 1995 and 61% in 1994. At December 31, 1996, the Company held approximately $4.0 billion of commercial real estate loans and $2.2 billion of consumer real estate loans.

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 presents commercial real estate loans at December 31, 1996 by geographic area, type of collateral and size of the loans outstanding. Of the $2.1 billion of commercial real estate loans in the New York City metropolitan area, approximately 60% were secured by multi-family residential properties, 13% by office space and 15% by retail 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 52% 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 13% 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 70% 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 $51 million, or .5% of total loans and leases at December 31, 1996.

The Company's portfolio of real estate loans secured by one-to-four family residential properties totaled $2.0 billion at December 31, 1996, approximately 70% of which were secured by properties located in New York

State. In addition, the Company's mortgage banking subsidiary, M&T Mortgage Corporation, had $194 million of residential real estate loans held for sale at December 31, 1996.

Consumer loans and leases represented approximately 22% of the loan portfolio during 1996, compared with 20% in 1995 and 19% in 1994. Beginning in 1994 and, to a greater extent, continuing in 1995 and 1996, the Company began to market automobile loans and leases and credit cards in areas outside of New York State. At December 31, 1996, 28% of the automobile loan portfolio was to borrowers outside of New York State, primarily 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 1996, automobile loans and leases represented approximately 10% of the Company's average loan portfolio, while no other consumer loan product represented more than 6%. Credit card accounts are marketed through mail campaigns and co-branding initiatives. Such initiatives involve 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. At December 31, 1996, 46% of outstanding credit card balances were with customers outside of New York State.

The Company's portfolio of investment securities averaged $1.8 billion in 1996, $2.0 billion in 1995 and $2.1 billion in 1994. Factors influencing the size of the investment securities portfolio include 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. As a result of changes in interest rates, actual or anticipated prepayments, or credit risk associated with a particular security, the Company occasionally sells investment securities. Realized gains or losses from sales of investment securities were negligible in 1996 and 1994, but during 1995, the Company realized a pre-tax gain of approximately $4.5 million from sales of approximately $445 million of investment securities. Furthermore, to enhance flexibility in managing the investment securities portfolio, and as allowed by the Financial Accounting Standards Board ("FASB"), in December 1995 the Company transferred approximately $220 million of U.S. Treasury notes from "held-to-maturity" to "available for sale" classification. No gain or loss was realized at the time of such transfer.

Money-market assets, which are comprised of interest-bearing deposits at banks, trading account assets, Federal funds sold and agreements to resell securities, averaged $124 million in 1996, compared with $186 million in 1995 and $166 million in 1994. The decline in money market assets from 1995 and 1994 resulted largely from increased demand for loans.

Core deposits represent a significant source of funding to the Company and generally carry lower interest rates than wholesale funds of comparable maturities. Such deposits include noninterest-bearing demand deposits, interest-bearing transaction accounts, savings deposits and nonbrokered domestic time deposits under $100,000. The principal source of core deposits for the Company is its New York State branch network. Certificates of deposit under $100,000 generated on a nationwide basis by M&T Bank, N.A. are also included in core deposits. In 1996, average core deposits rose to $8.0 billion from $7.4 billion in 1995. Core deposits averaged $6.8 billion in 1994. Average core deposits of M&T Bank, N.A., which began operations in the fourth quarter of 1995, were $261 million in 1996 and $3 million in 1995. Funding provided by core deposits totaled 66% of average earning assets in 1996, compared with 67% in 1995 and 70% in 1994. An analysis of changes in the components of core deposits is presented in the accompanying table.

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 $892 million in 1996 compared with $625 million in 1995 and $357 million in 1994. Offshore deposits, comprised primarily of accounts with balances of $100,000 or more, averaged $239 million in 1996, compared with $133 million and $156 million in 1995 and 1994, respectively. Brokered deposits averaged $1.1 billion in 1996, $874 million in 1995, and $45 million in 1994, and totaled $1.1 billion at December 31, 1996. Brokered deposits are used to reduce short-term borrowings and lengthen the average maturity of interest-bearing liabilities. The weighted-average remaining term to maturity of brokered deposits as of December 31, 1996 was 1.5 years. Additional amounts of brokered deposits may be solicited in the future depending on market conditions and the cost of funds available from alternative sources at the time.

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 $1.1 billion in 1996, $1.4 billion in 1995 and $1.8 billion in 1994. 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. Additionally, M&T Bank has issued $175 million of subordinated capital notes, of which $75 million mature in 2002 and $100 million mature in 2005. Although issued primarily to enhance regulatory capital ratios, such notes also provided funding to the Company.

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 3.80% in 1996, compared with 3.77% in 1995. A greater proportion of loans, which typically yield more than money-market assets and investment securities, in the composition of the earning asset portfolio somewhat mitigated a general decrease in market interest rates in 1996 compared with 1995. As a result, the yield on earning assets decreased slightly to 8.32% in 1996 from 8.42% in 1995. Similarly, the cost of interest-bearing liabilities also declined, to 4.52% in 1996 from 4.65% in 1995. The net interest spread, yield on earning assets and rate paid on interest-bearing liabilities in 1994 were 4.37%, 7.77% and 3.40%, respectively. In 1995, the increase in net interest income resulting from growth in average earning assets was partially offset by the narrowing of the net interest spread. Rising market interest rates throughout much of 1995 and 1994 had the effect of increasing the cost of the Company's interest-bearing liabilities more than the yield on earning assets. Largely due to the changes in the net interest spread described herein, the Company's net interest margin was 4.45% in 1996, compared with 4.43% in 1995 and 4.89% in 1994.

The contribution to net interest margin of interest-free funds, consisting largely of noninterest-bearing demand deposits and stockholders' equity, was .65% in 1996, .66% in 1995 and .52% in 1994. The improvement from 1994 resulted largely from increases in the average rate paid on interest-bearing liabilities used to value these funds, supplemented by increases in average interest-free funds. Average interest-free funds were $1.7 billion in 1996, $1.6 billion in 1995 and $1.5 billion in 1994.

Changing interest rates and spreads affect the Company's net interest income and net interest margin. Management believes that future changes in market interest rates or 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, 1996 was approximately $2.4 billion. In general, under the terms of these swaps, the Company receives payments based on the outstanding notional amount of the swaps at a fixed rate of interest and makes payments at a variable rate. However, under terms of a $34 million swap, the Company pays a fixed rate of interest and receives a variable rate. The effect of interest rate swaps on the Company's net interest income and margin as well as average notional amounts and rates are presented in the accompanying table.

The Company estimates that as of December 31, 1996 it would have received approximately $5.5 million if all interest rate swap agreements entered into for interest rate risk management purposes were 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 16 of Notes to Financial Statements.

During 1996, the FASB issued a Proposed Statement of Financial Accounting Standards that would significantly change generally accepted accounting for interest rate swaps, other derivative financial instruments and hedging activities. While it is not possible to predict the ultimate outcome of the FASB deliberations regarding the proposal, it is possible that changes in generally accepted accounting principles for these types of transactions and activities could have a material impact on the Company's consolidated balance sheet and consolidated statement of income in future years.

Provision for Possible Credit Losses

The provision for possible credit losses was $43.3 million in 1996, compared with $40.4 million in 1995 and $60.5 million in 1994. Net charge-offs in 1996 were $35.2 million, compared with $21.3 million in 1995 and $16.6 million in 1994. Net charge-offs as a percentage of average loans outstanding were .35% in 1996, .24% in 1995 and .22% in 1994. Nonaccrual loans totaled $58.2 million or .54% of loans outstanding at December 31, 1996, compared with $75.2 million or .79% a year earlier and $62.8 million or .76% at December 31, 1994. Loans past due ninety days or more and accruing interest totaled $39.7 million at December 31, 1996, up from $17.8 million a year earlier and $11.8 million at December 31, 1994. The increase in such past due loans from 1995 to 1996 resulted primarily from the inclusion at December 31, 1996 of $16.3 million of one-to-four family residential mortgage loans serviced by the Company and repurchased during 1996 from the Government National Mortgage Association. These loans are covered by guarantees of government agencies. The costs associated with servicing these loans were reduced as a result of the repurchases. The total of all nonperforming loan categories was $97.9 million or .91% of loans outstanding at December 31, 1996, compared with $93.1 million or .97% a year earlier and $77.5 million or .94% at December 31, 1994. The allowance for possible credit losses was $270.5 million or 2.52% of net loans and leases at the end of 1996, compared with $262.3 million or 2.75% at December 31, 1995 and $243.3 million or 2.96% at December 31, 1994. The ratio of the allowance to nonperforming loans was 276%, 282% and 314% at year-end 1996, 1995 and 1994, respectively.

Management regularly assesses the adequacy of the allowance for possible credit losses and records a provision to replenish or build the allowance to a level necessary to maintain an adequate reserve position. In making such assessment, management performs an ongoing evaluation of the loan and lease portfolio, including such factors as the differing economic risks associated with each loan category, the current financial condition of specific borrowers, the economic environment in which borrowers operate, the level of delinquent loans and the value of any collateral. Based upon the results of such review, management believes that the allowance for possible credit losses at December 31, 1996 was adequate to absorb credit losses from existing loans and leases.

A comparative allocation of the allowance for possible credit losses for each of the past five year-ends is presented in the accompanying table. Amounts were allocated to specific loan categories based upon management's classification of loans under the Company's internal loan grading system and estimates of potential charge-offs inherent in each category. However, as the total reserve is available to absorb losses from any loan category, amounts assigned do not necessarily indicate future losses within these categories. The unallocated portion of the reserve represents management's assessment of the overall level of credit risk inherent in the loan and lease portfolio over a longer time frame.

The Company's credit loss experience is influenced by many factors, including overall economic conditions, 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 $27.1 million, $42.3 million and $47.5 million at December 31, 1996, 1995 and 1994, respectively. At December 31, 1996, $10.3 million of nonperforming commercial real estate loans were secured by properties located in the New York City metropolitan area, compared with $16.8 million and $27.1 million at December 31, 1995 and 1994, respectively. Net charge-offs of commercial real estate loans were $1.5 million in 1996, $6.6 million in 1995 and $12.8 million in 1994. Included in these totals are net charge-offs of commercial real estate loans secured by properties in the New York City metropolitan area of $.6 million, $3.2 million and $11.1 million in 1996, 1995 and 1994, respectively.

Net charge-offs of consumer loans in 1996 were $28.5 million, or 1.30% of average consumer loans outstanding, compared with $11.3 million or .65% in 1995 and $5.6 million or .40% in 1994. 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 1996 and 1995. Net credit card and indirect automobile loan charge-offs in 1996 were $15.9 million and $9.6 million, respectively, compared with $6.1 million and $3.1 million, respectively, in 1995. In 1994, net credit card and indirect automobile loan charge-offs totaled $3.1 million and $1.5 million, respectively. Nonperforming consumer loans totaled $17.6 million or .73% of outstanding consumer loans at December 31, 1996, compared with $13.7 million or .70% at December 31, 1995 and $8.4 million or .54% at December 31, 1994.

Commercial real estate loans secured by multi-family properties in the New York City metropolitan area were 12% of loans outstanding at December 31, 1996. The Company, however, had no concentrations of credit extended to any specific industry that exceeded 10% of total loans outstanding at December 31, 1996. Furthermore, the Company had no exposure to less developed countries and only $2 million of foreign loans in total.

Assets taken in foreclosure of defaulted loans totaled $8.5 million at December 31, 1996, compared with $7.3 million and $10.1 million at the end of 1995 and 1994, respectively.

Other Income

Excluding the effect from sales of bank investment securities, other income increased 17% to $170 million in 1996 from $145 million in 1995 and 50% from $113 million (excluding the previously noted $10.4 million of tax-exempt income resulting from the transfer of appreciated investment securities to an affiliated, tax-exempt charitable foundation) in 1994.

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 $44.5 million in 1996 from $37.1 million in 1995 and $16.0 million in 1994. Revenues from servicing residential mortgage loans for others were $20.9 million in 1996, $19.3 million in 1995 and $13.6 million in 1994. Gains from sales of residential mortgage loans and loan servicing rights increased to $21.6 million in 1996, compared with $16.4 million and $1.4 million in 1995 and 1994, respectively. The $21.1 million improvement in mortgage banking revenue in 1995 from 1994 was attributable to growth in the Company's residential mortgage servicing business, as well as the January 1, 1995 adoption of Statement of Financial Accounting Standards ("SFAS") No. 122 "Accounting for Mortgage Servicing Rights." The effect of implementing SFAS No. 122 was to increase 1995 mortgage banking revenue and noninterest expense by $10.0 million and $1.8 million, respectively. The Company originates residential mortgage loans in New York State, as well as in Arizona, Colorado, Massachusetts, Ohio, Oregon, Utah and Washington. Residential mortgage loans serviced for others totaled $5.8 billion, $5.7 billion and $4.0 billion at December 31, 1996, 1995 and 1994, respectively. Capitalized mortgage servicing rights and excess servicing receivables were $37.8 million and $6.5 million, respectively, at December 31, 1996, compared with $34.5 million and $6.9 million, respectively, at December 31, 1995 and $10.0 million and $7.6 million, respectively, at December 31, 1994.

Service charges on deposit accounts increased 6% to $40.7 million in 1996 from $38.3 million in 1995, and 16% from $35.0 million in 1994. Trust income of $27.7 million increased 9% from $25.5 million in 1995, and 23% from $22.6 million in 1994. Merchant discount and other credit card fees in 1996 totaled $18.3 million, compared with $10.7 million in 1995 and $8.7 million in 1994. Expansion of the Company's credit card business was the primary factor in the improvement. Trading account and foreign exchange activity resulted in gains of $2.4 million in 1996, $2.8 million in 1995 and $.7 million in 1994. Other revenues from operations totaled $36.8 million in 1996, compared with $30.7 million in 1995 and $30.2 million in 1994 (excluding the $10.4 million of tax-exempt income related to the 1994 transfer of securities to the affiliated foundation). Such amounts include revenues from the sales of mutual funds and annuities of $13.0 million, $9.4 million and $6.2 million in 1996, 1995 and 1994, respectively.

Other Expense

Other expense totaled $409 million in 1996, compared with $374 million in 1995 and $337 million in 1994.

Salaries and employee benefits expenses were $208 million in 1996, an increase of $20 million or 11% from $188 million in 1995. Factors contributing to the higher personnel expenses 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. Personnel costs in 1995 increased $27 million or 17% from $161 million in 1994. Such increase was due largely to acquisitions, expansion of the residential mortgage banking and securities businesses, and incentive-based compensation arrangements. The number of full-time equivalent employees was 4,832 at December 31, 1996, up from 4,546 and 4,149 at December 31, 1995 and 1994, respectively.

Nonpersonnel expenses for 1996 totaled $201 million, up 8% from $186 million in 1995. The increase 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.

During 1995, the assessment to the Company from the Federal Deposit Insurance Corporation ("FDIC") for deposit insurance provided by the Bank Insurance Fund ("BIF") was reduced and effective January 1, 1996 was substantially eliminated. Changes in the federal deposit insurance laws were enacted in 1996 that required the FDIC to impose a one-time special assessment to recapitalize the Savings Association Insurance Fund ("SAIF") of the FDIC on SAIF members. Although First Empire's bank subsidiaries are BIF-insured institutions, the Company has approximately $1.1 billion of deposits obtained in so-called "Oakar" acquisitions for which deposit insurance premiums are paid to the SAIF. Included in nonpersonnel expense in 1996 is a $7.0 million charge for the special assessment to recapitalize the SAIF. Following the recapitalization, the FDIC established the SAIF's 1997 assessment rates, which are currently the same as the rates established for BIF members. In addition to deposit insurance fund assessments, in 1997 the FDIC will assess BIF- 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. Under the law, the FDIC is required to set FICO assessments for BIF-assessable deposits at one-fifth the amount for SAIF-assessable deposits. The annualized rates established by the FDIC for the first half of 1997 for BIF- and SAIF-assessable deposits are 1.30 basis points and 6.48 basis points, respectively.

