

TOMPKINS FINANCIAL CORP  
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 1-12709

Tompkins Financial Corporation  
(Exact name of registrant as specified in its charter)  
New York 16-1482357  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

The Commons, P.O. Box 460, Ithaca, NY 14851  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (888) 503-5753  
Former name, former address, and former fiscal year, if changed since last report: NA

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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

Edgar Filing: TOMPKINS FINANCIAL CORP - Form 10-Q

filer”, “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):  
Large Accelerated Filer Accelerated Filer  
Non-Accelerated Filer (Do not check if a smaller reporting company) 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 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 of the Registrant’s Common Stock outstanding as of the latest practicable date:

Class	Outstanding as of April 28, 2017
Common Stock, \$0.10 par value	15,183,697 shares

TOMPKINS FINANCIAL CORPORATION

FORM 10-Q

INDEX

PART I - FINANCIAL INFORMATION

	PAGE
<u>Condensed Financial Statements</u>	
<u>Item 1 - Consolidated Statements of Condition as of March 31, 2017 (Unaudited) and December 31, 2016 (Audited)</u>	<u>3</u>
<u>Consolidated Statements of Income for the three months ended March 31, 2017 and 2016 (Unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income for the three months ended March 31, 2017 and 2016 (Unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2017 and 2016 (Unaudited)</u>	<u>6</u>
<u>Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2017 and 2016 (Unaudited)</u>	<u>8</u>
<u>Notes to Unaudited Consolidated Condensed Financial Statements</u>	<u>9</u>
<u>Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>43</u>
<u>Item 3 - Quantitative and Qualitative Disclosures About Market Risk</u>	<u>61</u>
<u>Item 4 - Controls and Procedures</u>	<u>63</u>
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1 - Legal Proceedings</u>	<u>63</u>
<u>Item 1A - Risk Factors</u>	<u>63</u>
<u>Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>63</u>
<u>Item 3 - Defaults Upon Senior Securities</u>	<u>64</u>
<u>Item 4 - Mine Safety Disclosures</u>	<u>64</u>
<u>Item 5 - Other Information</u>	<u>64</u>

<u>Item 6</u>	
=	<u>Exhibits</u>
	64
<u>SIGNATURES</u>	65
<u>EXHIBIT INDEX</u>	66

TOMPKINS FINANCIAL CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share and per share data)	As of	As of
ASSETS	3/31/2017	12/31/2016
	(unaudited)	(audited)
Cash and noninterest bearing balances due from banks	\$76,513	\$62,074
Interest bearing balances due from banks	1,959	1,880
Cash and Cash Equivalents	78,472	63,954
Available-for-sale securities, at fair value (amortized cost of \$1,438,716 at March 31, 2017 and \$1,442,724 at December 31, 2016)	1,427,523	1,429,538
Held-to-maturity securities, at amortized cost (fair value of \$142,445 at March 31, 2017 and \$142,832 at December 31, 2016)	141,545	142,119
Originated loans and leases, net of unearned income and deferred costs and fees	3,922,413	3,863,922
Acquired loans and leases	375,380	394,111
Less: Allowance for loan and lease losses	36,166	35,755
Net Loans and Leases	4,261,627	4,222,278
Federal Home Loan Bank and other stock	35,013	43,133
Bank premises and equipment, net	75,720	70,016
Corporate owned life insurance	78,535	77,905
Goodwill	92,291	92,623
Other intangible assets, net	10,767	11,349
Accrued interest and other assets	78,554	83,841
Total Assets	\$6,280,047	\$6,236,756
LIABILITIES		
Deposits:		
Interest bearing:		
Checking, savings and money market	2,755,752	2,518,318
Time	875,596	870,788
Noninterest bearing	1,219,237	1,236,033
Total Deposits	4,850,585	4,625,139
Federal funds purchased and securities sold under agreements to repurchase	70,716	69,062
Other borrowings	717,285	884,815
Trust preferred debentures	16,562	37,681
Other liabilities	61,381	70,654
Total Liabilities	\$5,716,529	\$5,687,351
EQUITY		
Tompkins Financial Corporation shareholders' equity:		
Common Stock - par value \$.10 per share: Authorized 25,000,000 shares; Issued: 15,216,916 at March 31, 2017; and 15,171,816 at December 31, 2016	1,522	1,517
Additional paid-in capital	361,199	357,414
Retained earnings	239,084	230,182
Accumulated other comprehensive loss	(35,684)	(37,109)
Treasury stock, at cost – 115,445 shares at March 31, 2017, and 117,997 shares at December 31, 2016	(4,057)	(4,051)

Edgar Filing: TOMPKINS FINANCIAL CORP - Form 10-Q

Total Tompkins Financial Corporation Shareholders' Equity	562,064	547,953
Noncontrolling interests	1,454	1,452
Total Equity	\$563,518	\$549,405
Total Liabilities and Equity	\$6,280,047	\$6,236,756

See notes to unaudited condensed consolidated financial statements.

---

TOMPKINS FINANCIAL CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended	
(In thousands, except per share data) (Unaudited)	3/31/2017	3/31/2016
<b>INTEREST AND DIVIDEND INCOME</b>		
Loans	\$44,951	\$40,487
Due from banks	2	2
Trading securities	0	81
Available-for-sale securities	7,322	7,531
Held-to-maturity securities	878	911
Federal Home Loan Bank and other stock	468	297
Total Interest and Dividend Income	53,621	49,309
<b>INTEREST EXPENSE</b>		
Time certificates of deposits of \$250,000 or more	441	390
Other deposits	2,347	2,209
Federal funds purchased and securities sold under agreements to repurchase	108	666
Trust preferred debentures	367	589
Other borrowings	2,324	1,417
Total Interest Expense	5,587	5,271
Net Interest Income	48,034	44,038
Less: Provision for loan and lease losses	769	855
Net Interest Income After Provision for Loan and Lease Losses	47,265	43,183
<b>NONINTEREST INCOME</b>		
Insurance commissions and fees	7,118	7,562
Investment services income	3,791	3,786
Service charges on deposit accounts	2,167	2,264
Card services income	2,009	1,941
Mark-to-market loss on trading securities	0	(46)
Mark-to-market gain on liabilities held at fair value	0	57
Other income	2,155	1,707
Gain on sale of available-for-sale securities	0	232
Total Noninterest Income	17,240	17,503
<b>NONINTEREST EXPENSES</b>		
Salaries and wages	19,513	18,989
Pension and other employee benefits	5,759	5,283
Net occupancy expense of premises	3,511	3,148
Furniture and fixture expense	1,597	1,689
FDIC insurance	538	822
Amortization of intangible assets	493	527
Other operating expense	9,957	9,048
Total Noninterest Expenses	41,368	39,506
Income Before Income Tax Expense	23,137	21,180
Income Tax Expense	7,388	6,896
Net Income attributable to Noncontrolling Interests and Tompkins Financial Corporation	15,749	14,284
Less: Net income attributable to noncontrolling interests	32	33
Net Income Attributable to Tompkins Financial Corporation	\$15,717	\$14,251
Basic Earnings Per Share	\$1.04	\$0.95
Diluted Earnings Per Share	\$1.03	\$0.94

See notes to unaudited condensed consolidated financial statements.

4

---



TOMPKINS FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands) (Unaudited)	Three Months	
	Ended	Ended
	3/31/2017	3/31/2016
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	\$ 15,749	\$ 14,284
Other comprehensive income, net of tax:		
Available-for-sale securities:		
Change in net unrealized gain/loss during the period	1,197	12,575
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	0	(139 )
Employee benefit plans:		
Amortization of net retirement plan actuarial gain	214	206
Amortization of net retirement plan prior service cost	14	18
Other comprehensive income	1,425	12,660
Subtotal comprehensive income attributable to noncontrolling interests and Tompkins Financial Corporation	17,174	26,944
Less: Net income attributable to noncontrolling interests	(32 )	(33 )
Total comprehensive income attributable to Tompkins Financial Corporation	\$ 17,142	\$ 26,911

See notes to unaudited condensed consolidated financial statements.

TOMPKINS FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	3/31/2017	3/31/2016
(In thousands) (Unaudited)		
<b>OPERATING ACTIVITIES</b>		
Net income attributable to Tompkins Financial Corporation	\$15,717	\$14,251
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	769	855
Depreciation and amortization of premises, equipment, and software	1,787	1,685
Amortization of intangible assets	493	527
Earnings from corporate owned life insurance	(630 )	(616 )
Net amortization on securities	2,782	2,581
Amortization/accretion related to purchase accounting	(747 )	(773 )
Mark-to-market loss on trading securities	0	46
Mark-to-market gain on liabilities held at fair value	0	(57 )
Net gain on securities transactions	0	(232 )
Net gain on sale of loans originated for sale	(13 )	(23 )
Proceeds from sale of loans originated for sale	53	823
Loans originated for sale	(40 )	(301 )
Net (gain) loss on sale of bank premises and equipment	(6 )	12
Net excess tax benefit from stock based compensation	299	70
Stock-based compensation expense	706	496
Decrease in accrued interest receivable	(1,425 )	(1,051 )
Decrease in accrued interest payable	(146 )	(94 )
Proceeds from maturities and payments of trading securities	0	296
Other, net	(4,690 )	(902 )
<b>Net Cash Provided by Operating Activities</b>	<b>14,909</b>	<b>17,593</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from maturities, calls and principal paydowns of available-for-sale securities	38,492	63,401
Proceeds from sales of available-for-sale securities	0	35,060
Proceeds from maturities, calls and principal paydowns of held-to-maturity securities	1,227	1,726
Purchases of available-for-sale securities	(37,169 )	(126,013)
Purchases of held-to-maturity securities	(750 )	(760 )
Net increase in loans	(39,601 )	(49,340 )
Net increase in Federal Home Loan Bank stock	8,120	4,242
Proceeds from sale of bank premises and equipment	19	22
Purchases of bank premises and equipment	(7,397 )	(1,482 )
Net cash used in acquisition	0	(218 )
Other, net	1,711	(789 )
<b>Net Cash Used in Investing Activities</b>	<b>(35,348 )</b>	<b>(74,151 )</b>
<b>FINANCING ACTIVITIES</b>		
Net increase in demand, money market, and savings deposits	220,639	127,913
Net increase in time deposits	5,092	32,337
Net increase (decrease) in Federal funds purchased and securities sold under agreements to repurchase	1,654	(19,828 )
Increase in other borrowings	45,000	115,524
Repayment of other borrowings	(212,530)	(196,410)
Redemption of trust preferred debentures	(21,161 )	0

Edgar Filing: TOMPKINS FINANCIAL CORP - Form 10-Q

Cash dividends	(6,815 )	(6,594 )
Repurchase of common stock	0	(1,166 )
Shares issued for dividend reinvestment plan	1,078	0
Shares issued for employee stock ownership plan	2,296	1,938
Net shares issued related to restricted stock awards	0	(1 )
Net proceeds from exercise of stock options	(296 )	102
Net Cash Provided by Financing Activities	34,957	53,815
Net Increase (Decrease) in Cash and Cash Equivalents	14,518	(2,743 )
Cash and cash equivalents at beginning of period	63,954	58,257
Total Cash & Cash Equivalents at End of Period	\$78,472	\$55,514

See notes to unaudited condensed consolidated financial statements.

6

---

TOMPKINS FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)	3/31/2017	3/31/2016
Supplemental Information:		
Cash paid during the year for - Interest	\$ 6,018	\$ 5,693
Cash paid during the year for - Taxes	89	2,415
Transfer of loans to other real estate owned	2,520	172

See notes to unaudited condensed consolidated financial statements.

TOMPKINS FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
(Unaudited)

(In thousands except share and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Non-controlling Interests	Total
Balances at January 1, 2016	\$ 1,502	\$ 350,823	\$ 197,445	\$ (31,001 )	\$(3,755)	\$ 1,452	\$ 516,466
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			14,251			33	14,284
Other comprehensive income				12,660			12,660
Total Comprehensive Income							26,944
Cash dividends (\$0.44 per share)			(6,594 )				(6,594 )
Net exercise of stock options (7,751 shares)	1	101					102
Stock-based compensation expense		496					496
Common stock repurchased and returned to unissued status (22,356 shares)	(2)	(1,164 )					(1,166 )
Shares issued for employee stock ownership plan (31,435 shares)	3	1,935					1,938
Directors deferred compensation plan (4,202 shares)		(121 )			121		—
Common stock issued for purchase acquisition (32,553 shares)	3	1,705					1,708
Restricted stock activity ((5,291) shares)	(1)	0					(1 )
Balances at March 31, 2016	\$ 1,506	\$ 353,775	\$ 205,102	\$ (18,341 )	\$(3,634)	\$ 1,485	\$ 539,893
Balances at January 1, 2017	\$ 1,517	\$ 357,414	\$ 230,182	\$ (37,109 )	\$(4,051)	\$ 1,452	\$ 549,405
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			15,717			32	15,749
Other comprehensive income				1,425			1,425
Total Comprehensive Income							17,174
Cash dividends (\$0.45 per share)			(6,815 )				(6,815 )
Net exercise of stock options (7,372 shares)	1	(297 )					(296 )
Shares issued for dividend reinvestment plan (11,343 shares)	1	1,077					1,078
Stock-based compensation expense		706					706
Shares issued for employee stock ownership plan (27,412 shares)	3	2,293					2,296
Directors deferred compensation plan (2,552) shares)		6			(6 )		0
Restricted stock activity ((1,027) shares)	0	0					0

Edgar Filing: TOMPKINS FINANCIAL CORP - Form 10-Q

Partial repurchase of noncontrolling interest						(30 )	(30 )
Balances at March 31, 2017	\$ 1,522	\$ 361,199	\$ 239,084	\$ (35,684 )	\$(4,057)	\$ 1,454	\$ 563,518

See notes to unaudited condensed consolidated financial statements

8

---

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Business

Tompkins Financial Corporation (“Tompkins” or the “Company”) is headquartered in Ithaca, New York and is registered as a Financial Holding Company with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended. The Company is a locally oriented, community-based financial services organization that offers a full array of products and services, including commercial and consumer banking, leasing, trust and investment management, financial planning and wealth management, and insurance services. At March 31, 2017, the Company’s subsidiaries included: four wholly-owned banking subsidiaries, Tompkins Trust Company (the “Trust Company”), The Bank of Castile (DBA Tompkins Bank of Castile), Mahopac Bank (formerly known as Mahopac National Bank, DBA Tompkins Mahopac Bank), VIST Bank (DBA Tompkins VIST Bank); and a wholly-owned insurance agency subsidiary, Tompkins Insurance Agencies, Inc. (“Tompkins Insurance”). The trust division of the Trust Company provides a full array of investment services, including investment management, trust and estate, financial and tax planning as well as life, disability and long-term care insurance services. The Company’s principal offices are located at The Commons, Ithaca, New York, 14851, and its telephone number is (888) 503-5753. The Company’s common stock is traded on the NYSE MKT LLC under the Symbol “TMP.”

As a registered financial holding company, the Company is regulated under the Bank Holding Company Act of 1956 (“BHC Act”), as amended and is subject to examination and comprehensive regulation by the Federal Reserve Board (“FRB”). The Company is also subject to the jurisdiction of the Securities and Exchange Commission (“SEC”) and is subject to disclosure and regulatory requirements under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. The Company is subject to the rules of the NYSE MKT LLC for listed companies.

The Company’s banking subsidiaries are subject to examination and comprehensive regulation by various regulatory authorities, including the Federal Deposit Insurance Corporation (“FDIC”), the New York State Department of Financial Services (“NYSDFS”), and the Pennsylvania Department of Banking and Securities (“PDBS”). Each of these agencies issues regulations and requires the filing of reports describing the activities and financial condition of the entities under its jurisdiction. Likewise, such agencies conduct examinations on a recurring basis to evaluate the safety and soundness of the institutions, and to test compliance with various regulatory requirements, including: consumer protection, privacy, fair lending, the Community Reinvestment Act, the Bank Secrecy Act, sales of non-deposit investments, electronic data processing, and trust department activities.

The trust division of Tompkins Trust Company is subject to examination and comprehensive regulation by the FDIC and NYSDFS.

The Company’s insurance subsidiary is subject to examination and regulation by the NYSDFS and the Pennsylvania Insurance Department.

### 2. Basis of Presentation

The unaudited consolidated financial statements included in this quarterly report do not include all of the information and footnotes required by GAAP for a full year presentation and certain disclosures have been condensed or omitted in accordance with rules and regulations of the SEC. In the application of certain accounting policies, management is required to make assumptions regarding the effect of matters that are inherently uncertain. These estimates and assumptions affect the reported amounts of certain assets, liabilities, revenues, and expenses in the unaudited condensed consolidated financial statements. Different amounts could be reported under different conditions, or if different assumptions were used in the application of these accounting policies. The accounting policies that

management considers critical in this respect are the determination of the allowance for loan and lease losses, the expenses and liabilities associated with the Company's pension and post-retirement benefits, and the review of its securities portfolio for other than temporary impairment.

In management's opinion, the unaudited condensed consolidated financial statements reflect all adjustments of a normal recurring nature. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year ended December 31, 2017. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. There have been no significant changes to the Company's accounting policies from those presented in the 2016 Annual Report on Form 10-K. Refer to Note 3- "Accounting Standards Updates" of this Report for a discussion of recently issued accounting guidelines.



Cash and cash equivalents in the consolidated statements of cash flow include cash and noninterest bearing balances due from banks, interest-bearing balances due from banks, and money market funds. Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes that the Company is not exposed to any significant credit risk on cash and cash equivalents.

The Company has evaluated subsequent events for potential recognition and/or disclosure, and determined that no further disclosures were required.

The consolidated financial information included herein combines the results of operations, the assets, liabilities, and shareholders' equity of the Company and its subsidiaries. Amounts in the prior periods' unaudited condensed consolidated financial statements are reclassified when necessary to conform to the current periods' presentation. Information for the third quarter, second quarter, and first quarter of 2016 has been revised to reflect the impact of the adoption of ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting", in the fourth quarter of 2016, retroactive to January 1, 2016. All significant intercompany balances and transactions are eliminated in consolidation.

### 3. Accounting Standards Updates

ASU 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. ASU 2014-09 was originally going to be effective for us on January 1, 2017; however, the FASB recently issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606) - Deferral of the Effective Date" which deferred the effective date of ASU 2014-09 by one year to January 1, 2018. Tompkins' revenue is comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. With respect to noninterest income, the Company has identified revenue streams within the scope of the guidance, and is performing an evaluation of the underlying revenue contracts. Tompkins does not expect these changes to have a significant impact on the Company's consolidated financial statements. The Company expects to adopt the standard in the first quarter of 2018 with a cumulative effect adjustment to opening retained earnings, if such adjustment is deemed to be significant.

ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." ASU 2016-1, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity 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 entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires 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 and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. ASU 2016-1 will be effective for us on January 1, 2018 and is not expected to

have a significant impact on our consolidated financial statements.

