COMMUNITY BANK SYSTEM, INC.
Form 10-Q
May 10, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2017

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: 001-13695

(Exact name of registrant as specified in its charter)

Delaware	16 1213679
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5790 Widewaters Parkway, DeWitt, New York	13214-1883
(Address of principal executive offices)	(Zip Code)

(315) 445 2282
(Registrant's telephone number, including area code)

NONE
(Former name, former address and former fiscal year, if changed since last report)

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 to 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, 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

(Do not check if a smaller reporting 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
45,983,193 shares of Common Stock, $1.00 par value per share, were outstanding on April 30, 2017.

TABLE OF CONTENTS

Part I. Financial Information
Item 1. Financial Statements

COMMUNITY BANK SYSTEM, INC.
CONSOLIDATED STATEMENTS OF CONDITION (Unaudited)
(In Thousands, Except Share Data)

	March 31, 2017	December 31, 2016
Assets:		
Cash and cash equivalents	$291,186	$173,857
Available-for-sale investment securities (cost of $2,695,204 and $2,706,863, respectively)	2,740,890	2,748,656
Other securities, at cost	47,828	35,736
Loans held for sale, at fair value	673	2,416
Loans	4,932,213	4,948,562
Allowance for loan losses	(47,096)	(47,233)
Net loans	4,885,117	4,901,329
Goodwill, net	542,986	465,142
Core deposit intangibles, net	6,553	7,107
Other intangibles, net	69,438	8,595
Intangible assets, net	618,977	480,844
Premises and equipment, net	111,154	112,318
Accrued interest and fees receivable	28,466	31,093
Other assets	189,569	180,188
Total assets	$8,913,860	$8,666,437
Liabilities:		
Noninterest-bearing deposits	$1,642,158	$1,646,039
Interest-bearing deposits	5,694,719	5,429,915
Total deposits	7,336,877	7,075,954
Borrowings	0	146,200
Subordinated debt held by unconsolidated subsidiary trusts	102,177	102,170
Accrued interest and other liabilities	178,776	144,013
Total liabilities	7,617,830	7,468,337
Commitments and contingencies (See Note J)		
Shareholders' equity:		
Preferred stock, $1.00 par value, 500,000 shares authorized, 0 shares issued	0	0
Common stock, $1.00 par value, 75,000,000 shares authorized; 46,430,517 and 44,950,352 shares issued, respectively	46,431	44,950
Additional paid-in capital	627,015	545,775
Retained earnings	626,258	614,692

Accumulated other comprehensive income	10,354	7,843
Treasury stock, at cost (474,635 and 512,937 shares, respectively)	(14,028)	(15,160)
Total shareholders' equity	1,296,030	1,198,100
Total liabilities and shareholders' equity	$8,913,860	$8,666,437

The accompanying notes are an integral part of the consolidated financial statements.

COMMUNITY BANK SYSTEM, INC.
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(In Thousands, Except Per-Share Data)

	Three Months Ended March 31,	
	2017	2016
Interest income:		
Interest and fees on loans	$52,384	$51,650
Interest and dividends on taxable investments	13,566	13,596
Interest on nontaxable investments	4,008	4,510
Total interest income	69,958	69,756
Interest expense:		
Interest on deposits	1,730	1,894
Interest on borrowings	149	287
Interest on subordinated debt held by unconsolidated subsidiary trusts	805	694
Total interest expense	2,684	2,875
Net interest income	67,274	66,881
Provision for loan losses	1,828	1,341
Net interest income after provision for loan losses	65,446	65,540
Noninterest revenues:		
Deposit service fees	14,707	13,734
Other banking services	1,159	1,579
Employee benefit services	17,189	12,011
Insurance revenues	6,400	5,841
Wealth management services	4,861	5,116
Gain on investment securities	2	0
Total noninterest revenues	44,318	38,281
Noninterest expenses:		
Salaries and employee benefits	41,400	39,138
Occupancy and equipment	8,196	7,663
Data processing and communications	8,521	8,412
Amortization of intangible assets	2,768	1,442
Legal and professional fees	2,414	2,516
Office supplies and postage	1,674	1,778
Business development and marketing	2,081	2,013
FDIC insurance premiums	753	1,101
Acquisition expenses	1,716	77
Other expenses	4,052	3,529
Total noninterest expenses	73,575	67,669
Income before income taxes	36,189	36,152
Income taxes	9,932	11,749
Net income	$26,257	$24,403

Basic earnings per share	$0.58	$0.55
Diluted earnings per share	$0.57	$0.55
Cash dividends declared per share	$0.32	$0.31

The accompanying notes are an integral part of the consolidated financial statements.

COMMUNITY BANK SYSTEM, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(In Thousands)

	Three Months Ended March 31, 2017	2016
Pension and other post-retirement obligations:		
Amortization of actuarial losses included in net periodic pension cost, gross	$265	$375
Tax effect	(102)	(144)
Amortization of actuarial losses included in net periodic pension cost, net	163	231
Amortization of prior service cost included in net periodic pension cost, gross	(31)	(34)
Tax effect	12	13
Amortization of prior service cost included in net periodic pension cost, net	(19)	(21)
Other comprehensive income related to pension and other post-retirement obligations, net of taxes	144	210
Unrealized gains on available-for-sale securities:		
Net unrealized holding gains arising during period, gross	3,893	67,257
Tax effect	(1,526)	(25,415)
Net unrealized holding gains arising during period, net	2,367	41,842
Other comprehensive income related to unrealized gains on available-for-sale securities, net of taxes	2,367	41,842
Other comprehensive income, net of tax	2,511	42,052
Net income	26,257	24,403
Comprehensive income	$28,768	$66,455

	As of March 31, 2017	December 31, 2016
Accumulated Other Comprehensive Income By Component:		
Unrealized loss for pension and other post-retirement obligations	$ (28,735)	$ (28,969)
Tax effect	10,918	11,008
Net unrealized loss for pension and other post-retirement obligations	(17,817)	(17,961)
Unrealized gain on available-for-sale securities	45,686	41,793
Tax effect	(17,515)	(15,989)
Net unrealized gain on available-for-sale securities	28,171	25,804
Accumulated other comprehensive income	$ 10,354	$ 7,843

The accompanying notes are an integral part of the consolidated financial statements.

