

FINANCIAL INSTITUTIONS INC  
Form 10-Q  
August 05, 2016  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2016**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 000-26481**

**(Exact name of registrant as specified in its charter)**

**NEW YORK**  
(State or other jurisdiction of  
incorporation or organization)

**16-0816610**  
(I.R.S. Employer  
Identification No.)

**220 LIBERTY STREET, WARSAW, NEW YORK**  
(Address of principal executive offices)

**14569**  
(Zip Code)

**Registrant's telephone number, including area code: (585) 786-1100**

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every

Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The registrant had 14,528,319 shares of Common Stock, \$0.01 par value, outstanding as of July 28, 2016.

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**FINANCIAL INSTITUTIONS, INC.**

**Form 10-Q**

**For the Quarterly Period Ended June 30, 2016**

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES****Consolidated Statements of Financial Condition (Unaudited)***(Dollars in thousands, except share and per share data)*

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 67,624	\$ 60,121
Securities available for sale, at fair value	619,719	544,395
Securities held to maturity, at amortized cost (fair value of \$490,833 and \$490,064, respectively)	478,549	485,717
Loans held for sale	209	1,430
Loans (net of allowance for loan losses of \$28,525 and \$27,085, respectively)	2,183,306	2,056,677
Company owned life insurance	62,456	63,045
Premises and equipment, net	40,562	39,445
Goodwill and other intangible assets, net	76,252	66,946
Other assets	56,912	63,248
<b>Total assets</b>	<b>\$ 3,585,589</b>	<b>\$ 3,381,024</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Deposits:</b>		
Noninterest-bearing demand	\$ 626,240	\$ 641,972
Interest-bearing demand	560,284	523,366
Savings and money market	960,325	928,175
Time deposits	711,156	637,018
<b>Total deposits</b>	<b>2,858,005</b>	<b>2,730,531</b>
Short-term borrowings	338,300	293,100
Long-term borrowings, net of issuance costs of \$975 and \$1,010, respectively	39,025	38,990
Other liabilities	28,083	24,559
<b>Total liabilities</b>	<b>3,263,413</b>	<b>3,087,180</b>
<b>Shareholders equity:</b>		
Series A 3% preferred stock, \$100 par value; 1,533 shares authorized; 1,492 shares issued	149	149
Series B-1 8.48% preferred stock, \$100 par value; 200,000 shares authorized; 171,906 shares issued	17,191	17,191
<b>Total preferred equity</b>	<b>17,340</b>	<b>17,340</b>

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Common stock, \$0.01 par value; 50,000,000 shares authorized; 14,692,214 and 14,397,509 shares issued, respectively	147	144
Additional paid-in capital	81,255	72,690
Retained earnings	227,184	218,920
Accumulated other comprehensive loss	(654)	(11,327)
Treasury stock, at cost 163,695 and 207,317 shares, respectively	(3,096)	(3,923)
Total shareholders' equity	322,176	293,844
Total liabilities and shareholders' equity	\$ 3,585,589	\$ 3,381,024

See accompanying notes to the consolidated financial statements.

**Table of Contents****FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES****Consolidated Statements of Income (Unaudited)**

<i>(In thousands, except per share amounts)</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Interest income:</b>				
Interest and fees on loans	\$ 22,368	\$ 20,446	\$ 44,425	\$ 40,583
Interest and dividends on investment securities	5,877	5,513	11,455	10,373
Other interest income	1		1	
<b>Total interest income</b>	<b>28,246</b>	<b>25,959</b>	<b>55,881</b>	<b>50,956</b>
<b>Interest expense:</b>				
Deposits	2,086	1,827	4,045	3,447
Short-term borrowings	344	213	683	443
Long-term borrowings	617	515	1,235	515
<b>Total interest expense</b>	<b>3,047</b>	<b>2,555</b>	<b>5,963</b>	<b>4,405</b>
<b>Net interest income</b>	<b>25,199</b>	<b>23,404</b>	<b>49,918</b>	<b>46,551</b>
Provision for loan losses	1,952	1,288	4,320	4,029
<b>Net interest income after provision for loan losses</b>	<b>23,247</b>	<b>22,116</b>	<b>45,598</b>	<b>42,522</b>
<b>Noninterest income:</b>				
Service charges on deposits	1,755	1,964	3,479	3,843
Insurance income	1,183	1,057	2,855	2,665
ATM and debit card	1,421	1,283	2,746	2,476
Investment advisory	1,365	541	2,608	1,028
Company owned life insurance	486	493	1,854	960
Investments in limited partnerships	36	55	92	529
Loan servicing	112	96	228	263
Net gain on sale of loans held for sale	78	39	156	108
Net gain on disposal of investment securities	1,387		2,000	1,062
Net gain on disposal of other assets	82	16	86	20
Other	1,011	911	2,029	1,798
<b>Total noninterest income</b>	<b>8,916</b>	<b>6,455</b>	<b>18,133</b>	<b>14,752</b>
<b>Noninterest expense:</b>				
Salaries and employee benefits	10,818	10,606	22,432	20,829
Occupancy and equipment	3,664	3,375	7,289	7,074
Professional services	2,833	866	4,280	1,834
Computer and data processing	913	810	1,717	1,512
Supplies and postage	464	508	1,058	1,071
FDIC assessments	441	415	877	833

