

TOMPKINS FINANCIAL CORP  
Form 10-Q  
November 09, 2015

**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 September 30, 2015

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**

(State or other jurisdiction of incorporation or organization)

**16-1482357**

(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, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

(Do not check if a smaller reporting company) Smaller Reporting Company

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

Indicate the number of shares of the Registrant's Common Stock outstanding as of the latest practicable date:

Class	Outstanding as of October 30, 2015
Common Stock, \$0.10 par value	<u>14,901,276</u> shares



**TOMPKINS FINANCIAL CORPORATION**

**FORM 10-Q**

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**TOMPKINS  
FINANCIAL  
CORPORATION  
CONDENSED  
CONSOLIDATED  
STATEMENTS  
OF CONDITION**

*(In thousands, except share and per share data) (Unaudited)*

	<b>As of 09/30/2015</b>	<b>As of 12/31/2014</b>
<b>ASSETS</b>		
Cash and noninterest bearing balances due from banks	\$ 105,074	\$ 53,921
Interest bearing balances due from banks	2,019	2,149
<b>Cash and Cash Equivalents</b>	<b>107,093</b>	<b>56,070</b>
Trading securities, at fair value	7,749	8,992
Available-for-sale securities, at fair value (amortized cost of \$1,378,138 at September 30, 2015 and \$1,397,458 at December 31, 2014)	1,388,283	1,402,236
Held-to-maturity securities, at amortized cost (fair value of \$149,112 at September 30, 2015 and \$89,036 at December 31, 2014)	146,300	88,168
Originated loans and leases, net of unearned income and deferred costs and fees	3,149,386	2,839,974
Acquired loans and leases, covered	15,576	19,319
Acquired loans and leases, non-covered	469,351	533,995
Less: Allowance for loan and lease losses	30,965	28,997
<b>Net Loans and Leases</b>	<b>3,603,348</b>	<b>3,364,291</b>
FDIC indemnification asset	334	1,903
Federal Home Loan Bank stock	23,562	21,259
Bank premises and equipment, net	60,060	59,800
Corporate owned life insurance	75,368	73,725
Goodwill	92,243	92,243
Other intangible assets, net	13,028	14,649
Accrued interest and other assets	77,350	86,225
<b>Total Assets</b>	<b>\$5,594,718</b>	<b>\$5,269,561</b>
<b>LIABILITIES</b>		
Deposits:		
Interest bearing:		
Checking, savings and money market	2,447,841	2,247,708
Time	877,422	898,081
Noninterest bearing	1,111,810	1,023,365
<b>Total Deposits</b>	<b>4,437,073</b>	<b>4,169,154</b>
Federal funds purchased and securities sold under agreements to repurchase	134,941	147,037
Other borrowings, including certain amounts at fair value of \$10,736 at September 30, 2015 and \$10,961 at December 31, 2014	398,946	356,541
Trust preferred debentures	37,466	37,337
Other liabilities	68,333	69,909

<b>Total Liabilities</b>	<b>\$5,076,759</b>	<b>\$4,779,978</b>
<b>EQUITY</b>		
Tompkins Financial Corporation shareholders' equity:		
Common Stock - par value \$.10 per share: Authorized 25,000,000 shares; Issued: 14,941,486 at September 30, 2015; and 14,931,354 at December 31, 2014	1,494	1,493
Additional paid-in capital	350,397	348,889
Retained earnings	190,175	165,160
Accumulated other comprehensive loss	(22,028 )	(24,011 )
Treasury stock, at cost - 113,787 shares at September 30, 2015, and 111,436 shares at December 31, 2014	(3,629 )	(3,400 )
<b>Total Tompkins Financial Corporation Shareholders' Equity</b>	<b>516,409</b>	<b>488,131</b>
Noncontrolling interests	1,550	1,452
<b>Total Equity</b>	<b>\$517,959</b>	<b>\$489,583</b>
<b>Total Liabilities and Equity</b>	<b>\$5,594,718</b>	<b>\$5,269,561</b>