COMMUNITY BANK SYSTEM, INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
Three months ended March 31, 2017
(In Thousands, Except Share Data)

	Common Stock Shares Outstanding	Common Stock Amount Issued	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2016	44,437,415	$44,950	$545,775	$614,692	$ 7,843	$ (15,160)	$1,198,100
Net income				26,257			26,257
Other comprehensive income, net of tax					2,511		2,511
Cash dividends declared: Common, $0.32 per share				(14,691)			(14,691)
Common stock issued under employee stock plan	157,801	158	1,651				1,809
Stock-based compensation			1,410				1,410
Stock issued for acquisition	1,322,364	1,323	77,160				78,483
Treasury stock issued to benefit plan	38,302		1,019			1,132	2,151
Balance at March 31, 2017	45,955,882	$46,431	$627,015	$626,258	$ 10,354	$ (14,028)	$1,296,030

The accompanying notes are an integral part of the consolidated financial statements.

COMMUNITY BANK SYSTEM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In Thousands)

	Three Months Ended March 31, 2017	2016
Operating activities:		
Net income	$26,257	$24,403
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,669	3,556
Amortization of intangible assets	2,768	1,442
Net accretion on securities, loans and borrowings	(406)	(911)
Stock-based compensation	1,410	1,219
Provision for loan losses	1,828	1,341
Amortization of mortgage servicing rights	126	131
Income from bank-owned life insurance policies	(368)	(355)
Net gain on sale of loans and other assets	(53)	(68)
Change in other assets and liabilities	7,430	(3,454)
Net cash provided by operating activities	42,661	27,304
Investing activities:		
Proceeds from maturities of available-for-sale investment securities	33,479	18,894
Proceeds from maturities of other investment securities	8,709	12,297
Purchases of available-for-sale investment securities	(16,784)	(12,255)
Purchases of other securities	(505)	(4,612)
Net change in loans	12,197	(22,031)
Cash paid for acquisition, net of cash acquired of $11,063 and $0, respectively	(63,517)	(575)
Purchases of premises and equipment, net	(2,088)	(2,639)
Net cash used in investing activities	(28,509)	(10,921)
Financing activities:		
Net change in deposits	260,923	245,588
Net change in borrowings	(146,200)	(267,600)
Issuance of common stock	1,809	932
Sales of treasury stock	2,151	5,022
Cash dividends paid	(14,186)	(13,605)
Withholding taxes paid on share-based compensation	(1,320)	(1,417)
Net cash provided by/(used in) financing activities	103,177	(31,080)
Change in cash and cash equivalents	117,329	(14,697)
Cash and cash equivalents at beginning of period	173,857	153,210
Cash and cash equivalents at end of period	$291,186	$138,513
Supplemental disclosures of cash flow information:		
Cash paid for interest	$2,707	$2,863
Cash paid for income taxes	9,044	7,065
Supplemental disclosures of noncash financing and investing activities:		
Dividends declared and unpaid	14,773	13,610
Transfers from loans to other real estate	920	390
Acquisitions:		

Common stock issued	78,483	0
Fair value of assets acquired, excluding acquired cash and intangibles	31,599	0
Fair value of liabilities assumed	30,500	0

The accompanying notes are an integral part of the consolidated financial statements.

COMMUNITY BANK SYSTEM, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
MARCH 31, 2017

NOTE A: BASIS OF PRESENTATION

The interim financial data as of and for the three months ended March 31, 2017 is unaudited; however, in the opinion of Community Bank System, Inc. (the "Company"), the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods in conformity with generally accepted accounting principles ("GAAP"). The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period.

NOTE B: ACQUISITIONS

Pending Acquisition – Merchants Bancshares, Inc.
On October 24, 2016, the Company announced that it had entered into a definitive agreement to acquire Merchants Bancshares, Inc. ("Merchants"), parent company of Merchants Bank headquartered in South Burlington, Vermont, for approximately $335 million in Company stock and cash. The acquisition will extend the Company's footprint into the Vermont and Western Massachusetts markets. Upon the completion of the merger, Community Bank will add 31 branch locations in Vermont and one location in Massachusetts with approximately $2.0 billion of assets, and deposits of $1.5 billion. The Company and Merchants have received regulatory approvals from the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency ("OCC") for the announced merger and the acquisition is expected to close on May 12, 2017, subject to the satisfaction of customary closing conditions. The Company expects to incur certain one-time, transaction-related costs in 2017.

On March 1, 2017, the Company, through its subsidiary, OneGroup NY, Inc. ("OneGroup"), completed its acquisition of certain assets of Dryfoos Insurance Agency, Inc. ("Dryfoos"), an insurance agency headquartered in Hazleton, Pennsylvania. The Company paid $3.3 million in cash to acquire the assets of Dryfoos, and recorded goodwill in the amount of $1.7 million and other intangible assets of $1.7 million in conjunction with the acquisition. The effects of the acquired assets and liabilities have been included in the consolidated financial statements since that date.

On February 3, 2017, the Company completed its acquisition of Northeast Retirement Services, Inc. ("NRS") and its subsidiary Global Trust Company ("GTC"), headquartered in Woburn, Massachusetts, for approximately $148.6 million in Company stock and cash. NRS was a privately held corporation focused on providing institutional transfer agency, master recordkeeping services, custom target date fund administration, trust product administration and customized reporting services to institutional clients. Its wholly-owned subsidiary, GTC, is chartered in the State of Maine in 2008 as a non-depository trust company which provides fiduciary services for collective investment trusts and other products. The acquisition of NRS and GTC, hereafter referred to collectively as NRS, will strengthen and complement the Company's existing employee benefit services businesses. Upon the completion of the merger, NRS is a wholly-owned subsidiary of Benefit Plans Administrative Services, Inc. ("BPAS") and will operate as Northeast Retirement Services, LLC, a Delaware limited liability company. This transaction resulted in the acquisition of $36.4 million in net tangible assets, principally cash and certificates of deposit, $60.2 million in customer list intangibles that will be amortized using the 150% declining balance method over 10 years, a $24.2 million deferred tax liability associated with the customer list intangible, and approximately $76.2 million in goodwill. The effects of the acquired assets and liabilities have been included in the consolidated financial statements since that date. Revenues of $5.1 million and expenses of $3.6 million from NRS were included in the consolidated income statement for the three months ended March 31, 2017.

On January 4, 2017, the Company, through its subsidiary, OneGroup, completed its acquisition of certain assets of Benefits Advisory Service, Inc. ("BAS"), a benefits consulting group headquartered in Forest Hills, New York. The Company paid $1.2 million in cash to acquire BAS and recorded intangible assets of $1.2 million in conjunction with the acquisition. The effects of the acquired assets and liabilities have been included in the consolidated financial statements since that date.