As previously noted, during 1994 the Company incurred $13.8 million of charitable contributions expense related to the transfer of securities to a charitable foundation affiliated with the Company. Excluding the impact of such contributions expense, which is included in 1994's other costs of operations, nonpersonnel expenses in 1995 increased $24.3 million from 1994. Higher mortgage banking-related expenses and expenses associated with operating entities acquired in late-1994 and 1995 contributed to the increase. Additionally, in February 1995, the Company wrote off $2.3 million of non-marketable securities of Nationar, a bank that provided services to financial institutions, which was seized by banking regulators.

Income Taxes

The provision for income taxes in 1996 was $97.9 million, up from $90.1 million in 1995 and $77.2 million in 1994. The effective tax rates were 39% in 1996, 41% in 1995, 40% in 1994. 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 13 of Notes to Financial Statements.

International Activities

The Company's investment in international assets was $55 million and $87 million at December 31, 1996 and 1995, respectively. Total offshore deposits were $193 million and $155 million at December 31, 1996 and 1995, respectively.

Liquidity and Interest Rate Sensitivity

As a financial intermediary, the Company is exposed to liquidity risk whenever the maturities of financial instruments included in assets and liabilities differ. Accordingly, a critical element in managing a financial institution is ensuring that sufficient cash flow and liquid assets are available to satisfy demands for loans and deposit withdrawals, to fund operating expenses, and to be used for other corporate purposes. 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 average earning assets funded by core deposits. Core deposits financed 65% of the Company's earning assets at December 31, 1996, compared with 67% and 71% at December 31, 1995 and 1994, 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 and East New York have credit facilities with the FHLB aggregating $942 million, with any borrowings secured by loans and investment securities. Borrowings outstanding under such credit facilities totaled $2 million at December 31, 1996 and $17 million at December 31, 1995. Although informal and sometimes reciprocal, sources of funding are also 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 source of funds to pay for operating expenses, dividends and treasury stock repurchases has largely been the receipt of dividends from its banking subsidiaries, which are subject to various regulatory limitations. 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, 1996.

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.

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. Management supplements the modeling technique described above with analyses of market values of on- and off-balance sheet 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 $2.4 billion at December 31, 1996.

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 16 of Notes to Financial Statements.

In accordance with industry practice, the accompanying table 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 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. Giving consideration to interest rate swaps in place at December 31, 1996 and utilizing the model described above, management's assessment is that the variability of net interest income in the next two years may be largely unaffected by changes in interest rates, but that additional interest rate risk management actions may be necessary to counter any detrimental effect which a sustained decrease in interest rates would likely have on net interest income in later years.

Capital

Total stockholders' equity at December 31, 1996 was $906 million or 7.00% of total assets, compared with $846 million or 7.08% at December 31, 1995 and $721 million or 6.85% at December 31, 1994. On a per share basis, common stockholders' equity was $135.45 at December 31, 1996, an increase of 8% from $125.33 at December 31, 1995 and 31% from $103.02 at December 31, 1994. The ratio of average total stockholders' equity to average total assets was 6.92%, 6.81% and 7.21% in 1996, 1995 and 1994, respectively.

Stockholders' equity at December 31, 1996 was reduced by $2.5 million, or $.37 per common share, for the net after-tax impact of unrealized losses on investment securities classified as available for sale, compared with a reduction of $3.2 million, or $.49 per common share, at December 31, 1995. Such unrealized losses represent the amount by which amortized cost exceeded the fair value of investment securities classified as available for sale, 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 $18.6 million were paid in 1996, compared with $16.2 million in 1995 and $14.7 million in 1994. The quarterly common stock dividend rate remained at $.70 per share throughout 1996. In total, dividends per common share increased to $2.80 in 1996 from $2.50 in 1995 and $2.20 in 1994. Dividends of $.9 million were paid to the preferred stockholder in 1996, compared with $3.6 million in 1995 and 1994. As previously noted, 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.

In November 1995, First Empire announced a plan to repurchase and hold as treasury stock up to 380,582 shares of common stock for reissuance upon the possible future exercise of outstanding stock options. As of December 31, 1996, First Empire had repurchased 351,520 common shares pursuant to such plan at an average cost of $239.09 per share. The number of shares repurchased under this plan and another repurchase plan that was completed in 1995 were 336,220 in 1996, 223,530 in 1995 and 298,700 in 1994.

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. Regulatory capital, however, does include subordinated notes issued by First Empire or its subsidiaries. The capital ratios of the Company and its banking subsidiaries, M&T Bank, East New York and M&T Bank, N.A., as of December 31, 1996 are presented in note 19 of Notes to Financial Statements.

On January 31, 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 ("the Trust"), a Delaware business trust that was formed by First Empire to facilitate the transaction. The preferred securities provide investors with call protection for ten years. The Trust was formed solely to issue the trust preferred securities and advance the 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 Trust to the holders of the preferred securities, will be serviced through existing liquidity and cash flow sources of First Empire. Under current federal tax law, First Empire will be permitted to deduct interest payments on the junior subordinated debt in computing taxable income.

The Company has historically 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 (excluding the after-tax effects of gains from sales of investment securities) less dividends paid expressed as a percentage of average total stockholders' equity, was 15.25% in 1996, 13.88% in 1995 and 13.67% in 1994.

Fourth Quarter Results

First Empire earned $40.4 million or $5.70 per common share in the fourth quarter of 1996, increases of 10% and 8%, respectively, from the fourth quarter of 1995 when net income was $36.8 million or $5.29 per common share. On a fully-diluted basis, net income per common share was $5.68 in 1996's final quarter, up 13% from $5.03 in the year-earlier quarter. Taxable-equivalent net interest income increased to $137.9 million in the fourth quarter of 1996, up $11.9 million from $126.0 million in the fourth quarter of 1995. Growth in average loans outstanding was the primary factor contributing to the improvement in net interest income. Average loans for the fourth quarter of 1996 totaled $10.5 billion, a 12% increase from the $9.4 billion average during the fourth quarter of 1995. In total, earning assets averaged $12.3 billion in the final quarter of 1996, up 7% from $11.5 billion in the corresponding 1995 quarter. The yield on earning assets decreased to 8.31% in the final 1996 quarter from 8.41% in the year-earlier period, while the rate paid on interest-bearing liabilities decreased to 4.54% from 4.74%. The resulting net interest spread was 3.77% in the recent quarter, compared with 3.67% in the fourth quarter of 1995. Similarly, net interest margin increased, to 4.46% in the fourth quarter of 1996 from 4.36% in the year-earlier quarter.

The provision for possible credit losses was $11.5 million in the final 1996 quarter, compared with $12.0 million in the fourth quarter of 1995. Net charge-offs totaled $11.5 million in 1996's fourth quarter, up from $8.8 million in the year-earlier quarter, largely due to higher net charge-offs of consumer loans, which increased to $9.5 million in the final 1996 quarter from $4.1 million in the fourth quarter of 1995. Net charge-offs as an annualized percentage of average loans and leases were .43% in the recent quarter, up from .37% in the corresponding 1995 quarter. Excluding the effects of investment securities transactions, other income rose 6% to $48.1 million in the fourth quarter of 1996 from $45.3 million in the year-earlier quarter. Higher revenues associated with credit card activities and the sales of mutual funds and annuities contributed to this increase. Other expense was $107.1 million in the fourth quarter of 1996, compared with $97.0 million in the fourth quarter of 1995. Expansion of businesses providing credit cards, indirect automobile loans and the sale of mutual funds and annuities were factors contributing to the rise in expenses over the comparable prior-year period.

Recently Issued Accounting Standards Not Yet Adopted

In June 1996, the FASB issued SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 125 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities based on consistent application of a financial-components approach that focuses on control. SFAS No. 125 provides standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. Under the financial-components approach of SFAS No. 125, after a transfer of financial assets, an entity recognizes all financial and servicing assets it controls and liabilities it has incurred and derecognizes financial assets it no longer controls and liabilities that have been extinguished.

SFAS No. 125 provides implementation guidance for accounting for a broad range of financial transactions including securitizations, transfers of partial interests, servicing of financial assets, securities lending transactions, repurchase agreements including "dollar rolls," wash sales, loan syndications and participations, risk participations in banker's acceptances, factoring arrangements, transfers of receivables with recourse, transfers of sales-type and direct financing lease receivables and extinguishments of liabilities. As originally issued, SFAS No. 125 is effective for all transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1995. SFAS No. 127, "Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125," was issued in December 1996 and defers for one year the effective date for certain provisions of SFAS No. 125 specifically relating to repurchase agreement, dollar roll, securities lending, and similar transactions. All provisions of SFAS No. 125, as amended by SFAS No. 127, are to be applied prospectively, and earlier or retroactive application is not permitted. The Company will adopt the provisions of SFAS No. 125 that were not deferred by SFAS No. 127 in the first quarter of 1997. When adopted, SFAS No. 125 is not expected to have an adverse impact on the Company's results of operations.

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 "expects," "anticipates," "intends," "plans," "believes," "seeks," "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

Table 1

FINANCIAL HIGHLIGHTS

AMOUNTS IN THOUSANDS, EXCEPT PER SHARE	1996	1995	CHANGE
For the year			
Net income	$ 151,103	131,036	+ 15%
Per common share			
Net income			
Primary	$ 21.31	18.79	+ 13
Fully diluted	20.97	17.78	+ 18
Cash dividends	2.80	2.50	+ 12
Average common shares outstanding			
Primary	7,048	6,781	+ 4
Fully diluted	7,206	7,368	-2
Return on			
Average total assets	1.21%	1.14%	
Average common stockholders' equity	17.60%	17.16%	
Market price per common share			
Closing	$ 288.00	218.00	+ 32
High	289.63	218.00	
Low	209.00	136.50	
At December 31			
Loans and leases, net of unearned discount	$10,722,123	9,555,849	+ 12%
Total assets	12,943,915	11,955,902	+ 8
Total deposits	10,514,489	9,469,575	+ 11
Total stockholders' equity	905,659	846,253	+ 7
Stockholders' equity per common share	$ 135.45	125.33	+ 8

Table 2

QUARTERLY TRENDS

TAXABLE-EQUIVALENT BASIS	1996 QUARTERS FOURTH	THIRD	SECOND	FIRST	1995 QUARTERS FOURTH	THIRD	SECOND	FIRST
Earnings and dividends								
AMOUNTS IN THOUSANDS, EXCEPT PER SHARE								
Interest income......................	$ 257,196	251,336	248,673	244,714	242,704	241,374	232,468	216,250
Interest expense.....................	119,343	117,884	114,996	114,185	116,726	116,329	112,096	96,579
Net interest income..................	137,853	133,452	133,677	130,529	125,978	125,045	120,372	119,671
Less: provision for possible credit losses......................	11,475	10,475	11,700	9,675	12,025	11,310	8,515	8,500
Other income.........................	47,641	44,893	41,463	36,251	44,850	44,398	33,888	26,402
Less: other expense..................	107,082	107,658	97,921	96,317	97,044	97,632	90,269	89,494
Income before income taxes...........	66,937	60,212	65,519	60,788	61,759	60,501	55,476	48,079
Applicable income taxes..............	25,288	23,090	25,790	23,698	23,949	23,694	22,747	19,747
Taxable-equivalent adjustment........	1,229	1,251	1,070	937	1,023	1,180	1,275	1,164
Net income...........................	$ 40,420	35,871	38,659	36,153	36,787	35,627	31,454	27,168
Cash dividends on preferred stock.....	$ --	--	--	900	900	900	900	900
Per common share data								
Net income Primary..................	$ 5.70	5.05	5.36	5.20	5.29	5.14	4.51	3.85
Fully diluted......................	5.68	5.05	5.36	4.96	5.03	4.89	4.31	3.68
Net income, excluding securities transactions								
Primary............................	5.73	5.05	5.36	5.17	5.33	4.71	4.52	3.85
Fully diluted......................	5.71	5.05	5.36	4.93	5.06	4.50	4.31	3.68
Cash dividends......................	.70	.70	.70	.70	.70	.60	.60	.60
Average common shares outstanding								
Primary.............................	7,098	7,104	7,212	6,778	6,774	6,763	6,768	6,820
Fully diluted............................	7,121	7,106	7,216	7,295	7,310	7,291	7,293	7,384
Balance sheet data								
DOLLARS IN MILLIONS, EXCEPT PER SHARE								
Average balances								
Total assets........................	$ 12,728	12,556	12,486	12,141	11,898	11,848	11,506	10,681
Earning assets......................	12,308	12,124	12,044	11,695	11,454	11,404	11,108	10,330
Investment securities...............	1,659	1,798	1,939	1,830	1,898	2,179	2,137	1,925
Loans and leases, net of unearned discount...........................	10,527	10,253	9,997	9,672	9,384	9,038	8,682	8,311
Deposits............................	10,609	10,459	10,069	9,496	9,423	9,011	8,945	8,698
Stockholders' equity................	891	857	855	849	825	801	766	737
At end of quarter								
Total assets........................	$ 12,944	12,821	12,542	12,671	11,956	11,754	11,630	11,277
Earning assets......................	12,504	12,282	12,015	12,129	11,461	11,321	11,201	10,727
Investment securities...............	1,572	1,753	1,817	2,108	1,769	1,954	2,159	2,045
Loans and leases, net of unearned discount...........................	10,722	10,437	10,129	9,912	9,556	9,222	8,881	8,559
Deposits............................	10,514	10,554	10,193	9,719	9,470	9,170	8,866	9,044
Stockholders' equity................	906	878	861	847	846	809	794	751
Equity per common share.............	$ 135.45	130.58	126.70	123.76	125.33	119.53	116.05	108.64
PERFORMANCE RATIOS, ANNUALIZED								
Return on								
Average assets......................	1.26%	1.14%	1.25%	1.20%	1.23%	1.19%	1.10%	1.03%
Average common stockholders' equity..	18.05%	16.64%	18.18%	17.50%	18.14%	18.10%	16.87%	15.29%
Net interest margin on average earning assets......................	4.46%	4.38%	4.46%	4.49%	4.36%	4.35%	4.35%	4.70%
Nonperforming assets to total assets, at end of quarter..................	.82%	.82%	.75%	.71%	.84%	.72%	.72%	.79%
Market price per common share								
High................................	$ 289 5/8	258	247	247 3/4	218	194 1/2	172 1/2	171
Low.................................	250	239	232	209	190 1/2	170	159	136 1/2
Closing.............................	288	249	241	246	218	190	171 1/2	171

Table 3

EARNINGS SUMMARY
Dollars in millions

INCREASE (DECREASE)* 1995 TO 1996 AMOUNT	%	1994 TO 1995 AMOUNT	%		1996	1995	1994	1993	1992	COMPOUND GROWTH RATE 5 YEARS 1991 TO 1996
$69.1	7	$181.4	24	Interest income**	$1,001.9	932.8	751.4	744.7	762.2	5%
24.7	6	162.5	58	Interest expense	466.4	441.7	279.2	269.9	323.6	1
44.4	9	18.8	4	Net interest income**	535.5	491.1	472.2	474.8	438.6	10
3.0	7	(20.2)	(33)	Less: provision for possible credit losses	43.3	40.4	60.5	80.0	85.0	(7)
(4.5)	--	4.4	--	Gain on sales of bank investment securities	--	4.5	.1	.9	28.1	--
25.2	17	21.4	17	Other income	170.3	145.1	123.6	109.7	98.2	17
				Less:						
20.1	11	27.0	17	Salaries and employee benefits	208.3	188.2	161.2	154.3	130.8	15
14.4	8	10.6	6	Other expense	200.7	186.3	175.6	173.5	180.6	10
27.6	12	27.3	14	Income before income taxes	253.5	225.8	198.6	177.6	168.5	15
				Less:						
(.2)	(3)	.6	14	Taxable-equivalent adjustment**	4.5	4.7	4.1	4.1	5.8	(12)
7.7	9	13.0	17	Income taxes	97.9	90.1	77.2	71.5	64.8	16
$20.1	15	$13.7	12	Net income	$151.1	131.0	117.3	102.0	97.9	18%

* 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 42% for 1996, 1995 and 1993, 43% for 1994, and 41% for 1992.