ASU 2016-02, "Leases (Topic 842)." ASU 2016-02 will, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, "Revenue from Contracts with Customers." ASU 2016-2 will be effective for Tompkins on January 1, 2019 and will require transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company occupies certain banking offices and uses certain equipment under noncancelable operating lease agreements, which currently are not reflected in its consolidated balance sheet. Upon adoption of the guidance, the Company expects to report increased assets and increased liabilities as a result of recognizing right-of-use assets and lease liabilities on its consolidated balance sheet. Tompkins is currently evaluating the extent of the impact that the adoption of this ASU will have on our consolidated financial statements.

ASU 2016-05 “Derivatives and Hedging (Topic 815) Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships.” ASU 2016-05 clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under ASC Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. ASU 2016-05 became effective for Tompkins on January 1, 2017 and did not have a significant impact on our consolidated financial statements.

ASU 2016-07, “Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting.” The amendments affect all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. ASU 2016-07 simplifies the transition to the equity method of accounting by eliminating retroactive adjustment of the investment when an investment qualifies for use of the equity method, among other things. ASU 2016-07 became effective for Tompkins on January 1, 2017 and did not have a significant impact on our consolidated financial statements.

ASU 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net).” ASU 2016-08 was issued to clarify certain principal versus agent considerations within the implementation guidance of ASC Topic 606, “Revenue from Contracts with Customers.” The effective date and transition of ASU 2016-08 is the same as the effective date and transition of ASU 2014-09, Revenue from Contracts with Customers (Topic 606), as discussed above. Tompkins is currently evaluating the potential impact of ASU 2016-08 on our consolidated financial statements.

ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing.” ASU 2016-10 was issued to clarify ASC Topic 606, “Revenue from Contracts with Customers” related to (i) identifying performance obligations; and (ii) the licensing implementation guidance. The effective date and transition of ASU 2016-10 is the same as the effective date and transition of ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” as discussed above. Tompkins is currently evaluating the potential impact of ASU 2016-10 on our consolidated financial statements.

ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective on January 1, 2020. Tompkins is currently evaluating the requirements of the new guidance to determine what modifications to our existing allowance methodology may be required. The Company expects that the new guidance will likely result in an increase in the allowance; however, Tompkins is unable to quantify the impact at this time since we are still reviewing the guidance. The extent of any impact to our allowance will depend, in part, upon the composition of our loan portfolio at the adoption date as well as economic conditions and loss forecasts at that date.

ASU 2016-15, “Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments.” ASU 2016-15 provides guidance related to certain cash flow issues in order to reduce the current and potential future diversity in practice. ASU 2016-15 will be effective for us on January 1, 2018. Tompkins is currently evaluating the potential impact of ASU 2016-15 but does not expect it to have a significant impact on our consolidated financial statements.

ASU 2017-04, “Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment.” ASU 2017-04 eliminates Step 2 from the goodwill impairment test which required entities to compute the implied fair value of goodwill. Under ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 will be effective for us on January 1, 2020, with early adoption permitted for interim or annual impairment tests beginning in 2017. Tompkins is currently evaluating the potential impact of ASU 2017-04 on our consolidated financial statements.

ASU 2017-05, “Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20) - Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets.” ASU 2017-05 clarifies the scope of Subtopic 610-20 and adds guidance for partial sales of nonfinancial assets, including partial sales of real estate. Historically, U.S. GAAP contained several different accounting models to evaluate whether the transfer of certain assets qualified for sale treatment. ASU 2017-05 reduces the number of potential accounting models that might apply and clarifies which model does apply

in various circumstances. ASU 2017-05 will be effective for us on January 1, 2018. Tompkins is currently evaluating the potential impact of ASU 2017-05 on our consolidated financial statements.

ASU 2017-07, “Compensation-Retirement Benefits (Topic 715 - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.”), which requires that the service cost component of the Company's net periodic pension cost and net periodic postretirement benefit cost be included in the same line item as other compensation costs arising from services rendered by employees, with the other components of net periodic benefit cost being classified outside of a subtotal of income from operations. Of the components of net periodic benefit cost, only the service cost component will be eligible for asset capitalization. ASU 2017-07 is effective for the Company beginning January 1, 2018 and is required to be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement. Tompkins is currently evaluating the potential impact that ASU 2017-07 on our consolidated financial statements.

ASU 2017-08 “Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20) - Premium Amortization on Purchased Callable Debt Securities.” ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium to require such premiums to be amortized to the earliest call date unless applicable guidance related to certain pools of securities is applied to consider estimated prepayments. Under prior guidance, entities were generally required to amortize premiums on individual, non-pooled callable debt securities as a yield adjustment over the contractual life of the security. ASU 2017-08 does not change the accounting for callable debt securities held at a discount. ASU 2017-08 will be effective for us on January 1, 2019, with early adoption permitted. Tompkins is currently evaluating the potential impact of ASU 2017-08 on our consolidated financial statements.

#### 4. Securities

##### Available-for-Sales Securities

The following table summarizes available-for-sale securities held by the Company at March 31, 2017:

March 31, 2017	Available-for-Sale Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. Government sponsored entities	\$527,190	\$ 2,756	\$ 1,971	\$527,975
Obligations of U.S. states and political subdivisions	92,877	424	744	92,557
Mortgage-backed securities – residential, issued by				
U.S. Government agencies	155,224	1,069	2,160	154,133
U.S. Government sponsored entities	659,819	1,802	11,948	649,673
Non-U.S. Government agencies or sponsored entities	106	0	0	106
U.S. corporate debt securities	2,500	0	338	2,162
Total debt securities	1,437,716	6,051	17,161	1,426,606
Equity securities	1,000	0	83	917
Total available-for-sale securities	\$1,438,716	\$ 6,051	\$ 17,244	\$1,427,523

The following table summarizes available-for-sale securities held by the Company at December 31, 2016:

December 31, 2016	Available-for-Sale Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. Government sponsored entities	\$527,057	\$ 2,873	\$ 2,303	\$527,627
Obligations of U.S. states and political subdivisions	89,910	286	1,140	89,056
Mortgage-backed securities – residential, issued by U.S. Government agencies	159,417	1,081	2,272	158,226
U.S. Government sponsored entities	662,724	1,993	13,287	651,430
Non-U.S. Government agencies or sponsored entities	116	0	0	116
U.S. corporate debt securities	2,500	0	338	2,162
Total debt securities	1,441,724	6,233	19,340	1,428,617
Equity securities	1,000	0	79	921
Total available-for-sale securities	\$1,442,724	\$ 6,233	\$ 19,419	\$ 1,429,538

#### Held-to-Maturity Securities

The following table summarizes held-to-maturity securities held by the Company at March 31, 2017:

March 31, 2017	Held-to-Maturity Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. Government sponsored entities	\$132,001	\$ 961	\$ 206	\$132,756
Obligations of U.S. states and political subdivisions	9,544	148	3	9,689
Total held-to-maturity debt securities	\$141,545	\$ 1,109	\$ 209	\$142,445

The following table summarizes held-to-maturity securities held by the Company at December 31, 2016:

December 31, 2016	Held-to-Maturity Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. Government sponsored entities	\$132,098	\$ 804	\$ 283	\$132,619
Obligations of U.S. states and political subdivisions	10,021	195	3	10,213
Total held-to-maturity debt securities	\$142,119	\$ 999	\$ 286	\$142,832

The Company may from time to time sell investment securities from its available-for-sale portfolio. Realized gains on available-for-sale securities were \$0 for the three months ended March 31, 2017 and \$232,000 for the three months ended March 31, 2016. Realized losses on available-for-sale securities were \$0 for the three months ended March 31, 2017 and \$0 for the three months ended March 31, 2016. The sales of available-for-sale investment securities were the result of general investment portfolio and interest rate risk management.

Edgar Filing: TOMPKINS FINANCIAL CORP - Form 10-Q

The following table summarizes available-for-sale securities that had unrealized losses at March 31, 2017:

(in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government sponsored entities	\$201,138	\$ 1,971	\$0	\$ 0	\$201,138	\$ 1,971
Obligations of U.S. states and political subdivisions	47,383	744	0	0	47,383	744
Mortgage-backed securities – residential, issued by						
U.S. Government agencies	102,556	1,485	21,325	675	123,881	2,160
U.S. Government sponsored entities	462,178	7,591	121,805	4,357	583,983	11,948
U.S. corporate debt securities	0	0	2,163	338	2,163	338
Equity securities	0	0	917	83	917	83
Total available-for-sale securities	\$813,255	\$ 11,791	\$ 146,210	\$ 5,453	\$959,465	\$ 17,244

The following table summarizes available-for-sale securities that had unrealized losses at December 31, 2016:

(in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government sponsored entities	\$208,940	\$ 2,303	\$0	\$ 0	\$208,940	\$ 2,303
Obligations of U.S. states and political subdivisions	58,852	1,139	751	1	59,603	1,140
Mortgage-backed securities – residential, issued by						
U.S. Government agencies	98,307	1,570	22,376	702	120,683	2,272
U.S. Government sponsored entities	463,009	8,933	123,915	4,354	586,924	13,287
U.S. corporate debt securities	0	0	2,162	338	2,162	338
Equity securities	0	0	921	79	921	79
Total available-for-sale securities	\$829,108	\$ 13,945	\$ 150,125	\$ 5,474	\$979,233	\$ 19,419

The following table summarizes held-to-maturity securities that had unrealized losses at March 31, 2017.

(in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government sponsored entities	\$30,118	\$ 206	\$0	\$ 0	\$30,118	\$ 206
Obligations of U.S. states and political subdivisions	2,445	3	0	0	2,445	3
Total held-to-maturity securities	\$32,563	\$ 209	\$0	\$ 0	\$32,563	\$ 209





The following table summarizes held-to-maturity securities that had unrealized losses at December 31, 2016.

(in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government sponsored entities	\$40,802	\$ 283	\$ 0	\$ 0	\$40,802	\$ 283
Obligations of U.S. states and political subdivisions	2,567	3	0	0	2,567	3
Total held-to-maturity securities	\$43,369	\$ 286	\$ 0	\$ 0	\$43,369	\$ 286

The gross unrealized losses reported for residential mortgage-backed securities relate to investment securities issued by U.S. government sponsored entities such as Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and U.S. government agencies such as Government National Mortgage Association. The total gross unrealized losses, shown in the tables above, were primarily attributable to changes in interest rates and levels of market liquidity, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities.

The Company does not intend to sell other-than-temporarily impaired investment securities that are in an unrealized loss position until recovery of unrealized losses (which may be until maturity), and it is not more-likely-than not that the Company will be required to sell the investment securities, before recovery of their amortized cost basis, which may be at maturity. Accordingly, as of March 31, 2017, and December 31, 2016, management has determined that the unrealized losses detailed in the tables above are not other-than-temporary.

#### Ongoing Assessment of Other-Than-Temporary Impairment

On a quarterly basis, the Company performs an assessment to determine whether there have been any events or economic circumstances indicating that a security with an unrealized loss has suffered other-than-temporary impairment (“OTTI”). A debt security is considered impaired if the fair value is less than its amortized cost basis (including any previous OTTI charges) at the reporting date. If impaired, the Company then assesses whether the unrealized loss is other-than-temporary. An unrealized loss on a debt security is generally deemed to be other-than-temporary and a credit loss is deemed to exist if the present value, discounted at the security’s effective rate, of the expected future cash flows is less than the amortized cost basis of the debt security. As a result, the credit loss component of an other-than-temporary impairment write-down for debt securities is recorded in earnings while the remaining portion of the impairment loss is recognized, net of tax, in other comprehensive income provided that the Company does not intend to sell the underlying debt security and it is more-likely-than not that the Company would not have to sell the debt security prior to recovery of the unrealized loss, which may be to maturity. If the Company intended to sell any securities with an unrealized loss or it is more-likely-than not that the Company would be required to sell the investment securities, before recovery of their amortized cost basis, then the entire unrealized loss would be recorded in earnings.

The Company considers the following factors in determining whether a credit loss exists.

• The length of time and the extent to which the fair value has been less than the amortized cost basis;

• The level of credit enhancement provided by the structure which includes, but is not limited to, credit subordination positions, excess spreads, overcollateralization, protective triggers;

Changes in the near term prospects of the issuer or underlying collateral of a security, such as changes in default rates, loss severities given default and significant changes in prepayment assumptions;

The level of excess cash flow generated from the underlying collateral supporting the principal and interest payments of the debt securities; and

Any adverse change to the credit conditions of the issuer or the security such as credit downgrades by the rating agencies.

As a result of the other-than-temporarily impairment review process, the Company does not consider any investment security held at March 31, 2017 to be other-than-temporarily impaired.

The amortized cost and estimated fair value of debt securities by contractual maturity are shown in the following table. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities are shown separately since they are not due at a single maturity date.

March 31, 2017

(in thousands)	Amortized Cost	Fair Value
Available-for-sale securities:		
Due in one year or less	\$22,622	\$22,756
Due after one year through five years	406,443	408,420
Due after five years through ten years	178,452	177,032
Due after ten years	15,050	14,486
Total	622,567	622,694
Mortgage-backed securities	815,149	803,912
Total available-for-sale debt securities	\$1,437,716	\$1,426,606

December 31, 2016

(in thousands)	Amortized Cost	Fair Value
Available-for-sale securities:		
Due in one year or less	\$17,878	\$18,034
Due after one year through five years	376,777	378,631
Due after five years through ten years	210,985	208,999
Due after ten years	13,827	13,181
Total	619,467	618,845
Mortgage-backed securities	822,257	809,772
Total available-for-sale debt securities	\$1,441,724	\$1,428,617

March 31, 2017

(in thousands)	Amortized Cost	Fair Value
Held-to-maturity securities:		
Due in one year or less	\$7,562	\$7,582
Due after one year through five years	32,048	32,543
Due after five years through ten years	101,935	102,320
Total held-to-maturity debt securities	\$141,545	\$142,445

December 31, 2016

(in thousands)	Amortized Cost	Fair Value
Held-to-maturity securities:		
Due in one year or less	\$7,452	\$7,469
Due after one year through five years	27,480	27,866
Due after five years through ten years	107,187	107,497
Due after ten years	0	0
Total held-to-maturity debt securities	\$142,119	\$142,832

The Company also holds non-marketable Federal Home Loan Bank New York (“FHLB NY”) stock, non-marketable Federal Home Loan Bank Pittsburgh (“FHLBPITT”) stock and non-marketable Atlantic Community Bankers Bank stock, all of which are required to be held for regulatory purposes and for borrowing availability. The required investment in FHLB stock is tied to the Company’s borrowing levels with the FHLB. Holdings of FHLB NY stock, FHLBPITT stock, and ACBB stock totaled \$21.1 million, \$13.8 million and \$95,000 at March 31, 2017, respectively. These securities are carried at par, which is also cost. The FHLB NY and FHLBPITT continue to pay dividends and repurchase stock. Quarterly, we evaluate our investment in the FHLB for impairment. We evaluate recent and long-term operating performance, liquidity, funding and capital positions, stock repurchase history, dividend history and impact of legislative and regulatory changes. Based on our most recent evaluation, as of March 31, 2017, we have determined that no impairment write-downs are currently required.

## 5. Loans and Leases

Loans and Leases at March 31, 2017 and December 31, 2016 were as follows:

(in thousands)	3/31/2017			12/31/2016		
	Originated	Acquired	Total Loans and Leases	Originated	Acquired	Total Loans and Leases
Commercial and industrial						
Agriculture	\$88,999	\$0	\$88,999	\$118,247	\$0	\$118,247
Commercial and industrial other	886,370	79,356	965,726	847,055	79,317	926,372
Subtotal commercial and industrial	975,369	79,356	1,054,725	965,302	79,317	1,044,619
Commercial real estate						
Construction	142,685	1,548	144,233	135,834	8,936	144,770
Agriculture	116,682	262	116,944	102,509	267	102,776
Commercial real estate other	1,440,690	233,298	1,673,988	1,431,690	241,605	1,673,295
Subtotal commercial real estate	1,700,057	235,108	1,935,165	1,670,033	250,808	1,920,841
Residential real estate						
Home equity	209,740	35,291	245,031	209,277	37,737	247,014
Mortgages	969,153	24,824	993,977	947,378	25,423	972,801
Subtotal residential real estate	1,178,893	60,115	1,239,008	1,156,655	63,160	1,219,815
Consumer and other						
Indirect	13,853	0	13,853	14,835	0	14,835
Consumer and other	42,764	801	43,565	44,393	826	45,219
Subtotal consumer and other	56,617	801	57,418	59,228	826	60,054
Leases	15,615	0	15,615	16,650	0	16,650
Total loans and leases	3,926,551	375,380	4,301,931	3,867,868	394,111	4,261,979
Less: unearned income and deferred costs and fees	(4,138)	) 0	(4,138)	(3,946)	) 0	(3,946)
Total loans and leases, net of unearned income and deferred costs and fees	\$3,922,413	\$375,380	\$4,297,793	\$3,863,922	\$394,111	\$4,258,033

The outstanding principal balance and the related carrying amount of the Company's loans acquired in the VIST Bank acquisition are as follows at March 31, 2017 and December 31, 2016:

(in thousands)	3/31/2017	12/31/2016
Acquired Credit Impaired Loans		
Outstanding principal balance	\$ 24,247	\$ 26,237
Carrying amount	20,027	22,517
Acquired Non-Credit Impaired Loans		
Outstanding principal balance	358,985	375,471
Carrying amount	355,353	371,594
Total Acquired Loans		
Outstanding principal balance	383,232	401,708
Carrying amount	375,380	394,111

The Company has adopted comprehensive lending policies, underwriting standards and loan review procedures. Management reviews these policies and procedures on a regular basis. The Company discussed its lending policies and underwriting guidelines for its various lending portfolios in Note 3 – “Loans and Leases” in the Notes to Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. There have been no significant changes in these policies and guidelines since the date of that report. As such, these policies are reflective of new originations as well as those balances held at March 31, 2017. The Company's Board of Directors approves the lending policies at least annually. The Company recognizes that exceptions to policy guidelines may occasionally occur and has established procedures for approving exceptions to these policy guidelines. Management has also implemented reporting systems to monitor loan origination, loan quality, concentrations of credit, loan delinquencies and nonperforming loans and potential problem loans.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments are due. Generally loans are placed on nonaccrual status if principal or interest payments become 90 days or more past due and/or management deems the collectability of the principal and/or interest to be in question as well as when required by regulatory agencies. When interest accrual is discontinued, all unpaid accrued interest is reversed. Payments received on loans on nonaccrual are generally applied to reduce the principal balance of the loan. Loans are generally returned to accrual status when all the principal and interest amounts contractually due are brought current, the borrower has established a payment history, and future payments are reasonably assured. When management determines that the collection of principal in full is not probable, management will charge-off a partial amount or full amount of the loan balance. Management considers specific facts and circumstances relative to each individual credit in making such a determination. For residential and consumer loans, management uses specific regulatory guidance and thresholds for determining charge-offs.