On January 4, 2016, the Company, through its subsidiary, CBNA Insurance Agency, Inc. ("CBNA Insurance"), completed its acquisition of WJL Agencies Inc. doing business as The Clark Insurance Agencies ("WJL"), an insurance agency operating in Canton, New York. The Company paid $0.6 million in cash for the intangible assets of the company. Goodwill in the amount of $0.3 million and intangible assets in the amount of $0.3 million were recorded in conjunction with the acquisition. The effects of the acquired assets and liabilities have been included in the consolidated financial statements since that date. On August 19, 2016, the Company merged together its insurance subsidiaries and as of that date, the activities of CBNA Insurance were merged into OneGroup.

The assets and liabilities assumed in the acquisitions were recorded at their estimated fair values based on management's best estimates using information available at the dates of the acquisition, and were subject to adjustment based on updated information not available at the time of acquisition.

The above referenced insurance-related acquisitions expanded the Company's geographical presence in New York and Pennsylvania, and management expects that the Company will benefit from greater geographic diversity and the advantages of other synergistic business development opportunities.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed after considering the measurement period adjustments described above:

	2017				2016
(000s omitted)	BAS	NRS	Dryfoos	Total	WJL
Consideration paid :					
Cash	$1,200	$70,073	$3,307	$74,580	$575
Community Bank System, Inc. common stock	0	78,483	0	78,483	0
Total net consideration paid	1,200	148,556	3,307	153,063	575
Recognized amounts of identifiable assets acquired and liabilities assumed:					
Cash and cash equivalents	0	11,063	0	11,063	0
Investment securities	0	20,294	0	20,294	0
Premises and equipment	0	411	0	411	0
Accrued interest receivable	0	75	0	75	0
Other assets	0	10,819	0	10,819	0
Other intangibles	1,200	60,200	1,657	63,057	288
Other liabilities	0	(30,500)	0	(30,500)	0
Total identifiable assets, net	1,200	72,362	1,657	75,219	288
Goodwill	$0	$76,194	$1,650	$77,844	$287

The other intangibles related to the Dryfoos, BAS and WJL acquisitions are being amortized using an accelerated method over their estimated useful life of eight years. The goodwill, which is not amortized for book purposes, was assigned to the Employee Benefit Services for NRS, and All Other segments for Dryfoos, BAS, and WJL acquisitions. Goodwill arising from the NRS acquisition is not deductible for tax purposes. Goodwill arising from the Dryfoos, BAS and WJL acquisitions is deductible for tax purposes.

Direct costs related to the acquisitions were expensed as incurred. Merger and acquisition integration-related expenses amount to $1.7 million and $0.1 million during the three months ended March 31, 2017 and 2016, respectively, and have been separately stated in the Consolidated Statements of Income.

Supplemental Pro Forma Financial Information

The following unaudited condensed pro forma information assumes the NRS acquisition had been completed as of January 1, 2016 for the three months ended March 31, 2016. The pro forma information does not include amounts related to BAS and Dryfoos as the amounts were immaterial. The table below has been prepared for comparative purposes only and is not necessarily indicative of the actual results that would have been attained had the acquisition occurred as of the beginning of the year presented, nor is it indicative of the Company's future results. Furthermore, the unaudited pro forma information does not reflect management's estimate of any revenue-enhancing opportunities nor anticipated cost savings that may have occurred as a result of the integration and consolidation of the acquisitions.

The pro forma information set forth below reflects the historical results of NRS combined with the Company's consolidated statement of income with adjustments related to amortization of customer lists intangibles.

(000's omitted)	Pro Forma (Unaudited)

	Three Months Ended March 31, 2016
Total revenue, net of interest expense	$ 112,694
Net income	24,358

NOTE C: ACCOUNTING POLICIES

The accounting policies of the Company, as applied in the consolidated interim financial statements presented herein, are substantially the same as those followed on an annual basis as presented on pages 56 through 61 of the Annual Report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission ("SEC") on March 1, 2017.

Critical Accounting Policies

Acquired Loans
Acquired loans are initially recorded at their acquisition date fair values. The carryover of allowance for loan losses is prohibited as any credit losses in the loans are included in the determination of the fair value of the loans at the acquisition date. Fair values for acquired loans are based on a discounted cash flow methodology that involves assumptions and judgments as to credit risk, prepayment risk, liquidity risk, default rates, loss severity, payment speeds, collateral values and discount rate.

Acquired Impaired Loans
Acquired loans that have evidence of deterioration in credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments are accounted for as impaired loans under Accounting Standards Codification ("ASC") 310-30. The excess of undiscounted cash flows expected at acquisition over the estimated fair value is referred to as the accretable discount and is recognized into interest income over the remaining life of the loans using the interest method. The difference between contractually required payments at acquisition and the undiscounted cash flows expected to be collected at acquisition is referred to as the non-accretable discount. The non-accretable discount represents estimated future credit losses and other contractually required payments that the Company does not expect to collect. Subsequent decreases in expected cash flows are recognized as impairments through a charge to the provision for loan losses resulting in an increase in the allowance for loan losses. Subsequent improvements in expected cash flows result in a recovery of previously recorded allowance for loan losses or a reversal of a corresponding amount of the non-accretable discount, which the Company then reclassifies as an accretable discount that is recognized into interest income over the remaining life of the loans using the interest method.

Acquired loans that met the criteria for non-accrual of interest prior to acquisition may be considered performing upon acquisition, regardless of whether the customer is contractually delinquent, if the Company can reasonably estimate the timing and amount of the expected cash flows on such loans and if the Company expects to fully collect the new carrying value of the loans. As such, the Company may no longer consider the loans to be non-accrual or non-performing and may accrue interest on these loans, including the impact of any accretable discount.

Acquired Non-impaired Loans
Acquired loans that do not meet the requirements under ASC 310-30 are considered acquired non-impaired loans. The difference between the acquisition date fair value and the outstanding balance represents the fair value adjustment for a loan and includes both credit and interest rate considerations. Fair value adjustments may be discounts (or premiums) to a loan's cost basis and are accreted (or amortized) to net interest income (or expense) over the loan's remaining life in accordance with ASC 310-20. Fair value adjustments for revolving loans are accreted (or amortized) using a straight line method. Term loans are accreted (or amortized) using the constant effective yield method.