Table 4

INTEREST RATE SWAPS

	YEAR ENDED DECEMBER 31					
	1996		1995		1994	
DOLLARS IN THOUSANDS	AMOUNT	RATE*	AMOUNT	RATE*	AMOUNT	RATE*
Increase (decrease) in:						
Interest income	$ (34)	--%	$ (5,831)	(.05)%	$ 10,463	.10%
Interest expense	(15,488)	(.15)	(6,715)	(.07)	(2,018)	(.03)
Net interest income/margin	$ 15,454	.13%	$ 884	.01%	$ 12,481	.13%
Average notional amount**	$ 2,410,547		$ 2,536,329		$ 1,627,454	
Fixed rate received***		6.66%		6.17%		5.72%
Variable rate paid***		6.02%		6.14%		4.93%

* 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.

TABLE 5

AVERAGE LOANS AND LEASES
(NET OF UNEARNED DISCOUNT)

DOLLARS IN MILLIONS	1996	PERCENT INCREASE FROM 1995 TO 1996	PERCENT INCREASE FROM 1994 TO 1995
Commercial, financial, etc	$ 2,031	13%	21%
Real estate--commercial	3,770	8	12
Real estate--consumer	2,123	17	26
Consumer			
Automobile	1,012	41	66
Home equity	610	4	1
Credit cards	258	47	28
Other	310	13	19
Total consumer	2,190	25	27
Total	$ 10,114	14%	19%

Table 6

COMMERCIAL REAL ESTATE LOANS
(net of unearned discount)
December 31, 1996

DOLLARS IN MILLIONS	OUT-STANDINGS	PERCENT OF DOLLARS OUTSTANDING BY LOAN SIZE $0-1	$1-3	$3-10	$10+
Metropolitan New York City					
Apartments/Multifamily	$ 1,272.5	14%	19%	18%	9%
Office	269.7	1	2	8	2
Retail	316.3	2	7	5	1
Construction	6.6	--	--	--	--
Industrial	98.2	1	1	2	--
Other	172.7	2	3	2	1
Total Metropolitan New York City	$ 2,136.0	20%	32%	35%	13%
Other New York State					
Apartments/Multifamily	$337.7	7%	7%	6%	--%
Office	441.6	8	8	8	3
Retail	225.8	6	5	4	--
Construction	44.8	1	1	--	--
Industrial	150.5	5	2	1	--
Other	450.6	11	9	6	2
Total other New York State	$1,651.0	38%	32%	25%	5%
Other					
Apartments/Multifamily	$43.7	4%	17%	5%	--%
Office	4.0	--	--	2	--
Retail	43.7	1	8	16	--
Industrial	19.2	2	3	7	--
Other	58.6	6	11	11	7
Total other	$169.2	13%	39%	41%	7%
Total commercial real estate loans	$3,956.2	27%	32%	31%	10%

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

Table 7

AVERAGE BALANCE SHEETS AND TAXABLE-EQUIVALENT RATES

AVERAGE BALANCE IN MILLIONS; INTEREST IN THOUSANDS	1996 AVERAGE BALANCE	1996 INTEREST	1996 AVERAGE RATE	1995 AVERAGE BALANCE	1995 INTEREST	1995 AVERAGE RATE	1994 AVERAGE BALANCE	1994 INTEREST	1994 AVERAGE RATE
Assets									
Earning assets									
Loans and leases, net of unearned discount*									
Commercial, financial, etc..	$ 2,031	$ 166,022	8.17%	1,804	155,750	8.63%	1,487	116,479	7.84%
Real estate................	5,893	512,269	8.69	5,301	471,714	8.90	4,562	390,681	8.56
Consumer....................	2,190	204,831	9.35	1,752	169,149	9.65	1,378	128,117	9.30
Total loans and leases, net.......................	10,114	883,122	8.73	8,857	796,613	8.99	7,427	635,277	8.55
Money-market assets									
Interest-bearing deposits at banks......................	38	2,413	6.30	110	8,181	7.44	48	2,212	4.58
Federal funds sold and agreements to resell securities..........	55	2,985	5.45	48	3,007	6.29	109	4,751	4.35
Trading account.............	31	1,100	3.62	28	1,339	4.78	9	499	5.92
Total money- market assets....................	124	6,498	5.26	186	12,527	6.75	166	7,462	4.50
Investment securities**									
U.S. Treasury and federal agencies...........	1,200	74,023	6.17	1,242	74,248	5.98	1,167	56,685	4.86
Obligations of states and political subdivisions.....	41	2,678	6.57	50	3,420	6.90	53	3,072	5.77
Other.......................	565	35,598	6.30	743	45,988	6.19	852	48,933	5.74
Total investment securities..............	1,806	112,299	6.22	2,035	123,656	6.08	2,072	108,690	5.24
Total earning assets.......	12,044	1,001,919	8.32	11,078	932,796	8.42	9,665	751,429	7.77
Allowance for possible credit losses.............	(269)			(254)			(223)		
Cash and due from banks......	334			326			307		
Other assets................	370			335			276		
Total assets..............	$ 12,479			11,485			10,025		
Liabilities and stockholders' equity									
Interest-bearing liabilities									
Interest-bearing deposits									
NOW accounts...............	$ 659	9,430	1.43	761	11,902	1.56	746	11,286	1.51
Savings deposits...........	2,956	84,822	2.87	2,922	87,612	3.00	3,274	84,804	2.59
Time deposits..............	5,137	286,088	5.57	4,112	239,882	5.83	2,179	97,067	4.45
Deposits at foreign office....................	239	12,399	5.19	133	6,952	5.23	156	5,894	3.79
Total interest-bearing deposits..................	8,991	392,739	4.37	7,928	346,348	4.37	6,355	199,051	3.13
Short-term borrowings........	1,133	59,442	5.25	1,423	84,225	5.92	1,772	73,868	4.17
Long-term borrowings.........	189	14,227	7.51	146	11,157	7.64	77	6,287	8.13
Total interest-bearing liabilities........	10,313	466,408	4.52	9,497	441,730	4.65	8,204	279,206	3.40
Demand deposits.............	1,169			1,093			1011		
Other liabilities...........	134			112			87		
Total liabilities..........	11,616			10,702			9,302		
Stockholders' equity.........	863			783			723		
Total liabilities and stockholders' equity......	$ 12,479			11,485			10,025		
Net interest spread..........			3.80			3.77			4.37
Contribution of interest-free funds........			.65			.66			.52
Net interest income/ margin									

on earning assets..........	$ 535,511	4.45%	491,066	4.43%	472,223	4.89%

* Includes nonaccrual loans.

** Includes available for sale securities at amortized cost.

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

Table 7 (continued)

AVERAGE BALANCE SHEETS AND TAXABLE-EQUIVALENT RATES

AVERAGE BALANCE IN MILLIONS; INTEREST IN THOUSANDS	1993 AVERAGE BALANCE	1993 INTEREST	1993 AVERAGE RATE	1992 AVERAGE BALANCE	1992 INTEREST	1992 AVERAGE RATE
Assets						
Earning assets						
Loans and leases, net of unearned discount*						
Commercial, financial, etc.	$ 1,420	$ 112,568	7.93%	1,237	103,786	8.39%
Real estate	4,387	379,832	8.66	4,225	392,384	9.29
Consumer	1,175	118,461	10.08	1,109	109,284	9.85
Total loans and leases, net	6,982	610,861	8.75	6,571	605,454	9.21
Money-market assets						
Interest-bearing deposits at banks	189	6,740	3.56	29	1,083	3.76
Federal funds sold and agreements to resell securities	610	20,403	3.35	510	18,100	3.55
Trading account	27	1,434	5.32	55	3,096	5.62
Total money-market assets	826	28,577	3.46	594	22,279	3.75
Investment securities**						
U.S. Treasury and federal agencies	1,300	62,420	4.80	1,204	81,940	6.81
Obligations of states and political subdivisions	41	2,600	6.40	103	8,122	7.85
Other	832	40,251	4.84	686	44,414	6.48
Total investment securities	2,173	105,271	4.84	1,993	134,476	6.75
Total earning assets	9,981	744,709	7.46	9,158	762,209	8.32
Allowance for possible credit losses	(174)			(130)		
Cash and due from banks	304			273		
Other assets	279			253		
Total assets	$ 10,390			9,554		
Liabilities and stockholders' equity						
Interest-bearing liabilities						
Interest-bearing deposits						
NOW accounts	$ 747	13,113	1.75	666	16,544	2.48
Savings deposits	3,500	90,392	2.58	3,338	110,142	3.30
Time deposits	2,249	98,508	4.38	2,773	153,588	5.54
Deposits at foreign office	120	3,243	2.71	130	4,348	3.35
Total interest-bearing deposits	6,616	205,256	3.10	6,907	284,622	4.12
Short-term borrowings	1,922	58,459	3.04	1,121	38,386	3.42
Long-term borrowings	76	6,158	8.14	7	590	8.32
Total interest-bearing liabilities	8,614	269,873	3.13	8,035	323,598	4.03
Demand deposits	976			789		
Other liabilities	130			147		
Total liabilities	9,720			8,971		
Stockholders' equity	670			583		
Total liabilities and stockholders' equity	$ 10,390			9,554		
Net interest spread			4.33			4.29
Contribution of interest-free funds			.43			.50
Net interest income/margin on earning assets		$ 474,836	4.76%		438,611	4.79%

* Includes nonaccrual loans.

** Includes available for sale securities at amortized cost.

Table 8

AVERAGE CORE DEPOSITS

DOLLARS IN MILLIONS	1996	PERCENT INCREASE (DECREASE) FROM 1995 TO 1996	1994 TO 1995
NOW accounts	$ 659	(13)%	2%
Savings deposits	2,956	1	(11)
Time deposits under $100,000	3,194	22	47
Demand deposits	1,169	7	8
Total	$ 7,978	8%	9%

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

Table 9

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

DOLLARS IN THOUSANDS	1996	1995	1994	1993	1992
Allowance for possible credit losses beginning balance....	$ 262,344	243,332	195,878	151,690	100,265
Charge-offs during year					
Commercial, financial, agricultural, etc................	6,120	5,475	5,505	14,118	15,966
Real estate--construction...............................	--	--	--	150	400
Real estate--mortgage...................................	7,389	10,750	17,957	22,686	27,530
Consumer..	36,037	14,982	8,981	9,135	7,488
Total charge-offs...................................	49,546	31,207	32,443	46,089	51,384
Recoveries during year					
Commercial, financial, agricultural, etc................	3,671	3,967	7,877	5,403	2,095
Real estate--construction...............................	50	87	13	--	--
Real estate--mortgage...................................	3,049	2,137	4,515	1,772	445
Consumer..	7,573	3,678	3,418	3,144	2,531
Total recoveries....................................	14,343	9,869	15,823	10,319	5,071
Net charge-offs..	35,203	21,338	16,620	35,770	46,313
Provision for possible credit losses......................	43,325	40,350	60,536	79,958	84,989
Allowance for possible credit losses acquired during the year..	--	--	3,538	--	12,749
Allowance for possible credit losses ending balance.......	$ 270,466	262,344	243,332	195,878	151,690
Net charge-offs as a percent of:					
Provision for possible credit losses....................	81.25%	52.88%	27.45%	44.74%	54.49%
Average loans and leases, net of unearned discount.......	.35%	.24%	.22%	.51%	.70%
Allowance for possible credit losses as a percent of loans and leases, net of unearned discount, at year-end.......	2.52%	2.75%	2.96%	2.70%	2.17%

Table 10

ALLOCATION OF THE ALLOWANCE FOR POSSIBLE CREDIT LOSSES TO LOAN CATEGORIES

	DECEMBER 31				
DOLLARS IN THOUSANDS	1996	1995	1994	1993	1992
Commercial, financial, agricultural, etc.	$ 39,556	36,793	44,092	42,820	18,100
Real estate--mortgage	73,879	75,894	72,285	78,823	19,740
Consumer	34,224	23,385	17,532	13,630	6,700
Unallocated	122,807	126,272	109,423	60,605	107,150
Total	$ 270,466	262,344	243,332	195,878	151,690
AS A PERCENTAGE OF GROSS LOANS AND LEASES OUTSTANDING					
Commercial, financial, agricultural, etc.	1.79%	1.83%	2.62%	2.84%	1.22%
Real estate--mortgage	1.19	1.34	1.43	1.74	.45
Consumer	1.30	1.10	1.05	1.02	.55

Table 11

NONPERFORMING ASSETS

DOLLARS IN THOUSANDS	DECEMBER 31 1996	1995	1994	1993	1992
Nonaccrual loans	$ 58,232	75,224	62,787	68,936	96,057
Loans past due 90 days or more	39,652	17,842	11,754	11,122	17,536
Renegotiated loans	--	--	2,994	2,195	--
Total nonperforming loans	97,884	93,066	77,535	82,253	113,593
Other real estate owned	8,523	7,295	10,065	12,222	16,694
Total nonperforming assets	$ 106,407	100,361	87,600	94,475	130,287
Government guaranteed nonperforming loans*	$ 25,847	7,779	7,883	9,089	7,289
Nonperforming loans to total loans and leases, net of unearned discount	.91%	.97%	.94%	1.13%	1.63%
Nonperforming assets to total net loans and leases and other real estate owned	.99%	1.05%	1.06%	1.30%	1.86%

- -----------------------

* Included in total nonperforming loans.

Table 12

MATURITY DISTRIBUTION OF LOANS*
December 31, 1996

DOLLARS IN THOUSANDS	DEMAND	1997	1998 - 2001	AFTER 2001
Commercial, financial, agricultural, etc.	$ 1,322,193	244,636	415,216	127,263
Real estate--construction	17,826	56,746	15,926	--
Total	$ 1,340,019	301,382	431,142	127,263
Floating or adjustable interest rates			$ 380,493	77,148
Fixed or predetermined interest rates			50,649	50,115
Total			$ 431,142	127,263

* The data do not include nonaccrual loans.

Table 13

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

DOLLARS IN THOUSANDS	DECEMBER 31, 1996
Under 3 months	$ 916,706
3 to 6 months	320,614
6 to 12 months	292,755
Over 12 months	617,478
Total	$ 2,147,553

Table 14

MATURITY AND TAXABLE-EQUIVALENT YIELD OF INVESTMENT SECURITIES

DOLLARS IN THOUSANDS	ONE YEAR OR LESS	ONE TO FIVE YEARS	FIVE TO TEN YEARS	OVER TEN YEARS	TOTAL
December 31, 1996					
INVESTMENT SECURITIES AVAILABLE FOR SALE*					
U.S. Treasury and federal agencies					
Carrying value	$ 2,504	456,950	--	--	$ 459,454
Yield	7.89%	6.20%	--	--	6.21%
Mortgage-backed securities**					
Government issued or guaranteed					
Carrying value	24,828	65,605	58,705	337,770	486,908
Yield	5.83%	6.14%	6.43%	6.29%	6.26%
Privately issued					
Carrying value	24,817	144,477	90,634	138,085	398,013
Yield	6.08%	6.23%	6.22%	6.63%	6.36%
Other debt securities					
Carrying value	325	1,007	--	--	1,332
Yield	8.67%	8.46%	--	--	8.51%
Equity securities					
Carrying value	--	--	--	--	50,965
Yield	--	--	--	--	7.40%
Total investment securities available for sale					
Carrying value	$ 52,474	668,039	149,339	475,855	$ 1,396,672
Yield	6.05%	6.20%	6.30%	6.39%	6.31%
INVESTMENT SECURITIES HELD TO MATURITY					
U.S. Treasury and federal agencies					
Carrying value	$ 18,709	57,967	--	--	$ 76,676
Yield	6.40%	6.39%	--	--	6.39%
Obligations of states and political subdivisions					
Carrying value	37,240	2,848	1,277	80	41,445
Yield	6.14%	9.47%	9.63%	10.83%	6.49%
Other debt securities					
Carrying value	--	495	--	--	495
Yield	--	7.37%	--	--	7.37%
Total investment securities held to maturity					
Carrying value	$ 55,949	61,310	1,277	80	$ 118,616
Yield	6.23%	6.54%	9.63%	10.83%	6.43%
OTHER INVESTMENT SECURITIES	$ --	--	--	--	$ 56,410
Total investment securities					
Carrying value	$ 108,423	729,349	150,616	475,935	$ 1,571,698
Yield	6.14%	6.23%	6.33%	6.39%	6.09%

* 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.