*See notes to  
consolidated  
financial  
statements*

## TOMPKINS FINANCIAL CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

<i>(In thousands, except per share data) (Unaudited)</i>	Three Months Ended		Nine Months Ended	
	09/30/2015	09/30/2014	09/30/2015	09/30/2014
<b>INTEREST AND DIVIDEND INCOME</b>				
Loans	\$39,235	\$ 38,298	\$114,670	\$112,601
Due from banks	1	0	3	2
Trading securities	86	102	270	321
Available-for-sale securities	7,031	7,718	22,219	23,637
Held-to-maturity securities	915	288	2,185	626
Federal Home Loan Bank stock and Federal Reserve Bank stock	262	212	834	616
<b>Total Interest and Dividend Income</b>	<b>47,530</b>	<b>46,618</b>	<b>140,181</b>	<b>137,803</b>
<b>INTEREST EXPENSE</b>				
Time certificates of deposits of \$250,000 or more	369	387	1,058	1,022
Other deposits	2,284	2,439	6,837	7,324
Federal funds purchased and securities sold under agreements to repurchase	685	683	2,020	2,263
Trust preferred debentures	583	573	1,726	1,714
Other borrowings	1,223	961	3,596	3,362
<b>Total Interest Expense</b>	<b>5,144</b>	<b>5,043</b>	<b>15,237</b>	<b>15,685</b>
<b>Net Interest Income</b>	<b>42,386</b>	<b>41,575</b>	<b>124,944</b>	<b>122,118</b>
Less: Provision for loan and lease losses	281	(59 )	1,412	751
<b>Net Interest Income After Provision for Loan and Lease Losses</b>	<b>42,105</b>	<b>41,634</b>	<b>123,532</b>	<b>121,367</b>
<b>NONINTEREST INCOME</b>				
Insurance commissions and fees	7,564	7,520	22,341	21,823
Investment services income	3,674	3,636	11,518	11,549
Service charges on deposit accounts	2,410	2,506	6,812	7,010
Card services income	2,001	1,936	5,844	5,968
Mark-to-market loss on trading securities	(69 )	(87 )	(206 )	(181 )
Mark-to-market gain on liabilities held at fair value	81	132	226	260
Other income	1,669	1,892	6,390	6,129
Gain on sale of available-for-sale securities	92	20	1,105	151
<b>Total Noninterest Income</b>	<b>17,422</b>	<b>17,555</b>	<b>54,030</b>	<b>52,709</b>
<b>NONINTEREST EXPENSES</b>				
Salaries and wages	18,357	17,553	54,319	51,859
Pension and other employee benefits	5,368	4,941	10,843	15,964
Net occupancy expense of premises	2,891	2,969	9,303	9,296
Furniture and fixture expense	1,532	1,451	4,465	4,247
FDIC insurance	729	682	2,218	2,228
Amortization of intangible assets	496	518	1,503	1,570
Other operating expense	8,509	10,423	27,841	30,511
<b>Total Noninterest Expenses</b>	<b>37,882</b>	<b>38,537</b>	<b>110,492</b>	<b>115,675</b>
<b>Income Before Income Tax Expense</b>	<b>21,645</b>	<b>20,652</b>	<b>67,070</b>	<b>58,401</b>
<b>Income Tax Expense</b>	<b>7,115</b>	<b>6,897</b>	<b>22,405</b>	<b>18,951</b>



<b>Net Income attributable to Noncontrolling Interests and Tompkins Financial Corporation</b>	14,530	13,755	44,665	39,450
Less: Net income attributable to noncontrolling interests	33	33	98	98
<b>Net Income Attributable to Tompkins Financial Corporation</b>	<b>\$14,497</b>	<b>\$ 13,722</b>	<b>\$44,567</b>	<b>\$39,352</b>
<b>Basic Earnings Per Share</b>	<b>\$0.97</b>	<b>\$ 0.92</b>	<b>\$2.98</b>	<b>\$2.65</b>
<b>Diluted Earnings Per Share</b>	<b>\$0.96</b>	<b>\$ 0.92</b>	<b>\$2.96</b>	<b>\$2.64</b>

*See notes to consolidated financial statements*

**Consolidated Statements of Comprehensive Income**

	<b>Three Months Ended</b>	
<i>(In thousands) (Unaudited)</i>	<b>09/30/2013</b>	<b>09/30/2014</b>
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	<b>\$14,530</b>	\$ 13,755
Other comprehensive income, net of tax:		
<b>Available-for-sale securities:</b>		
Change in net unrealized gain (loss) during the period	<b>5,515</b>	(4,123 )
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	<b>(55 )</b>	(12 )
<b>Employee benefit plans:</b>		
Amortization of net retirement plan actuarial gain	<b>122</b>	159
Amortization of net retirement plan prior service cost	<b>11</b>	1
Other comprehensive income (loss)	<b>5,593</b>	(3,975 )
<b>Subtotal comprehensive income attributable to noncontrolling interests and Tompkins Financial Corporation</b>	<b>20,123</b>	9,780
Less: Net income attributable to noncontrolling interests	<b>(33 )</b>	(33 )
<b>Total comprehensive income attributable to Tompkins Financial Corporation</b>	<b>\$20,090</b>	\$ 9,747

*See notes to unaudited condensed consolidated financial statements.*

**Consolidated Statements of Comprehensive Income**

	<b>Nine Months Ended</b>	
<i>(In thousands) (Unaudited)</i>	<b>09/30/2013</b>	<b>09/30/2014</b>
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	<b>\$44,665</b>	\$ 39,450
Other comprehensive income, net of tax:		
<b>Available-for-sale securities:</b>		
Change in net unrealized gain during the period	<b>3,883</b>	7,918
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	<b>(663 )</b>	(90 )
<b>Employee benefit plans:</b>		
Recognized actuarial gain due to curtailment	<b>(3,196 )</b>	0
Net retirement plan loss	<b>1,170</b>	0