Subsequent to the purchase date, the methods used to estimate the allowance for loan losses for the acquired non-impaired loans are consistent with the policy described below. However, the Company compares the net realizable value of the loans to the carrying value, for loans collectively evaluated for impairment. The carrying value represents the net of the loan's unpaid principal balance and the remaining purchase discount (or premium) that has yet to be accreted into interest income. When the carrying value exceeds the net realizable value, an allowance for loan loss is recognized.

Allowance for Loan Losses

Management continually evaluates the credit quality of the Company's loan portfolio, and performs a formal review of the adequacy of the allowance for loan losses on a quarterly basis. The allowance reflects management's best estimate of probable losses inherent in the loan portfolio. Determination of the allowance is subjective in nature and requires significant estimates. The Company's allowance methodology consists of two broad components - general and specific loan loss allocations.

The general loan loss allocation is composed of two calculations that are computed on five main loan segments: business lending; consumer direct; consumer indirect; home equity; and consumer mortgage. The first calculation is quantitative and determines an allowance level based on the latest 36 months of historical net charge-off data for each loan class (commercial loans exclude balances with specific loan loss allocations). The second calculation is qualitative and takes into consideration eight qualitative environmental factors: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards, and other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. A component of the qualitative calculation is the unallocated allowance for loan loss. The qualitative and quantitative calculations are added together to determine the general loan loss allocation. The specific loan loss allocation relates to individual commercial loans that are both greater than $0.5 million and in a nonaccruing status with respect to interest. Specific loan losses are based on discounted estimated cash flows, including any cash flows resulting from the conversion of collateral or collateral shortfalls. The allowance levels computed from the specific and general loan loss allocation methods are combined with unallocated allowances and allowances needed for acquired loans to derive the total required allowance for loan losses to be reflected on the Consolidated Statement of Condition.

Loan losses are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for loan losses is charged to operations based on management's periodic evaluation of factors previously mentioned.

Investment Securities

The Company can classify its investments in debt and equity securities as held-to-maturity, available-for-sale, or trading. Held-to-maturity securities are those for which the Company has the positive intent and ability to hold until maturity, and are reported at cost, which is adjusted for amortization of premiums and accretion of discounts. Securities classified as available-for-sale are reported at fair value with net unrealized gains and losses reflected as a separate component of shareholders' equity, net of applicable income taxes. None of the Company's investment securities have been classified as trading securities at March 31, 2017. Certain equity securities are stated at cost and include restricted stock of the Federal Reserve Bank of New York ("Federal Reserve") and Federal Home Loan Bank of New York ("FHLB").

Fair values for investment securities are based upon quoted market prices, where available. If quoted market prices are not available, fair values are based upon quoted market prices of comparable instruments, or a discounted cash flow model using market estimates of interest rates and volatility.

The Company conducts an assessment of all securities in an unrealized loss position to determine if other-than-temporary impairment ("OTTI") exists on a quarterly basis. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. The OTTI assessment considers the security structure, recent security collateral performance metrics, if applicable, external credit ratings, failure of the issuer to make scheduled interest or principal payments, judgment about, and expectations of, future performance, and relevant independent industry research, analysis and forecasts. The severity of the impairment and the length of time the security has been impaired is also considered in the assessment. The assessment of whether an OTTI decline exists is performed on each security, regardless of the classification of the security as available-for-sale or held-to-maturity and involves a high degree of subjectivity and judgment that is based on the information available to management at a point in time.

An OTTI loss must be recognized for a debt security in an unrealized loss position if there is intent to sell the security or it is more likely than not the Company will be required to sell the security prior to recovery of its amortized cost basis. In this situation, the amount of loss recognized in income is equal to the difference between the fair value and the amortized cost basis of the security. Even if management does not have the intent, and it is not more likely than not that the Company will be required to sell the securities, an evaluation of the expected cash flows to be received is performed to determine if a credit loss has occurred. For debt securities, a critical component of the evaluation for OTTI is the identification of credit-impaired securities, where the Company does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. In the event of a credit loss, only the amount of impairment associated with the credit loss would be recognized in income. The portion of the unrealized loss relating to other factors, such as liquidity conditions in the market or changes in market interest rates, is recorded in accumulated other comprehensive loss.

Equity securities are also evaluated to determine whether the unrealized loss is expected to be recoverable based on whether evidence exists to support a realizable value equal to or greater than the amortized cost basis. If it is probable that the amortized cost basis will not be recovered, taking into consideration the estimated recovery period and the ability to hold the equity security until recovery, OTTI is recognized in earnings equal to the difference between the fair value and the amortized cost basis of the security.

The specific identification method is used in determining the realized gains and losses on sales of investment securities and OTTI charges. Premiums and discounts on securities are amortized and accreted, respectively, on the interest method basis over the period to maturity or estimated life of the related security. Purchases and sales of securities are recognized on a trade date basis.

Intangible Assets

Intangible assets include core deposit intangibles, customer relationship intangibles and goodwill arising from acquisitions. Core deposit intangibles and customer relationship intangibles are amortized on either an accelerated or straight-line basis over periods ranging from seven to 20 years. The initial and ongoing carrying value of goodwill and other intangible assets is based upon discounted cash flow modeling techniques that require management to make estimates regarding the amount and timing of expected future cash flows. It also requires use of a discount rate that reflects the current return requirements of the market in relation to present risk-free interest rates, required equity market premiums, peer volatility indicators, and company-specific risk indicators.

The Company evaluates goodwill for impairment on an annual basis, or more often if events or circumstances indicate there may be impairment. The implied fair value of a reporting unit's goodwill is compared to its carrying amount and the impairment loss is measured by the excess of the carrying value over fair value. The fair value of each reporting unit is compared to the carrying amount of that reporting unit in order to determine if impairment is indicated.

Retirement Benefits

The Company provides defined benefit pension benefits to eligible employees and post-retirement health and life insurance benefits to certain eligible retirees. The Company also provides deferred compensation and supplemental executive retirement plans for selected current and former employees, officers, and directors. Expense under these plans is charged to current operations and consists of several components of net periodic benefit cost based on various actuarial assumptions regarding future experience under the plans, including discount rate, rate of future compensation increases, and expected return on plan assets.