Acquired loans that met the criteria for nonaccrual of interest prior to the acquisition may be considered performing after the date of acquisition, regardless of whether the customer is contractually delinquent, if we 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, we may no longer consider the loan to be nonaccrual or nonperforming and may accrue interest on these loans, including the impact of any accretable discount. To the extent we cannot reasonably estimate cash flows, interest income recognition is discontinued. The Company has determined that it can reasonably estimate future cash flows on our acquired loans that are past due 90 days or more and accruing interest and the Company expects to fully collect the carrying value of the loans.



Edgar Filing: TOMPKINS FINANCIAL CORP - Form 10-Q

The below table is an age analysis of past due loans, segregated by originated and acquired loan and lease portfolios, and by class of loans, as of March 31, 2017 and December 31, 2016.

March 31, 2017

(in thousands)	30-89 days	90 days or more	Current Loans	Total Loans	90 days and accruing <sup>1</sup>	Nonaccrual
<b>Originated Loans and Leases</b>						
<b>Commercial and industrial</b>						
Agriculture	\$0	\$0	\$88,999	\$88,999	\$0	\$0
Commercial and industrial other	2,246	335	883,789	886,370	0	358
Subtotal commercial and industrial	2,246	335	972,788	975,369	0	358
<b>Commercial real estate</b>						
Construction	0	0	142,685	142,685	0	0
Agriculture	16	0	116,666	116,682	0	0
Commercial real estate other	271	3,651	1,436,768	1,440,690	0	6,323
Subtotal commercial real estate	287	3,651	1,696,119	1,700,057	0	6,323
<b>Residential real estate</b>						
Home equity	320	1,254	208,166	209,740	0	1,267
Mortgages	2,188	2,689	964,276	969,153	0	5,659
Subtotal residential real estate	2,508	3,943	1,172,442	1,178,893	0	6,926
<b>Consumer and other</b>						
Indirect	337	331	13,185	13,853	0	170
Consumer and other	84	8	42,672	42,764	0	9
Subtotal consumer and other	421	339	55,857	56,617	0	179
Leases	0	0	15,615	15,615	0	0
Total loans and leases	5,462	8,268	3,912,821	3,926,551	0	13,786
Less: unearned income and deferred costs and fees	0	0	(4,138)	(4,138)	0	0
Total originated loans and leases, net of unearned income and deferred costs and fees	\$5,462	\$8,268	\$3,908,683	\$3,922,413	\$0	\$13,786
<b>Acquired Loans and Leases</b>						
<b>Commercial and industrial</b>						
Commercial and industrial other	13	77	79,266	79,356	30	212
Subtotal commercial and industrial	13	77	79,266	79,356	30	212
<b>Commercial real estate</b>						
Construction	0	0	1,548	1,548	0	0
Agriculture	0	0	262	262	0	0
Commercial real estate other	133	2,595	230,570	233,298	1,948	996
Subtotal commercial real estate	133	2,595	232,380	235,108	1,948	996
<b>Residential real estate</b>						
Home equity	380	659	34,252	35,291	169	830
Mortgages	380	1,044	23,400	24,824	554	1,318
Subtotal residential real estate	760	1,703	57,652	60,115	723	2,148
<b>Consumer and other</b>						
Consumer and other	1	0	800	801	0	0
Subtotal consumer and other	1	0	800	801	0	0
Total acquired loans and leases, net of unearned income and deferred costs and fees	\$907	\$4,375	\$370,098	\$375,380	\$2,701	\$3,356





December 31, 2016

(in thousands)	30-89 days	90 days or more	Current Loans	Total Loans	90 days and accruing <sup>1</sup>	Nonaccrual
Originated loans and leases						
Commercial and industrial						
Agriculture	\$0	\$0	\$118,247	\$118,247	\$0	\$0
Commercial and industrial other	1,312	281	845,462	847,055	0	526
Subtotal commercial and industrial	1,312	281	963,709	965,302	0	526
Commercial real estate						
Construction	0	0	135,834	135,834	0	0
Agriculture	17	0	102,492	102,509	0	162
Commercial real estate other	2,546	3,071	1,426,073	1,431,690	0	5,988
Subtotal commercial real estate	2,563	3,071	1,664,399	1,670,033	0	6,150
Residential real estate						
Home equity	433	1,954	206,890	209,277	0	2,016
Mortgages	1,749	3,244	942,385	947,378	0	5,442
Subtotal residential real estate	2,182	5,198	1,149,275	1,156,655	0	7,458
Consumer and other						
Indirect	444	376	14,015	14,835	0	166
Consumer and other	193	8	44,192	44,393	0	0
Subtotal consumer and other	637	384	58,207	59,228	0	166
Leases	0	0	16,650	16,650	0	0
Total loans and leases	6,694	8,934	3,852,240	3,867,868	0	14,300
Less: unearned income and deferred costs and fees	0	0	(3,946)	(3,946)	0	0
Total originated loans and leases, net of unearned income and deferred costs and fees	\$6,694	\$8,934	\$3,848,294	\$3,863,922	\$0	\$14,300
Acquired loans and leases						
Commercial and industrial						
Commercial and industrial other	12	87	79,218	79,317	40	212
Subtotal commercial and industrial	12	87	79,218	79,317	40	212
Commercial real estate						
Construction	0	0	8,936	8,936	0	0
Agriculture	0	0	267	267	0	0
Commercial real estate other	1,461	3,952	236,192	241,605	1,402	2,926
Subtotal commercial real estate	1,461	3,952	245,395	250,808	1,402	2,926
Residential real estate						
Home equity	251	637	36,849	37,737	185	663
Mortgages	829	1,651	22,943	25,423	930	940
Subtotal residential real estate	1,080	2,288	59,792	63,160	1,115	1,603
Consumer and other						
Consumer and other	0	0	826	826	0	0
Subtotal consumer and other	0	0	826	826	0	0
Covered loans	0	0	0	0	0	0
Total acquired loans and leases, net of unearned income and deferred costs and fees	\$2,553	\$6,327	\$385,231	\$394,111	\$2,557	\$4,741

<sup>1</sup> Includes acquired loans that were recorded at fair value at the acquisition date.



## 6. Allowance for Loan and Lease Losses

### Originated Loans and Leases

Management reviews the appropriateness of the allowance for loan and lease losses (“allowance”) on a regular basis. Management considers the accounting policy relating to the allowance to be a critical accounting policy, given the inherent uncertainty in evaluating the levels of the allowance required to cover credit losses in the portfolio and the material effect that assumptions could have on the Company’s results of operations. The Company has developed a methodology to measure the amount of estimated loan loss exposure inherent in the loan portfolio to assure that an appropriate allowance is maintained. The Company’s methodology is based upon guidance provided in SEC Staff Accounting Bulletin No. 102, Selected Loan Loss Allowance Methodology and Documentation Issues and ASC Topic 310, Receivables and ASC Topic 450, Contingencies.

The model is comprised of four major components that management has deemed appropriate in evaluating the appropriateness of the allowance for loan and lease losses. While none of these components, when used independently, is effective in arriving at a reserve level that appropriately measures the risk inherent in the portfolio, management believes that using them collectively, provides reasonable measurement of the loss exposure in the portfolio. The four components include: impaired loans; individually reviewed and graded loans; historical loss experience; and qualitative or subjective analysis.

Since the methodology is based upon historical experience and trends as well as management’s judgment, factors may arise that result in different estimates. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the local area, concentration of risk, changes in interest rates, and declines in local property values. While management’s evaluation of the allowance as of March 31, 2017, considers the allowance to be appropriate, under adversely different conditions or assumptions, the Company would need to increase or decrease the allowance.

### Acquired Loans and Leases

#### Acquired loans accounted for under ASC 310-30

For our acquired loans, our allowance for loan losses is estimated based upon our expected cash flows for these loans. To the extent that we experience a deterioration in borrower credit quality resulting in a decrease in our expected cash flows subsequent to the acquisition of the loans, an allowance for loan losses would be established based on our estimate of future credit losses over the remaining life of the loans.

#### Acquired loans accounted for under ASC 310-20

We establish our allowance for loan losses through a provision for credit losses based upon an evaluation process that is similar to our evaluation process used for originated loans. This evaluation, which includes a review of loans on which full collectability may not be reasonably assured, considers, among other matters, the estimated fair value of the underlying collateral, economic conditions, historical net loan loss experience, carrying value of the loans, which includes the remaining net purchase discount or premium, and other factors that warrant recognition in determining our allowance for loan losses.

The following tables detail activity in the allowance for loan and lease losses segregated by originated and acquired loan and lease portfolios and by portfolio segment for the three months ended March 31, 2017 and 2016. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other

categories.

Three months ended March 31, 2017

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for originated loans and leases						
Beginning balance	\$ 9,389	\$ 19,836	\$ 5,149	\$ 1,224	\$ 0	\$ 35,598
Charge-offs	(75 )	(21 )	(374 )	(280 )	0	(750 )
Recoveries	76	235	27	127	0	465
Provision (credit)	883	(936 )	584	71		602
Ending Balance	\$ 10,273	\$ 19,114	\$ 5,386	\$ 1,142	\$ 0	\$ 35,915

21

---

## Three months ended March 31, 2017

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for acquired loans						
Beginning balance	\$ 0	\$ 97	\$ 54	\$ 6	\$ 0	\$ 157
Charge-offs	(9 )	(74 )	0	0	0	(83 )
Recoveries	0	10	0	0	0	10
Provision (credit)	9	43	115	0	0	167
Ending Balance	\$ 0	\$ 76	\$ 169	\$ 6	\$ 0	\$ 251

## Three months ended March 31, 2016

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for originated loans and leases						
Beginning balance	\$ 10,495	\$ 15,479	\$ 4,070	\$ 1,268	\$ 0	\$ 31,312
Charge-offs	(115 )	0	(200 )	(246 )	0	(561 )
Recoveries	18	211	17	112	0	358
Provision (credit)	(1,107 )	1,418	388	173	0	872
Ending Balance	\$ 9,291	\$ 17,108	\$ 4,275	\$ 1,307	\$ 0	\$ 31,981

## Three months ended March 31, 2016

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Allowance for acquired loans						
Beginning balance	\$ 433	\$ 61	\$ 198	\$ 0	\$ 0	\$ 692
Charge-offs	(63 )	0	(16 )	(93 )	0	(172 )
Recoveries	0	46	0	0	0	46
Provision (credit)	63	(74 )	(123 )	117	0	(17 )
Ending Balance	\$ 433	\$ 33	\$ 59	\$ 24	\$ 0	\$ 549

At March 31, 2017 and December 31, 2016, the allocation of the allowance for loan and lease losses summarized on the basis of the Company's impairment methodology was as follows:

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for originated loans and leases						
March 31, 2017						
Individually evaluated for impairment	\$ 45	\$ 224	\$ 0	\$ 0	\$ 0	\$ 269
Collectively evaluated for impairment	10,228	18,890	5,386	1,142	0	35,646

Edgar Filing: TOMPKINS FINANCIAL CORP - Form 10-Q

Ending balance	\$ 10,273	\$ 19,114	\$ 5,386	\$ 1,142	\$ 0	\$35,915
----------------	-----------	-----------	----------	----------	------	----------

22

---

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Allowance for acquired loans						
March 31, 2017						
Individually evaluated for impairment	\$ 0	\$ 76	\$ 120	\$ 0	\$ 0	\$196
Collectively evaluated for impairment	0	0	49	6	0	55
Ending balance	\$ 0	\$ 76	\$ 169	\$ 6	\$ 0	\$251

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for originated loans and leases						
December 31, 2016						
Individually evaluated for impairment	\$ 95	\$ 322	\$ 0	\$ 0	\$ 0	\$417
Collectively evaluated for impairment	9,294	19,514	5,149	1,224	0	35,181
Ending balance	\$ 9,389	\$ 19,836	\$ 5,149	\$ 1,224	\$ 0	\$35,598

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Allowance for acquired loans						
December 31, 2016						
Individually evaluated for impairment	\$ 0	\$ 76	\$ 0	\$ 0	\$ 0	\$76
Collectively evaluated for impairment	0	21	54	6	0	81
Ending balance	\$ 0	\$ 97	\$ 54	\$ 6	\$ 0	\$157

The recorded investment in loans and leases summarized on the basis of the Company's impairment methodology as of March 31, 2017 and December 31, 2016 was as follows:

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Originated loans and leases						
March 31, 2017						
Individually evaluated for impairment	\$ 241	\$8,706	\$3,492	\$ 0	\$0	\$12,439
Collectively evaluated for impairment	975,128	1,691,351	1,175,401	56,617	15,615	3,914,112
Total	\$ 975,369	\$1,700,057	\$1,178,893	\$ 56,617	\$15,615	\$3,926,551

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired loans						
March 31, 2017						
Individually evaluated for impairment	\$ 170	\$ 1,672	\$ 1,451	\$ 0	\$ 0	\$ 3,293
Loans acquired with deteriorated credit quality	372	12,497	7,158	0	0	20,027
Collectively evaluated for impairment	78,814	220,939	51,506	801	0	352,060
Total	\$ 79,356	\$ 235,108	\$ 60,115	\$ 801	\$ 0	\$ 375,380

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Originated loans and leases						
December 31, 2016						
Individually evaluated for impairment	\$ 635	\$ 8,812	\$ 3,507	\$ 0	\$ 0	\$ 12,954
Collectively evaluated for impairment	964,667	1,661,221	1,153,148	59,228	16,650	3,854,914
Total	\$ 965,302	\$ 1,670,033	\$ 1,156,655	\$ 59,228	\$ 16,650	\$ 3,867,868

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired loans						
December 31, 2016						
Individually evaluated for impairment	\$ 172	\$ 4,081	\$ 1,372	\$ 0	\$ 0	\$ 5,625
Loans acquired with deteriorated credit quality	448	14,368	7,701	0	0	22,517
Collectively evaluated for impairment	78,697	232,359	54,087	826	0	365,969
Total	\$ 79,317	\$ 250,808	\$ 63,160	\$ 826	\$ 0	\$ 394,111

A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans consist of our non-homogenous nonaccrual loans, and all loans restructured in a troubled debt restructuring (TDR). Specific reserves on individually identified impaired loans that are not collateral dependent are measured based on the present value of expected future cash flows discounted at the original effective interest rate of each loan. For loans that are collateral dependent, impairment is measured based on the fair value of the collateral less estimated selling costs, and such impaired amounts are generally charged off. The majority of impaired loans are collateral dependent impaired loans that have limited exposure or require limited specific reserves because of the amount of collateral support with respect to these loans, and previous charge-offs. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured. In these cases, interest is recognized on a cash basis. Impaired loans are as follows:



Edgar Filing: TOMPKINS FINANCIAL CORP - Form 10-Q

(in thousands)	3/31/2017			12/31/2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Originated loans and leases with no related allowance						
Commercial and industrial						
Commercial and industrial other	\$ 169	\$ 187	\$ 0	\$ 276	\$ 370	\$ 0
Commercial real estate						
Commercial real estate other	8,112	8,626	0	6,979	7,263	0
Residential real estate						
Home equity	3,492	3,521	0	3,507	3,535	0
Subtotal	\$ 11,773	\$ 12,334	\$ 0	\$ 10,762	\$ 11,168	\$ 0

Originated loans and leases with related allowance

Commercial and industrial						
Commercial and industrial other	72	72	45	359	276	95
Commercial real estate						
Commercial real estate other	594	594	224	1,833	2,042	322
Subtotal	\$ 666	\$ 666	\$ 269	\$ 2,192	\$ 2,318	\$ 417
Total	\$ 12,439	\$ 13,000	\$ 269	\$ 12,954	\$ 13,486	\$ 417

(in thousands)	3/31/2017			12/31/2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance

Acquired loans and leases with no related allowance

Commercial and industrial						
Commercial and industrial other	\$ 170	\$ 470	\$ 0	\$ 172	\$ 472	\$ 0
Commercial real estate						
Construction	0	0	0	0	0	0
Commercial real estate other	1,476	1,659	0	4,003	4,386	0
Residential real estate						
Home equity	1,451	1,480	0	1,372	1,372	0
Subtotal	\$ 3,097	\$ 3,609	\$ 0	\$ 5,547	\$ 6,230	\$ 0

Acquired loans and leases with related allowance

Commercial real estate						
Commercial real estate other	76	76	76	78	78	76
Residential real estate						
Home equity	120	120	120	0	0	0
Subtotal	\$ 196	\$ 196	\$ 196	\$ 78	\$ 78	\$ 76
Total	\$ 3,293	\$ 3,805	\$ 196	\$ 5,625	\$ 6,308	\$ 76



The average recorded investment and interest income recognized on impaired loans for the three months ended March 31, 2017 and 2016 was as follows:

(in thousands)	Three Months Ended 03/31/2017		Three Months Ended 03/31/16	
	Average Interest Recorded Investment		Average Interest Recorded Investment	
	Recognized		Recognized	
Originated loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	280	0	624	0
Commercial real estate				
Commercial real estate other	8,162	0	5,699	0
Residential real estate				
Home equity	3,488	0	2,290	0
Subtotal	\$11,930	\$ 0	\$8,613	\$ 0
Originated loans and leases with related allowance				
Commercial and industrial				
Commercial and industrial other	155	0	4	0
Commercial real estate				
Commercial real estate other	597	0	587	0
Subtotal	\$752	\$ 0	\$591	\$ 0
Total	\$12,682	\$ 0	\$9,204	\$ 0

(in thousands)	Three Months Ended 03/31/2017		Three Months Ended 03/31/2016	
	Average Interest Recorded Investment	Recognized Income	Average Interest Recorded Investment	Recognized Income
Acquired loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	165	0	594	0
Commercial real estate				
Construction	0	0	359	0
Commercial real estate other	2,746	0	5,176	0
Residential real estate				
Home equity	1,411	0	893	0
Subtotal	\$4,322	\$ 0	\$7,022	\$ 0
Acquired loans and leases with related allowance				
Commercial and industrial				
Commercial and industrial other	0	0	518	0
Commercial real estate				
Commercial real estate other	77	0	32	0
Residential real estate				
Home equity	60	0	0	0
Subtotal	\$137	\$ 0	\$550	\$ 0
Total	\$4,459	\$ 0	\$7,572	\$ 0

Loans are considered modified in a TDR when, due to a borrower's financial difficulties, the Company makes concessions to the borrower that it would not otherwise consider. These modifications may include, among others, an extension for the term of the loan, and granting a period when interest-only payments can be made with the principal payments made over the remaining term of the loan or at maturity.

The following tables present information on loans modified in troubled debt restructuring during the periods indicated.