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Amortization of net retirement plan actuarial gain	<b>999</b>	479
Amortization of net retirement plan prior service cost	<b>(210 )</b>	2
Other comprehensive income	<b>1,983</b>	8,309
<b>Subtotal comprehensive income attributable to noncontrolling interests and Tompkins Financial Corporation</b>	<b>46,648</b>	47,759
Less: Net income attributable to noncontrolling interests	<b>(98 )</b>	(98 )
<b>Total comprehensive income attributable to Tompkins Financial Corporation</b>	<b>\$46,550</b>	\$ 47,661

*See notes to unaudited condensed consolidated financial statements.*

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands) (Unaudited)	09/30/2015	09/30/2014
<b>OPERATING ACTIVITIES</b>		
Net income attributable to Tompkins Financial Corporation	\$44,567	\$39,352
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	1,412	751
Depreciation and amortization of premises, equipment, and software	4,834	4,203
Amortization of intangible assets	1,503	1,570
Earnings from corporate owned life insurance	(1,643 )	(1,431 )
Net amortization on securities	9,011	7,824
Amortization/accretion related to purchase accounting	(4,348 )	(6,147 )
Mark-to-market loss on trading securities	206	181
Mark-to-market gain on liabilities held at fair value	(226 )	(260 )
Net gain on securities transactions	(1,105 )	(151 )
Net gain on sale of loans originated for sale	(21 )	(345 )
Proceeds from sale of loans originated for sale	1,402	19,007
Loans originated for sale	(1,784 )	(18,357 )
Gain on conversion of deposits	0	(140 )
Net loss on sale of bank premises and equipment	24	2
Gain on pension curtailment	(6,003 )	0
Stock-based compensation expense	1,410	1,081
(Increase) decrease in accrued interest receivable	(920 )	92
Increase (decrease) in accrued interest payable	84	(294 )
Proceeds from maturities and payments of trading securities	1,026	1,323
Other, net	11,242	9,494
<b>Net Cash Provided by Operating Activities</b>	<b>60,671</b>	<b>57,755</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from maturities, calls and principal paydowns of available-for-sale securities	181,015	157,157
Proceeds from sales of available-for-sale securities	115,800	48,005
Proceeds from maturities, calls and principal paydowns of held-to-maturity securities	10,567	10,325
Purchases of available-for-sale securities	(285,625)	(219,695)
Purchases of held-to-maturity securities	(68,939 )	(38,981 )
Net increase in loans	(237,574)	(60,416 )
Net (increase) decrease in Federal Home Loan Bank stock	(2,303 )	10,203
Proceeds from sale of bank premises and equipment	73	172
Purchases of bank premises and equipment	(4,621 )	(7,445 )
Purchase of corporate owned life insurance	0	(2,500 )
Net cash used in acquisition	0	(415 )
Other, net	514	386
<b>Net Cash Used in Investing Activities</b>	<b>(291,093)</b>	<b>(103,204)</b>
<b>FINANCING ACTIVITIES</b>		
Net increase in demand, money market, and savings deposits	288,578	200,550
Net (decrease) increase in time deposits	(19,559 )	66,568
Net decrease in Federal funds purchases and securities sold under agreements to repurchase	(11,247 )	(38,507 )

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Increase in other borrowings	285,960	149,845
Repayment of other borrowings	(243,330)	(314,606)
Cash dividends	(18,827 )	(17,781 )
Common stock issued	50	50
Repurchase of common stock	(3,279 )	(2,932 )
Shares issued for dividend reinvestment plan	0	2,186
Shares issued for employee stock ownership plan	1,595	1,528
Net shares issued related to restricted stock awards	(195 )	64
Net proceeds from exercise of stock options	1,469	633
Tax benefit from stock option exercises	230	84
Net Cash Provided by Financing Activities	281,445	47,682
Net Increase in Cash and Cash Equivalents	51,023	2,233
Cash and cash equivalents at beginning of period	56,070	82,884
Total Cash & Cash Equivalents at End of Period	107,093	85,117

*See notes to unaudited condensed consolidated financial statements.*

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands) (Unaudited)	09/30/2015	09/30/2014
Supplemental Information:		
Cash paid during the year for - Interest	\$ 16,253	\$ 18,033
Cash paid during the year for - Taxes	15,102	3,258
Transfer of loans to other real estate owned	1,046	4,697

*See notes to unaudited condensed consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