Recently Adopted Accounting Pronouncement

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718). The amendments simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, accounting for award forfeitures, and classification on the statement of cash flows. The amendments were effective for public business entities for the first interim and annual reporting periods beginning after December 15, 2016 and the Company adopted the amendments as of January 1, 2017. The new guidance requires entities to prospectively recognize all excess tax benefits and tax deficiencies related to share-based payment awards as income tax benefit or expense in the statement of income when the awards vest or are settled. Previously, income tax benefits (or deficiencies) were reported as increases (or decreases) to additional paid-in capital to the extent that those benefits were greater than (or less than) the income tax benefits recognized in earnings during the awards' vesting periods. In addition, excess tax benefits and deficiencies are to be classified as an operating activity in the statement of cash flows, rather than a financing activity as required under prior accounting guidance. The new guidance also requires employee taxes paid when an employer withholds shares for withholding tax purposes to be classified as a financing activity in the statement of cash flows. The Company has elected to apply the changes in presentation on the statement of cash flows for excess tax benefits and deficiencies and employee taxes paid when an employer withholds shares on a retrospective basis. The Company has also elected to continue to incorporate estimated forfeitures in the accrual of compensation expense, and this election had no impact on the Company's consolidated financial statements. For the three months ended March 31, 2017, the effect on net income from excess tax benefits was $2.2 million, or approximately $0.05 per diluted common share.

New Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This new guidance supersedes the revenue recognition requirements in ASC 605, Revenue Recognition, and is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods and services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This guidance is effective for the Company for annual and interim periods beginning after December 15, 2017, and should be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this guidance recognized at the date of initial application. The Company's implementation efforts include the identification of revenue within the scope of the guidance, as well as evaluation of revenue contracts. The Company's review is ongoing, and the Company will continue to evaluate any impact as additional guidance is issued and as our internal assessment progresses.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This guidance addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The primary focus of this guidance is to supersede the guidance to classify equity securities with readily determinable fair values into different categories (trading or available-for-sale) and requires equity securities to be measured at fair value with changes in the fair value recognized through net income. This guidance requires adoption through a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted for all companies in any interim or annual period. The Company is currently evaluating the effect the guidance will have on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This new guidance supersedes the lease requirements in Topic 840, Leases and is based on the principle that a lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The accounting applied by a lessor is largely unchanged from that applied under the previous guidance. In addition, the guidance requires an entity to separate the lease components from the nonlease components in a contract. The ASU requires disclosures about the amount, timing, and judgments related to a reporting entity's accounting for leases and related cash flows. The standard is required to be applied to all leases in existence as of the date of adoption using a modified retrospective transition approach. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted for all companies in any interim or annual period. The Company occupies certain offices and uses certain equipment under non-cancelable operating lease agreements, which currently are not reflected in its consolidated statement of condition. The Company expects to recognize lease liabilities and right of use assets associated with these lease agreements; however, the extent of the impact on the Company's consolidated financial statements is currently under evaluation.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326). This new guidance significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. This ASU will replace the "incurred loss" model under existing guidance with an "expected loss" model for instruments measured at amortized cost, and require entities to record allowances for available-for-sale debt securities rather than reduce the carrying amount, as they do today under the other-than-temporary impairment model. This ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. This guidance requires adoption through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for all companies as of fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact the guidance will have on the Company's consolidated financial statements, and expects an increase in the allowance for credit losses resulting from the change to expected losses for the estimated life of the financial asset, including an allowance for debt securities. The amount of the increase in the allowance for credit losses resulting from the new guidance will be impacted by the portfolio composition and asset quality at the adoption date, as well as economic conditions and forecasts at the time of adoption.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230). The amendments provide guidance on the following eight specific cash flow issues: 1) debt prepayment or debt extinguishment costs; 2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; 3) contingent consideration payments made after a business combination; 4) proceeds from the settlement of insurance claims; 5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; 6) distributions received from equity method investees; 7) beneficial interests in securitization transactions; and 8) separately identifiable cash flows and application of the predominance principle. This ASU is effective for fiscal years beginning after December 31, 2017, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. As this guidance only affects the classification within the statement of cash flows, this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350). The amendments simplify how an entity is required to test goodwill for impairment by eliminating the requirement to measure a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Instead, an entity will perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and recognize an impairment charge for the amount by which the carrying amount of the reporting unit exceeds its fair value. Impairment loss recognized under this new guidance will be limited to the goodwill allocated to the reporting unit. This ASU is effective prospectively for the Company for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. This ASU is not expected to have a material impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This new guidance requires the service cost component of net periodic pension and postretirement benefit costs to be presented separately from other components of net benefit cost in the statement of income. This ASU is effective for the Company for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. This ASU is not expected to have a material impact on the Company's consolidated financial statements.

NOTE D: INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities as of March 31, 2017 and December 31, 2016 are as follows:

	March 31, 2017				December 31, 2016			
(000's omitted)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Portfolio:								
U.S. Treasury and agency securities	$1,878,982	$30,358	$1,106	$1,908,234	$1,876,358	$28,522	$2,118	$1,902,762
Obligations of state and political subdivisions	564,501	14,603	446	578,658	582,655	13,389	1,054	594,990
Government agency mortgage-backed securities	237,257	4,526	2,729	239,054	232,657	5,040	2,467	235,230
Corporate debt securities	5,697	0	16	5,681	5,716	2	31	5,687
Government agency collateralized mortgage obligations	8,516	293	0	8,809	9,225	310	0	9,535
Marketable equity securities	251	203	0	454	252	200	0	452
Total available-for-sale portfolio	$2,695,204	$49,983	$4,297	$2,740,890	$2,706,863	$47,463	$5,670	$2,748,656
Other Securities:								
Federal Home Loan Bank common stock	$5,590			$5,590	$12,191			$12,191
Federal Reserve Bank common stock	19,781			19,781	19,781			19,781
Certificates of deposit	18,758			18,758	0			0
Other equity securities	3,699			3,699	3,764			3,764
Total other securities	$47,828			$47,828	$35,736			$35,736

A summary of investment securities that have been in a continuous unrealized loss position is as follows:

As of March 31, 2017

	Less than 12 Months			12 Months or Longer			Total		
(000's omitted)	#	Fair Value	Gross Unrealized Losses	#	Fair Value	Gross Unrealized Losses	#	Fair Value	Gross Unrealized Losses

Available-for-Sale Portfolio:									
U.S. Treasury and agency securities	7	$258,008	$ 1,106	0	$0	$ 0	7	$258,008	$ 1,106
Obligations of state and political subdivisions	75	40,177	446	0	0	0	75	40,177	446
Government agency mortgage-backed securities	67	95,749	1,866	14	21,228	863	81	116,977	2,729
Corporate debt securities	1	2,677	16	0	0	0	1	2,677	16
Government agency collateralized mortgage obligations	0	0	0	2	2	0	2	2	0
Total available-for-sale investment portfolio	150	$396,611	$ 3,434	16	$21,230	$ 863	166	$417,841	$ 4,297

