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

FORM 10-Q

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

For the quarterly period ended March 31, 1994

or

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

Commission File Number 1-9861

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

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

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

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

Number of shares of the registrant's Common Stock, $5 par value, outstanding as of the close of business on May 2, 1994: 6,835,347 shares.

FIRST EMPIRE STATE CORPORATION

FORM 10-Q

For the Quarterly Period Ended March 31, 1994

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET dollars in thousands, except per share		March 31, 1994 (unaudited)	December 31, 1993
Assets	Cash and due from banks	$284,644	195,792
	Money-market assets		
	Interest-bearing deposits at banks	145	55,044
	Federal funds sold and agreements to resell securities	618,296	329,429
	Trading account	11,220	9,815
	Total money-market assets	629,661	394,288
	Investment securities		
	Available for sale (cost: $1,902,353 at March 31, 1994; $2,158,262 at December 31, 1993)	1,889,887	2,174,067
	Held to maturity (market value: $226,339 at March 31, 1994; $223,617 at December 31, 1993)	229,379	223,331
	Other (market value: $33,891 at March 31, 1994; $31,754 at December 31, 1993)	33,891	31,754
	Total investment securities	2,153,157	2,429,152
	Loans and leases	7,421,457	7,439,059
	Unearned discount	(181,588)	(177,960)
	Allowance for possible credit losses	(213,041)	(195,878)
	Loans and leases, net	7,026,828	7,065,221
	Premises and equipment	133,588	134,874
	Accrued interest and other assets	183,744	145,631
	Total assets	$10,411,622	10,364,958
Liabilities	Noninterest-bearing deposits	$989,630	1,052,258
	NOW accounts	758,714	764,690
	Savings deposits	3,419,007	3,364,983
	Time deposits	2,054,708	1,982,272
	Deposits at foreign office	107,025	189,058
	Total deposits	7,329,084	7,353,261
	Federal funds purchased and agreements to repurchase securities	1,306,951	1,381,335
	Other short-term borrowings	852,804	720,332
	Accrued interest and other liabilities	122,243	110,446
	Long-term borrowings	75,000	75,000
	Obligations under capital leases	565	590
	Total liabilities	9,686,647	9,640,964
Stockholders' equity	Preferred stock, $1 par, 1,000,000 shares authorized, 40,000 shares issued, stated at aggregate liquidation value	40,000	40,000
	Common stock, $5 par, 15,000,000 shares authorized, 8,097,472 shares issued	40,487	40,487
	Surplus	97,810	97,787
	Undivided profits	618,619	595,322
	Unrealized investment gains (losses), net	(6,943)	9,148
	Treasury stock - common, at cost - 1,260,862 shares at March 31, 1994; 1,218,347 at December 31, 1993	(64,998)	(58,750)
	Total stockholders' equity	724,975	723,994
	Total liabilities and stockholders' equity	$10,411,622	10,364,958

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

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

		Three months ended March 31 1994	1993
Interest income	Loans and leases, including fees	$148,483	152,843
	Money-market assets		
	Deposits at banks	154	1,510
	Federal funds sold and agreements to resell securities	1,443	6,006
	Trading account	132	269
	Investment securities		
	Fully taxable	26,242	22,385
	Exempt from federal taxes	716	683
	Total interest income	177,170	183,696
Interest expense	NOW accounts	2,846	3,651
	Savings deposits	20,689	24,218
	Time deposits	18,747	28,399
	Deposits at foreign office	928	838
	Short-term borrowings	14,501	9,390
	Long-term borrowings and capital leases	1,538	1,540
	Total interest expense	59,249	68,036
	Net interest income	117,921	115,660
	Provision for possible credit losses	19,862	18,315
	Net interest income after provision for possible credit losses	98,059	97,345
Other income	Trust income	5,435	5,668
	Service charges on deposit accounts	8,893	7,321
	Merchant discount and other credit card fees	1,896	1,984
	Trading account profits	(208)	754
	Gain on sales of bank investment securities	-	823
	Other revenues from operations	12,433	10,317
	Total other income	28,449	26,867
Other expense	Salaries and employee benefits	39,831	39,915
	Equipment and net occupancy	12,812	11,839
	Printing, postage and supplies	3,187	3,612
	Deposit insurance	4,144	4,539
	Other costs of operations	19,241	23,534
	Total other expense	79,215	83,439
	Income before income taxes	47,293	40,773
	Applicable income taxes	19,665	16,451
	Net income	$27,628	24,322
	Net income per common share		
	Primary	$3.77	3.31
	Fully diluted	3.64	3.21
	Cash dividends per common share	0.50	0.40
	Average common shares outstanding		
	Primary	7,083	7,069
	Fully diluted	7,590	7,586