(in thousands)	March 31, 2017		Three Months Ended	
	Pre-Modification Number of Outstanding Recorded Loans Investment	Post-Modification Number of Outstanding Recorded Loans Investment	Defaulted TDRs <sup>2</sup> Post-Modification Number of Outstanding Recorded Loans Investment	Post-Modification Number of Outstanding Recorded Loans Investment
Residential real estate				
Home equity <sup>1</sup>	1	73	1	55
Total	1	\$ 73	1	\$ 55

<sup>1</sup> Represents the following concessions: extension of term and reduction of rate.

<sup>2</sup> TDRs that defaulted during the three months ended March 31, 2017 that were restructured in the prior twelve months.

March 31, 2016  (in thousands)	Three Months Ended		Defaulted TDRs <sup>3</sup>	
	Pre-Modification Number of Outstanding Recorded Loans Investment	Post-Modification Outstanding Recorded Investment	Number of Outstanding Recorded Loans Investment	Post-Modification Outstanding Recorded Investment
Commercial and industrial				
Commercial and industrial other <sup>1</sup>	2 \$ 1,115	\$ 1,115	0	\$ 0
Residential real estate				
Home equity <sup>2</sup>	3 169	169	0	0
Total	5 \$ 1,284	\$ 1,284	0	\$ 0

1 Represents the following concessions: extension of term and reduction of rate.

2 Represents the following concessions: extension of term and reduction of rate.

3 TDRs that defaulted during the three months ended March 31, 2016 that had been restructured in the prior twelve months.

The following tables present credit quality indicators (internal risk grade) by class of commercial and industrial loans and commercial real estate loans as of March 31, 2017 and December 31, 2016.

March 31, 2017  (in thousands)	Commercial and Industrial		Commercial Real Estate	Commercial Real Estate	Commercial Real Estate	Total
	Other	Agriculture	Other	Agriculture	Construction	
Originated Loans and Leases						
Internal risk grade:						
Pass	\$ 875,097	\$ 87,119	\$ 1,417,648	\$ 113,108	\$ 142,685	\$2,635,657
Special Mention	6,780	1,813	7,083	3,185	0	18,861
Substandard	4,493	67	15,959	389	0	20,908
Total	\$ 886,370	\$ 88,999	\$ 1,440,690	\$ 116,682	\$ 142,685	\$2,675,426

March 31, 2017  (in thousands)	Commercial and Industrial		Commercial Real Estate	Commercial Real Estate	Commercial Real Estate	Total
	Other	Agriculture	Other	Agriculture	Construction	
Acquired Loans and Leases						
Internal risk grade:						
Pass	\$ 78,030	\$ 0	\$ 224,477	\$ 262	\$ 1,548	\$304,317
Special Mention	0	0	519	0	0	519
Substandard	1,326	0	8,302	0	0	9,628
Total	\$ 79,356	\$ 0	\$ 233,298	\$ 262	\$ 1,548	\$314,464

December 31, 2016

(in thousands)	Commercial and Industrial Other	Commercial and Industrial Agriculture	Commercial Real Estate Other	Commercial Real Estate Agriculture	Commercial Real Estate Construction	Total
Originated Loans and Leases						
Internal risk grade:						
Pass	\$ 836,788	\$ 117,135	\$ 1,403,370	\$ 101,407	\$ 135,834	\$ 2,594,534
Special Mention	7,218	755	11,939	573	0	20,485
Substandard	3,049	357	16,381	529	0	20,316
Total	\$ 847,055	\$ 118,247	\$ 1,431,690	\$ 102,509	\$ 135,834	\$ 2,635,335

December 31, 2016

(in thousands)	Commercial and Industrial Other	Commercial and Industrial Agriculture	Commercial Real Estate Other	Commercial Real Estate Agriculture	Commercial Real Estate Construction	Total
Acquired Loans and Leases						
Internal risk grade:						
Pass	\$ 77,921	\$ 0	\$ 229,334	\$ 267	\$ 8,936	\$ 316,458
Special Mention	0	0	526	0	0	526
Substandard	1,396	0	11,745	0	0	13,141
Total	\$ 79,317	\$ 0	\$ 241,605	\$ 267	\$ 8,936	\$ 330,125

The following tables present credit quality indicators by class of residential real estate loans and by class of consumer loans. Nonperforming loans include nonaccrual, impaired, and loans 90 days past due and accruing interest. All other loans are considered performing as of March 31, 2017 and December 31, 2016. For purposes of this footnote, acquired loans that were recorded at fair value at the acquisition date and are 90 days or greater past due are considered performing.

March 31, 2017

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Originated Loans and Leases					
Performing	\$ 208,473	\$ 963,494	\$ 13,683	\$ 42,755	\$ 1,228,405
Nonperforming	1,267	5,659	170	9	7,105
Total	\$ 209,740	\$ 969,153	\$ 13,853	\$ 42,764	\$ 1,235,510

March 31, 2017

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Acquired Loans and Leases					
Performing	\$ 34,292	\$ 22,952	\$ 0	\$ 801	\$ 58,045
Nonperforming	999	1,872	0	0	2,871
Total	\$ 35,291	\$ 24,824	\$ 0	\$ 801	\$ 60,916



December 31, 2016

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Originated Loans and Leases					
Performing	\$ 207,261	\$ 941,936	\$ 14,669	\$ 44,393	\$ 1,208,259
Nonperforming	2,016	5,442	166	0	7,624
Total	\$ 209,277	\$ 947,378	\$ 14,835	\$ 44,393	\$ 1,215,883

December 31, 2016

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Acquired Loans and Leases					
Performing	\$ 37,074	\$ 24,483	\$ 0	\$ 826	\$ 62,383
Nonperforming	663	940	0	0	1,603
Total	\$ 37,737	\$ 25,423	\$ 0	\$ 826	\$ 63,986

#### 7. FDIC Indemnification Asset Related to Covered Loans

Prior to the third quarter of 2016, the Company had certain loans acquired in the VIST Financial acquisition which were covered loans with loss share agreements with the FDIC. Based on an analysis of outstanding loans covered under the one remaining loss share agreement, management decided to early terminate its one remaining loss share agreement with the FDIC during the third quarter of 2016. At that time the Company recorded pre-tax expense of \$313,000 to terminate the agreement and write-off the remaining book value of the FDIC indemnification asset, which included \$174,000 in expense for early termination and \$139,000 to write off the remaining asset. The remaining balances of the loans previously reported as Covered Loans are included in the current period in acquired loan balances by loan type.



## 8. Earnings Per Share

Earnings per share in the table below, for the three month periods ended March 31, 2017 and 2016 are calculated under the two-class method as required by ASC Topic 260, Earnings Per Share. ASC 260 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The Company has issued restricted stock awards that contain such rights and are therefore considered participating securities. Basic earnings per common share are calculated by dividing net income allocable to common stock by the weighted average number of common shares, excluding participating securities, during the period. Diluted earnings per common share include the dilutive effect of participating securities.

(in thousands, except share and per share data)	Three Months Ended	
	3/31/2017	3/31/2016
<b>Basic</b>		
Net income available to common shareholders	\$ 15,717	\$ 14,251
Less: Income attributable to unvested stock-based compensation awards	(261 )	(230 )
Net earnings allocated to common shareholders	15,456	14,021
Weighted average shares outstanding, including unvested stock-based compensation awards	15,151,521	15,002,332
Less: unvested stock-based compensation awards	(250,583 )	(242,056 )
Weighted average shares outstanding - Basic	14,900,938	14,760,276
<b>Diluted</b>		
Net earnings allocated to common shareholders	15,456	14,021
Weighted average shares outstanding - Basic	14,900,938	14,760,276
Plus: incremental shares from assumed conversion of stock--based compensation awards	141,676	87,340
Weighted average shares outstanding - Diluted	15,042,614	14,847,616

Edgar Filing: TOMPKINS FINANCIAL CORP - Form 10-Q

Basic EPS	1.04	0.95
Diluted EPS	1.03	0.94

Stock-based compensation awards representing 20,242 and 48,515 of common shares during the three months ended March 31, 2017 and 2016, respectively, were not included in the computations of diluted earnings per common share because the effect on those periods would have been antidilutive.

## 9. Other Comprehensive Income (Loss)

The following tables present reclassifications out of the accumulated other comprehensive income (loss) for the three month periods ended March 31, 2017 and 2016.

(in thousands)	Three Months Ended March 31, 2017		
	Before-Tax Amount	Tax (Expense) Benefit	Net of Tax
Available-for-sale securities:			
Change in net unrealized gain/loss during the period	\$1,995	\$ (798 )	\$1,197
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	0	0	0
Net unrealized gains	1,995	(798 )	1,197
Employee benefit plans:			
Amortization of net retirement plan actuarial gain	357	(143 )	214
Amortization of net retirement plan prior service cost	23	(9 )	14
Employee benefit plans	380	(152 )	228
Other comprehensive income	\$2,375	\$ (950 )	\$1,425

(in thousands)	Three Months Ended March 31, 2016		
	Before-Tax Amount	Tax (Expense) Benefit	Net of Tax
Available-for-sale securities:			
Change in net unrealized gain/loss during the period	\$20,955	\$ (8,380 )	\$12,575
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(232 )	93	(139 )
Net unrealized gains	20,723	(8,287 )	12,436
Employee benefit plans:			
Amortization of net retirement plan actuarial gain	343	(137 )	206
Amortization of net retirement plan prior service cost	30	(12 )	18
Employee benefit plans	373	(149 )	224
Other comprehensive income	\$21,096	\$ (8,436 )	\$12,660

The following table presents the activity in our accumulated other comprehensive income (loss) for the periods indicated:

(in thousands)	Available-for-Sale Securities	Employee Benefit Plans	Accumulated Other Comprehensive (Loss) Income
Balance at January 1, 2017	\$ (7,915 )	\$ (29,194)	\$ (37,109 )
Other comprehensive income before reclassifications	1,197	0	1,197
Amounts reclassified from accumulated other comprehensive (loss) income	0	228	228
Net current-period other comprehensive income	1,197	228	1,425
Balance at March 31, 2017	\$ (6,718 )	\$ (28,966)	\$ (35,684 )
Balance at January 1, 2016	\$ (2,744 )	\$ (28,257)	\$ (31,001 )
Other comprehensive income before reclassifications	12,575	0	12,575
Amounts reclassified from accumulated other comprehensive (loss) income	(139 )	224	85
Net current-period other comprehensive income	12,436	224	12,660
Balance at March 31, 2016	\$ 9,692	\$ (28,033)	\$ (18,341 )

The following tables present the amounts reclassified out of each component of accumulated other comprehensive (loss) income for the three months ended March 31, 2017 and 2016.

Three months ended March 31, 2017

Details about Accumulated other Comprehensive Income Components (in thousands)	Amount Reclassified from Accumulated Other Comprehensive (Loss) Income <sup>1</sup>	Affected Line Item in the Statement Where Net Income is Presented
Available-for-sale securities:		
Unrealized gains and losses on available-for-sale securities	\$ 0	Net gain on securities transactions
	0	Tax expense
	0	Net of tax
Employee benefit plans:		
Amortization of the following <sup>2</sup>		
Net retirement plan actuarial gain	(357 )	Pension and other employee benefits
Net retirement plan prior service cost	(23 )	Pension and other employee benefits
	(380 )	Total before tax
	152	Tax benefit
	(228 )	Net of tax

Three Months Ended March 31, 2016

Details about Accumulated other Comprehensive Income Components (in thousands)	Amount Reclassified from Accumulated Other Comprehensive (Loss) Income <sup>1</sup>	Affected Line Item in the Statement Where Net Income is Presented
Available-for-sale securities:		
Unrealized gains and losses on available-for-sale securities	\$ 232	Net gain on securities transactions
	(93 )	Tax expense
	139	Net of tax
Employee benefit plans:		
Amortization of the following <sup>2</sup>		
Net retirement plan actuarial gain	(343 )	Pension and other employee benefits
Net retirement plan prior service credit	(30 )	Pension and other employee benefits
	(373 )	Total before tax
	149	Tax benefit
	(224 )	Net of tax

1 Amounts in parentheses indicated debits in income statement.

2 The accumulated other comprehensive (loss) income components are included in the computation of net periodic benefit cost (See Note 10 - "Employee Benefit Plan").

## 10. Employee Benefit Plan

The following table sets forth the amount of the net periodic benefit cost recognized by the Company for the Company's pension plan, post-retirement plan (Life and Health), and supplemental employee retirement plans ("SERP") including the following components: service cost, interest cost, expected return on plan assets for the period, amortization of the unrecognized transitional obligation or transition asset, and the amounts of recognized gains and losses, prior service cost recognized, and gain or loss recognized due to settlement or curtailment.

### Components of Net Periodic Benefit (Income) Cost

(in thousands)	Pension Benefits Three Months Ended 3/31/2017		Life and Health Three Months Ended 3/31/2017		SERP Benefits Three Months Ended 3/31/2017	
Service cost	\$ 0		\$ 68	\$ 82	\$ 54	\$ 72
Interest cost	607	649	71	77	209	211
Expected return on plan assets	(1,267)	(1,215 )	0	0	0	0
Amortization of net retirement plan actuarial loss	252	239	4	1	101	104
Amortization of net retirement plan prior service (credit) cost	(3 )	(4 )	4	4	22	30
Net periodic benefit (income) cost	\$(411)	\$(331 )	\$147	\$ 164	\$386	\$ 417



The net periodic benefit cost for the Company's benefit plans are recorded as a component of salaries and benefits in the consolidated statements of income.

The Company realized approximately \$228,000 and \$224,000, net of tax, as amortization of amounts previously recognized in accumulated other comprehensive (loss) income, for the three months ended March 31, 2017 and 2016, respectively.

The Company is not required to contribute to the pension plan in 2017, but it may make voluntary contributions. The Company did not contribute to the pension plan in the first three months of 2017 and 2016.

#### 11. Other Income and Operating Expense

Other income and operating expense totals are presented in the table below. Components of these totals exceeding 1% of the aggregate of total noninterest income and total noninterest expenses for any of the years presented below are stated separately.

(in thousands)	Three Months	
	Ended	
	3/31/2017	3/31/2016
Noninterest Income		
Other service charges	\$ 820	\$ 750
Increase in cash surrender value of corporate owned life insurance	630	616
Net gain on sale of loans	13	23
Other income	692	318
Total other income	\$ 2,155	\$ 1,707
Noninterest Expenses		
Marketing expense	\$ 1,174	\$ 902
Professional fees	1,362	1,343
Legal fees	264	348
Technology expense	1,891	1,348
Cardholder expense	1,182	745
Other expenses	4,084	4,362
Total other operating expense	\$ 9,957	\$ 9,048

## 12. Financial Guarantees

The Company currently does not issue any guarantees that would require liability recognition or disclosure, other than standby letters of credit. The Company extends standby letters of credit to its customers in the normal course of business. The standby letters of credit are generally short-term. As of March 31, 2017, the Company's maximum potential obligation under standby letters of credit was \$52.0 million compared to \$57.7 million at December 31, 2016. Management uses the same credit policies to extend standby letters of credit that it uses for on-balance sheet lending decisions and may require collateral to support standby letters of credit based upon its evaluation of the counterparty. Management does not anticipate any significant losses as a result of these transactions, and has determined that the fair value of standby letters of credit is not significant.

## 13. Segment and Related Information

The Company manages its operations through three reportable business segments in accordance with the standards set forth in FASB ASC 280, "Segment Reporting": (i) banking ("Banking"), (ii) insurance ("Tompkins Insurance") and (iii) wealth management ("Tompkins Financial Advisors"). The Company's insurance services and wealth management services, other than trust services, are managed separately from the Banking segment.

### Banking

The Banking segment is primarily comprised of the Company's four banking subsidiaries: Tompkins Trust Company, a commercial bank with fourteen banking offices located in Ithaca, NY and surrounding communities; The Bank of Castile (DBA Tompkins Bank of Castile), a commercial bank with seventeen banking offices located in the Genesee Valley region of New York State as well as Monroe County; Mahopac Bank (DBA Tompkins Mahopac Bank), a commercial bank with fourteen full-service banking offices located in the counties north of New York City; and VIST Bank (DBA Tompkins VIST Bank), a banking organization with twenty-one banking offices headquartered and operating in the areas surrounding southeastern Pennsylvania.

### Insurance

The Company provides property and casualty insurance services and employee benefits consulting through Tompkins Insurance Agencies, Inc., a 100% wholly-owned subsidiary of the Company, headquartered in Batavia, New York. Tompkins Insurance is an independent insurance agency, representing many major insurance carriers and provides employee benefit consulting to employers in Western and Central New York and Southeastern Pennsylvania, assisting them with their medical, group life insurance and group disability insurance. Tompkins Insurance has five stand-alone offices in Western New York, one stand-alone office in Tompkins County, New York and one stand-alone office in Montgomery County, Pennsylvania.

### Wealth Management

The Wealth Management segment is generally organized under the Tompkins Financial Advisors brand. Tompkins Financial Advisors offers a comprehensive suite of financial services to customers, including trust and estate services, investment management and financial and insurance planning for individuals, corporate executives, small business owners and high net worth individuals. Tompkins Financial Advisors has offices in each of the Company's four subsidiary banks.

Summarized financial information concerning the Company's reportable segments and the reconciliation to the Company's consolidated results is shown in the following table. Investment in subsidiaries is netted out of the presentations below. The "Intercompany" column identifies the intercompany activities of revenues, expenses and other



assets between the banking, insurance and wealth management services segments. The Company accounts for intercompany fees and services at an estimated fair value according to regulatory requirements for the services provided. Intercompany items relate primarily to the use of human resources, information systems, accounting and marketing services provided by any of the banks and the holding company. All other accounting policies are the same as those described in the summary of significant accounting policies in the 2016 Annual Report on Form 10-K.