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Advertising and promotions	347	238	724	477
Other	2,640	2,418	4,961	4,617
Total noninterest expense	22,120	19,236	43,338	38,247
Income before income taxes	10,043	9,335	20,393	19,027
Income tax expense	2,892	2,750	5,624	5,641
Net income	\$ 7,151	\$ 6,585	\$ 14,769	\$ 13,386
Preferred stock dividends	366	366	731	731
Net income available to common shareholders	\$ 6,785	\$ 6,219	\$ 14,038	\$ 12,655
Earnings per common share (Note 3):				
Basic	\$ 0.47	\$ 0.44	\$ 0.97	\$ 0.90
Diluted	\$ 0.47	\$ 0.44	\$ 0.97	\$ 0.90
Cash dividends declared per common share	\$ 0.20	\$ 0.20	\$ 0.40	\$ 0.40
Weighted average common shares outstanding:				
Basic	14,434	14,078	14,415	14,071
Diluted	14,489	14,121	14,477	14,118

See accompanying notes to the consolidated financial statements.

Table of Contents**FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income (Unaudited)**

<i>(Dollars in thousands)</i>	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net income	\$ 7,151	\$ 6,585	\$ 14,769	\$ 13,386
Other comprehensive income (loss), net of tax:				
Net unrealized (losses) gains on securities available for sale	3,311	(6,207)	10,394	(2,946)
Pension and post-retirement obligations	140	140	279	275
Total other comprehensive income (loss), net of tax	3,451	(6,067)	10,673	(2,671)
Comprehensive income	\$ 10,602	\$ 518	\$ 25,442	\$ 10,715

See accompanying notes to the consolidated financial statements.



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## FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

## Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

Six months ended June 30, 2016 and 2015

<i>(Dollars in thousands, except per share data)</i>	Preferred Equity	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity
<b>Balance at January 1, 2015</b>	<b>\$ 17,340</b>	<b>\$ 144</b>	<b>\$ 72,955</b>	<b>\$ 203,312</b>	<b>\$ (9,011)</b>	<b>\$ (5,208)</b>	<b>\$ 279,532</b>
Comprehensive income:							
Net income				13,386			13,386
Other comprehensive income, net of tax					(2,671)		(2,671)
Purchases of common stock for treasury						(41)	(41)
Share-based compensation plans:							
Share-based compensation			370				370
Stock options exercised			2			163	165
Restricted stock awards issued, net			(1,060)			1,060	
Excess tax benefit on share-based compensation			1				1
Stock awards			11			43	54
Cash dividends declared:							
Series A 3% Preferred-\$1.50 per share				(2)			(2)
Series B-1 8.48% Preferred-\$4.24 per share				(729)			(729)
Common-\$0.40 per share				(5,630)			(5,630)
<b>Balance at June 30, 2015</b>	<b>\$ 17,340</b>	<b>\$ 144</b>	<b>\$ 72,279</b>	<b>\$ 210,337</b>	<b>\$ (11,682)</b>	<b>\$ (3,983)</b>	<b>\$ 284,435</b>
<b>Balance at January 1, 2016</b>	<b>\$ 17,340</b>	<b>\$ 144</b>	<b>\$ 72,690</b>	<b>\$ 218,920</b>	<b>\$ (11,327)</b>	<b>\$ (3,923)</b>	<b>\$ 293,844</b>
Comprehensive income:							
Net income				14,769			14,769
Other comprehensive income, net of tax					10,673		10,673
Common stock issued		3	8,097				8,100
Share-based compensation plans:							
Share-based compensation			432				432
Stock options exercised			19			767	786
			(17)			17	

