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, 1995
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: None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [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 4, 1996: $1,048,221,974.

Number of shares of the Common Stock, $5 par value, outstanding as of the close of business on March 4, 1996: 6,350,518 shares.

Documents Incorporated By Reference:

(1) Portions of the Proxy Statement for the 1996 Annual Meeting of Stockholders of First Empire State Corporation in Part III.

FIRST EMPIRE STATE CORPORATION

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For the fiscal year ended December 31, 1995

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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, 1995, the Company had consolidated total assets of $12.0 billion, deposits of $9.5 billion and stockholders' equity of $846 million. The Company had 4,148 full-time and 741 part-time employees as of December 31, 1995.

At December 31, 1995, 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.").

Since the beginning of 1990, the Company has experienced significant growth through federally-assisted acquisitions of assets and liabilities of failed thrift institutions and through unassisted acquisition transactions involving commercial banks, thrift institutions and mortgage banking companies. In January and September 1990, respectively, M&T Bank, in two federally-assisted transactions, purchased selected assets and assumed selected liabilities of Monroe Savings Bank, FSB, Rochester, New York, and Empire Federal Savings Bank of America, Buffalo, New York, two institutions that had been placed in receivership. In May 1991, M&T Bank and East New York similarly purchased certain assets and assumed certain liabilities of Goldome, a Buffalo, New York savings bank, from the Federal Deposit Insurance Corporation ("FDIC"), as receiver. In July 1992, Central Trust Company and Endicott Trust Company, two banks located in Rochester and Endicott, New York, respectively, were acquired and merged with and into M&T Bank. In December 1994, First Empire acquired Ithaca Bancorp, Inc. ("Ithaca Bancorp"), Ithaca, New York, and simultaneously merged Ithaca Bancorp's savings bank subsidiary, Citizens Savings Bank, F.S.B., into M&T Bank. Also, in December 1994, M&T Bank acquired from Chemical Bank selected assets and liabilities associated with seven banking offices in New York State's Hudson Valley region. In July 1995, M&T Bank acquired from The Chase Manhattan Bank, N.A., selected assets and liabilities associated with four banking offices, three of which were located in New York State's Hudson Valley region, and one of which was located in Western New York.

The following table summarizes the loans and deposits acquired by the Company in the bank acquisition transactions described above at the time those transactions were consummated:

Recent Bank Acquisitions and Mergers

	Loans	Deposits
	(In billions of dollars)	
Monroe Savings Bank, FSB	$0.4	$0.5
Empire Federal Savings Bank of America	0.5	1.2
Goldome	1.0	2.2
Central Trust Company	0.8	1.0
Endicott Trust Company	0.2	0.3
Ithaca Bancorp, Inc.	0.4	0.3
Acquisition of banking offices - 1994	-	0.1
Acquisition of banking offices - 1995	-	0.1

On March 6, 1995, M&T Bank's mortgage banking subsidiary, M&T Mortgage Corporation ("M&T Mortgage"), acquired Statewide Funding Corporation ("Statewide"), a privately-owned mortgage banking company based near Albany, New York. Statewide had a mortgage servicing portfolio of approximately $1.0 billion as of the acquisition date. Statewide was merged with and into M&T Mortgage on the same date. On October 2, 1995, M&T Mortgage 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 Company from time to time considers acquiring additional banks, thrift institutions, branch offices or other businesses, generally within markets currently served or in other nearby markets. The Company has pursued such 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, 1995, M&T Bank had 146 banking offices located throughout New York State, including 121 in Western New York and in the Southern Tier of New York State, principally in Buffalo, Rochester, Ithaca and Binghamton, 22 banking offices in the Hudson Valley region and one in New York City, plus a branch in Nassau, The Bahamas and a representative office in Syracuse. As of December 31, 1995, M&T Bank had consolidated total assets of $10.2 billion, deposits of $7.8 billion and stockholder's equity of $669 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 $7.4 billion in assessable deposits at December 31, 1995, 82% 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 16 banking offices located in New York City and Nassau County, Long Island. As of December 31, 1995, East New York had consolidated total assets of $1.8 billion, deposits of $1.6 billion and stockholder's equity of $134 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, 1995, M&T Bank, N.A. had total assets of $246 million, deposits of $69 million and stockholder's equity of $25 million. Credit card receivables of $211 million were transferred to M&T Bank, N.A. by M&T Bank during 1995.

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 $8 million and stockholder's equity of $7 million as of December 31, 1995, and recorded approximately $3.8 million of revenues in 1995. 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, 1995, M&T Credit had assets of $102 million and stockholder's equity of $0.6 million. M&T Credit recorded $4.7 million of revenues during 1995.

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 and others. M&T Mortgage operates throughout New York State, and also maintains branch offices in Colorado, Massachusetts, Ohio, Oregon, Pennsylvania, Utah and Washington. M&T Mortgage had assets of $293 million and stockholder's equity of $76 million as of December 31, 1995, and recorded approximately $56.6 million of revenues during 1995. 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 $83 million and stockholder's equity of $15 million as of December 31, 1995, and recorded approximately $0.9 million of revenues in 1995. 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 of the Company. M&T Real Estate engages in commercial real estate lending and servicing activities. During August 1995, M&T Bank contributed $1.9 billion of commercial mortgage loans, representing substantially all of its commercial real estate loan portfolio, to M&T Real Estate. In addition, substantially all of East New York's commercial real estate loan portfolio of approximately $1.2 billion was transferred to M&T Bank, which in turn contributed such loans to M&T Real Estate. In consideration for the transfer of commercial real estate loans, East New York received from M&T Bank a portfolio of residential mortgage and home equity loans with an aggregate estimated market value comparable to that of the net assets transferred by East New York to M&T Bank. As of December 31, 1995, M&T Real Estate had assets of $3.2 billion and stockholder's equity of $3.1 billion. M&T Real Estate recorded $122 million of revenues in 1995. 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 provides securities brokerage and investment advisory services. As of December 31, 1995, M&T Securities had assets of $4.1 million and stockholder's equity of $(81) thousand. M&T Securities recorded $8.6 million of revenues during 1995. 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, 1995, Highland Lease had assets of $108 million and stockholder's equity of $7.3 million. Highland Lease recorded $4.9 million of revenues during 1995.

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, 1995.

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 18 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 and the FDIC 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 and the FDIC 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 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 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, 1995 exceeded the risk-based capital adequacy guidelines and the leverage standard.

Capital Components and Ratios at December 31, 1995
(dollars in millions)

	Registrant (Consolidated)	M&T Bank	East New York	M&T Bank, N.A.
Capital Components				
Tier 1 capital	$ 821	$ 646	$ 133	$ 22
Total capital	1,118	927	148	25
Risk-weighted assets and off-balance sheet instruments	$ 9,624	$8,392	$1,168	$235
Risk-based Capital Ratio				
Tier 1 capital	8.53%	7.70%	11.41%	9.46%
Total capital	11.62	11.05	12.68	10.76
Leverage Ratio	6.91	6.38	7.33	10.08

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.

In August 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. Although the final rule did not codify a measurement framework, the federal banking agencies also intend to adopt a measurement framework which can be incorporated into risk-based capital standards.

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 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 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 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 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 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 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 is in an unsafe or unsound condition or deems the bank to be engaged in an unsafe or unsound practice and not to have corrected the deficiency. 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 90 days' 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 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 insurance assessment to be paid by BIF-insured institutions shall be specified in a schedule required to be issued by the FDIC that specifies, at semiannual intervals, target reserve ratios designed to increase the reserve ratio to 1.25% of estimated insured deposits (or such higher ratio as the FDIC may determine in accordance with the statute) no later than 2006. The FDIC is also authorized to impose one or more special assessments in any amounts deemed necessary to enable repayment of amounts borrowed by the FDIC from the Treasury Department. On September 15, 1992, the FDIC approved the implementation of 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 assessment rates under the system range from .23% to .31% depending upon the assessment category into which the insured institution is placed. The risk-based assessment system became effective January 1, 1993. In September 1995, the FDIC announced that the BIF was fully capitalized at the end of May 1995. As a result, the BIF assessments from the FDIC for M&T Bank and East New York were reduced to .04%, retroactive to June 1, 1995. In addition, effective January 1, 1996, such assessment was reduced to a nominal level for M&T Bank, East New York and M&T Bank, N.A. The FDIC retains the ability to increase BIF assessments and to levy special additional assessments.

With respect to deposit insurance assessments on SAIF-insured deposits at M&T Bank (which represent approximately 18% of its total assessed deposit liabilities), under current law such assessments must be the greater of .15% of M&T Bank's average assessment base (as defined) or such rate as the FDIC at its sole discretion determines to be appropriate to increase (or maintain) the reserve ratio to 1.25% of estimated insured deposits (or such higher ratio as the FDIC may determine in accordance with the statute) within a reasonable period of time. From January 1, 1994 through December 31, 1997 the assessment rate must not be less than .18% of the institution's average assessment base. The assessment rate may be higher if the FDIC, in its sole discretion, determines such higher rate to be appropriate. Effective January 1, 1993, the risk-based deposit premium assessment system described above was made applicable to SAIF-insured deposits. However, unlike assessments for BIF-insured deposits, the FDIC has not reduced the 1995 or 1996 assessment rates for SAIF-insured deposits. Furthermore, in 1995 congressional committees considered proposals that would require a one-time special assessment related to deposits insured by the SAIF. Although final legislation has yet to be enacted, management believes that it is likely that a special assessment will ultimately be levied against M&T Bank on its SAIF insured deposits.

A significant increase in the assessment rate or a special additional assessment with respect to insured deposits 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.

Item 1, Table 1

SELECTED CONSOLIDATED YEAR-END BALANCES

Dollars in thousands	1995	1994	1993	1992	1991
Money-market assets					
Interest-bearing deposits at banks	$ 125,500	143	55,044	110,041	-
Federal funds sold and resell agreements	1,000	3,080	329,429	312,461	67,351
Trading account	9,709	5,438	9,815	53,515	42,957
Total money-market assets	136,209	8,661	394,288	476,017	110,308
Investment securities					
U.S. Treasury and federal agencies	1,087,005	999,407	1,387,395	916,621	1,725,604
Obligations of states and political subdivisions	35,250	55,787	49,230	53,789	128,409
Other	647,040	735,846	992,527	750,154	731,973
Total investment securities	1,769,295	1,791,040	2,429,152	1,720,564	2,585,986
Loans and leases					
Commercial, financial, leasing, etc.	2,013,937	1,680,415	1,510,205	1,478,555	1,068,606
Real estate - construction	77,604	53,535	51,384	35,831	30,895
Real estate - mortgage	5,648,590	5,046,937	4,540,177	4,422,730	4,091,414
Consumer	2,133,592	1,666,230	1,337,293	1,211,401	1,015,722
Total loans and leases	9,873,723	8,447,117	7,439,059	7,148,517	6,206,637
Unearned discount	(317,874)	(229,824)	(177,960)	(164,713)	(160,083)
Allowance for possible credit losses	(262,344)	(243,332)	(195,878)	(151,690)	(100,265)
Loans and leases, net	9,293,505	7,973,961	7,065,221	6,832,114	5,946,289
Other real estate owned	7,295	10,065	12,222	16,694	10,354
Total assets	11,955,902	10,528,644	10,364,958	9,587,931	9,171,066
Demand deposits	1,184,359	1,087,102	1,052,258	1,078,690	655,876
NOW accounts	768,559	748,199	764,690	770,618	683,732
Savings deposits	2,765,301	3,098,438	3,364,983	3,573,717	2,841,590
Time deposits	4,596,053	3,106,723	1,982,272	2,536,309	3,066,897
Deposits at foreign office	155,303	202,611	189,058	117,776	226,229
Total deposits	9,469,575	8,243,073	7,353,261	8,077,110	7,474,324
Short-term borrowings	1,273,206	1,364,850	2,101,667	692,691	1,022,430
Long-term borrowings	192,791	96,187	75,590	75,685	9,477
Total liabilities	11,109,649	9,807,648	9,640,964	8,961,136	8,635,291
Stockholders' equity	846,253	720,996	723,994	626,795	535,775

STOCKHOLDERS, EMPLOYEES AND OFFICES

Number at year-end	1995	1994	1993	1992	1991
Stockholders	3,787	3,981	3,985	4,157	4,346
Employees	4,889	4,505	4,400	4,275	3,338
Banking offices	181	168	145	151	115

Item 1, Table 2

CONSOLIDATED EARNINGS

Dollars in thousands	1995	1994	1993	1992	1991
Interest income					
Loans and leases, including fees	$ 794,181	633,077	608,473	602,932	592,395
Money-market assets					
Deposits at banks	8,181	2,212	6,740	1,083	7,864
Federal funds sold and resell agreements	3,007	4,751	20,403	18,100	5,322
Trading account	1,234	361	1,242	2,927	15,716
Investment securities					
Fully taxable	118,791	104,185	101,187	125,529	138,808
Exempt from federal taxes	2,760	2,760	2,584	5,906	9,292
Total interest income	928,154	747,346	740,629	756,477	769,397
Interest expense					
NOW accounts	11,902	11,286	13,113	16,544	27,418
Savings deposits	87,612	84,804	90,392	110,142	123,468
Time deposits	239,882	97,067	98,508	153,588	242,684
Deposits at foreign office	6,952	5,894	3,243	4,348	9,014
Short-term borrowings	84,225	73,868	58,459	38,386	36,972
Long-term borrowings	11,157	6,287	6,158	590	659
Total interest expense	441,730	279,206	269,873	323,598	440,215
Net interest income	486,424	468,140	470,756	432,879	329,182
Provision for possible credit losses	40,350	60,536	79,958	84,989	63,412
Net interest income after provision for possible credit losses	446,074	407,604	390,798	347,890	265,770
Other income					
Trust income	25,477	22,574	23,865	16,905	11,847
Service charges on deposit accounts	38,290	35,016	32,291	28,372	20,688
Merchant discount and other credit card fees	10,675	8,705	7,932	6,728	5,776
Trading account gains	1,151	700	2,702	1,684	5,015
Gain on sales of bank investment securities	4,479	128	870	28,050	450
Mortgage banking revenues	37,142	16,002	12,776	10,943	8,548
Gain on sales of venture capital investments	2,619	802	2,896	3,230	2,064
Other revenues from operations	29,705	39,812	27,212	30,314	23,298
Total other income	149,538	123,739	110,544	126,226	77,686
Other expense					
Salaries and employee benefits	188,222	161,221	154,340	130,751	103,201
Equipment and net occupancy	50,526	49,132	47,823	41,659	33,350
Printing, postage and supplies	14,442	13,516	13,021	13,111	10,727
Deposit insurance	14,675	16,442	17,684	17,783	15,222
Other costs of operations	106,574	96,551	94,951	108,034	66,161
Total other expense	374,439	336,862	327,819	311,338	228,661
Income before income taxes	221,173	194,481	173,523	162,778	114,795
Income taxes	90,137	77,186	71,531	64,841	47,601
Net income	$ 131,036	117,295	101,992	97,937	67,194
Dividends declared					
Common	$ 16,224	14,743	13,054	10,780	9,344
Preferred	3,600	3,600	3,600	3,600	2,860

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

Item 1, Table 3

COMMON SHAREHOLDER DATA

	1995	1994	1993	1992	1991
Per Share					
Net income	$18.79	16.35	13.87	13.41	9.32
Cash dividends declared	2.50	2.20	1.90	1.60	1.40
Stockholders' equity at year-end	125.33	103.02	99.43	85.79	73.91
Dividend payout ratio	12.73%	12.97%	13.27%	11.43%	14.52%

Item 1, Table 4

CHANGES IN INTEREST INCOME AND EXPENSE*

	1995 compared with 1994			1994 compared with 1993		
		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	$ 161,336	127,303	34,033	$ 24,416	38,266	(13,850)
Money-market assets						
Deposits at banks	5,969	4,005	1,964	(4,528)	(6,055)	1,527
Federal funds sold and agreements to resell securities	(1,744)	(3,335)	1,591	(15,652)	(20,432)	4,780
Trading account	840	952	(112)	(935)	(1,083)	148
Investment securities						
U.S. Treasury and federal agencies	17,563	3,841	13,722	(5,735)	(6,451)	716
Obligations of states and political subdivisions	348	(227)	575	472	747	(275)
Other	(2,945)	(6,562)	3,617	8,682	972	7,710
Total interest income	$ 181,367			$ 6,720		
Interest expense						
Interest-bearing deposits						
NOW accounts	$ 616	237	379	$ (1,827)	(28)	(1,799)
Savings deposits	2,808	(9,704)	12,512	(5,588)	(5,848)	260
Time deposits	142,815	105,852	36,963	(1,441)	(3,099)	1,658
Deposits at foreign office	1,058	(953)	2,011	2,651	1,146	1,505
Short-term borrowings	10,357	(16,495)	26,852	15,409	(4,856)	20,265
Long-term borrowings	4,870	5,272	(402)	129	135	(6)
Total interest expense	$ 162,524			$ 9,333		

* 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 68% of the building and the remainder is leased to non-affiliated tenants. At December 31, 1995, the cost of this property, net of accumulated depreciation, was $10.2 million.

In September 1992, M&T Bank acquired an additional facility in Buffalo, New York with approximately 346,000 rentable square feet of space at a cost of approximately $12 million. Approximately 83% 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, 1995, the cost of this building, including improvements made subsequent to acquisition and net of accumulated depreciation, was $16.3 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 161 domestic banking offices of the Registrant's subsidiary banks, 57 are owned in fee and 104 are leased.

Item 3. Legal Proceedings.

A number of lawsuits were pending against the Registrant and its subsidiaries at December 31, 1995. In the opinion of management, the potential liabilities, if any, arising from such litigation will not have a materially adverse impact on the Company's consolidated financial condition. Moreover, management believes that the Company has substantial defenses in such litigation, but there can be no assurance that the potential liabilities, if any, arising from such litigation will not have a materially adverse impact on the Company's consolidated results of operations in the future.

Item 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 4, 1996. 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 61, 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, president and chief executive officer (1983) and a director (1982) of M&T Bank. 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).

William A. Buckingham, age 53, is an executive vice president (1990) of the Registrant and of M&T Bank and is in charge of the Company's Retail Banking Division. Mr. Buckingham is a director of M&T Securities. He is an executive vice president and a director of M&T Bank, N.A.(1995). Mr. Buckingham is chairman of the board and a director of M&T Credit (1995); chairman of the board and a director of Highland Lease (1995);

and a director of M&T Securities (1995). Mr. Buckingham held a number of management positions with Manufacturers Hanover Trust Company from 1973 to 1990, including the position of executive vice president of its branch banking division which he held immediately prior to joining the Registrant and M&T Bank.

Atwood Collins, III, age 49, is the 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 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.

Brian E. Hickey, age 43, is president (1994) of the Rochester Division of M&T Bank and has responsibility for managing all of M&T Bank's business segments in the Rochester market. 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.

James L. Hoffman, age 56, is president (1992) of the Hudson Valley Division of M&T Bank. 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. Mr. Hoffman is a director of M&T Financial (1986). He served as an executive vice president of M&T Bank from 1974 to 1984.

Barbara L. Laughlin, age 51, 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.

William C. Rappolt, age 50, 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 50, is an executive vice president of the Registrant (1990) and of M&T Bank (1983), 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 59, is an executive vice president of the Registrant (1993) and of M&T Bank (1985), and is in charge of M&T Bank's Trust and Investment Services Division. Mr. Stainrook is a director of M&T Securities (1994).

James L. Vardon, age 54, is an executive vice president and chief financial officer (1984) of the Registrant and of M&T Bank, and is in charge of the Company's Finance Division. Mr. Vardon is a director of M&T Capital (1984), M&T Financial (1985) and M&T Real Estate (1995). He is an executive vice president and chief financial officer of M&T Bank, N.A.(1995).

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters. The Registrant's common stock is traded under the symbol FES on the American Stock Exchange. See cross-reference sheet for disclosures incorporated elsewhere in this Annual Report on Form 10-K for market prices of the Registrant's common stock, approximate number of common stockholders at year-end, frequency and amounts of dividends on common stock and restrictions on the payment of dividends.

Item 6. Selected Financial Data. See cross-reference sheet for disclosures incorporated elsewhere in this Annual Report on Form 10-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Corporate Profile and Significant Developments

First Empire State Corporation ("First Empire") is a bank holding company headquartered in Buffalo, New York with consolidated assets of $12.0 billion at December 31, 1995. 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 $10.2 billion at December 31, 1995, is a New York-chartered commercial bank with 121 offices throughout Western New York State and New York's Southern Tier, 22 offices in New York's Hudson Valley region and offices in New York City, Albany, Syracuse and Nassau, The Bahamas. East New York, with $1.8 billion in assets at December 31, 1995, is a New York-chartered savings bank with 16 offices in metropolitan New York City. M&T Bank, N.A., with $246 million in assets at December 31, 1995, is a national bank headquartered in Oakfield, New York that commenced operations on October 2, 1995. M&T Bank, N.A. is currently offering consumer banking products, primarily credit cards and home equity loans and lines of credit. Additionally, M&T Bank, N.A. markets certificates of deposit nationwide.

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 real estate lending company; M&T Financial Corporation, an equipment 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 6, 1995, M&T Mortgage Corporation acquired Statewide Funding Corporation ("Statewide"), a privately-owned mortgage banking company based near Albany, New York. Statewide had a mortgage servicing portfolio of approximately $1.0 billion at the acquisition date and originated more than $400 million of mortgage loans in 1994. Through this acquisition, several New York State offices were retained, as was an origination office in Massachusetts. On October 2, 1995, 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. Exchange had total mortgage originations of approximately $177 million in 1994 and serviced a portfolio of approximately $370 million as of the acquisition date. M&T Mortgage Corporation has also continued to expand its out-of-state network of residential mortgage origination offices. During 1995, offices were opened in Colorado, Oregon, Utah and Washington.

On July 21, 1995, the Company acquired four banking offices from The Chase

Manhattan Bank, N.A., including approximately $84 million in deposits, and on December 10, 1994 purchased approximately $146 million of deposits from Chemical Bank, along with seven banking offices in the Hudson Valley region of New York State. Additionally, on December 1, 1994 First Empire acquired Ithaca Bancorp, Inc. ("Ithaca Bancorp"), Ithaca, New York, with total assets of $470 million, including $369 million of loans, and liabilities of $425 million, including $330 million of deposits, along with twelve banking offices in the Southern Tier of New York State.

The acquisitions noted herein were consummated for cash and have been accounted for as purchase transactions. Accordingly, the operating results of the acquired entities have been included in the consolidated results of operations of the Company since the respective acquisition dates.

Overview

The Company's net income was $131.0 million or $18.79 per common share in 1995, increases of 12% and 15%, respectively, from $117.3 million or $16.35 per common share in 1994. Fully diluted earnings per common share, which assumes the full conversion of outstanding preferred stock into common, was $17.78 in 1995 and $15.71 in 1994, an increase of 13%. In 1993, net income was $102.0 million while primary and fully diluted earnings per common share were $13.87 and $13.42, respectively. Excluding the after-tax effect of securities transactions, net income and earnings per common share were $128.4 million and $18.41, respectively, in 1995 compared with $117.2 million and $16.34 in 1994 and $101.5 million and $13.81 in 1993. On the same basis, fully diluted earnings per common share were $17.43, $15.70 and $13.36 in 1995, 1994 and 1993, respectively.

The Company achieved a return on average assets in 1995 of 1.14%, compared with 1.17% in 1994 and .98% in 1993. The return on average common stockholders' equity was 17.16% in 1995, 16.64% in 1994 and 15.61% in 1993. Excluding the after-tax effect of securities transactions, the return on average assets was 1.12%, while the return on average common stockholders' equity was 16.81% in 1995, compared with 1.17% and 16.63% in 1994 and .98% and 15.53% in 1993, respectively.

Growth in average earning assets, primarily in loans, was the most significant factor contributing to a rise in taxable-equivalent net interest income to $491.1 million in 1995 from $472.2 million in 1994. Average earning assets totaled $11.1 billion in 1995, a 15% increase from $9.7 billion in 1994. The beneficial impact on net interest income of growth in earning assets exceeded the effect of a narrowing of the spread between yields on earning assets and rates paid on interest-bearing liabilities. As a result of such narrowing, net interest margin, or taxable-equivalent net interest income expressed as a percentage of average earning assets, decreased 46 basis points (hundredths of one percent) in 1995 to 4.43% from 4.89% in 1994. Taxable-equivalent net interest income was $474.8 million in 1993 when average earning assets and net interest margin were $10.0 billion and 4.76%, respectively.

Reflecting generally stable economic conditions in market areas served by the Company, the provision for possible credit losses decreased to $40.4 million in 1995, compared with $60.5 million in 1994 and $80.0 million in 1993. Net charge-offs in 1995 were $21.3 million, compared with $16.6 million in 1994 and $35.8 million in 1993. Nonperforming loans totaled $93.1 million at December 31, 1995, up from $77.5 million at December 31, 1994 and $82.3 million at year-end 1993.

In December 1994, First Empire transferred appreciated investment securities with a fair value of $15.7 million to an affiliated, tax-exempt charitable foundation. Such securities had been previously classified by First Empire as available for sale. As a result of the transfer, 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.

Excluding the impact of securities gains and the December 1994 transfer of investment securities to the affiliated foundation, noninterest income for 1995 totaled $145.1 million, 28% above the $113.2 million in 1994 and 32% above the $109.7 million in 1993. Noninterest expense was $374.4 million in 1995, up 16% from $323.1 million in 1994 (excluding $13.8 million related to the December 1994 transfer of investment securities) and 14% from $327.8 million in 1993.

As described in note 1 of Notes to Financial Statements, during the second quarter of 1995 the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 122, "Accounting for Mortgage Servicing Rights", retroactive to January 1, 1995. The effect of implementing SFAS No. 122 was to increase 1995 noninterest income and noninterest expense by $10.0 million and $1.8 million, respectively, and, as a result, net income increased by $4.8 million for the year-ended December 31, 1995.

Net Interest Income/Lending and Funding Activities

Taxable-equivalent net interest income rose to $491.1 million in 1995 from $472.2 million in 1994. A $1.4 billion increase in average earning assets to $11.1 billion in 1995 from $9.7 billion in 1994 was the major factor for the rise. Taxable-equivalent net interest income and average earning assets in 1993 were $474.8 million and $10.0 billion, respectively. The growth in average earning assets in 1995 was predominately attributable to increased demand for loans offered by the Company and the impact of the December 1994 acquisition of $369 million of loans of Ithaca Bancorp. Average loans outstanding grew to $8.9 billion in 1995 from $7.4 billion in 1994 and $7.0 billion in 1993. The acquisition of Ithaca Bancorp did not substantially impact average loans in 1994.