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)
dollars in thousands

		Three months ended March 31 1994	1993
Cash flows from operating activities	Net income	$27,628	24,322
	Adjustments to reconcile net income to net cash provided by operating activities		
	Provision for possible credit losses	19,862	18,315
	Depreciation and amortization of premises and equipment	4,291	4,119
	Provision for deferred income taxes	(10,465)	(7,171)
	Asset write-downs	1,269	4,010
	Net gain on sales of assets	(2,097)	(823)
	Net change in accrued interest receivable, payable	2,056	2,721
	Net change in other accrued income and expense	6,470	22,403
	Net change in loans held for sale	118,785	61,452
	Net change in trading account assets	(1,405)	30,927
	Net cash provided by operating activities	166,394	160,275
Cash flows from investing activities	Proceeds from maturities of investment securities	256,736	182,402
	Purchases of investment securities	(16,375)	(190,626)
	Net (increase) decrease in interest-bearing deposits at banks	54,899	(55,000)
	Net (increase) decrease in loans and leases	(102,748)	27,021
	Capital expenditures, net	(3,005)	(4,354)
	Other, net	(432)	1,336
	Net cash provided (used) by investing activities	189,075	(39,221)
Cash flows from financing activities	Net decrease in deposits	(24,092)	(288,836)
	Net increase in short-term borrowings	58,088	1,082,019
	Payments on long-term borrowings	(25)	(23)
	Purchases of treasury stock	(6,347)	-
	Dividends paid - common	(3,431)	(2,740)
	Dividends paid - preferred	(900)	(900)
	Other, net	(1,043)	3,533
	Net cash provided by financing activities	22,250	793,053
	Net increase in cash and cash equivalents	$377,719	914,107
	Cash and cash equivalents at beginning of quarter	525,221	576,967
	Cash and cash equivalents at end of quarter	$902,940	1,491,074
Supplemental disclosure of cash flow information	Interest received during the quarter	$180,861	179,256
	Interest paid during the quarter	59,234	59,400
	Income taxes paid during the quarter	13,544	3,446
Supplemental schedule of noncash investing and financing activities	Real estate acquired in settlement of loans	$2,774	2,614

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

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

	Preferred stock	Common stock	Surplus	Undivided profits	Unrealized investment gains (losses), net	Treasury stock	Total
1993							
Balance - January 1, 1993	$40,000	40,487	96,816	509,984	-	(60,492)	$626,795
Net income	-	-	-	24,322	-	-	24,322
Preferred stock cash dividends	-	-	-	(900)	-	-	(900)
Common stock cash dividends - $.40 per share	-	-	-	(2,740)	-	-	(2,740)
Exercise of stock options	-	-	288	-	-	1,365	1,653
Balance - March 31, 1993	$40,000	40,487	97,104	530,666	-	(59,127)	$649,130
1994							
Balance - January 1, 1994	$40,000	40,487	97,787	595,322	9,148	(58,750)	$723,994
Net income	-	-	-	27,628	-	-	27,628
Preferred stock cash dividends	-	-	-	(900)	-	-	(900)
Common stock cash dividends - $.50 per share	-	-	-	(3,431)	-	-	(3,431)
Exercise of stock options	-	-	23	-	-	99	122
Purchases of treasury stock	-	-	-	-	-	(6,347)	(6,347)
Unrealized gains (losses) on investment securities available for sale, net	-	-	-	-	(16,091)	-	(16,091)
Balance - March 31, 1994	$40,000	40,487	97,810	618,619	(6,943)	(64,998)	$724,975

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

	Three months ended March 31 1994	1993
Beginning balance	$195,878	151,690
Provision for possible credit losses	19,862	18,315
Net charge-offs		
Charge-offs	(9,147)	(9,948)
Recoveries	6,448	1,753
Total net charge-offs	(2,699)	(8,195)
Ending balance	$213,041	161,810

NOTES TO FINANCIAL STATEMENTS

1. Significant accounting policies

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

2. Investment securities

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

		Estimated
	Amortized	fair
(in thousands) cost	value	
March 31, 1994		
Investment securities available for sale:		
Mortgage-backed securities		
Government issued or guaranteed	$1,050,904	1,037,556
Other	808,896	798,142
Other debt securities	31,540	32,038
Equity securities	11,013	22,151
	1,902,353	1,889,887
Investment securities held to maturity:		
U.S. Treasury and federal agency	173,098	169,689
Obligations of states and political subdivisions	55,373	55,797
Other debt securities	908	853
	229,379	226,339
Other securities	33,891	33,891
Total	$2,165,623	2,150,117
December 31, 1993		
Investment securities available for sale:		
Mortgage-backed securities		
Government issued or guaranteed	$1,210,921	1,214,202
Other	896,362	895,902
Other debt securities	39,893	40,831
Equity securities	11,086	23,132
	2,158,262	2,174,067
Investment securities held to maturity:		
U.S. Treasury and federal agency	173,193	172,871
Obligations of states and political subdivisions	49,230	49,880
Other debt securities	908	866
	223,331	223,617
Other securities	31,754	31,754
Total	$2,413,347	2,429,438

3. Interest rate swap contracts

At March 31, 1994 the Company had outstanding currently effective interest rate swap contracts designated for hedging purposes with a notional amount of approximately $1.2 billion. The net effect of interest rate swaps was to increase net interest income by $6.6 million and $8.4 million during the three months ended March 31, 1994 and 1993, respectively. As of March 31, 1994, the Company had also entered into forward swaps with an aggregate notional amount of $775 million. These forward interest rate swap commitments had no effect on net income. The Company estimates that as of March 31, 1994, it would have had to pay approximately $50 million to terminate all interest rate swap contracts. Such estimate of the fair value of the swap contracts was based upon market quotes available to the Company. However, since all swaps have been entered into as hedging transactions, management believes that the estimated amount noted above is substantially offset by increases in the value of or the interest on hedged loans and deposits and, accordingly, is not recognized in the consolidated financial statements.

