FINANCIAL INSTITUTIONS INC
Form 10-Q
May 06, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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	**16-0816610**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
220 LIBERTY STREET, WARSAW, NEW YORK	**14569**
(Address of principal executive offices)	**(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 x 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 x No ¨

Indicate by check mark whether the regsitrant 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 x
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 x

The registrant had 14,498,014 shares of Common Stock, $0.01 par value, outstanding as of April 29, 2016.

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FINANCIAL INSTITUTIONS, INC.

Form 10-Q

For the Quarterly Period Ended March 31, 2016

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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)	**March 31, 2016**	**December 31, 2015**
ASSETS		
Cash and due from banks	$ 110,944	$ 60,121
Securities available for sale, at fair value	610,013	544,395
Securities held to maturity, at amortized cost (fair value of $485,863 and $490,064, respectively)	476,283	485,717
Loans held for sale	609	1,430
Loans (net of allowance for loan losses of $27,568 and $27,085, respectively)	2,087,466	2,056,677
Company owned life insurance	61,962	63,045
Premises and equipment, net	40,771	39,445
Goodwill and other intangible assets, net	76,567	66,946
Other assets	51,957	63,248
Total assets	$ 3,516,572	$ 3,381,024
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits:		
Noninterest-bearing demand	$ 617,394	$ 641,972
Interest-bearing demand	622,443	523,366
Savings and money market	1,042,910	928,175
Time deposits	677,430	637,018
Total deposits	2,960,177	2,730,531
Short-term borrowings	179,200	293,100
Long-term borrowings, net of issuance costs of $992 and $1,010, respectively	39,008	38,990
Other liabilities	24,234	24,559
Total liabilities	3,202,619	3,087,180
Shareholders equity:		
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
Total preferred equity	17,340	17,340

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	81,010	72,690
Retained earnings	223,290	218,920
Accumulated other comprehensive loss	(4,105)	(11,327)
Treasury stock, at cost 197,131 and 207,317 shares, respectively	(3,729)	(3,923)
Total shareholders equity	313,953	293,844
Total liabilities and shareholders equity	$ 3,516,572	$ 3,381,024

See accompanying notes to the consolidated financial statements.

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Consolidated Statements of Income (Unaudited)

(In thousands, except per share amounts)	Three months ended March 31, 2016	2015
Interest income:		
Interest and fees on loans	$ 22,057	$ 20,137
Interest and dividends on investment securities	5,578	4,860
Total interest income	27,635	24,997
Interest expense:		
Deposits	1,959	1,620
Short-term borrowings	339	230
Long-term borrowings	618	
Total interest expense	2,916	1,850
Net interest income	24,719	23,147
Provision for loan losses	2,368	2,741
Net interest income after provision for loan losses	22,351	20,406
Noninterest income:		
Service charges on deposits	1,724	1,879
Insurance income	1,672	1,608
ATM and debit card	1,325	1,193
Investment advisory	1,243	487
Company owned life insurance	1,368	467
Investments in limited partnerships	56	474
Loan servicing	116	167
Net gain on sale of loans held for sale	78	69
Net gain on disposal of investment securities	613	1,062
Net gain on disposal of other assets	4	4
Other	1,018	887
Total noninterest income	9,217	8,297
Noninterest expense:		
Salaries and employee benefits	11,614	10,223
Occupancy and equipment	3,625	3,699
Professional services	1,447	968
Computer and data processing	804	702

Supplies and postage	594	563
FDIC assessments	436	418
Advertising and promotions	377	239
Other	2,321	2,199
Total noninterest expense	21,218	19,011
Income before income taxes	10,350	9,692
Income tax expense	2,732	2,891
Net income	$ 7,618	$ 6,801
Preferred stock dividends	365	365
Net income available to common shareholders	$ 7,253	$ 6,436
Earnings per common share (Note 3):		
Basic	$ 0.50	$ 0.46
Diluted	$ 0.50	$ 0.46
Cash dividends declared per common share	$ 0.20	$ 0.20
Weighted average common shares outstanding:		
Basic	14,395	14,063
Diluted	14,465	14,113

See accompanying notes to the consolidated financial statements.