Restricted stock awards issued, net							
Excess tax benefit on share-based compensation			13				13
Stock awards			21		43		64
Cash dividends declared:							
Series A 3% Preferred-\$1.50 per share				(2)			(2)
Series B-1 8.48% Preferred-\$4.24 per share				(729)			(729)
Common-\$0.40 per share				(5,774)			(5,774)
<b>Balance at June 30, 2016</b>	<b>\$ 17,340</b>	<b>\$ 147</b>	<b>\$ 81,255</b>	<b>\$ 227,184</b>	<b>\$ (654)</b>	<b>\$ (3,096)</b>	<b>\$ 322,176</b>

See accompanying notes to the consolidated financial statements.

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## FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows (Unaudited)

*(Dollars in thousands)*

	Six months ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 14,769	\$ 13,386
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,990	2,671
Net amortization of premiums on securities	1,503	1,547
Provision for loan losses	4,320	4,029
Share-based compensation	432	370
Deferred income tax expense	(150)	202
Proceeds from sale of loans held for sale	7,671	7,321
Originations of loans held for sale	(6,294)	(6,906)
Income on company owned life insurance	(1,854)	(960)
Net gain on sale of loans held for sale	(156)	(108)
Net gain on disposal of investment securities	(2,000)	(1,062)
Net gain on sale and disposal of other assets	(86)	(20)
(Increase) decrease in other assets	(780)	1,009
Increase in other liabilities	2,434	820
<b>Net cash provided by operating activities</b>	<b>22,799</b>	<b>22,299</b>
Cash flows from investing activities:		
Purchases of available for sale securities	(176,913)	(241,906)
Purchases of held to maturity securities	(23,699)	(39,570)
Proceeds from principal payments, maturities and calls on available for sale securities	57,707	57,787
Proceeds from principal payments, maturities and calls on held to maturity securities	31,147	16,394
Proceeds from sales of securities available for sale	62,275	29,508
Net loan originations	(131,323)	(101,567)
Proceeds from company owned life insurance, net of purchases	2,443	(34)
Proceeds from sales of other assets	318	167
Purchases of premises and equipment	(3,422)	(2,891)
Cash consideration paid for acquisition, net of cash acquired	(868)	
<b>Net cash used in investing activities</b>	<b>(182,335)</b>	<b>(282,112)</b>
Cash flows from financing activities:		
Net increase in deposits	127,474	205,711
Net increase in short-term borrowings	45,200	15,796
Issuance of long-term debt		40,000
Debt issuance costs		(1,060)
Purchase of common stock for treasury		(41)

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Proceeds from stock options exercised	786	165
Excess tax benefit on share-based compensation, net	13	1
Cash dividends paid to common and preferred shareholders	(6,434)	(6,356)
Net cash provided by financing activities	167,039	254,216
Net increase in cash and cash equivalents	7,503	(5,597)
Cash and cash equivalents, beginning of period	60,121	58,151
Cash and cash equivalents, end of period	\$ 67,624	\$ 52,554
Supplemental information:		
Cash paid for interest	\$ 5,492	\$ 3,166
Cash paid for income taxes	3,224	1,539
Noncash investing and financing activities:		
Real estate and other assets acquired in settlement of loans	374	130
Accrued and declared unpaid dividends	3,256	3,182
Increase in net unsettled security purchases	1,250	4,023
Common stock issued for acquisition	8,100	
Assets acquired and liabilities assumed in business combinations:		
Fair value of assets acquired	4,848	
Fair value of liabilities assumed	1,845	
See accompanying notes to the consolidated financial statements.		

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**FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Unaudited)**

**(1.) BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

Financial Institutions, Inc., (the Company) is a financial holding company organized in 1931 under the laws of New York State. The Company provides diversified financial services through its subsidiaries, Five Star Bank, Scott Danahy Naylor, LLC ( Scott Danahy Naylor ) and Courier Capital, LLC ( Courier Capital ). The Company offers a broad array of deposit, lending and other financial services to individuals, municipalities and businesses in Western and Central New York through its wholly-owned New York chartered banking subsidiary, Five Star Bank (the Bank ). The Bank has also expanded its indirect lending network to include relationships with franchised automobile dealers in the Capital District of New York and Northern and Central Pennsylvania. Scott Danahy Naylor provides a broad range of insurance services to personal and business clients across 44 states. Acquired on January 5, 2016, Courier Capital provides customized investment management, investment consulting and retirement plan services to individuals, businesses, institutions, foundations and retirement plans across nine states.