The increase in net interest income resulting from growth in average earnings assets was partially offset by a narrowing of the net interest spread, or the difference between the yield on earning assets and the rate paid on interest-bearing liabilities. The net interest spread in 1995 was 3.77%, compared with 4.37% in 1994 and 4.33% in 1993. A combination of higher market interest rates, in general, and a greater proportion of loans, which typically yield more than money-market assets and investment securities, in the composition of the portfolio of earning assets resulted in a 65 basis point increase in 1995 to 8.42% in the yield on earning assets, from 7.77% in 1994. However, 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. As a result, the cost of interest-bearing liabilities increased 125 basis points to 4.65% in 1995 from 3.40% in 1994. The yield on earning assets and the rate paid on interest-bearing liabilities in 1993 were 7.46% and 3.13%, respectively. In 1994, the benefit obtained from increased holdings of loans as compared with 1993 was offset by a rise in interest expense on deposits and short-term borrowings.

The contribution to net interest margin of interest-free funds, which consist primarily of noninterest-bearing demand deposits and stockholders' equity, rose to .66% in 1995 from .52% in 1994 and .43% in 1993. The improvement in 1995 from 1994 resulted largely from the 125 basis point increase to 4.65% in the rate paid on interest-bearing liabilities used to value these funds, supplemented by an 8% increase in average interest-free funds. The 9 basis point addition to the contribution of interest-free funds in 1994 from 1993 was a reflection of the 27 basis point increase in the rate paid on interest-bearing liabilities from 3.13% coupled with a 7% increase in average interest-free balances. Average interest-free funds were $1.6

billion in 1995, $1.5 billion in 1994 and $1.4 billion in 1993.

Changing interest rates and spreads affect the Company's net interest income and net interest margin. As a result of the changes described herein, the Company's net interest margin declined to 4.43% in 1995 from 4.89% in 1994 and 4.76% in 1993. Management believes that further changes in market interest rates or reductions in spreads could adversely impact the Company's net interest margin and net interest income. Although not necessarily indicative of future results, the Company's net interest spread declined in each quarter of 1995. Accordingly, the net interest spread in the fourth quarter of 1995 of 3.67% was below that achieved in any other quarter of 1995.

Management analyzes the Company's exposure to changing 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, rates paid on interest-bearing deposits. In general, under the terms of swaps in effect through December 31, 1995, 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.

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 table 4.

The Company estimates that as of December 31, 1995 it would have received approximately $37.0 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.

As previously noted, average loans and leases grew to $8.9 billion in 1995 from $7.4 billion in 1994 and $7.0 billion in 1993, due, in large part, to improved economic conditions, the December 1994 acquisition of Ithaca Bancorp and expansion of the Company's consumer lending business. Table 5 summarizes by type, average loans and leases outstanding in 1995 and percentage changes in average loans over the past two years.

Loans secured by real estate, excluding $587 million of outstanding home equity lines of credit which are classified as consumer loans, represented approximately 60% of the loan portfolio during 1995, compared with 61% in 1994 and 63% in 1993. At December 31, 1995, the Company held approximately $3.6 billion of commercial real estate loans and $2.0 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. In general, 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. Table 6 presents commercial real estate loans at December 31, 1995 by geographic area, type of collateral and size of the loans outstanding. Approximately 60% of the $1.9 billion of commercial real estate loans in the New York City metropolitan area were secured by multi-family residential properties, 23% by office space and 8% 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 55% of the aggregate dollar amount of New York City area loans were for $3 million or less. 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. Most 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 then 4% of total commercial real estate loans.

The Company normally refrains from construction lending, except when the borrower has obtained a commitment for permanent financing upon project completion. As a result, the commercial construction loan portfolio totaled only $41.6 million, or .4% of total loans at December 31, 1995.

Excluding $185.0 million of loans held for sale, the Company's portfolio of real estate loans secured by one-to-four family residential properties totaled $1.8 billion at December 31, 1995, approximately 70% of which were secured by properties located in New York State. The Company originates residential mortgage loans in New York State, as well as in Colorado, Massachusetts, Ohio, Oregon, Pennsylvania, Utah and Washington.

As a percentage of average loans, consumer loans and leases were 20% in 1995, 19% in 1994 and 17% in 1993, however, no consumer loan product type exceeded ten percent of the Company's average loan portfolio. Beginning in 1994 and, to a greater extent, continuing in 1995, the Company began to market automobile loans and leases and credit cards in areas outside of New York State. 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. Credit card accounts are marketed through mail campaigns and co-branding initiatives.

The Company's portfolio of investment securities averaged $2.0 billion in 1995, $2.1 billion in 1994 and $2.2 billion in 1993. The level of the investment securities portfolio is influenced by such factors as management of balance sheet size and resulting capital ratios, demand for loans, which generally yield more than investment securities, ongoing repayments, and the level of deposits. The investment securities portfolio is largely comprised of collateralized mortgage obligations, other adjustable rate mortgage-backed securities 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. During 1995, the Company sold approximately $445 million of investment securities for a pre-tax gain of approximately $4.5 million. Included in the securities sold was a municipal bond with a carrying value of $1.0 million that had been classified as "held to maturity". Such bond was sold for a modest loss immediately following the downgrading of the municipality's credit rating by several rating agencies. Gains realized from sales of bank investment securities were $.1 million and $.9 million in 1994 and 1993, respectively. To enhance flexibility in managing the investment securities portfolio, and as allowed by the Financial Accounting Standards Board, 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 as a result of such transfer.

The average balance of money-market assets, which are comprised of interest-bearing deposits at banks, trading account assets, Federal funds sold and agreements to resell securities, was $186 million in 1995, compared with $166 million in 1994 and $826 million in 1993. The lower level of such assets in 1995 and 1994 largely reflects increased demand for loans, the Company's decision to limit the amount of short-term borrowings, which had been used to fund money-market assets, and, in 1994, reduction of the size of the balance sheet in order to strengthen capital ratios in anticipation of the December acquisitions.

Core deposits represent a significant source of funding to the Company. Core deposits are commonly generated through the branch network at generally lower interest rates than are available on wholesale funds of similar maturities, and include noninterest-bearing demand deposits, interest-bearing transaction accounts, savings deposits and domestic time deposits under $100,000. In 1995, average core deposits rose to $7.4 billion from $6.8 billion in 1994. Increases in interest rates paid on deposits in response to higher money-market rates and the December 1994 and July 1995 acquisitions of $442 million and $76 million, respectively, of core deposits contributed to this rise. Higher interest rates also contributed to a shift into time deposits from more liquid deposit accounts. Core deposits averaged $7.2 billion in 1993. Funding provided by core deposits totaled 67% of average earning assets in 1995, compared with 70% in 1994 and 72% in 1993. An analysis of changes in the components of core deposits is presented in table 8.

In addition to core deposits, the Company obtains funding through domestic time deposits of $100,000 or more, offshore deposits originated through the Company's international office, and brokered certificates of deposit. Domestic time deposits over $100,000, excluding brokered certificates of deposit, averaged $625 million in 1995 compared with $357 million in 1994 and $294 million in 1993. Offshore deposits, comprised primarily of accounts with balances of $100,000 or more, averaged $133 million in 1995, compared with $156 million and $120 million in 1994 and 1993, respectively. Brokered deposits averaged $874 million in 1995 and $45 million in 1994, and totaled $922 million at December 31, 1995. The weighted-average remaining term to maturity of brokered deposits as of December 31, 1995 was 1.7 years. Additional amounts of brokered deposits may be solicited from time to time depending on such factors as current market conditions and the cost of funds available from alternative sources.

The Company also 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 $1.4 billion in 1995, $1.8 billion in 1994 and $1.9 billion in 1993. 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.

Provision for Possible Credit Losses

The purpose of the provision is to replenish and build the Company's allowance for possible credit losses to a level necessary to maintain an adequate reserve position. In assessing the adequacy of the allowance for possible credit losses, management performs an ongoing evaluation of the loan portfolio and other credit commitments, 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, 1995 was adequate to absorb credit losses from existing loans, leases and credit commitments.

Reflecting generally stable economic conditions in market areas served by the Company throughout much of 1995, the provision for possible credit losses was reduced to $40.4 million from $60.5 million in 1994. The provision was $80.0 million in 1993 when there was concern by management about unsettled commercial real estate markets, in particular in the New York City metropolitan area, and the timing and sustainability of economic recovery in market areas served by the Company in general. Net charge-offs in 1995 were $21.3 million, compared with $16.6 million in 1994 and $35.8 million in 1993. Net charge-offs as a percentage of average loans outstanding were .24% in 1995, .22% in 1994 and .51% in 1993. Nonperforming loans totaled $93.1 million or .97% of loans outstanding at December 31, 1995, compared with $77.5 million or .94% a year earlier and $82.3 million or 1.13% at December 31, 1993. The allowance for possible credit losses was $262.3 million or 2.75% of net loans and leases at the end of 1995, compared with $243.3 million or 2.96% at December 31, 1994 and $195.9 million or 2.70% at December 31, 1993. The ratio of the allowance to nonperforming loans was 282%, 314% and 238% at year-end 1995, 1994 and 1993, respectively.

A comparative allocation of the allowance for possible credit losses for each of the past five year-ends is presented in table 10. 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 increase in the allocated portion of the reserve since 1993 compared with prior years is not indicative of a deterioration of credit quality within the loan portfolio, but rather reflects certain revisions to the assumptions used to calculate the allocated portion of the allowance for possible credit losses. Nevertheless, the unallocated portion of the reserve represents management's assessment of the overall level of credit risk inherent in the loan 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 $42.3 million, $47.5 million and $48.3 million at December 31, 1995, 1994 and 1993, respectively. At December 31, 1995, $16.8 million of nonperforming commercial real estate loans were secured by properties located in the New York City metropolitan area, compared with $27.1 million and $29.7 million at December 31, 1994 and 1993, respectively. Net charge-offs of commercial real estate loans were $6.6 million in 1995, $12.8 million in 1994 and $19.2 million in 1993. Included in these totals are net charge-offs of commercial real estate loans secured by properties in the New York City metropolitan area of $3.2 million, $11.1 million and $14.2 million in 1995, 1994 and 1993, respectively.

Net charge-offs of consumer loans were $11.3 million in 1995, or .65% of average consumer loans outstanding during the year, compared with $5.6 million or .40% in 1994 and $6.0 million or .51% in 1993. Higher charge-offs of credit card balances were the principal factor contributing to the increase in consumer loan charge-offs in 1995. Net credit card charge-offs were $6.1 million in 1995, compared with $3.1 million and $3.3 million in 1994 and 1993, respectively. Nonperforming consumer loans totaled $13.7 million or .70% of outstanding consumer loans at December 31, 1995, compared with $8.4 million or .54% at December 31, 1994 and $5.9 million or .48% at December 31, 1993.

The Company has limited exposure to possible credit losses originating from concentrations of credit extended to any specific industry. No such concentration exceeded 10% of total loans outstanding at December 31, 1995. Furthermore, the Company had no exposure to less developed countries, and only $1.1 million of foreign loans in total.

Repossessed assets taken in foreclosure of defaulted loans totaled $7.3 million at December 31, 1995, compared with $10.1 million and $12.2 million at the end of 1994 and 1993, respectively.

The Company adopted SFAS No. 114, "Accounting by Creditors for Impairment of a Loan", in the first quarter of 1995. As amended, SFAS No. 114 requires that creditors measure certain impaired loans based on the present value of expected future cash flows discounted at the loan's effective interest rate or at the loan's observable value or the fair value of underlying collateral, if the loan is collateral-dependent. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. In general, the Company places loans considered to be impaired on nonaccrual status. The adoption of SFAS No. 114 had no impact on the Company's results of operations or on its loan classification policies.

Other Income

Other income in 1994 included $10.4 million of tax-exempt income resulting from the transfer of appreciated investment securities to an affiliated, tax-exempt charitable foundation. Excluding the effect of such income, as well as gains from sales of bank investment securities, other income increased 28% to $145.1 million in 1995 from $113.2 million in 1994 and 32% from $109.7 million in 1993. Including the impact of deposit accounts associated with the franchises acquired in late-1994 and 1995, service charges on deposit accounts increased 9% to $38.3 million in 1995 from $35.0 million in 1994, and 19% from $32.3 million in 1993. Merchant discount and other credit card fees in 1995 totaled $10.7 million, compared with $8.7 million in 1994 and $7.9 million in 1993. Trust income of $25.5 million increased 13% from $22.6 million in 1994, and 7% from $23.9 million in 1993. The increases in trust revenues were attributable, in large part, to enhanced earnings from mutual fund management fees and from personal and corporate trust business. Trading account gains increased to $1.2 million in 1995 from $.7 million in 1994, but decreased from $2.7 million in 1993. Other revenues from operations totaled $32.3 million in 1995, compared with $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) and $30.1 million in 1993.

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-related fees, increased to $37.1 million in 1995 from $16.0 million in 1994 and $12.8 million in 1993. Fees earned in 1995 for servicing residential mortgage loans for others increased $5.7 million from a year earlier, while gains from sales of residential mortgage loans increased $8.4 million, including $10.0 million resulting from the previously noted adoption of SFAS No. 122. Additionally, in 1995 the Company realized $6.6 million of gains from sales of rights to service approximately $630 million of residential mortgage loans. The $3.2 million improvement in mortgage banking revenues in 1994 from 1993 was also largely attributable to growth in the Company's residential mortgage servicing business. Residential mortgage loans serviced for others totaled $5.7 billion, $4.0 billion and $2.9 billion at December 31, 1995, 1994 and 1993, respectively. Revenues from servicing residential mortgage loans for others were $19.3 million in 1995, $13.6 million in 1994 and $10.8 million in 1993.

Other Expense

Other expense totaled $374.4 million in 1995, compared with $336.9 million in 1994 and $327.8 million in 1993.

Salaries and employee benefits expenses were $188.2 million in 1995, an increase of $27.0 million or 17% from $161.2 million in 1994. Factors contributing to the higher personnel expenses were acquisitions, expansion of the Company's residential mortgage banking and securities businesses, and incentive-based compensation arrangements, including an increase of $5.6 million in expenses related to stock appreciation rights granted to employees in 1990 and 1991. Personnel costs in 1994 increased $6.9 million or 4% from $154.3 million in 1993. Such increase was due largely to merit salary increases and higher pension and other benefits costs. The number of full-time equivalent employees was 4,546 at December 31, 1995, up from 4,149 and 4,028 at December 31, 1994 and 1993, 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 totaled $186.2 million in 1995, up from $161.9 million in 1994 and $173.5 million in 1993. Higher mortgage banking-related expenses and expenses associated with operating the entities acquired in late-1994 and 1995 contributed to the increases. 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. 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. Although First Empire's banking subsidiaries are BIF-insured institutions, the Company has approximately $1.4 billion of deposits obtained in so-called "Oakar" acquisitions for which deposit insurance premiums are paid to the Savings Association Insurance Fund ("SAIF") of the FDIC. The FDIC has not reduced the assessment rate for SAIF-insured deposits. Furthermore, in 1995, congressional committees considered proposals that would require a one-time special assessment related to deposits insured by the SAIF. Although final legislation has yet to be enacted, management believes that it is likely that a special assessment will ultimately be levied against the Company on its SAIF-insured Oakar deposits. The amount of any such special assessment cannot be precisely predicted at this time.

The $11.6 million decline in nonpersonnel expenses to $161.9 million in 1994 from $173.5 million in 1993, as cited above, was due, in part, to a combined $7.9 million reduction in expenses for professional services and other real estate owned and a reduction in the amount of write-downs in the carrying value of excess servicing receivables and capitalized mortgage servicing rights associated with residential mortgage loans serviced for others. Such write-downs totaled $.5 million in 1994 and $4.7 million in 1993. There were no write-downs of excess servicing receivables or capitalized mortgage servicing rights in 1995, however, an impairment allowance of $1.1 million for declines in value of capitalized mortgage servicing rights was recorded. At December 31, 1995, excess servicing receivables and capitalized mortgage servicing rights were $6.9 million and $34.5 million, respectively, compared with $7.6 million and $10.0 million, respectively, at December 31, 1994.

Income Taxes

The provision for income taxes in 1995 was $90.1 million, up from $77.2 million in 1994 and $71.5 million in 1993. The effective tax rates were 41% in 1995 and 1993, and 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 $87 million at December 31, 1995, consisting largely of Eurodollar placements, and $7 million at December 31, 1994. Total offshore deposits were $155 million and $203 million at December 31, 1995 and 1994, respectively.

Liquidity and Interest Rate Sensitivity

As part of its ongoing operations, 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 banking institution is ensuring that sufficient cash flow and liquid assets are available to satisfy demands for loans, deposit withdrawals, operating expenses and other corporate purposes. The Company's core deposits have historically provided a large 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 67% of the Company's earning assets at December 31, 1995, compared with 71% at December 31, 1994 and 68% at December 31, 1993.

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 a combined credit facility with the FHLB aggregating $890 million, with any borrowings secured by loans and investment securities. Borrowings outstanding under such credit facility totaled $17 million at December 31, 1995 and $249 million at December 31, 1994. 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. Other sources of liquidity include maturities of money-market assets, repayments of loans and investment securities, and cash flow generated from operations, such as fees collected for services.

First Empire's ability to pay dividends, repurchase stock and fund operating expenses is primarily dependent on the receipt of dividends from its banking subsidiaries, which are subject to various regulatory limitations. First Empire also maintains a line of credit with an unaffiliated commercial bank.

Management does not anticipate engaging in any activities, in either the short- or long-term, which would cause a significant strain on liquidity of either First Empire or its subsidiary banks. Furthermore, management believes that available sources of liquidity are more than adequate to meet anticipated funding needs.

Net interest income earned by the Company is subject to the effects of changing interest rates. The Company's management of interest rate risk is intended to limit the variability of net interest income under differing interest rate scenarios. As part of such management, the Company has entered into interest rate swap agreements having an aggregate notional amount of approximately $2.4 billion at December 31, 1995. 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, table 15 presents information about the repricing or maturity of assets and liabilities on a contractual basis within the specified time frames, as well as 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. In management's opinion, the interest rate sensitivity analysis presented in the table does not accurately reflect the Company's actual sensitivity to changes in interest rates.

The Asset-Liability Committee, which includes members of senior management, monitors the Company's exposure to changing interest rates. Interest rate risk is measured by the variability of projected net interest income under a number of possible interest rate scenarios. Management's philosophy toward positioning the Company for interest rate movements is to attempt to limit such variability. 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. Giving consideration to interest rate swaps in place at December 31, 1995 and utilizing the model described above, management's assessment is that the variability of net interest income would be largely unaffected by changes in interest rates in the coming year, but a sustained decrease in interest rates would likely have a detrimental effect on net interest income in later years. Management closely monitors the Company's exposure to changing interest rates and spreads and stands ready to take action, through the use of on- or off-balance sheet instruments, to mitigate such exposure when deemed prudent to do so. 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.

Capital

Common stockholders' equity totaled $806.3 million at December 31, 1995, compared with $681.0 million and $684.0 million at the end of 1994 and 1993, respectively. On a per share basis, common stockholders' equity was $125.33 at December 31, 1995, an increase of 22% from $103.02 at December 31, 1994 and 26% from $99.43 at December 31, 1993. Total stockholders' equity at December 31, 1995 was $846.3 million or 7.08% of total assets, compared with $721.0 million or 6.85% at December 31, 1994 and $724.0 million or 6.99% at December 31, 1993. The ratio of average total stockholders' equity to average total assets was 6.81%, 7.21% and 6.45% in 1995, 1994 and 1993, respectively.

Stockholders' equity at December 31, 1995 was reduced by $3.2 million, or $.49 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 $50.6 million, or $7.65 per common share, at December 31, 1994. 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 mortgage loans held for sale, the carrying values of financial instruments in the balance sheet are generally not adjusted for appreciation or depreciation in market value resulting from changes in interest rates.

Federal regulators generally require banking institutions to maintain "core capital" and "total capital" ratios of at least 4% and 8%, respectively, of risk-adjusted total assets. In addition to the risk-based measures, Federal bank regulators have also implemented a minimum "leverage" ratio guideline of 3% of the quarterly average of total assets. Under regulatory guidelines, the unrealized gains or losses on investment securities classified as available for sale are not recognized in determining regulatory capital. 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, 1995 are presented in table 16.

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 13.88% in 1995, 13.67% in 1994 and 12.66% in 1993.

Cash dividends on common stock of $16.2 million were paid in 1995, compared with $14.7 million in 1994 and $13.1 million in 1993. In the fourth quarter of 1995, First Empire's quarterly common stock dividend was increased to $.70 per share from $.60. In total, dividends per common share increased to $2.50 in 1995 from $2.20 in 1994 and $1.90 in 1993. Dividends of $3.6 million were paid to the preferred stockholder in 1995, 1994 and 1993.

During 1995, First Empire acquired 208,230 shares pursuant to and thereby completing the program announced in December 1993 to repurchase and hold as treasury stock up to 506,930 shares of common stock for reissuance upon the possible future conversion of its 9% convertible preferred stock. The 506,930 repurchased shares were acquired at an average cost of $154.08. The preferred stock is convertible at any time into shares of First Empire's common stock at a conversion price of $78.90625 per share, subject to certain adjustments. First Empire has the right to redeem the preferred stock without premium on or after March 31, 1996. However, upon receipt of notification of such a planned redemption, the holder may convert the preferred stock into common shares. On February 9, 1996, First Empire notified the preferred stockholder of its intention to redeem the preferred stock. On February 13, 1996, the preferred stockholder advised First Empire of its intention to convert the preferred stock into shares of common stock of First Empire. In November 1995, First Empire announced an additional 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, 1995, First Empire had repurchased 15,300 common shares pursuant to such plan at an average cost of $211.35 per share.

Fourth Quarter Results

First Empire earned $36.8 million or $5.29 per common share in the fourth quarter of 1995, increases of 15% and 17%, respectively, from the fourth quarter of 1994 when net income was $31.9 million or $4.53 per common share. Taxable-equivalent net interest income increased to $126.0 million in the fourth quarter of 1995, up $7.7 million from $118.3 million in the fourth quarter of 1994. Growth in average loans outstanding was the primary factor contributing to the improvement in net interest income. Average loans for the fourth quarter of 1995 totaled $9.4 billion, a 20% increase from $7.8 billion during the fourth quarter of 1994. The increase in net interest income resulting from growth in average loans was partially offset by a narrowing of the net interest spread to 3.67% in the recent quarter, compared with 4.15% in the fourth quarter of 1994. Net interest margin was 4.36% in the fourth quarter of 1995, compared with 4.75% in the year-earlier quarter.

The provision for possible credit losses was $12.0 million and net charge-offs were $8.8 million in the final 1995 quarter, compared with $12.9 million and $7.4 million, respectively, in the fourth quarter of 1994. Net charge-offs as an annualized percentage of average loans and leases were .37% in both quarters. Exclusive of the effects of investment securities transactions and the December 1994 transfer of investment securities to an affiliated charitable foundation, other income rose 60% to $45.3 million in the fourth quarter of 1995 from $28.2 million in the year-earlier quarter. Higher revenues associated with mortgage banking activities and the sales of mutual funds and annuities contributed to this increase. Also excluding the effect of the December 1994 transfer of securities to the affiliated foundation, other expense was $97.0 million in the fourth quarter of 1995, compared with $81.2 million in the fourth quarter of 1994. Acquisitions, expansion of First Empire's mortgage banking and securities businesses, and stock appreciation rights expense were factors contributing to the rise in other expense over the comparable prior-year period.

Recently Issued Accounting Standards Not Yet Adopted

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS No. 123 establishes a fair value based method of accounting for stock-based compensation plans and encourages, but does not require, entities to adopt that method in place of the provisions of Accounting Principles Board Opinion ("APBO") No. 25, "Accounting for Stock Issued to Employees", for all arrangements under which employees receive shares of stock or other equity instruments of the employer or the employer incurs liabilities to employees in amounts based on the price of the stock. SFAS No. 123 also establishes fair value as the measurement basis for transactions in which an entity acquires goods or services from nonemployees in exchange for equity instruments.

An entity may continue to apply APBO No. 25 in accounting for stock-based employee compensation arrangements. However, entities doing so will be required to disclose pro forma net income and earnings per share determined as if the fair value based method established by SFAS No. 123 had been applied in measuring compensation cost.

The provisions of SFAS No. 123 regarding accounting for transactions with nonemployees are effective for transactions entered into after December 15, 1995. The remaining requirements of SFAS No. 123 are effective for fiscal years beginning after December 15, 1995. Following adoption of SFAS No. 123, the Company expects to continue measuring compensation cost for employee stock compensation plans in accordance with the provisions of APBO No. 25.