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in thousands)	**Three months ended March 31,**	
	2016	**2015**
Net income	$ 7,618	$ 6,801
Other comprehensive income, net of tax:		
Net unrealized gains on securities available for sale	7,083	3,261
Pension and post-retirement obligations	139	135
Total other comprehensive income, net of tax	7,222	3,396
Comprehensive income	$ 14,840	$ 10,197

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)

Three months ended March 31, 2016 and 2015

(Dollars in thousands, except per share data)	Preferred Equity	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders Equity
Balance at January 1, 2015	**$ 17,340**	**$ 144**	**$ 72,955**	**$ 203,312**	**$ (9,011)**	**$ (5,208)**	**$ 279,532**
Comprehensive income:							
Net income				6,801			6,801
Other comprehensive income, net of tax					3,396		3,396
Purchases of common stock for treasury						(41)	(41)
Share-based compensation plans:							
Share-based compensation			103				103
Stock options exercised			3			69	72
Restricted stock awards issued, net			(874)			874	
Excess tax benefit on share-based compensation			4				4
Cash dividends declared:							
Series A 3% Preferred-$0.75 per share				(1)			(1)
Series B-1 8.48% Preferred-$2.12 per share				(364)			(364)
Common-$0.20 per share				(2,813)			(2,813)
Balance at March 31, 2015	**$ 17,340**	**$ 144**	**$ 72,191**	**$ 206,935**	**$ (5,615)**	**$ (4,306)**	**$ 286,689**
Balance at January 1, 2016	**$ 17,340**	**$ 144**	**$ 72,690**	**$ 218,920**	**$ (11,327)**	**$ (3,923)**	**$ 293,844**
Comprehensive income:							
Net income				7,618			7,618
Other comprehensive income, net of tax					7,222		7,222
Common stock issued		3	8,097				8,100
Share-based compensation plans:							
Share-based compensation			129				129
Stock options exercised			2			286	288
Restricted stock awards forfeited			92			(92)	

Cash dividends declared:							
Series A 3% Preferred-$0.75 per share				(1)			(1)
Series B-1 8.48% Preferred-$2.12 per share				(364)			(364)
Common-$0.20 per share				(2,883)			(2,883)
Balance at March 31, 2016	**$ 17,340**	**$ 147**	**$ 81,010**	**$ 223,290**	**$ (4,105)**	**$ (3,729)**	**$ 313,953**

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)	Three months ended March 31, 2016	2015
Cash flows from operating activities:		
Net income	$ 7,618	$ 6,801
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,487	1,326
Net amortization of premiums on securities	714	743
Provision for loan losses	2,368	2,741
Share-based compensation	129	103
Deferred income tax expense	131	582
Proceeds from sale of loans held for sale	4,144	3,366
Originations of loans held for sale	(3,245)	(3,198)
Income on company owned life insurance	(1,368)	(467)
Net gain on sale of loans held for sale	(78)	(69)
Net gain on disposal of investment securities	(613)	(1,062)
Net gain on sale and disposal of other assets	(4)	(4)
Decrease in other assets	5,804	7,702
Decrease in other liabilities	(127)	(627)
Net cash provided by operating activities	16,960	17,937
Cash flows from investing activities:		
Purchases of available for sale securities	(119,597)	(78,405)
Purchases of held to maturity securities	(3,612)	(11,024)
Proceeds from principal payments, maturities and calls on available for sale securities	48,280	38,073
Proceeds from principal payments, maturities and calls on held to maturity securities	12,381	5,048
Proceeds from sales of securities available for sale	17,627	29,508
Net loan originations	(33,297)	(14,190)
Proceeds from company owned life insurance, net of purchases	2,451	(7)
Proceeds from sales of other assets	109	109
Purchases of premises and equipment	(2,460)	(1,024)
Cash consideration paid for acquisition, net of cash acquired	(868)	
Net cash used in investing activities	(78,986)	(31,912)
Cash flows from financing activities:		
Net increase in deposits	229,646	254,168
Net decrease in short-term borrowings	(113,900)	(159,231)
Purchase of common stock for treasury		(41)
Proceeds from stock options exercised	288	72
Excess tax benefit on share-based compensation, net		4

Cash dividends paid to common and preferred shareholders	(3,185)	(3,176)
Net cash provided by financing activities	112,849	91,796
Net increase in cash and cash equivalents	50,823	77,821
Cash and cash equivalents, beginning of period	60,121	58,151
Cash and cash equivalents, end of period	$ 110,944	$ 135,972
Supplemental information:		
Cash paid for interest	$ 2,096	$ 1,473
Cash paid for income taxes	500	
Noncash investing and financing activities:		
Real estate and other assets acquired in settlement of loans	140	51
Accrued and declared unpaid dividends	3,248	3,178
(Decrease) increase in net unsettled security purchases	(170)	6,222
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.