Table 15

INTEREST RATE SENSITIVITY
DOLLARS IN THOUSANDS BY REPRICING DATE

DECEMBER 31, 1996	THREE MONTHS OR LESS	FOUR TO TWELVE MONTHS	ONE TO FIVE YEARS	AFTER FIVE YEARS	TOTAL
Loans and leases, net	$ 4,496,727	1,470,989	3,670,504	1,083,903	10,722,123
Money-market assets	164,568	45,000	400	--	209,968
Investment securities	130,792	422,166	753,450	265,290	1,571,698
Total earning assets	4,792,087	1,938,155	4,424,354	1,349,193	12,503,789
NOW accounts	334,787	--	--	--	334,787
Savings deposits	3,280,788	--	--	--	3,280,788
Time deposits	1,669,720	2,085,054	1,589,410	8,565	5,352,749
Deposits at foreign office	193,236	--	--	--	193,236
Total interest-bearing deposits	5,478,531	2,085,054	1,589,410	8,565	9,161,560
Short-term borrowings	1,150,187	--	--	--	1,150,187
Long-term borrowings	32	141	1,253	176,576	178,002
Total interest-bearing liabilities	6,628,750	2,085,195	1,590,663	185,141	10,489,749
Interest rate swaps	(2,032,495)	345,960	1,576,223	110,312	--
Periodic gap	$ (3,869,158)	198,920	4,409,914	1,274,364	
Cumulative gap	(3,869,158)	(3,670,238)	739,676	2,014,040	
Cumulative gap as a % of total earning assets	(30.9%	(29.4)%	5.9%	16.1%	

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, 1996 and 1995, 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, 1996. 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, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 122 in 1995, which changed its method of accounting for mortgage servicing rights.

/s/ PRICE WATERHOUSE LLP

Buffalo, New York
January 9, 1997

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DOLLARS IN THOUSANDS, EXCEPT PER SHARE	DECEMBER 31 1996	DECEMBER 31 1995
Assets		
Cash and due from banks	$ 324,659	363,119
Money-market assets		
Interest-bearing deposits at banks	47,325	125,500
Federal funds sold and agreements to resell securities	125,326	1,000
Trading account	37,317	9,709
Total money-market assets	209,968	136,209
Investment securities		
Available for sale (cost: $1,400,976 in 1996; $1,537,393 in 1995)	1,396,672	1,531,893
Held to maturity (market value: $119,316 in 1996; $187,476 in 1995)	118,616	185,834
Other (market value: $56,410 in 1996; $51,568 in 1995)	56,410	51,568
Total investment securities	1,571,698	1,769,295
Loans and leases	11,120,221	9,873,723
Unearned discount	(398,098)	(317,874)
Allowance for possible credit losses	(270,466)	(262,344)
Loans and leases, net	10,451,657	9,293,505
Premises and equipment	128,521	128,516
Accrued interest and other assets	257,412	265,258
Total assets	$ 12,943,915	11,955,902
Liabilities		
Noninterest-bearing deposits	$ 1,352,929	1,184,359
NOW accounts	334,787	768,559
Savings deposits	3,280,788	2,765,301
Time deposits	5,352,749	4,596,053
Deposits at foreign office	193,236	155,303
Total deposits	10,514,489	9,469,575
Federal funds purchased and agreements to repurchase securities	1,015,408	1,213,372
Other short-term borrowings	134,779	59,834
Accrued interest and other liabilities	195,578	174,077
Long-term borrowings	178,002	192,791
Total liabilities	12,038,256	11,109,649
Stockholders' Equity		
Preferred stock, $1 par, 1,000,000 shares authorized, 40,000 shares outstanding in 1995, stated at aggregate liquidation value	--	40,000
Common stock, $5 par, 15,000,000 shares authorized, 8,097,472 shares issued	40,487	40,487
Additional paid-in capital	96,597	98,657
Retained earnings	937,072	805,486
Unrealized investment losses, net	(2,485)	(3,155)
Treasury stock--common, at cost -1,411,286 shares in 1996;1,664,306 shares in 1995	(166,012)	(135,222)
Total stockholders' equity	905,659	846,253
Total liabilities and stockholders' equity	$ 12,943,915	11,955,902

See accompanying notes to financial statements.

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

DOLLARS IN THOUSANDS, EXCEPT PER SHARE	YEAR ENDED DECEMBER 31 1996	1995	1994
Interest income			
Loans and leases, including fees	$ 881,002	794,181	633,077
Money-market assets			
Deposits at banks	2,413	8,181	2,212
Federal funds sold and agreements to resell securities	2,985	3,007	4,751
Trading account	980	1,234	361
Investment securities			
Fully taxable	107,415	118,791	104,185
Exempt from federal taxes	2,637	2,760	2,760
Total interest income	997,432	928,154	747,346
Interest expense			
NOW accounts	9,430	11,902	11,286
Savings deposits	84,822	87,612	84,804
Time deposits	286,088	239,882	97,067
Deposits at foreign office	12,399	6,952	5,894
Short-term borrowings	59,442	84,225	73,868
Long-term borrowings	14,227	11,157	6,287
Total interest expense	466,408	441,730	279,206
Net interest income	531,024	486,424	468,140
Provision for possible credit losses	43,325	40,350	60,536
Net interest income after provision for possible credit losses	487,699	446,074	407,604
Other income			
Mortgage banking revenues	44,484	37,142	16,002
Service charges on deposit accounts	40,659	38,290	35,016
Trust income	27,672	25,477	22,574
Merchant discount and other credit card fees	18,266	10,675	8,705
Trading account and foreign exchange gains	2,421	2,783	738
Gain (loss) on sales of bank investment securities	(37)	4,479	128
Other revenues from operations	36,783	30,692	40,576
Total other income	170,248	149,538	123,739
Other expense			
Salaries and employee benefits	208,342	188,222	161,221
Equipment and net occupancy	51,346	50,526	49,132
Printing, postage and supplies	15,167	14,442	13,516
Deposit insurance	9,337	14,675	16,442
Other costs of operations	124,786	106,574	96,551
Total other expense	408,978	374,439	336,862
Income before income taxes	248,969	221,173	194,481
Income taxes	97,866	90,137	77,186
Net income	$ 151,103	131,036	117,295
Net income per common share			
Primary	$ 21.31	18.79	16.35
Fully diluted	20.97	17.78	15.71

See accompanying notes to financial statements.

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31		
DOLLARS IN THOUSANDS	1996	1995	1994
Cash flows from operating activities			
Net income	$ 151,103	131,036	117,295
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for possible credit losses	43,325	40,350	60,536
Depreciation and amortization of premises and equipment	19,457	18,530	17,625
Amortization of capitalized mortgage servicing rights	10,509	7,251	3,503
Provision for deferred income taxes	(3,901)	(7,360)	(2,866)
Asset write-downs	1,043	3,852	3,184
Net gain on sales of assets	(1,539)	(12,121)	(4,744)
Net change in accrued interest receivable, payable	1,248	4,381	8,084
Net change in other accrued income and expense	30,100	61,205	(39,654)
Net change in loans held for sale	(8,662)	(136,303)	169,883
Net change in trading account assets and liabilities	(8,508)	(2,288)	4,377
Net cash provided by operating activities	234,175	108,533	337,223
Cash flows from investing activities			
Proceeds from sales of investment securities			
Available for sale	275,627	448,532	52,824
Held to maturity	--	990	--
Other	--	--	7,446
Proceeds from maturities of investment securities			
Available for sale	390,563	244,862	562,498
Held to maturity	125,480	115,986	55,283
Other	721	--	--
Purchases of investment securities			
Available for sale	(532,106)	(418,507)	(17,143)
Held to maturity	(58,274)	(295,582)	(59,704)
Other	(2,776)	(3,408)	(20,292)
Net (increase) decrease in interest-bearing deposits at banks	78,175	(125,357)	54,901
Net increase in loans and leases	(1,189,033)	(1,189,108)	(778,201)
Capital expenditures, net	(20,333)	(17,520)	(6,876)
Acquisitions, net of cash acquired	--	52,298	102,721
Other, net	4,432	4,078	23,185
Net cash used by investing activities	(927,524)	(1,182,736)	(23,358)
Cash flows from financing activities			
Net increase in deposits	1,042,108	1,139,555	413,865
Net decrease in short-term borrowings	(145,281)	(124,644)	(807,826)
Proceeds from issuance of subordinated debt	--	100,000	--
Payments on long-term borrowings	(14,900)	(3,529)	(116)
Purchases of treasury stock	(80,810)	(37,374)	(43,964)
Dividends paid--common	(18,617)	(16,224)	(14,743)
Dividends paid--preferred	(900)	(3,600)	(3,600)
Other, net	(2,385)	3,277	(1,841)
Net cash provided (used) by financing activities	779,215	1,057,461	(458,225)
Net increase (decrease) in cash and cash equivalents	$ 85,866	(16,742)	(144,360)
Cash and cash equivalents at beginning of year	364,119	380,861	525,221
Cash and cash equivalents at end of year	$ 449,985	364,119	380,861
Supplemental disclosure of cash flow information			
Interest received during the year	$ 985,287	909,005	743,184
Interest paid during the year	459,963	408,221	270,802
Income taxes paid during the year	83,929	68,237	110,162
Supplemental schedule of noncash investing and financing activities			
Real estate acquired in settlement of loans	$ 8,214	7,372	9,936
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

DOLLARS IN THOUSANDS, EXCEPT PER SHARE	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	UNREALIZED INVESTMENT GAINS (LOSSES), NET	TREASURY STOCK	TOTAL
1994							
Balance--January 1, 1994	$40,000	40,487	97,787	595,322	9,148	(58,750)	$ 723,994
Net income................	--	--	--	117,295	--	--	117,295
Preferred stock cash dividends..............	--	--	--	(3,600)	--	--	(3,600)
Common stock cash dividends--$2.20 per share...................	--	--	--	(14,743)	--	--	(14,743)
Exercise of stock options.................	--	--	227	--	--	1,490	1,717
Purchases of treasury stock...................	--	--	--	--	--	(43,964)	(43,964)
Unrealized losses on investment securities available for sale, net.....................	--	--	--	--	(59,703)	--	(59,703)
Balance--December 31, 1994....................	$40,000	40,487	98,014	694,274	(50,555)	(101,224)	$ 720,996
1995							
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 gains 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

See accompanying 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. 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 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.

1. Significant accounting policies, continued

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.

Effective January 1, 1995, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting by Creditors for Impairment of a Loan," as amended. 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.

Capitalized mortgage servicing rights

In the second quarter of 1995, the Company adopted SFAS No. 122, "Accounting for Mortgage Servicing Rights," retroactive to January 1, 1995. As a result, the Company recognizes as separate assets rights to service mortgage loans for others, whether those servicing rights are originated or purchased. Prior to the adoption of SFAS No. 122, only purchased mortgage servicing

1. Significant accounting policies, continued

rights were recorded as assets. Retroactive application of the provisions of SFAS No. 122 to prior years is not permitted.

The total cost of mortgage loans sold with servicing rights retained is allocated to the mortgage servicing rights and the loans (without the mortgage servicing rights) based on their relative fair values. Mortgage servicing rights purchased separately from loans are recorded at cost. Capitalized mortgage servicing rights 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 mortgage 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 mortgage servicing rights, the Company stratifies such rights based on predominant risk characteristics of underlying loans 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 include loan type, note rate and term. The amount of impairment recognized is the amount by which the capitalized mortgage servicing rights for a stratum exceed estimated fair value. Impairment is recognized through a valuation allowance.

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 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 securities trading operations 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

1. Significant accounting policies, continued

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.

Earnings per common share

Earnings per common share data are computed on the basis of the weighted average number of shares outstanding during the year, plus shares issuable upon the assumed exercise of outstanding common stock options. Proceeds assumed to have been received on such exercise are treated as if applied toward the repurchase of outstanding common shares in the open market during the year, as required under the "treasury stock" method of accounting.

2. Acquisitions

On March 6, 1995, the Company's mortgage banking subsidiary, M&T Mortgage Corporation, acquired Statewide Funding Corporation ("Statewide"), a privately-owned mortgage banking company based near Albany, New York, in a cash transaction. As of the acquisition date, Statewide serviced residential mortgage loans owned by other investors having an outstanding principal balance of approximately $1.0 billion. On October 2, 1995, in another cash transaction, M&T Mortgage Corporation acquired the mortgage servicing rights and origination franchise of Exchange Mortgage Corporation ("Exchange"), a mortgage banking company based in Huntington Station, New York. As of the acquisition date, Exchange serviced residential mortgage loans owned by other investors having an outstanding principal balance of approximately $370 million. The combined purchase price of the Statewide and Exchange transactions was approximately $25 million.

In separate cash transactions, on July 21, 1995, Manufacturers and Traders Trust Company ("M&T Bank"), a wholly owned subsidiary of First Empire, acquired four banking offices from The Chase Manhattan Bank, N.A., including approximately $84 million of deposits, and on December 10, 1994 purchased approximately $146 million of deposits from Chemical Bank, along

2. Acquisitions, continued

with seven banking offices. Ten of the banking offices obtained in these transactions were in the Hudson Valley region of New York State and one office was in Western New York.

On December 1, 1994, First Empire acquired Ithaca Bancorp, Inc. ("Ithaca Bancorp"), Ithaca, New York, in exchange for cash consideration of $19 per common share, or approximately $44.2 million. Simultaneously with the acquisition, Ithaca Bancorp's savings bank subsidiary, Citizens Savings Bank, F.S.B., was merged into M&T Bank bringing twelve banking offices in New York's Southern Tier into M&T Bank's branch network. As of December 1, 1994, assets acquired totaled $470 million, including $369 million of loans; at that date, liabilities assumed totaled $425 million, including $330 million of deposits.

These acquisitions have been accounted for as purchase transactions and, accordingly, the operating results of the acquired entities have been included in the Company's results of operations since the respective acquisition dates. The excess of the cost of the acquired entities over the fair value of identifiable assets acquired less liabilities assumed was recorded as goodwill and amounted to approximately $11 million and $24 million for acquisitions completed in 1995 and 1994, respectively. Such goodwill is being amortized on a straight-line basis over five years.

The aggregate amount of goodwill included in other assets was $18,923,000 and $28,234,000 at December 31, 1996 and 1995, respectively. Amortization of goodwill was $6,292,000 in 1996, $6,294,000 in 1995 and $358,000 in 1994. During 1996, recognition of income tax credits and resolution of other preacquisition contingencies associated with acquired entities resulted in a reduction of previously recorded goodwill of $3,019,000.

Presented below is certain pro forma information as if Statewide, Exchange and Ithaca had been acquired on January 1, 1994. These results combine the historical results of the acquired businesses into the Company's Consolidated Statement of Income and, while certain adjustments were made for the estimated impact of purchase accounting adjustments and other acquisition-related activity, they are not necessarily indicative of what would have occurred had the acquisitions taken place at that time.