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

Table 1

FINANCIAL HIGHLIGHTS

Amounts in thousands, except per share	1995	1994	Change
For the year			
Net income	$131,036	117,295	+12%
Per common share			
Net income			
Primary	$18.79	16.35	+15
Fully diluted	17.78	15.71	+13
Cash dividends	2.50	2.20	+14
Average common shares outstanding			
Primary	6,781	6,952	- 2
Fully diluted	7,368	7,464	- 1
Return on			
Average total assets	1.14%	1.17%	
Average common stockholders' equity	17.16%	16.64%	
Market price per common share			
Closing	$218.00	136.00	+60
High	218.00	165.00	
Low	136.50	134.50	
At December 31			
Loans and leases, net of unearned discount	$ 9,555,849	8,217,293	+16%
Total assets	11,955,902	10,528,644	+14
Total deposits	9,469,575	8,243,073	+15
Total stockholders' equity	846,253	720,996	+17
Stockholders' equity per common share	$125.33	103.02	+22

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

Table 2

QUARTERLY TRENDS

Taxable-equivalent basis	1995 Quarters Fourth	Third	Second	First	1994 Quarters Fourth	Third	Second	First
Earnings and dividends								
Amounts in thousands, except per share								
Interest income	$ 242,704	241,374	232,468	216,250	201,543	190,555	181,171	178,160
Interest expense	116,726	116,329	112,096	96,579	83,287	72,393	64,277	59,249
Net interest income	125,978	125,045	120,372	119,671	118,256	118,162	116,894	118,911
Less: provision for possible credit losses	12,025	11,310	8,515	8,500	12,850	13,802	14,022	19,862
Other income	44,850	44,398	33,888	26,402	38,651	27,261	29,378	28,449
Less: other expense	97,044	97,632	90,269	89,494	95,048	80,584	82,015	79,215
Income before income taxes	61,759	60,501	55,476	48,079	49,009	51,037	50,235	48,283
Applicable income taxes	23,949	23,694	22,747	19,747	16,034	20,934	20,553	19,665
Taxable-equivalent adjustment	1,023	1,180	1,275	1,164	1,087	1,005	1,001	990
Net income	$ 36,787	35,627	31,454	27,168	31,888	29,098	28,681	27,628
Cash dividends on preferred stock	$900	900	900	900	900	900	900	900
Per common share data								
Net income								
Primary	$5.29	5.14	4.51	3.85	4.53	4.09	3.96	3.77
Fully diluted	5.03	4.89	4.31	3.68	4.35	3.93	3.80	3.64
Net income, excluding securities transactions								
Primary	5.33	4.71	4.52	3.85	4.53	4.08	3.96	3.77
Fully diluted	5.06	4.50	4.31	3.68	4.35	3.92	3.80	3.64
Cash dividends	.70	.60	.60	.60	.60	.60	.50	.50
Average common shares outstanding								
Primary	6,774	6,763	6,768	6,820	6,817	6,899	7,014	7,083
Fully diluted	7,310	7,291	7,293	7,384	7,324	7,406	7,541	7,590
Balance sheet data								
Dollars in millions, except per share								
Average balances								
Total assets	$ 11,898	11,848	11,506	10,681	10,200	9,959	9,886	10,056
Earning assets	11,454	11,404	11,108	10,330	9,869	9,620	9,515	9,665
Investment securities	1,898	2,179	2,137	1,925	1,923	1,992	2,097	2,293
Loans and leases, net of unearned discount	9,384	9,038	8,682	8,311	7,805	7,442	7,266	7,188
Deposits	9,423	9,011	8,945	8,698	7,703	7,250	7,220	7,287
Stockholders' equity	825	801	766	737	724	715	723	731
At end of quarter								
Total assets	$ 11,956	11,754	11,630	11,277	10,529	10,301	10,336	10,412
Earning assets	11,461	11,321	11,201	10,727	10,017	9,888	9,840	10,023
Investment securities	1,769	1,954	2,159	2,045	1,791	1,889	1,985	2,153
Loans and leases, net of unearned discount	9,556	9,222	8,881	8,559	8,217	7,590	7,401	7,240
Deposits	9,470	9,170	8,866	9,044	8,243	7,362	7,276	7,329
Stockholders' equity	846	809	794	751	721	721	718	725
Equity per common share	$ 125.33	119.53	116.05	108.64	103.02	102.73	100.63	100.19
Performance ratios, annualized								
Return on								
Average assets	1.23%	1.19%	1.10%	1.03%	1.24%	1.16%	1.16%	1.11%
Average common stockholders' equity	18.14%	18.10%	16.87%	15.29%	17.97%	16.58%	16.32%	15.68%
Net interest margin on average earning assets	4.36%	4.35%	4.35%	4.70%	4.75%	4.87%	4.93%	4.99%
Nonperforming assets to total assets, at end of quarter	.84%	.72%	.72%	.79%	.83%	.91%	.90%	.95%
Market price per common share								
High	$ 218	194 1/2	172 1/2	171	153	165	156 1/2	144
Low	190 1/2	170	159	136 1/2	134 1/2	146	136 3/4	135
Closing	218	190	171 1/2	171	136	151 1/2	156 1/2	139 1/4

Table 3

EARNINGS SUMMARY
Dollars in millions

Increase (decrease)* 1994 to 1995 Amount	%	1993 to 1994 Amount	%		1995	1994	1993	1992	1991	Compound growth rate 5 years 1990 to 1995
$ 181.4	24	$ 6.7	1	Interest income**	$ 932.8	751.4	744.7	762.2	777.9	7%
162.5	58	9.3	3	Interest expense	441.7	279.2	269.9	323.6	440.2	1
18.8	4	(2.6)	(1)	Net interest income**	491.1	472.2	474.8	438.6	337.7	15
(20.2)	(33)	(19.4)	(24)	Less: provision for possible credit losses	40.4	60.5	80.0	85.0	63.4	8
4.4	-	(.7)	(85)	Gain on sales of bank investment securities	4.5	.1	.9	28.1	.4	-
21.4	17	13.9	13	Other income	145.1	123.6	109.7	98.2	77.2	22
				Less:						
27.0	17	6.9	4	Salaries and employee benefits	188.2	161.2	154.3	130.8	103.2	17
10.6	6	2.1	1	Other expense	186.3	175.6	173.5	180.6	125.4	17
27.3	14	21.0	12	Income before income taxes	225.8	198.6	177.6	168.5	123.3	19
				Less:						
.6	14	-	-	Taxable-equivalent adjustment**	4.7	4.1	4.1	5.8	8.5	(12)
13.0	17	5.7	8	Income taxes	90.1	77.2	71.5	64.8	47.6	24
$ 13.7	12	$ 15.3	15	Net income	$ 131.0	117.3	102.0	97.9	67.2	19%

* 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 1995 and 1993, 43% for 1994 and 41% for all other periods.

Table 4

INTEREST RATE SWAPS

	Year ended December 31					
	1995		1994		1993	
Dollars in thousands	Amount	Rate*	Amount	Rate*	Amount	Rate*
Increase (decrease) in:						
Interest income	$ (5,831)	(.05)%	$ 10,463	.10%	$ 26,695	.27%
Interest expense	(6,715)	(.07)	(2,018)	(.03)	(7,547)	(.09)
Net interest income/margin	$ 884	.01%	$ 12,481	.13%	$ 34,242	.34%
Average notional amount**	$ 2,536,329		$ 1,627,454		$ 1,213,886	
Fixed rate received***		6.17%		5.72%		6.10%
Variable rate paid***		6.14%		4.93%		3.32%

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

** Excludes forward-starting interest rate swaps.

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

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

Table 5

AVERAGE LOANS AND LEASES
(net of unearned discount)

Dollars in millions	1995	Percent increase (decrease) from 1994 to 1995	Percent increase (decrease) from 1993 to 1994
Commercial, financial, etc.	$1,804	21%	5%
Real estate - commercial	3,494	12	9
Real estate - consumer	1,807	26	(6)
Consumer			
Automobile	716	66	66
Home equity	587	1	(1)
Credit cards	176	28	17
Other	273	19	9
Total consumer	1,752	27	17
Total	$8,857	19%	6%

Table 6

COMMERCIAL REAL ESTATE LOANS
(net of unearned discount)
December 31, 1995

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	$ 1,146.5	15%	20%	18%	7%
Office	437.2	3	8	11	1
Retail	156.0	1	3	3	1
Construction	1.8	-	-	-	-
Industrial	46.7	-	1	1	-
Other	126.2	2	2	2	1
Total Metropolitan New York City	$ 1,914.4	21%	34%	35%	10%
Other New York State					
Apartments/ Multifamily	$ 313.4	7%	6%	6%	1%
Office	392.2	8	7	8	2
Retail	292.4	7	6	6	-
Construction	39.8	2	1	-	-
Industrial	126.3	5	2	1	-
Other	384.5	9	7	6	3
Total other New York State	$ 1,548.6	38%	29%	27%	6%
Other					
Apartments/ Multifamily	$ 57.6	7%	22%	13%	-%
Office	5.3	2	-	2	-
Retail	37.9	3	9	16	-
Construction		-	-	-	-
Industrial	14.2	2	2	6	-
Other	21.2	4	11	1	-
Total other	$ 136.2	18%	44%	38%	-%
Total commercial real estate loans	$ 3,599.2	28%	32%	32%	8%

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

Table 7

AVERAGE BALANCE SHEETS AND TAXABLE-EQUIVALENT RATES

Average balance in millions; interest in thousands	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.	$ 1,804	$ 155,750	8.63%	1,487	116,479	7.84%
Real estate	5,301	471,714	8.90	4,562	390,681	8.56
Consumer	1,752	169,149	9.65	1,378	128,117	9.30
Total loans and leases, net	8,857	796,613	8.99	7,427	635,277	8.55
Money-market assets						
Interest-bearing deposits at banks	110	8,181	7.44	48	2,212	4.58
Federal funds sold and agreements to resell securities	48	3,007	6.29	109	4,751	4.35
Trading account	28	1,339	4.78	9	499	5.92
Total money-market assets	186	12,527	6.75	166	7,462	4.50
Investment securities**						
U.S. Treasury and federal agencies	1,242	74,248	5.98	1,167	56,685	4.86
Obligations of states and political subdivisions	50	3,420	6.90	53	3,072	5.77
Other	743	45,988	6.19	852	48,933	5.74
Total investment securities	2,035	123,656	6.08	2,072	108,690	5.24
Total earning assets	11,078	932,796	8.42	9,665	751,429	7.77
Allowance for possible credit losses	(254)			(223)		
Cash and due from banks	326			307		
Other assets	335			276		
Total assets	$ 11,485			10,025		
Liabilities and stockholders' equity						
Interest-bearing liabilities						
Interest-bearing deposits						
NOW accounts	$ 761	11,902	1.56	746	11,286	1.51
Savings deposits	2,922	87,612	3.00	3,274	84,804	2.59
Time deposits	4,112	239,882	5.83	2,179	97,067	4.45
Deposits at foreign office	133	6,952	5.23	156	5,894	3.79
Total interest-bearing deposits	7,928	346,348	4.37	6,355	199,051	3.13
Short-term borrowings	1,423	84,225	5.92	1,772	73,868	4.17
Long-term borrowings	146	11,157	7.64	77	6,287	8.13
Total interest-bearing liabilities	9,497	441,730	4.65	8,204	279,206	3.40
Demand deposits	1,093			1,011		
Other liabilities	112			87		
Total liabilities	10,702			9,302		
Stockholders' equity	783			723		
Total liabilities and stockholders' equity	$ 11,485			10,025		
Net interest spread			3.77			4.37
Contribution of interest-free funds			.66			.52
Net interest income/margin on earning assets		$ 491,066	4.43%		472,223	4.89%

Average balance in millions; interest in thousands	1993 Average balance	1993 Interest	1993 Average rate
Assets			
Earning assets			
Loans and leases, net of unearned discount*			
Commercial, financial, etc.	1,420	112,568	7.93%
Real estate	4,387	379,832	8.66
Consumer	1,175	118,461	10.08

Total loans and leases, net	6,982	610,861	8.75
Money-market assets			
Interest-bearing deposits at banks	189	6,740	3.56
Federal funds sold and agreements to resell securities	610	20,403	3.35
Trading account	27	1,434	5.32
Total money-market assets	826	28,577	3.46
Investment securities**			
U.S. Treasury and federal agencies	1,300	62,420	4.80
Obligations of states and political subdivisions	41	2,600	6.40
Other	832	40,251	4.84
Total investment securities	2,173	105,271	4.84
Total earning assets	9,981	744,709	7.46
Allowance for possible credit losses	(174)		
Cash and due from banks	304		
Other assets	279		
Total assets	10,390		
Liabilities and stockholders' equity			
Interest-bearing liabilities			
Interest-bearing deposits			
NOW accounts	747	13,113	1.75
Savings deposits	3,500	90,392	2.58
Time deposits	2,249	98,508	4.38
Deposits at foreign office	120	3,243	2.71
Total interest-bearing deposits	6,616	205,256	3.10
Short-term borrowings	1,922	58,459	3.04
Long-term borrowings	76	6,158	8.14
Total interest-bearing liabilities	8,614	269,873	3.13
Demand deposits	976		
Other liabilities	130		
Total liabilities	9,720		
Stockholders' equity	670		
Total liabilities and stockholders' equity	10,390		
Net interest spread			4.33
Contribution of interest-free funds			.43
Net interest income/margin on earning assets		474,836	4.76%

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

(continued)

Table 7 (continued)

AVERAGE BALANCE SHEETS AND TAXABLE-EQUIVALENT RATES

Average balance in millions; interest in thousands	1992 Average balance	1992 Interest	1992 Average rate	1991 Average balance	1991 Interest	1991 Average rate
Assets						
Earning assets						
Loans and leases, net of unearned discount*						
Commercial, financial, etc.	$ 1,237	$ 103,786	8.39%	1,067	101,717	9.53%
Real estate	4,225	392,384	9.29	3,910	389,748	9.97
Consumer	1,109	109,284	9.85	898	104,500	11.64
Total loans and leases, net	6,571	605,454	9.21	5,875	595,965	10.14
Money-market assets						
Interest-bearing deposits at banks	29	1,083	3.76	109	7,864	7.19
Federal funds sold and agreements to resell securities	510	18,100	3.55	95	5,322	5.62
Trading account	55	3,096	5.62	192	15,873	8.27
Total money-market assets	594	22,279	3.75	396	29,059	7.34
Investment securities**						
U.S. Treasury and federal agencies	1,204	81,940	6.81	1,222	109,300	8.94
Obligations of states and political subdivisions	103	8,122	7.85	146	13,427	9.21
Other	686	44,414	6.48	357	30,194	8.47
Total investment securities	1,993	134,476	6.75	1,725	152,921	8.87
Total earning assets	9,158	762,209	8.32	7,996	777,945	9.73
Allowance for possible credit losses	(130)			(91)		
Cash and due from banks	273			213		
Other assets	253			227		
Total assets	$ 9,554			8,345		
Liabilities and stockholders' equity						
Interest-bearing liabilities						
Interest-bearing deposits						
NOW accounts	$ 666	16,544	2.48	576	27,418	4.76
Savings deposits	3,338	110,142	3.30	2,395	123,468	5.16
Time deposits	2,773	153,588	5.54	3,354	242,684	7.24
Deposits at foreign office	130	4,348	3.35	159	9,014	5.68
Total interest-bearing deposits	6,907	284,622	4.12	6,484	402,584	6.21
Short-term borrowings	1,121	38,386	3.42	650	36,972	5.69
Long-term borrowings	7	590	8.32	7	659	9.35
Total interest-bearing liabilities	8,035	323,598	4.03	7,141	440,215	6.16
Demand deposits	789			563		
Other liabilities	147			143		
Total liabilities	8,971			7,847		
Stockholders' equity	583			498		
Total liabilities and stockholders' equity	$ 9,554			8,345		
Net interest spread			4.29			3.57
Contribution of interest-free funds			.50			.65
Net interest income/margin on earning assets		$ 438,611	4.79%		337,730	4.22%

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

Table 8

AVERAGE CORE DEPOSITS

Dollars in millions	1995	Percent increase (decrease) from 1994 to 1995	1993 to 1994
NOW accounts	$ 761	2%	-%
Savings deposits	2,922	(11)	(6)
Time deposits under $100,000	2,613	47	(9)
Demand deposits	1,093	8	4
Total	$ 7,389	9%	(5)%

Table 9

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

Dollars in thousands	1995	1994	1993	1992	1991
Allowance for possible credit losses beginning balance	$ 243,332	195,878	151,690	100,265	74,982
Charge-offs during year					
Commercial, financial, agricultural, etc.	5,475	5,505	14,118	15,966	23,014
Real estate - construction	-	-	150	400	-
Real estate - mortgage	10,750	17,957	22,686	27,530	18,447
Consumer	14,982	8,981	9,135	7,488	7,033
Total charge-offs	31,207	32,443	46,089	51,384	48,494
Recoveries during year					
Commercial, financial, agricultural, etc.	3,967	7,877	5,403	2,095	2,268
Real estate - construction	87	13	-	-	-
Real estate - mortgage	2,137	4,515	1,772	445	247
Consumer	3,678	3,418	3,144	2,531	1,850
Total recoveries	9,869	15,823	10,319	5,071	4,365
Net charge-offs	21,338	16,620	35,770	46,313	44,129
Provision for possible credit losses	40,350	60,536	79,958	84,989	63,412
Allowance for possible credit losses acquired during year	-	3,538	-	12,749	6,000
Allowance for possible credit losses ending balance	$ 262,344	243,332	195,878	151,690	100,265
Net charge-offs as a percent of:					
Provision for possible credit losses	52.88%	27.45%	44.74%	54.49%	69.59%
Average loans and leases, net of unearned discount	.24%	.22%	.51%	.70%	.75%
Allowance for possible credit losses as a percent of loans and leases, net of unearned discount, at year-end	2.75%	2.96%	2.70%	2.17%	1.66%

Table 10

ALLOCATION OF THE ALLOWANCE FOR POSSIBLE CREDIT LOSSES TO LOAN CATEGORIES

	December 31				
Dollars in thousands	1995	1994	1993	1992	1991
Commercial, financial, agricultural, etc.	$ 36,793	44,092	42,820	18,100	5,100
Real estate - mortgage	75,894	72,285	78,823	19,740	15,293
Consumer	23,385	17,532	13,630	6,700	6,500
Unallocated	126,272	109,423	60,605	107,150	73,372
Total	$ 262,344	243,332	195,878	151,690	100,265
As a percentage of gross loans and leases outstanding					
Commercial, financial, agricultural, etc.	1.83%	2.62%	2.84%	1.22%	.48%
Real estate - mortgage	1.34	1.43	1.74	.45	.37
Consumer	1.10	1.05	1.02	.55	.64

Table 11

NONPERFORMING ASSETS

Dollars in thousands	December 31 1995	1994	1993	1992	1991
Nonaccrual loans	$ 75,224	62,787	68,936	96,057	74,267
Loans past due 90 days or more	17,842	11,754	11,122	17,536	15,422
Renegotiated loans	-	2,994	2,195	-	-
Total nonperforming loans	93,066	77,535	82,253	113,593	89,689
Other real estate owned	7,295	10,065	12,222	16,694	10,354
Total nonperforming assets	$ 100,361	87,600	94,475	130,287	100,043
Nonperforming loans to total loans and leases, net of unearned discount	.97%	.94%	1.13%	1.63%	1.48%
Nonperforming assets to total net loans and leases and other real estate owned	1.05%	1.06%	1.30%	1.86%	1.65%

Table 12

MATURITY DISTRIBUTION OF LOANS*
December 31, 1995

Dollars in thousands	Demand	1996	1997-2000	After 2000
Commercial, financial, agricultural, etc.	$1,183,869	229,507	413,378	83,489
Real estate - construction	17,381	46,462	13,663	-
Total	$1,201,250	275,969	427,041	83,489
Floating or adjustable interest rates			$364,917	58,739
Fixed or predetermined interest rates			62,124	24,750
Total			$427,041	83,489

*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, 1995
Under 3 months	$ 639,482
3 to 6 months	82,870
6 to 12 months	273,227
Over 12 months	691,643
Total	$ 1,687,222

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, 1995					
Investment securities available for sale*					
U.S. Treasury and federal agencies					
Carrying value	$122,043	117,438	-	-	$ 239,481
Yield	4.42%	7.28%	-	-	5.79%
Mortgage-backed securities**					
Government issued or guaranteed					
Carrying value	32,999	94,413	104,921	465,191	697,524
Yield	6.04%	6.03%	6.43%	6.38%	6.32%
Privately issued					
Carrying value	16,083	136,947	137,699	285,390	576,119
Yield	6.27%	6.13%	6.22%	6.47%	6.33%
Other debt securities					
Carrying value	468	2,879	183	-	3,530
Yield	9.27%	8.71%	8.46%	-	8.77%
Equity securities					
Carrying value	-	-	-	-	15,239
Yield	-	-	-	-	-
Total investment securities available for sale					
Carrying value	$171,593	351,677	242,803	750,581	$ 1,531,893
Yield	4.92%	6.50%	6.31%	6.41%	6.20%
Investment securities held to maturity					
U.S. Treasury and federal agencies					
Carrying value	$ -	150,000	-	-	$ 150,000
Yield	-	6.42%	-	-	6.42%
Obligations of states and political subdivisions					
Carrying value	30,532	3,104	1,474	140	35,250
Yield	6.45%	9.14%	10.76%	11.01%	6.88%
Other debt securities					
Carrying value	-	584	-	-	584
Yield	-	7.37%	-	-	7.37%
Total investment securities held to maturity					
Carrying value	$ 30,532	153,688	1,474	140	$ 185,834
Yield	6.45%	6.48%	10.76%	11.01%	6.51%
Other investment securities	$ -	-	-	-	$ 51,568
Total investment securities					
Carrying value	$202,125	505,365	244,277	750,721	$ 1,769,295
Yield	5.15%	6.49%	6.34%	6.41%	6.05%

* 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, 1995	Three months or less	Four to twelve months	One to five years	After five years	Total
Loans and leases, net	$ 4,104,422	1,241,900	3,034,943	1,174,584	9,555,849
Money-market assets	81,209	55,000	-	-	136,209
Investment securities	253,164	601,973	498,453	415,705	1,769,295
Total earning assets	4,438,795	1,898,873	3,533,396	1,590,289	11,461,353
NOW accounts	768,559	-	-	-	768,559
Savings deposits	2,765,301	-	-	-	2,765,301
Time deposits	1,176,680	1,963,691	1,455,682	-	4,596,053
Deposits at foreign office	155,303	-	-	-	155,303
Total interest-bearing deposits	4,865,843	1,963,691	1,455,682	-	8,285,216
Short-term borrowings	1,273,206	-	-	-	1,273,206
Long-term borrowings	2,450	12,233	1,221	176,887	192,791
Total interest-bearing liabilities	6,141,499	1,975,924	1,456,903	176,887	9,751,213
Interest rate swaps	(1,950,416)	488,287	1,462,129	-	-
Periodic gap	(3,653,120)	411,236	3,538,622	1,413,402	
Cumulative gap	$(3,653,120)	(3,241,884)	296,738	1,710,140	
Cumulative gap as a % of total earning assets	(31.9)%	(28.3)%	2.6%	14.9%	

Table 16

REGULATORY CAPITAL RATIOS

December 31, 1995	First Empire (Consolidated)	M&T Bank	East New York	M&T Bank, N.A.
Core capital	8.53%	7.70%	11.41%	9.46%
Total capital	11.62%	11.05%	12.68%	10.76%
Leverage	6.91%	6.38%	7.33%	10.08%

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, 1995 and 1994, 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, 1995. 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, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, 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 10, 1996, except as to Note 9,
which is as of February 13, 1996

CONSOLIDATED BALANCE SHEET

		December 31	
Dollars in thousands, except per share		1995	1994
Assets	Cash and due from banks	$ 363,119	377,781
	Money-market assets		
	Interest-bearing deposits at banks	125,500	143
	Federal funds sold and agreements to resell securities	1,000	3,080
	Trading account	9,709	5,438
	Total money-market assets	136,209	8,661
	Investment securities		
	Available for sale (cost: $1,537,393 in 1995; $1,602,916 in 1994)	1,531,893	1,514,395
	Held to maturity (market value: $187,476 in 1995; $221,165 in 1994)	185,834	227,651
	Other (market value: $51,568 in 1995; $48,994 in 1994)	51,568	48,994
	Total investment securities	1,769,295	1,791,040
	Loans and leases	9,873,723	8,447,117
	Unearned discount	(317,874)	(229,824)
	Allowance for possible credit losses	(262,344)	(243,332)
	Loans and leases, net	9,293,505	7,973,961
	Premises and equipment	128,516	127,274
	Accrued interest and other assets	265,258	249,927
	Total assets	$ 11,955,902	10,528,644
Liabilities	Noninterest-bearing deposits	$ 1,184,359	1,087,102
	NOW accounts	768,559	748,199
	Savings deposits	2,765,301	3,098,438
	Time deposits	4,596,053	3,106,723
	Deposits at foreign office	155,303	202,611
	Total deposits	9,469,575	8,243,073
	Federal funds purchased and agreements to repurchase securities	1,213,372	695,665
	Other short-term borrowings	59,834	669,185
	Accrued interest and other liabilities	174,077	103,538
	Long-term borrowings	192,791	96,187
	Total liabilities	11,109,649	9,807,648
Stockholders' equity	Preferred stock, $1 par, 1,000,000 shares authorized, 40,000 shares issued, stated at aggregate liquidation value	40,000	40,000
	Common stock, $5 par, 15,000,000 shares authorized, 8,097,472 shares issued	40,487	40,487
	Surplus	98,657	98,014
	Undivided profits	805,486	694,274
	Unrealized investment losses, net	(3,155)	(50,555)
	Treasury stock - common, at cost - 1,664,306 shares in 1995; 1,486,969 shares in 1994	(135,222)	(101,224)
	Total stockholders' equity	846,253	720,996
	Total liabilities and stockholders' equity	$ 11,955,902	10,528,644

See accompanying notes to financial statements.

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

Dollars in thousands, except per share		1995	1994	1993
		Year ended December 31		
Interest income	Loans and leases, including fees	$ 794,181	633,077	608,473
	Money-market assets			
	Deposits at banks	8,181	2,212	6,740
	Federal funds sold and agreements to resell securities	3,007	4,751	20,403
	Trading account	1,234	361	1,242
	Investment securities			
	Fully taxable	118,791	104,185	101,187
	Exempt from federal taxes	2,760	2,760	2,584
	Total interest income	928,154	747,346	740,629
Interest expense	NOW accounts	11,902	11,286	13,113
	Savings deposits	87,612	84,804	90,392
	Time deposits	239,882	97,067	98,508
	Deposits at foreign office	6,952	5,894	3,243
	Short-term borrowings	84,225	73,868	58,459
	Long-term borrowings	11,157	6,287	6,158
	Total interest expense	441,730	279,206	269,873
	Net interest income	486,424	468,140	470,756
	Provision for possible credit losses	40,350	60,536	79,958
	Net interest income after provision for possible credit losses	446,074	407,604	390,798
Other income	Trust income	25,477	22,574	23,865
	Service charges on deposit accounts	38,290	35,016	32,291
	Merchant discount and other credit card fees	10,675	8,705	7,932
	Trading account gains	1,151	700	2,702
	Gain on sales of bank investment securities	4,479	128	870
	Mortgage banking revenues	37,142	16,002	12,776
	Other revenues from operations	32,324	40,614	30,108
	Total other income	149,538	123,739	110,544
Other expense	Salaries and employee benefits	188,222	161,221	154,340
	Equipment and net occupancy	50,526	49,132	47,823
	Printing, postage and supplies	14,442	13,516	13,021
	Deposit insurance	14,675	16,442	17,684
	Other costs of operations	106,574	96,551	94,951
	Total other expense	374,439	336,862	327,819
	Income before income taxes	221,173	194,481	173,523
	Income taxes	90,137	77,186	71,531
	Net income	$ 131,036	117,295	101,992
	Net income per common share			
	Primary	$18.79	16.35	13.87
	Fully diluted	17.78	15.71	13.42

See accompanying notes to financial statements.