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 Naylon, LLC (Scott Danahy Naylon) 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 Pennsylvania. Scott Danahy Naylon 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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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.

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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 $2.8 million of potential future payments of stock and $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

(3.) EARNINGS PER COMMON SHARE (EPS)

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

	Three months ended March 31,	
	2016	**2015**
Net income available to common shareholders	$ 7,253	$ 6,436
Weighted average common shares outstanding:		
Total shares issued	14,679	14,397
Unvested restricted stock awards	(79)	(74)
Treasury shares	(205)	(260)
Total basic weighted average common shares outstanding	14,395	14,063
Incremental shares from assumed:		
Exercise of stock options	27	22
Vesting of restricted stock awards	43	28
Total diluted weighted average common shares outstanding	14,465	14,113
Basic earnings per common share	$ 0.50	$ 0.46
Diluted earnings per common share	$ 0.50	$ 0.46

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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
March 31, 2016				
Securities available for sale:				
U.S. Government agencies and government sponsored enterprises	$ 235,964	$ 5,506	$ 7	$ 241,463
Mortgage-backed securities:				
Federal National Mortgage Association	293,220	4,312	53	297,479
Federal Home Loan Mortgage Corporation	28,019	535	28	28,526
Government National Mortgage Association	18,302	664	12	18,954
Collateralized mortgage obligations:				
Federal National Mortgage Association	16,986	394		17,380
Federal Home Loan Mortgage Corporation	5,165	90		5,255
Privately issued		777		777
Total mortgage-backed securities	361,692	6,772	93	368,371
Asset-backed securities		179		179
Total available for sale securities	$ 597,656	$ 12,457	$ 100	$ 610,013
Securities held to maturity:				
State and political subdivisions	291,934	8,544	1	300,477
Mortgage-backed securities:				
Federal National Mortgage Association	9,190	152	2	9,340
Government National Mortgage Association	26,365	204	41	26,528
Collateralized mortgage obligations:				
Federal National Mortgage Association	54,281	227	15	54,493
Federal Home Loan Mortgage Corporation	77,407	467	5	77,869
Government National Mortgage Association	17,106	57	7	17,156
Total mortgage-backed securities	184,349	1,107	70	185,386
Total held to maturity securities	$ 476,283	$ 9,651	$ 71	$ 485,863
December 31, 2015				
Securities available for sale:				

U.S. Government agencies and government sponsored enterprises	$ 260,748	$ 1,164	$ 1,049	$ 260,863
Mortgage-backed securities:				
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
Collateralized mortgage obligations:				
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
Total mortgage-backed securities	282,873	3,217	2,776	283,314
Asset-backed securities		218		218
Total available for sale securities	$ 543,621	$ 4,599	$ 3,825	$ 544,395
Securities held to maturity:				
State and political subdivisions	294,423	6,562	4	300,981
Mortgage-backed securities:				
Federal National Mortgage Association	9,242	14	79	9,177
Government National Mortgage Association	25,607	33	159	25,481
Collateralized mortgage obligations:				
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
Total mortgage-backed securities	191,294	66	2,277	189,083
Total held to maturity securities	$ 485,717	$ 6,628	$ 2,281	$ 490,064

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(4.) INVESTMENT SECURITIES (Continued)

Investment securities with a total fair value of $908.8 million at March 31, 2016 were pledged 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):

	Three months ended March 31, 2016	Three months ended March 31, 2015
Proceeds from sales	$ 17,627	$ 29,508
Gross realized gains	613	1,073
Gross realized losses		11

The scheduled maturities of securities available for sale and securities held to maturity at March 31, 2016 are shown below (in thousands). Actual expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

	Amortized Cost	Fair Value
Debt securities available for sale:		
Due in one year or less	$ 5,101	$ 5,137
Due from one to five years	179,535	182,050
Due after five years through ten years	300,883	308,638
Due after ten years	112,137	114,188
	$ 597,656	$ 610,013
Debt securities held to maturity:		
Due in one year or less	$ 20,934	$ 20,987
Due from one to five years	174,277	178,726
Due after five years through ten years	111,349	115,419
Due after ten years	169,723	170,731
	$ 476,283	$ 485,863