Edgar Filing: TOMPKINS FINANCIAL CORP - Form 10-Q

As of and for the three months ended March 31, 2017

(in thousands)	Banking	Insurance	Wealth Management	Intercompany	Consolidated
Interest income	\$ 53,621	\$ 0	\$ 0	\$ 0	\$ 53,621
Interest expense	5,587	0	0	0	5,587
Net interest income	48,034	0	0	0	48,034
Provision for loan and lease losses	769	0	0	0	769
Noninterest income	6,403	7,316	3,910	(389 )	17,240
Noninterest expense	32,488	6,080	3,189	(389 )	41,368
Income before income tax expense	21,180	1,236	721	0	23,137
Income tax expense	6,672	474	242	0	7,388
Net Income attributable to noncontrolling interests and Tompkins Financial Corporation	14,508	762	479	0	15,749
Less: Net income attributable to noncontrolling interests	32	0	0	0	32
Net Income attributable to Tompkins Financial Corporation	\$ 14,476	\$ 762	\$ 479	\$ 0	\$ 15,717
Depreciation and amortization	\$ 1,691	\$ 82	\$ 14	\$ 0	\$ 1,787
Assets	6,235,516	39,915	14,678	(10,062 )	6,280,047
Goodwill	64,370	19,710	8,211	0	92,291
Other intangibles, net	6,107	4,324	336	0	10,767
Net loans and leases	4,261,627	0	0	0	4,261,627
Deposits	4,860,625	0	0	(10,040 )	4,850,585
Total Equity	519,723	31,148	12,647	0	563,518

37

As of and for the three months ended March 31, 2016

(in thousands)	Banking	Insurance	Wealth Management	Intercompany	Consolidated
Interest income	\$ 49,309	\$ 0	\$ 0	\$ 0	\$ 49,309
Interest expense	5,271	0	0	0	5,271
Net interest income	44,038	0	0	0	44,038
Provision for loan and lease losses	855	0	0	0	855
Noninterest income	6,272	7,599	3,910	(278 )	17,503
Noninterest expense	30,374	6,339	3,071	(278 )	39,506
Income before income tax expense	19,081	1,260	839	0	21,180
Income tax expense	6,123	502	271	0	6,896
Net Income attributable to noncontrolling interests and Tompkins Financial Corporation	12,958	758	568	0	14,284
Less: Net income attributable to noncontrolling interests	33	0	0	0	33
Net Income attributable to Tompkins Financial Corporation	\$ 12,925	\$ 758	\$ 568	\$ 0	\$ 14,251
Depreciation and amortization	\$ 1,575	\$ 91	\$ 19	\$ 0	\$ 1,685
Assets	5,719,963	39,825	14,088	(8,905 )	5,764,971
Goodwill	64,370	20,036	8,211	0	92,617
Other intangibles, net	7,472	5,344	417	0	13,233
Net loans and leases	3,788,383	0	0	0	3,788,383
Deposits	4,563,951	0	0	(8,723 )	4,555,228
Total Equity	497,519	30,757	11,617	0	539,893

#### 14. Fair Value

FASB ASC Topic 820, Fair Value Measurements and Disclosures, defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FASB ASC Topic 820 also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Transfers between levels, when determined to be appropriate, are recognized at the end of each reporting period.

The three levels of the fair value hierarchy under FASB ASC Topic 820 are:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).



The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of March 31, 2017 and December 31, 2016, segregated by the level of valuation inputs within the fair value hierarchy used to measure fair value.

#### Recurring Fair Value Measurements

March 31, 2017

(in thousands)	Total	(Level 1)	(Level 2)	(Level 3)
Available-for-sale securities				
Obligations of U.S. Government sponsored entities	\$527,975	\$ 0	\$527,975	\$ 0
Obligations of U.S. states and political subdivisions	92,557	0	92,557	0
Mortgage-backed securities – residential, issued by:				
U.S. Government agencies	154,133	0	154,133	0
U.S. Government sponsored entities	649,673	0	649,673	0
Non-U.S. Government agencies or sponsored entities	106	0	106	0
U.S. corporate debt securities	2,162	0	2,162	0
Equity securities	917	0	0	917

The change in the fair value of available-for-sale equity securities valued using significant unobservable inputs (level 3), between January 1, 2017 and March 31, 2017 was immaterial.

#### Recurring Fair Value Measurements

December 31, 2016

(in thousands)	Total	(Level 1)	(Level 2)	(Level 3)
Available-for-sale securities				
Obligations of U.S. Government sponsored entities	527,627	0	527,627	0
Obligations of U.S. states and political subdivisions	89,056	0	89,056	0
Mortgage-backed securities – residential, issued by:				
U.S. Government agencies	158,226	0	158,226	0
U.S. Government sponsored entities	651,430	0	651,430	0
Non-U.S. Government agencies or sponsored entities	116	0	116	0
U.S. corporate debt securities	2,162	0	2,162	0
Equity securities	921	0	0	921

The change in the fair value of available-for-sale equity securities valued using significant unobservable inputs (level 3), between January 1, 2016 and December 31, 2016 was immaterial.

There were no transfers between Levels 1, 2 and 3 for the three months ended March 31, 2017.

The Company determines fair value for its trading securities using independently quoted market prices. The Company determines fair value for its available-for-sale securities using an independent bond pricing service for identical assets or very similar securities. The Company has reviewed the pricing sources, including methodologies used, and finds them to be fairly stated.

Fair values of borrowings are estimated using Level 2 inputs based upon observable market data. The Company determines fair value for its borrowings using a discounted cash flow technique based upon expected cash flows and current spreads on FHLB advances with the same structure and terms. The Company also receives pricing information from third parties, including the FHLB. The pricing obtained is considered representative of the transfer price if the

liabilities were assumed by a third party.

Certain assets are measured at fair value on a nonrecurring basis. For the Company, these include loans held for sale, collateral dependent impaired loans, and other real estate owned (“OREO”). During the first quarter of 2017, certain collateral dependent impaired loans were remeasured and reported at fair value through a specific valuation allowance and/or partial charge-offs for loan and lease losses based upon the fair value of the underlying collateral. Collateral values are estimated using Level 2 inputs based upon observable market data. In addition to collateral dependent impaired loans, certain other real estate owned were remeasured and reported at fair value based upon the fair value of the underlying collateral. The fair values of other real estate owned are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. In general, the fair values of other real estate owned are based upon appraisals, with discounts made to reflect estimated costs to sell the real estate. Upon initial recognition, fair value write-downs on other real estate owned are taken through a charge-off to the allowance for loan and lease losses. Subsequent fair value write-downs on other real estate owned are reported in other noninterest expense.

March 31, 2017

Assets:	As of 03/31/2017	Fair value measurements at reporting date using:	Significant unobservable inputs (Level 3)	Significant unobservable inputs (Level 3)	Gain (losses) from fair value changes  Three months ended 03/31/2017
		Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)		
Impaired loans	\$ 2,671	\$ 2,671		\$ 0	\$ (332 )
Other real estate owned	2,520	0 2,520		0	(70 )

March 31, 2016

Assets:	As of 03/31/2016	Fair value measurements at reporting date using:	Significant unobservable inputs (Level 3)	Significant unobservable inputs (Level 3)	Gain (losses) from fair value changes  Three months ended 03/31/2016
		Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)		

		(Level 1)			
Impaired loans	\$ 1,987	\$0	\$ 1,987	\$ 0	\$ 9
Other real estate owned	432	0	432	0	11

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at March 31, 2017 and December 31, 2016. The carrying amounts shown in the table are included in the Consolidated Statements of Condition under the indicated captions.

The fair value estimates, methods and assumptions set forth below for the Company's financial instruments, including those financial instruments carried at cost, are made solely to comply with disclosures required by generally accepted accounting principles in the United States and do not always incorporate the exit-price concept of fair value prescribed by ASC Topic 820-10 and should be read in conjunction with the financial statements and notes included in this Report.



## Estimated Fair Value of Financial Instruments

March 31, 2017

(in thousands)	Carrying Amount	Fair Value	(Level 1)	(Level 2)	(Level 3)
Financial Assets:					
Cash and cash equivalents	\$78,472	\$78,472	\$78,472	\$0	\$ 0
Securities - held to maturity	141,545	142,445	0	142,445	0
FHLB and other stock	35,013	35,013	0	35,013	0
Accrued interest receivable	18,815	18,815	0	18,815	0
Loans/leases, net <sup>1</sup>	4,261,627	4,218,103	0	2,671	4,215,432

## Financial Liabilities:

Time deposits	\$875,596	\$871,748	\$0	\$871,748	\$ 0
Other deposits	3,974,989	3,974,989	0	3,974,989	0
Fed funds purchased and securities sold					
under agreements to repurchase	70,716	70,716	0	70,716	0
Other borrowings	717,285	716,914	0	716,914	0
Trust preferred debentures	16,562	22,171	0	22,171	0
Accrued interest payable	1,756	1,756	0	1,756	0

## Estimated Fair Value of Financial Instruments

December 31, 2016

(in thousands)	Carrying Amount	Fair Value	(Level 1)	(Level 2)	(Level 3)
Financial Assets:					
Cash and cash equivalents	\$63,954	\$63,954	\$63,954	\$0	\$ 0
Securities - held to maturity	142,119	142,832	0	142,832	0
FHLB and other stock	43,133	43,133	0	43,133	0
Accrued interest receivable	17,390	17,390	0	17,390	0
Loans/leases, net <sup>1</sup>	4,222,278	4,187,415	0	7,296	4,180,119

## Financial Liabilities:

Time deposits	\$870,788	\$867,921	\$0	\$867,921	\$ 0
Other deposits	3,754,351	3,754,351	0	3,754,351	0
Fed funds purchased and securities					
sold under agreements to repurchase	69,062	69,109	0	69,109	0
Other borrowings	884,815	884,842	0	884,842	0
Trust preferred debentures	37,681	43,321	0	43,321	0
Accrued interest payable	1,902	1,902	0	1,902	0

<sup>1</sup> Lease receivables, although excluded from the scope of ASC Topic 825, are included in the estimated fair value amounts at their carrying value.

The following methods and assumptions were used in estimating fair value disclosures for financial instruments.

**Cash and Cash Equivalents:** The carrying amounts reported in the Consolidated Statements of Condition for cash, noninterest-bearing deposits, money market funds, and Federal funds sold approximate the fair value of those assets.



**Securities:** Fair values for U.S. Treasury securities are based on quoted market prices. Fair values for obligations of U.S. government sponsored entities, mortgage-backed securities-residential, obligations of U.S. states and political subdivisions, and U.S. corporate debt securities are based on quoted market prices, where available, as provided by third party pricing vendors. If quoted market prices were not available, fair values are based on quoted market prices of comparable instruments in active markets and/or based upon matrix pricing methodology, which uses comprehensive interest rate tables to determine market price, movement and yield relationships. These securities are reviewed periodically to determine if there are any events or changes in circumstances that would adversely affect their value.

**Loans and Leases:** The fair values of residential loans are estimated using discounted cash flow analyses, based upon available market benchmarks for rates and prepayment assumptions. The fair values of commercial and consumer loans are estimated using discounted cash flow analyses, based upon interest rates currently offered for loans and leases with similar terms and credit quality. The fair value of loans held for sale are determined based upon contractual prices for loans with similar characteristics.

**FHLB Stock:** The carrying amount of FHLB stock approximates fair value. If the stock is redeemed, the Company will receive an amount equal to the par value of the stock. For miscellaneous equity securities, carrying value is cost.

**Accrued Interest Receivable and Accrued Interest Payable:** The carrying amount of these short term instruments approximate fair value.

**Deposits:** The fair values disclosed for noninterest bearing accounts and accounts with no stated maturities are equal to the amount payable on demand at the reporting date. The fair value of time deposits is based upon discounted cash flow analyses using rates offered for FHLB advances, which is the Company's primary alternative source of funds.

**Securities Sold Under Agreements to Repurchase:** The carrying amounts of repurchase agreements and other short-term borrowings approximate their fair values. Fair values of long-term borrowings are estimated using a discounted cash flow approach, based on current market rates for similar borrowings. For securities sold under agreements to repurchase where the Company has elected the fair value option, the Company also receives pricing information from third parties, including the FHLB.

**Other Borrowings:** The fair values of other borrowings are estimated using discounted cash flow analysis, discounted at the Company's current incremental borrowing rate for similar borrowing arrangements. For other borrowings where the Company has elected the fair value option, the Company also receives pricing information from third parties, including the FHLB.

**Trust Preferred Debentures:** The fair value of the trust preferred debentures has been estimated using a discounted cash flow analysis which uses a discount factor of a market spread over current interest rates for similar instruments.

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

Corporate Overview and Strategic Initiatives

Tompkins Financial Corporation ("Tompkins" or the "Company") is headquartered in Ithaca, New York and is registered as a Financial Holding Company with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended. The Company is a locally oriented, community-based financial services organization that offers a full array of products and services, including commercial and consumer banking, leasing, trust and investment management, financial planning and wealth management, and insurance services. At March 31, 2017, the Company's subsidiaries included: four wholly-owned banking subsidiaries, Tompkins Trust Company (the "Trust Company"), The Bank of Castile (DBA Tompkins Bank of Castile), Mahopac Bank (formerly known as Mahopac National Bank, DBA Tompkins Mahopac Bank), VIST Bank (DBA Tompkins VIST Bank); and a wholly-owned insurance agency subsidiary, Tompkins Insurance Agencies, Inc. ("Tompkins Insurance"). The trust division of the Trust Company provides a full array of investment services, including investment management, trust and estate, financial and tax planning as well as life, disability and long-term care insurance services. The Company's principal offices are located at The Commons, Ithaca, New York, 14851, and its telephone number is (888) 503-5753. The Company's common stock is traded on the NYSE MKT LLC under the Symbol "TMP."

The Company's strategic initiatives include diversification within its markets, growth of its fee-based businesses, and growth internally and through acquisitions of financial institutions, branches, and financial services businesses. As such, the Company from time to time considers acquiring banks, thrift institutions, branch offices of banks or thrift institutions, or other businesses within markets currently served by the Company or in other locations that would complement the Company's business or its geographic reach. The Company generally targets merger or acquisition partners that are culturally similar and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale and expanded services. The Company has pursued acquisition opportunities in the past, and continues to review new opportunities.

Business Segments

Banking services consist primarily of attracting deposits from the areas served by the Company's four banking subsidiaries' 66 banking offices (45 offices in New York and 21 offices in Pennsylvania) and using those deposits to originate a variety of commercial loans, consumer loans, real estate loans (including commercial loans collateralized by real estate), and leases. The Company's lending function is managed within the guidelines of a comprehensive Board-approved lending policy. Reporting systems are in place to provide management with ongoing information related to loan production, loan quality, concentrations of credit, loan delinquencies, and nonperforming and potential problem loans. Banking services also include a full suite of products such as debit cards, credit cards, remote deposit, electronic banking, mobile banking, cash management, and safe deposit services.

Wealth management services consist of investment management, trust and estate, financial and tax planning as well as life, disability and long-term care insurance services. Wealth management services are provided by the Trust Company under the trade name Tompkins Financial Advisors. Tompkins Financial Advisors has office locations, and services are available, at all four of the Company's subsidiary banks.

Insurance services include property and casualty insurance, employee benefit consulting, and life, long-term care and disability insurance. Tompkins Insurance is headquartered in Batavia, New York. Over the past fourteen years, Tompkins Insurance has acquired smaller insurance agencies in the market areas serviced by the Company's banking subsidiaries and successfully consolidated them into Tompkins Insurance, most recently acquiring Shepard, Maxwell & Hale Insurance on January 1, 2016 as previously reported. Tompkins Insurance offers services to customers of the Company's banking subsidiaries by sharing offices with The Bank of Castile, Trust Company, and VIST Bank. In addition to these shared offices, Tompkins Insurance has five stand-alone offices in Western New York, two

stand-alone offices in Tompkins County, New York and one stand-alone office in Montgomery County, Pennsylvania.

The Company's principal expenses are interest on deposits, interest on borrowings, and operating and general administrative expenses, as well as provisions for loan and lease losses. Funding sources, other than deposits, include borrowings, securities sold under agreements to repurchase, and cash flow from lending and investing activities.

### Competition

Competition for commercial banking and other financial services is strong in the Company's market areas. In one or more aspects of its businesses, the Company's subsidiaries compete with other commercial banks, savings and loan associations, credit unions, finance companies, Internet-based financial services companies, mutual funds, insurance companies, brokerage and investment banking companies, and other financial intermediaries. Some of these competitors have substantially greater resources and lending capabilities and may offer service that the Company does not currently provide. In addition, many of the Company's non-bank competitors are not subject to the same extensive Federal regulations that govern financial holding companies and Federally-insured banks.

Management believes that a community based financial organization is better positioned to establish personalized financial relationships with both commercial customers and individual households. The Company's community commitment and involvement in its primary market areas, as well as its commitment to quality and personalized financial services, are factors that contribute to the Company's competitiveness. Management believes that each of the Company's subsidiary banks can compete successfully in its primary market areas by making prudent lending decisions quickly and more efficiently than its competitors, without compromising asset quality or profitability, although no assurances can be given that such factors will assure success.

### Regulation

Banking, insurance services and wealth management are highly regulated. As a financial holding company with four community banks, a registered investment advisor, and an insurance agency subsidiary, the Company and its subsidiaries are subject to examination and regulation by the Federal Reserve Board ("FRB"), Securities and Exchange Commission ("SEC"), the Federal Deposit Insurance Corporation ("FDIC"), the New York State Department of Financial Services, Pennsylvania Department of Banking and Securities, Financial Industry Regulatory Authority, and the Pennsylvania Insurance Department.

### OTHER IMPORTANT INFORMATION

The following discussion is intended to provide an understanding of the consolidated financial condition and results of operations of the Company for the three months ended March 31, 2017. It should be read in conjunction with the Company's Audited Consolidated Financial Statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, and the Unaudited Consolidated Financial Statements and notes thereto included in Part I of this Quarterly Report on Form 10-Q.

In this Report, there are comparisons of the Company's performance to that of a peer group. Unless otherwise stated, this peer group is comprised of the group of 145 domestic bank holding companies with \$3 billion to \$10 billion in total assets as defined in the Federal Reserve's "Bank Holding Company Performance Report" for December 31, 2016 (the most recent report available).

### Forward-Looking Statements

The Company is making this statement in order to satisfy the "Safe Harbor" provision contained in the Private Securities Litigation Reform Act of 1995. The statements contained in this Quarterly Report on Form 10-Q that are not statements of historical fact may include forward-looking statements that involve a number of risks and uncertainties. Such forward-looking statements are made based on management's expectations and beliefs concerning future events impacting the Company and are subject to certain uncertainties and factors relating to the Company's operations and economic environment, all of which are difficult to predict and many of which are beyond the control of the Company. These uncertainties and factors that could cause actual results of the Company to differ materially from those matters expressed and/or implied by such forward-looking statements. The following factors are among those that could cause actual results to differ materially from the forward-looking statements: changes in general economic, market and regulatory conditions; the development of an interest rate environment that may adversely affect the

Company's interest rate spread, other income or cash flow anticipated from the Company's operations, investment and/or lending activities; changes in laws and regulations affecting banks, insurance companies, bank holding companies and/or financial holding companies, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act and Basel III; technological developments and changes; the ability to continue to introduce competitive new products and services on a timely, cost-effective basis; governmental and public policy changes, including environmental regulation; protection and validity of intellectual property rights; reliance on large customers; the expenses and reputational damage if there were ever a material cybersecurity breach; financial resources in the amounts, at the times and on the terms required to support the Company's future businesses; and other factors discussed elsewhere in this Quarterly Report on Form 10-Q and in other reports we file with the SEC, in particular the "Risk Factors" discussed in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2016. In addition, such forward-looking statements could be affected by general industry and market conditions and growth rates, general economic and political conditions (including changes in economic conditions in the Company's primary market areas), including interest rate and currency exchange rate fluctuations, and other factors.