<i>(In thousands except share and per share data)</i>	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive (Loss) Income</b>	<b>Treasury Stock</b>	<b>Non-controlling Interests</b>	<b>Total</b>
<b>Balances at January 1, 2014</b>	<b>\$ 1,479</b>	<b>\$ 346,096</b>	<b>\$ 137,102</b>	<b>\$ (25,119 )</b>	<b>\$ (3,071 )</b>	<b>\$ 1,452</b>	<b>\$ 457,939</b>
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			39,352			98	39,450
Other comprehensive income				8,309			8,309
<b>Total Comprehensive Income</b>							<b>47,759</b>
Cash dividends (\$1.20 per share)			(17,781 )				(17,781 )
Net exercise of stock options and related tax benefit (36,885 shares)	4	713					717
Stock-based compensation expense		1,081					1,081
Common stock repurchased and returned to unissued status (65,059 shares)	(7 )	(2,925 )					(2,932 )
Shares issued for dividend reinvestment plan (46,081 shares)	4	2,182					2,186
Shares issued for employee stock ownership plan (31,192 shares)	3	1,525					1,528
Directors deferred compensation plan (3,339 shares)		206			(206 )		0
Common stock issued for purchase acquisition (1,080 shares)		50					50
Restricted stock activity ((5,184) shares)		64					64
<b>Balances at September 30, 2014</b>	<b>\$ 1,483</b>	<b>\$ 348,992</b>	<b>\$ 158,673</b>	<b>\$ (16,810 )</b>	<b>\$ (3,277 )</b>	<b>\$ 1,550</b>	<b>\$ 490,611</b>
<b>Balances at January 1, 2015</b>	<b>\$ 1,493</b>	<b>\$ 348,889</b>	<b>\$ 165,160</b>	<b>\$ (24,011 )</b>	<b>\$ (3,400 )</b>	<b>\$ 1,452</b>	<b>\$ 489,583</b>
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			44,567			98	44,665
Other comprehensive income				1,983			1,983
<b>Total Comprehensive Income</b>							<b>46,648</b>
Cash dividends (\$1.26 per share)			(18,827 )				(18,827 )
Net exercise of stock options and related tax benefit (59,973 shares)	6	1,693					1,699
Common stock repurchased and returned to unissued status (63,181 shares)	(6 )	(3,273 )					(3,279 )

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Stock-based compensation expense		1,410				1,410
Shares issued for employee stock ownership plan (29,575 shares)	3	1,592				1,595
Directors deferred compensation plan (2,351 shares)		229		(229 )		0
Restricted stock activity ((17,195) shares)	(2 )	(193 )				(195 )
Common stock issued for purchase acquisition (960 shares)		50				50
Adoption of ASU 2014-01 Investments Accounting for Investments in Qualified Affordable Housing Projects			(725 )			(725 )
<b>Balances at September 30, 2015</b>	<b>\$ 1,494</b>	<b>\$ 350,397</b>	<b>\$ 190,175</b>	<b>\$ (22,028 )</b>	<b>\$ (3,629 )</b>	<b>\$ 1,550</b>
						<b>\$ 517,959</b>

*See notes to unaudited condensed consolidated financial statements*



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 September 30, 2015, 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, 2015. 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, 2014. Other than ASU 2014-01, "Investments, Accounting for Investments in Qualified Affordable Housing Projects", there have been no significant changes to the Company's accounting policies from those presented in the 2014 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. All significant intercompany balances and transactions are eliminated in consolidation.

### 3. Accounting Standards Updates

ASU 2014-01, "*Investments (Topic 323), Accounting for Investments in Qualified Affordable Housing Projects.*" The amendments in this ASU provide guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The amendments permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognize the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this ASU became effective for the Company for annual periods beginning January 1, 2015 and if material will be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments.

The Company previously accounted for its investments in qualified affordable housing projects under the cost method; however, the Company determined that its investments in its qualified affordable housing projects meet the conditions set forth in ASU 2014-01 to account for these investments under the proportional amortization method. The Company believes that amortizing its investments in qualified affordable housing projects as a component of income tax expense rather than as a component of operating expenses better reflects the nature and intent of these investments. As a result of adopting ASU 2014-01, the Company recognized additional income tax expense attributable to the amortization of investments in qualified affordable housing projects of \$0.1 million and \$0.3 million during the three and nine months ended September 30, 2015, respectively. While the adoption of ASU 2014-01 requires retrospective application to all periods presented, the Company did not restate income tax expense for the three and nine months ended September 30, 2014 as the amount of additional income tax expense attributable to the amortization of

investments in qualified affordable housing projects was not considered material. The net effect of adoption is \$725,000 and is reported in the Statement of Changes in Shareholder's Equity for the nine months ended September 30, 2015. The Company's remaining investment in qualified affordable housing projects, net of amortization totaled \$2.7 million and \$3.9 million at September 30, 2015 and December 31, 2014, respectively.

ASU 2014-12 "*Compensation—Stock Compensation*" (*Topic 718*): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period, a consensus of the FASB Emerging Issues Task Force (ASU 2014-12). ASU 2014-12 requires that a performance target that affects vesting of share-based payment awards and that could be achieved after the requisite service period be treated as a performance condition. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. ASU 2014-12 is effective for all entities for interim and annual periods beginning after December 15, 2015, with early adoption permitted. An entity may apply the amendments in ASU 2014-12 either (i) prospectively to all awards granted or modified after the effective date or (ii) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The adoption of ASU 2014-12 is not expected to have a material impact on the Company's consolidated financial condition or results of operations because the Company has not historically granted performance-based stock compensation.