4. Subsequent events

On April 1, 1994 the Company announced that it had entered into a definitive agreement to acquire Ithaca Bancorp, Inc. of Ithaca, New York ("Ithaca Bancorp"). Upon consummation of the transaction, Ithaca Bancorp's savings bank subsidiary, Citizens Savings Bank, F.S.B., will be merged into the Company's commercial bank subsidiary, Manufacturers and Traders Trust Company ("M&T Bank"). The Company will pay the holders of Ithaca Bancorp's common stock cash consideration of $19 per share, subject to increase or decrease based on the level of Ithaca Bancorp's stockholders' equity and loan loss reserves, after various adjustments specified in the agreement, at or near the closing. Assuming no adjustment to the per share price, the aggregate cash consideration will be approximately $46.4 million. Consummation of the transaction is subject to a number of conditions, including regulatory approvals and the approval of Ithaca Bancorp's stockholders. Subject to the satisfaction of all conditions, it is anticipated that the transaction will be completed in the fourth quarter of 1994. The transaction will be accounted for under the purchase method of accounting. Citizens Savings Bank, F.S.B. operates twelve banking offices in central and southern New York. At December 31, 1993, Ithaca Bancorp reported total assets and total deposits of $447 million and $333 million, respectively, and stockholders' equity of $24.2 million.

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

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

OVERVIEW

Net income for First Empire State Corporation ("the Company" or "First Empire") was $27.6 million or $3.77 per common share in the first quarter of 1994, up 14% from $24.3 million or $3.31 per common share in the first quarter of 1993. The Company earned $26.6 million or $3.62 per common share in the fourth quarter of 1993. The rate of return on average assets in the first quarter of 1994 was 1.11%, compared to .99% in the year-earlier quarter and .98% in the fourth quarter of 1993. The return on average common stockholders' equity was 15.68% and 15.88% in the first quarter of 1994 and 1993, respectively, and 15.39% in the fourth quarter of 1993.

On April 1, 1994 First Empire announced that it had entered into a definitive agreement to acquire Ithaca Bancorp, Inc. of Ithaca, New York ("Ithaca Bancorp"). Upon consummation of the transaction, Ithaca Bancorp's savings bank subsidiary, Citizens Savings Bank, F.S.B., will be merged into First Empire's commercial bank subsidiary, Manufacturers and Traders Trust Company ("M&T Bank"). First Empire will pay the holders of Ithaca Bancorp's common stock cash consideration of $19 per share, subject to increase or decrease based on the level of Ithaca Bancorp's stockholders' equity and loan loss reserves, after various adjustments specified in the agreement, at or near the closing. Assuming no adjustment to the per share price, the aggregate cash consideration will be approximately $46.4 million. Consummation of the transaction is subject to a number of conditions, including regulatory approvals and the approval of Ithaca Bancorp's stockholders. Subject to the satisfaction of all conditions, it is anticipated that the transaction will be completed in the fourth quarter of 1994.

Citizens Savings Bank, F.S.B. operates twelve banking offices in central and southern New York. At December 31, 1993, Ithaca Bancorp reported total assets and total deposits of $447 million and $333 million, respectively, and stockholders' equity of $24.2 million.

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

TAXABLE-EQUIVALENT NET INTEREST INCOME

Taxable-equivalent net interest income increased to $118.9 million in the first quarter of 1994 from $116.6 million in the corresponding 1993 period. Taxable-equivalent net interest income was $118.8 million in the fourth quarter of 1993. Average earning assets totaled $9.7 billion in 1994's first quarter, compared with $9.5 billion in 1993's initial quarter, and $10.4 billion in the fourth quarter of 1993. The Company's net interest margin, expressed as an annualized percentage of average earning assets, was 4.99% in the first quarter of 1994, compared to 4.96% and 4.54% in the first and fourth quarter of 1993, respectively.

The improvement in the net interest margin in the first quarter of 1994 from the first quarter of 1993 was due to a widening of the net interest spread, or the difference between the yield on interest-earning assets and the rate paid on interest-bearing liabilities, from 4.51% in 1993's initial quarter to 4.56% in the recent quarter. The increased net interest spread reflects a greater decline in rates paid on interest-bearing liabilities than in yields on interest-earning assets. A $732 million decrease in lower-yielding average money-market assets, offset by increases of $580 million and $289 million in average investment securities and loans, respectively, contributed to the increase in the net interest spread.

The 45-basis point increase in net interest margin from the fourth quarter of 1993 to the first quarter of 1994 resulted from a 42-basis point increase from 4.14% in the net interest spread. Such increase was primarily the result of reductions of discretionary holdings of money-market assets and investment securities, which generally yield less than loans, of $586 million and $229 million, respectively, and a corresponding decrease in short-term borrowings used to fund such assets.