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(4.) INVESTMENT SECURITIES (Continued)

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
March 31, 2016						
Securities available for sale:						
U.S. Government agencies and government sponsored enterprises	$ 391	$ 1	$ 7,482	$ 6	$ 7,873	$ 7
Mortgage-backed securities:						
Federal National Mortgage Association	12,098	3	15,781	50	27,879	53
Federal Home Loan Mortgage Corporation			4,258	28	4,258	28
Government National Mortgage Association	1,332	12			1,332	12
Total mortgage-backed securities	13,430	15	20,039	78	33,469	93
Total available for sale securities	13,821	16	27,521	84	41,342	100
Securities held to maturity:						
State and political subdivisions	2,477	1			2,477	1
Mortgage-backed securities:						
Federal National Mortgage Association	1,362	2			1,362	2
Government National Mortgage Association	4,225	12	3,773	29	7,998	41
Collateralized mortgage obligations:						
Federal National Mortgage Association	6,895	15			6,895	15
Federal Home Loan Mortgage Corporation	5,100	5			5,100	5
Government National Mortgage Association	3,366	7			3,366	7

Total mortgage-backed securities	20,948	41	3,773	29	24,721	70
Total held to maturity securities	23,425	42	3,773	29	27,198	71
Total temporarily impaired securities	$ 37,246	$ 58	$ 31,294	$ 113	$ 68,540	$ 171
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
Mortgage-backed securities:						
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
Collateralized mortgage obligations:						
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
Total available for sale securities	232,913	3,312	35,864	513	268,777	3,825
Securities held to maturity:						
State and political subdivisions	3,075	4			3,075	4
Mortgage-backed securities:						
Federal National Mortgage Association	5,666	79			5,666	79
Government National Mortgage Association	8,790	159			8,790	159
Collateralized mortgage obligations:						
Federal National Mortgage Association	55,973	818			55,973	818
Federal Home Loan Mortgage Corporation	79,323	1,120			79,323	1,120
Government National Mortgage Association	14,559	101			14,559	101
Total mortgage-backed securities	164,311	2,277			164,311	2,277
Total held to maturity securities	167,386	2,281			167,386	2,281
Total temporarily impaired securities	$ 400,299	$ 5,593	$ 35,864	$ 513	$ 436,163	$ 6,106

FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(4.) INVESTMENT SECURITIES (Continued)

The total number of security positions in the investment portfolio in an unrealized loss position at March 31, 2016 was 45 compared to 152 at December 31, 2015. At March 31, 2016, the Company had positions in 13 investment securities with a fair value of $31.3 million and a total unrealized loss of $113 thousand that have been in a continuous unrealized loss position for more than 12 months. At March 31, 2016, there were a total of 32 securities positions in the Company s investment portfolio with a fair value of $37.2 million and a total unrealized loss of $58 thousand that had been in a continuous unrealized loss position for less than 12 months. At December 31, 2015, the Company had positions in 10 investment securities with a fair value of $35.9 million and a total unrealized loss of $513 thousand that had been in a continuous unrealized loss position for more than 12 months. At December 31, 2015, there were a total of 142 securities positions in the Company s investment portfolio with a fair value of $400.3 million and a total unrealized loss of $5.6 million that had been in a continuous unrealized loss position for less than 12 months. The unrealized loss on investment securities was predominantly caused by changes in market interest rates subsequent to purchase. The fair value of most of the investment securities in the Company s portfolio fluctuates as market interest rates change.

The Company reviews investment securities on an ongoing basis for the presence of other than temporary impairment (OTTI) with formal reviews performed quarterly. When evaluating debt securities for OTTI, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intention to sell the debt security or whether it is more likely than not that it will be required to sell the debt security before its anticipated recovery. The assessment of whether OTTI exists involves a high degree of subjectivity and judgment and is based on the information then available to management. There was no impairment recorded during the three months ended March 31, 2016 and 2015.

Based on management s review and evaluation of the Company s debt securities as of March 31, 2016, the debt securities with unrealized losses were not considered to be other-than-temporarily impaired. As of March 31, 2016, the Company did not intend to sell any of the securities in a loss position and believes that it is not likely that it will be required to sell any such securities before the anticipated recovery of amortized cost. Accordingly, as of March 31, 2016, management has concluded that unrealized losses on its investment securities are temporary and no further impairment loss has been realized in the Company s consolidated statements of income.