#### 4. Securities

##### Available-for-Sale Securities

The following table summarizes available-for-sale securities held by the Company at September 30, 2015:

September 30, 2015	Available-for-Sale Securities			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<i>(in thousands)</i>				
Obligations of U.S. Government sponsored entities	\$548,390	\$ 9,103	\$ 222	\$557,271
Obligations of U.S. states and political subdivisions	73,585	1,000	180	74,405
Mortgage-backed securities residential, issued by U.S. Government agencies	100,448	1,878	772	101,554
U.S. Government sponsored entities	652,015	5,153	5,423	651,745
Non-U.S. Government agencies or sponsored entities	200	3	0	203
U.S. corporate debt securities	2,500	0	338	2,162
Total debt securities	1,377,138	17,137	6,935	1,387,340
Equity securities	1,000	0	57	943
<b>Total available-for-sale securities</b>	<b>\$1,378,138</b>	<b>\$ 17,137</b>	<b>\$ 6,992</b>	<b>\$1,388,283</b>

The following table summarizes available-for-sale securities held by the Company at December 31, 2014:

December 31, 2014	Available-for-Sale Securities			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<i>(in thousands)</i>				
Obligations of U.S. Government sponsored entities	\$553,300	\$ 6,222	\$ 1,702	\$557,820
Obligations of U.S. states and political subdivisions	70,790	999	279	71,510
Mortgage-backed securities residential, issued by U.S. Government agencies	108,931	2,339	1,344	109,926
U.S. Government sponsored entities	660,195	7,309	8,384	659,120
Non-U.S. Government agencies or sponsored entities	267	4	0	271

U.S. corporate debt securities	2,500	0	338	2,162
Total debt securities	1,395,983	16,873	12,047	1,400,809
Equity securities	1,475	0	48	1,427
<b>Total available-for-sale securities</b>	<b>\$1,397,458</b>	<b>\$ 16,873</b>	<b>\$ 12,095</b>	<b>\$1,402,236</b>

**Held-to-Maturity Securities**

The following table summarizes held-to-maturity securities held by the Company at September 30, 2015:

September 30, 2015	Held-to-Maturity Securities			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<i>(in thousands)</i>				
Obligations of U.S. Government sponsored entities	\$ 132,577	\$ 2,455	\$ 70	\$ 134,962
Obligations of U.S. states and political subdivisions	\$ 13,723	\$ 427	\$ 0	\$ 14,150
Total held-to-maturity debt securities	\$ 146,300	\$ 2,882	\$ 70	\$ 149,112

The following table summarizes held-to-maturity securities held by the Company at December 31, 2014:

December 31, 2014	Held-to-Maturity Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>(in thousands)</i>				
Obligations of U.S. Government sponsored entities	\$71,906	\$ 400	\$ 37	\$72,269
Obligations of U.S. states and political subdivisions	16,262	505	0	16,767
Total held-to-maturity debt securities	\$88,168	\$ 905	\$ 37	\$89,036

The Company may from time to time sell investment securities from its available-for-sale portfolio. Realized gains on sales, including called securities, of available-for-sale securities were \$92,000 and \$1,107,000 for the three and nine months ending September 30, 2015 and \$20,000 and \$186,000 in the same periods during 2014. Realized losses on available-for-sale securities sold were \$0 and \$2,000 for the three and nine months ending September 30, 2015 and \$0 and \$78,000 for the three and nine months ending September 30, 2014, respectively. The sales of available-for-sale investment securities were the result of general investment portfolio and interest rate risk management.

The following table summarizes available-for-sale securities that had unrealized losses at September 30, 2015:

<i>(in thousands)</i>	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	\$31,937	\$ 141	\$998	\$ 81	\$32,935	\$ 222
Obligations of U.S. states and political subdivisions	15,917	153	4,944	27	20,861	180
Mortgage-backed securities - issued by						
U.S. Government agencies	14,457	61	31,826	711	46,283	772
U.S. Government sponsored entities	216,329	1,023	194,511	4,400	410,840	5,423
U.S. corporate debt securities	0	0	2,163	338	2,163	338
Equity securities	0	0	943	57	943	57
<b>Total available-for-sale securities</b>	<b>\$278,640</b>	<b>\$ 1,378</b>	<b>\$235,385</b>	<b>\$ 5,614</b>	<b>\$514,025</b>	<b>\$ 6,992</b>

The following table summarizes held-to-maturity securities that had unrealized losses at September 30, 2015.

<i>(in thousands)</i>	<b>Less than 12 Months</b>		<b>12 Months or Longer</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
Obligations of U.S. Government sponsored entities	\$ 15,041	\$ 70	\$ 0	\$ 0	\$ 15,041	\$ 70
<b>Total held-to-maturity securities</b>	<b>\$ 15,041</b>	<b>\$ 70</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 15,041</b>	<b>\$ 70</b>



The following table summarizes available-for-sale securities that had unrealized losses at December 31, 2014:

(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	\$71,363	\$ 385	\$65,497	\$ 1,317	\$136,860	\$ 1,702
Obligations of U.S. states and political subdivisions	15,451	124	8,102	155	23,553	279
Mortgage-backed securities – residential, issued by						
U.S. Government agencies	2,623	21	28,502	1,323	31,125	1,344
U.S. Government sponsored entities	162,377	719	271,503	7,665	433,880	8,384
U.S. corporate debt securities	0	0	2,163	338	2,163	338
Equity securities	0	0	952	48	952	48
Total available-for-sale securities	\$251,814	\$ 1,249	\$376,719	\$ 10,846	\$628,533	\$ 12,095

The following table summarizes held-to-maturity securities that had unrealized losses at December 31, 2014.