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

Dollars in thousands			Year ended December 31 1995	1994	1993
Cash flows from operating activities	Net income	$	131,036	117,295	101,992
	Adjustments to reconcile net income to net cash provided by operating activities				
	Provision for possible credit losses		40,350	60,536	79,958
	Depreciation and amortization of premises and equipment		18,530	17,625	16,238
	Amortization of capitalized mortgage servicing rights		7,251	3,503	2,797
	Provision for deferred income taxes		(7,360)	(2,866)	(23,700)
	Asset write-downs		3,852	3,184	9,037
	Net gain on sales of assets		(12,121)	(4,744)	(870)
	Net change in accrued interest receivable, payable		4,381	8,084	(6,946)
	Net change in other accrued income and expense		61,205	(39,654)	33,010
	Net change in loans held for sale		(136,303)	169,883	(70,462)
	Net change in trading account assets		(2,288)	4,377	43,700
	Net cash provided by operating activities		108,533	337,223	184,754
Cash flows from investing activities	Proceeds from sales of investment securities				
	Available for sale		448,532	52,824	-
	Held to maturity		990	-	-
	Other		-	7,446	-
	Proceeds from maturities of investment securities				
	Available for sale		244,862	562,498	-
	Held to maturity		115,986	55,283	-
	Other		-	-	1,298,887
	Purchases of investment securities				
	Available for sale		(418,507)	(17,143)	-
	Held to maturity		(295,582)	(59,704)	-
	Other		(3,408)	(20,292)	(2,011,405)
	Net (increase) decrease in interest-bearing deposits at banks		(125,357)	54,901	54,997
	Net increase in loans and leases		(1,189,108)	(778,201)	(242,249)
	Capital expenditures, net		(17,520)	(6,876)	(22,329)
	Acquisitions, net of cash acquired		52,298	102,721	-
	Other, net		4,078	23,185	28,842
	Net cash used by investing activities		(1,182,736)	(23,358)	(893,257)
Cash flows from financing activities	Net increase (decrease) in deposits		1,139,555	413,865	(722,480)
	Net increase (decrease) in short-term borrowings		(124,644)	(807,826)	1,408,976
	Proceeds from issuance of subordinated notes		100,000	-	-
	Payments on long-term borrowings		(3,529)	(116)	(95)
	Purchases of treasury stock		(37,374)	(43,964)	-
	Dividends paid - common		(16,224)	(14,743)	(13,054)
	Dividends paid - preferred		(3,600)	(3,600)	(3,600)
	Other, net		3,277	(1,841)	(12,990)
	Net cash provided (used) by financing activities		1,057,461	(458,225)	656,757
	Net decrease in cash and cash equivalents	$	(16,742)	(144,360)	(51,746)
	Cash and cash equivalents at beginning of year		380,861	525,221	576,967
	Cash and cash equivalents at end of year	$	364,119	380,861	525,221
Supplemental disclosure of cash flow information	Interest received during the year	$	909,005	743,184	750,947
	Interest paid during the year		408,221	270,802	278,125
	Income taxes paid during the year		68,237	110,162	77,024
Supplemental schedule of noncash investing and financing activities	Real estate acquired in settlement of loans	$	7,372	9,936	9,415

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Dollars in thousands, except per share		Preferred stock	Common stock	Surplus	Undivided profits	Unrealized investment gains (losses), net	Treasury stock	Total
1993	Balance - January 1, 1993	$40,000	40,487	96,816	509,984	-	(60,492)	$626,795
	Net income	-	-	-	101,992	-	-	101,992
	Preferred stock cash dividends	-	-	-	(3,600)	-	-	(3,600)
	Common stock cash dividends - $ 1.90 per share	-	-	-	(13,054)	-	-	(13,054)
	Exercise of stock options	-	-	971	-	-	1,742	2,713
	Unrealized gains on investment securities available for sale, net	-	-	-	-	9,148	-	9,148
	Balance - December 31, 1993	$40,000	40,487	97,787	595,322	9,148	(58,750)	$723,994
1994	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

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 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.

On December 31, 1993, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in

1. Significant accounting policies, continued

Debt and Equity Securities". As required, the provisions of SFAS No. 115 were not applied to any prior periods. Prior to December 31, 1993 debt securities were carried at amortized cost when management had both the ability and intent to hold such securities to maturity. Periodic sales of these securities occurred principally as a result of reactive measures taken by management to changing business circumstances. When it became probable that a debt security would be sold, the security was classified as held for sale. Investment securities held for sale were reported at the lower of aggregate cost or fair market value. Adjustments to the carrying value of investment securities held for sale were included in gain on sales of bank investment securities in the Consolidated Statement of Income. Equity securities were stated at the lower of cost or fair market value. The carrying value of individual securities was written down to estimated fair value through a charge to earnings when declines in value were considered to be other than temporary.

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 in the Consolidated Balance Sheet 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 in the Consolidated Statement of Income.

Effective January 1, 1995, the Company adopted 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, leases and credit commitments. The adequacy of the allowance is determined by management's evaluation of the loan portfolio and other credit commitments 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.

1. Significant accounting policies, continued

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 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.

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 carry forwards. 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

1. Significant accounting policies, continued

losses are recognized in trading account gains. On occasion the Company uses interest rate futures contracts as part of its management of interest rate risk. Gains and losses on futures contracts designated as hedges are amortized as an adjustment to interest income or expense over the life of the item hedged.

Interest rate swap agreements

For interest rate swap agreements used to manage interest rate risk arising from financial assets and liabilities, amounts receivable or payable are recognized as accrued under the terms of the agreement and the net interest differential, including any amortization of premiums paid or accretion of discounts received, is recorded as an adjustment to interest income or expense of the related asset or liability. Gains or losses resulting from early termination of interest rate swap agreements used to manage interest rate risk are amortized over the remaining term or estimated life of the agreement. Agreements and commitments entered into for trading purposes are marked to market with resulting gains or losses recorded in trading account 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 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

2. Acquisitions, continued

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 has been 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.

Amortization of goodwill was $6,294,000 in 1995 and $358,000 in 1994. There was no goodwill amortization in 1993. The amount of goodwill totaled $28,234,000 and $23,514,000 at December 31, 1995 and 1994, respectively.

Presented below is certain proforma 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.

	Proforma 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, 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

3. Investment securities, continued

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(in thousands)			
December 31, 1994				
Investment securities available for sale:				
U.S. Treasury and federal agencies	$ 5,775	-	13	5,762
Mortgage-backed securities				
Government issued or guaranteed	869,031	403	46,901	822,533
Privately issued	706,909	110	41,810	665,209
Other debt securities	6,537	20	-	6,557
Equity securities	14,664	1,532	1,862	14,334
	1,602,916	2,065	90,586	1,514,395
Investment securities held to maturity:				
U.S. Treasury and federal agencies	171,112	1	6,511	164,602
Obligations of states and political subdivisions	55,787	266	181	55,872
Other debt securities	752	-	61	691
	227,651	267	6,753	221,165
Other securities	48,994	-	-	48,994
Total	$1,879,561	2,332	97,339	1,784,554

No investment in securities of a single non-U.S. Government or government agency issuer exceeded ten percent of stockholders' equity at December 31, 1995.

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 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, 1995, the latest available investment ratings of all privately issued mortgage-backed securities were AA or better, except one security with an amortized cost of $1,075,000 was rated AA-.

At December 31, 1995, investment securities classified as held to maturity and issued by U.S. Treasury and federal agencies consisted of structured notes issued by the Federal Home Loan Banks. There were no structured notes in investment securities at December 31, 1994.

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 1995	December 31 1994
	(in thousands)	
Amortized cost	$673,476	788,776
Estimated fair value	662,785	736,259

Gross realized gains on the sale of investment securities available for sale were $5,113,000 in 1995 and $128,000 in 1994. Gross realized losses on the sale of investment securities available for sale were $624,000 in 1995. There were no such losses in 1994. Gains recognized in 1993 consisted of appreciation in market value of investment securities held for sale at December 31, 1992.

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, 1995, 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	$ 122,948	122,511
Due after one year through five years	116,314	120,317
Due after five years through ten years	178	183
Due after ten years	-	-
	239,440	243,011
Mortgage-backed securities available for sale	1,285,798	1,273,643
	$1,525,238	1,516,654
Debt securities held to maturity:		
Due in one year or less	$ 30,532	30,594
Due after one year through five years	153,688	155,037
Due after five years through ten years	1,474	1,682
Due after ten years	140	163
	$ 185,834	187,476

At December 31, 1995, investment securities with a carrying value of $795,759,000, including $629,729,000 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 1995	December 31 1994
	(in thousands)	
Loans		
Commercial, financial, agricultural, etc.	$1,928,969	1,592,627
Real estate:		
Residential	2,061,342	1,707,840
Commercial	3,587,248	3,339,097
Construction	77,604	53,535
Consumer	2,017,099	1,662,881
Total loans	9,672,262	8,355,980
Leases		
Commercial	84,968	87,788
Consumer	116,493	3,349
Total leases	201,461	91,137
Total loans and leases	$9,873,723	8,447,117

One-to-four family residential mortgage loans held for sale were $185.0 million at December 31, 1995 and $33.4 million at December 31, 1994. One-to-four family residential mortgage loans serviced for others totaled approximately $5.7 billion and $4.0 billion at December 31, 1995 and 1994, respectively. Approximately $17.3 million of one-to-four family residential mortgage loans have been sold with recourse. The total credit loss exposure resulting from loans sold with recourse was considered negligible as of December 31, 1995.

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 $93,066,000 at December 31, 1995 and $77,535,000 at December 31, 1994. If nonaccrual and renegotiated loans had been accruing interest at their originally contracted terms, interest income on these loans would have amounted to $9,931,000 in 1995 and $9,648,000 in 1994. The actual amount included in interest income during 1995 and 1994 on these loans was $2,178,000 and $1,590,000, respectively.

The adoption of SFAS No. 114, as amended, on January 1, 1995 had no impact on the Company's results of operations nor on the level of the allowance for possible credit losses. At December 31, 1995, the recorded investment in loans that are considered impaired under SFAS No. 114 was $60,778,000. Included in this amount was $41,654,000 of impaired loans for which the related SFAS No. 114 allowance for possible credit losses was $4,775,000. The average recorded investment in impaired loans during 1995 was $52,357,000. Interest income recognized on impaired loans totaled $1,151,000 for the year ended December 31, 1995.

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 $52,613,000 and $129,736,000 at December 31, 1995 and 1994, respectively. During 1995, new borrowings by such persons amounted to $25,415,000 (including borrowings of new directors or officers that were outstanding at the time of their election) and repayments and other reductions equaled $102,538,000.

At December 31, 1995, approximately $19 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:

	1995	1994	1993
	(in thousands)		
Beginning balance	$243,332	195,878	151,690
Provision for possible credit losses	40,350	60,536	79,958
Allowance for possible credit losses acquired	-	3,538	-
Net charge-offs			
Charge-offs	(31,207)	(32,443)	(46,089)
Recoveries	9,869	15,823	10,319
Net charge-offs	(21,338)	(16,620)	(35,770)
Ending balance	$262,344	243,332	195,878

6. Premises and equipment

The detail of premises and equipment was as follows:

	December 31 1995	1994
	(in thousands)	
Land	$ 12,791	12,730
Buildings-owned	89,062	88,123
Buildings-capital leases	1,773	1,773
Leasehold improvements	29,098	33,404
Furniture and equipment-owned	114,007	102,212
Furniture and equipment-capital leases	429	-
	247,160	238,242
Less: accumulated depreciation and amortization		
Owned assets	116,954	109,354
Capital leases	1,690	1,614
	118,644	110,968
Premises and equipment, net	$128,516	127,274

6. Premises and equipment, continued

Net lease expense for all operating leases totaled $13,091,000 in 1995, $13,329,000 in 1994 and $12,051,000 in 1993. The Company occupies certain banking offices and uses certain equipment under noncancellable operating lease agreements expiring at various dates over the next 22 years. Minimum lease payments under noncancellable operating leases are summarized as follows:

Year ending December 31:	(in thousands)
1996	$ 7,455
1997	7,333
1998	6,505
1999	7,461
2000	6,837
Later years	59,331
	$ 94,922

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 1995	1994	1993
	(in thousands)		
Beginning balance	$10,048	8,472	7,555
Originations	12,515	-	-
Purchases	22,980	5,079	4,034
Amortization	(7,251)	(3,503)	(2,797)
Sales	(2,704)	-	-
Write-downs	-	-	(320)
	35,588	10,048	8,472
Valuation allowance	(1,100)	-	-
Ending balance, net	$34,488	10,048	8,472

As a result of impairment of certain strata of capitalized mortgage servicing rights, an impairment allowance totaling $1,100,000 was recorded during 1995. The estimated fair value of capitalized mortgage servicing was approximately $44 million at December 31, 1995. Such amount was calculated using current prepayment and discount rate assumptions.

The effect on the 1995 results of operations from implementing SFAS No. 122 was to increase mortgage banking revenues by $9,985,000 and other costs of operations by $1,795,000.

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, 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%
At December 31, 1993			
Amount outstanding	$1,381,335	720,332	2,101,667
Weighted-average interest rate	3.41%	2.97%	3.26%
For the year ended December 31, 1993			
Highest amount at a month-end	$2,434,239	720,332	
Daily-average amount outstanding	1,639,537	282,989	1,922,526
Weighted-average interest rate	3.06%	2.93%	3.04%

8. Borrowings, continued

At December 31, 1995, 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	$ -	16,834	-
Unused	25,000	615,894	257,598

Long-term borrowings were as follows:

	December 31 1995	1994
	(in thousands)	
Subordinated notes of M&T Bank:		
8 1/8% due 2002	$ 75,000	75,000
7% due 2005	100,000	-
Advances from Federal Home Loan Bank of New York	16,834	20,701
Other	957	486
	$192,791	96,187

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 and variable rates of interest ranging from 4.74% to 8.60% at December 31, 1995 and 1994. Such advances mature at various dates through 2006 and are secured by residential mortgage loans.

Long-term borrowings at December 31, 1995 mature as follows:

Year ending December 31	(in thousands)
1996	$ 14,683
1997	221
1998	533
1999	128
2000	339
Later years	176,887
	$192,791

9. Preferred stock

The 9% cumulative preferred stock is convertible at any time into shares of First Empire's common stock at a conversion price of $78.90625 per share, subject to certain adjustments. First Empire has the right to redeem the preferred stock, in whole, but not in part, on or after March 31, 1996 at a price of $40,000,000 plus accrued and unpaid dividends. On February 9, 1996, First Empire notified the preferred stockholder of its intention to redeem the preferred stock. On February 13, 1996, the preferred stockholder advised First Empire of its intention to convert the preferred stock into shares of common stock of First Empire. The conversion is anticipated to result in the issuance from treasury stock of 506,930 common shares.

The preferred stock is not considered to be a common stock equivalent. Preferred stock dividends are deducted from net income when calculating primary earnings per common share. The calculation of fully diluted earnings per common share assumes that the preferred stock was 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 that financial institutions disclose the estimated "fair value" of their 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, 1995 and 1994.

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.

10. Disclosures about fair value of financial instruments, continued

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		
1995	$1,769,295	1,770,937
1994	1,791,040	1,784,554

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, 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
December 31, 1994		
Commercial loans and leases	$1,659,532	1,650,138
Commercial real estate loans	3,352,600	3,261,013
Residential real estate loans	1,653,552	1,609,921
Consumer loans and leases	1,551,609	1,554,609
	$8,217,293	8,075,681

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 $2,757,000 and $2,400,000 at December 31, 1995 and 1994, respectively.

10. Disclosures about fair value of financial instruments, continued

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, 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
December 31, 1994		
Noninterest-bearing deposits	$1,087,102	1,087,102
Savings deposits and NOW accounts	3,846,637	3,846,637
Time deposits	3,106,723	3,088,666
Deposits at foreign office	202,611	202,611

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				
1995	$2,378,358	38,682	(1,645)	37,037
1994	2,388,000	-	(119,079)	(119,079)

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 of $50 million and $80,000, respectively, at December 31, 1995 and $40 million and $3,000, respectively, at December 31, 1994. The Company also entered into foreign exchange and other option and futures contracts totaling $539 million and $296 million at December 31, 1995 and 1994, respectively. Such contracts were valued at a gain of $2,603,000 and at a loss of $19,000 at December 31, 1995 and 1994, respectively. All trading

10. Disclosures about fair value of financial instruments, continued

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 $192,791,000 and $202,746,000, respectively, at December 31, 1995 and $96,187,000 and $93,277,000, respectively, at December 31, 1994.

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

Many of the fair value estimates presented herein are based upon the use of highly subjective information and assumptions and, accordingly, the results may not be precise. Management believes that fair value estimates may not be comparable between financial institutions due to the wide range of permitted valuation techniques and numerous estimates which must be made. Furthermore, since the fair value is 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) which are exercisable over terms not exceeding ten years and one day, and at prices which may not be less than the fair market value of the common stock on the date of grant. 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, 1995, 619,776 were granted with limited stock appreciation rights attached thereto. A summary of related activity follows:

11. Stock option plan, continued

	Stock options outstanding	Cash-only appreciation rights outstanding	Exercise price per share Range	Exercise price per share Average
1993				
Beginning balance	431,197	121,200	$ 23.00-131.88	$ 62.13
Granted	119,725	-	133.88-141.50	134.00
Exercised	(40,540)	(5,800)	35.25-105.13	50.78
Cancelled	(3,150)	(2,200)	53.00-133.88	96.87
At year-end	507,232	113,200	23.00-141.50	76.55
1994				
Granted	142,449	-	139.50-150.50	139.96
Exercised	(33,944)	(22,600)	35.25- 70.00	52.43
Cancelled	(4,500)	-	105.13-139.50	131.24
At year-end	611,237	90,600	23.00-150.50	91.01
1995				
Granted	165,185	-	140.00-198.00	143.39
Exercised	(47,175)	(29,000)	23.00-139.50	64.33
Cancelled	(9,250)	-	105.13-140.00	133.82
At year-end	719,997	61,600	35.25-198.00	104.17
Exercisable at December 31, 1995	315,612	61,600	35.25-150.50	69.21

At December 31, 1995 and 1994, respectively, there were 481,786 and 137,721 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.

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 the 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:

	1995	1994	1993
	(in thousands)		
Service cost	$ 3,304	4,148	3,075
Interest cost on projected benefit obligation	6,026	5,823	4,904
Actual return on assets	(19,666)	1,487	(8,217)
Net amortization and deferral	11,390	(9,541)	293
Net periodic pension cost	$ 1,054	1,917	55

12. Pension plans and other postretirement benefits, continued

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

	1995	1994
	(in thousands)	
Vested accumulated benefit obligation	$(72,377)	(60,307)
Total accumulated benefit obligation	(74,635)	(62,351)
Projected benefit obligation	(91,222)	(75,735)
Plan assets at fair value	108,316	88,215
Plan assets in excess of projected benefit obligation	17,094	12,480
Unrecognized net asset	(2,059)	(2,917)
Unrecognized past service cost	(493)	(538)
Unrecognized net (gain) loss	(2,317)	(284)
Pension asset	$ 12,225	8,741

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

	1995	1994
Discount rate	7.00%	8.00%
Rate of increase in future compensation levels	5.00%	5.00%
Long-term rate of return on assets	8.00%	8.00%

In addition, the Company has an unfunded supplemental pension plan for certain key executives. Net periodic pension cost was $290,000, $341,000 and $159,000 in 1995, 1994 and 1993, 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:

	1995	1994	1993
	(in thousands)		
Service cost	$ 94	136	94
Interest cost on projected benefit obligation	1,022	1,059	1,094
Actual return on assets	(547)	(1)	(364)
Net amortization and deferral	16	(452)	(281)
Net postretirement benefit cost	$ 585	742	543

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

	1995	1994
	(in thousands)	
Accumulated benefit obligation:		
Retirees	$12,732	12,611
Active employees		
Fully eligible	1,261	1,477
Other	996	800
Plan assets at fair value	(7,046)	(7,580)
Accumulated benefit obligation in excess of plan assets	7,943	7,308
Unrecognized net loss	(2,009)	(2,019)
Unrecognized past service cost	2,447	2,651
Accrued postretirement benefit cost	$ 8,381	7,940

12. Pension plans and other postretirement benefits, continued

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:

	1995	1994
Discount rate	7.0%	8.0%
Long-term rate of return on assets	8.0%	8.0%
Medical inflation rate	11.5%	14.0%

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

The Company's 1995 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	$16,018
Service cost	94
Interest cost	1,133

13. Income taxes

The components of income tax expense were as follows:

	1995	1994	1993
	(in thousands)		
Current			
Federal	$79,194	58,801	69,744
State and city	18,303	21,251	25,487
Total current	97,497	80,052	95,231
Deferred			
Federal	(7,875)	(3,424)	(18,124)
State and city	515	558	(5,576)
Total deferred	(7,360)	(2,866)	(23,700)
Total income taxes applicable to pre-tax income	$90,137	77,186	71,531

The Company files a consolidated federal income tax return reflecting taxable income earned by all subsidiaries. East New York may elect to compute its bad debt deduction for tax purposes as a percentage of taxable income. Applicable federal tax law allows qualified savings banks the option of deducting as bad debt expense 8% of their taxable income. However, failure to maintain savings bank status as defined by the Internal Revenue Code or charges to the reserve established by these deductions for other than bad debt losses would create taxable income, subject to the applicable tax rates in effect at that time. At December 31, 1995, East New York's bad debt reserve for federal tax purposes 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, $53,000 in 1994 and $392,000 in 1993. No alternative minimum tax expense was recognized in any year.

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:

	1995	1994	1993
		(in thousands)	
Income taxes at statutory rate	$77,411	68,068	60,733
Increase (decrease) in taxes:			
Tax-exempt income	(2,195)	(5,758)	(2,066)
State and city income taxes, net of federal income tax effect	12,232	14,176	12,942
Other	2,689	700	(78)
	$90,137	77,186	71,531

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

	1995	1994	1993
		(in thousands)	
Interest on loans	$ 5,335	6,513	7,115
Gain on sales of loans	-	1,041	2,207
Depreciation and amortization	5,943	4,367	3,477
Losses on loans and other assets	102,183	97,502	76,783
Postretirement and other supplemental employee benefits	7,041	6,382	5,969
Incentive compensation plans	10,932	9,242	9,247
Unrealized investment losses	2,343	37,966	-
Other	6,990	7,781	3,060
Gross deferred tax assets	140,767	170,794	107,858
Retirement benefits	(5,194)	(3,801)	(4,904)
Leasing transactions	(71,717)	(69,469)	(72,019)
Restructured interest rate swap agreements	(13,746)	(16,950)	-
Capitalized servicing rights	(7,981)	-	-
Unrealized investment gains	-	-	(6,657)
Other	(226)	(5,159)	-
Gross deferred tax liabilities	(98,864)	(95,379)	(83,580)
Net deferred asset	$ 41,903	75,415	24,278

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:

	1995	1994	1993
	(in thousands)		
Other income:			
Transfer of investment securities to charitable foundation	$	10,439	
Other expense:			
Professional services			
Data processing	6,893		
Other	10,748		
Advertising		11,067	9,069
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 $86,580,000 and $7,172,000 at December 31, 1995 and 1994, 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. In general, under terms 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 with substantial net worth 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 (receive)	Weighted-average rate Variable (pay)	Estimated fair value-gain(loss) (in thousands)
December 31, 1995					
Variable rate loans:					
Amortizing	$ 365,782	1.12	5.93%	5.80%	$ (287)
Non-amortizing	834,576	3.02	5.81%	5.89%	9,086
	1,200,358	2.44	5.85%	5.86%	8,799
Fixed rate time deposits:					
Non-amortizing	1,178,000	1.35	6.55%	5.66%	28,238
	$2,378,358	1.90	6.19%	5.76%	$ 37,037
December 31, 1994					
Variable rate loans:					
Amortizing	$1,000,000	2.46	5.84%	6.12%	$ (57,332)
Non-amortizing	575,000	4.46	5.96%	6.10%	(39,947)
	1,575,000	3.19	5.88%	6.11%	(97,279)
Fixed rate time deposits:					
Non-amortizing	813,000	1.95	6.21%	5.98%	(21,800)
	$2,388,000	2.77	5.99%	6.07%	$(119,079)

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 an amortizing swap 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 the swap is indexed. The notional amount of a non-amortizing swap does not change during the term of an agreement.

At December 31, 1995 the notional amount of interest rate swaps outstanding was expected to mature as follows:

	Amortizing (In thousands)	Non-amortizing (In thousands)
Year ending December 31:		
1996	$191,229	$ 725,000
1997	93,111	323,845
1998	81,442	254,731
1999	-	314,000
2000	-	395,000
	$365,782	$2,012,576

16. Derivative financial instruments, continued

The net effect of interest rate swaps was to increase net interest income by $884,000, $12,481,000 and $34,242,000 during the years ended December 31, 1995, 1994 and 1993, respectively. The average notional amount of interest rate swaps impacting net interest income which were entered into for interest rate risk management purposes were $2,536,329,000, $1,627,454,000 and $1,213,886,000 during the years ended December 31, 1995, 1994 and 1993, 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 $32.9 million and $35.2 million, respectively, at December 31, 1995. Such amounts were each $40.2 million at December 31, 1994. The deferred losses are being amortized and the purchase discounts accreted to interest income over the remaining terms of the original swaps and restructured swaps, respectively. Such amortization and accretion were $11.1 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)
1996	$(2,310)
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 table includes information about the estimated fair value of derivative financial instruments used for trading purposes:

	1995	1994
	(in thousands)	
December 31:		
Gross unrealized gains	$5,867	1,673
Gross unrealized losses	3,184	1,689
Year ended December 31:		
Average gross unrealized gains	$8,356	1,842
Average gross unrealized losses	7,374	1,558

Net gains (losses) arising from derivative financial instruments used for trading purposes were $1,375,000, $(336,000) and $219,000 during the years ended December 31, 1995, 1994 and 1993, 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 $185,667,000 and $150,219,000 at December 31, 1995 and 1994, 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 $2.1 billion and $1.6 billion at December 31, 1995 and 1994, 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 $222,772,000 at December 31, 1995 and $74,614,000 at December 31, 1994.

In the opinion of management, the potential liabilities, if any, arising from all lawsuits pending against the Company at December 31, 1995 will not have a materially adverse impact on the Company's consolidated financial condition. Moreover, management believes that the Company has substantial defenses in such litigation, but that there can be no assurance that the potential liabilities, if any, arising from such litigation will not have a materially adverse impact on the Company's consolidated results of operations in the future.

18. Regulatory restrictions

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, 1995, approximately $192,499,000 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, 1995 and 1994, cash and due from banks included a daily average of $174,028,000 and $158,342,000, respectively, for such purpose.

19. 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, 1995, there were no outstanding balances under such agreement.