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(5.) LOANS

The Company s loan portfolio consisted of the following as of the dates indicated (in thousands):

	Principal Amount Outstanding	Net Deferred Loan (Fees) Costs	Loans, Net
March 31, 2016			
Commercial business	$ 317,420	$ 356	$ 317,776
Commercial mortgage	591,800	(1,484)	590,316
Residential real estate loans	377,406	5,098	382,504
Residential real estate lines	123,894	2,632	126,526
Consumer indirect	655,348	24,498	679,846
Other consumer	17,889	177	18,066
Total	$ 2,083,757	$ 31,277	2,115,034
Allowance for loan losses			(27,568)
Total loans, net			$ 2,087,466
December 31, 2015			
Commercial business	$ 313,475	$ 283	$ 313,758
Commercial mortgage	567,481	(1,380)	566,101
Residential real estate loans	376,023	5,051	381,074
Residential real estate lines	124,766	2,581	127,347
Consumer indirect	652,494	24,446	676,940
Other consumer	18,361	181	18,542
Total	$ 2,052,600	$ 31,162	2,083,762
Allowance for loan losses			(27,085)
Total loans, net			$ 2,056,677

Loans held for sale (not included above) were comprised entirely of residential real estate mortgages and totaled $609 thousand and $1.4 million as of March 31, 2016 and December 31, 2015, respectively.

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(5.) LOANS (Continued)

Past Due Loans Aging

The Company s recorded investment, by loan class, in current and nonaccrual loans, as well as an analysis of accruing delinquent loans is set forth as of the dates indicated (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Nonaccrual	Current	Total Loans
March 31, 2016							
Commercial business	$ 94	$ 2	$	$ 96	$ 4,056	$ 313,268	$ 317,420
Commercial mortgage	53			53	1,781	589,966	591,800
Residential real estate loans	515	22		537	1,601	375,268	377,406
Residential real estate lines	151	43		194	165	123,535	123,894
Consumer indirect	1,296	267		1,563	943	652,842	655,348
Other consumer	52	17	9	78	12	17,799	17,889
Total loans, gross	$ 2,161	$ 351	$ 9	$ 2,521	$ 8,558	$ 2,072,678	$ 2,083,757
December 31, 2015							
Commercial business	$ 321	$ 612	$	$ 933	$ 3,922	$ 308,620	$ 313,475
Commercial mortgage	68	146		214	947	566,320	567,481
Residential real estate loans	723	395		1,118	1,848	373,057	376,023
Residential real estate lines	199	34		233	235	124,298	124,766
Consumer indirect	1,975	286		2,261	1,467	648,766	652,494
Other consumer	98	13	8	119	13	18,229	18,361
Total loans, gross	$ 3,384	$ 1,486	$ 8	$ 4,878	$ 8,432	$ 2,039,290	$ 2,052,600

There were no loans past due greater than 90 days and still accruing interest as of March 31, 2016 and December 31, 2015. There were $9 thousand and $8 thousand in consumer overdrafts which were past due greater than 90 days as of March 31, 2016 and December 31, 2015, respectively. Consumer overdrafts are overdrawn deposit accounts which have been reclassified as loans but by their terms do not accrue interest.

Troubled Debt Restructurings

A modification of a loan constitutes a troubled debt restructuring (TDR) when a borrower is experiencing financial difficulty and the modification constitutes a concession. Commercial loans modified in a TDR may involve temporary interest-only payments, term extensions, reducing the interest rate for the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, collateral concessions, forgiveness of principal, forebearance agreements, or substituting or adding a new borrower or guarantor.

The following table presents information related to loans modified in a TDR during the quarterly periods indicated (dollars in thousands).

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
March 31, 2016			
Commercial business	2	$ 312	$ 312
Commercial mortgage	1	550	550
Total	3	$ 862	$ 862
March 31, 2015			
Commercial business		$	$
Commercial mortgage	1	682	330
Total	1	$ 682	$ 330

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(5.) LOANS (Continued)

The loans identified as a TDR by the Company during the three month periods ended March 31, 2016 and 2015 were previously reported as an impaired loan prior to restructuring. Each of the loans restructured during the three months ended March 31, 2016 and 2015 were on nonaccrual status at the end of the respective period. The modifications related to collateral concessions. Nonaccrual loans that are restructured remain on nonaccrual status, but may move to accrual status after they have performed according to the restructured terms for a period of time. The TDR classifications did not have a material impact on the Company s determination of the allowance for loan losses because the modified loans were impaired and evaluated for a specific reserve both before and after restructuring.