(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	\$15,095	\$ 37	\$0	\$ 0	\$15,095	\$ 37
Total held-to-maturity securities	\$15,095	\$ 37	\$0	\$ 0	\$15,095	\$ 37

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 September 30, 2015, and December 31, 2014, 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 September 30, 2015 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.

**September 30, 2015**

<i>(in thousands)</i>	<b>Amortized Cost</b>	<b>Fair Value</b>
Available-for-sale securities:		
Due in one year or less	\$58,948	\$59,481
Due after one year through five years	368,588	376,105
Due after five years through ten years	183,578	185,264
Due after ten years	13,361	12,988
Total	624,475	633,838
Mortgage-backed securities	752,663	753,502
<b>Total available-for-sale debt securities</b>	<b>\$1,377,138</b>	<b>\$1,387,340</b>

December 31, 2014

(in thousands)	<b>Amortized Cost</b>	Fair Value
Available-for-sale securities:		
Due in one year or less	\$67,281	\$68,350
Due after one year through five years	342,548	347,230
Due after five years through ten years	199,724	199,276
Due after ten years	17,037	16,636
Total	626,590	631,492
Mortgage-backed securities	769,393	769,317
Total available-for-sale debt securities	\$1,395,983	\$1,400,809

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September 30, 2015

(in thousands)	Amortized Cost	Fair Value
Held-to-maturity securities:		
Due in one year or less	\$8,991	\$9,022
Due after one year through five years	14,441	14,914
Due after five years through ten years	122,700	124,981
Due after ten years	168	195
Total held-to-maturity debt securities	\$146,300	\$149,112

December 31, 2014

(in thousands)	Amortized Cost	Fair Value
Held-to-maturity securities:		
Due in one year or less	\$11,400	\$11,471
Due after one year through five years	3,440	3,694
Due after five years through ten years	73,020	73,518
Due after ten years	308	353
Total held-to-maturity debt securities	\$88,168	\$89,036

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 (“ACBB”) 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 \$15.1 million, \$8.3 million and \$95,000 at September 30, 2015, respectively. These securities are carried at par, which is also cost. The FHLB NY and FHLBPITT continue to pay dividends and repurchase stock. As such, the Company has not recognized any impairment on its holdings of FHLB NY and FHLBPITT 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 September 30, 2015, we have determined that no impairment write-downs are currently required.

### Trading Securities

The following summarizes trading securities, at estimated fair value, as of:

(in thousands)	09/30/2015	12 /31/2014
Obligations of U.S. Government sponsored entities	\$6,814	\$7,404
Mortgage-backed securities – residential, issued by U.S. Government sponsored entities	935	1,588
Total	\$7,749	\$8,992

The decrease in the trading portfolio reflects maturities or payments during the three and nine months ended September 30, 2015. For the three and nine months ended September 30, 2015, net mark-to-market losses related to the securities trading portfolio were \$69,000 and \$206,000, respectively, compared to net mark-to-market losses for the three and nine months ended September 30, 2014 of \$87,000 and \$181,000, respectively.

The Company pledges securities as collateral for public deposits and other borrowings, and sells securities under agreements to repurchase. Securities carried of \$1.3 billion and \$1.1 billion at September 30, 2015, and December 31, 2014, respectively, were either pledged or sold under agreements to repurchase.

**5. Loans  
and  
Leases**

Loans and  
Leases at  
September  
30, 2015  
and  
December  
31, 2014  
were as  
follows:

(in thousands)	09/30/2015			12/31/2014		
	Originated	Acquired	Total Loans and Leases	Originated	Acquired	Total Loans and Leases
Commercial and industrial						
Agriculture	\$65,831	\$0	\$65,831	\$78,507	\$0	\$78,507
Commercial and industrial other	741,411	90,643	832,054	688,529	97,034	785,563
Subtotal commercial and industrial	807,242	90,643	897,885	767,036	97,034	864,070
Commercial real estate						
Construction	86,050	34,239	120,289	72,427	35,906	108,333
Agriculture	84,135	2,154	86,289	58,994	3,182	62,176
Commercial real estate other	1,104,085	267,126	1,371,211	979,621	308,488	1,288,109
Subtotal commercial real estate	1,274,270	303,519	1,577,789	1,111,042	347,576	1,458,618
Residential real estate						
Home equity	200,149	45,370	245,519	186,957	56,008	242,965
Mortgages	796,661	28,939	825,600	710,904	32,282	743,186
Subtotal residential real estate	996,810	74,309	1,071,119	897,861	88,290	986,151
Consumer and other						
Indirect	17,788	0	17,788	18,298	0	18,298
Consumer and other	41,608	880	42,488	35,874	1,095	36,969
Subtotal consumer and other	59,396	880	60,276	54,172	1,095	55,267
Leases	14,339	0	14,339	12,251	0	12,251
Covered loans	0	15,576	15,576	0	19,319	19,319
Total loans and leases	3,152,057	484,927	3,636,984	2,842,362	553,314	3,395,676
Less: unearned income and deferred costs and fees	(2,671 )	0	(2,671 )	(2,388 )	0	(2,388 )
Total loans and leases, net of unearned income and deferred costs and fees	\$3,149,386	\$484,927	\$3,634,313	\$2,839,974	\$553,314	\$3,393,288