**Basis of Presentation**

The consolidated financial statements include the accounts of Financial Institutions, Inc. and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The accounting and reporting policies conform to U.S. generally accepted accounting principles ( GAAP ). Certain information and footnote disclosures normally included in financial statements prepared in conformity with GAAP have been condensed or omitted pursuant to such rules and regulations. However, in the opinion of management, the accompanying consolidated financial statements reflect all adjustments of a normal and recurring nature necessary for a fair presentation of the consolidated statements of financial condition, income, comprehensive income, changes in shareholders' equity and cash flows for the periods indicated, and contain adequate disclosure to make the information presented not misleading. Prior years' consolidated financial statements are re-classified whenever necessary to conform to the current year's presentation. These consolidated financial statements should be read in conjunction with the Company's 2015 Annual Report on Form 10-K for the year ended December 31, 2015. The results of operations for any interim periods are not necessarily indicative of the results which may be expected for the entire year.

**Reclassifications**

Certain reclassifications of previously reported amounts have been made to conform to the current year presentation. Such reclassifications did not impact net income or shareholders' equity as previously reported.

**Subsequent Events**

The Company has evaluated events and transactions for potential recognition or disclosure through the day the financial statements were issued and determined there were no material recognizable subsequent events.

**Use of Estimates**

The preparation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could

differ from those estimates. Material estimates relate to the determination of the allowance for loan losses, the carrying value of goodwill and deferred tax assets, and assumptions used in the defined benefit pension plan accounting.

### **Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The effective date was recently deferred for one year to the interim and annual periods beginning on or after December 15, 2017. Early adoption is permitted as of the original effective date interim and annual periods beginning on or after December 15, 2016. The Company continues to assess the potential impact of ASU 2014-09 on its accounting and disclosures.

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**Table of Contents****FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Unaudited)****(1.) BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 is intended to improve the recognition and measurement of financial instruments by requiring equity investments to be measured at fair value with changes in fair value recognized in net income; requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured and amortized at cost on the balance sheet; and requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. ASU 2016-01 is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2017. The amendments should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. The Company is assessing the impact of ASU 2016-01 on its accounting and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU 2016-02 establishes a right of use model that requires a lessee to record a right of use asset and a lease liability for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. A lease will be treated as sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing. If the lessor doesn't convey risks and rewards or control, an operating lease results. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements, with certain practical expedients available. Early adoption is permitted. The Company is assessing the impact of ASU 2016-02 on its accounting and disclosures.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 requires all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It also allows an employer to repurchase more of an employee's shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election for forfeitures as they occur. The guidance is effective for public business entities for fiscal years beginning after December 15, 2016, and interim periods within those years. Early adoption is permitted. The

Company is assessing the impact of ASU 2016-09 on its accounting and disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 amends guidance on reporting credit losses for financial assets held at amortized cost basis and available for sale debt securities. Topic 326 eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses based on historical experience, current conditions and reasonable and supportable forecasts. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those years. Early adoption is permitted beginning after December 15, 2018. The Company is assessing the impact of ASU 2016-13 on its accounting and disclosures.



Table of Contents**FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Unaudited)****(2.) BUSINESS COMBINATIONS*****Courier Capital Acquisition***

On January 5, 2016, the Company completed the acquisition of Courier Capital Corporation, a registered investment advisory and wealth management firm with approximately \$1.2 billion in assets under management. Consideration for the acquisition totaled \$9.0 million and included stock of \$8.1 million and \$918 thousand of cash. The acquisition also included up to \$2.8 million of potential future payments of stock and up to \$2.2 million of potential future cash bonuses contingent upon Courier Capital meeting certain EBITDA performance targets through 2018. In addition, the Company purchased two pieces of real property in Buffalo and Jamestown, New York used by Courier Capital for total cash considerations of \$1.3 million. As a result of the acquisition, the Company recorded goodwill of \$6.0 million and other intangible assets of \$3.9 million. The goodwill is not expected to be deductible for income tax purposes. Pro forma results of operations for this acquisition have not been presented because the effect of this acquisition was not material to the Company's consolidated financial statements.