	Pro forma Year ended December 31	
	1995	1994
	(in thousands, except per share)	
Interest income	$929,382	782,259
Other income	156,306	149,852
Net income	129,442	112,738
Earnings per common share	$ 18.56	15.70

3. 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, 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

3. Investment securities, continued

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(in thousands)			
December 31, 1995				
Investment securities available for sale:				
U.S. Treasury and federal agencies	$ 235,986	3,983	488	239,481
Mortgage-backed securities				
Government issued or guaranteed	705,523	3,505	11,504	697,524
Privately issued	580,275	806	4,962	576,119
Other debt securities	3,454	76	-	3,530
Equity securities	12,155	3,084	-	15,239
	1,537,393	11,454	16,954	1,531,893
Investment securities held to maturity:				
U.S. Treasury and federal agencies	150,000	1,199	-	151,199
Obligations of states and political subdivisions	35,250	446	3	35,693
Other debt securities	584	-	-	584
	185,834	1,645	3	187,476
Other securities	51,568	-	-	51,568
Total	$1,774,795	13,099	16,957	1,770,937

No investment in securities of a single non-U.S. Government or government a gency issuer exceeded ten percent of stockholders' equity at December 31, 1996.

As permitted by the Financial Accounting Standards Board, in December 1995 the Company reclassified U.S. Treasury securities with an amortized cost and estimated fair value at that time of $220,185,000 and $223,309,000, respectively, from held to maturity to available for sale to enhance flexibility in managing the investment securities portfolio.

As of December 31, 1996, 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, 1996 and 1995 consisted of structured notes issued by the Federal Home Loan Banks.

3. Investment securities, continued

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

	December 31 1996	December 31 1995
	(in thousands)	
Amortized cost	$406,498	673,476
Estimated fair value	396,808	662,785

Gross realized gains on the sale of investment securities available for sale were $820,000 in 1996, $5,113,000 in 1995 and $128,000 in 1994. Gross realized losses on the sale of investment securities available for sale were $857,000 in 1996 and $624,000 in 1995. There were no such losses in 1994.

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, 1996, 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	$ 2,782	2,829
Due after one year through five years	457,099	457,957
Due after five years through ten years	-	-
Due after ten years	-	-
	459,881	460,786
Mortgage-backed securities available for sale	894,731	884,921
	$1,354,612	1,345,707
Debt securities held to maturity:		
Due in one year or less	$ 55,949	56,014
Due after one year through five years	61,310	61,844
Due after five years through ten years	1,277	1,367
Due after ten years	80	91
	$ 118,616	119,316

At December 31, 1996, investment securities with a carrying value of $973,930,000, including $880,682,000 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.

4. Loans and leases

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

	December 31 1996	December 31 1995
	(in thousands)	
Loans		
Commercial, financial, agricultural, etc.	$ 2,122,903	1,928,969
Real estate:		
Residential	2,267,174	2,061,342
Commercial	3,932,757	3,587,248
Construction	90,563	77,604
Consumer	2,465,856	2,017,099
Total loans	10,879,253	9,672,262
Leases		
Commercial	83,379	84,968
Consumer	157,589	116,493
Total leases	240,968	201,461
Total loans and leases	$11,120,221	9,873,723

One-to-four family residential mortgage loans held for sale were $193.6 million at December 31, 1996 and $185.0 million at December 31, 1995. One-to-four family residential mortgage loans serviced for others totaled approximately $5.8 billion and $5.7 billion at December 31, 1996 and 1995, respectively. As of December 31, 1996, approximately $16.6 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 table above 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 $97,884,000 at December 31, 1996 and $93,066,000 at December 31, 1995. If nonaccrual and renegotiated loans had been accruing interest at their originally contracted terms, interest income on these loans would have amounted to $6,854,000 in 1996 and $9,931,000 in 1995. The actual amount included in interest income during 1996 and 1995 on these loans was $1,506,000 and $2,178,000, respectively.

The recorded investment in loans considered impaired under SFAS No. 114 was $40,218,000 and $60,778,000 at December 31, 1996 and 1995, respectively. The recorded investment in loans for which there was a related allowance for possible credit losses determined in accordance with SFAS No. 114 and the amount of such allowance were $35,608,000 and $4,652,000, respectively, at December 31, 1996 and $41,654,000 and $4,775,000, respectively, at December 31, 1995. The recorded investment in loans for which there was no related SFAS No. 114 allowance for possible credit losses was $4,610,000 and $19,124,000 at December 31, 1996 and 1995, respectively. The average recorded investment in impaired loans during 1996 and 1995 was $48,146,000 and $52,357,000, respectively. Interest income recognized on impaired loans totaled $1,571,000 and $1,151,000 for the years ended December 31, 1996 and 1995, respectively.

4. 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 $51,603,000 and $52,613,000 at December 31, 1996 and 1995, respectively. During 1996, new borrowings by such persons amounted to $7,661,000 (including borrowings of new directors or officers that were outstanding at the time of their election) and repayments and other reductions equaled $8,671,000.

At December 31, 1996, approximately $3 million of one-to-four family residential mortgage loans were pledged to secure borrowings.

5. Allowance for possible credit losses

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

	1996	1995	1994
	(in thousands)		
Beginning balance	$262,344	243,332	195,878
Provision for possible credit losses	43,325	40,350	60,536
Allowance for possible credit losses acquired	-	-	3,538
Net charge-offs			
Charge-offs	(49,546)	(31,207)	(32,443)
Recoveries	14,343	9,869	15,823
Net charge-offs	(35,203)	(21,338)	(16,620)
Ending balance	$270,466	262,344	243,332

6. Premises and equipment

The detail of premises and equipment was as follows:

	December 31 1996	1995
	(in thousands)	
Land	$ 12,741	12,791
Buildings-owned	91,406	89,062
Buildings-capital leases	1,773	1,773
Leasehold improvements	29,349	29,098
Furniture and equipment-owned	128,317	114,007
Furniture and equipment-capital leases	429	429
	264,015	247,160
Less: accumulated depreciation and amortization		
Owned assets	133,695	116,954
Capital leases	1,799	1,690
	135,494	118,644
Premises and equipment, net	$128,521	128,516

6. Premises and equipment, continued

Net lease expense for all operating leases totaled $12,223,000 in 1996, $13,091,000 in 1995 and $13,329,000 in 1994. The Company occupies certain banking offices and uses certain equipment under noncancellable operating lease agreements expiring at various dates over the next 21 years. Minimum lease payments under noncancellable operating leases are summarized as follows:

Year ending December 31:	(in thousands)
1997	$ 6,812
1998	7,021
1999	7,490
2000	6,522
2001	4,934
Later years	39,114
	$ 71,893

Payments required under capital leases are not material.

7. Capitalized mortgage servicing rights

Changes in capitalized mortgage servicing rights were as follows:

	Year ended December 31 1996	1995	1994
	(in thousands)		
Beginning balance	$ 35,588	10,048	8,472
Originations	11,060	12,515	-
Purchases	3,786	22,980	5,079
Amortization	(10,509)	(7,251)	(3,503)
Sales	(1,035)	(2,704)	-
Write-downs	-	-	-
	38,890	35,588	10,048
Valuation allowance	(1,100)	(1,100)	-
Ending balance, net	$ 37,790	34,488	10,048

As a result of impairment of certain strata of capitalized mortgage servicing rights, a valuation allowance totaling $1,100,000 was recorded during 1995. There were no additions or reductions to the valuation allowance recorded during 1996. The estimated fair value of capitalized mortgage servicing was approximately $59 million at December 31, 1996 and $44 million at December 31, 1995. Such amounts were estimated using discounted cash flows that reflect current prepayment and discount rate assumptions as of each year-end.

8. Borrowings

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

	Federal funds purchased and repurchase agreements	Other borrowings	Total
	(dollars in thousands)		
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%
At December 31, 1994			
Amount outstanding	$ 695,665	669,185	1,364,850
Weighted-average interest rate	6.07%	6.02%	6.05%
For the year ended December 31, 1994			
Highest amount at a month-end	$1,829,630	1,038,502	
Daily-average amount outstanding	1,432,845	339,676	1,772,521
Weighted-average interest rate	4.12%	4.38%	4.17%

8. Borrowings, continued

In general, federal funds purchased and repurchase agreements outstanding at December 31, 1996 mature within two days following year-end.

At December 31, 1996, First Empire, M&T Bank and The East New York Savings Bank ("East New York"), a wholly owned subsidiary of First Empire, had lines of credit under formal agreements as follows:

	First Empire	M&T Bank	East New York
		(in thousands)	
Outstanding borrowings	$ -	2,370	-
Unused	25,000	644,958	294,310

Long-term borrowings were as follows:

	December 31 1996	1995
	(in thousands)	
Subordinated notes of M&T Bank:		
8 1/8% due 2002	$ 75,000	75,000
7% due 2005	100,000	100,000
Advances from Federal Home Loan Bank of New York	2,370	16,834
Other	632	957
	$178,002	192,791

The subordinated notes of M&T Bank are unsecured and are subordinate to the claims of depositors and other creditors of M&T Bank. Advances from the Federal Home Loan Bank of New York had fixed rates of interest ranging from 7.72% to 8.45% and 4.74% to 8.60% at December 31, 1996 and 1995, respectively. Such advances mature at various dates through 2006 and are secured by residential mortgage loans.

Long-term borrowings at December 31, 1996 mature as follows:

Year ending December 31:	(in thousands)
1997	$ 173
1998	511
1999	108
2000	318
2001	316
Later years	176,576
	$178,002

9. 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. The 40,000 shares of preferred stock, which had been issued on March 15, 1991 for $40 million, were not considered common stock equivalents for purposes of calculating primary earnings per common share. Accordingly, preferred stock dividends were deducted from net income in such calculations. Calculations of fully 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.

10. 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, 1996 and 1995.

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

As more fully described in note 3, the carrying value and estimated fair value of investment securities were as follows:

	Carrying value	Estimated fair value
	(in thousands)	
December 31		
1996	$1,571,698	1,572,398
1995	1,769,295	1,770,937

10. Disclosures about fair value of financial instruments, continued

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, 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
December 31, 1995		
Commercial loans and leases	$ 1,992,325	1,989,483
Commercial real estate loans	3,599,202	3,615,964
Residential real estate loans	1,999,540	2,030,175
Consumer loans and leases	1,964,782	1,980,559
	$ 9,555,849	9,616,181

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, which are comprised principally of unamortized fee income and are included in other liabilities, totaled $3,619,000 and $2,757,000 at December 31, 1996 and 1995, respectively.

SFAS No. 107 requires that the estimated fair value ascribed to noninterest-bearing deposits, savings deposits and NOW accounts be established at carrying value because of the customers' ability to withdraw funds immediately. 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, 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
December 31, 1995		
Noninterest-bearing deposits	$1,184,359	1,184,359
Savings deposits and NOW accounts	3,533,860	3,533,860
Time deposits	4,596,053	4,611,060
Deposits at foreign office	155,303	155,303

10. Disclosures about fair value of financial instruments, continued

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 16, 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				
1996	$2,362,389	15,013	(9,489)	5,524
1995	2,378,358	38,682	(1,645)	37,037

As described in note 16, 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 (losses) of $50 million and $(42,000), respectively, at December 31, 1996 and $50 million and $80,000, respectively, at December 31, 1995. The Company also entered into foreign exchange and other option and futures contracts totaling approximately $1.6 billion and $539 million at December 31, 1996 and 1995, respectively. Such contracts were valued at gains of $1,561,000 and $2,603,000 at December 31, 1996 and 1995, respectively. All trading account assets and liabilities 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 $178,002,000 and $180,793,000, respectively, at December 31, 1996 and $192,791,000 and $202,746,000, respectively, at December 31, 1995.

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.

10. Disclosures about fair value of financial instruments, continued

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.

11. 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 entitle 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, 1996, 683,609 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
1994				
Beginning balance	507,232	113,200	$ 80.22	$60.08
Granted	142,449	-	139.96	-
Exercised	(33,944)	(22,600)	47.58	59.70
Cancelled	(4,500)	-	131.24	-
At year-end	611,237	90,600	95.58	60.17
1995				
Granted	165,185	-	143.39	-
Exercised	(47,175)	(29,000)	66.57	60.69
Cancelled	(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
Cancelled	(8,650)	-	155.86	-
At year-end	769,215	54,950	130.54	60.34
Exercisable at:				
December 31, 1996	352,571	54,950	86.17	60.34
December 31, 1995	315,612	61,600	71.02	59.93
December 31, 1994	274,392	68,800	57.70	61.25

At December 31, 1996 and 1995, respectively, there were 317,190 and 481,786 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.

11. Stock option plan, continued

A summary of stock options at December 31, 1996 follows:

Range of exercise price	Stock options outstanding	Weighted average Exercise price	Weighted average Life (in years)	Stock options exercisable	Weighted average exercise price
$ 36.00 to $ 65.25	174,436	$ 47.61	2.0	174,436	$ 47.61
105.13 to 151.00	425,682	132.77	6.8	177,235	123.57
175.00 to 259.13	169,097	210.50	9.1	900	193.61
	769,215	$130.54	6.2	352,571	$ 86.17

The Company used a binominal option pricing model to estimate the grant date present value of stock options granted in 1996 and 1995. The estimated value per option was $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 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 15% in 1996 and 16% in 1995, and estimated dividend yields of 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 1996, 1995 and 1994 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 $3,974,000 in 1996, $6,002,000 in 1995 and $370,000 in 1994. Had compensation expense for stock option awards granted in 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 1996	1995
	(in thousands, except per share)	
Net income:		
As reported	$151,103	131,036
Pro forma	146,394	128,776
Primary earnings per share:		
As reported	$21.31	18.79
Pro forma	20.76	18.54
Fully diluted earnings per share:		
As reported	$20.97	17.78
Pro forma	20.42	17.54

11. 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.

12. 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 completed in 1995 and 1994, service with the acquired entities was 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:

	1996	1995	1994
	(in thousands)		
Service cost	$ 4,298	3,304	4,148
Interest cost on projected benefit obligation	6,491	6,026	5,823
Actual return on assets	(16,865)	(19,666)	1,487
Net amortization and deferral	7,886	11,390	(9,541)
Net periodic pension cost	$ 1,810	1,054	1,917

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

	1996	1995
	(in thousands)	
Vested accumulated benefit obligation	$(71,915)	(72,377)
Total accumulated benefit obligation	(76,448)	(74,635)
Projected benefit obligation	(93,526)	(91,222)
Plan assets at fair value	120,856	108,316
Plan assets in excess of projected benefit obligation	27,330	17,094
Unrecognized net asset	(1,202)	(2,059)
Unrecognized past service cost	(448)	(493)
Unrecognized net gain	(15,265)	(2,317)
Pension asset	$ 10,415	12,225

Plan assets included common stock of First Empire with a fair value of $8,096,000 and $6,128,000 at December 31, 1996 and 1995, respectively.

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

	1996	1995
Discount rate	7.25%	7.00%
Rate of increase in future compensation levels	5.00%	5.00%
Long-term rate of return on assets	9.00%	8.00%

12. Pension plans and other postretirement benefits, continued

In addition, the Company has an unfunded supplemental pension plan for certain key executives. Net periodic pension cost was $253,000, $290,000 and $341,000 in 1996, 1995 and 1994, 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:

	1996	1995	1994
	(in thousands)		
Service cost	$ 147	94	136
Interest cost on projected benefit obligation	1,062	1,022	1,059
Actual return on assets	(360)	(547)	(1)
Net amortization and deferral	(50)	16	(452)
Net postretirement benefit cost	$ 799	585	742

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

	1996	1995
	(in thousands)	
Accumulated benefit obligation:		
Retirees	$13,038	12,732
Active employees		
Fully eligible	1,043	1,261
Other	1,263	996
Plan assets at fair value	(6,325)	(7,046)
Accumulated benefit obligation in excess of plan assets	9,019	7,943
Unrecognized net loss	(2,151)	(2,009)
Unrecognized past service cost	2,243	2,447
Accrued postretirement benefit cost	$ 9,111	8,381

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:

	1996	1995
Discount rate	7.25%	7.00%
Long-term rate of return on assets	8.00%	8.00%
Medical inflation rate	11.00%	11.50%

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

12. Pension plans and other postretirement benefits, continued

The Company's 1996 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	$16,367
Service cost	147
Interest cost	1,131

13. Income taxes

The components of income tax expense were as follows:

	1996	1995	1994
		(in thousands)	
Current			
Federal	$ 85,220	79,194	58,801
State and city	16,547	18,303	21,251
Total current	101,767	97,497	80,052
Deferred			
Federal	(3,155)	(7,875)	(3,424)
State and city	(746)	515	558
Total deferred	(3,901)	(7,360)	(2,866)
Total income taxes applicable to pre-tax income	$ 97,866	90,137	77,186

The Company files a consolidated federal income tax return reflecting taxable income earned by all subsidiaries. Prior to 1996, applicable federal tax law allowed qualified savings banks, such as East New York, the option of deducting as bad debt expense for tax purposes, under the reserve method, 8% of taxable income. 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. Failure to maintain bank status as defined by the Internal Revenue Code or charges to the reserve established by prior bad debt deductions for other than bad debt losses by East New York (or its successor) would cause recapture of bad debt reserves, subject to the applicable tax rates in effect at that time. At December 31, 1996 East New York's bad debt reserve 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 tax expense attributable to gains on sales of bank investment securities was $1,872,000 in 1995 and $53,000 in 1994. The effect on income tax expense from sales of bank investment securities was insignificant in 1996. No alternative minimum tax expense was recognized in 1996, 1995 or 1994.