There were no loans modified as a TDR within the previous 12 months that defaulted during the three months ended March 31, 2016 or 2015. For purposes of this disclosure, a loan modified as a TDR is considered to have defaulted when the borrower becomes 90 days past due.

Impaired Loans

Management has determined that specific commercial loans on nonaccrual status and all loans that have had their terms restructured in a troubled debt restructuring are impaired loans. The following table presents the recorded investment, unpaid principal balance and related allowance of impaired loans as of the dates indicated and average recorded investment and interest income recognized on impaired loans for the three month periods ended as of the dates indicated (in thousands):

	Recorded Investment(1)	Unpaid Principal Balance(1)	Related Allowance	Average Recorded Investment	Interest Income Recognized
March 31, 2016					
With no related allowance recorded:					
Commercial business	$ 2,130	$ 2,710	$	$ 1,516	$
Commercial mortgage	1,349	1,697		1,018	
	3,479	4,407		2,534	
With an allowance recorded:					
Commercial business	1,926	1,926	825	2,339	
Commercial mortgage	432	432	127	114	
	2,358	2,358	952	2,453	
	$ 5,837	$ 6,765	$ 952	$ 4,987	$

December 31, 2015					
With no related allowance recorded:					
Commercial business	$ 1,441	$ 1,810	$	$ 1,352	$
Commercial mortgage	937	1,285		1,013	
	2,378	3,095		2,365	
With an allowance recorded:					
Commercial business	2,481	2,481	996	1,946	
Commercial mortgage	10	10	10	449	
	2,491	2,491	1,006	2,395	
	$ 4,869	$ 5,586	$ 1,006	$ 4,760	$

(1) Difference between recorded investment and unpaid principal balance represents partial charge-offs.

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(5.) LOANS (Continued)

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors such as the fair value of collateral. The Company analyzes commercial business and commercial mortgage loans individually by classifying the loans as to credit risk. Risk ratings are updated any time the situation warrants. The Company uses the following definitions for risk ratings:

Special Mention: Loans classified as special mention have a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company s credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as Substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans that do not meet the criteria above that are analyzed individually as part of the process described above are considered Uncriticized or pass-rated loans and are included in groups of homogeneous loans with similar risk and loss characteristics.

The following table sets forth the Company s commercial loan portfolio, categorized by internally assigned asset classification, as of the dates indicated (in thousands):

	Commercial Business	Commercial Mortgage
March 31, 2016		
Uncriticized	$ 303,114	$ 576,742
Special mention	5,643	8,580
Substandard	8,663	6,478
Doubtful		

Total	$ 317,420	$ 591,800
December 31, 2015		
Uncriticized	$ 298,413	$ 551,603
Special mention	4,916	9,015
Substandard	10,146	6,863
Doubtful		
Total	$ 313,475	$ 567,481

The Company utilizes payment status as a means of identifying and reporting problem and potential problem retail loans. The Company considers nonaccrual loans and loans past due greater than 90 days and still accruing interest to be non-performing. The following table sets forth the Company s retail loan portfolio, categorized by payment status, as of the dates indicated (in thousands):

	Residential Real Estate Loans	Residential Real Estate Lines	Consumer Indirect	Other Consumer
March 31, 2016				
Performing	$ 375,805	$ 123,729	$ 654,405	$ 17,868
Non-performing	1,601	165	943	21
Total	$ 377,406	$ 123,894	$ 655,348	$ 17,889
December 31, 2015				
Performing	$ 374,175	$ 124,531	$ 651,027	$ 18,340
Non-performing	1,848	235	1,467	21
Total	$ 376,023	$ 124,766	$ 652,494	$ 18,361

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(5.) LOANS (Continued)

Allowance for Loan Losses

The following tables set forth the changes in the allowance for loan losses for the three month periods ended as of the dates indicated (in thousands):