The interest rate environment in recent years, in particular the historically high spread between prime and money-market rates, has been favorable to many banks. However, management believes that changes in the rate environment and reductions in spreads could adversely impact the Company's net interest margin. To help lessen the exposure to changing interest rates, the Company has entered into interest rate swap agreements as hedging transactions. The impact of currently effective swaps, which had an aggregate notional amount of $1.2 billion at March 31, 1994, is reflected in both the yields on loans and the rates paid on interest-bearing deposits. The net effect of interest rate swaps was to widen the Company's net interest spread by 29 basis points in the first quarter of 1994, 37 basis points in the first quarter of 1993 and 28 basis points during the fourth quarter of 1993. The aggregate effect of the rate swaps was to increase net interest income by $6.6 million in the first quarter of 1994, $8.4 million in the first quarter of 1993, and $6.9 million in the fourth quarter of 1993. Additionally, the Company has entered into forward-starting interest rate swaps with an aggregate notional amount of $775 million at March 31, 1994. The forward-starting swaps had no effect on net income through March 31, 1994.

Increased average holdings of investment securities as well as growth in average loans, offset by lower average money-market assets, resulted in a modest increase in average earning assets to $9.7 billion in the first quarter of 1994 from $9.5 billion in 1993's initial quarter. Average earning assets in 1994's first quarter declined from 1993's fourth quarter average of $10.4 billion as a result of lower holdings of money-market assets and investment securities. Proceeds from the liquidation of such assets were primarily used to reduce short-term borrowings.

Average loans totaled $7.2 billion in the first quarter of 1994, up $289 million or 4% from $6.9 billion in the corresponding 1993 period and $108 million or 2% from $7.1 billion in the fourth quarter of 1993. The table below summarizes average quarterly changes in the major components of the loan and lease portfolio.

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

		Percent increase (decrease) from	
	1st Qtr. 1994	1st Qtr. 1993	4th Qtr. 1993
Commercial, financial, etc.	$ 1,475	3 %	2 %
Real estate - commercial	3,032	8	4
Real estate - consumer	1,425	(6)	(5)
Consumer	1,256	11	2
Total	$ 7,188	4 %	2 %

Money-market assets averaged $184 million in 1994's first quarter, significantly below the $915 million in 1993's first quarter and $770 million in the fourth quarter of 1993.

Average investment securities totaled $2.3 billion in the first quarter of 1994, up $580 million from a year earlier but $229 million below the fourth quarter of 1993. The increase from 1993's first quarter was largely achieved through purchases of collateralized mortgage obligations, other adjustable rate mortgage-backed securities and shorter-term U.S. Treasury notes, which more than replaced prepayments of mortgage-backed securities induced by the relatively low interest rate environment.

Core deposits, which are comprised of noninterest-bearing demand deposits, interest-bearing transaction accounts, savings deposits and domestic time deposits under $100,000, provide the Company with a large source of funds at generally lower interest rates than are available on wholesale funds of similar expected maturities. Average core deposits in the recent quarter declined to $6.8 billion or 71% of average interest-earning assets, from $7.4 billion or 78% in the first quarter of 1993. Average core deposits totaled $6.9 billion or 67% of average earnings assets in the fourth quarter of 1993. The declines in average core deposits since the first quarter of 1993 have been primarily in time deposit accounts as depositors seeking potentially higher returns have redeployed funds into alternative investment vehicles, such as mutual funds. An analysis of quarterly changes in the components of average core deposits is presented in the table below.

AVERAGE CORE DEPOSITS
dollars in millions

		Percent increase (decrease) from	
	1st Qtr. 1994	1st Qtr. 1993	4th Qtr. 1993
NOW accounts	$ 761	3 %	(2)%
Savings deposits	3,400	(4)	(1)
Time deposits under $100,000	1,667	(23)	(4)
Demand deposits	997	6	(1)
Total	$ 6,825	(8)%	(2)%

In addition to core deposits, the Company uses short-term borrowings from banks, securities dealers, the Federal Home Loan Bank of New York and others as sources of funding. Short-term borrowings averaged $1.9 billion in the first quarter of 1994, compared with $1.3 billion and $2.5 billion in the first and fourth quarter of 1993, respectively. In general, short-term borrowings have been used to fund the Company's investments in discretionary money-market assets and investment securities, and to replace deposit outflows. Maturities of money-market assets, repayments of loans and investment securities, and cash generated from operations also represent significant sources of liquidity. First Empire's ability to pay dividends and fund parent company operating expenses is primarily dependent on the receipt of dividend payments from its banking subsidiaries, which are subject to various regulatory limitations. Additionally, First Empire maintains a line of credit with a commercial bank. Management does not anticipate engaging in any activity, either currently or in the long-term, which would cause a significant strain on liquidity and believes that currently available sources of funds are more than sufficient to meet anticipated funding needs.