13. Income taxes, continued

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

	1996	1995	1994
	(in thousands)		
Income taxes at statutory rate	$87,139	77,411	68,068
Increase (decrease) in taxes:			
Tax-exempt income	(2,000)	(2,195)	(5,758)
State and city income taxes, net of federal income tax effect	10,271	12,232	14,176
Other	2,456	2,689	700
	$97,866	90,137	77,186

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

	1996	1995	1994
	(in thousands)		
Interest on loans	$ 5,603	5,335	6,513
Gain on sales of loans	-	-	1,041
Depreciation and amortization	7,900	5,943	4,367
Losses on loans and other assets	105,338	102,183	97,502
Postretirement and other supplemental employee benefits	7,434	7,041	6,382
Incentive compensation plans	9,090	10,932	9,242
Unrealized investment losses	1,819	2,343	37,966
Other	10,060	6,990	7,781
Gross deferred tax assets	147,244	140,767	170,794
Retirement benefits	(4,457)	(5,194)	(3,801)
Leasing transactions	(81,300)	(71,717)	(69,469)
Restructured interest rate swap agreements	(8,564)	(13,746)	(16,950)
Capitalized servicing rights	(7,597)	(7,981)	-
Other	(46)	(226)	(5,159)
Gross deferred tax liabilities	(101,964)	(98,864)	(95,379)
Net deferred asset	$ 45,280	41,903	75,415

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.

14. 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:

	1996	1995	1994
	(in thousands)		
Other income:			
Mutual fund and annuity sales	$13,000		
Transfer of investment securities to charitable foundation			10,439
Other expense:			
Professional services			
Data processing	9,819	6,893	
Other	7,625	10,748	
Advertising	11,933		11,067
Charitable contributions			15,652

15. International activities

The Company engages in certain international activities consisting primarily of purchasing Eurodollar placements, collecting Eurodollar deposits and engaging in a limited amount of foreign currency trading. Assets identified with international activities amounted to $55,420,000 and $86,580,000 at December 31, 1996 and 1995, respectively.

16. 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:

16. Derivative financial instruments, continued

	Notional amount (in thousands)	Average expected maturity (in years)	Weighted-average rate Fixed	Weighted-average rate Variable	Estimated fair value-gain(loss) (in thousands)
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
December 31, 1995					
Variable rate loans:					
Amortizing	$ 365,782	1.1	5.93%	5.80%	$ (287)
Non-amortizing	834,576	3.0	5.81%	5.89%	9,086
	1,200,358	2.4	5.85%	5.86%	8,799
Fixed rate time deposits:					
Non-amortizing	1,178,000	1.4	6.55%	5.66%	28,238
	$2,378,358	1.9	6.19%	5.76%	$37,037

(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.

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.

16. Derivative financial instruments, continued

At December 31, 1996 the notional amount of interest rate swaps outstanding was expected to mature as follows:

	Amortizing	Non-amortizing
	(in thousands)	
Year ending December 31:		
1997	$ 98,168	538,845
1998	141,436	324,731
1999	930	544,000
2000	1,016	435,000
2001	1,110	128,000
Later years	29,153	120,000
	$271,813	2,090,576

The net effect of interest rate swaps was to increase net interest income by $15,454,000 in 1996, $884,000 in 1995 and $12,481,000 in 1994. The average notional amount of interest rate swaps impacting net interest income which were entered into for interest rate risk management purposes were $2,410,547,000, $2,536,329,000 and $1,627,454,000 in 1996, 1995 and 1994, respectively.

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 $20.8 million and $25.4 million, respectively, at December 31, 1996 and $32.9 million and $35.2 million, respectively, at December 31, 1995. 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 $12.1 million and $9.8 million, respectively, in 1996 and $11.1 million and $8.8 million, respectively, in 1995. The restructuring transactions did not have a significant effect on interest income in 1994.

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:

Year ending December 31:	(in thousands)
1997	$(1,674)
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

16. Derivative financial instruments, continued

table includes information about the estimated fair value of derivative financial instruments used for trading purposes:

	1996	1995
	(in thousands)	
December 31:		
Gross unrealized gains	$23,780	5,867
Gross unrealized losses	22,261	3,184
Year ended December 31:		
Average gross unrealized gains	$13,565	8,356
Average gross unrealized losses	10,983	7,374

Net gains (losses) arising from derivative financial instruments used for trading purposes were $2,689,000, $1,375,000 and $(336,000) in 1996, 1995 and 1994, respectively.

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 $171,420,000 and $185,667,000 at December 31, 1996 and 1995, 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 $2.7 billion and $2.1 billion at December 31, 1996 and 1995, 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 $251,110,000 at December 31, 1996 and $222,772,000 at December 31, 1995.

M&T Bank, National Association ("M&T Bank, N.A."), a wholly owned subsidiary of First Empire, is party to a co-branded credit card agreement with Giant of Maryland, Inc. ("Giant"). In October 1996, M&T Bank, N.A. notified Giant of its intent to terminate the agreement under its termination provisions. In December 1996, Giant filed a complaint against M&T Bank, N.A. alleging that M&T Bank, N.A. breached the agreement by attempting to terminate and that M&T Bank, N.A. negligently misrepresented certain information provided to Giant. The complaint sought injunctive relief, specific performance for the five-year term of the agreement and damages of $40 million. Subsequent to filing of the complaint, Giant withdrew its request for injunctive relief, agreed to dismiss the litigation, and consented to arbitration of the claims of M&T Bank, N.A. and Giant against each other. Management believes that M&T Bank, N.A. has meritorious defenses to Giant's claims and is vigorously defending against them.

First Empire and its subsidiaries are subject in the normal course of business to various other pending and threatened legal proceedings in which claims for monetary damages are asserted. Management, after consultation with legal counsel, does not anticipate that the aggregate ultimate liability, if any, arising out of litigation pending against First Empire or its subsidiaries will be material to the Company's consolidated financial 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, 1996 and 1995, 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, 1996, approximately $136,685,000 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 deposit liabilities. During the maintenance periods that included December 31, 1996 and 1995, cash and due from banks included a daily average of $128,398,000 and $174,028,000, respectively, for such purpose.

Federal regulators have adopted capital adequacy guidelines for bank holding companies and banks. Failure to meet minimum capital requirements can result in certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a material effect on the Company's financial statements. Under the capital adequacy guidelines, the so-called "Tier 1 capital" and "Total capital" as a percentage of risk-weighted assets and certain off-balance sheet financial instruments must be at least 4% and 8%, respectively. In addition to these risk-based measures, regulators also require banking institutions that meet certain qualitative criteria to maintain a minimum "leverage" ratio of "Tier 1 capital" to average total assets, adjusted for goodwill and certain other items, of at least 3% to be considered adequately capitalized. As of December 31, 1996, First Empire and each of its banking subsidiaries exceeded all applicable capital adequacy requirements.

As of December 31, 1996 and 1995, 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. As of December 31, 1996, management is unaware of any conditions or events since the latest notifications from federal regulators that have changed the capital adequacy category of any 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, 1996 and 1995 are presented below:

	First Empire (Consolidated)	M&T Bank	East New York	M&T Bank,N.A.
		(dollars in thousands)		
As of December 31, 1996:				
Tier 1 capital				
Amount	$889,221	673,294	149,025	33,754
Ratio(a)	8.40%	7.24%	12.50%	15.23%
Minimum required amount(b)	423,594	372,028	47,685	8,864
Total capital				
Amount	1,198,299	966,069	164,078	36,542
Ratio(a)	11.32%	10.39%	13.76%	16.49%
Minimum required amount(b)	847,188	744,056	95,369	17,727
Leverage				
Amount	889,221	673,294	149,025	33,754
Ratio(c)	6.99%	6.22%	7.47%	6.59%
Minimum required amount(b)	381,394	324,763	59,880	15,370
As of December 31, 1995:				
Tier 1 capital				
Amount	$ 821,174	645,864	133,307	22,214
Ratio(a)	8.53%	7.70%	11.41%	9.46%
Minimum required amount(b)	384,965	335,691	46,717	9,388
Total capital Amount	1,118,229	927,252	148,040	25,256
Ratio(a)	11.62%	11.05%	12.68%	10.76%
Minimum required amount(b)	769,930	671,382	93,434	18,777
Leverage				
Amount	821,174	645,864	133,307	22,214
Ratio(c)	6.91%	6.38%	7.33%	10.08%
Minimum required amount(b)	356,376	303,550	54,573	6,613

(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.

20. Parent company financial statements

See other notes to financial statements.

CONDENSED BALANCE SHEET

DOLLARS IN THOUSANDS	DECEMBER 31 1996	1995
Assets		
Cash		
In subsidiary bank	$ 434	161
Other	19	18
Total cash	453	179
Due from subsidiaries		
Money-market assets	18,056	7,215
Current income tax receivable	3,183	965
Total due from subsidiaries	21,239	8,180
Investments in subsidiaries		
Banks	870,423	828,157
Other	109	6
Other assets	13,683	10,739
Total assets	$ 905,907	847,261
Liabilities		
Accrued expenses and other liabilities	$ 248	1,008
Stockholders' equity	905,659	846,253
	$ 905,907	847,261

CONDENSED STATEMENT OF INCOME

DOLLARS IN THOUSANDS, EXCEPT PER SHARE	YEAR ENDED DECEMBER 31 1996	1995	1994
INCOME			
Dividends from bank subsidiaries	$ 116,038	88,358	59,300
Other income	933	812	11,493
Total income	116,971	89,170	70,793
EXPENSE			
Interest on short-term borrowings	242	556	3
Other expense	1,968	2,365	17,739
Total expense	2,210	2,921	17,742
Income before income taxes and equity in undistributed income of subsidiaries	114,761	86,249	53,051
Income tax credits	552	944	7,087
Income before equity in undistributed income of subsidiaries	115,313	87,193	60,138
EQUITY IN UNDISTRIBUTED INCOME OF SUBSIDIARIES			
Net Income			
Bank subsidiaries	151,724	132,201	116,457
Other subsidiaries	104	--	--
Less: dividends received	(116,038)	(88,358)	(59,300)
Equity in undistributed income of subsidiaries	35,790	43,843	57,157
Net income	$ 151,103	131,036	117,295
Net income per common share	$ 21.31	18.79	16.35

20. Parent company financial statements, continued

CONDENSED STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31		
DOLLARS IN THOUSANDS	1996	1995	1994
Cash flows from operating activities			
Net income	$ 151,103	131,036	117,295
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed income of subsidiaries	(35,790)	(43,843)	(57,157)
Dividend-in-kind from subsidiary	(1,538)	(11,858)	--
Provision for deferred income taxes	(153)	(221)	(206)
Net gain on sales of assets	--	(179)	(128)
Net change in accrued income and expense	530	7,616	(6,570)
Transfer of noncash assets to charitable foundation	--	--	5,213
Net cash provided by operating activities	114,152	82,551	58,447
Cash flows from investing activities			
Investment in subsidiary	(7,000)	(20,248)	--
Other, net	(39)	871	(8,199)
Net cash used by investing activities	(7,039)	(19,377)	(8,199)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	--	(3,000)	3,000
Purchases of treasury stock	(80,810)	(37,374)	(43,964)
Dividends paid--common	(18,617)	(16,224)	(14,743)
Dividends paid--preferred	(900)	(3,600)	(3,600)
Other, net	4,329	2,968	1,049
Net cash used by financing activities	(95,998)	(57,230)	(58,258)
Net increase (decrease) in cash and cash equivalents	$ 11,115	5,944	(8,010)
Cash and cash equivalents at beginning of year	7,394	1,450	9,460
Cash and cash equivalents at end of year	$ 18,509	7,394	1,450
Supplemental disclosure of cash flow information			
Interest received during the year	$ 686	279	932
Interest paid during the year	242	558	1
Income taxes received during the year	507	7,393	510

In connection with reorganizing certain lines of business in 1995, loans and other assets aggregating $11,858,000 were transferred among First Empire's banking subsidiaries. To accomplish such transfers, the loans and other assets were distributed to First Empire in the form of dividends-in-kind. First Empire, in turn, contributed those assets to other banking subsidiaries.

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 terms in office of the following two directors of the Registrant will end on April 15, 1997, and neither one of them is a nominee for reelection to the Board of Directors at the 1997 Annual Meeting of Stockholders:

James A. Carrigg, age 63, has been a director since 1992, and is chairman of the Executive Committee and a director of New York State Electric & Gas Corporation. He served as the chairman of the Directors Advisory Council of the Southern Division of M&T Bank from July 1992 through December 1996. Mr. Carrigg is a director of Security Mutual Life Insurance Company of New York.

Barber B. Conable, Jr., age 74, has been a director since 1991, and retired as the president of The World Bank in September 1991, a position which he had held since 1986. He represented the 30th District of New York in the U.S. House of Representatives from 1965 to 1985, and served as a New York State senator in 1963 and 1964. Mr. Conable is a director of M&T Bank, and serves as chairman of the Directors Advisory Council of its Rochester Division. He is a director of American International Group, Inc.

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 1997 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or about March 13, 1997. 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 1997 Annual Meeting of Stockholders.

Item 11. Executive Compensation. Incorporated by reference to the Registrant's definitive Proxy Statement for its 1997 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or about March 13, 1997.

Item 12. Security Ownership of Certain Beneficial Owners and Management. Incorporated by reference to the Registrant's definitive Proxy Statement for its 1997 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or about March 13, 1997.

Item 13. Certain Relationships and Related Transactions. Incorporated by reference to the Registrant's definitive Proxy Statement for its 1997 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or about March 13, 1997.

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 January 2, 1997, the Registrant filed a Current Report on Form 8-K dated December 27, 1996, reporting on its December 27, 1996 public announcement of the intended merger of East New York with and into M&T Bank.

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

The exhibits listed on the Exhibit Index on pages 94 and 95 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 12th day of March, 1997.

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	3/12/97
Principal Financial and Accounting Officer:		
/s/ Michael P. Pinto Michael P. Pinto	Executive Vice President and Chief Financial Officer	3/12/97

A majority of the board of directors:

/s/ Brent D. Baird Brent D. Baird	3/12/97
/s/ John H. Benisch John H. Benisch	3/12/97
/s/ C. Angela Bontempo C. Angela Bontempo	3/12/97
/s/ Robert T. Brady Robert T. Brady	3/12/97
/s/ Patrick J. Callan Patrick J. Callan	3/12/97
/s/ James A. Carrigg James A. Carrigg	3/12/97
/s/ Barber B. Conable, Jr. Barber B. Conable, Jr.	3/12/97
/s/ Richard E. Garman Richard E. Garman	3/12/97
/s/ James V. Glynn James V. Glynn	3/12/97
Roy M. Goodman	
/s/ Patrick W.E. Hodgson Patrick W.E. Hodgson	3/12/97
Samuel T. Hubbard, Jr.	
/s/ Lambros J. Lambros Lambros J. Lambros	3/12/97
/s/ Wilfred J. Larson Wilfred J. Larson	3/12/97
/s/ Jorge G. Pereira Jorge G. Pereira	3/12/97
/s/ Raymond D. Stevens, Jr. Raymond D. Stevens, Jr.	3/12/97

/s/ Herbert L. Washington Herbert L. Washington	3/12/97
/s/ John L. Wehle, Jr. John L. Wehle. Jr.	3/12/97
/s/ Robert G. Wilmers Robert G. Wilmers	3/12/97

EXHIBIT INDEX

3.1 Restated Certificate of Incorporation of First Empire State Corporation dated April 19, 1989, filed by the Secretary of State of New York on April 20, 1989. Incorporated by reference to Exhibit No. 19 to the Form 10-Q for the quarter ended March 31, 1989 (File No. 1-9861).