As of December 31, 2016

	Less than 12 Months			12 Months or Longer			Total		
(000's omitted)	#	Fair Value	Gross Unrealized Losses	#	Fair Value	Gross Unrealized Losses	#	Fair Value	Gross Unrealized Losses
Available-for-Sale Portfolio:									
U.S. Treasury and agency securities	13	$449,242	$ 2,118	0	$0	$ 0	13	$449,242	$ 2,118
Obligations of state and political subdivisions	197	102,106	1,054	0	0	0	197	102,106	1,054
Government agency mortgage-backed securities	57	83,862	1,637	15	21,788	830	72	105,650	2,467
Corporate debt securities	1	2,677	31	0	0	0	1	2,677	31
Government agency collateralized mortgage obligations	0	0	0	2	2	0	2	2	0
Total available-for-sale investment portfolio	268	$637,887	$ 4,840	17	$21,790	$ 830	285	$659,677	$ 5,670

The unrealized losses reported pertaining to securities issued by the U.S. government and its sponsored entities, include treasuries, agencies, and mortgage-backed securities issued by the Ginnie Mae, Fannie Mae, and the Federal Home Loan Mortgage Corporation ("FHLMC"), which are currently rated AAA by Moody's Investor Services, AA+ by Standard & Poor's and are guaranteed by the U.S. government. The majority of the obligations of state and political subdivisions and corporations carry a credit rating of A or better. Additionally, a majority of the obligations of state and political subdivisions carry a secondary level of credit enhancement. The Company does not intend to sell these securities, nor is it more likely than not that the Company will be required to sell these securities prior to recovery of the amortized cost. The unrealized losses in the portfolios are primarily attributable to changes in interest rates. As such, management does not believe any individual unrealized loss as of March 31, 2017 represents OTTI.

The amortized cost and estimated fair value of debt securities at March 31, 2017, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	Available-for-Sale	
	Amortized	Fair
(000's omitted)	Cost	Value
Due in one year or less	$38,222	$38,447
Due after one through five years	1,199,564	1,221,056
Due after five years through ten years	1,041,199	1,058,066
Due after ten years	170,195	175,004
Subtotal	2,449,180	2,492,573
Government agency mortgage-backed securities	237,257	239,054
Government agency collateralized mortgage obligations	8,516	8,809
Total	$2,694,953	$2,740,436

NOTE E: LOANS

The segments of the Company's loan portfolio are disaggregated into the following classes that allow management to monitor risk and performance:

Consumer mortgages consist primarily of fixed rate residential instruments, typically 10 – 30 years in contractual term, secured by first liens on real property.

Business lending is comprised of general purpose commercial and industrial loans including, but not limited to, agricultural-related and dealer floor plans, as well as mortgages on commercial properties.

Consumer indirect consists primarily of installment loans originated through selected dealerships and are secured by automobiles, marine and other recreational vehicles.

Consumer direct consists of all other loans to consumers such as personal installment loans and lines of credit.

Home equity products are consumer purpose installment loans or lines of credit most often secured by a first or second lien position on residential real estate with terms up to 30 years.

The balances of these classes are summarized as follows:

(000's omitted)	March 31, 2017	December 31, 2016
Consumer mortgage	$1,830,800	$1,819,701
Business lending	1,468,465	1,490,076
Consumer indirect	1,055,112	1,044,972
Consumer direct	184,067	191,815
Home equity	393,769	401,998

Gross loans, including deferred origination costs	4,932,213	4,948,562
Allowance for loan losses	(47,096)	(47,233)
Loans, net of allowance for loan losses	$4,885,117	$4,901,329

The outstanding balance related to credit impaired acquired loans was $6.5 million and $6.6 million at March 31, 2017 and December 31, 2016, respectively. The changes in the accretable discount related to the credit impaired acquired loans are as follows:

(000's omitted)	
Balance at December 31, 2016	$498
Accretion recognized, year-to-date	(72)
Net reclassification to accretable from non-accretable	100
Balance at March 31, 2017	$526

Credit Quality

Management monitors the credit quality of its loan portfolio on an ongoing basis. Measurement of delinquency and past due status are based on the contractual terms of each loan. Past due loans are reviewed on a monthly basis to identify loans for non-accrual status. The following is an aged analysis of the Company's past due loans, by class as of March 31, 2017:

Legacy Loans (excludes loans acquired after January 1, 2009)

(000's omitted)	Past Due 30 – 89 Days	90+ Days Past Due and Still Accruing	Nonaccrual	Total Past Due	Current	Total Loans
Consumer mortgage	$7,717	$ 742	$ 10,999	$19,458	$1,657,788	$1,677,246
Business lending	2,776	569	2,970	6,315	1,266,627	1,272,942
Consumer indirect	8,941	123	0	9,064	1,019,069	1,028,133
Consumer direct	1,047	79	0	1,126	174,413	175,539
Home equity	967	194	1,299	2,460	312,915	315,375
Total	$21,448	$ 1,707	$ 15,268	$38,423	$4,430,812	$4,469,235

Acquired Loans (includes loans acquired after January 1, 2009)

(000's omitted)	Past Due 30 – 89 Days	90+ Days Past Due and Still Accruing	Nonaccrual	Total Past Due	Acquired Impaired(1)	Current	Total Loans
Consumer mortgage	$907	$ 111	$ 2,574	$3,592	$ 0	$149,962	$153,554
Business lending	332	0	1,718	2,050	5,440	188,033	195,523
Consumer indirect	147	3	0	150	0	26,829	26,979
Consumer direct	100	0	0	100	0	8,428	8,528
Home equity	415	988	506	1,909	0	76,485	78,394
Total	$1,901	$ 1,102	$ 4,798	$7,801	$ 5,440	$449,737	$462,978

(1) Acquired impaired loans were not classified as nonperforming assets as the loans are considered to be performing under ASC 310-30. As a result interest income, through the accretion of the difference between the carrying amount of the loans and the expected cashflows, is being recognized on all acquired impaired loans.