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follows at  
September  
30, 2015  
and  
December  
31, 2014:

(in thousands)	09/30/2015	12/31/2014
Acquired Credit Impaired Loans		
Outstanding principal balance	\$ 34,424	\$ 44,273
Carrying amount	28,150	34,410
Acquired Non-Credit Impaired Loans		
Outstanding principal balance	461,766	525,182
Carrying amount	456,608	518,904
Total Acquired Loans		
Outstanding principal balance	496,190	569,455
Carrying amount	484,758	553,314



The following tables present changes in accretable yield on loans acquired from VIST Bank that were considered credit impaired.

*(in thousands)*

Balance at January 1, 2014	\$10,954
Accretion	(4,598 )
Disposals (loans paid in full)	(250 )
Reclassifications to/from nonaccretable difference <sup>1</sup>	2,498
<b>Balance at December 31, 2014</b>	<b>\$8,604</b>

*(in thousands)*

Balance at January 1, 2015	\$8,604
Accretion	(2,018 )
Disposals (loans paid in full)	(66 )
Reclassifications to/from nonaccretable difference <sup>1</sup>	1,350
<b>Balance at September 30, 2015</b>	<b>\$7,870</b>

<sup>1</sup> Results in increased interest income as a prospective yield adjustment over the remaining life of the loans, as well as increased interest income from loan sales, modification and

*prepayments.*

At September 30, 2015, acquired loans included \$15.6 million of covered loans. VIST Bank had previously acquired these loans in an FDIC assisted transaction in the fourth quarter of 2010. In accordance with a loss sharing agreement with the FDIC, certain losses and expenses relating to covered loans may be reimbursed by the FDIC at 70% or, if net losses exceed certain levels specified in the loss sharing agreements, 80%. See Note 7 – “FDIC Indemnification Asset Related to Covered Loans” for further discussion of the loss sharing agreements and related FDIC indemnification assets.

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, 2014. There have been no significant changes in these policies and guidelines. As such, these policies are reflective of new originations as well as those balances held at September 30, 2015. 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.

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 September 30, 2015 and December 31, 2014.

**September 30, 2015**

<i>(in thousands)</i>	<b>30-89 days</b>	<b>90 days or more</b>	<b>Current Loans</b>	<b>Total Loans</b>	<b>90 days and accruing<sup>1</sup></b>	<b>Nonaccrual</b>
<b>Originated Loans and Leases</b>						
Commercial and industrial						
Agriculture	\$0	\$0	\$65,831	\$65,831	\$0	\$0
Commercial and industrial other	482	1,766	739,163	741,411	0	1,543
Subtotal commercial and industrial	482	1,766	804,994	807,242	0	1,543
Commercial real estate						
Construction	0	0	86,050	86,050	0	0
Agriculture	0	32	84,103	84,135	0	110
Commercial real estate other	163	5,134	1,098,788	1,104,085	0	5,758
Subtotal commercial real estate	163	5,166	1,268,941	1,274,270	0	5,868
Residential real estate						
Home equity	867	1,458	197,824	200,149	57	1,574
Mortgages	1,361	5,335	789,965	796,661	0	5,568
Subtotal residential real estate	2,228	6,793	987,789	996,810	57	7,142
Consumer and other						
Indirect	495	111	17,182	17,788	0	115
Consumer and other	182	151	41,275	41,608	0	153
Subtotal consumer and other	677	262	58,457	59,396	0	268
Leases	0	0	14,339	14,339	0	0
<b>Total loans and leases</b>	<b>3,550</b>	<b>13,987</b>	<b>3,134,520</b>	<b>3,152,057</b>	<b>57</b>	<b>14,821</b>
Less: unearned income and deferred costs and fees	0	0	(2,671 )	(2,671 )	0	0
<b>Total originated loans and leases, net of unearned income and deferred costs and fees</b>	<b>\$3,550</b>	<b>\$13,987</b>	<b>\$3,131,849</b>	<b>\$3,149,386</b>	<b>\$ 57</b>	<b>\$ 14,821</b>
<b>Acquired Loans and Leases</b>						
Commercial and industrial						
Commercial and industrial other	4	869	89,770	90,643	350	651
Subtotal commercial and industrial	4	869	89,770	90,643	350	651
Commercial real estate						
Construction	0	363	33,876	34,239	0	363
Agriculture	0	0	2,154	2,154	0	0
Commercial real estate other	224	1,854	265,048	267,126	577	1,491
Subtotal commercial real estate	224	2,217	301,078	303,519	577	1,854
Residential real estate						
Home equity	256	641	44,473	45,370	47	947
Mortgages	544	1,862	26,533	28,939	1,095	1,456
Subtotal residential real estate	800	2,503	71,006	74,309	1,142	2,403
Consumer and other						
Consumer and other	0	0	880	880	0	0
Subtotal consumer and other	0	0	880	880	0	0
Covered loans	309	508	14,759	15,576	508	0
<b>Total acquired loans and leases, net of unearned income and deferred costs and</b>	<b>\$1,337</b>	<b>\$6,097</b>	<b>\$477,493</b>	<b>\$484,927</b>	<b>\$ 2,577</b>	<b>\$ 4,908</b>