PROVISION FOR POSSIBLE CREDIT LOSSES

The provision for possible credit losses in the first quarter of 1994 was $19.9 million, up from $18.3 million in the first quarter of 1993, but below the $21.7 million recorded in 1993's fourth quarter. Net loan charge-offs totaled $2.7 million in 1994's first quarter, compared with $8.2 million and $13.3 million in the first and fourth quarter of 1993, respectively. Net charge-offs as an annualized percentage of average loans outstanding were .15% in 1994's initial quarter, compared with .48% in the first quarter of 1993 and .75% in the fourth quarter of 1993. Nonperforming loans at $86.8 million represented 1.20% of total loans at March 31, 1994, down from $109.8 million or 1.59% of total loans at March 31, 1993, but up from $82.3 million or 1.13% at December 31, 1993. Nonperforming commercial real estate loans continue to comprise a substantial portion of nonperforming loans, totaling $56.2 million at March 31, 1994, including $37.3 million of commercial real estate loans secured by properties in the New York City metropolitan area. At March 31 and December 31, 1993 nonperforming commercial real estate loans totaled $67.0 million and $48.3 million, respectively, including $47.5 million of loans secured by property in the New York City metropolitan area at March 31, 1993 and $29.7 million at December 31, 1993. The amount of repossessed assets taken in foreclosure of defaulted loans totaled $11.9 million at March 31, 1994, compared with $12.2 million at the end of 1993 and $16.6 million at March 31, 1993.

Due to continuing concerns about the 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, the provision for possible credit losses in 1994's first quarter exceeded net charge-offs by $17.2 million, increasing the allowance for possible credit losses to $213.0 million, or 2.94% of total loans and leases at March 31, 1994. In comparison, the allowance for possible credit losses was

$161.8 million or 2.35% of total loans and leases a year earlier and $195.9 million or 2.70% at December 31, 1993. The ratio of the allowance to nonperforming loans at March 31, 1994 was 245%, up from 147% and 238% at March 31 and December 31, 1993, respectively.

M&T Bank retains the contractual right to require the Federal Deposit Insurance Corporation ("FDIC") to repurchase prior to May 31, 1994 at a discount of 4% certain loans sold to M&T Bank by the FDIC from the portfolio of a failed thrift institution in the event such loans become adversely classified for regulatory purposes. As of March 31, 1994, such loans included approximately $92 million of commercial real estate loans, $48 million of consumer loans and $190 million of residential mortgage loans. Based upon regulatory classifications as of March 31, 1994, the Company does not expect the amount of loans to be repurchased by the FDIC to be material to the Company's consolidated financial condition.

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

NONPERFORMING ASSETS
dollars in thousands

	1994 First Quarter	1993 Quarters Fourth	Third	Second	First
Nonaccrual loans	$ 74,951	68,936	69,436	79,511	92,522
Loans past due 90 days or more	11,890	11,122	14,007	12,364	17,229
Renegotiated loans	-	2,195	2,200	-	-
Total nonperforming loans	86,841	82,253	85,643	91,875	109,751
Other real estate owned	11,916	12,222	14,554	14,054	16,600
Total nonperforming assets	$ 98,757	94,475	100,197	105,929	126,351
Nonperforming loans to total loans, net of unearned discount	1.20%	1.13%	1.21%	1.31%	1.59%
Nonperforming assets to total net loans and other real estate owned	1.36%	1.30%	1.41%	1.51%	1.83%

OTHER INCOME

Other income in the first quarter of 1994 totaled $28.4 million, 6% above the $26.9 million earned in the year earlier quarter and essentially the same as the fourth quarter of 1993.

Reflecting revised fee schedules, service charges on deposit accounts totaled $8.9 million in the first quarter of 1994, an increase of 21% from $7.3 million in the first quarter of 1993. Trust income of $5.4 million and merchant discount and credit card fees of $1.9 million were down slightly in the first quarter of 1994, compared with the year earlier quarter. Trading account activity resulted in a net loss of $208 thousand in the first quarter of 1994, compared with profits of $754 thousand in the corresponding quarter of 1993. Other revenues from operations in 1994's first quarter totaled $12.4 million, an increase of 21% from $10.3 million in the first quarter of 1993. The increase was primarily due to a $1.4 million gain from the sale of residential mortgage loan participations acquired from the FDIC in 1992 and increased income from residential mortgage loan servicing, asset management services and other loan fees.

OTHER EXPENSE

Other expense totaled $79.2 million in the first quarter of 1994, decreasing 5% from $83.4 million in the first quarter of 1993, and down slightly from 1993's fourth quarter.

Salaries and employee benefits expense was $39.8 million in 1994's first quarter, essentially unchanged from the first quarter of 1993. Merit salary increases and higher benefit costs in 1994 were offset by a reduction of expenses associated with stock appreciation rights granted in 1990 and 1991.

Nonpersonnel expenses totaled $39.4 million in 1994's first quarter, down 10% or $4.1 million from the first quarter of 1993, and 4% below the fourth quarter of 1993. A significant factor which contributed to the decreased expenses from the first quarter of 1993 was a reduction in write-downs of the carrying value of excess servicing fees receivable and purchased mortgage servicing rights associated with residential mortgage loans serviced for others. During the first quarter of 1994, such write-downs amounted to $500 thousand, compared with $2.7 million in the first quarter of 1993. At March 31, 1994, the Company had approximately $17.9 million of excess servicing fees receivable and purchased mortgage servicing rights recorded as assets. Residential mortgage loans serviced for others totaled $3.5 billion at March 31, 1994. Reduced expenses for professional services, software, printing, postage and supplies also contributed to the declines from the first and fourth quarters of 1993.