### Critical Accounting Policies

The accounting and reporting policies followed by the Company conform, in all material respects, to accounting principles generally accepted in the United States and to general practices within the financial services industry. In the course of normal business activity, management must select and apply many accounting policies and methodologies and make estimates and assumptions that lead to the financial results presented in the Company's consolidated financial statements and accompanying notes. There are uncertainties inherent in making these estimates and assumptions, which could materially affect the Company's results of operations and financial position.

Management considers accounting estimates to be critical to reported financial results if (i) the accounting estimates require management to make assumptions about matters that are highly uncertain, and (ii) different estimates that management reasonably could have used for the accounting estimate in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on the Company's financial statements. Management considers the accounting policies relating to the allowance for loan and lease losses ("allowance"), pension and postretirement benefits, and the review of the securities portfolio for other-than-temporary impairment to be critical accounting policies because of the uncertainty and subjectivity involved in these policies and the material effect that estimates related to these areas can have on the Company's results of operations.

For additional information on critical accounting policies and to gain a greater understanding of how the Company's financial performance is reported, refer to Note 1 – "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements, and the section captioned "Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. There have been no significant changes in the Company's application of critical accounting policies since December 31, 2016. Refer to Note 3 – "Accounting Standards Updates" in the Notes to Unaudited Consolidated Financial Statements included in Part I of this Quarterly Report on Form 10-Q for a discussion of recent accounting updates.

### OVERVIEW

Net income for the first quarter was \$15.7 million or \$1.03 diluted earnings per share, compared to \$14.3 million or \$0.94 diluted earnings per share for the same period in 2016. Net interest income of \$48.0 million for the quarter ended March 31, 2017 was up compared to the \$44.0 million reported for the same period in 2016.

Return on average assets ("ROA") for the quarter ended March 31, 2017 was 1.02%, compared to 1.00% for the quarter ended March 31, 2016. Return on average shareholders' equity ("ROE") for the first quarter of 2017 was 11.47%, compared to 10.85%, for the same period in 2016. Tompkins' year-to-date ROA and ROE compared to the most recent peer average ratios of 1.00% and 9.13%, respectively, ranking Tompkins' ROA in the 51st percentile and ROE in the 72nd percentile of the peer group.

### Segment Reporting

The Company operates in the following three business segments, banking, insurance, and wealth management. Insurance is comprised of property and casualty insurance services and employee benefit consulting operated under the Tompkins Insurance Agencies, Inc. subsidiary. Wealth management activities include the results of the Company's trust, financial planning, and wealth management services, organized under the Tompkins Financial Advisors brand. All other activities are considered banking.

### Banking Segment

The banking segment reported net income of \$14.5 million for the first quarter of 2017, up \$1.6 million or 12.0% from net income of \$12.9 million for the same period in 2016.



Net interest income of \$48.0 million for the first quarter of 2017 was up \$4.0 million or 9.1% over the same period in 2016. The Company's growth in average earning assets and stable funding costs contributed to favorable year-over-year comparisons in net interest income. Net interest margin for the three months ending March 31, 2017 was 3.38% compared to 3.36% for the same period in the prior year.

The provision for loan and lease losses was \$769,000 for the three months ended March 31, 2017, which was down \$86,000 or 10.1% compared to the same period in 2016. The lower provision expense was largely attributable to improving credit quality, partially offset by loan growth experienced compared to the first quarter of 2016.

Noninterest income of \$6.4 million for the three months ended March 31, 2017 increased \$131,000 or 2.1% compared to the same period in 2016. The increase in the three month results includes: gain on the sale of other real estate owned ("OREO") properties (up \$172,000) and card services fees (up \$68,000). Partially offsetting these items was a decrease in service charges on deposits (down \$97,000) during the three months ended March 31, 2017, compared to the first quarter of 2016.

Noninterest expense of \$32.5 million for the three months ended March 31, 2017 was up \$2.1 million or 7.0% from the same period in 2016. The quarterly increase was attributed to an increase in salary and wages and employee benefits reflecting normal annual merit and incentive adjustments and higher health insurance costs, respectively, over prior year.

#### Insurance Segment

The insurance segment reported net income of \$762,000 for the three months ended March 31, 2017, which was flat compared to the first quarter of 2016. Noninterest income was down \$283,000 or 3.7% in the first quarter of 2017, compared to the same period in 2016. The decrease was mainly in life and health insurance commissions and largely reflects impacts of the sale of certain customer relationships in the Pennsylvania market in the second half of 2016 and first quarter of 2017. Noninterest expenses for the three months ended March 31, 2017 were down \$259,000 or 4.1% compared to the first quarter of 2016. The decrease in noninterest expense for the first quarter is the result of a decrease in salaries and wages, reflecting a decline in the number of employees.

#### Wealth Management Segment

The wealth management segment reported net income of \$479,000 for the three months ended March 31, 2017, which was down \$89,000 or 15.7% compared to the first quarter of 2016. Noninterest income for the first quarter of 2017 was flat for the first three months of 2017 compared to the same period prior year. Noninterest expenses for the three months ended March 31, 2017 were up \$118,000 or 3.8%. The increase in 2017 over 2016 reflects increases in salaries and wages, reflecting annual merit increases and sales commissions.

Edgar Filing: TOMPKINS FINANCIAL CORP - Form 10-Q

Average Consolidated Statements of Condition and Net Interest Analysis (Unaudited)

(Dollar amounts in thousands)	Quarter Ended March 31, 2017			Quarter Ended March 31, 2016			Average Yield/Rate
	Average Balance (QTD)	Interest	Average Yield/Rate	Average Balance (QTD)	Interest	Average Yield/Rate	
<b>ASSETS</b>							
Interest-earning assets							
Interest-bearing balances due from banks	\$5,214	\$2	0.16 %	\$2,094	\$2	0.38 %	
Securities (1)							
U.S. Government securities	1,479,516	7,659	2.1 %	1,458,755	7,903	2.18 %	
Trading securities	0	0	0 %	7,248	81	4.49 %	
State and municipal (2)	100,698	840	3.38 %	97,631	838	3.45 %	
Other securities (2)	3,613	31	3.48 %	3,686	31	3.38 %	
Total securities	1,583,827	8,530	2.18 %	1,567,320	8,853	2.27 %	
FHLBNY and FRB stock	38,105	468	4.98 %	27,799	298	4.31 %	
Total loans and leases, net of unearned income (2)(3)	4,263,799	45,675	4.34 %	3,791,207	41,185	4.37 %	
Total interest-earning assets	5,890,945	54,675	3.76 %	5,388,420	50,338	3.76 %	
Other assets	350,443			341,851			
Total assets	6,241,388			5,730,271			
<b>LIABILITIES &amp; EQUITY</b>							
Deposits							
Interest-bearing deposits							
Interest bearing checking, savings, & money market	2,664,848	1,061	0.16 %	2,533,185	956	0.15 %	
Time deposits	869,949	1,727	0.81 %	868,095	1,643	0.76 %	
Total interest-bearing deposits	3,534,797	2,788	0.32 %	3,401,280	2,599	0.31 %	
Federal funds purchased & securities sold under agreements to repurchase	77,980	108	0.56 %	126,262	666	2.12 %	
Other borrowings	791,136	2,324	1.19 %	502,319	1,417	1.13 %	
Trust preferred debentures	23,588	367	6.31 %	37,524	589	6.31 %	
Total interest-bearing liabilities	4,427,501	5,587	0.51 %	4,067,385	5,271	0.52 %	
Noninterest bearing deposits	1,188,568			1,067,638			
Accrued expenses and other liabilities	69,426			66,934			
Total liabilities	5,685,495			5,201,957			
Tompkins Financial Corporation Shareholders' equity	554,424			526,846			
Noncontrolling interest	1,469			1,468			
Total equity	555,893			528,314			
Total liabilities and equity	\$6,241,388			\$5,730,271			
Interest rate spread			3.25 %			3.24 %	
Net interest income/margin on earning assets		49,088	3.38 %		45,067	3.36 %	
Tax Equivalent Adjustment		(1,054 )			(1,029 )		
		\$48,034			\$44,038		

Net interest income per consolidated financial statements

- 1 Average balances and yields on available-for-sale securities are based on historical amortized cost
- 2 Interest income includes the tax effects of taxable-equivalent adjustments using a combined New York State and Federal effective income tax rate of 40% to increase tax exempt interest income to taxable-equivalent basis.
- 3 Nonaccrual loans are included in the average asset totals presented above. Payments received on nonaccrual loans have been recognized as disclosed in Note 1 of the Company's consolidated financial statements included in Part 1 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

47

---

### Net Interest Income

Net interest income is the Company's largest source of revenue, representing 73.3% of total revenues for the three months ended March 31, 2017, compared to 71.6% for the same period in 2016. Net interest income is dependent on the volume and composition of interest earning assets and interest-bearing liabilities and the level of market interest rates. The above table shows average interest-earning assets and interest-bearing liabilities, and the corresponding yield or cost associated with each.

Taxable-equivalent net interest income for the three months ended March 31, 2017, was up 9.1% over the same period in 2016, benefiting from growth in average earning assets, a slightly improved net interest margin and growth in noninterest bearing deposits. Net interest income benefited from a slight shift in the composition of average earning assets, with loans, which carry higher average yields than securities, comprising an increased percentage of average earning assets. For the three months ended March 31, 2017, average loans represented 72.4% of average earning assets compared to 70.4% for the same period in 2016.

Taxable-equivalent interest income for the three month period ended March 31, 2017, was \$54.7 million, up \$4.3 million or 8.7% compared to the same period in 2016. The increase in taxable-equivalent interest income was mainly the result of an increase in average loans, which was partially offset by a decrease in the yield on average loans. Average loan balances for the three months ended March 31, 2017, were up \$472.6 million or 12.5%, while the average yield on loans decreased 3 basis points from the same period in 2016. Average securities balances for the three months ended March 31, 2017, were down by \$16.5 million or 1.1%, while the average yield on securities for the three month period was down 9 basis points compared to the same period in 2016. The average yield on securities for the first quarter of 2017 did benefit from the rise in market interest rates as amortizations of premiums slowed during the quarter.

Interest expense for the three months ended March 31, 2017, increased by \$316,000 or 6.0% compared to the same period in 2016, driven mainly by an increase in the average volume of borrowings and deposits, which supported the growth in average loans. Average interest bearing deposits for the first quarter of 2017 were up \$133.5 million or 3.9% compared to the same period in 2016. Average noninterest bearing deposits for the three month period ended March 31, 2017 were up \$120.9 million or 11.3% compared to the same period in 2016. Average other borrowings for the three months ended March 31, 2017 were up \$240.5 million or 38.3% compared to the same period in 2016; this increase was mainly in overnight borrowings with the FHLB. The average rate paid on interest bearing deposits during the three months ended March 31, 2017, was 0.32% compared to 0.31% for the same period of 2016. Interest expense for the first quarter of 2017 benefited from the maturities of some higher rate repurchase agreements with the FHLB in the fourth quarter of 2016 and the first quarter of 2017 and the redemption of \$20.5 million of trust preferred debentures in January of 2017.

### Provision for Loan and Lease Losses

The provision for loan and lease losses represents management's estimate of the amount necessary to maintain the allowance for loan and lease losses at an adequate level. The provision for loan and lease losses was \$769,000 for the first quarter of 2017 compared to \$855,000 for the same period in 2016. The section captioned "Financial Condition – Allowance for Loan and Lease Losses and Nonperforming Assets" below has further details on the allowance for loan and lease losses and asset quality metrics.

### Noninterest Income

Noninterest income was \$17.2 million for the first quarter of 2017, relatively flat compared to \$17.5 million for the same period prior year. Noninterest income represented 26.7% of total revenue for the first quarter of 2017, compared to 28.8% for the same period in 2016.

Insurance commissions and fees, the largest component of noninterest income, were \$7.1 million for the first quarter of 2017, a decrease of 5.9% from the same period prior year. The decrease in revenues in the first quarter of 2017 compared to the first quarter of 2016 was mainly due to the sale of certain customer relationships in the second half of 2016 and the first quarter of 2017. In one transaction in 2016 and one transaction in 2017, certain customer relationships in Pennsylvania were sold, thus reducing commissions and fees.

Investment services income of \$3.8 million in the first quarter of 2017 was flat compared to the first quarter of 2016. Investment services income includes trust services, financial planning, wealth management services, and brokerage related services. With fees largely based on the market value and the mix of assets managed, the general direction of the stock market can have a considerable impact on fee income. The fair value of assets managed by, or in custody of, Tompkins was \$4.0 billion at March 31, 2017, up 2.6% from \$3.9 billion at March 31, 2016. These figures include \$1.2 billion of Company-owned securities where Tompkins Trust Company is custodian.

Service charges on deposit accounts were down \$97,000 or 4.3% for the first quarter of 2017 compared to the same period in 2016. Net overdraft fees, the largest component of service charges on deposit accounts, were down 5.4% for the three months ended March 31, 2017 compared to the same period in 2016. The decline in fees was primarily attributable to customer behaviors.

Card services income for the three months ended March 31, 2017 was up \$68,000 or 3.5% compared to the same period in 2016.

The primary components of card services income are fees related to interchange income and transaction fees for debit card transactions, credit card transactions and ATM usage. Increased revenue was largely driven by increased transaction volumes.

Other income of \$2.2 million in the first quarter of 2017 was up 26.2% compared to the same period in 2016. The significant components of other income are other service charges, increases in cash surrender value of corporate owned life insurance ("COLI"), gains on sales of residential mortgage loans, and income from miscellaneous equity investments. The increase in the first quarter of 2017 over the same quarter of 2016 was mainly a result of gains on sales of OREO of \$172,000 and gains on the sales of certain customer relationships in the insurance segment of \$158,000. There were no such gains recognized in the first quarter of 2016.

#### Noninterest Expense

Noninterest expense was \$41.4 million for the first quarter of 2017, up \$1.9 million or 4.7% compared to the same period in 2016.

Expenses associated with compensation and benefits are the largest component of noninterest expense, representing 61.1% of total noninterest expense for the three months ended March 31, 2017. Salaries and wages expense for the three months ended March 31, 2017 increased by \$524,000 or 2.8% compared to the same period in 2016. The increase is mainly due to an increase in the number of employees, and normal merit and market adjustments, as well as higher stock based compensation expense. Pension and other employee related benefits were up \$476,000 or 9.0% compared to the same period in 2016, mainly as a result of higher health insurance costs.

Other expense categories, not related to compensation and benefits, for the three months ended March 31, 2017, were up approximately \$900,000 or 5.6% over the same period in 2016. Higher expenses associated with occupancy, marketing, technology and card services contributed to the increase, as did \$262,000 associated with a planned core system conversion expected to be completed in the second quarter of 2017.

#### Income Tax Expense

The provision for income taxes was \$7.4 million for an effective rate of 31.9% for the first quarter of 2017, compared to tax expense of \$6.9 million and an effective rate of 32.6% for the same quarter in 2016. The effective rates differ from the U.S. statutory rate of 35.0% primarily due to the effect of tax-exempt income from loans, securities and life insurance assets, and the income tax effects associated with stock based compensation. The decrease in the effective rate during 2017 was primarily related to higher income tax benefits realized in connection with stock based compensation.

#### FINANCIAL CONDITION

Total assets were \$6.3 billion at March 31, 2017, up \$43.3 million or 0.7% over December 31, 2016. The growth over year-end was primarily attributable to growth in originated loans, which were up \$58.5 million or 1.5%. This growth was partially offset by expected run-off in acquired loans, which were down \$18.7 million or 4.8%. Total deposits increased \$225.4 million or 4.9% compared to December 31, 2016. Other borrowings decreased \$167.5 million or 18.9% from December 31, 2016, as a result of deposit growth outpacing loan growth in the quarter.

Securities

As of March 31, 2017, the Company's securities portfolio was \$1.57 billion or 25.0% of total assets, compared to \$1.57 billion or 25.2% of total assets at year-end 2016. The following table details the composition of available-for-sale and held-to-maturity securities.



## Available-for-Sale Securities

(in thousands)	3/31/2017		12/31/2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of U.S. Government sponsored entities	\$527,190	\$527,975	\$527,057	\$527,627
Obligations of U.S. states and political subdivisions	92,877	92,557	89,910	89,056
Mortgage-backed securities - residential, issued by				
U.S. Government agencies	155,224	154,133	159,417	158,226
U.S. Government sponsored entities	659,819	649,673	662,724	651,430
Non-U.S. Government agencies or sponsored entities	106	106	116	116
U.S. corporate debt securities	2,500	2,162	2,500	2,162
Total debt securities	1,437,716	1,426,606	1,441,724	1,428,617
Equity securities	1,000	917	1,000	921
Total available-for-sale securities	\$1,438,716	\$1,427,523	\$1,442,724	\$1,429,538

## Held-to-Maturity Securities

(in thousands)	3/31/2017		12/31/2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of U.S. Government sponsored entities	\$132,001	\$132,756	\$132,098	\$132,619
Obligations of U.S. states and political subdivisions	\$9,544	\$9,689	\$10,021	\$10,213
Total held-to-maturity debt securities	\$141,545	\$142,445	\$142,119	\$142,832

The decrease in unrealized losses, which reflects the amount that amortized cost exceeds fair value, related to the available-for-sale portfolio was due primarily to changes in market interest rates during the first three months of 2017. Management's policy is to purchase investment grade securities that on average have relatively short duration, which helps mitigate interest rate risk and provides sources of liquidity without significant risk to capital.

Quarterly, the Company evaluates all investment securities with a fair value less than amortized cost to identify any other-than-temporary impairment as defined under generally accepted accounting principles. As a result of the other-than-temporary impairment review process, the Company does not consider any investment security held at March 31, 2017 to be other-than-temporarily impaired. Future changes in interest rates or the credit quality and credit support of the underlying issuers may reduce the market value of these and other securities. If such decline is determined to be other than temporary, the Company will record the necessary charge to earnings and/or accumulated other comprehensive income to reduce the securities to their then current fair value.