This acquisition was accounted for under the acquisition method in accordance with FASB ASC Topic 805. Accordingly, the assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition date. Due to the timing of the closing of the acquisition, the fair values of other intangibles recorded are subject to adjustment as additional information becomes available to indicate a more accurate or appropriate fair value for the intangibles during the measurement period, which is not to exceed one year from the acquisition date. The following table presents the allocation of acquisition cost to the assets acquired and liabilities assumed, based on their estimated fair values.

Cash	\$	50
Identified intangible assets		3,928
Premises and equipment, accounts receivable and other assets		870
Deferred tax liability		(1,797)
Other liabilities		(48)
Net assets acquired	\$	3,003

The amounts assigned to goodwill and other intangible assets for the Courier Capital acquisition are as follows:

	Amount allocated	Useful life (in years)
Goodwill	\$ 6,015	n/a
Other intangible assets customer relationships	3,900	20
Other intangible assets other	28	5

\$ 9,943

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The following table presents a reconciliation of the earnings and shares used in calculating basic and diluted EPS (in thousands, except per share amounts).

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net income available to common shareholders	\$ 6,785	\$ 6,219	\$ 14,038	\$ 12,655
Weighted average common shares outstanding:				
Total shares issued	14,692	14,398	14,686	14,398
Unvested restricted stock awards	(75)	(100)	(77)	(87)
Treasury shares	(183)	(220)	(194)	(240)
Total basic weighted average common shares outstanding	14,434	14,078	14,415	14,071
Incremental shares from assumed:				
Exercise of stock options	21	22	24	22
Vesting of restricted stock awards	34	21	38	25
Total diluted weighted average common shares outstanding	14,489	14,121	14,477	14,118
Basic earnings per common share	\$ 0.47	\$ 0.44	\$ 0.97	\$ 0.90
Diluted earnings per common share	\$ 0.47	\$ 0.44	\$ 0.97	\$ 0.90

For each of the periods presented, average shares subject to the following instruments were excluded from the computation of diluted EPS because the effect would be antidilutive:

Stock options				
Restricted stock awards	8	3	4	2
	8	3	4	2

**Table of Contents****FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Unaudited)****(4.) INVESTMENT SECURITIES**

The amortized cost and fair value of investment securities are summarized below (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b><u>June 30, 2016</u></b>				
<b>Securities available for sale:</b>				
U.S. Government agencies and government sponsored enterprises	\$ 241,583	\$ 6,550	\$ 7	\$ 248,126
Mortgage-backed securities:				
Federal National Mortgage Association	311,783	8,776		320,559
Federal Home Loan Mortgage Corporation	30,743	772		31,515
Government National Mortgage Association	17,390	737	14	18,113
Collateralized mortgage obligations:				
Federal National Mortgage Association	363		1	362
Federal Home Loan Mortgage Corporation	77		1	76
Privately issued		784		784
Total mortgage-backed securities	360,356	11,069	16	371,409
Asset-backed securities		184		184
Total available for sale securities	\$ 601,939	\$ 17,803	\$ 23	\$ 619,719
<b>Securities held to maturity:</b>				
State and political subdivisions	294,507	10,061	1	304,567
Mortgage-backed securities:				
Federal National Mortgage Association	12,047	290		12,337
Government National Mortgage Association	25,978	307	4	26,281
Collateralized mortgage obligations:				
Federal National Mortgage Association	54,246	525	11	54,760
Federal Home Loan Mortgage Corporation	76,655	1,038	2	77,691
Government National Mortgage Association	15,116	85	4	15,197
Total mortgage-backed securities	184,042	2,245	21	186,266
Total held to maturity securities	\$ 478,549	\$ 12,306	\$ 22	\$ 490,833
<b><u>December 31, 2015</u></b>				
<b>Securities available for sale:</b>				