20. Parent company financial statements
See other notes to financial statements.

CONDENSED BALANCE SHEET

Dollars in thousands	December 31 1995	1994
Assets		
Cash		
In subsidiary bank	$ 161	175
Other	18	18
Total cash	179	193
Due from subsidiaries		
Money-market assets	7,215	1,257
Current income tax receivable	965	6,792
Total due from subsidiaries	8,180	8,049
Investments in subsidiaries		
Banks	828,157	706,801
Other	6	6
Other assets	10,739	9,030
Total assets	$ 847,261	724,079
Liabilities		
Short-term borrowings	$ -	3,000
Accrued expenses and other liabilities	1,008	83
Total liabilities	1,008	3,083
Stockholders' equity	846,253	720,996
Total liabilities and stockholders' equity	$ 847,261	724,079

CONDENSED STATEMENT OF INCOME

Dollars in thousands, except per share	Year ended December 31 1995	1994	1993
Income			
Dividends from bank subsidiaries	$ 88,358	59,300	23,000
Other income	812	11,493	665
Total income	89,170	70,793	23,665
Expense			
Interest on short-term borrowings	556	3	29
Other expense	2,365	17,739	1,979
Total expense	2,921	17,742	2,008
Income before income taxes and equity in undistributed income of subsidiaries	86,249	53,051	21,657
Income tax credits	944	7,087	688
Income before equity in undistributed income of subsidiaries	87,193	60,138	22,345
Equity in undistributed income of subsidiaries			
Net income			
Bank subsidiaries	132,201	116,457	102,642
Other subsidiaries	-	-	5
Less: dividends received	(88,358)	(59,300)	(23,000)
Equity in undistributed income of subsidiaries	43,843	57,157	79,647
Net income	$131,036	117,295	101,992
Net income per common share	$18.79	16.35	13.87

20. Parent company financial statements, continued

CONDENSED STATEMENT OF CASH FLOWS

Dollars in thousands	Year ended December 31 1995	1994	1993
Cash flows from operating activities			
Net income	$ 131,036	117,295	101,992
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed income of subsidiaries	(43,843)	(57,157)	(79,647)
Dividend-in-kind from subsidiary	(11,858)	-	-
Provision for deferred income taxes	(221)	(206)	(82)
Net gain on sales of assets	(179)	(128)	-
Net change in accrued income and expense	7,616	(6,570)	5,009
Transfer of noncash assets to charitable foundation	-	5,213	-
Net cash provided by operating activities	82,551	58,447	27,272
Cash flows from investing activities			
Investment in subsidiary	(20,248)	-	-
Other , net	871	(8,199)	(1,809)
Net cash used by investing activities	(19,377)	(8,199)	(1,809)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	(3,000)	3,000	(3,500)
Purchases of treasury stock	(37,374)	(43,964)	-
Dividends paid - common	(16,224)	(14,743)	(13,054)
Dividends paid - preferred	(3,600)	(3,600)	(3,600)
Other, net	2,968	1,049	1,788
Net cash used by financing activities	(57,230)	(58,258)	(18,366)
Net increase (decrease) in cash and cash equivalents	$ 5,944	(8,010)	7,097
Cash and cash equivalents at beginning of year	1,450	9,460	2,363
Cash and cash equivalents at end of year	$ 7,394	1,450	9,460
Supplemental disclosure of cash flow information			
Interest received during the year	$ 279	932	658
Interest paid during the year	558	1	46
Income taxes received during the year	7,393	510	5,462

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 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 1996 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or about March 14, 1996. 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 "STOCK OWNERSHIP BY DIRECTORS AND EXECUTIVE OFFICERS" contained in the Registrant's definitive Proxy Statement for its 1996 Annual Meeting of Stockholders.

Item 11. Executive Compensation. Incorporated by reference to the Registrant's definitive Proxy Statement for its 1996 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or about March 14, 1996.

Item 12. Security Ownership of Certain Beneficial Owners and Management. Incorporated by reference to the Registrant's definitive Proxy Statement for its 1996 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or about March 14, 1996.

Item 13. Certain Relationships and Related Transactions. Incorporated by reference to the Registrant's definitive Proxy Statement for its 1996 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or about March 14, 1996.

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".

The financial statement schedules required by Rule 9-07 under Regulation S-X are omitted because the required information is not applicable.

(b) Reports on Form 8-K.

The registrant did not file any reports on Form 8-K during the fiscal quarter ended December 31, 1995.

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

The exhibits listed on the Exhibit Index on pages 91 and 92 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 14th day of March, 1996.

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	3/14/96
Principal Financial and Accounting Officer:		
/s/ James L. Vardon James L. Vardon	Executive Vice President and Chief Financial Officer	3/14/96

A majority of the board of directors:

/s/ Brent D. Baird	3/14/96
Brent D. Baird	
/s/ John H. Benisch	3/14/96
John H. Benisch	
/s/ C. Angela Bontempo	3/14/96
C. Angela Bontempo	
/s/ Robert T. Brady	3/14/96
Robert T. Brady	
/s/ Patrick J. Callan	3/14/96
Patrick J. Callan	
/s/ David N. Campbell	3/14/96
David N. Campbell	
/s/ James A. Carrigg	3/14/96
James A. Carrigg	
/s/ Barber B. Conable, Jr.	3/14/96
Barber B. Conable, Jr.	
/s/ Richard E. Garman	3/14/96
Richard E. Garman	
/s/ James V. Glynn	3/14/96
James V. Glynn	
Roy M. Goodman	
/s/ Patrick W.E. Hodgson	3/14/96
Patrick W.E. Hodgson	
Samuel T. Hubbard, Jr.	
/s/ Lambros J. Lambros	3/14/96
Lambros J. Lambros	
/s/ Wilfred J. Larson	3/14/96
Wilfred J. Larson	
Jorge G. Pereira	

/s/ William C. Shanley, III	3/14/96
William C. Shanley, III	
/s/ Raymond D. Stevens, Jr.	3/14/96
Raymond D. Stevens, Jr.	
/s/ Richard D. Trent	3/14/96
Richard D. Trent	
Herbert L. Washington	
/s/ John L. Wehle, Jr.	3/14/96
John L. Wehle. Jr.	
/s/ Robert G. Wilmers	3/14/96
Robert G. Wilmers	

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	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.
10.1	Revolving Credit Agreement, dated as of November 24, 1995, between First Empire State Corporation and The First National Bank of Boston. Filed herewith.
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. and James L. Vardon, each 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	William A. Buckingham dated as of August 7, 1990. Incorporated by reference to Exhibit No. 10.8 to the Form 10-K for the year ended December 31, 1990 (File No. 1-9861); and
10.8	Brian E. Hickey dated as of July 21, 1994. Filed herewith.
10.9	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).

10.10	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).
10.11	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).
11	Statement re: Computation of Earnings Per Common Share. Filed herewith.
21	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. Filed herewith.
23.2	Consent of Price Waterhouse re: Registration Statements Nos. 33-12207, 33-58500 and 33-63917. Filed herewith.
27	Article 9 Financial Data Schedule for the year ended December 31, 1995. Filed herewith.
99.1	First Empire State Corporation Retirement Savings Plan and Trust Financial Statements and Additional Information for the years ended December 31, 1995 and 1994. Filed herewith.

Exhibit 10.1

REVOLVING CREDIT AGREEMENT

FIRST EMPIRE STATE CORPORATION

Dated as of November 24, 1995

THE FIRST NATIONAL BANK OF BOSTON

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EXHIBITS

REVOLVING CREDIT AGREEMENT

Dated as of November 24, 1995

THIS REVOLVING CREDIT AGREEMENT is made as of November 24, 1995 by and between FIRST EMPIRE STATE CORPORATION (the "Borrower"), a New York corporation having its head office at One M&T Plaza, Buffalo, New York 14240 and THE FIRST NATIONAL BANK OF BOSTON (the "Bank"), a national banking association having its head office at 100 Federal Street, Boston, Massachusetts 02110.

SECTION I

DEFINITIONS

1.1. Definitions.

All capitalized terms used in this Agreement or in the Note or in any certificate, report or other document made or delivered pursuant to this Agreement (unless otherwise defined therein) shall have the meanings assigned to them below:

Adjusted Eurodollar Rate. Applicable to any Interest Period, shall mean a rate per annum determined pursuant to the following formula, rounded upwards, if necessary, to the next higher 1/100 of 1%:

$$\text{Adjusted Eurodollar Rate} = \frac{\text{Interbank Offered Rate}}{1.00 - \text{Reserve Percentage}}$$

Where:

"Interbank Offered Rate" applicable to any Eurodollar Loan for any Interest Period means the rate of interest determined by the Bank to be the prevailing rate per annum at which deposits in U.S. dollars are offered to the Bank by first-class banks in the interbank Eurodollar market in which it regularly participates on or about 10:00 a.m. (Boston, Massachusetts time) two Business Days before the first day of such Interest Period in an amount approximately equal to the principal amount of the Eurodollar Loan to which such Interest Period is to apply for a period of time approximately equal to such Interest Period.

"Reserve Percentage" applicable to any Interest Period means the rate (expressed as a decimal) applicable to the Bank during such Interest Period under regulations issued from time to time by the Board of Governors of the Federal Reserve System for determining the maximum reserve requirement (including, without limitation, any basic, supplemental, emergency or marginal reserve requirement) of the Bank with respect to "Eurocurrency liabilities" as that term is defined under such regulations.

The Adjusted Eurodollar Rate shall be adjusted automatically as of the effective date of any change in the Reserve Percentage.

Agreement. This Agreement, as the same may be supplemented or amended from time to time.

Bank. See Preamble.

Base Rate. The greater of (i) the rate of interest announced from time to time by the Bank at its head office as its Base Rate, and (ii) the Federal Funds Effective Rate plus 1/2 of 1% per annum (rounded upwards, if necessary, to the next 1/8 of 1%).

Base Rate Loan. Any Loan bearing interest determined with reference to the Base Rate.

Business Day. Any day other than a Saturday, Sunday or legal holiday on which banks in Boston, Massachusetts or New York, New York are open for the conduct of a substantial part of their commercial banking business, and with respect to all notices and determinations in connection with, and payments of principal and interest on, Eurodollar Loans, any day that is such a Business Day and that is also a day for trading between banks in U.S. Dollar deposits in the interbank Eurodollar market.

Code. The Internal Revenue Code of 1986 and the rules and regulations thereunder, collectively, as the same may from time to time be supplemented or amended.

Commitment Amount. $25,000,000 or any lesser amount, including zero, resulting from a termination or reduction of such amount in accordance with Section 2.4 or Section 7.2.

Borrower. See Preamble.

Controlled Group. All trades or businesses (whether or not incorporated) under common control that, together with the Borrower, are treated as a single employer under Section 414(b) or 414(c) of the Code or Section 4001 of ERISA.

Default. An Event of Default or event or condition that, but for the requirement that time elapse or notice be given, or both, would constitute an Event of Default.

Encumbrances. See Section 6.1.

ERISA. The Employee Retirement Income Security Act of 1974 and the rules and regulations thereunder, collectively, as the same may from time to time be supplemented or amended.

Environmental Laws. All applicable foreign, federal, state and local environmental, health or safety statutes, laws, regulations, rules, ordinances, policies and rules or common law whether now existing or hereafter enacted or promulgated, relating to injury to, or the protection of, real or personal property or human health or the environment.

Eurodollar Loan. Any Loan bearing interest at a rate determined with reference to the Adjusted Eurodollar Rate.

Event of Default. Any event described in Section 7.1.

FFIEC. The Federal Financial Institutions Examination Council, or such other regulatory agency or authority having jurisdiction over financial reporting by banks and bank holding companies.

Federal Funds Effective Rate. For any day, a fluctuating interest rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for such day on such transactions received by the Bank from three Federal funds brokers of recognized standing selected by the Bank.

Hazardous Material. Any substance which is or becomes defined as a "hazardous waste", "hazardous material" or "hazardous substance" or "controlled industrial waste" or "pollutant" or "contaminant" under any Environmental Law or which is toxic, explosive, corrosive, flammable, infectious, radioactive, carcinogenic, mutagenic or otherwise hazardous and is or becomes regulated by any governmental authority or instrumentality or which contains gasoline, diesel fuel or other petroleum products, asbestos or polychlorinated biphenyls ("PCB's").

Interest Period.

With respect to each Eurodollar Loan, the period commencing on the date of the making or continuation of or conversion to such Eurodollar Loan and ending one, two, three or six months thereafter, as the Borrower may elect in the applicable Notice of Borrowing or Conversion, provided that:

(i) any Interest Period (other than an Interest Period determined pursuant to clause (iii) below) that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless, in the case of Eurodollar Loans, such Business Day falls in the next calendar month, in which case such Interest Period shall end on the immediately preceding Business Day;

(ii) any Interest Period applicable to a Eurodollar Loan that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (iii) below, end on the last Business Day of a calendar month;

(iii) any Interest Period that would otherwise end after the Termination Date shall end on the Termination Date; and

(iv) notwithstanding clause (iii) above, no Interest Period applicable to a Eurodollar Loan shall have a duration of less than one month; and if any Interest Period applicable to such Loan would be for a shorter period, such Interest Period shall not be available hereunder.

Investment. The purchase or acquisition of any share of capital stock, partnership interest, evidence of indebtedness or other equity security of any other person or entity, any loan, advance or extension of credit to, or contribution to the capital of, any other person or entity, any real estate held for sale or investment, any commodities futures contracts held other than in connection with bona fide hedging transactions, any other investment in any other person or entity, and the making of any commitment or acquisition of any option to make an Investment.

Loan. A loan made to the Borrower by the Bank pursuant to Section II of this Agreement, and "Loans" means all of such loans, collectively.

Material Subsidiary. Those Subsidiaries listed on Exhibit E hereto, and any other Subsidiary of the Borrower that is a federally-insured depository institution or an operating Subsidiary of the Borrower or an operating Subsidiary of any Subsidiary of the Borrower. "Material Subsidiary" shall not include any Subsidiary which is organized or operated for the purpose of holding, managing or disposing of real or personal property which is acquired by the Borrower or any Subsidiary in satisfaction of a debt previously contracted; nor shall "Material Subsidiary" include any Subsidiary which is otherwise inactive or any active Subsidiary the primary purpose of which is to hold noncontrolling interests in other persons or entities.

Moody's. Moody's Investors Service, Inc., or its successors.

Nonperforming Asset. As defined in Section 6.8.

Note. A promissory note of the Borrower, substantially in the form of Exhibit A hereto, evidencing the obligation of the Borrower to the Bank to repay the Loans.

Notice of Borrowing or Conversion. See Section 2.2.

Obligations. All obligations of the Borrower to the Bank hereunder of every kind and description, direct or indirect, absolute or contingent, primary or secondary, due or to become due, now existing or hereafter arising, regardless of how they arise or by what agreement or instrument, if any, and including obligations to perform acts and refrain from taking action as well as obligations to pay money.

PBGC. The Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

Permitted Encumbrances. See Section 6.1.

Plan. An employee pension or other benefit plan that is subject to Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code and is either (i) maintained by the Borrower or any member of the Controlled Group for employees of the Borrower or any member of the Controlled Group or (ii) if such Plan is established, maintained pursuant to a collective bargaining agreement or any other arrangement under which more than one employer makes contributions and to which the Borrower or any member of the Controlled Group is then making or accruing an obligation to make contributions or has within the preceding five Plan years made contributions.

Rating. The rating assigned by S&P or Moody's, as applicable, to the unsecured long-term indebtedness for money borrowed, without credit enhancements of Manufacturers and Traders Trust Company. Any change in the Rating, and the corresponding adjustment in the facility fee payable pursuant to Section 2.3(a) and the applicable margin for any Eurodollar Loan set forth in Section 2.7(b), shall be effective as of the date of the public announcement of such change.

S&P. Standard & Poor's Rating Group, a division of McGraw Hill, Inc., and its successors.

Subsidiary. Any corporation, association, joint stock company, business trust or other similar organization of which 50% or more of the ordinary voting power for the election of a majority of the members of the board of directors or other governing body of such entity is held or controlled by the Borrower or a Subsidiary of the Borrower; or any other such entity the management of which is directly or indirectly controlled by the Borrower or a Subsidiary of the Borrower through the exercise of voting power or otherwise; or any joint venture, whether incorporated or not, in which the Borrower has an ownership interest of 50% or more.

Termination Date. November 24, 1998 or such earlier date on which the commitment to make Loans is terminated or the Commitment Amount is reduced to zero in accordance with the terms hereof.

1.2. Accounting Terms. All terms of an accounting character shall have the meanings assigned thereto by generally accepted accounting principles or regulatory accounting principles, as applicable, as applied on a basis consistent with the financial statements referred to in Section 4.6 of this Agreement, but as herein specifically modified.

SECTION II

DESCRIPTION OF CREDIT

2.1. The Loans. (a) Subject to the terms and conditions hereof, the Bank will make Loans to the Borrower, from time to time until the close of business on the Termination Date, in such sums as the Borrower may request, provided that the aggregate principal amount of all Loans at any one time outstanding hereunder may not exceed the Commitment Amount. The first Loan hereunder shall be a $12,000,000 one-month Eurodollar Loan, which shall be credited by the Bank to Account No. 900-9-000036 at The Chase Manhattan Bank, National Association, for the credit of the Borrower, before 10:00 a.m. (Boston, Massachusetts time) on November 29, 1995. The preceding sentence shall constitute the appropriate notice contemplated by Section 2.2 of this Agreement for such Loan.

The Borrower may borrow, prepay pursuant to Section 2.10 and reborrow, from the date of this Agreement until the Termination Date, the Commitment Amount or any lesser sum that is at least $1,000,000 and an integral multiple of $1,000,000. Any Loan not repaid by the Termination Date shall be due and payable on the Termination Date.

(b) Provided that no Default shall have occurred and be continuing, the Borrower may convert all or any part (in integral multiples of $1,000,000) of any outstanding Loan into a Loan of any other type provided for in this Agreement in the same principal amount, on any Business Day (which, in the case of a conversion of a Eurodollar Loan, shall be the last day of the applicable Interest Period). The Borrower shall give the Bank prior notice of each such conversion (which notice shall be effective upon receipt) in accordance with Section 2.2.

2.2. Notice and Manner of Borrowing or Conversion of Loans. (a) Whenever the Borrower desires to borrow, continue a Loan or convert an outstanding Loan into a Loan of another type provided for in this Agreement, the Borrower shall notify the Bank (which notice shall be irrevocable) by telephone or facsimile transmission received no later than 1:00 p.m. (Boston, Massachusetts time) (i) one Business Day before the day on which the requested Loan is to be made, continued as or converted to a Base Rate Loan, and (ii) three Business Days before the day on which the requested Loan is to be made, continued as or converted to a Eurodollar Loan. Such notice shall specify (i) the effective date and amount of each Loan or portion thereof to be continued or converted, subject to the limitations set forth in Section 2.1, (ii) the applicable interest rate option, and (iii) the duration of the applicable Interest

Period, if any (subject to the provisions of the definition of Interest Period and Section 2.6). Each such notification (a "Notice of Borrowing or Conversion") shall be immediately followed by a written confirmation thereof by the Borrower in substantially the form of Exhibit B hereto, provided that if such written confirmation differs in any material respect from the action taken by the Bank, the records of the Bank shall constitute a rebuttable presumption of the correctness of such actions.

(b) Subject to the terms and conditions hereof, the Bank shall make each Loan on the effective date specified therefor by crediting the amount of such Loan in immediately available funds to such account as may be designated by the Borrower in the applicable Notice of Borrowing or Conversion.

2.3. Fees. (a) The Borrower shall pay to the Bank a facility fee on the daily average Commitment Amount during each quarter or portion thereof, computed at the rate per annum equal to the applicable percentage set forth below, for the then effective Rating; provided that if only one Rating shall then be in effect, that Rating shall apply; and provided, further, if different level Ratings by Moody's and S&P shall then be in effect , the lower Rating shall apply:

APPLICABLE RATING	AA-/Aa3	A+/A1 or A/A2	A-/A3 BBB+/Baa1	BBB/Baa2 or below
APPLICABLE PERCENTAGE	.08%	.125%	.15%	.187%

Facility fees shall be payable quarterly in arrears on the last day of each calendar quarter commencing December 31, 1995 and on the Termination Date.

(b) Whenever the balance of outstanding Loans exceeds 50% of the Commitment Amount during any quarter or portion thereof, the Borrower shall pay to the Bank a usage fee equal to .10% per annum of the daily average of such excess principal balance. Usage fees shall be payable quarterly in arrears on the last day of each calendar quarter commencing December 31, 1995 and on the Termination Date.

2.4. Reduction of Commitment Amount. The Borrower may from time to time by written notice delivered to the Bank at least five Business Days prior to the date of the requested reduction, reduce by integral multiples of $1,000,000 any unborrowed portion of the Commitment Amount. No reduction of the Commitment Amount shall be subject to reinstatement.

2.5. The Note. The Loans shall be evidenced by the Note, payable to the order of the Bank and having a final maturity of the Termination Date. The Note shall be dated on or before the date of the first Loan and shall have the blanks therein appropriately completed. The Bank shall, and is hereby irrevocably authorized by the Borrower to, enter on the schedule forming a part of the Note or otherwise in its records appropriate notations evidencing the date and the amount of each Loan, the applicable interest rate and the date and amount of each payment of principal made by the Borrower with respect thereto; and in the absence of manifest error, such notations shall constitute a rebuttable presumption of the correctness thereof; provided that no failure on the part of the Bank to make any such notation shall in any way affect any Loan or the rights or obligations of the Bank or the Borrower with respect thereto.

2.6. Duration of Interest Periods. (a) Subject to the provisions of the definition of Interest Period, the duration of each Interest Period applicable to a Loan shall be as specified in the applicable Notice of Borrowing or Conversion. The Borrower shall have the option to elect a subsequent Interest Period to be applicable to such Loan by giving notice of such election to the Bank received no later than 1:00 p.m. (Boston, Massachusetts time) (i) on the date one Business Day before the end of the then applicable Interest Period if such Loan is to be continued as or converted to a Base Rate Loan, and (ii) three Business Days before the end of the then applicable Interest Period if such Loan is to be continued as or converted to a Eurodollar Loan.

(b) If the Bank does not receive a Notice of Borrowing or Conversion within the applicable time limits specified in subsection (a) above, or if, when such notice must be given, a Default exists, the Borrower shall be deemed to have elected to convert such Loan into a Base Rate Loan on the last day of the then current Interest Period.

(c) Notwithstanding the foregoing, the Borrower may not select an Interest Period that would end, but for the provisions of the definition of Interest Period, after the Termination Date.

2.7. Interest Rates and Payments of Interest. (a) Each Base Rate Loan shall bear interest on the outstanding principal amount thereof at a rate per annum equal to the Base Rate, which rate shall change contemporaneously with any change in the Base Rate. Such interest shall be payable on the last day of each calendar quarter, commencing December 31, 1995, and when such Loan is due (whether at maturity, by reason of acceleration or otherwise).

(b) Each Eurodollar Loan shall bear interest on the outstanding principal amount thereof, for each Interest Period, at a rate per annum equal to the applicable Adjusted Eurodollar Rate plus the applicable percentage set forth below, for the then effective Rating; provided that if only one Rating shall then be in effect, that Rating shall apply; and provided, further, if different level Ratings by Moody's and S&P shall then be in effect , the lower Rating shall apply:

APPLICABLE RATING	AA-/Aa3	A+/A1 or A/A2	A-/A3 BBB+/Baa1	BBB/Baa2 or below
APPLICABLE PERCENTAGE	.15%	.20%	.25%	.30%

Such interest shall be payable for such Interest Period on the last day thereof and when such Eurodollar Loan is due (whether at maturity, by reason of acceleration or otherwise) and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof.

2.8. Changed Circumstances.

(a) In the event that the Bank shall have determined in good faith (which determination shall be final and conclusive, so long as the Bank shall provide reasonable evidence of the basis of such determination) that:

(i) adequate and fair means do not exist for ascertaining the Interbank Offered Rate on any date on which the Adjusted Eurodollar Rate would otherwise be set, or

(ii) the making of a Eurodollar Loan or the continuation of or conversion of any Loan to a Eurodollar Loan has been made impracticable or unlawful by (1) the occurrence of a contingency that materially and adversely affects the interbank Eurodollar market or (2) compliance by the Bank in good faith with any applicable law or governmental regulation, guideline or order or interpretation or change thereof by any governmental authority charged with the interpretation or administration thereof or with any request or directive of any such governmental authority (whether or not having the force of law); or

(iii) the Adjusted Eurodollar Rate no longer represents the effective cost to the Bank for U.S. dollar deposits in the interbank market for deposits in which it regularly participates;

then, and in any such event, the Bank shall forthwith so notify the Borrower. Until the Bank notifies the Borrower that the circumstances giving rise to such notice no longer apply, the obligation of the Bank to allow selection by the Borrower of Eurodollar Loans shall be suspended. If at the time the Bank so notifies the Borrower, the Borrower has previously given the Bank a Notice of Borrowing or Conversion with respect to one or more Eurodollar Loans but such Loans have not yet been made, continued or converted, such notification shall be deemed to be void and the Borrower may borrow Loans of another type by giving a substitute Notice of Borrowing or Conversion pursuant to Section 2.2 hereof.

Upon such date as shall be specified in such notice (which shall not be earlier than the date such notice is given) the Borrower shall forthwith prepay all outstanding Eurodollar Loans, together with interest thereon and any amounts required to be paid pursuant to Section 2.13, and may borrow a Loan of another type in accordance with Section 2.1 hereof by giving a Notice of Borrowing or Conversion pursuant to Section 2.2 hereof.

(b) In case the adoption of or any change in any law, regulation, treaty or official directive or the interpretation or application thereof by any court or by any governmental authority charged with the administration thereof or the compliance with any guideline or request of any central bank or other governmental authority (whether or not having the force of law):

(i) subjects the Bank to any tax with respect to payments of principal or interest or any other amounts payable hereunder by the Borrower or otherwise with respect to the transactions contemplated hereby (except for taxes on the overall net income of the Bank imposed by the United States of America or any political subdivision thereof or any taxes imposed in substitution or replacement for taxes on the overall net income of the Bank), or

(ii) imposes, modifies or deems applicable any deposit insurance, reserve, special deposit or similar requirement against assets held by, or deposits in or for the account of, or loans by, the Bank (other than such requirements as are already included in the determination of the Adjusted Eurodollar Rate), or

(iii) imposes upon the Bank any other condition with respect to its or the Borrower's performance under this Agreement,

and the result of any of the foregoing is to increase the cost to the Bank, reduce the income receivable by the Bank or impose any expense upon the Bank with respect to any Loans, the Bank shall notify the Borrower thereof. The Borrower agrees to pay to the Bank the amount of such increase in cost, reduction in income or additional expense as and when such cost, reduction or expense is incurred or determined, upon presentation by the Bank of a statement in the amount and setting forth the Bank's calculation thereof, which statement shall be deemed true and correct absent manifest error.