## Loans and Leases

Loans and leases at March 31, 2017 and December 31, 2016 were as follows:

(in thousands)	3/31/2017			12/31/2016		
	Originated	Acquired	Total Loans and Leases	Originated	Acquired	Total Loans and Leases
Commercial and industrial						
Agriculture	\$88,999	\$0	\$88,999	\$118,247	\$0	\$118,247
Commercial and industrial other	886,370	79,356	965,726	847,055	79,317	926,372
Subtotal commercial and industrial	975,369	79,356	1,054,725	965,302	79,317	1,044,619
Commercial real estate						
Construction	142,685	1,548	144,233	135,834	8,936	144,770
Agriculture	116,682	262	116,944	102,509	267	102,776
Commercial real estate other	1,440,690	233,298	1,673,988	1,431,690	241,605	1,673,295
Subtotal commercial real estate	1,700,057	235,108	1,935,165	1,670,033	250,808	1,920,841
Residential real estate						
Home equity	209,740	35,291	245,031	209,277	37,737	247,014
Mortgages	969,153	24,824	993,977	947,378	25,423	972,801
Subtotal residential real estate	1,178,893	60,115	1,239,008	1,156,655	63,160	1,219,815
Consumer and other						
Indirect	13,853	0	13,853	14,835	0	14,835
Consumer and other	42,764	801	43,565	44,393	826	45,219
Subtotal consumer and other	56,617	801	57,418	59,228	826	60,054
Leases	15,615	0	15,615	16,650	0	16,650
Covered loans	0	0	0	0	0	0
Total loans and leases	3,926,551	375,380	4,301,931	3,867,868	394,111	4,261,979
Less: unearned income and deferred costs and fees	(4,138)	) 0	(4,138)	) (3,946)	) 0	(3,946)
Total loans and leases, net of unearned income and deferred costs and fees	\$3,922,413	\$375,380	\$4,297,793	\$3,863,922	\$394,111	\$4,258,033

Residential real estate loans, including home equity loans were \$1.2 billion at March 31, 2017, up \$19.2 million or 1.6% compared to December 31, 2016, and comprised 28.8% of total loans and leases at March 31, 2017. Growth in residential loan balances is impacted by the Company's decision to retain these loans or sell them in the secondary market due to interest rate considerations. The Company's Asset/Liability Committee meets regularly and establishes standards for selling and retaining residential real estate mortgage originations.

The Company may sell residential real estate loans in the secondary market based on interest rate considerations. These residential real estate loans are generally sold to Federal Home Loan Mortgage Corporation ("FHLMC") or State of New York Mortgage Agency ("SONYMA") without recourse in accordance with standard secondary market loan sale agreements. These residential real estate loans also are subject to customary representations and warranties made by the Company, including representations and warranties related to gross incompetence and fraud. The Company has not had to repurchase any loans as a result of these representations and warranties.



During the first three months of 2017 and 2016, the Company retained the vast majority of residential mortgage loans originated, selling only \$40,000 and \$800,000, respectively, during these two quarters, recognizing gains on these sales of \$13,000 and \$23,000, respectively. These residential real estate loans were sold without recourse in accordance with standard secondary market loan sale agreements. When residential mortgage loans are sold, the Company typically retains all servicing rights, which provides the Company with a source of fee income. Mortgage servicing rights, at amortized basis, totaled \$0.7 million at March 31, 2017 and \$0.8 million at December 31, 2016.

Commercial real estate loans and commercial and industrial loans totaled \$1.9 billion and \$1.1 billion, and represented 45.0% and 24.5%, respectively of total loans as of March 31, 2017. The commercial real estate portfolio was up 0.8% over year-end 2016, while commercial and industrial loans were up 1.0%. As of March 31, 2017, agriculturally-related loans totaled \$205.9 million or 4.8% of total loans and leases, compared to \$221.0 million or 5.2% of total loans and leases at December 31, 2016. Agriculturally-related loans include loans to dairy farms and cash and vegetable crop farms. Agriculturally-related loans are primarily made based on identified cash flows of the borrower with consideration given to underlying collateral, personal guarantees, and government related guarantees. Agriculturally-related loans are generally secured by the assets or property being financed or other business assets such as accounts receivable, livestock, equipment or commodities/crops.

The acquired loans in the above table reflect loans acquired in the acquisition of VIST Financial Corp. during the third quarter of 2012. The acquired loans were recorded at fair value pursuant to the purchase accounting guidelines in FASB ASC 805 – “Fair Value Measurements and Disclosures” (as determined by the present value of expected future cash flows) with no valuation allowance (i.e., the allowance for loan losses). Upon acquisition, the Company evaluated whether each acquired loan (regardless of size) was within the scope of ASC 310-30, “Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality”.

The carrying value of acquired loans accounted for in accordance with this guidance was \$20.0 million at March 31, 2017 as compared to \$22.5 million at December 31, 2016. The carrying value of loans not exhibiting evidence of credit impairment at the time of the acquisition (i.e. loans outside of the scope of ASC 310-30) was \$355.4 million at March 31, 2017.

The Company has adopted comprehensive lending policies, underwriting standards and loan review procedures. Management reviews these policies and procedures on a regular basis. The Company discussed its lending policies and underwriting guidelines for its various lending portfolios in Note 3 – “Loans and Leases” in the Notes to Consolidated Financial Statements contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. There have been no significant changes in these policies and guidelines since the date of that report. Therefore, both new originations as well as those balances held at March 31, 2017, reflect these policies and guidelines. The Company’s Board of Directors approves the lending policies at least annually. The Company recognizes that exceptions to policy guidelines may occasionally occur and has established procedures for approving exceptions to these policy guidelines. Management has also implemented reporting systems to monitor loan originations, loan quality, concentrations of credit, loan delinquencies and nonperforming loans and potential problem loans.

The Company’s loan and lease customers are located primarily in the New York and Pennsylvania communities served by its four subsidiary banks. Although operating in numerous communities in New York State and Pennsylvania, the Company is still dependent on the general economic conditions of these states and the local economic conditions of the communities within those states in which the Company does business. Other than geographic and general economic risks, management is not aware of any material concentrations of credit risk to any industry or individual borrower.

The Allowance for Loan and Lease Losses

Edgar Filing: TOMPKINS FINANCIAL CORP - Form 10-Q

The tables below provide, as of the dates indicated, an allocation of the allowance for probable and inherent loan losses by type. The allocation is neither indicative of the specific amounts or the loan categories in which future charge-offs may occur, nor is it an indicator of future loss trends. The allocation of the allowance to each category does not restrict the use of the allowance to absorb losses in any category.

(in thousands)	3/31/2017	12/31/2016	3/31/2016
Allowance for originated loans and leases			
Commercial and industrial	\$ 10,273	\$ 9,389	\$ 9,291
Commercial real estate	19,114	19,836	17,108
Residential real estate	5,386	5,149	4,275
Consumer and other	1,142	1,224	1,307
Total	\$ 35,915	\$ 35,598	\$ 31,981

(in thousands)	3/31/2017	12/31/2016	3/31/2016
Allowance for acquired loans			
Commercial and industrial	\$ 0	\$ 0	\$ 433
Commercial real estate	76	97	33
Residential real estate	169	54	59
Consumer and other	6	6	24
Total	\$ 251	\$ 157	\$ 549

As of March 31, 2017, the total allowance for loan and lease losses was \$36.2 million, which increased by \$411,000 or 1.2% over year-end 2016. The increase in the allowance compared to year-end was mainly due to growth in the originated loan portfolio, partially offset by generally improving asset quality metrics, including loan loss history, nonperforming loans and balances of loans internally classified Special Mention or Substandard over the past several years. Loans internally-classified Special Mention or Substandard were down from year end 2016 by \$4.5 million or 8.4%, while nonperforming loans and leases were down 7.3% from year-end 2016. The allowance for loan and lease losses covered 180.02% of nonperforming loans and leases as of March 31, 2017, compared to 164.98% at December 31, 2016, and 156.88% at March 31, 2016. The ratio of nonperforming loans and leases to total loans and leases was 0.47% at March 31, 2017 compared to 0.51% at December 31, 2016 and 0.54% at March 31, 2016.

The Company's allowance for originated loan and lease losses totaled \$35.9 million at March 31, 2017, which represented 0.92% of total originated loans, unchanged from December 31, 2016, and down from 0.95% at March 31, 2016. The increase in the balance of the originated allowance compared to year-end was mainly due to growth in the originated loan portfolio, partially offset by generally improving asset quality metrics. Originated loans internally-classified as Special Mention, Substandard and Doubtful totaled \$39.8 million at March 31, 2017, down from \$40.8 million at year-end 2016 and up from \$38.4 million at March 31, 2016. Nonaccrual originated loans were \$13.8 million as of March 31, 2017 compared to \$14.3 million at year-end 2016, and \$12.7 million at March 31, 2016.

The allowance for acquired loans at March 31, 2017 was \$251,000, up \$94,000 compared to year-end 2016 and down \$298,000 compared to March 31, 2016. As part of the determination of the fair value of acquired loans at the time of acquisition, the Company established a credit mark to provide for future credit losses in the acquired portfolio. To the extent that credit quality deteriorates subsequent to acquisition, such deterioration will result in the establishment of an allowance for the acquired portfolio. The amount of acquired loans internally-classified as Special Mention, Substandard and Doubtful totaled \$10.1 million at March 31, 2017, down from \$13.7 million at year-end 2016 and \$18.0 million at March 31, 2016. Loan pay downs coupled with charge offs contributed to the decrease from the same quarter prior year and year-end 2016. Nonaccrual acquired loans were \$3.4 million as of March 31, 2017 compared to \$4.7 million at year-end 2016, and \$4.1 million at March 31, 2016.

Activity in the Company's allowance for loan and lease losses during the first three months of 2017 and 2016 is illustrated in the table below.

Analysis of the Allowance for Originated Loan and Lease Losses (in thousands)	3/31/2017	3/31/2016	
Average originated loans outstanding during period	\$3,880,262	\$3,335,520	
Balance of originated allowance at beginning of year	\$35,598	\$31,312	
<b>ORIGINATED LOANS CHARGED-OFF:</b>			
Commercial and industrial	75	115	
Commercial real estate	21	0	
Residential real estate	374	200	
Consumer and other	280	246	
Total loans charged-off	\$750	\$561	
<b>RECOVERIES OF ORIGINATED LOANS PREVIOUSLY CHARGED-OFF:</b>			
Commercial and industrial	76	18	
Commercial real estate	235	211	
Residential real estate	27	17	
Consumer and other	127	112	
Total loans recoveries	\$465	\$358	
Net loans charged-off (recovered)	285	203	
Additions to originated allowance charged to operations	602	872	
Balance of originated allowance at end of period	\$35,915	\$31,981	
Allowance for originated loans and leases as a percentage of originated loans and leases	0.92	% 0.95	%
Annualized net charge-offs (recoveries) on originated loans to average total originated loans and leases during the period	0.03	% 0.02	%

## Analysis of the Allowance for Acquired Loan Losses

(in thousands)	3/31/2017	3/31/2016		
Average acquired loans outstanding during period	\$383,537	\$455,687		
Balance of acquired allowance at beginning of year	157	692		
ACQUIRED LOANS CHARGED-OFF:				
Commercial and industrial	9	63		
Commercial real estate	74	0		
Residential real estate	0	16		
Consumer and other	0	93		
Total loans charged-off	\$83	\$172		
Commercial and industrial	0	0		
Commercial real estate	10	46		
Residential real estate	0	0		
Total loans recovered	\$10	\$46		
Net loans charged-off	73	126		
Additions to acquired allowance charged to operations	167	(17	)	
Balance of acquired allowance at end of period	\$251	\$549		
Allowance for acquired loans as a percentage of acquired loans outstanding and leases	0.07	% 0.12	%	
Annualized net charge-offs on acquired loans as a percentage of average acquired loans and leases outstanding during the period	0.08	% 0.11	%	
Annualized total net charge-offs as a percentage of average loans and leases outstanding during the period	0.03	% 0.03	%	

Net loan and lease chargeoffs totaled \$358,000 for the three months ended March 31, 2017, compared to \$329,000 for the same period in 2016. Annualized net chargeoffs were 0.03% of average total loans and leases, unchanged compared to the same period in 2016. The most recent peer percentage is 0.11%.

The provision for loan and lease losses was \$769,000 for the three months ended March 31, 2017, compared to \$855,000 for the same period in 2016. The decrease in provision for loan and lease losses in 2017 compared to 2016 was mainly a result of an improvement in credit quality in the first quarter of 2017.



## Analysis of Past Due and Nonperforming Loans

(in thousands)	3/31/2017	12/31/2016	3/31/2016
Loans 90 days past due and accruing	\$0	\$0	\$57
Total loans 90 days past due and accruing	0	0	57
Nonaccrual loans			
Commercial and industrial	570	738	1,141
Commercial real estate	7,319	9,076	6,723
Residential real estate	9,074	9,061	8,788
Consumer and other	179	166	164
Total nonaccrual loans	17,142	19,041	16,816
Troubled debt restructurings not included above	2,948	2,631	3,862
Total nonperforming loans and leases	20,090	21,672	20,735
Other real estate owned	2,520	908	1,865
Total nonperforming assets	\$22,610	\$22,580	\$22,600
Allowance as a percentage of nonperforming loans and leases	180.02 %	164.98 %	156.88 %
Total nonperforming loans and leases as percentage of total loans and leases	0.47 %	0.51 %	0.54 %
Total nonperforming assets as percentage of total assets	0.36 %	0.36 %	0.39 %

1 The March 31, 2017, December 31, 2016, and March 31, 2016 columns in the above table exclude \$2.7 million, \$2.6 million, and \$1.9 million, respectively, of acquired loans that are 90 days past due and accruing interest. These loans were originally recorded at fair value on the acquisition date of August 1, 2012. These loans are considered to be accruing as we can reasonably estimate future cash flows on these acquired loans and we expect to fully collect the carrying value of these loans. Therefore, we are accreting the difference between the carrying value of these loans and their expected cash flows into interest income.

Nonperforming assets include nonaccrual loans, troubled debt restructurings (“TDR”), and foreclosed real estate/other real estate owned. Nonperforming assets represented 0.36% of total assets at March 31, 2017, unchanged from December 31, 2016, and down from 0.39% at March 31, 2016. The Company’s ratio of nonperforming assets to total assets continues to compare favorably to our peer group’s most recent ratio of 0.74% at December 31, 2016. Total nonperforming assets of \$22.6 million at March 31, 2017 were flat compared to December 31, 2016, and March 31, 2016. During the first quarter of 2017, a larger commercial real estate loan moved from nonaccrual loans into other real estate owned, thus resulting in a decrease in nonperforming loans and leases while nonperforming assets remained largely unchanged compared to year end 2016.

Total nonperforming loans and leases of \$20.1 million were down \$1.6 million or 7.3% from year end 2016, and down \$645,000 or 3.1% from March 31, 2016. A breakdown of nonperforming loans by portfolio segment is shown above. The decrease in nonaccrual commercial real estate loans is mainly due to the movement of the larger commercial real estate loan moving from nonaccrual status to other real estate owned loan as discussed above.

Loans are considered modified in a TDR when, due to a borrower’s financial difficulties, the Company makes a concession(s) to the borrower that it would not otherwise consider and the borrower could not obtain elsewhere. These modifications may include, among others, an extension of the term of the loan, and granting a period when interest-only payments can be made, with the principal payments made over the remaining term of the loan or at maturity. TDRs are included in the above table within the following categories: “loans 90 days past due and accruing”, “nonaccrual loans”, or “troubled debt restructurings not included above”. Loans in the latter category include loans that meet the definition of a TDR but are performing in accordance with the modified terms and therefore classified as accruing loans. At March 31, 2017 the Company had \$10.5 million in TDRs, and of that total \$7.5 million were reported as nonaccrual and \$2.9 million were considered performing and included in the table above.

In general, the Company places a loan on nonaccrual status if principal or interest payments become 90 days or more past due and/or management deems the collectability of the principal and/or interest to be in question, as well as when required by applicable regulations. Although in nonaccrual status, the Company may continue to receive payments on these loans. These payments are generally recorded as a reduction to principal, and interest income is recorded only after principal recovery is reasonably assured.

The Company's recorded investment in loans and leases that are considered impaired totaled \$15.7 million at March 31, 2017, compared to \$18.6 million at December 31, 2016 and \$16.1 million at March 31, 2016. A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans consist of our non-homogenous nonaccrual loans, and all TDRs. Specific reserves on individually identified impaired loans that are not collateral dependent are measured based on the present value of expected future cash flows discounted at the original effective interest rate of each loan. For loans that are collateral dependent, impairment is measured based on the fair value of the collateral less estimated selling costs, and such impaired amounts are generally charged off.

The average recorded investment in impaired loans and leases was \$17.1 million at March 31, 2017, compared to \$16.8 million at March 31, 2016. At March 31, 2017, there was a specific reserve of \$465,000 on impaired loans compared to \$417,000 of specific reserves at December 31, 2016. The specific reserve of \$465,000 at March 31, 2017 includes specific reserves of \$269,000 for the originated portfolio, and specific reserves of \$196,000 for the acquired portfolio. The majority of impaired loans are collateral dependent impaired loans that have limited exposure or require limited specific reserve because of the amount of collateral support with respect to these loans and previous charge-offs. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured. In these cases, interest is recognized on a cash basis.

The ratio of the allowance to nonperforming loans (loans past due 90 days and accruing, nonaccrual loans and restructured troubled debt) was 180.02% at March 31, 2017, improved from 164.98% at December 31, 2016, and 156.88% at March 31, 2016. The improvement in the ratio reflects the decrease in nonperforming loans over the year as well as an increase in the total allowance. The Company's nonperforming loans are mostly made up of collateral dependent impaired loans with limited exposure or require limited specific reserve due to the level of collateral available with respect to these loans and/or previous charge-offs.

Management reviews the loan portfolio continuously for evidence of potential problem loans and leases. Potential problem loans and leases are loans and leases that are currently performing in accordance with contractual terms, but where known information about possible credit problems of the related borrowers causes management to have doubt as to the ability of such borrowers to comply with the present loan payment terms and may result in such loans and leases becoming nonperforming at some time in the future. Management considers loans and leases classified as Substandard, which continue to accrue interest, to be potential problem loans and leases. The Company, through its internal loan review function, identified 35 commercial relationships from the originated portfolio and 26 commercial relationships from the acquired portfolio totaling \$12.5 million and \$8.5 million, respectively at March 31, 2017 that were potential problem loans. At December 31, 2016, the Company had identified 27 relationships totaling \$7.6 million in the originated portfolio and 18 relationships totaling \$8.4 million in the acquired portfolio that were potential problem loans. Of the 35 commercial relationships in the originated portfolio at March 31, 2017 that were Substandard, there were 4 relationships that equaled or exceeded \$1.0 million, which in aggregate totaled \$6.7 million, the largest of which was \$3.1 million. Of the 26 commercial relationships from the acquired loan portfolio at March 31, 2017 that were Substandard, there was 1 relationship that equaled or exceeded \$1.0 million, which in aggregate totaled \$2.0 million. The Company continues to monitor these potential problem relationships; however, management cannot predict the extent to which continued weak economic conditions or other factors may further impact borrowers. These loans remain in a performing status due to a variety of factors, including payment history, the value of collateral supporting the credits, and personal or government guarantees. These factors, when considered in the aggregate, give management reason to believe that the current risk exposure on these loans does not warrant accounting for these loans as nonperforming. However, these loans do exhibit certain risk factors, which have the potential to cause them to become nonperforming. Accordingly, management's attention is focused on these credits, which are reviewed on at least a quarterly basis.