	Commercial Business	Commercial Mortgage	Residential Real Estate Loans	Residential Real Estate Lines	Consumer Indirect	Other Consumer	Total
March 31, 2016							
Allowance for loan losses:							
Beginning balance	$ 5,540	$ 9,027	$ 1,347	$ 345	$ 10,458	$ 368	$ 27,085
Charge-offs	602	4	46	4	2,498	157	3,311
Recoveries	100	5	25	4	1,170	122	1,426
Provision	398	687	58		1,167	58	2,368
Ending balance	$ 5,436	$ 9,715	$ 1,384	$ 345	$ 10,297	$ 391	$ 27,568
Evaluated for impairment:							
Individually	$ 791	$ 120	$	$	$	$	$ 911
Collectively	$ 4,645	$ 9,595	$ 1,384	$ 345	$ 10,297	$ 391	$ 26,657
Loans:							
Ending balance	$ 317,420	$ 591,800	$ 377,406	$ 123,894	$ 655,348	$ 17,889	$ 2,083,757
Evaluated for impairment:							
Individually	$ 3,924	$ 1,730	$	$	$	$	$ 5,654
Collectively	$ 313,496	$ 590,070	$ 377,406	$ 123,894	$ 655,348	$ 17,889	$ 2,078,103
March 31, 2015							
Allowance for loan losses:							

Beginning balance	$ 5,621	$ 8,122	$ 1,620	$ 435	$ 11,383	$ 456	$ 27,637
Charge-offs	1,141	609	139		2,422	259	4,570
Recoveries	48	89	41	2	1,105	98	1,383
Provision (credit)	867	554	64	(35)	1,139	152	2,741
Ending balance	$ 5,395	$ 8,156	$ 1,586	$ 402	$ 11,205	$ 447	$ 27,191
Evaluated for impairment:							
Individually	$ 1,120	$ 817	$	$	$	$	$ 1,937
Collectively	$ 4,275	$ 7,339	$ 1,586	$ 402	$ 11,205	$ 447	$ 25,254
Loans:							
Ending balance	$ 277,427	$ 480,479	$ 351,088	$ 126,832	$ 637,380	$ 19,184	$ 1,892,390
Evaluated for impairment:							
Individually	$ 4,587	$ 3,411	$	$	$	$	$ 7,998
Collectively	$ 272,840	$ 477,068	$ 351,088	$ 126,832	$ 637,380	$ 19,184	$ 1,884,392

Risk Characteristics

Commercial business loans primarily consist of loans to small to midsize businesses in our market area in a diverse range of industries. These loans are of higher risk and typically are made on the basis of the borrower s ability to make repayment from the cash flow of the borrower s business. Further, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value. The credit risk related to commercial loans is largely influenced by general economic conditions and the resulting impact on a borrower s operations or on the value of underlying collateral, if any.

Commercial mortgage loans generally have larger balances and involve a greater degree of risk than residential mortgage loans, potentially resulting in higher losses on an individual customer basis. Loan repayment is often dependent on the successful operation and management of the properties, as well as on the collateral securing the loan. Economic events or conditions in the real estate market could have an adverse impact on the cash flows generated by properties securing the Company s commercial real estate loans and on the value of such properties.

FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(5.) LOANS (Continued)

Residential real estate loans (comprised of conventional mortgages and home equity loans) and Residential real estate lines (comprised of home equity lines) are generally made on the basis of the borrower s ability to make repayment from his or her employment and other income, but are secured by real property whose value tends to be more easily ascertainable. Credit risk for these types of loans is generally influenced by general economic conditions, the characteristics of individual borrowers, and the nature of the loan collateral.

Consumer indirect and other consumer loans may entail greater credit risk than residential mortgage loans and home equities, particularly in the case of other consumer loans which are unsecured or, in the case of indirect consumer loans, secured by depreciable assets, such as automobiles or boats. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance. In addition, consumer loan collections are dependent on the borrower s continuing financial stability, and thus are more likely to be affected by adverse personal circumstances such as job loss, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

(6.) GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill totaled $66.4 and $60.4 million as of March 31, 2016 and December 31, 2015, respectively. The Company performs a goodwill impairment test on an annual basis or more frequently if events and circumstances warrant.

	Banking	Non-Banking	Total
Balance, December 31, 2015	$ 48,536	$ 11,866	$ 60,402
Acquisition		6,015	6,015
Balance, March 31, 2016	$ 48,536	$ 17,881	$ 66,417

Goodwill and other intangible assets added during the period relates to the Courier Capital acquisition, which was completed on January 5, 2016. See Note 2 Business Combinations for additional information.