2.9. Capital Requirements. If after the date hereof the Bank determines that (i) the adoption of or change in any law, rule, regulation or guideline regarding capital requirements for banks or bank holding companies, or any change in the interpretation or application thereof by any governmental authority charged with the administration thereof, or (ii) compliance by the Bank or its parent bank holding company with any guideline, request or directive of any such entity regarding capital adequacy (whether or not having the force of law), has the effect of reducing the return on the Bank's or such holding company's capital as a consequence of the Bank's commitment to make Loans hereunder to a level below that which the Bank or such holding company could have achieved but for such adoption, change or compliance (taking into consideration the Bank's or such holding company's then existing policies with respect to capital adequacy and assuming the full utilization of such entity's capital) by any amount deemed by the Bank to be material, then the Bank shall notify the Borrower thereof. The Borrower agrees to pay to the Bank the amount of such reduction in the return on capital as and when such reduction is determined, upon presentation by the Bank of a statement in the amount and setting forth the Bank's calculation thereof, which statement shall be deemed true and correct absent manifest error. In determining such amount, the Bank may use any reasonable averaging and attribution methods.

2.10. Payments and Prepayments of the Loans. The Loans may be prepaid at any time, without premium or penalty, in minimum amounts of $1,000,000 but with accrued interest to the date of payment (i) in the case of Eurodollar Loans, on the last day of any applicable Interest Period and upon three Business Days' notice, and (ii) in the case of Base Rate Loans, at any time upon one Business Day's notice. No prepayment of the Loans shall affect the Commitment Amount or impair the Borrower's right to borrow as set forth in Section 2.1.

2.11. Method of Payment. All payments and prepayments of principal and all payments of interest, fees and other amounts payable hereunder shall be made by the Borrower to the Bank at its head office in immediately available funds, on or before 1:00 p.m. (Boston, Massachusetts time) on the due date thereof, free and clear of, and without any deduction or withholding for, any taxes or other payments. The Bank may, and the Borrower hereby authorizes the Bank to, debit the amount of any payment not made by such time to the demand deposit account of the Borrower with the Bank, if any.

2.12. Overdue Payments. Overdue principal (whether at maturity, by reason of acceleration or otherwise) and, to the extent permitted by applicable law, overdue interest and fees or any other amounts payable hereunder or under the Note shall bear interest from and including the due date until paid, compounded daily and payable on demand, at a rate per annum equal to (i) if such due date occurs prior to the end of an Interest Period, 1% above the interest rate applicable to such Loan for such Interest Period until the expiration of such Interest Period, and thereafter, 1% above the Base Rate; and (ii) in all other cases, 1% above the rate then applicable to Base Rate Loans.

2.13. Payments Not at End of Interest Period. If the Borrower for any reason makes any payment of principal of any Eurodollar Loan on any day other than the last day of an Interest Period applicable to such Eurodollar Loan, or fails to borrow, continue or convert to a Eurodollar Loan after giving a Notice of Borrowing or Conversion pursuant to Section 2.2, or if any Eurodollar Loan is accelerated pursuant to Section 7.2(b), the Borrower shall pay to the Bank an amount computed pursuant to the following formula:

$$L = \frac{(R - T) \times P \times D}{360}$$

L = amount payable to the Bank
R = interest rate on such Loan
T = effective interest rate per annum at which any readily marketable bond or other obligation of the United States, selected at the Bank's sole discretion, maturing on or near the last day of

the then applicable Interest Period of such Loan and in approximately the same amount as such Loan can be purchased by the Bank on the day of such payment of principal or failure to borrow or continue or convert

P = the amount of principal prepaid or the amount of the requested Loan

D = the number of days remaining in the Interest Period as of the date of such payment or the number of days of the requested Interest Period

The Borrower shall pay such amount upon presentation by the Bank of a statement setting forth the amount and the Bank's calculation thereof, which statement shall be deemed true and correct absent manifest error.

2.14. Computation of Interest and Fees. Interest and all fees payable hereunder shall be computed daily on the basis of a year of 360 days and paid for the actual number of days for which due. If the due date for any payment of principal is extended by operation of law, interest shall be payable for such extended time. If any payment required by this Agreement becomes due on a day that is not a Business Day such payment may be made on the next succeeding Business Day (unless, in the case of Eurodollar Loans, such next succeeding Business Day falls in the next calendar month, in which case payment shall be due on the preceding Business Day), and such extension or reduction shall be included in computing interest in connection with such payment.

SECTION III

CONDITIONS OF LOANS

3.1. Conditions Precedent to Initial Loan. The obligation of the Bank to make its initial Loan is subject to the condition precedent that the Bank shall have received, in form and substance satisfactory to the Bank and its counsel, the following:

(a) this Agreement and the Note, duly executed by the Borrower;

(b) a certificate of the Secretary or an Assistant Secretary of the Borrower with respect to resolutions of the Board of Directors of the Borrower authorizing the execution and delivery of this Agreement and the Note and identifying the officer(s) authorized to execute, deliver and take all other actions required under this Agreement, and providing specimen signatures of such officers;

(c) the certificate of incorporation of the Borrower and all amendments and supplements thereto, filed in the office of the Secretary of State of New York, each certified by the Secretary or an

Assistant Secretary of the Borrower as being a true and correct copy thereof;

(d) the Bylaws of the Borrower and all amendments and supplements thereto, certified by the Secretary or an Assistant Secretary as being a true and correct copy thereof as currently in effect;

(e) an opinion addressed to it from Richard A. Lammert,, General Counsel of the Borrower, substantially in the form of Exhibit G hereto; and

(f) such other documents, and completion of such other matters, as counsel for the Bank may deem necessary or appropriate.

3.2. Conditions Precedent to all Loans. The obligation of the Bank to make each Loan, including the initial Loan, or continue or convert Loans to Loans of another type, is further subject to the following conditions:

(a) timely receipt by the Bank of the Notice of Borrowing or Conversion as provided in Section 2.2;

(b) the representations and warranties contained in Section IV shall be true and accurate in all material respects on and as of the date of such Notice of Borrowing or Conversion and on the effective date of the making, continuation or conversion of each Loan as though made at and as of each such date (except to the extent that such representations and warranties expressly relate to an earlier date), and no Default shall have occurred and be continuing, or would result from such Loan;

(c) the resolutions referred to in Section 3.1(b) shall remain in full force and effect; and

(d) no change shall have occurred in any law or regulation or interpretation thereof that, in the opinion of counsel for the Bank, would make it illegal or against the policy of any governmental agency or authority for the Bank to make Loans hereunder, provided that the Bank shall so advise the Borrower in writing, setting forth the basis of such opinion (but only if the Bank in its sole discretion believes that it may then disclose such information).

The making of each Loan shall be deemed to be a representation and warranty by the Borrower on the date of the making, continuation or conversion of such Loan as to the accuracy of the facts referred to in subsection (b) of this Section 3.2.

SECTION IV

REPRESENTATIONS AND WARRANTIES

In order to induce the Bank to enter into this Agreement and to make Loans hereunder, the Borrower represents and warrants to the Bank that:

4.1. Organization and Qualification. Each of the Borrower and its Subsidiaries (a) is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, (b) has all requisite corporate power to own its property and conduct its business as now conducted and as presently contemplated and (c) is duly qualified and in good standing as a foreign corporation and is duly authorized to do business in each jurisdiction where the nature of its properties or business requires such qualification.

4.2. Corporate Authority. The execution, delivery and performance of this Agreement and the Note and the transactions contemplated hereby are within the corporate power and authority of the Borrower and have been authorized by all necessary corporate proceedings, and do not and will not (a) require any consent or approval of the stockholders of the Borrower, (b) contravene any provision of the charter documents or by-laws of the Borrower or any law, rule or regulation applicable to the Borrower, (c) contravene any provision of, or constitute an event of default or event that, but for the requirement that time elapse or notice be given, or both, would constitute an event of default under, any other agreement, instrument, order or undertaking binding on the Borrower, or (d) result in or require the imposition of any Encumbrance on any of the properties, assets or rights of the Borrower.

4.3. Valid Obligations. This Agreement and the Note and all of their respective terms and provisions are the legal, valid and binding obligations of the Borrower, enforceable in accordance with their respective terms except as limited by bankruptcy, insolvency, reorganization, moratorium or other laws affecting the enforcement of creditors' rights generally, and except as the remedy of specific performance or of injunctive relief is subject to the discretion of the court before which any proceeding therefor may be brought.

4.4. Consents or Approvals. The execution, delivery and performance of this Agreement and the Note and the transactions contemplated herein do not require any approval or consent of, or filing or registration with, any governmental or other agency or authority, or any other party.

4.5. Title to Properties; Absence of Encumbrances. Each of the Borrower and its Subsidiaries has good and marketable title to all of the properties, assets and rights of every kind and nature now purported to be owned by it, including, without limitation, such properties, assets and rights as are reflected in the financial statements referred to in Section 4.6 (except such properties, assets or rights as have been disposed of in the ordinary course of business since the date thereof), free from all Encumbrances except Permitted Encumbrances or those Encumbrances disclosed in Exhibit C hereto, and, except as so disclosed, free from all defects of title that might materially adversely affect such properties, assets or rights, taken as a whole.

4.6. Financial Statements. The Borrower has furnished the Bank its consolidated balance sheet as of December 31, 1994 and its consolidated statements of income, changes in stockholders' equity and cash flow for the fiscal year then ended, and related footnotes, audited and certified by Price Waterhouse. The Borrower has also furnished the Bank its consolidated balance sheet as of June 30, 1995 and its consolidated statements of income, changes in stockholders' equity and cash flow for the fiscal quarter then ended, certified by the principal financial officer of the Borrower but subject, however, to normal, recurring year-end adjustments that shall not in the aggregate be material in amount. All such financial statements were prepared in accordance with generally accepted accounting principles or regulatory accounting principles, as applicable, applied on a consistent basis throughout the periods specified and present fairly the financial position of the Borrower and its Subsidiaries as of such dates and the results of the operations of the Borrower and its Subsidiaries for such periods. There are no liabilities, contingent or otherwise, not disclosed in such financial statements that involve a material amount.

4.7. Changes. Since the date of the most recent financial statements referred to in Section 4.6, there have been no changes in the assets, liabilities, financial condition, business or prospects of the Borrower or any of its Subsidiaries other than changes in the ordinary course of business, the effect of which has not, in the aggregate, been materially adverse.

4.8. Defaults. As of the date of this Agreement, no Default exists.

4.9. Taxes. The Borrower and each Subsidiary have filed all federal, state and other tax returns required to be filed, within the applicable filing due dates (including any extensions of such dates); and all taxes, assessments and other governmental charges due from the Borrower and each Subsidiary have been fully paid. The Borrower and each Subsidiary have established on their books reserves adequate for the payment of all federal, state and other tax liabilities.

4.10. Litigation. Except as set forth on Exhibit D hereto, there is no litigation, arbitration, proceeding or investigation pending, or, to the knowledge of the Borrower's or any Subsidiary's officers, threatened, against the Borrower or any Subsidiary that, if adversely determined, could, in the opinion of counsel for the Borrower, result in a judgment in excess of $10,000,000 not adequately covered by insurance or as to which adequate reserves are not being maintained, could result in a forfeiture of all or any substantial part of the property of the Borrower or its Subsidiaries, or could otherwise have a material adverse effect on the assets, business or prospects of the Borrower or any Subsidiary.

4.11. Use of Proceeds. No portion of any Loan is to be used for the "purpose of purchasing or carrying" any "margin stock" as such terms are used in Regulations U and X of the Board of Governors of the Federal Reserve System, 12 C.F.R. 221 and 224, as amended; and following the application of the proceeds of each Loan, the value of all "margin stock" of the Borrower will not exceed 25% of the value of the total assets of the Borrower that are subject to the restrictions set forth in Section 6.1 and 6.2.

4.12. Subsidiaries. As of the date of this Agreement, all the Subsidiaries of the Borrower are listed on Exhibit E hereto. The Borrower or a Subsidiary of the Borrower is the owner, free and clear of all liens and encumbrances, of all of the issued and outstanding stock of each Subsidiary. All shares of such stock have been validly issued and are fully paid and nonassessable, and no rights to subscribe to any additional shares have been granted, and no options, warrants or similar rights are outstanding.

4.13. Investment Company Act, etc. Neither the Borrower nor any of its Subsidiaries is subject to regulation under the Investment Company Act of 1940, as amended, the Public Utility Holding Company Act of 1935, as amended, or any other statute or regulation that limits its ability to incur indebtedness for money borrowed.

4.14. Compliance with ERISA. The Borrower and each member of the Controlled Group have fulfilled their obligations under the minimum funding standards of ERISA and the Code with respect to each Plan and are in compliance in all material respects with the applicable provisions of ERISA and the Code, and have not incurred any liability to the PBGC or a Plan under Title IV of ERISA; and no "prohibited transaction" or "reportable event" (as such terms are defined in ERISA) has occurred with respect to any Plan.

4.15. Environmental Matters. The Borrower and each of its Subsidiaries are in compliance, in all material respects, with all Environmental Laws. No demand, claim, notice, suit, suit in equity, action, administrative action, investigation or inquiry arising under, relating to or in connection with any Environmental Laws is pending or threatened against the Borrower or any of its Subsidiaries, any real property in which the Borrower or any such Subsidiary holds or, to the Borrower's knowledge, has held, an interest or any past or present operation of the Borrower or any such Subsidiary, other than any such proceedings that will not have a material adverse effect on the financial condition, business, operations or prospects of the Borrower or the Borrower and its Subsidiaries on a consolidated basis. Neither the Borrower nor any of its Subsidiaries (i) is the subject of any federal or state investigation evaluating whether any remedial action is needed to respond to a release of any Hazardous Materials or other wastes into the environment, (ii) has received any notice of any Hazardous Materials or other wastes in or upon any of its properties in violation of any Environmental Laws, or (iii) knows of any basis for any such investigation, notice or violation, except as disclosed to the Bank on Exhibit D, and as to such matters disclosed on such Exhibit, none will have a material adverse effect on the financial condition, business, operations or prospects of the Borrower or the Borrower and its Subsidiaries on a consolidated basis.

SECTION V

AFFIRMATIVE COVENANTS

So long as the Bank has any commitment to lend hereunder or any Loan or other Obligation hereunder remains outstanding, the Borrower covenants as follows:

5.1. Financial Statements and other Reporting Requirements. The Borrower shall furnish to the Bank:

(a) as soon as available to the Borrower, but in any event within 100 days after the end of each of its fiscal years, a consolidated balance sheet as of the end of such year, and the related consolidated and consolidating statements of income, changes in stockholders' equity and cash flow for such year, audited and certified by Price Waterhouse (or other independent certified public accountants of national standing selected by the Borrower);

(b) as soon as available to the Borrower, but in any event within 55 days after the end of each of its fiscal quarters, (i) the consolidated balance sheet as of the end of such quarter, and a related consolidated statements of income and cash flow for the period then ended, certified by the chief financial officer of the Borrower but subject, however, to normal, recurring year-end adjustments that shall not in the aggregate be material in amount, and (ii) a Call Report for the Borrower (on a parent only basis) and for each of the Borrower's banking subsidiaries for the period then ended, certified by the cashier or other authorized officer of each such Subsidiary, in the forms required to be filed by the Borrower and each such Subsidiary by the FFIEC;

(c) concurrently with the delivery of each financial statement pursuant to subsections (a) and (b) of this Section 5.1, a report in substantially the form of Exhibit F hereto signed on behalf of the Borrower by its chief financial officer;

(d) promptly after the same are available, copies of all proxy statements, financial statements and reports as the Borrower shall send to its stockholders or as the Borrower may file with the Securities and Exchange Commission;

(e) if and when the Borrower gives or is required to give notice to the PBGC of any "Reportable Event" (as defined in Section 4043 of ERISA) with respect to any Plan that might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that any member of the Controlled Group or the plan administrator of any Plan has given or is required to give notice of any such Reportable Event, a copy of the notice of such Reportable Event given or required to be given to the PBGC;

(f) immediately upon becoming aware of the existence of any condition or event that constitutes a Default, written notice thereof specifying the nature and duration thereof and the action being or proposed to be taken with respect thereto;

(g) promptly upon becoming aware of any litigation or of any investigative proceedings by a governmental agency or authority commenced or threatened against the Borrower or any of its Subsidiaries, the outcome of which would or might, in the opinion of counsel for the Borrower, have a materially adverse effect on the assets, business or prospects of the Borrower or the Borrower and its Subsidiaries on a consolidated basis, written notice thereof and the action being or proposed to be taken with respect thereto;

(h) promptly upon becoming aware of any investigative proceedings by a governmental agency or authority commenced or threatened against the Borrower or any of its Subsidiaries regarding any potential violation of Environmental Laws or any spill, release, discharge or disposal of any Hazardous Material, the outcome of which would or might, in the opinion of counsel for the Borrower, have a materially adverse effect on the assets, business or prospects of the Borrower or the Borrower and its Subsidiaries on a consolidated basis, written notice thereof and the action being or proposed to be taken with respect thereto; and

(i) from time to time, such other financial data and information about the Borrower or its Subsidiaries as the Bank may reasonably request.

5.2. Conduct of Business. Each of the Borrower and its Subsidiaries shall:

(a) duly observe and comply in all material respects with all applicable laws and valid requirements of any governmental authorities relative to its corporate existence, rights and franchises, to the conduct of its business and to its property and assets (including without limitation all Environmental Laws and ERISA), and shall maintain and keep in full force and effect all licenses and permits necessary in any material respect to the proper conduct of its business; and

(b) maintain its corporate existence; and

(c) engage only in business activities permitted for bank holding companies and their subsidiaries under applicable law.

5.3. Maintenance and Insurance. Each of the Borrower and its Material Subsidiaries shall maintain its properties in good repair, working order and condition as required for the normal conduct of its business, and shall at all times maintain liability and casualty insurance with financially sound and reputable insurers in such amounts as the officers of the Borrower in the exercise of their reasonable judgment deem to be adequate.

5.4. Taxes. The Borrower shall pay or cause to be paid all taxes, assessments or governmental charges on or against it or any of its Subsidiaries or its or their properties on or prior to the time when they become due; provided that this covenant shall not apply to any tax, assessment or charge that is being contested in good faith by appropriate proceedings and with respect to which adequate reserves have been established and are being maintained in accordance with generally accepted accounting principles.

5.5. Inspection by the Bank. The Borrower shall permit the Bank or its designees, at reasonable times and upon reasonable notice (or if a Default shall have occurred and is continuing, at any time and without prior notice), to (i) visit and inspect the properties of the Borrower and its Material Subsidiaries, (ii) examine and make copies of and take abstracts from the books and records of the Borrower and its Material Subsidiaries, and (iii) discuss the affairs, finances and accounts of the Borrower and its Material Subsidiaries with their appropriate officers, employees and accountants. In handling such information the Bank shall exercise the same degree of care that it exercises with respect to its own proprietary information of the same types to maintain the confidentiality of any non-public information thereby received or received pursuant to this Agreement except that disclosure of such information may be made (i) to the subsidiaries or affiliates of the Bank in connection with their present or prospective business relations with the Borrower, subject to the same degree of care and confidentiality required of the Bank by this Section 5.5, (ii) to prospective permitted transferees or purchasers of an interest in the Loans, (iii) as required by law, regulation, rule or order, subpoena, judicial order or similar order and (iv) as may be required in connection with the examination, audit or similar investigation of the Bank.

5.6. Maintenance of Books and Records. Each of the Borrower and its Subsidiaries shall keep adequate books and records of account, in which true and complete entries will be made reflecting all of its business and financial transactions, and such entries will be made in accordance with generally accepted accounting principles or regulatory accounting principles, as applicable, consistently applied and applicable law.

5.7. Further Assurances. At any time and from time to time the Borrower shall, and shall cause each of its Subsidiaries to, execute and deliver such further instruments and take such further action as may reasonably be requested by the Bank to effect the purposes of this Agreement and the Note.

SECTION VI

NEGATIVE COVENANTS

So long as the Bank has any commitment to lend hereunder or any Loan or other Obligation hereunder remains outstanding, the Borrower covenants as follows:

6.1. Encumbrances. Neither the Borrower nor any of its Material Subsidiaries shall create, incur, assume or suffer to exist any mortgage, pledge, security interest, lien or other charge or encumbrance, including the lien or retained security title of a conditional vendor upon or with respect to any of its property or assets ("Encumbrances"), or assign or otherwise convey any right to receive income, including the sale or discount of accounts receivable with or without recourse, except the following ("Permitted Encumbrances"):

(a) Encumbrances in favor of the Bank or any of its affiliates;

(b) Encumbrances existing as of the date of this Agreement and disclosed in Exhibit C hereto;

(c) liens for taxes, fees, assessments and other governmental charges to the extent that payment of the same may be postponed or is not required in accordance with the provisions of Section 5.4;

(d) landlords' and lessors' liens in respect of rent not in default or liens in respect of pledges or deposits under workmen's compensation, unemployment insurance, social security laws, or similar legislation (other than ERISA) or in connection with appeal and similar bonds incidental to litigation; mechanics', laborers' and materialmen's and similar liens, if the obligations secured by such liens are not then delinquent; liens securing the performance of bids, tenders, contracts (other than for the payment of money); and statutory obligations incidental to the conduct of its business and that do not in the aggregate materially detract from the value of its property or materially impair the use thereof in the operation of its business;

(e) judgment and other similar liens arising in connection with court proceedings, provided that the execution or other enforcement of such judgment or similar lien is effectively stayed and the claims secured thereby are being actively contested in good faith and by appropriate proceedings;

(f) rights of lessors under capitalized leases;

(g) Encumbrances securing indebtedness for borrowed money incurred in connection with the purchase of real or personal property used in its business , provided that any such Encumbrances shall not extend to assets of the Borrower or any such Subsidiary not financed by such indebtedness;

(h) easements, rights of way, restrictions and other similar charges or Encumbrances relating to real or personal property and not interfering in a material way with the ordinary conduct of its business;

(i) Encumbrances on its assets created in connection with the refinancing of indebtedness secured by Permitted Encumbrances on such assets, provided that the amount of indebtedness secured by any such Encumbrance shall not be increased as a result of such refinancing and no such Encumbrance shall extend to property and assets of the Borrower or any such Subsidiary not encumbered prior to any such refinancing;

(j) Encumbrances incurred in connection with repurchase agreements; liens incurred in connection with asset securitizations; Encumbrances granted to a Federal Reserve Bank or a Federal Home Loan Bank to secure advances or other transactions incidental to the conduct of the banking business of the Borrower or any such Subsidiary, including loans to meet liquidity requirements;

(k) Encumbrances securing obligations of a Subsidiary to the Borrower or another Subsidiary; and

(l) other Encumbrances which are incidental to the conduct of its business on an ongoing basis and that do not in the aggregate have a material adverse effect on its assets, business or prospects.

6.2. Merger; Consolidation; Sale or Lease of Assets. The Borrower shall not sell or otherwise dispose of all or any substantial part of its shares of the capital stock of Manufacturers and Traders Trust Company, M&T Bank, National Association, The East New York Savings Bank or M&T Real Estate, Inc.; neither the Borrower nor any of its Material Subsidiaries shall sell, lease or otherwise dispose of all or any substantial portion of any other assets other than in the ordinary course of business, or liquidate, merge or consolidate with any other person or entity; provided that the Borrower may merge or consolidate into or with another person or entity if no Default has occurred and is continuing or would result from such merger or consolidation and if the Borrower is the surviving company; and provided, further, that any Subsidiary of the Borrower may merge or consolidate into or with (i) the Borrower if the Borrower is the surviving company, or (ii) any other Subsidiary of the Borrower; and provided, further, that any Subsidiary that is not a Material Subsidiary may be liquidated, merged or consolidated into or with another person or entity if the assets of such Subsidiary do not represent more than 10% of the consolidated total assets of the Borrower.

6.3. Stock of Subsidiaries. The Borrower shall not permit any of its Material Subsidiaries to issue any additional shares of its capital stock or other equity securities which contain general voting powers, any options therefor or any securities convertible thereto other than to the Borrower or another Material Subsidiary. Neither the Borrower nor any of its Material Subsidiaries shall sell, transfer or otherwise dispose of any of the capital stock or other equity securities of a Material Subsidiary which contain general voting powers, except (i) to the Borrower or any of its wholly-owned Subsidiaries, (ii) in connection with a transaction permitted by Section 6.2 ; (iii) to an officer, employee or director of the Borrower or any Material Subsidiary; or (iv) to other persons or entities, provided that such dispositions do not constitute more than 5% of the total number of shares of capital stock or other equity securities outstanding of such Subsidiary which contain general voting powers.

6.4. Investments. Neither the Borrower nor any of its Material Subsidiaries shall make or maintain any Investments other than (i) investments permitted by applicable banking laws, regulations or regulatory pronouncements; (ii) existing Investments in Subsidiaries and new Investments in such Subsidiaries in the ordinary course of its business; and (iii) acquisitions of new Subsidiaries permitted by Section 6.5.

6.5. Acquisitions. Neither the Borrower nor any of its Material Subsidiaries shall acquire all or a majority of the voting shares or all or a substantial portion of the assets of any person or entity unless (i) the consolidated total assets of the Borrower (as would be reported in the Borrower's financial statements prepared in accordance with FFIEC requirements) before giving effect to such acquisition would constitute at least 70% of the consolidated total assets of the Borrower after giving effect to such acquisition or (ii) the consolidated total assets of the Borrower before giving effect to such acquisition would constitute less than 70% but at least 50% of the consolidated total assets of the Borrower and the Borrower is able to demonstrate to the Bank's reasonable satisfaction that the consolidated total assets of the Borrower before giving effect to such acquisition would constitute at least 70% of the consolidated total assets of the Borrower within six months after giving effect to such acquisition..

6.6. ERISA. Neither the Borrower nor any member of the Controlled Group shall permit any Plan maintained by it to (i) engage in any "prohibited transaction" (as defined in Section 4975 of the Code, (ii) incur any "accumulated funding deficiency" (as defined in Section 302 of ERISA) whether or not waived, or (iii) terminate any Plan in a manner that could result in the imposition of a lien or encumbrance on the assets of the Borrower or any of its Subsidiaries pursuant to Section 4068 of ERISA.

6.7. Double Leverage Ratio. The Borrower shall not permit its Double Leverage Ratio to be greater than 1.25 to 1.0. As used in this Section 6.6, "Double Leverage Ratio" means the ratio of (i) the amount of equity Investments of the Borrower in its Subsidiaries to (ii) the consolidated stockholders' equity of the Borrower, in each case as reported in the Borrower's financial statements prepared in accordance with FFIEC requirements.