CAPITAL

Common stockholders' equity totaled $685.0 million at March 31, 1994, up from $609.1 million a year earlier and $684.0 million at December 31, 1993. On a per share basis, common stockholders' equity was $100.19 at March 31, 1994, up 13% from $88.68 at March 31, 1993 and 1% from $99.43 at December 31, 1993. Total stockholders' equity was $725.0 million, or 6.96% of total assets at March 31, 1994, compared with $649.1 million or 6.23% at March 31, 1993 and $724.0 million or 6.99% at December 31, 1993.

Pursuant to the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities", which the Company adopted on December 31, 1993, stockholders' equity at March 31, 1994 was reduced by $6.9 million, or $1.02 per common share, of net unrealized losses on certain investment securities. Such unrealized losses represent the amount by which amortized cost exceeded fair value for investment securities classified under SFAS No. 115 as available for sale, net of applicable income taxes. At year-end 1993, total stockholders' equity included $9.1 million, or $1.33 per common share, of net unrealized gains on investment securities available for sale.

To assess the capital adequacy of banking institutions, Federal regulators have implemented risk-based capital measures. Generally, a banking institution is required to maintain risk-based "core capital" and "total capital" ratios of at least 4% and 8%, respectively. In addition to the risk-based measures, Federal bank regulators have also implemented a minimum "leverage" ratio guideline of 3% of the quarterly average of total assets. The capital ratios of the Company and its banking subsidiaries, M&T Bank and The East New York Savings Bank ("East New York"), as of March 31, 1994 are presented in the accompanying table. Historically, First Empire has been able to maintain capital ratios well in excess of minimum regulatory guidelines primarily because of a high rate of internal capital generation. The rate of internal capital generation, or net income less dividends paid expressed as an annualized percentage of average total stockholders' equity, was 12.92% in the first quarter of 1994 and 13.14% in the first quarter of 1993.

REGULATORY CAPITAL RATIOS
March 31, 1994

	First Empire (Consolidated)	M&T Bank	East New York
Core capital	9.46%	8.86%	9.75%
Total capital	11.70%	11.30%	11.01%
Leverage	7.29%	6.59%	7.60%

In December 1993, First Empire announced a plan to purchase up to 506,930 shares of its common stock to be held as treasury stock for reissuance upon the possible future conversion of its 9% convertible preferred stock. As of March 31, 1994 the Company had purchased 46,200 common shares pursuant to such plan at an average cost per share of $137.38.

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

FINANCIAL HIGHLIGHTS
Amounts in thousands, except per share

	Three months ended March 31 1994	1993	Change
FOR THE PERIOD			
Net income	$27,628	24,322	+ 14%
Per common share			
Net income			
Primary	$3.77	3.31	+ 14
Fully diluted	3.64	3.21	+ 13
Cash dividends	0.50	0.40	+ 25
Average common shares outstanding			
Primary	7,083	7,069	-
Fully diluted	7,590	7,586	-
Annualized return on			
Average total assets	1.11%	0.99%	
Average common stockholders' equity	15.68%	15.88%	
Market price per common share			
Closing	$139.25	149.75	- 7
High	144.00	150.50	
Low	135.00	130.25	
AT MARCH 31			
Loans and leases, net of unearned discount	$7,239,869	6,886,898	+ 5%
Total assets	10,411,622	10,423,006	-
Total deposits	7,329,084	7,787,664	- 6
Total stockholders' equity	724,975	649,130	+ 12
Stockholders' equity per common share	$100.19	88.68	+ 13

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

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

	1994 First quarter			1993 Fourth quarter		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Assets						
Earning assets						
Loans and leases, net of unearned discount*						
Commercial, financial, etc.	$1,475	$26,080	7.17%	1,443	26,278	7.23%
Real estate	4,457	93,058	8.35	4,410	93,670	8.50
Consumer	1,256	29,884	9.65	1,227	30,362	9.82
Total loans and leases, net	7,188	149,022	8.41	7,080	150,310	8.42
Money-market assets						
Interest-bearing deposits at banks	18	154	3.55	174	1,553	3.55
Federal funds sold and agreements to resell securities	155	1,443	3.76	577	4,976	3.42
Trading account	11	177	6.81	19	268	5.61
Total money-market assets	184	1,774	3.92	770	6,797	3.50
Investment securities						
U.S. Treasury and federal agency	1,297	14,673	4.59	1,492	17,072	4.54
State and municipal	52	731	5.66	47	677	5.74
Other	944	11,960	5.14	982	10,694	4.32
Total investment securities	2,293	27,364	4.84	2,521	28,443	4.48
Total earning assets	9,665	178,160	7.48	10,371	185,550	7.10
Allowance for possible credit losses	(203)			(194)		
Cash and due from banks	308			310		
Other assets	286			288		
Total assets	$10,056			10,775		
Liabilities and stockholders' equity						
Interest-bearing liabilities						
Interest-bearing deposits						
NOW accounts	$761	2,846	1.52	773	3,060	1.57
Savings deposits	3,400	20,689	2.47	3,430	21,372	2.47
Time deposits	1,992	18,747	3.82	2,024	20,590	4.04
Deposits at foreign office	137	928	2.75	115	788	2.70
Total interest-bearing deposits	6,290	43,210	2.79	6,342	45,810	2.87
Short-term borrowings	1,872	14,501	3.14	2,517	19,412	3.06
Obligations under capital leases	1	15	10.19	1	15	9.97
Other long-term borrowings	75	1,523	8.24	75	1,524	8.06
Total interest-bearing liabilities	8,238	59,249	2.92	8,935	66,761	2.96
Demand deposits	997			1,010		
Other liabilities	90			127		
Total liabilities	9,325			10,072		
Stockholders' equity	731			703		
Total liabilities and stockholders' equity	$10,056			10,775		
Net interest spread			4.56			4.14
Contribution of interest-free funds			0.43			0.40
Net interest income/margin on earning assets		$118,911	4.99%		118,789	4.54%