The following is an aged analysis of the Company's past due loans by class as of December 31, 2016:

Legacy Loans (excludes loans acquired after January 1, 2009)

(000's omitted)	Past Due 30 – 89 Days	90+ Days Past Due and Still Accruing	Nonaccrual	Total Past Due	Current	Total Loans
Consumer mortgage	$11,379	$ 1,180	$ 11,352	$23,911	$1,635,849	$1,659,760
Business lending	3,921	145	3,811	7,877	1,269,789	1,277,666
Consumer indirect	13,883	166	0	14,049	1,000,776	1,014,825
Consumer direct	1,549	58	0	1,607	180,315	181,922
Home equity	1,250	414	1,437	3,101	315,928	319,029
Total	$31,982	$ 1,963	$ 16,600	$50,545	$4,402,657	$4,453,202

Acquired Loans (includes loans acquired after January 1, 2009)

(000's omitted)	Past Due 30 – 89 Days	90+ Days Past Due and Still Accruing	Nonaccrual	Total Past Due	Acquired Impaired[(1)]	Current	Total Loans
Consumer mortgage	$1,539	$ 205	$ 2,332	$4,076	$ 0	$155,865	$159,941
Business lending	528	0	1,252	1,780	5,553	205,077	212,410
Consumer indirect	231	3	0	234	0	29,913	30,147
Consumer direct	231	0	0	231	0	9,662	9,893
Home equity	778	905	435	2,118	0	80,851	82,969
Total	$3,307	$ 1,113	$ 4,019	$8,439	$ 5,553	$481,368	$495,360

(1) Acquired impaired loans were not classified as nonperforming assets as the loans are considered to be performing under ASC 310-30. As a result interest income, through the accretion of the difference between the carrying amount of the loans and the expected cashflows, is being recognized on all acquired impaired loans.

The Company uses several credit quality indicators to assess credit risk in an ongoing manner. The Company's primary credit quality indicator for its business lending portfolio is an internal credit risk rating system that categorizes loans as "pass", "special mention", "classified", or "doubtful". Credit risk ratings are applied individually to those classes of loans that have significant or unique credit characteristics that benefit from a case-by-case evaluation. In general, the following are the definitions of the Company's credit quality indicators:

Pass	The condition of the borrower and the performance of the loans are satisfactory or better.
Special Mention	The condition of the borrower has deteriorated although the loan performs as agreed.
Classified	The condition of the borrower has significantly deteriorated and the performance of the loan could further deteriorate, if deficiencies are not corrected.
Doubtful	The condition of the borrower has deteriorated to the point that collection of the balance is improbable based on current facts and conditions.

The following table shows the amount of business lending loans by credit quality category:

	March 31, 2017			December 31, 2016		
(000's omitted)	Legacy	Acquired	Total	Legacy	Acquired	Total
Pass	$1,040,398	$147,347	$1,187,745	$1,051,005	$162,165	$1,213,170
Special mention	141,807	24,122	165,929	135,602	29,690	165,292
Classified	90,691	18,614	109,305	90,585	15,002	105,587
Doubtful	46	0	46	474	0	474
Acquired impaired	0	5,440	5,440	0	5,553	5,553
Total	$1,272,942	$195,523	$1,468,465	$1,277,666	$212,410	$1,490,076

All other loans are underwritten and structured using standardized criteria and characteristics, primarily payment performance, and are normally risk rated and monitored collectively on a monthly basis. These are typically loans to individuals in the consumer categories and are delineated as either performing or nonperforming. Performing loans include loans classified as current as well as those classified as 30 - 89 days past due. Nonperforming loans include 90+ days past due and still accruing and nonaccrual loans. The following table details the balances in all other loan categories at March 31, 2017:

Legacy Loans (excludes loans acquired after January 1, 2009)

(000's omitted)	Consumer Mortgage	Consumer Indirect	Consumer Direct	Home Equity	Total
Performing	$1,665,505	$1,028,010	$175,460	$313,882	$3,182,857
Nonperforming	11,741	123	79	1,493	13,436
Total	$1,677,246	$1,028,133	$175,539	$315,375	$3,196,293

Acquired Loans (includes loans acquired after January 1, 2009)

(000's omitted)	Consumer Mortgage	Consumer Indirect	Consumer Direct	Home Equity	Total
Performing	$ 150,869	$ 26,976	$ 8,528	$76,900	$263,273
Nonperforming	2,685	3	0	1,494	4,182
Total	$ 153,554	$ 26,979	$ 8,528	$78,394	$267,455

The following table details the balances in all other loan categories at December 31, 2016:

Legacy Loans (excludes loans acquired after January 1, 2009)

(000's omitted)	Consumer Mortgage	Consumer Indirect	Consumer Direct	Home Equity	Total
Performing	$1,647,228	$1,014,659	$181,864	$317,178	$3,160,929
Nonperforming	12,532	166	58	1,851	14,607
Total	$1,659,760	$1,014,825	$181,922	$319,029	$3,175,536

Acquired Loans (includes loans acquired after January 1, 2009)

(000's omitted)	Consumer Mortgage	Consumer Indirect	Consumer Direct	Home Equity	Total
Performing	$ 157,404	$ 30,144	$ 9,893	$81,629	$279,070
Nonperforming	2,537	3	0	1,340	3,880
Total	$ 159,941	$ 30,147	$ 9,893	$82,969	$282,950

All loan classes are collectively evaluated for impairment except business lending, as described in Note C. A summary of individually evaluated impaired loans as of March 31, 2017 and December 31, 2016 follows:

(000's omitted)	March 31, 2017	December 31, 2016
Loans with allowance allocation	$580	$ 1,109
Loans without allowance allocation	0	556
Carrying balance	580	1,665
Contractual balance	2,229	3,340
Specifically allocated allowance	46	477

In the course of working with borrowers, the Company may choose to restructure the contractual terms of certain loans. In this scenario, the Company attempts to work-out an alternative payment schedule with the borrower in order to optimize collectability of the loan. Any loans that are modified are reviewed by the Company to identify if a troubled debt restructuring ("TDR") has occurred, which is when, for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial standing and the restructuring of the loan may include the transfer of assets from the borrower to satisfy the debt, a modification of loan terms, or a combination of the two.

In accordance with the clarified guidance issued by the OCC, loans that have been discharged in Chapter 7 bankruptcy but not reaffirmed by the borrower, are classified as TDRs, irrespective of payment history or delinquency status, even if the repayment terms for the loan have not been otherwise modified. The Company's lien position against the underlying collateral remains unchanged. Pursuant to that guidance, the Company records a charge-off equal to any portion of the carrying value that exceeds the net realizable value of the collateral. The amount of loss incurred in the three months ended March 31, 2017 and 2016 was immaterial.