6.8. Nonperforming Asset Coverage Ratio. The Borrower shall not permit its Nonperforming Asset Coverage Ratio to be less than 5.0 to 1.0. As used in this Section 6.7, "Nonperforming Asset Coverage Ratio" means the ratio of (i) consolidated stockholders' equity of the Borrower and its Subsidiaries plus Loan Loss Reserves to (ii) Nonperforming Assets; "Loan Loss Reserves" means the loan loss reserves and allocated transfer risk reserves of the Borrower, as shown on the financial statements of the Borrower prepared in accordance with FFIEC requirements; and "Nonperforming Assets" means the loans, leases and other assets of the Borrower that are not accruing interest or are 90 days or more past due in the payment of principal or interest, plus "other real estate owned" by the Borrower, in each case as shown on the financial statements of the Borrower prepared in accordance with FFIEC requirements.

6.9. Adequate Capitalization of Banking Subsidiaries. The Borrower shall not permit any of its banking Subsidiaries to be less than "Adequately Capitalized", as such term is defined in Appendix A to Regulation H of the Board of Governors of the Federal Reserve System, 12 C.F.R. 208, as amended.

6.10. Minimum Tangible Net Worth. The Borrower shall not permit its Tangible Net Worth to be less than the sum of (i) $635,000,000 plus (ii) 35% of consolidated net income of the Borrower and its Subsidiaries for each fiscal quarter ending after June 30, 1995 (without giving effect to any net loss in any fiscal quarter) plus (iii) 100% of the net cash proceeds received by the Borrower from the sale of its equity securities after June 30, 1995. As used in this Section 6.9, "Tangible Net Worth" means the consolidated net worth of the Borrower and its Subsidiaries minus any amounts attributable to those assets which are required to be deducted from "tier 1 capital" in accordance with Section II.B.1 of Appendix A to Regulation Y of the Board of Governors of the Federal Reserve System, 12 C.F.R. 225, as amended.

SECTION VII

DEFAULTS

7.1. Events of Default. There shall be an Event of Default hereunder if any of the following events occurs:

(a) the Borrower shall fail to pay when due (i) any amount of principal of any Loans, or (ii) any amount of interest thereon or any fees or expenses payable hereunder or under the Note within five days of the due date therefor; or

(b) The Borrower shall fail to perform any term, covenant or agreement contained in Sections 5.1(f), 5.5, 6.2, 6.3, 6.5 or 6.7 through 6.10; or

(c) the Borrower shall fail to perform any covenant contained in Sections 5.1(e), 5.1(g), 5.1(h), 5.2, 6.1, 6.4 or 6.6 and such failure shall continue for 30 days; or

(d) the Borrower shall fail to perform any term, covenant or agreement (other than in respect of subsections 7.1(a) through (c) hereof) contained in this Agreement and such default shall continue for 30 days after notice thereof has been sent to the Borrower by the Bank; or

(e) any representation or warranty of the Borrower made in this Agreement or in the Note or any other documents or agreements executed in connection with the transactions contemplated by this Agreement or in any certificate delivered hereunder shall prove to have been false in any material respect upon the date when made or deemed to have been made; or

(f) there shall occur any material adverse change in the assets, liabilities, financial condition, business or prospects of the Borrower or the Borrower and its Subsidiaries, taken as a whole, as determined by the Bank acting in good faith; or

(g) the Borrower or any of its Material Subsidiaries shall fail to pay at maturity, or within any applicable period of grace, any indebtedness in excess of $10,000,000 in the aggregate for borrowed money or for the use of real or personal property, or fail to observe or perform any term, covenant or agreement evidencing or securing such indebtedness, or relating to such use of real or personal property, the result of which failure is to permit the holder or holders of such obligations to cause such indebtedness to become due prior to its stated maturity upon delivery of required notice, if any; or

(h) the Borrower or any of its Material Subsidiaries shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or similar official of itself or of all or a substantial part of its property, (ii) be generally not paying its debts as such debts become due, (iii) make a general assignment for the benefit of its creditors, (iv) commence a voluntary case under the Federal Bankruptcy Code (as now or hereafter in effect), (v) take any action or commence any case or proceeding under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts, or any other law providing for the relief of debtors, (vi) fail to contest in a timely or appropriate manner, or acquiesce in writing to, any petition filed against it in an involuntary case under the Federal Bankruptcy Code or other law, (vii) take any action under the laws of its jurisdiction of incorporation or organization similar to any of the foregoing, or (viii) take any corporate action for the purpose of effecting any of the foregoing; or

(i) a proceeding or case shall be commenced, without the application or consent of the Borrower or any of its Material Subsidiaries in any court of competent jurisdiction, seeking (i) the liquidation, reorganization, dissolution, winding up, or composition or readjustment of its debts, (ii) the appointment of a trustee, receiver, custodian, liquidator or the like of it or of all or any substantial part of its assets, or (iii) similar relief in respect of it, under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts or any other law providing for the relief of debtors, and such proceeding or case shall continue undismissed, or unstayed and in effect, for a period of 30 days; or an order for relief shall be entered in an involuntary case under the Federal Bankruptcy Code, against the Borrower or such Subsidiary; or action under the laws of the jurisdiction of incorporation or organization of the Borrower or any of its Material Subsidiaries similar to any of the foregoing shall be taken with respect to the Borrower or such Subsidiary and shall continue unstayed and in effect for any period of 30 days; or

(j) a judgment or order for the payment of money shall be entered against the Borrower or any of its Subsidiaries by any court, or a warrant of attachment or execution or similar process shall be issued or levied against property of the Borrower or such Subsidiary, that in the aggregate exceeds $10,000,000 in value and such judgment, order, warrant or process shall continue undischarged or unstayed for 30 days; or

(k) the Borrower or any member of the Controlled Group shall fail to pay when due an amount or amounts aggregating in excess of $10,000,000 that it shall have become liable to pay to the PBGC or to a Plan under Title IV of ERISA; or notice of intent to terminate a Plan or Plans shall be filed under Title IV of ERISA by the Borrower, any member of the Controlled Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate or to cause a trustee to be appointed to administer any such Plan or Plans or a proceeding shall be instituted by a fiduciary of any such Plan or Plans against the Borrower and such proceedings shall not have been dismissed within 30 days thereafter; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any such Plan or Plans must be terminated; or

(l) any banking Subsidiary shall cease to be insured under the Federal Deposit Insurance Act and any rules and regulations issued thereunder, as from time to time supplemented or amended; or a cease and desist order shall be issued against the Borrower or any banking Subsidiary pursuant to 12 U.S.C. 1818(b) or (c) or any similar applicable provision of state law and any rules and regulations issued thereunder, as from time to time supplemented or amended; or

(m) the acquisition by any person or entity, or two or more persons or entities acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934) of 20% or more of the outstanding shares of voting stock of the Borrower; provided that this provision shall not apply to acquisitions of beneficial ownership by any director, officer, employee or employee benefit plan of the Borrower or any Subsidiary, nor to any of the foregoing who act in concert with any other person or entity.

7.2. Remedies. Upon the occurrence of an Event of Default described in subsections 7.1(h) and (i), immediately and automatically, and upon the occurrence of any other Event of Default, at any time thereafter while such Event of Default is continuing, at the Bank's option and upon the Bank's declaration:

(a) the Bank's commitment to make any further Loans hereunder shall terminate;

(b) the unpaid principal amount of the Loans together with accrued interest and all other Obligations hereunder shall become immediately due and payable without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived; and

(c) the Bank may exercise any and all rights it has under this Agreement, the Note or any other documents or agreements executed in connection herewith, or at law or in equity, and proceed to protect and enforce the Bank's rights by any action at law, in equity or other appropriate proceeding.

SECTION VIII

MISCELLANEOUS

8.1. Notices. Unless otherwise specified herein, all notices hereunder to any party hereto shall be in writing and shall be deemed to have been given when (i) delivered by hand, (ii) properly deposited in the mails postage prepaid, (iii) sent by telex, answerback received, or electronic facsimile transmission, or (iv) delivered to the telegraph company or overnight courier, in each case addressed to such party at its address indicated below:

If to the Borrower, at

FIRST EMPIRE STATE CORPORATION
One M&T Plaza
Buffalo, New York 14240

Attention: Gary Paul, Senior Vice President
Telephone: (716) 842-5130
Facsimile: (716) 842-5021

If to the Bank, at

THE FIRST NATIONAL BANK OF BOSTON
100 Federal Street MS 01-10-08
Boston, Massachusetts 02110

Attention: John B. Sinclair, Vice President
Telephone (617) 434-5045
Facsimile: (617) 434-1537

or at any other address specified by such party in writing.

8.2. Expenses. The Borrower will pay on demand up to $5,000 of reasonably allocated costs of the Bank's in-house legal counsel in connection with the preparation of this Agreement, the Note or any other documents or agreements executed in connection therewith. The Borrower will also pay on demand the reasonable expenses of the Bank in connection with the waiver or amendment of this Agreement, the Note or any other documents or agreements executed in connection therewith, or the administration, default or collection of the Loans or other Obligations or in connection with the Bank's exercise, preservation or enforcement of any of its rights, remedies or options thereunder, including, without limitation, fees and expenses of outside legal counsel or the allocated costs of in-house legal counsel, accounting, consulting, brokerage or other similar professional fees or expenses, and any fees or expenses associated with any travel or other costs relating to any appraisals or examinations conducted in connection with the Obligations.

8.3. Set-Off. (a) Regardless of the adequacy of any collateral or other means of obtaining repayment of the Obligations, any deposits, balances or other sums credited by or due from the head office of the Bank or any of its branch offices to the Borrower may, to the extent permitted by law, at any time and from time to time after the occurrence of an Event of Default hereunder, without notice to the Borrower or compliance with any other condition precedent now or hereafter imposed by statute, rule of law, or otherwise (all of which are hereby expressly waived) be set off, appropriated, and applied by the Bank against any and all Obligations of the Borrower to the Bank in such manner as the head office of the Bank or any of its branch offices in their sole discretion may determine, and the Borrower hereby grants the Bank a continuing security interest in such deposits, balances or other sums for the payment and performance of all such Obligations.

(b) In the event that the Bank is placed in receivership or enters a similar proceeding, the Borrower may, to the extent permitted by law, make any payment due to the Bank hereunder to the extent of finally collected unrestricted deposits of the Borrower held by the Bank, by giving notice to the Bank to apply such deposits to such Obligations. If the amount of such deposits is insufficient to pay such Obligations in full, the Borrower shall pay the balance of such deficiency in accordance with this Agreement.

8.4. Term of Agreement. This Agreement shall continue in full force and effect so long as the Bank has any commitment to make Loans hereunder or any Loan or any Obligation hereunder shall be outstanding.

8.5. No Waivers. No failure or delay by the Bank in exercising any right, power or privilege hereunder or under the Note or under any other documents or agreements executed in connection herewith shall operate as a waiver thereof; nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided herein and in the Note and such other documents and agreements are cumulative and not exclusive of any rights or remedies otherwise provided by agreement or law.

8.6. Governing Law. This Agreement and the Note shall be deemed to be contracts made under seal and shall be construed in accordance with and governed by the laws of The Commonwealth of Massachusetts (without giving effect to any conflicts of laws provisions contained therein).

8.7. Amendments. Neither this Agreement nor the Note nor any provision hereof or thereof may be amended, waived, discharged or terminated except by a written instrument signed by the Bank and, in the case of amendments, by the Borrower.

8.8. Binding Effect of Agreement. This Agreement shall be binding upon and inure to the benefit of the Borrower and the Bank and their respective successors and assigns; provided that the Borrower may not assign or transfer its rights or obligations hereunder. The Bank may sell or transfer its interests hereunder and under the Note with the prior written consent of the Borrower, or grant participations therein to participants not previously identified to the Bank in writing as impermissible transferees, without such consent. In the case of any such participation, the Borrower agrees that any such participant shall be entitled to the benefits of Sections 2.8, 2.9, 2.13 and 8.3 to the same extent as if such transferee or participant were the Bank hereunder, but only if the Bank would then be entitled to such benefits; provided the Borrower may, for all purposes of this Agreement, treat the Bank as the person entitled to exercise all rights hereunder and under the Note and to receive all payments with respect thereto.

8.9. Counterparts. This Agreement may be signed in any number of counterparts with the same effect as if the signatures hereto and thereto were upon the same instrument.

8.10. Partial Invalidity. The invalidity or unenforceability of any one or more phrases, clauses or sections of this Agreement shall not affect the validity or enforceability of the remaining portions of it.

8.11. Captions. The captions and headings of the various sections and subsections of this Agreement are provided for convenience only and shall not be construed to modify the meaning of such sections or subsections.

8.12. WAIVER OF JURY TRIAL. THE BANK AND THE COMPANY AGREE THAT NEITHER OF THEM NOR ANY ASSIGNEE OR SUCCESSOR SHALL (A) SEEK A JURY TRIAL IN ANY LAWSUIT, PROCEEDING, COUNTERCLAIM OR ANY OTHER ACTION BASED UPON, OR ARISING OUT OF, THIS AGREEMENT, THE NOTE, ANY RELATED DOCUMENTS OR AGREEMENTS OR THE DEALINGS OR THE RELATIONSHIP BETWEEN OR AMONG ANY OF

THEM, OR (B) SEEK TO CONSOLIDATE ANY SUCH ACTION WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. NEITHER THE BANK NOR THE COMPANY HAS AGREED WITH OR REPRESENTED TO THE OTHER THAT THE PROVISIONS OF THIS PARAGRAPH WILL NOT BE FULLY ENFORCED IN ALL INSTANCES.

8.13. Entire Agreement. This Agreement, the Note and the documents and agreements executed in connection herewith constitute the final agreement of the parties hereto and supersede any prior agreement or understanding, written or oral, with respect to the matters contained herein and therein.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized officers as of the day and year first above written.

FIRST EMPIRE STATE CORPORATION

By /s/ Gary S. Paul

Senior Vice President

THE FIRST NATIONAL BANK OF BOSTON

By /s/ John B. Sinclair

Vice President

EXHIBIT A

FIRST EMPIRE STATE CORPORATION

PROMISSORY NOTE

$25,000,000.00

November 24, 1995
Boston, Massachusetts

For value received, the undersigned hereby promises to pay to THE FIRST NATIONAL BANK OF BOSTON (the "Bank"), or order, at the head office of the Bank at 100 Federal Street, Boston, Massachusetts 02110, in lawful money of the United States of America and in immediately available funds, the principal amount of TWENTY FIVE MILLION and no/100 DOLLARS ($25,000,000) or such lesser amount as shall equal the principal amount outstanding on the Termination Date referred to in the below-mentioned Credit Agreement, and to pay interest on the unpaid principal balance hereof from time to time outstanding, at said office and in like money and funds, for the period commencing on the date hereof until paid in full, at the rates per annum and on the dates provided in the Credit Agreement. All principal remaining unpaid and any accrued but unpaid interest shall in any event be due and payable on the Termination Date.

This Note is issued pursuant to, and entitled to the benefits of, and is subject to, the provisions of a certain Revolving Credit Agreement dated as of November 24, 1995 by and between the undersigned and the Bank (herein, as the same may from time to time be amended or extended, referred to as the "Credit Agreement"), but neither this reference to the Credit Agreement nor any provision thereof shall affect or impair the absolute and unconditional obligation of the undersigned maker of this Note to pay the principal of and interest on this Note as herein provided.

In case an Event of Default (as defined in the Credit Agreement) shall occur, the aggregate unpaid principal of and accrued interest on this Note shall become or may be declared to be due and payable in the manner and with the effect provided in the Credit Agreement.

The undersigned may at its option prepay all or any part of the principal of this Note before maturity upon the terms provided in the Credit Agreement.

The undersigned maker hereby waives presentment, demand, notice of dishonor, protest and all other demands and notices in connection with the delivery, acceptance, performance and enforcement of this Note.

This instrument shall have the effect of an instrument executed under seal and shall be governed by and construed in accordance with the laws of The Commonwealth of Massachusetts (without giving effect to any conflicts of laws provisions contained therein).

FIRST EMPIRE STATE CORPORATION

By: /s/ Gary S. Paul

Senior Vice President

SCHEDULE I TO PROMISSORY NOTE

DATE	AMOUNT OF LOAN	TYPE OF LOAN EURODOLLAR OR BASE RATE	INTEREST RATE*	INTEREST PERIOD**	AMOUNT PAID	NOTATION MADE BY

- ---

- ---

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- -----------------------------
*   For Base Rate Loans, insert "Base Rate"
** For Eurodollar Loans only

EXHIBIT B

FIRST EMPIRE STATE CORPORATION

The First National Bank of Boston
100 Federal Street
Boston, Massachusetts 02110

Attention:

Re: Revolving Credit Agreement dated as of November 24, 1995

Gentlemen:

We refer to the Revolving Credit Agreement dated as of November 24, 1995 (the "Credit Agreement") between First Empire State Corporation and The First National Bank of Boston. Capitalized terms used herein without definition are used as defined in the Credit Agreement.

Pursuant to Section 2.2 of the Credit Agreement, the undersigned hereby confirms its request made on _______________, 19__ for a [Base Rate] [Eurodollar] Loan in the amount of $_____________ on ______________, 199_.

[The Interest Period applicable to said Loan will be [one] [two] [three] [six] months days.]*

[Said Loan represents a conversion of the [Base Rate] [Eurodollar] Loan in the same amount made on _________________.]**

Please disburse the proceeds of said Loan in immediately available funds to Account No. ________ at _____________.

The representations and warranties contained or referred to in Section IV of the Credit Agreement are true and accurate on and as of the effective date of the Loan as though made at and as of such date (except to the extent that such representations and warranties expressly relate to an earlier date); and no Default has occurred and is continuing or will result from the Loan.

FIRST EMPIRE STATE CORPORATION

Title:

- --------------------------
Date

- --------------------------
* To be inserted in any request for a Eurodollar Loan.
** To be inserted in any request for a conversion.

EXHIBIT C

FIRST EMPIRE STATE CORPORATION

ENCUMBRANCES

[None]

EXHIBIT D

FIRST EMPIRE STATE CORPORATION

LITIGATION; ENVIRONMENTAL MATTERS

[None]

EXHIBIT E

FIRST EMPIRE STATE CORPORATION

MATERIAL SUBSIDIARIES

Manufacturers and Traders Trust Company

M&T Bank, National Association

The East New York Savings Bank

CASH & GO, Inc.

Highland Lease Corporation

M&T Capital Corporation

M&T Credit Corporation

M&T Financial Corporation

M&T Mortgage Corporation

M&T Real Estate, Inc.

M&T Securities, Inc.

EXHIBIT F

FIRST EMPIRE STATE CORPORATION

REPORT OF CHIEF FINANCIAL OFFICER

FIRST EMPIRE CORPORATION (the "Borrower") HEREBY CERTIFIES that:

This Report is furnished pursuant to Section 5.1(d) of the Revolving Credit Agreement dated as of November 24, 1995 the "Credit Agreement") between the Borrower and THE FIRST NATIONAL BANK OF BOSTON. Unless otherwise defined herein, the terms used in this Report have the meanings given to them in the Credit Agreement.

As required by Section 5.1(a) and (b) of the Credit Agreement, the consolidated financial statements of the Borrower and its Subsidiaries for the [year/quarter] ended ____________, 19__ (the "Financial Statements"), prepared in accordance with generally accepted accounting principles consistently applied, accompany this Report. The Financial Statements present fairly the consolidated financial position of the Borrower and its Subsidiaries as at the date thereof and the consolidated results of operations of the Borrower and its Subsidiaries for the period covered thereby (subject only to normal recurring year-end adjustments which will not in the aggregate be material in amount).

The figures set forth in Schedule A for determining compliance by the Borrower with the financial covenants contained in the Credit Agreement are true and complete as of the date hereof.

The activities of the Borrower and its Subsidiaries during the period covered by the Financial Statements have been reviewed by the Chief Financial Officer or by employees or agents under his immediate supervision. Based on such review, to the best knowledge and belief of the Chief Financial Officer, and as of the date of this Report, no Default has occurred.*

WITNESS my hand this ____ day of ___________, 19__.

FIRST EMPIRE STATE CORPORATION

By: ________________________________
Chief Financial Officer

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

* If a Default has occurred, this paragraph is to be modified with an appropriate statement as to the nature thereof, the period of existence thereof and what action the Borrower has taken, is taking, or proposes to take with respect thereto.

SCHEDULE A
to
EXHIBIT F

FINANCIAL COVENANTS

Double Leverage Ratio (Section 6.7)

MAXIMUM PERMITTED:	1.25	:	1.00
	====		====

ACTUAL:

(i)	Consolidated equity Investments in Subsidiaries	$___________		
(ii)	Consolidated stockholders' equity	$___________		
(iii)	Double Leverage Ratio: line (i) divided by line (ii)		:	1.00
		====		====

Nonperforming Asset Coverage Ratio (Section 6.8)

MINIMUM REQUIRED:	5.0	:	1.00
	====		====

ACTUAL:

(i)	Consolidated stockholders' equity	$___________		
(ii)	Loan loss reserves	$___________		
(iii)	Non accrual and other past due loans and leases	$___________		
(iv)	Other real estate owned	$___________		
(v)	Nonperforming assets: line (iii) plus line (iv)	$		
		===========		
(vi)	Nonperforming Assets Coverage Ratio: [line (i) plus line (ii)] divided by line (v)		:	1.00
		====		====

Minimum Tangible Net Worth (Section 6.10)

REQUIRED:

(i)	Beginning balance	$635,000,000
(ii)	Plus: 35% of consolidated net income after 6/30/95	$___________
(iii)	Plus: 100% of net cash proceeds from sale of equity securities after 6/30/95	$___________
(iv)	Required Amount: line (i) plus line (ii) plus line (iii)	$ ===========

ACTUAL:

(i)	Consolidated stockholders' equity	$___________
(ii)	Less: Intangible assets	($___________)
(iii)	Total Tangible Net Worth (line (i) minus line (ii)	$ ============

WITNESS my hand this _______ day of ______________, 19__.

FIRST EMPIRE STATE CORPORATION

By: ________________________________
Chief Financial Officer

EXHIBIT G

FORM OF OPINION OF COUNSEL TO THE COMPANY

November 24, 1995

The First National Bank of Boston
100 Federal Street
Boston, Massachusetts 02110

RE: Revolving Credit Agreement dated as of November 24, 1995 between THE FIRST NATIONAL BANK OF BOSTON and FIRST EMPIRE STATE CORPORATION

Ladies and Gentlemen:

I am General Counsel of First Empire State Corporation (the "Borrower") and have acted as its legal counsel in connection with the preparation, execution and delivery of the Revolving Credit Agreement dated as of November 24, 1995 (the "Credit Agreement") between The First National Bank of Boston (the "Bank") and the Borrower pursuant to which the Borrower has executed and delivered to the Bank its Note in the principal amount of $25,000,000.00. All terms defined in the Credit Agreement shall have the same meanings herein.

I have examined executed counterparts of the Credit Agreement and the Note and originals, or copies, the authenticity of which has been established to my satisfaction, of such other documents, corporate records, agreements and instruments and certificates of public officials and officers of the Borrower as I have deemed necessary as the basis for the opinions herein expressed.

Based on the foregoing and having regard for legal considerations as I have deemed relevant, it is my opinion that:

1. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of New York, has all requisite corporate power to own its property and conduct its business as now conducted and is duly qualified and in good standing as a foreign corporation and duly authorized to do business in each jurisdiction wherein the nature of its properties or business requires such qualification, except where the failure to be so qualified would not have a material adverse effect on its business, financial condition, assets or properties taken as a whole.

2. The execution and delivery of the Credit Agreement and the Note and performance by the Borrower of its obligations thereunder and of the transactions contemplated thereby are within the corporate power and authority of the Borrower, and have been authorized by proper corporate proceedings and do not contravene any provision of law of the United States or its political subdivisions or the Certificate of Incorporation or Bylaws of the Borrower, or, to the best of my knowledge, contravene any provision of, or constitute an event of default or event which, with the lapse of time or the giving of notice, or both, would constitute an event of default under, any other agreement, instrument or undertaking binding on the Borrower.

3. The Credit Agreement and the Note have been duly executed and delivered by the Borrower. Although I have made no independent inquiry with respect to the matter, I know of no reason why the choice of law provisions of the Credit Agreement and the Note, which set forth Massachusetts law as the governing law, would not be enforced by the courts of the state of New York, as agreed upon by the parties. However, if the law of the state of New York is deemed to be the governing law, in whole or part, the Credit Agreement and the Note and all of the terms and provisions thereof are the legal, valid and binding obligations of the Borrower, enforceable in accordance with their respective terms except as limited by bankruptcy, insolvency, reorganization, moratorium or other laws affecting enforcement of creditors' rights generally, and except as the remedy of specific performance or of injunctive relief is subject to the discretion of the court before which any proceeding therefor may be brought.

4. The execution, delivery and performance of the Credit Agreement and the Note and the transactions contemplated thereby do not require any approval or consent of, or filing or registration with, any governmental or other agency or authority, or any other party.

5. Except as set forth on Exhibit D to the Credit Agreement, there is no litigation, proceeding or investigation pending, or, to the best of my knowledge after due inquiry, threatened, against the Borrower or any Subsidiary which, if adversely determined, could result in a judgment in excess of $10,000,000 which is not adequately covered by insurance or as to which adequate reserves are not being maintained or could otherwise have a material adverse effect on the assets, business or prospects of the Borrower or any Subsidiary.

6. Each Material Subsidiary of the Borrower is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, has all requisite corporate power to own its property and conduct its businesses as now conducted and is, to the best of my knowledge, duly qualified and in good standing as a foreign corporation and is duly authorized to do business in each jurisdiction where the nature of its properties or businesses requires such qualification, except where the failure to be so qualified would not have a material adverse effect on its business, financial condition, assets or properties taken as a whole.

7. As of the date of the Credit Agreement, all the Material Subsidiaries of the Borrower are listed on Exhibit E thereto. The Borrower is the record holder of all of the issued and outstanding stock of each of its Material Subsidiaries. All shares of such stock of Material Subsidiaries have been validly issued and are fully paid and nonassessable, and no rights to subscribe to any additional shares have been granted, and no options, warrants or similar rights are outstanding.

8. Neither the Borrower nor any Material Subsidiary is subject to regulation under the Investment Company Act of 1940, as amended, the Public Utility Holding Company Act of 1935, as amended, or any other statute or regulation that limits its ability to incur indebtedness for borrowed money.

9. I am aware of no state or local recording, franchise, stamp, documentary or other taxes or governmental charges or assessments required to be paid in connection with the execution, delivery, filing or recordation of, or as a condition to the enforcement of, the Credit Agreement and the Note or any of the transactions contemplated thereby.

Very truly yours,

Exhibit 10.8

SUPPLEMENTAL DEFERRED COMPENSATION AGREEMENT

THIS AGREEMENT, entered into this 21st day of July, 1994 by and between Manufacturers and Traders Trust (hereinafter referred to as the "Company") and Brian J. Hickey, an individual residing at 73 Caversham Woods, Pittsford, NY 14534 (hereinafter referred to as "Executive").