3.2 Certificate of Amendment of the Certificate of Incorporation of First Empire State Corporation dated March 13, 1991, filed by the Secretary of State of New York on March 14, 1991. Incorporated by reference to Exhibit No. 19 to the Form 10-Q for the quarter ended March 31, 1991 (File No. 1-9861).

3.3 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, 3.3, 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).

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. Incorporated by reference to Exhibit No. 10 to the Form 10-Q for the quarter ended March 31, 1995 (File No. 1-9861).

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 Harry R. Stainrook dated as of December 12, 1985. Incorporated by reference to Exhibit No. (10)(e)(ii) to the Form 10-K for the year ended December 31, 1985 (File No. 0-4561);

10.6 William C. Rappolt dated as of March 7, 1985. Incorporated by reference to Exhibit No. (10)(e)(iv) to the Form 10-K for the year ended December 31, 1987 (File No. 1-9861);

10.7 Brian E. Hickey dated as of July 21, 1994. Incorporated by reference to Exhibit No. 10.7 to the Form 10-K for the year ended December 31, 1995 (File No. 1-9861).

10.8 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).

10.9 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).

10.10 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).

10.11 First Empire State Corporation Nonqualified Deferred Bonus Plan. Filed herewith.

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 No. 33-32044 and 333-16077. Filed herewith.

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

27.1 Article 9 Financial Data Schedule for the year ended December 31, 1996. Filed herewith.

99.1 First Empire State Corporation Retirement Savings Plan and Trust Financial Statements and Additional Information for the years ended December 31, 1996 and 1995. Filed herewith.

FIRST EMPIRE STATE CORPORATION
NONQUALIFIED DEFERRED BONUS PLAN

(Amended and Restated effective January 1, 1996)

ARTICLE I.

INTENT

This First Empire State Corporation Deferred Bonus Plan was established, effective January 1, 1984, for the benefit of certain employees of certain affiliates of First Empire State Corporation. The Plan is intended to qualify as a plan described in Section 201(2) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and is maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees.

ARTICLE II.

DEFINITIONS

When used in this Plan, the following terms shall have the following meanings:

2.1 "Account" means the account maintained for a Participant pursuant to Article IV hereof.

2.2 "Beneficiary" means the person or persons designated by a Participant pursuant to Article VI hereof to receive any benefit payable pursuant to Section 5.1 hereof upon the Participant's death.

2.3 "Bank" means Manufacturers & Traders Trust Company and its successors by merger, sale of assets or otherwise.

2.4 "Board" means the board of directors of the Bank.

2.5 "Bonus" means an Eligible Employee's award under an Incentive Plan.

2.6 "Deemed Earnings" means the income earned or loss incurred with respect to a Participant's Deemed Investment Portfolio. The Deemed Earnings with respect to each investment option in a Deemed Investment Portfolio shall be determined on the basis of the total actual return on such investment option in the First Empire State Retirement Savings Plan for the period in question.

2.7 "Deemed Investment Portfolio" means the hypothetical portfolio designated by a Participant from among the investment options offered under the First Empire State Retirement Savings Plan.

2.8 "Deferred Bonus Election" means an election made pursuant to Section 3.1(a) hereof.

2.9 "Deferred Bonus" means that portion of a Bonus the payment of which is deferred by a Participant under this Plan.

2.10 "Deferred Bonus Agreement" means the written agreement entered into between a Participant and his Employer pursuant to which the Participant elects to defer payment of a specified portion of his Bonus in accordance with the terms of this Plan and such agreement.

2.11 "Eligible Employee" means an individual who is an employee of an Employer, who is eligible to participate in an Incentive Plan and who is designated by the Plan Administrator as eligible to participate in this Plan.

2.12 "Employer" means First Empire State Corporation and each of its affiliates any of whose employees are eligible to participate in an Incentive Plan.

2.13 "Financial Hardship" means a financial hardship of a Participant.

2.14 "Incentive Plan" means the First Empire State Corporation Incentive Plan and such other incentive plans of First Empire State Corporation or its subsidiaries as the Plan Administrator may designate.

2.15 "Participant" means an Eligible Employee who has deferred a portion of his Bonus pursuant to a Deferred Compensation Agreement and the terms of this Plan.

2.16 "Plan" means this First Empire State Corporation Deferred Bonus Plan, as set forth herein and amended from time to time.

2.17 "Plan Administrator" means such person or committee as may be designated by the Board to serve as such under this Plan.

2.18 "Retirement" means the earliest of a Participant's (a) normal retirement, early retirement or disability retirement under the First Empire State Corporation Retirement Plan, (b) death or (c) 65th birthday.

2.19 "Revaluation Date" means the last day of each calendar quarter and such other dates as may be designated by the Plan Administrator.

ARTICLE III

DEFERRAL OF BONUS

3.1 Deferred Bonus Elections.

(a) An Eligible Employee, by executing a Deferred Bonus Agreement, may elect to defer all or any portion of his Bonus.

(b) An Eligible Employee must make his Deferral Election for a Bonus payable with respect to a calendar year on or before October 31 of that calendar year.

3.2 Deferred Bonus Agreements.

(a) A Deferred Bonus Election pursuant to this Plan shall be made pursuant to a written Deferred Bonus Agreement between the Eligible Employee and his Employer.

(b) A Participant's Deferred Bonus Agreement shall specify whether the Deferred Bonus thereunder (and Deemed Earnings thereon) shall be paid in a single lump-sum payment or in annual installments payable over five, ten or 20 years.

(c) A Participant's Deferred Bonus Agreement shall specify whether the Deferred Bonus thereunder (and Deemed Earnings thereon) shall be paid (or shall commence to be paid) at (i) Retirement or (ii) on a date selected by the Participant from among any one of the first 20 anniversaries of the date on which the Deferred Bonus would have been paid absent the Deferred Bonus Election.

ARTICLE IV

ACCOUNTS

4.1 Maintenance of Accounts. The Plan Administrator shall establish a bookkeeping account (an "Account") for each Participant. As of the first day of the month in which a Deferred Bonus would have been paid to the Participant absent a Deferred Bonus Election, the amount of such Deferred Bonus shall be credited to such Participant's Account.

4.2 Deemed Earnings. As of each Revaluation Date, a Participant's Account shall be adjusted for Deemed Earnings since the preceding Revaluation Date. Where a Deferred Bonus is credited to an Account other than on a Revaluation Date, Deemed Earnings on the amount of such Deferred Bonus for the period from the date of such credit until the next succeeding Revaluation Date shall be a pro rata portion of Deemed Earnings on an equivalent amount for the period between the Revaluation Dates immediately preceding and succeeding the date of such credit, calculated by reference to the number of days in each period.

4.3 Deemed Investment Portfolio. In his Deferred Bonus Agreement, a Participant shall designate a Deemed Investment Portfolio, and shall allocate his Deferred Bonus among the investment options offered for inclusion in the Deemed Investment Portfolio in integral multiples of 5 percent. A Participant may change such allocation on a calendar quarterly basis by submitting a written form to the Plan Administrator prior to the first day of such calendar quarter.

4.4 Separate Accounting. Within a Participant's Account, the Plan Administrator shall account separately for each of the Participant's Deferred Bonuses.

ARTICLE V

PAYMENT OF BENEFITS

5.1 General Rule. Except as provided in Section 5.2 hereof, a Participant (or, in the event of the Participant's death, his Beneficiary) shall receive (or begin to receive) payment of the amount standing to the Participant's Account as of the Revaluation Date or Dates next following the time or times elected in the Participant's Deferred Bonus Agreement or Agreements and shall receive such payment or payments in the form or forms elected in such Agreement or Agreements.

5.2 Hardship Withdrawals. In the event of Financial Hardship, a Participant may request a distribution of all or a portion of the amount standing to his Account. The determination of whether a Participant has incurred a Financial Hardship shall be made by the Plan Administrator. The Participant shall determine against which Deferred Bonus or Bonuses (and Deemed Earnings thereon) a withdrawal pursuant to this Section 5.2 shall be charged.

5.3 Payment. The payment to a Participant with respect to a Deferred Bonus (and Deemed Earnings thereon) shall be made in cash by the Participant's last Employer in the year with respect to which the Bonus deferred was payable; provided, however, that if such Employer is owned directly or indirectly by a bank, the payment shall be made by such bank.

5.4 Withholding. The Employers shall have the right to deduct from any payment to be made pursuant to this Plan any Federal, state or local taxes required by law to be withheld.

ARTICLE VI

BENEFICIARIES

Each Participant may designate from time to time any person or persons, natural or otherwise, as his Beneficiary or Beneficiaries to whom benefits under Section 5.1 are to be paid in the event of his death. Each Beneficiary designation shall be made either in the Deferred Bonus Agreement or on a form provided by the Plan Administrator and shall be effective only when filed with the Plan Administrator during the Participant's lifetime. Each Beneficiary designation filed with the Plan Administrator shall revoke all Beneficiary designations previously made by the Participant. The revocation of a Beneficiary designation shall not require the consent of any designated Beneficiary. Payment to a Beneficiary shall be made in the form or forms elected in the Participant's Deferred Bonus Agreement or Agreements, provided that such payment shall be made in a lump sum if a request for such a lump sum payment is made by the Beneficiary and approved by the Plan Administrator.

ARTICLE VII

ADMINISTRATION

7.1 General. The Plan Administrator shall be charged with the administration of this Plan. The Plan Administrator shall have all such powers as may be necessary to discharge its duties relative to the administration of this Plan, including by way of illustration and not limitation, discretionary authority to interpret and construe this Plan, to decide any dispute arising hereunder, to determine the right of any individual with respect to participation herein, to determine the right of any Participant with respect to benefits payable under this Plan and to adopt, alter and repeal such administrative rules, regulations and practices governing the operation of this Plan as it, in its sole discretion, may from time to time deem advisable. The Plan Administrator shall not be liable to any person for any action taken or omitted in connection with the interpretation and administration of this Plan unless attributable to willful misconduct or lack of good faith. The Plan Administrator shall be entitled to rely conclusively upon all tables, valuations, certificates, opinions and reports furnished by any actuary, accountant, controller, counsel or other person employed or engaged by the Plan Administrator or an Employer with respect to this Plan. The Plan Administrator, if an individual, or the members thereof if the Plan Administrator is a Committee, shall not participate in any action or determination regarding solely his or their own benefits payable hereunder. Except as provided in Section 7.3 hereof, decisions of the Plan Administrator made in good faith shall be final, conclusive and binding upon all parties.

7.2 Claims Procedure. Whenever the Plan Administrator denies, in whole or in part, a claim for benefits filed by any person (hereinafter referred to as a "Claimant"), the Plan Administrator shall transmit a written notice setting forth, in a manner calculated to be understood by the Claimant, a statement of the specific reasons for the denial of the claim, references to the specific provisions of this Plan on which the denial is based, a description of any additional needed material or information and why such material or information is necessary, and an explanation of the claims review procedure as set forth herein. In addition, the written notice shall contain the date on which the notice was sent and a statement advising the Claimant that, within 90 days of the date on which such notice is received, he may obtain review of the Plan Administrator's decision.

7.3 Review Procedure. Within 90 days of the date on which the notice of denial of claim is received by the Claimant, the Claimant or his authorized representative may request that the claim denial be reviewed by filing with the Plan Administrator a written request therefor, which request shall contain the following information:

(a) the date on which the notice of denial of claim was received by the Claimant;

(b) the date on which the Claimant's request was filed with the Plan Administrator; provided, however, that the date on which the Claimant's request for review was in fact filed with the Plan Administrator shall control in the event that the date of the actual filing is later than the date stated by the Claimant pursuant to this clause (b);

(c) the specific portions of the denial of his claim which the Claimant requests the Plan Administrator to review;

(d) a statement by the Claimant setting forth the basis upon which he believes the Plan Administrator should reverse its previous denial of his claim for benefits and accept his claim as made; and

(e) any written material (included as exhibits) which the Claimant desires the Plan Administrator to examine in its consideration of his position as stated pursuant to clause (d).

Within 60 days of the date determined pursuant to clause (b) (or, if special circumstances require an extension of time, within 120 days of such date), the Plan Administrator shall conduct a full and fair review of the decision denying the Claimant's claim for benefits and shall deliver, to the Claimant in writing, its decision. Such written decision shall set forth, in a manner calculated to be understood by the Claimant, a statement of the specific reasons for the decision, including references to the specific provisions of this Plan which were relied upon. The decision will be final and binding on all persons concerned.

ARTICLE VIII

AMENDMENT AND TERMINATION

8.1 Power to Amend or Terminate. The Employers expect to continue this Plan indefinitely, but reserve and delegate to the Bank the right to amend or terminate this Plan at any time, if, in the Bank's sole judgment, such amendment or termination is necessary or desirable. Any such amendment or termination sh all be made in writing by the Board or its designee, if applicable, and shall be effective as of the date specified in such document. No amendment or termination of this Plan shall directly or indirectly deprive any Participant or Beneficiary of all or any portion of the amounts previously credited to the Participant's Account. In the event of a termination of this Plan, the Bank (or any transferee, purchaser or successor entity) may elect, in its discretion, either to have the Employers make lump sum payments, at the time of such termination, of the Account balances on such date to Participants and Beneficiaries or to have the Employers make payments to such individuals at such time or times as provided under the terms of this Plan.

8.2 Successor. This Plan shall not be automatically terminated by a transfer or sale of an Employer or by the merger or consolidation of an Employer into or with any other corporation or other entity, but it shall be continued with respect to such Employer or its successor after such sale, merger or consolidation only if and to the extent that the transferee, purchaser or successor entity agrees to continue this Plan. In the event this Plan is not continued with respect to such Employer or its successor by the transferee, purchaser or successor entity, then it shall terminate with respect to such Employer or its successor subject to the provisions of Section 8.1 hereof.

ARTICLE IX

MISCELLANEOUS

9.1 No Effect on Employment Rights. Nothing contained herein will confer upon any Participant the right to be retained in the service of an Employer nor limit the right of an Employer to discharge or otherwise deal with Participants without regard to the existence of this Plan.

9.2 Plan Unfunded. Notwithstanding any provision herein to the contrary, the benefits offered hereunder shall constitute nothing more than unfunded, unsecured promises by each Employer to pay the amounts that such Employer is obligated to pay under this Plan. No provision shall at any time be made with respect to segregating any assets of any Employer for payment of any amounts hereunder. No Participant, Beneficiary or any other person shall have any interest in any particular assets of the Employers by reason of the right to receive a benefit under this Plan, and any such Participant, Beneficiary or other person shall have only the rights of a general unsecured creditor of the Employer obligated to make payments to the Participant under this Plan. Nothing contained in this Plan shall constitute a guaranty by the Employers or any other entity or person that the assets of any Employer will be sufficient to pay any amount hereunder. All expenses and fees incurred in the administration of this Plan shall be paid by the Employers.

9.3 Binding on Employers, Employees and Their Successors. This Plan shall be binding upon and inure to the benefit of the Employers, their successors and assigns and each Participant and his heirs, executors, administrators and legal representatives. In the event of the merger or consolidation of an Employer with or into any other corporation, or in the event substantially all of the assets of an Employer shall be transferred to another corporation, the successor corporation resulting from the merger or consolidation, or the transferee of such assets, as the case may be, shall, as a condition to the consummation of the merger, consolidation or sale, assume the obligations of such Employer hereunder as of the date of such merger, consolidation or transfer and shall be substituted for such Employer hereunder.