The Company has other intangible assets that are amortized, consisting of core deposit intangibles and other intangibles (primarily related to customer relationships). Changes in the gross carrying amount, accumulated amortization and net book value, were as follows (in thousands):

	March 31, 2016	December 31, 2015
Other intangibles assets:		
Gross carrying amount	$ 12,610	$ 8,682
Accumulated amortization	(2,460)	(2,138)
Net book value	$ 10,150	$ 6,544

Amortization expense for total other intangible assets was $322 thousand and $243 thousand for the three months ended March 31, 2016 and 2015, respectively. As of March 31, 2016, the estimated amortization expense of other intangible assets for the remainder of 2016 and each of the next five years is as follows (in thousands):

2016 (remainder of year)	$ 927
2017	1,144
2018	1,035
2019	937
2020	840
2021	738

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(7.) SHAREHOLDERS EQUITY

Common Stock

The changes in shares of common stock were as follows for the three month periods ended March 31, 2016 and 2015:

	Outstanding	Treasury	Issued
March 31, 2016			
Shares outstanding at December 31, 2015	14,190,192	207,317	14,397,509
Common stock issued for acquisition	294,705		294,705
Restricted stock awards forfeited	(4,914)	4,914	
Stock options exercised	15,100	(15,100)	
Shares outstanding at March 31, 2016	14,495,083	197,131	14,692,214
March 31, 2015			
Shares outstanding at December 31, 2014	14,118,048	279,461	14,397,509
Restricted stock awards issued	49,084	(49,084)	
Restricted stock awards forfeited	(2,271)	2,271	
Stock options exercised	3,722	(3,722)	
Treasury stock purchases	(1,791)	1,791	
Shares outstanding at March 31, 2015	14,166,792	230,717	14,397,509

(8.) ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents the components of other comprehensive income for the three month periods ended March 31, 2016 and 2015 (in thousands):

	Pre-tax Amount	Tax Effect	Net-of-tax Amount
March 31, 2016			
Securities available for sale and transferred securities:			
Change in unrealized gain/loss during the period	$ 12,196	$ 4,706	$ 7,490
Reclassification adjustment for net gains included in net income (1)	(662)	(255)	(407)
	11,534	4,451	7,083

Total securities available for sale and transferred securities			
Amortization of pension and post-retirement items:			
Prior service credit	(12)	(5)	(7)
Net actuarial losses	239	93	146
Total pension and post-retirement obligations	227	88	139
Other comprehensive income	$ 11,761	$ 4,539	$ 7,222
March 31, 2015			
Securities available for sale and transferred securities:			
Change in unrealized gain/loss during the period	$ 6,396	$ 2,436	$ 3,960
Reclassification adjustment for net gains included in net income (1)	(1,139)	(440)	(699)
Total securities available for sale and transferred securities	5,257	1,996	3,261
Amortization of pension and post-retirement items:			
Prior service credit	(12)	(5)	(7)
Net actuarial losses	236	94	142
Total pension and post-retirement obligations	224	89	135
Other comprehensive income	$ 5,481	$ 2,085	$ 3,396

(1) Includes amounts related to the amortization/accretion of unrealized net gains and losses related to the Company s reclassification of available for sale investment securities to the held to maturity category. The unrealized net gains/losses will be amortized/accreted over the remaining life of the investment securities as an adjustment of yield.

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(8.) ACCUMULATED OTHER COMPREHENSIVE LOSS (Continued)

Activity in accumulated other comprehensive loss, net of tax, for the three month periods ended March 31, 2016 and 2015 was as follows (in thousands):

	Securities Available for Sale and Transferred Securities	Pension and Post-retirement Obligations	Accumulated Other Comprehensive Loss
March 31, 2016			
Balance at beginning of year	$ (696)	$ (10,631)	$ (11,327)
Other comprehensive income before reclassifications	7,490		7,490
Amounts reclassified from accumulated other comprehensive loss	(407)	139	(268)
Net current period other comprehensive income	7,083	139	7,222
Balance at end of period	$ 6,387	$ (10,492)	$ (4,105)
March 31, 2015			
Balance at beginning of year	$ 1,625	$ (10,636)	$ (9,011)
Other comprehensive income before reclassifications	3,960		3,960
Amounts reclassified from accumulated other comprehensive loss	(699)	135	(564)
Net current period other comprehensive income	3,261	135	3,396
Balance at end of period	$ 4,886	$ (10,501)	$ (5,615)

The following table presents the amounts reclassified out of each component of accumulated other comprehensive loss for the three month periods ended March 31, 2016 and 2015 (in thousands):