*Includes nonaccruing loans

FIRST EMPIRE STATE CORPORATION AND SUBSIDIARIES

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

	1993 Third quarter			1993 Second quarter		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Assets						
Earning assets						
Loans and leases, net of unearned discount*						
Commercial, financial, etc.	$1,387	$27,931	7.99%	1,414	29,308	8.31%
Real estate	4,411	94,939	8.61	4,395	95,295	8.67
Consumer	1,193	30,469	10.13	1,148	29,158	10.19
Total loans and leases, net	6,991	153,339	8.70	6,957	153,761	8.86
Money-market assets						
Interest-bearing deposits at banks	212	1,897	3.55	200	1,780	3.57
Federal funds sold and agreements to resell securities	343	2,953	3.41	805	6,468	3.22
Trading account	17	265	6.11	45	596	5.32
Total money-market assets	572	5,115	3.54	1,050	8,844	3.38
Investment securities						
U.S. Treasury and federal agency	1,497	17,065	4.52	1,258	15,561	4.96
State and municipal	34	579	6.75	38	628	6.63
Other	853	8,971	4.17	767	10,623	5.56
Total investment securities	2,384	26,615	4.43	2,063	26,812	5.21
Total earning assets	9,947	185,069	7.38	10,070	189,417	7.54
Allowance for possible credit losses	(179)			(168)		
Cash and due from banks	306			305		
Other assets	274			276		
Total assets	$10,348			10,483		
Liabilities and stockholders' equity						
Interest-bearing liabilities						
Interest-bearing deposits						
NOW accounts	$769	3,204	1.65	710	3,198	1.81
Savings deposits	3,479	22,108	2.52	3,542	22,694	2.57
Time deposits	2,166	23,499	4.30	2,315	26,020	4.51
Deposits at foreign office	121	827	2.72	118	790	2.68
Total interest-bearing deposits	6,535	49,638	3.01	6,685	52,702	3.16
Short-term borrowings	1,949	14,837	3.02	1,960	14,820	3.03
Obligations under capital leases	1	16	9.98	1	16	10.09
Other long-term borrowings	75	1,523	8.06	75	1,524	8.15
Total interest-bearing liabilities	8,560	66,014	3.06	8,721	69,062	3.18
Demand deposits	981			964		
Other liabilities	127			139		
Total liabilities	9,668			9,824		
Stockholders' equity	680			659		
Total liabilities and stockholders' equity	$10,348			10,483		
Net interest spread			4.32			4.36
Contribution of interest-free funds			0.43			0.43
Net interest income/margin on earning assets		$119,055	4.75%		120,355	4.79%

*Includes nonaccruing loans

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

	1993 First quarter		
	Average balance	Interest	Average rate
Assets			
Earning assets			
Loans and leases, net of unearned discount*			
Commercial, financial, etc.	$1,435	$29,051	8.21%
Real estate	4,333	95,928	8.86
Consumer	1,131	28,472	10.21
Total loans and leases, net	6,899	153,451	9.02
Money-market assets			
Interest-bearing deposits at banks	171	1,510	3.58
Federal funds sold and agreements to resell securities	717	6,006	3.40
Trading account	27	305	4.59
Total money-market assets	915	7,821	3.47
Investment securities			
U.S. Treasury and federal agency	945	12,722	5.46
State and municipal	44	716	6.64
Other	724	9,963	5.58
Total investment securities	1,713	23,401	5.54
Total earning assets	9,527	184,673	7.86
Allowance for possible credit losses	(156)		
Cash and due from banks	296		
Other assets	284		
Total assets	$9,951		
Liabilities and stockholders' equity			
Interest-bearing liabilities			
Interest-bearing deposits			
NOW accounts	$737	3,651	2.01
Savings deposits	3,550	24,218	2.77
Time deposits	2,503	28,399	4.60
Deposits at foreign office	124	838	2.74
Total interest-bearing deposits	6,914	57,106	3.35
Short-term borrowings	1,250	9,390	3.05
Obligations under capital leases	1	17	10.21
Other long-term borrowings	75	1,523	8.24
Total interest-bearing liabilities	8,240	68,036	3.35
Demand deposits	942		
Other liabilities	131		
Total liabilities	9,313		
Stockholders' equity	638		
Total liabilities and stockholders' equity	$9,951		
Net interest spread			4.51
Contribution of interest-free funds			0.45
Net interest income/margin on earning assets		$116,637	4.96%