## Capital

Total equity was \$563.5 million at March 31, 2017, an increase of \$14.1 million or 2.6% from December 31, 2016. The increase reflects growth in retained earnings, additional paid-in capital, and a decrease in accumulated other comprehensive losses.

Additional paid-in capital increased by \$3.8 million, from \$357.4 million at December 31, 2016, to \$361.2 million at March 31, 2017. The increase is primarily attributable to the following: \$2.3 million related to shares issued under the employee stock ownership plan, \$1.1 million related to shares issued in connection with the dividend reinvestment plan, and \$706,000 related to stock based compensation. Retained earnings increased by \$8.9 million from \$230.2 million at December 31, 2016, to \$239.1 million at March 31, 2017, reflecting net income of \$15.7 million less dividends paid of \$6.8 million. Accumulated other comprehensive loss decreased from a net loss of \$37.1 million at December 31, 2016, to a net loss of \$35.7 million at March 31, 2017, reflecting a \$1.2 million increase in unrealized gains on available-for-sale securities due to changes in market rates, and a \$228,000 increase related to post-retirement benefit plans. In connection with the adoption of Basel III Capital Rules on January 1, 2015, the Company elected to opt-out of the requirement to include most components of other comprehensive income in regulatory capital. Accordingly, amounts reported as accumulated other comprehensive income/loss related to net unrealized gain or loss on available-for-sale securities and the funded status of the Company's defined benefit post-retirement benefit plans do not increase or reduce regulatory capital and are not included in the calculation of risk-based capital and leverage ratios.

Cash dividends paid in the first three months of 2017 totaled approximately \$6.8 million, representing 43.4% of year to date 2017 earnings. Cash dividends of \$0.45 per common share paid in the first three months of 2017 were up 2.3% over cash dividends of \$0.44 per common share paid in the first three months of 2016.

On July 21, 2016, the Company's Board of Directors authorized a stock repurchase plan for the Company to repurchase up to 400,000 shares of the Company's common stock (the "2016 Repurchase Plan"). Purchases may be made over the 24 months following adoption of the plan. The repurchase program may be suspended, modified or terminated by the Board of Directors at any time for any reason. The 2016 Repurchase Plan replaced the Company's 400,000 share repurchase plan announced on July 25, 2014 (the "2014 Repurchase Plan").

The Company repurchased 22,356 shares under the 2014 Repurchase Plan during the first quarter of 2016, at an average price of \$52.18. As of March 31, 2017, the Company had not purchased any shares under the 2016 Repurchase Plan.

The Company and its subsidiary banks are subject to various regulatory capital requirements administered by Federal bank regulatory agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on the Company's business, results of operation and financial condition. Under capital adequacy guidelines and the regulatory framework for prompt corrective action (PCA), banks must meet specific guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classifications of the Company and its subsidiary banks are also subject to qualitative judgments by regulators concerning components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the maintenance of minimum amounts and ratios of common equity Tier 1 capital, Total capital and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes that the Company and its subsidiary banks meet all capital adequacy requirements to which they are subject.

In addition to setting higher minimum capital ratios, the Basel III Capital Rules introduced a capital conservation buffer, which must be added to each of the minimum capital ratios and is designed to absorb losses during periods of economic stress. The capital conservation buffer is being phased-in over five years beginning on January 1, 2016 and

ranges from 0.625% in 2016, to 1.25% in 2017, to 1.875% in 2018 and to 2.5% when fully phased-in on January 1, 2019.

The following table provides a summary of the Company's capital ratios as of March 31, 2017.

#### REGULATORY CAPITAL ANALYSIS

March 31, 2017 (dollar amounts in thousands)	Actual		Well Capitalized Requirement	
	Amount	Ratio	Amount	Ratio
Total Capital (to risk weighted assets)	\$551,907	12.41 %	\$444,575	10.00 %
Tier 1 Capital (to risk weighted assets)	\$513,910	11.56 %	\$355,660	8.00 %
Tier 1 Common Equity (to risk weighted assets)	\$497,348	11.19 %	\$288,974	6.50 %
Tier 1 Capital (to average assets)	\$513,910	8.36 %	\$307,418	5.00 %

On March 31, 2017, the Company's capital ratios exceeded the minimum required capital ratios plus the required conservation buffer, the minimum required capital ratios plus the fully phased-in capital conservation buffer, and the minimum required capital ratios for well capitalized institutions. The capital levels required to be considered well capitalized, presented in the above table, are based upon prompt corrective action regulations, as amended to reflect the changes under Basel III Capital Rules.

Total capital as a percent of risk weighted assets increased to 12.4% at March 31, 2017, compared with 12.2% as of December 31, 2016. Tier 1 capital as a percent of risk weighted assets increased slightly from 11.4% at the end of 2016 to 11.6% as of March 31, 2017. Tier 1 capital as a percent of average assets was 8.4% at March 31, 2017, which is unchanged from December 31, 2016. Common equity tier 1 capital was 11.2% at the end of the first quarter of 2017, up slightly from 11.0% at the end of 2016.

On January 31, 2017, the Company redeemed all of the trust preferred of Tompkins Capital Trust I for an aggregate of \$20.5 million, at a redemption price equal to 100% of the liquidation amount of the securities (\$1,000 per security), plus any accrued and unpaid interest up to the redemption date.

As of March 31, 2017, the capital ratios for the Company's subsidiary banks also exceeded the minimum required capital ratios plus the required conservation buffer, the minimum required capital ratios plus the fully phased-in capital conservation buffer, and the minimum required capital ratios for well capitalized institutions.

#### Deposits and Other Liabilities

Total deposits of \$4.9 billion at March 31, 2017 increased \$225.4 million or 4.9% from December 31, 2016. The increase from year-end 2016 was comprised mainly of increases in money market, savings and interest bearing checking deposits (up \$237.4 million). The growth in deposits reflects increases in municipal balances as well as both personal and business balances over year end.

The most significant source of funding for the Company is core deposits. The Company defines core deposits as total deposits less time deposits of \$250,000 or more, brokered deposits and municipal money market deposits. Core deposits grew by \$81.6 million or 2.2% to \$3.8 billion at March 31, 2017, from \$3.7 billion at year-end 2016. Core deposits represented 79.0% of total deposits at March 31, 2017, compared to 81.1% of total deposits at December 31, 2016.

Municipal money market savings and interest checking accounts totaled \$614.1 million at March 31, 2017 which was an increase of 20.8% compared to year-end 2016. In general, there is a seasonal pattern to municipal deposits starting with a low point during July and August. Account balances tend to increase throughout the fall and into the winter months from tax deposits and an additional inflow at the end of March from the electronic deposit of state funds.

The Company uses both retail and wholesale repurchase agreements. Retail repurchase agreements are arrangements with local customers of the Company, in which the Company agrees to sell securities to the customer with an

agreement to repurchase those securities at a specified later date. Retail repurchase agreements totaled \$70.7 million at March 31, 2017, and \$59.1 million at December 31, 2016. Management generally views local repurchase agreements as an alternative to large time deposits.

The Company's other borrowings totaled \$717.3 million at March 31, 2017, down \$167.5 million or 18.9% from \$884.8 million at December 31, 2016. Deposit growth supported asset growth and the partial paydown of borrowings. Borrowings at March 31, 2017 included \$321.3 million in FHLB overnight advances, \$380.0 million of FHLB term advances, and a \$16.0 million advance from a bank. Borrowings at year-end 2016 included \$503.8 million in overnight advances from FHLB, \$365.0 million of FHLB term advances, and a \$16.0 million advances from a bank. Of the \$380.0 million in FHLB term advances at March 31, 2017, \$190.0 million is due in over one year.



## Liquidity

The objective of liquidity management is to ensure the availability of adequate funding sources to satisfy the demand for credit, deposit withdrawals, and business investment opportunities. The Company's large, stable core deposit base and strong capital position are the foundation for the Company's liquidity position. The Company uses a variety of resources to meet its liquidity needs, which include deposits, cash and cash equivalents, short-term investments, cash flow from lending and investing activities, repurchase agreements, and borrowings. The Company's Asset/Liability Management Committee monitors asset and liability positions of the Company's subsidiary banks individually and on a combined basis. The Committee reviews periodic reports on liquidity and interest rate sensitivity positions. Comparisons with industry and peer groups are also monitored. The Company's strong reputation in the communities it serves, along with its strong financial condition, provides access to numerous sources of liquidity as described below. Management believes these diverse liquidity sources provide sufficient means to meet all demands on the Company's liquidity that are reasonably likely to occur.

Core deposits, discussed above under "Deposits and Other Liabilities", are a primary and low cost funding source obtained primarily through the Company's branch network. In addition to core deposits, the Company uses non-core funding sources to support asset growth. These non-core funding sources include time deposits of \$250,000 or more, brokered time deposits, national deposit listing services, municipal money market deposits, bank borrowings, securities sold under agreements to repurchase and overnight and term advances from the FHLB. Rates and terms are the primary determinants of the mix of these funding sources. Non-core funding sources of \$1.8 billion at March 31, 2017 decreased \$22.1 million or 1.2% as compared to year end 2016. The decrease in non-core funding sources reflects mainly the paydown of overnight borrowings with the FHLB as a result of strong deposit growth during the first quarter of 2017. Non-core funding sources, as a percentage of total liabilities, were 31.6% at March 31, 2017, compared to 32.2% at December 31, 2016.

Non-core funding sources may require securities to be pledged against the underlying liability. Securities carried at \$1.3 billion at March 31, 2017 and \$1.2 billion at December 31, 2016, were either pledged or sold under agreements to repurchase. Pledged securities represented 80.2% of total securities at March 31, 2017, compared to 75.0% of total securities at December 31, 2016. The increase is attributable to the growth of deposits from municipal customers and the shift of investment balances into higher yielding loans.

Cash and cash equivalents totaled \$78.5 million as of March 31, 2017 which increased from \$64.0 million at December 31, 2016. Short-term investments, consisting of securities due in one year or less, increased from \$25.5 million at December 31, 2016, to \$30.3 million on March 31, 2017.

Cash flow from the loan and investment portfolios provides a significant source of liquidity. These assets may have stated maturities in excess of one year, but have monthly principal reductions. Total mortgage-backed securities, at fair value, were \$803.9 million at March 31, 2017 compared with \$810.0 million at December 31, 2016. Outstanding principal balances of residential mortgage loans, consumer loans, and leases totaled approximately \$1.3 billion at March 31, 2017 compared with \$1.3 billion at year end 2016. Aggregate amortization from monthly payments on these assets provides significant additional cash flow to the Company.

The Company's liquidity is enhanced by ready access to national and regional wholesale funding sources including Federal funds purchased, repurchase agreements, brokered certificates of deposit, and FHLB advances. Through its subsidiary banks, the Company has borrowing relationships with the FHLB and correspondent banks, which provide secured and unsecured borrowing capacity. At March 31, 2017, the unused borrowing capacity on established lines with the FHLB was \$1.2 billion.

As members of the FHLB, the Company's subsidiary banks can use certain unencumbered mortgage-related assets and securities to secure additional borrowings from the FHLB. At March 31, 2017, total unencumbered residential

mortgage loans and securities were \$479.3 million. Additional assets may also qualify as collateral for FHLB advances upon approval of the FHLB.

The Company has not identified any trends or circumstances that are reasonably likely to result in material increases or decreases in liquidity in the near term.

### Item 3. Quantitative and Qualitative Disclosure About Market Risk

Interest rate risk is the primary market risk category associated with the Company's operations. Interest rate risk refers to the volatility of earnings caused by changes in interest rates. The Company manages interest rate risk using income simulation to measure interest rate risk inherent in its on-balance sheet and off-balance sheet financial instruments at a given point in time. The simulation models are used to estimate the potential effect of interest rate shifts on net interest income for future periods. Each quarter, the Company's Asset/Liability Management Committee reviews the simulation results to determine whether the exposure of net interest income to changes in interest rates remains within levels approved by the Company's Board of Directors. The Committee also considers strategies to manage this exposure and incorporates these strategies into the investment and funding decisions of the Company. The Company does not currently use derivatives, such as interest rate swaps, to manage its interest rate risk exposure, but may consider such instruments in the future.

The Company's Board of Directors has set a policy that interest rate risk exposure will remain within a range whereby net interest income will not decline by more than 10% in one year as a result of a 100 basis point parallel change in rates. Based upon the simulation analysis performed as of February 28, 2017, a 200 basis point parallel upward change in interest rates over a one-year time frame would result in a one-year decrease in net interest income from the base case of approximately 1.5%, while a 100 basis point parallel decline in interest rates over a one-year period would result in an increase in one-year net interest income from the base case of 1.5%. The simulation assumes no balance sheet growth and no management action to address balance sheet mismatches.

The decrease in net interest income in the rising rate scenario is a result of the balance sheet showing a more liability sensitive position over a one year time horizon. As such, in the short-term net interest income is expected to trend slightly below the base assumption, as upward adjustments to rate sensitive deposits and short-term funding outpace increases to asset yields which are concentrated in intermediate to longer-term products. As intermediate and longer-term assets continue to reprice/adjust into higher rate environment and funding costs stabilize, net interest income is expected to trend upwards.

The exposure in the 100 basis point decline scenario results from the Company's assets repricing downward to a greater degree than the rates on the Company's interest-bearing liabilities, mainly deposits. Rates on savings and money market accounts are at low levels given the historically low interest rate environment experienced in recent years. In addition, the model assumes that prepayments accelerate in the down interest rate environment resulting in additional pressure on asset yields as proceeds are reinvested at lower rates.

The most recent simulation of a base case scenario, which assumes interest rates remain unchanged from the date of the simulation, reflects a net interest margin that is stable to higher over the next 12 to 18 months.

Although the simulation model is useful in identifying potential exposure to interest rate movements, actual results may differ from those modeled as the repricing, maturity, and prepayment characteristics of financial instruments may change to a different degree than modeled. In addition, the model does not reflect actions that management may employ to manage the Company's interest rate risk exposure. The Company's current liquidity profile, capital position, and growth prospects, offer a level of flexibility for management to take actions that could offset some of the negative effects of unfavorable movements in interest rates. Management believes the current exposure to changes in interest rates is not significant in relation to the earnings and capital strength of the Company.

In addition to the simulation analysis, management uses an interest rate gap measure. The table below is a Condensed Static Gap Report, which illustrates the anticipated repricing intervals of assets and liabilities as of March 31, 2017. The Company's one-year net interest rate gap was a negative \$572.0 million or 9.11% of total assets at March 31, 2017, compared with a negative \$520.7 million or 8.35% of total assets at December 31, 2016. A negative gap

position exists when the amount of interest-bearing liabilities maturing or repricing exceeds the amount of interest-earning assets maturing or repricing within a particular time period. This analysis suggests that the Company's net interest income is moderately more vulnerable to an increasing rate environment than it is to a prolonged declining interest rate environment. An interest rate gap measure could be significantly affected by external factors such as a rise or decline in interest rates, loan or securities prepayments, and deposit withdrawals.

Condensed Static Gap – March 31, 2017 (in thousands)	Total	Repricing Interval			Cumulative 12 months
		0-3 months	3-6 months	6-12 months	
Interest-earning assets <sup>1</sup>	\$5,915,026	\$1,160,445	\$272,917	\$456,153	\$1,889,515
Interest-bearing liabilities	4,435,911	1,975,798	196,481	289,250	2,461,529
Net gap position		(815,353 )	76,436	166,903	(572,014 )
Net gap position as a percentage of total assets		(12.98 )%	1.22 %	2.66 %	(9.11 )%

<sup>1</sup> Balances of available securities are shown at amortized cost

## Item 4. Controls and Procedures

## Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of March 31, 2017. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Report on Form 10-Q, the Company's disclosure controls and procedures were effective.

## Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2017, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II - OTHER INFORMATION

## Item 1. Legal Proceedings

Due to the nature of the Company's business, the Company is party to a certain amount of litigation arising out of the ordinary course of the Company's business. In the opinion of management, there are no pending claims which, if determined adversely, would have a material effect on the Company's results of operations or financial condition.

## Item 1A. Risk Factors

There have been no material changes in the risk factors previously disclosed under Item 1A. of the Company's Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2016.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Issuer Purchases of Equity Securities

	Total Number of Shares Purchased (a)	Average Price Paid Per Share (b)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (c)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (d)
January 1, 2017 through January 31, 2017	1,200	\$ 94.58	0	400,000
February 1, 2017 through February 28, 2017	1,010	88.39	0	400,000

March 1, 2017 through March 31, 2017	0	0	0	400,000
Total	2,210	\$ 91.75	0	400,000

Included in the table above are 1,200 shares purchased on the open market in January 2017, at an average cost of \$94.58, and 404 shares purchased on the open market in February 2017, at an average cost of \$88.09, by the trustee of the rabbi trust established by the Company under the Company's Stock Retainer Plan For Eligible Directors of Tompkins Financial Corporation and Participating Subsidiaries, which were part of the director deferred compensation under that plan. In addition, the table includes 606 shares delivered to the Company by employees in February 2017 at an average cost of \$88.60 in order to cover stock option exercise prices.

On July 21, 2016, the Company's Board of Directors authorized a stock repurchase plan for the Company to repurchase up to 400,000 shares of the Company's common stock. Purchases may be made over the 24 months following adoption of the plan. The repurchase program may be suspended, modified or terminated by the Board of Directors at any time for any reason. No shares have been repurchased under this Plan as of the date of this report.

Recent Sales of Unregistered Securities

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Item 6. Exhibits

The information called for by this item is incorporated by reference to the Exhibit Index included in this Quarterly Report on Form 10-Q, immediately following the signature page.



SIGNATURES

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

Date: May 10, 2017

TOMPKINS FINANCIAL CORPORATION

By: /S/ Stephen S. Romaine  
Stephen S. Romaine  
President and Chief Executive Officer  
(Principal Executive Officer)

By: /S/ Francis M. Fetsko  
Francis M. Fetsko  
Executive Vice President, Chief  
Financial Officer, and Chief  
Operating Officer  
(Principal Financial Officer)  
(Principal Accounting Officer)

## EXHIBIT INDEX

Exhibit Number	Description	Pages
10.1*	Amendment No. 1 to the 2009 Equity Plan, incorporated herein by reference to Appendix A to the Company's Proxy Statement for the 2016 Annual Meeting of Shareholders, filed with the Commission on April 1, 2016.	
31.1	Certification of Principal Executive Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.	
31.2	Certification of Principal Financial Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.	
32.1	Certification of Principal Executive Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, 18 U.S.C. Section 1350	
32.2	Certification of Principal Financial Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, 18 U.S.C. Section 1350	
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Condition as of March 31, 2017 and December 31, 2016; (ii) Condensed Consolidated Statements of Income for the three months ended March 31, 2017 and 2016; (iii) Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2017 and 2016; (iv) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2017 and 2016; (v) Condensed Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2017 and 2016; and (vi) Notes to Unaudited Condensed Consolidated Financial Statements.	

\*Indicates a management contract or compensatory plan or arrangement