WITNESSETH, THAT:

WHEREAS, Executive is presently employed by the Company in a key executive position and possesses substantial talent, ability and unique business experience which has been and will continue to be a great value to the Company; and

WHEREAS, the Company desires to secure for itself the continued services of Executive and to provide certain additional retirement benefits for Executive in consideration of his past and future services;

IT IS NOW THEREFORE AGREED AS FOLLOWS:

1. DEFINITIONS. For purposes of this Agreement, the following terms shall be defined as set forth in this Section 1.

1.1 "Retirement Plan" shall mean the First Empire State Corporation Retirement Plan, as amended from time to time.

1.2 "Average Annual Compensation" and "Compensation" shall have the same meanings accorded to such words in the Retirement Plan, except that limits imposed by Internal Revenue code Section 401(a)(17) shall not apply, and further provided that until Executive has received Compensation for at least five (5) consecutive calendar years, Average Annual Compensation shall be based upon the calendar years during which Executive actually receives Compensation (Compensation received during such years, divided by the number of such years).

1.3 "Years of Service" shall have the same meaning accorded to such words in the Retirement Plan for vesting purposes.

1.4 "Accrued Pension Benefit" shall have the same meaning accorded to such words in the Retirement Plan.

1.5 "Benefit Accrual Years" shall have the same meaning accorded to such words in the Retirement Plan.

2. ELIGIBILITY FOR AND AMOUNT OF SUPPLEMENTAL RETIREMENT BENEFIT.

2.1 Termination of Employment Prior to Becoming Vested in the Retirement Plan. Upon Executive's termination of employment with no vested benefit under the Retirement Plan, except in the case of the Executive's termination by the Company for fraud, dishonesty, theft, or other unlawful actions, the Company agrees to pay Executive a monthly retirement benefit equal in amount to an Accrued Pension Benefit determined under the provisions of the Retirement Plan based on his Average Annual Compensation calculated as of his date of employment termination plus five (5) additional Benefit Accrual Years. Commencement and payment (but not eligibility for) of a monthly retirement benefit under this Agreement shall be subject to the provisions of the Retirement Plan.

2.2 Termination of Employment After Becoming Vested in the Retirement Plan. Upon Executive's termination of employment with a vested benefit under the Retirement Plan, except in the case of the Executive's termination by the Company for fraud, dishonesty, theft, or other unlawful actions, the Company agrees to pay Executive a monthly retirement benefit equal in amount to the differences of (a) minus (b) where: (a) is the Accrued Pension Benefit determined under the provisions of the Retirement Plan based on his Average Annual Compensation calculated as of his date of employment termination plus five (5) additional Benefit Accrual Years and (b) is the nonforfeitable benefit

due to be paid by the Retirement Plan. Commencement and payment of (but not eligibility for) a monthly retirement benefit under the Agreement shall be subject to the provisions of the Retirement Plan.

3. MISCELLANEOUS PROVISIONS.

3.1 Assignment. This Agreement shall be binding upon and shall inure to the benefit of the Company and Executive and their respective successors and assigns, provided, however, that, except as set forth herein, no rights of any kind under this Agreement shall, without the written consent of the Company, be transferable or assignable by Executive or any other person, or be subject to alienation, encumbrance, garnishment, attachment, execution or levy of any kind, voluntary or involuntary.

3.2 Interpretation. All questions of interpretation, construction of application arising under this Agreement shall be decided by the Board of Directors of the Company, whose decision shall be final and conclusive upon all persons.

3.3 Savings Clause. In the event that any provision or term of this Agreement is finally determined by an judicial, quasi judicial or administrative body to be void or not enforceable for any reason, it is the agreed upon intent of the parties hereto that all other provisions or terms of the Agreement shall remain in full force and effect and that the Agreement shall be enforceable as is such void or non-enforceable provision or term had never been a part hereof.

3.4 Governing Law. This Agreement is executed in and shall be construed in accordance with and governed by the laws of the State of New York.

3.5 No Rights in Any Property of Company. The undertakings of the Company herein constitute merely the unsecured promise of the Company to make the payments as provided for herein. No property of the Company is or shall, by reason of this Agreement, be held in trust for Executive, or any other person, and neither Executive nor any other person shall have by reason of the Agreement, any rights, title or interest of any kind in or to any property of the Company.

3.6 Employment of Executive by Company. Nothing herein shall be construed as an offer or commitment by the Company to continue Executive's employment with the Company for any period of time.

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands as of the day and year first above written.

MANUFACTURERS AND TRADERS TRUST
"Company"

BY /s/ Ray E. Logan

/s/ Brian J. Hickey

"Executive"

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

COMPUTATION OF EARNINGS PER COMMON SHARE

Amounts in thousands, except per share	Year ended December 31 1995	1994	1993
Primary			
Average common shares outstanding	6,499	6,729	6,869
Common stock equivalents *	282	223	222
Primary common shares outstanding	6,781	6,952	7,091
Net income	$ 131,036	117,295	101,992
Less: Preferred stock dividends	3,600	3,600	3,600
Net income available to common shareholders	127,436	113,695	98,392
Earnings per common share - primary	$ 18.79	16.35	13.87
Fully diluted			
Average common shares outstanding	6,499	6,729	6,869
Common stock equivalents *	362	228	225
Assumed conversion of convertible preferred stock	507	507	507
Fully diluted average common shares outstanding	7,368	7,464	7,601
Net income	$ 131,036	117,295	101,992
Earnings per common share - fully diluted	$ 17.78	15.71	13.42

* 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 Statement on Form S-8 (No. 33-32044) of First Empire State Corporation of our report dated January 10, 1996, except as to Note 9, which is as of February 13, 1996, 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 5, 1996 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, 1995 and 1994 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 Statement.

/s/ PRICE WATERHOUSE LLP

Buffalo, New York
March 12, 1996

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 10, 1996, except as to Note 9, which is as of February 13, 1996, 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 12, 1996

FIRST EMPIRE STATE CORPORATION
RETIREMENT SAVINGS PLAN AND TRUST

Financial Statements and Additional Information
December 31, 1995 and 1994

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

INDEX

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying statement of net assets available for plan benefits of the First Empire State Corporation Retirement Savings Plan and Trust (the Plan) as of December 31, 1995 and 1994 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 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 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, 1995 and 1994, 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 5, 1996

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

	December 31 1995	December 31 1994
Assets		
Cash	$ 416,238	7,745
Investments, at current value:		
Short-term investments (cost: $10,966,751 and $10,272,904)	10,966,751	10,272,904
Common stock (cost: $36,061,617 and $27,071,735)	60,674,151	34,666,101
U.S. government and agency obligations (cost: $2,865,307 and $2,728,247)	3,039,237	2,676,365
Corporate bonds (cost: $2,734,371 and $1,421,332)	2,882,910	1,272,057
Loans to participants (cost: $2,648,774 and $1,827,121)	2,648,774	1,827,121
Total investments	80,211,823	50,714,548
Receivables:		
Due from broker	510,272	-
Employee contributions	142,337	115,283
Employer contributions	82,967	74,746
Interest and dividends	131,674	73,587
Total receivables	867,250	263,616
Total assets	81,495,311	50,985,909
Liabilities		
Due to broker	602,999	402,427
Net assets available for plan benefits	$80,892,312	50,583,482

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	
	1995	1994
Additions to net assets available for plan benefits		
Net investment income (loss):		
Interest	$ 1,218,874	757,426
Dividends	800,895	594,285
Net realized gain (loss) on sale of investments	407,654	(172,473)
Net appreciation (depreciation) in current value of investments	17,934,774	(1,378,257)
Total net investment income (loss)	20,362,197	(199,019)
Contributions:		
Employee	12,302,507	5,867,384
Employer	4,085,991	3,503,858
Total contributions	16,388,498	9,371,242
	36,750,695	9,172,223
Deductions from net assets available for plan benefits		
Benefit payments to participants	(6,441,865)	(2,542,953)
Net increase in net assets available for plan benefits	30,308,830	6,629,270
Net assets available for plan benefits at beginning of year	50,583,482	43,954,212
Net assets available for plan benefits at end of year	$80,892,312	50,583,482

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. Eligible employees may elect to participate 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 Worldwide 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 will 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 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 has been 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 $9,240 in both 1995 and 1994. 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

Participants may 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 3,009 participants in the First Empire stock fund, 2,650 in the diversified equity fund, 1,615 in the money-market fund and 1,444 in the bond fund at December 31, 1995. A total of 3,609 employees of the Company were active participants in the Plan at December 31, 1995. 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.

On January 1, April 1, July 1 and October 1 of each year, participants may, 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. Contributions may be suspended at any time.

Employer matching contributions

Employer matching contributions are 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. 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, 1995 and 1994 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 loans, which are fully secured by a portion of the participant's vested benefits, were determined to have a current value which approximates the outstanding principal balance of the loans at both December 31, 1995 and 1994.

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 $788,297 and $680,492 at December 31, 1995 and 1994, 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 1995 and 1994 totaling $32,108 and $18,639, respectively. These amounts have been included in the statement of changes in net assets available for plan benefits in net realized gain or loss on sale of investments for securities sold and net appreciation or depreciation in fair market 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

Effective July 1, 1994, the Plan was amended to allow eligible part-time employees to participate in the Plan.

During 1995, the Plan was amended to (i)define compensation as prescribed by the Internal Revenue Code, specifically with respect to the maximum compensation allowed for a retirement plan, (ii) include 75% of participants' sales commissions and, (iii)change the required distribution to participants who attain the age of 70-1/2 years of age.

During 1995, the Plan was also 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.

5. Related party transactions

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. In addition, 198,094 shares of First Empire common stock with a total cost of $21,556,170 and a fair market value of $43,184,492 were held at December 31, 1995.

During 1994, the Plan acquired in the open market, in 27 transactions, 28,667 shares of First Empire common stock at a cost of $4,218,308. The Plan disposed of, in 16 transactions, 4,308 shares of First Empire common stock which resulted in proceeds of $636,446 and realized gains of $27,909. In addition, 190,088 shares of First Empire common stock with a total cost of $18,722,361 and a fair market value of $25,851,968 were held at December 31, 1994.

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

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

	Total proceeds	Basis of assets sold	Net realized gain (loss)
For the year ended December 31, 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
For the year ended December 31, 1994:			
First Empire common stock	$ 636,446	608,537	$ 27,909
Other common stock	841,304	971,810	(130,506)
U.S. government and agency obligations	2,950,220	3,014,217	(63,997)
Corporate bonds	586,968	592,847	(5,879)
	$5,014,938	5,187,411	$(172,473)

In accordance with the requirements of ERISA, the basis of assets sold is equal to either the fair market 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, 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
For the year ended December 31, 1994:			
First Empire common stock	$25,851,968	26,936,127	$(1,084,159)
Other common stock	8,814,133	8,800,943	13,190
U.S. government and agency obligations	2,676,365	2,821,767	(145,402)
Corporate bonds	1,272,057	1,433,943	(161,886)
			$(1,378,257)

In accordance with the requirements of ERISA, the basis of assets held at end of period is equal to either the fair market 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, 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

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, 1994

	First Empire stock fund	Diversified equity fund	Money-market fund	Bond fund	Participant loan account	Total
Assets						
Cash	$ 635	1,761	5,349	-	-	$ 7,745
Investments, at current value (cost: $19,011,941, $9,618,466, $8,700,528, $4,163,283 and $1,827,121):						
Short-term investments	289,580	1,269,092	8,700,528	13,704	-	10,272,904
Common stock	25,851,968	8,814,133	-	-	-	34,666,101
U.S. government and agency obligations	-	-	-	2,676,365	-	2,676,365
Corporate bonds	-	-	-	1,272,057	-	1,272,057
Loans to participants	-	-	-	-	1,827,121	1,827,121
Total investments	26,141,548	10,083,225	8,700,528	3,962,126	1,827,121	50,714,548
Receivables:						
Employee contributions	54,185	33,035	16,579	11,484	-	115,283
Employer contributions	34,628	21,524	10,975	7,619	-	74,746
Interest and dividends	-	19,939	-	53,648	-	73,587
Total receivables	88,813	74,498	27,554	72,751	-	263,616
Total assets	26,230,996	10,159,484	8,733,431	4,034,877	1,827,121	50,985,909
Liabilities						
Due to broker	288,011	114,416	-	-	-	402,427
Net assets available for plan benefits	$25,942,985	10,045,068	8,733,431	4,034,877	1,827,121	$50,583,482

Exhibit II

FIRST EMPIRE STATE CORPORATION RETIREMENT SAVINGS PLAN AND TRUST

ALLOCATION OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS TO INVESTMENT PROGRAMS YEAR ENDED DECEMBER 31, 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

Exhibit II
(continued)

FIRST EMPIRE STATE CORPORATION RETIREMENT SAVINGS PLAN AND TRUST

ALLOCATION OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENERITS TO INVESTMENT PROGRAMS YEAR ENDED DECEMBER 31, 1994

	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 (loss):						
Interest	$ 4,842	54,079	327,280	249,906	121,319	$ 757,426
Dividends	390,346	203,939	-	-	-	594,285
Net realized gain (loss) on sale of investments	27,909	(130,506)	-	(69,876)	-	(172,473)
Net appreciation (depreciation) in current value of investments	(1,084,159)	13,190	-	(307,288)	-	(1,378,257)
Total net investment income (loss)	(661,062)	140,702	327,280	(127,258)	121,319	(199,019)
Contributions:						
Employee	2,871,120	1,568,523	833,610	594,131	-	5,867,384
Employer	1,693,096	937,858	488,403	384,501	-	3,503,858
Total contributions	4,564,216	2,506,381	1,322,013	978,632	-	9,371,242
	3,903,154	2,647,083	1,649,293	851,374	121,319	9,172,223
Deductions from net assets available for plan benefits						
Benefit payments to participants	(1,227,268)	(439,535)	(659,549)	(216,601)	-	(2,542,953)
Interfund transfers						
Loans, net of repayments	190,046	(125,915)	(317,862)	(58,201)	311,932	-
Reallocation of investments - additions (deductions)	(395,493)	1,181,233	(111,339)	(553,082)	(121,319)	-
	(205,447)	1,055,318	(429,201)	(611,283)	190,613	-
Net increase in net assets available for plan benefits	$2,470,439	3,262,866	560,543	23,490	311,932	$ 6,629,270

FIRST EMPIRE STATE CORPORATION RETIREMENT SAVINGS PLAN AND TRUST

Schedule of Assets Held for Investment
December 31, 1995

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	10,966,751	$ 1.000	$10,966,751	$ 1.000	$10,966,751
Total short-term investments			$10,966,751		$10,966,751
Common stock					
Consumer products and services:					
Ball Corporation	9,500	28.633	272,012	27.750	263,625
CPC International Inc.	6,000	46.777	280,659	68.625	411,750
Dow Jones & Co.	6,300	31.227	196,731	39.875	251,212
Dun & Bradstreet Companies, Inc.	4,800	54.771	262,900	64.750	310,800
First Brands Corporation	7,000	32.823	229,762	47.625	333,375
General Mills	4,000	46.926	187,702	57.750	231,000
Harcourt General Inc.	6,700	35.518	237,968	41.875	280,562
Limited Inc.	15,000	20.088	301,312	17.125	256,875
Masco Corp.	8,000	28.671	229,365	31.375	251,000
McGraw Hill Inc.	1,700	66.444	112,954	87.125	148,113
Pep Boys Manny Moe & Jack	13,000	26.870	349,310	25.625	333,125
Quaker State Corp.	26,500	14.384	381,166	12.750	337,875
Reader's Digest Association Inc.	3,800	46.640	177,231	51.250	194,750
Stride Rite Corp.	22,500	12.913	290,549	7.375	165,938
U.S. West Media Group	11,500	17.501	201,261	19.000	218,500
Total consumer products and services			3,710,882		3,988,500

FIRST EMPIRE STATE CORPORATION RETIREMENT SAVINGS PLAN AND TRUST

Schedule of Assets Held for Investment
December 31, 1995

Name and title of issue	Number of shares or principal amount	Unit cost	Total cost	Current value Per unit	Current value Total
Common stock (continued)					
Energy:					
AMOCO Corp.	4,000	$ 62.995	$ 251,980	$ 71.500	$ 286,000
Coastal Corp.	6,000	27.995	167,970	37.000	222,000
Nabors Industries, Inc.	25,500	8.495	216,622	11.250	286,875
Ku Energy	9,500	28.015	266,140	30.000	285,000
Schlumberger Limited	5,000	57.523	287,613	69.250	346,250
Ultramar Corp.	13,500	21.378	288,603	25.750	347,625
Unocal Corp.	13,500	27.284	368,328	29.125	393,188
Wicor Inc.	10,300	29.143	300,171	32.250	332,175
Total energy			2,147,427		2,499,113
Financial:					
American International Group Inc.	2,100	44.004	92,408	92.500	194,250
Federal National Mortgage Association	1,700	71.011	120,719	123.875	210,588
First Colony Corp	10,000	24.719	247,190	25.375	253,750
First Empire State Corporation*	198,094	108.818	21,556,170	218.000	43,184,492
General Reinsurance Corp.	1,500	117.946	176,919	155.000	232,500
ITT Hartford	6,000	48.878	293,270	48.375	290,250
Morgan, JP & Company, Inc.	2,200	65.957	145,105	80.250	176,550
Total financial			22,631,781		44,542,380
Health care:					
Johnson & Johnson Co.	1,200	48.798	58,558	85.500	102,600
Merck & Co., Inc.	1,500	51.539	77,309	65.625	98,438
Mylan Laboratories, Inc.	3,750	12.664	47,491	23.500	88,125
Perrigo Co.	29,000	12.659	367,125	11.875	344,375
Total health care			550,483		633,538

* See note 5 to the financial statements

FIRST EMPIRE STATE CORPORATION RETIREMENT SAVINGS PLAN AND TRUST

Schedule of Assets Held for Investment
December 31, 1995

Name and title of issue	Number of shares or principal amount	Unit cost	Total cost	Current value Per unit	Current value Total
Common stock (continued)					
Industrials:					
Aluminum Company of America	3,500	$ 37.343	$ 130,702	$ 52.875	$ 185,062
Avnet, Inc.	4,800	33.063	158,701	44.750	214,800
Barrick Gold Corp.	6,000	25.074	150,445	26.375	158,250
Commercial Metals Co.	15,666	22.519	352,788	24.750	387,733
Cooper Industries Inc.	7,600	40.646	308,906	36.750	279,300
Corning Inc.	7,300	34.204	249,686	32.000	233,600
Crown Cork & Seal Co. Inc.	2,200	36.245	79,739	41.750	91,850
CSX Corp.	3,000	37.310	111,930	45.625	136,875
Emerson Electric Company	3,400	55.546	188,857	81.750	277,950
Kirby Corp.	23,500	16.550	388,918	16.250	381,875
Santa Fe Pacific Gold Corp.	20,100	12.409	249,426	12.125	243,712
Union Pacific Corp.	3,500	59.406	207,920	66.000	231,000
Zero Corp.	20,200	13.742	277,580	17.750	358,550
Total industrials			2,855,598		3,180,557
Materials:					
Champion International Corp.	3,200	30.074	96,236	42.000	134,400
DuPont (E.I.) DeNemours & Company	6,300	54.403	342,736	69.875	440,212
Hercules, Inc.	9,300	31.730	295,091	56.375	524,287
Material Sciences Corp.	19,750	12.227	241,489	14.875	293,781
Newmont Mining Company	7,666	40.824	312,956	45.375	347,845
Olin Corp.	5,000	69.191	345,953	74.250	371,250
Placer Dome Inc.	9,000	23.042	207,380	24.125	217,125
Potash Corp. Saskatchewan Inc.	7,700	27.433	211,232	70.875	545,738
RTZ Place Sponsored ADR	3,800	52.844	200,806	57.500	218,500
Total materials			2,253,879		3,093,138

FIRST EMPIRE STATE CORPORATION RETIREMENT SAVINGS PLAN AND TRUST

Schedule of Assets Held for Investment
December 31, 1995

Name and title of issue	Number of shares or principal amount	Unit cost	Total cost	Current value Per unit	Current value Total
Common stock (continued)					
Technology:					
AMP Inc.	5,800	$ 31.220	$ 181,075	$ 38.250	$ 221,850
Continuum Company Inc.	11,100	20.073	222,815	39.500	438,450
Hewlett-Packard Co.	2,200	31.370	69,014	83.750	184,250
Micron Technology Inc.	5,000	21.560	107,800	39.625	198,125
Texas Instruments, Inc.	3,800	35.562	135,135	51.500	195,700
Total technology			715,839		1,238,375
Utilities:					
American Telephone & Telegraph Co.	5,300	46.268	245,220	64.750	343,175
IPALCO Enterprises Inc.	7,900	30.873	243,897	38.125	301,188
PECO Energy	9,000	27.631	248,680	30.125	271,125
Pub Svc Co. Colo	9,000	29.885	268,968	35.375	318,375
Union Electric Co.	2,500	35.302	88,256	41.750	104,375
U.S. West Communications Group	4,500	22.379	100,707	35.625	160,312
Total utilities			1,195,728		1,498,550
Total common stock			$36,061,617		$60,674,151

FIRST EMPIRE STATE CORPORATION RETIREMENT SAVINGS PLAN AND TRUST

Schedule of Assets Held for Investment
December 31, 1995

Name and title of issue	Number of shares or principal amount	Unit cost	Total cost	Per unit	Current value Total
U.S. government and agency obligations					
U.S. Treasury note, 7.00%, due 09/30/96	$ 50,000	$ 99.710	$ 49,855	101.250	$ 50,625
U.S. Treasury note, 6.875%, due 10/31/96	350,000	99.406	347,922	101.281	354,484
U.S. Treasury note, 7.25%, due 11/30/96	225,000	99.281	223,382	101.750	228,938
Tennessee Valley Auth Pwr Bd, 6.00%, due 01/15/97	115,000	100.154	115,177	100.594	115,683
U.S. Treasury note, 8.125%, due 02/15/98	125,000	98.485	123,106	105.719	132,149
U.S. Treasury note, stripped generic coupon, due 11/15/98	100,000	78.433	78,433	86.156	86,156
Federal Home Loan Mortgage Corp., 6.00%, due 05/15/99	202,046	101.297	204,666	100.480	203,016
U.S. Treasury note, 8.00%, due 08/15/99	100,000	96.643	96,643	108.625	108,625
U.S. Treasury note, 6.375%, due 01/15/2000	150,000	99.805	149,708	103.625	155,437
U.S. Treasury note, 8.75%, due 08/15/2000	100,000	101.453	101,453	113.563	113,563
U.S. Treasury note, 8.00%, due 05/15/2001	125,000	99.434	124,293	111.875	139,843
U.S. Treasury note, 6.375%, due 08/15/2002	150,000	98.931	148,396	104.938	157,407
U.S. Treasury note, 7.25%, due 08/15/2004	500,000	96.894	484,469	111.188	555,940
U.S. Treasury note, 7.50%, due 02/15/2005	250,000	107.156	267,890	113.375	283,437
U.S. Treasury note, 6.50%, due 05/15/2005	50,000	99.609	49,805	106.438	53,219
U.S Treasury note, 5.875%, due 11/15/2005	100,000	101.984	101,984	102.022	102,219
Federal National Mortgage Association, 5.50%, due 01/25/2013	200,000	99.063	198,125	99.248	198,496
Total U.S. government and agency obligations			$2,865,307		$3,039,237

Schedule I
(continued)

FIRST EMPIRE STATE CORPORATION RETIREMENT SAVINGS PLAN AND TRUST

Schedule of Assets Held for Investment
December 31, 1995

Name and title of issue	Number of shares or principal amount	Unit cost	Total cost	Current value Per unit	Current value Total
Corporate bonds					
Lehman Bros. Holdings Inc., zero coupon note, due 05/16/97	$ 300,000	$ 82.385	$ 247,155	$ 91.787	$ 275,361
Lehman Bros. Holdings Inc., zero coupon note, due 05/16/98	35,000	83.809	29,333	86.829	30,390
Discover Card, 6.25%, due 08/15/98	100,000	99.681	99,681	101.376	101,376
Allied Corp zero coupon note, due 09/15/98	100,000	84.859	84,859	84.588	84,588
PepsiCo, Inc. note, 7.625%, due 11/01/98	50,000	99.758	49,879	105.578	52,789
Norwest Finl Inc, 8.375%, due 1/15/2000	350,000	103.006	360,521	106.858	374,003
Chrysler Financial Corp. notes, 6.625%, due 08/15/2000	300,000	96.235	288,705	102.549	307,647
Citicorp Med Term note, 8.30%, due 11/23/2001	150,000	104.053	156,080	110.608	165,912
Chase Manhattan Corp. sub-note, 9.05%, due 02/01/2002	150,000	100.000	150,000	103.470	155,205
Ultramar CR Corp GTD note, 8.625%, due 07/01/2002	465,000	109.284	508,171	112.495	523,102
Wal Mart Stores Inc. note, 6.50%, due 06/01/2003	100,000	99.626	99,626	102.648	102,648
Boeing Co. note, 6.35%, due 06/15/2003	301,000	93.874	282,561	102.528	308,609
Hertz Corp. Senior note, 6.375%, due 10/15/2005	400,000	94.450	377,800	100.320	401,280
Total corporate bonds			$ 2,734,371		$ 2,882,910
Loans to participants					
7.00%-10.50%, fully secured by vested benefits, due 1996 through 2000	$ 2,648,774	-	$ 2,648,774	-	$ 2,648,774
Total investments			$55,276,820		$80,211,823

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, 1995

	Purchases		Sales/distributions			
Description of asset	Number of transactions	Cost	Number of transactions	Proceeds	Basis	Gain (loss)
Short-term investments:						
Vision Group of Funds, Inc. Money Market Fund	416	$21,215,014	223	$20,712,474	20,712,474	-
Common stock:						
First Empire State Corporation	35	4,694,547	18	2,704,890	2,457,624	247,266

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

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Article 9 Financial Data Schedule for Form 10-K for the year ended December 31, 1995
[/LEGEND]

YEAR
DEC-31-1995
DEC-31-1994
DEC-31-1995
363,119
125,500
1,000
9,709
1,531,893
237,402
239,044
9,873,723
262,344
11,955,902
9,469,575
1,273,206
174,077
192,791
40,487
0
40,000
765,766
11,955,902
794,181
121,551
12,422
928,154
346,348
441,730
486,424
40,350
4,479
374,439
221,173
131,036
0
0
131,036
18.79
17.78
4.43
75,224
17,842
0
0
243,332
31,207
9,869
262,344
136,072
0
126,272