TDRs that are less than $0.5 million are collectively included in the general loan loss allocation and the qualitative review. TDRs that are commercial loans and greater than $0.5 million are individually evaluated for impairment, and if necessary, a specific allocation of the allowance for loan losses is provided. As a result, the determination of the amount of allowance for loan losses related to TDRs is the same as detailed in the critical accounting policies.

Information regarding TDRs as of March 31, 2017 and December 31, 2016 is as follows:

	March 31, 2017						December 31, 2016					
(000's omitted)	Nonaccrual		Accruing		Total		Nonaccrual		Accruing		Total	
	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount
Consumer mortgage	44	$ 2,082	43	$ 1,812	87	$ 3,894	36	$ 1,520	45	$ 1,956	81	$ 3,476
Business lending	6	76	4	323	10	399	6	91	5	690	11	781
Consumer indirect	0	0	79	776	79	776	0	0	78	771	78	771
Consumer direct	0	0	13	76	13	76	0	0	23	65	23	65
Home equity	14	267	7	213	21	480	14	221	7	216	21	437
Total	64	$ 2,425	146	$ 3,200	210	$ 5,625	56	$ 1,832	158	$ 3,698	214	$ 5,530

The following table presents information related to loans modified in a TDR during the three months ended March 31, 2017 and 2016. Of the loans noted in the table below, all loans for the three months ended March 31, 2017 and 2016 were modified due to a Chapter 7 bankruptcy as described previously. The financial effects of these restructurings were immaterial.

	Three Months Ended March 31, 2017		Three Months Ended March 31, 2016	
(000's omitted)	Number of loans modified	Outstanding Balance	Number of loans modified	Outstanding Balance
Consumer mortgage	7	$ 502	4	$ 266
Business lending	0	0	0	0
Consumer indirect	8	106	12	238
Consumer direct	4	15	0	0
Home equity	2	98	1	0
Total	21	$ 721	17	$ 504

Allowance for Loan Losses

The allowance for loan losses is general in nature and is available to absorb losses from any loan type despite the analysis below. The following presents by class the activity in the allowance for loan losses:

	Three Months Ended March 31, 2017							
(000's omitted)	Consumer Mortgage	Business Lending	Consumer Indirect	Consumer Direct	Home Equity	Unallocated	Acquired Impaired	Total
Beginning balance	$ 10,094	$ 17,220	$ 13,782	$ 2,979	$ 2,399	$ 651	$ 108	$ 47,233
Charge-offs	(85)	(695)	(1,947)	(417)	(38)	0	0	(3,182)
Recoveries	7	71	869	245	25	0	0	1,217
Provision	133	261	1,292	45	(27)	122	2	1,828
Ending balance	$ 10,149	$ 16,857	$ 13,996	$ 2,852	$ 2,359	$ 773	$ 110	$ 47,096

	Three Months Ended March 31, 2016							
(000's omitted)	Consumer Mortgage	Business Lending	Consumer Indirect	Consumer Direct	Home Equity	Unallocated	Acquired Impaired	Total
Beginning balance	$ 10,198	$ 15,749	$ 12,422	$ 2,997	$ 2,666	$ 1,201	$ 168	$ 45,401
Charge-offs	(88)	(210)	(1,854)	(462)	(57)	0	0	(2,671)

Recoveries	45	136	1,114	221	9	0	0	1,525
Provision	(7)	1,020	652	119	(38)	(322)	(83)	1,341
Ending balance	$10,148	$16,695	$12,334	$2,875	$2,580	$879	$85	$45,596

19

NOTE F: GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS

The gross carrying amount and accumulated amortization for each type of identifiable intangible asset are as follows:

(000's omitted)	March 31, 2017 Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	December 31, 2016 Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizing intangible assets:						
Core deposit intangibles	$39,688	$ (33,135)	$6,553	$39,688	$ (32,581)	$7,107
Other intangibles	80,910	(11,472)	69,438	17,853	(9,258)	8,595
Total amortizing intangibles	$120,598	$ (44,607)	$75,991	$57,541	$ (41,839)	$15,702

The estimated aggregate amortization expense for each of the five succeeding fiscal years ended December 31 is as follows:

(000's omitted)	
Apr - Dec 2017	$10,496
2018	11,918
2019	9,886
2020	8,150
2021	7,119
Thereafter	28,422
Total	$75,991

Shown below are the components of the Company's goodwill at December 31, 2016 and March 31, 2017:

(000's omitted)	December 31, 2016	Activity	March 31, 2017
Goodwill	$469,966	$77,844	$547,810
Accumulated impairment	(4,824)	0	(4,824)
Goodwill, net	$465,142	$77,844	$542,986

NOTE G: MANDATORILY REDEEMABLE PREFERRED SECURITIES

The Company sponsors two business trusts, Community Statutory Trust III and Community Capital Trust IV, of which 100% of the common stock is owned by the Company. The trusts were formed for the purpose of issuing company-obligated mandatorily redeemable preferred securities to third-party investors and investing the proceeds from the sale of such preferred securities solely in junior subordinated debt securities of the Company. The debentures held by each trust are the sole assets of that trust. Distributions on the preferred securities issued by each trust are payable quarterly at a rate per annum equal to the interest rate being earned by the trust on the debentures held by that trust and are recorded as interest expense in the consolidated financial statements. The preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the debentures. The Company has entered into agreements which, taken collectively, fully and unconditionally guarantee the preferred securities subject to the terms of each of the guarantees. The terms of the preferred securities of each trust are as follows:

Trust	Issuance Date	Par Amount	Interest Rate	Maturity Date	Call Price
III	7/31/2001	$24.5 million	3 month LIBOR plus 3.58% (4.62%)	7/31/2031	Par
IV	12/8/2006	$75 million	3 month LIBOR plus 1.65% (2.78%)	12/15/2036	Par

20

NOTE H: BENEFIT PLANS

The Company provides a qualified defined benefit pension to eligible employees and retirees, other post-retirement health and life insurance benefits to certain retirees, an unfunded supplemental pension plan for certain key executives, and an unfunded stock balance plan for certain of its nonemployee directors. The Company accrues for the estimated cost of these benefits through charges to expense during the years that employees earn these benefits. The Company made a $2.9 million contribution to its defined benefit pension plan in the first quarter of 2017.

The net periodic (benefit) cost for the three months ended March 31, 2017 and 2016 is as follows:

	Pension Benefits	Post-retirement Benefits
	Three Months Ended March 31,	Three Months Ended March 31,
(000's omitted)		