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U.S. Government agencies and government sponsored enterprises	\$ 260,748	\$ 1,164	\$ 1,049	\$ 260,863
<b>Mortgage-backed securities:</b>				
Federal National Mortgage Association	209,671	1,092	2,333	208,430
Federal Home Loan Mortgage Corporation	24,564	282	194	24,652
Government National Mortgage Association	26,465	943	4	27,404
<b>Collateralized mortgage obligations:</b>				
Federal National Mortgage Association	16,998	90	154	16,934
Federal Home Loan Mortgage Corporation	5,175	1	91	5,085
Privately issued		809		809
<b>Total mortgage-backed securities</b>	<b>282,873</b>	<b>3,217</b>	<b>2,776</b>	<b>283,314</b>
Asset-backed securities		218		218
<b>Total available for sale securities</b>	<b>\$ 543,621</b>	<b>\$ 4,599</b>	<b>\$ 3,825</b>	<b>\$ 544,395</b>
<b>Securities held to maturity:</b>				
State and political subdivisions	294,423	6,562	4	300,981
<b>Mortgage-backed securities:</b>				
Federal National Mortgage Association	9,242	14	79	9,177
Government National Mortgage Association	25,607	33	159	25,481
<b>Collateralized mortgage obligations:</b>				
Federal National Mortgage Association	56,791		818	55,973
Federal Home Loan Mortgage Corporation	80,570		1,120	79,450
Government National Mortgage Association	19,084	19	101	19,002
<b>Total mortgage-backed securities</b>	<b>191,294</b>	<b>66</b>	<b>2,277</b>	<b>189,083</b>
<b>Total held to maturity securities</b>	<b>\$ 485,717</b>	<b>\$ 6,628</b>	<b>\$ 2,281</b>	<b>\$ 490,064</b>

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Investment securities with a total fair value of \$856.5 million at June 30, 2016 were pledged and encumbered as collateral to secure public deposits and for other purposes required or permitted by law.

Sales and calls of securities available for sale were as follows (in thousands):

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Proceeds from sales	\$ 44,648	\$	\$ 62,275	\$ 29,508
Gross realized gains	1,387		2,000	1,073
Gross realized losses				11

The scheduled maturities of securities available for sale and securities held to maturity at June 30, 2016 are shown below (in thousands). Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

	<b>Amortized Cost</b>	<b>Fair Value</b>
<b>Debt securities available for sale:</b>		
Due in one year or less	\$ 5,042	\$ 5,047
Due from one to five years	175,737	179,161
Due after five years through ten years	306,996	317,590
Due after ten years	114,164	117,921
	\$ 601,939	\$ 619,719
<b>Debt securities held to maturity:</b>		
Due in one year or less	\$ 38,909	\$ 39,051
Due from one to five years	176,378	182,498
Due after five years through ten years	92,311	96,184
Due after ten years	170,951	173,100
	\$ 478,549	\$ 490,833



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Unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows (in thousands):

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>June 30, 2016</b>						
<b>Securities available for sale:</b>						
U.S. Government agencies and government sponsored enterprises	\$ 9,997	\$ 3	\$ 1,637	\$ 4	\$ 11,634	\$ 7
Mortgage-backed securities:						
Government National Mortgage Association	1,258	14			1,258	14
Collateralized mortgage obligations:						
Federal National Mortgage Association	362	1			362	1
Federal Home Loan Mortgage Corporation	64	1			64	1
Total mortgage-backed securities	1,684	16			1,684	16
Total available for sale securities	11,681	19	1,637	4	13,318	23
<b>Securities held to maturity:</b>						
State and political subdivisions	832	1			832	1
Mortgage-backed securities:						
Government National Mortgage Association			1,635	4	1,635	4
Collateralized mortgage obligations:						
Federal National Mortgage Association	4,119	11			4,119	11
Federal Home Loan Mortgage Corporation	1,196	2			1,196	2
Government National Mortgage Association	3,695	4			3,695	4



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Total mortgage-backed securities	9,010	17	1,635	4	10,645	21
Total held to maturity securities	9,842	18	1,635	4	11,477	22
Total temporarily impaired securities	\$ 21,523	\$ 37	\$ 3,272	\$ 8	\$ 24,795	\$ 45

**December 31, 2015**

**Securities available for sale:**

U.S. Government agencies and government sponsored enterprises	\$ 82,298	\$ 735	\$ 26,302	\$ 314	\$ 108,600	\$ 1,049
<b>Mortgage-backed securities:</b>						
Federal National Mortgage Association	123,774	2,134	9,562	199	133,336	2,333
Federal Home Loan Mortgage Corporation	12,660	194			12,660	194
Government National Mortgage Association	1,405	4			1,405	4
<b>Collateralized mortgage obligations:</b>						
Federal National Mortgage Association	7,778	154			7,778	154
Federal Home Loan Mortgage Corporation	4,998	91			4,998	91
Total mortgage-backed securities	150,615	2,577	9,562	199	160,177	2,776