9.4 Spendthrift Provisions. No amount payable under this Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge prior to actual receipt thereof by the payee; and any attempt so to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge prior to such receipt shall be void; and the Employers shall not be liable in any manner for or subject to the debts, contracts, liabilities, torts or engagements of any person entitled to any benefit under this Plan.

9.5 Disclosure. Each Participant shall receive a copy of this Plan, and the Plan Administrator will make available for inspection by any Participant a copy of the rules and regulations used by the Plan Administrator in administering this Plan.

9.6 State Law. This Plan is established under and will be construed according to the laws of the State of New York to the extent that such laws are not preempted by ERISA.

9.7 Incapacity of Recipient. In the event a Participant or Beneficiary is declared incompetent and a guardian, conservator or other person legally charged with the care of his person or of his estate is appointed, any amounts to which such Participant or Beneficiary is entitled under this Plan shall be paid to such guardian, conservator or other person legally charged with the care of his person or his estate. Except as provided herein, when the Plan Administrator, in its sole discretion, determines that a Participant or Beneficiary is unable to manage his financial affairs, the Plan Administrator may direct the Employer, or Employers responsible for payment to make payments to any person for the benefit of such Participant or Beneficiary.

9.8 Unclaimed Benefit. Each Participant shall keep the Plan Administrator informed of his current address. The Plan Administrator shall not be obligated to search for the whereabouts of any person. If the location of a Participant is not made known to the Plan Administrator within three years after the date on which any payment of the Participant's benefit hereunder may be made, payment may be made as though the Participant had died at the end of the three-year period. If, within one additional year after such three-year period has elapsed, or, within three years after the actual death of a Participant, whichever occurs first, the Plan Administrator is unable to locate the Beneficiary of the Participant, the Participant and his Beneficiary shall forfeit all rights to any payments under this Plan.

9.9 Elections, Applications, Notices. Every direction, revocation or notice authorized or required hereunder shall be deemed delivered to the Employers or the Plan Administrator as the case may be: (a) on the date it is personally delivered to the Plan Administrator (with a copy to the Bank's General Counsel) at the Bank's executive offices at Buffalo, New York or (b) three business days after it is sent by registered or certified mail, postage prepaid, addressed to the Plan Administrator (with a copy to the Bank's General Counsel) at the offices indicated above, and shall be deemed delivered to a Participant or Beneficiary: (a) on the date it is personally delivered to such individual, or (b) three business days after it is sent by registered or certified mail, postage prepaid, addressed to such individual at the last address shown for him on the records of the Employers. Any notice required hereunder may be waived by the person entitled thereto.

9.10 Severability. In the event any provision of this Plan shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining provisions of this Plan. This Plan shall be construed and enforced as if such illegal or invalid provision had never been contained herein.

9.11 Headings. The headings of Sections of this Plan are for convenience of reference only and shall have no substantive effect on the provisions of this Plan.

Exhibit 11.1

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

COMPUTATION OF EARNINGS PER COMMON SHARE

AMOUNTS IN THOUSANDS, EXCEPT PER SHARE	YEAR ENDED DECEMBER 31 1996	1995	1994
Primary			
Average common shares outstanding......	6,663	6,499	6,729
Common stock equivalents *.............	385	282	223
Primary common shares outstanding....	7,048	6,781	6,952
Net income...............................	$151,103	131,036	117,295
Less: Preferred stock dividends..........	900	3,600	3,600
Net income available to common shareholders.........................	150,203	127,436	113,695
Earnings per common share-- primary......	$21.31	18.79	16.35
Fully diluted			
Average common shares outstanding......	6,663	6,499	6,729
Common stock equivalents *.............	421	362	228
Assumed conversion of convertible preferred stock........................	122	507	507
Fully diluted average common shares outstanding............................	7,206	7,368	7,464
Net income...............................	$151,103	131,036	117,295
Earnings per common share--fully diluted................................	$20.97	17.78	15.71

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* 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, 1997, appearing on page 54 of this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated March 7, 1997 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, 1996 and 1995 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 18, 1997

Exhibit 23.2

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 and 33-63917) of First Empire State Corporation of our report dated January 9, 1997 appearing on page 54 of this Annual Report on Form 10-K. We also consent to the reference to us under the heading "Experts" in Registration Statements (Nos. 33-12207 and 33-58500).

/s/ PRICE WATERHOUSE LLP

Buffalo, New York
March 18, 1997

YEAR
DEC-31-1996
DEC-31-1996
324,659
47,325
125,326
37,317
1,396,672
175,026
175,726
11,120,221
270,466
12,943,915
10,514,489
1,150,187
195,578
178,002
0
0
40,487
865,172
12,943,915
881,002
110,052
6,378
997,432
392,739
466,408
531,024
43,325
(37)
408,978
248,969
151,103
0
0
151,103
21.31
20.97
4.45
58,232
39,652
0
0
262,344
49,546
14,343
270,466
147,659
0
122,807

Exhibit 99.1

FIRST EMPIRE STATE CORPORATION
RETIREMENT SAVINGS PLAN AND TRUST

Financial Statements and Additional Information
December 31, 1996 and 1995

FIRST EMPIRE STATE CORPORATION RETIREMENT SAVINGS PLAN AND TRUST
FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

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, 1996 and 1995 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, 1996 and 1995, 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 7, 1997

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

	DECEMBER 31	
	1996	1995
ASSETS		
Cash	$ 5,914,067	416,238
Investments, at current value:		
Short-term investments (cost: $37,490,680 in 1996 and $10,966,751 in 1995)	37,490,680	10,966,751
Common stock (cost: $27,304,900 in 1996 and $36,061,617 in 1995)	62,420,544	60,674,151
U.S. government and agency obligations (cost: $2,865,307 in 1995)	--	3,039,237
Corporate bonds (cost: $2,734,371 in 1995)	--	2,882,910
Loans to participants (cost: $3,103,865 in 1996 and $2,648,774 in 1995)	3,103,865	2,648,774
Total investments	103,015,089	80,211,823
Receivables:		
Due from broker	758,309	510,272
Employee contributions	227,730	142,337
Employer contributions	129,898	82,967
Interest and dividends	31,363	131,674
Total receivables	1,147,300	867,250
Total assets	110,076,456	81,495,311
LIABILITIES		
Due to broker	--	602,999
NET ASSETS AVAILABLE FOR PLAN BENEFITS	$110,076,456	80,892,312

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	
	1996	1995
ADDITIONS TO NET ASSETS AVAILABLE FOR PLAN BENEFITS		
Net investment income:		
Interest	$ 1,276,752	1,218,874
Dividends	937,337	800,895
Net realized gain on sale of investments	3,720,698	407,654
Net appreciation in current value of investments	14,335,054	17,934,774
Total net investment income	20,269,841	20,362,197
Contributions:		
Employee	9,935,774	12,302,507
Employer	4,723,965	4,085,991
Total contributions	14,659,739	16,388,498
	34,929,580	36,750,695
DEDUCTIONS FROM NET ASSETS AVAILABLE FOR PLAN BENEFITS		
Benefit payments to participants	(5,745,436)	(6,441,865)
NET INCREASE IN NET ASSETS AVAILABLE FOR PLAN BENEFITS	29,184,144	30,308,830
Net assets available for plan benefits at beginning of year	80,892,312	50,583,482
NET ASSETS AVAILABLE FOR PLAN BENEFITS AT END OF YEAR	$ 110,076,456	80,892,312

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. Through December 31, 1996, 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. Effective October 1, 1995, 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. Prior thereto the maximum contribution by participants was limited to 8% of compensation. 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 for the calendar year excluding any form of additional compensation. Effective April 1, 1995 compensation was redefined to include 75% of participants' sales commissions. 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 1996 and $9,240 in 1995. 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.

INVESTMENT PROGRAMS

Through December 31, 1996, participants could invest their salary reduction contributions in the common stock of First Empire ("First Empire stock fund"), equity securities other than those of First Empire ("diversified equity fund"), short-term fixed income securities other than those of First Empire ("money-market fund") or long-term fixed income securities other than those of First Empire ("bond fund") in increments of 25%. A separate account is maintained for each participant's interest in each fund. There were 3,383 participants in the First Empire stock fund, 2,922 in the diversified equity fund, 1,403 in the money-market fund and 1,217 in the bond fund at December 31, 1996. A total of 3,887 employees of the Company were active participants in the Plan at December 31, 1996. 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.

Through December 31, 1996, 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 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The accounts of the Plan are maintained on the accrual basis.

INVESTMENTS

Investments are reported on a current value basis. Other than short-term investments, investments of the First Empire stock fund, diversified equity fund, money-market fund and bond 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 at December 31, 1996 and 1995 consisted of the common stock of First Empire and the Vision Group of Funds, Inc. Money Market Fund. 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, 1996 and 1995.

Investment income of the First Empire stock fund, diversified equity fund, money-market fund and bond 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 $845,546 and $788,297 at December 31, 1996 and 1995, 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 1996 and 1995 totaling $89,236 and $32,108, 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.

3. INCOME TAXES, CONTINUED

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

During 1995, the Plan was amended to add special eligibility and benefit provisions for employees of certain entities acquired by the Company in 1994 and 1995 and to accept the transfer of assets associated with account balances of such employees. Such asset transfers totaled $5,337,797, and have been included in employee contributions for the year ended December 31, 1995.

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, money-market fund and bond fund have liquidated their long-term fixed income and equity investment securities at December 31, 1996 in order to facilitate their transition to three new mutual fund investment options; a growth and income equity fund, a money-market fund, and a U.S. government securities fund, respectively. Two additional mutual funds, a capital appreciation equity fund and an international stock fund, will be offered to participants effective January 1, 1997.

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.

5. RELATED PARTY TRANSACTIONS

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.

During 1995, the Plan acquired in the open market, in 35 transactions, 26,360 shares of First Empire common stock at a cost of $4,694,547. The Plan disposed of, in 18 transactions, 18,354 shares of First Empire common stock which resulted in proceeds of $2,704,890 and realized gains of $247,266. At December 31, 1995, the Plan held 198,094 shares of First Empire common stock with a total cost of $21,556,170 and a current value of $43,184,492.

6. NET REALIZED GAIN ON SALE OF INVESTMENTS

Net realized gain 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, 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
For the year ended December 31, 1995:			
First Empire common stock	$ 2,704,890	2,457,624	$ 247,266
Other common stock	1,177,993	1,105,936	72,057
U.S. government and agency obligations	1,298,388	1,294,697	3,691
Corporate bonds	1,141,819	1,057,179	84,640
	$ 6,323,090	5,915,436	$ 407,654

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 IN CURRENT VALUE OF INVESTMENTS

Net appreciation 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
For the year ended December 31, 1996:			
First Empire common stock	$ 62,420,544	48,085,490	$ 14,335,054
For the year ended December 31, 1995:			
First Empire common stock	$ 43,184,492	28,088,891	$ 15,095,601
Other common stock	17,489,659	15,026,953	2,462,706
U.S. government and agency obligations	3,039,237	2,819,712	219,525
Corporate bonds	2,882,910	2,725,968	156,942
			$ 17,934,774

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, 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 (cost:$27,737,652, $26,591,333, $10,190,613, $275,982 and $3,103,865):						
Short-term investments	432,752	26,591,333	10,190,613	275,982	--	37,490,680
Common stock	62,420,544	--	--	--	--	62,420,544
U.S. government and agency obligations	--	--	--	--	--	--
Corporate bonds	--	--	--	--	--	--
Loans to participants	--	--	--	--	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 I
(continued)

FIRST EMPIRE STATE CORPORATION RETIREMENT SAVINGS PLAN AND TRUST

ALLOCATION OF NET ASSETS AVAILABLE FOR PLAN BENEFITS TO INVESTMENT PROGRAMS
DECEMBER 31, 1995

	FIRST EMPIRE STOCK FUND	DIVERSIFIED EQUITY FUND	MONEY-MARKET FUND	BOND FUND	PARTICIPANT LOAN ACCOUNT	TOTAL
Assets						
Cash	$ 139,803	171,515	49,807	55,113	--	$ 416,238
Investments, at current value (cost:$21,835,971, $14,785,478, $10,350,413, $5,656,184 and $2,648,774):						
Short-term investments	279,801	280,031	10,350,413	56,506	--	10,966,751
Common stock	43,184,492	17,489,659	--	--	--	60,674,151
U.S. government and agency obligations	--	--	--	3,039,237	--	3,039,237
Corporate bonds	--	--	--	2,882,910	--	2,882,910
Loans to participants	--	--	--	--	2,648,774	2,648,774
Total investments	43,464,293	17,769,690	10,350,413	5,978,653	2,648,774	80,211,823
Receivables:						
Due from broker	--	510,272	--	--	--	510,272
Employee contributions	66,266	48,915	15,044	12,112	--	142,337
Employer contributions	37,786	28,419	9,359	7,403	--	82,967
Interest and dividends	--	19,590	--	112,084	--	131,674
Total receivables	104,052	607,196	24,403	131,599	--	867,250
Total assets	43,708,148	18,548,401	10,424,623	6,165,365	2,648,774	81,495,311
Liabilities						
Due to broker	416,479	186,520	--	--	--	602,999
Net assets available for plan benefits	$ 43,291,669	18,361,881	10,424,623	6,165,365	2,648,774	$ 80,892,312

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, 1995

	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 in net assets available for plan benefits..............	$20,519,047	8,397,508	(162,796)	(24,706)	455,091	$ 29,184,144

EXHIBIT II
(continued)

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, 1995

	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..................	$ 8,597	85,633	598,516	348,862	177,266	$ 1,218,874
Dividends.................	472,705	328,190	--	--	--	800,895
Net realized gain on sale of investments..............	247,266	72,057	--	88,331	--	407,654
Net appreciation in current value of investments.....	15,095,601	2,462,706	--	376,467	--	17,934,774
Total net investment income........	15,824,169	2,948,586	598,516	813,660	177,266	20,362,197
Contributions:						
Employee..................	4,057,000	3,804,600	2,811,267	1,447,587	182,053	12,302,507
Employer..................	1,845,451	1,271,596	566,642	402,302	--	4,085,991
Total contributions........	5,902,451	5,076,196	3,377,909	1,849,889	182,053	16,388,498
	21,726,620	8,024,782	3,976,425	2,663,549	359,319	36,750,695
DEDUCTIONS FROM NET ASSETS AVAILABLE FOR PLAN BENEFITS						
Benefit payments to participants..........	(3,327,544)	(959,098)	(1,700,477)	(454,746)	--	(6,441,865)
INTERFUND TRANSFERS						
Loans, net of repayments...........	114,927	(210,555)	(405,607)	(138,365)	639,600	--
Reallocation of investments-additions (deductions)...	(1,165,319)	1,461,685	(179,150)	60,050	(177,266)	--
	(1,050,392)	1,251,130	(584,757)	(78,315)	462,334	
Net increase in net assets available for plan benefits................	$17,348,684	8,316,814	1,691,191	2,130,488	821,653	$ 30,308,830

SCHEDULE I

FIRST EMPIRE STATE CORPORATION RETIREMENT SAVINGS PLAN AND TRUST

SCHEDULE OF ASSETS HELD FOR INVESTMENT
DECEMBER 31, 1996

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.................	37,490,680	1.000	$37,490,680	$ 1.000	$ 37,490,680
COMMON STOCK					
Financial:					
First Empire State Corporation*.........	216,738	125.981	27,304,900	288.000	62,420,544
LOANS TO PARTICIPANTS					
7.00%-10.50%, fully secured by vested benefits, due 1997 through 2001.........	$ 3,103,865	--	3,103,865	--	3,103,865
Total investments......			$67,899,445		$103,015,089

* 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, 1996

	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................	398	$49,176,811	166	$22,652,882	22,652,882	$ --
Common stock:						
First Empire State Corporation......	29	6,929,874	22	2,399,040	2,028,876	370,164