

FINANCIAL INSTITUTIONS INC

Form 10-Q

November 07, 2018

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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 September 30, 2018

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.)

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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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 15,924,959 shares of Common Stock, \$0.01 par value, outstanding as of October 31, 2018.

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FINANCIAL INSTITUTIONS, INC.

Form 10-Q

For the Quarterly Period Ended September 30, 2018

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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)	September 30,	December 31,
	2018	2017
<b>ASSETS</b>		
Cash and due from banks	\$ 117,331	\$ 99,195
Securities available for sale, at fair value	458,310	524,973
Securities held to maturity, at amortized cost (fair value of \$447,718 and \$512,983, respectively)	459,623	516,466
Loans held for sale	3,166	2,718
Loans (net of allowance for loan losses of \$33,955 and \$34,672, respectively)	2,954,376	2,700,345
Company owned life insurance	66,628	65,288
Premises and equipment, net	43,309	45,189
Goodwill and other intangible assets, net	78,853	74,703
Other assets	76,789	76,333
<b>Total assets</b>	<b>\$ 4,258,385</b>	<b>\$ 4,105,210</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Deposits:</b>		
Noninterest-bearing demand	\$ 748,167	\$ 718,498
Interest-bearing demand	711,321	634,203
Savings and money market	988,486	1,005,317
Time deposits	1,037,755	852,156
<b>Total deposits</b>	<b>3,485,729</b>	<b>3,210,174</b>
Short-term borrowings	308,200	446,200
Long-term borrowings, net of issuance costs of \$816 and \$869, respectively	39,184	39,131
Other liabilities	33,118	28,528
<b>Total liabilities</b>	<b>3,866,231</b>	<b>3,724,033</b>
<b>Shareholders' equity:</b>		
Series A 3% preferred stock, \$100 par value; 1,533 shares authorized; 1,439 shares issued	144	144
Series B-1 8.48% preferred stock, \$100 par value; 200,000 shares authorized; 171,847 shares issued	17,185	17,185
<b>Total preferred equity</b>	<b>17,329</b>	<b>17,329</b>
Common stock, \$0.01 par value; 50,000,000 shares authorized; 16,056,178 shares issued	161	161
Additional paid-in capital	122,478	121,058
Retained earnings	276,563	257,078

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Accumulated other comprehensive loss	(21,820 )	(11,916 )
Treasury stock, at cost – 131,219 and 131,240 shares, respectively	(2,557 )	(2,533 )
Total shareholders' equity	392,154	381,177
Total liabilities and shareholders' equity	\$ 4,258,385	\$ 4,105,210

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		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
<b>Interest income:</b>				
Interest and fees on loans	\$ 33,750	\$ 27,455	\$ 94,851	\$ 77,540
Interest and dividends on investment securities	5,283	5,941	16,449	17,736
Other interest income	2	-	6	67
<b>Total interest income</b>	<b>39,035</b>	<b>33,396</b>	<b>111,306</b>	<b>95,343</b>
<b>Interest expense:</b>				
Deposits	5,163	3,089	12,872	7,820
Short-term borrowings	2,434	1,251	6,047	2,815
Long-term borrowings	617	618	1,853	1,853
<b>Total interest expense</b>	<b>8,214</b>	<b>4,958</b>	<b>20,772</b>	<b>12,488</b>
<b>Net interest income</b>	<b>30,821</b>	<b>28,438</b>	<b>90,534</b>	<b>82,855</b>
Provision for loan losses	2,061	2,802	5,050	9,415
<b>Net interest income after provision for loan losses</b>	<b>28,760</b>	<b>25,636</b>	<b>85,484</b>	<b>73,440</b>
<b>Noninterest income:</b>				
Service charges on deposits	1,813	1,901	5,254	5,486
Insurance income	1,501	1,488	3,918	4,052
ATM and debit card	1,557	1,445	4,509	4,230
Investment advisory	2,245	1,497	5,934	4,357
Company owned life insurance	440	449	1,333	1,367
Investments in limited partnerships	328	(14 )	1,019	91
Loan servicing	78	105	396	348
Net gain on sale of loans held for sale	303	150	530	270
Net (loss) gain on investment securities	(95 )	184	(88 )	600
Net gain on derivative instruments	354	127	606	127
Net gain on other assets	37	21	49	25
Contingent consideration liability adjustment	—	—	—	1,200
Other	1,337	1,221	3,971	3,590
<b>Total noninterest income</b>	<b>9,898</b>	<b>8,574</b>	<b>27,431</b>	<b>25,743</b>
<b>Noninterest expense:</b>				
Salaries and employee benefits	13,970	12,348	40,270	35,703
Occupancy and equipment	4,337	4,087	12,911	12,235
Professional services	1,353	1,157	3,132	3,229
Computer and data processing	1,291	1,208	3,884	3,691
Supplies and postage	485	492	1,545	1,496
FDIC assessments	498	440	1,486	1,366
Advertising and promotions	949	344	2,647	1,451
Amortization of intangibles	334	288	927	876