*Includes nonaccruing loans

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

A number of lawsuits were pending against the Company and its subsidiaries at March 31, 1994. In the opinion of management, the potential liabilities, if any, arising from such litigation will not have a materially adverse impact on the Company's consolidated financial condition. Moreover, management believes that the Company or its subsidiaries have substantial defenses in such litigation, but that there can be no assurance that the potential liabilities, if any, arising from such litigation will not have a materially adverse impact on the Company's consolidated results of operations in the future.

Item 2. Changes in Securities.

(Not applicable.)

Item 3. Defaults Upon Senior Securities.

(Not applicable.)

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

The 1994 Annual Meeting of Stockholders of the Company was held on April 19, 1994. At the 1994 Annual Meeting, the Company's stockholders elected eighteen (18) directors, all of whom were then serving as directors of the Company, for terms of one (1) year and until their successors are elected and qualified. The following table reflects the tabulation of the votes with respect to each director who was reelected at the 1994 Annual Meeting.

	Number of Votes	
Nominee	For	Withheld
Brent D. Baird	5,942,587.125	9,550.965
John H. Benisch	5,944,987.125	7,150.965
Angela Bontempo	5,901,569.125	50,568.965
Patrick J. Callan	5,903,963.125	48,174.965
David N. Campbell	5,906,483.125	45,654.965
James A. Carrigg	5,903,983.014	48,155.076
Barber B. Conable, Jr.	5,942,771.014	9,367.076
Richard E. Garman	5,944,737.125	7,400.965
Roy M. Goodman	5,897,977.125	54,160.965
Patrick W.E. Hodgson	5,944,967.125	7,170.965
Lambros J. Lambros	5,944,711.125	7,426.965
Wilfred J. Larson	5,944,737.125	7,400.965
Jorge G. Pereira	5,944,875.125	7,262.965
William C. Shanley, III	5,903,733.125	48,404.965
Raymond D. Stevens, Jr.	5,944,987.125	7,150.965
Peter Tower	5,941,457.125	10,680.965
Richard D. Trent	5,943,637.125	8,500.965
Robert G. Wilmers	5,942,481.125	9,656.965

Item 5. Other Information.

Board of Directors. On April 19, 1994, Paul B. Murray retired as chairman of the board of First Empire and as a director of First Empire and M&T Bank. Mr. Murray continues as chairman of the board, president, chief executive officer and a director of East New York. The board of directors elected Robert G. Wilmers to the additional position of chairman of the board of First Empire upon Mr. Murray's retirement, a post which Mr. Wilmers had held prior to East New York's affiliation with First Empire.

Acquisition of Branches. On April 9, 1994, M&T Bank entered into a definitive agreement with Chemical Bank pursuant to which M&T Bank will acquire seven of Chemical Bank's branch offices located in Orange County and Nyack, New York, together with substantially all of their deposit liabilities. It is expected that M&T Bank will acquire up to approximately $175 million of deposit liabilities.

M&T Bank will pay Chemical Bank a purchase premium on the deposit liabilities of the acquired branches computed as of a date which is approximately one month prior to the closing. M&T Bank will also pay Chemical Bank the agreed upon market value of the real estate it purchases in the transaction; the net book value of trade fixtures, furniture, equipment, leasehold improvements, other items of personal property associated with the branches; and the unpaid balance of principal and interest of all unclassified loans which are fully secured and collateralized by any deposit liabilities which are acquired by M&T Bank in the transaction.

Consummation of the transaction is subject to a number of conditions, including regulatory approvals. Subject to the satisfaction of all conditions, it is anticipated that the transaction will be completed in the second half of 1994.

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

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

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

(b) Reports on Form 8-K.

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

SIGNATURES

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

FIRST EMPIRE STATE CORPORATION

Date: May 9, 1994

By: /s/ James L. Vardon

James L. Vardon
Executive Vice President
and Chief Financial Officer

EXHIBIT INDEX

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

Exhibit No. 11

FIRST EMPIRE STATE CORPORATION

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

		Three months ended March 31	
		1994	1993
Primary	Average common shares outstanding	6,871	6,849
	Common stock equivalents *	212	220
	Primary common shares outstanding	7,083	7,069
	Net income	$27,628	24,322
	Less: Preferred stock dividends	900	900
	Net income available to common shareholders	$26,728	23,422
	Earnings per common share - primary	$3.77	$3.31
Fully diluted	Average common shares outstanding	6,871	6,849
	Common stock equivalents *	212	230
	Assumed conversion of 9% cumulative convertible preferred stock	507	507
	Fully diluted average common shares outstanding	7,590	7,586
	Net income	$27,628	24,322
	Earnings per common share - fully diluted	$3.64	3.21

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