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Goodwill impairment	—	—	—	1,575
Other	2,304	2,103	6,271	5,728
Total noninterest expense	25,521	22,467	73,073	67,350
Income before income taxes	13,137	11,743	39,842	31,833
Income tax expense	2,560	3,464	7,807	9,365
Net income	\$ 10,577	\$ 8,279	\$ 32,035	\$ 22,468
Preferred stock dividends	365	366	1,096	1,097
Net income available to common shareholders	\$ 10,212	\$ 7,913	\$ 30,939	\$ 21,371
Earnings per common share (Note 3):				
Basic	\$ 0.64	\$ 0.52	\$ 1.95	\$ 1.44
Diluted	\$ 0.64	\$ 0.52	\$ 1.94	\$ 1.44
Cash dividends declared per common share	\$ 0.24	\$ 0.21	\$ 0.72	\$ 0.63

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		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net income	\$ 10,577	\$ 8,279	\$ 32,035	\$ 22,468
Other comprehensive (loss) income, net of tax:				
Securities available for sale and transferred securities	(1,736 )	284	(10,493)	2,600
Hedging derivative instruments	85	—	208	—
Pension and post-retirement obligations	127	171	381	513
Total other comprehensive (loss) income, net of tax	(1,524 )	455	(9,904 )	3,113
Comprehensive income	\$ 9,053	\$ 8,734	\$ 22,131	\$ 25,581

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)

Nine months ended September 30, 2018 and 2017

	Accumulated						
	Preferred	Common	Additional	Retained	Other	Treasury	Total
(Dollars in thousands, except per share data)	Equity	Stock	Paid-in	Earnings	Loss	Stock	Shareholders'
	Equity	Stock	Capital	Earnings	Loss	Stock	Equity
Balance at December 31, 2016	\$ 17,340	\$ 147	\$ 81,755	\$ 237,687	\$ (13,951 )	\$ (2,924 )	\$ 320,054
Cumulative-effect adjustment	—	—	(279 )	279	—	—	—
Balance at January 1, 2017	\$ 17,340	\$ 147	\$ 81,476	\$ 237,966	\$ (13,951 )	\$ (2,924 )	\$ 320,054
Comprehensive income:							
Net income	—	—	—	22,468	—	—	22,468
Other comprehensive income, net of tax	—	—	—	—	3,113	—	3,113
Common stock issued	—	11	29,653	—	—	—	29,664
Purchases of common stock for treasury	—	—	—	—	—	(148 )	(148 )
Repurchase of Series B-1 8.48% preferred stock	(6 )	—	—	—	—	—	(6 )
Share-based compensation plans:							
Share-based compensation	—	—	885	—	—	—	885
Stock options exercised	—	—	5	—	—	408	413
Restricted stock awards issued, net	—	—	29	—	—	(29 )	—
Stock awards	—	—	39	—	—	76	115
Cash dividends declared:							
Series A 3% Preferred-\$2.25 per share	—	—	—	(3 )	—	—	(3 )
Series B-1 8.48% Preferred-\$6.36 per share	—	—	—	(1,094 )	—	—	(1,094 )
Common-\$0.63 per share	—	—	—	(9,459 )	—	—	(9,459 )
Balance at September 30, 2017	\$ 17,334	\$ 158	\$ 112,087	\$ 249,878	\$ (10,838 )	\$ (2,617 )	\$ 366,002
Balance at December 31, 2017	\$ 17,329	\$ 161	\$ 121,058	\$ 257,078	\$ (11,916 )	\$ (2,533 )	\$ 381,177
Comprehensive income:							
Net income	—	—	—	32,035	—	—	32,035
Other comprehensive loss, net of tax	—	—	—	—	(9,904 )	—	(9,904 )
	—	—	—	—	—	(113 )	(113 )

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Purchases of common stock for treasury							
Share-based compensation plans:							
Share-based compensation	—	—	1,097	—	—	—	1,097
Stock options exercised	—	—	(19 )	—	—	339	320
Restricted stock awards issued, net	—	—	303	—			