**fees**

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**December 31, 2014**

<i>(in thousands)</i>	<b>30-89 days</b>	<b>90 days or more</b>	<b>Current Loans</b>	<b>Total Loans</b>	<b>90 days and accruing<sup>1</sup></b>	<b>Nonaccrual</b>
<b>Originated loans and leases</b>						
Commercial and industrial						
Agriculture	\$0	\$0	\$78,507	\$78,507	\$0	\$0
Commercial and industrial other	889	1,329	686,311	688,529	0	1,435
Subtotal commercial and industrial	889	1,329	764,818	767,036	0	1,435
Commercial real estate						
Construction	206	0	72,221	72,427	0	0
Agriculture	0	105	58,889	58,994	0	131
Commercial real estate other	760	3,247	975,614	979,621	0	4,911
Subtotal commercial real estate	966	3,352	1,106,724	1,111,042	0	5,042
Residential real estate						
Home equity	1,414	1,061	184,482	186,957	59	1,279
Mortgages	2,963	5,308	702,633	710,904	47	6,194
Subtotal residential real estate	4,377	6,369	887,115	897,861	106	7,473
Consumer and other						
Indirect	542	75	17,681	18,298	0	101
Consumer and other	75	4	35,795	35,874	0	248
Subtotal consumer and other	617	79	53,476	54,172	0	349
Leases	0	0	12,251	12,251	0	0
Total loans and leases	6,849	11,129	2,824,384	2,842,362	106	14,299
Less: unearned income and deferred costs and fees	0	0	(2,388 )	(2,388 )	0	0
<b>Total originated loans and leases, net of unearned income and deferred costs and fees</b>	<b>\$6,849</b>	<b>\$11,129</b>	<b>\$2,821,996</b>	<b>\$2,839,974</b>	<b>\$106</b>	<b>\$14,299</b>
<b>Acquired loans and leases</b>						
Commercial and industrial						
Commercial and industrial other	5	1,156	95,873	97,034	475	681
Subtotal commercial and industrial	5	1,156	95,873	97,034	475	681
Commercial real estate						
Construction	0	1,759	34,147	35,906	1,385	436
Agriculture	0	0	3,182	3,182	0	0
Commercial real estate other	0	1,918	306,570	308,488	77	2,042
Subtotal commercial real estate	0	3,677	343,899	347,576	1,462	2,478
Residential real estate						
Home equity	135	704	55,169	56,008	177	592
Mortgages	1,041	907	30,334	32,282	500	978
Subtotal residential real estate	1,176	1,611	85,503	88,290	677	1,570
Consumer and other						
Consumer and other	5	0	1,090	1,095	0	0
Subtotal consumer and other	5	0	1,090	1,095	0	0
Covered loans	533	914	17,872	19,319	914	0
<b>Total acquired loans and leases, net of unearned income and deferred costs and</b>	<b>\$1,719</b>	<b>\$7,358</b>	<b>\$544,237</b>	<b>\$553,314</b>	<b>\$3,528</b>	<b>\$4,729</b>

**fees**

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

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## 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 five 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 five components include: impaired loans; individually reviewed and graded loans; past due and nonaccrual 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 September 30, 2015, 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 and nine months ended September 30, 2015 and 2014. 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 September 30, 2015

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer Finance and Other	Leases	Total
Allowance for originated loans and leases						
Beginning balance	\$ 8,224	\$ 13,487	\$ 5,583	\$ 2,134	\$ 0	\$ 29,428
Charge-offs	(125 )	0	(96 )	(241 )	0	(462 )
Recoveries	557	587	58	109	0	1,311
Provision (credit)	(184 )	141	(98 )	314		173
Ending Balance	\$ 8,472	\$ 14,215	\$ 5,447	\$ 2,316	\$ 0	\$ 30,450

## Three months ended September 30, 2015

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Allowance for acquired loans						
Beginning balance	\$ 384	\$ 167	\$ 100	\$ 12	\$ 0	\$663
Charge-offs	0	(60 )	(208 )	(5 )	0	(273)
Recoveries	0	17	0	0	0	17
Provision (credit)	(18 )	(61 )	194	(7 )	0	108
Ending Balance	\$ 366	\$ 63	\$ 86	\$ 0	\$ 0	\$515

## Three months ended September 30, 2014

(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	\$ 8,562	\$ 10,389	\$ 5,445	\$ 2,356	\$ 0	\$26,752
Charge-offs	(21 )	(6 )	(118 )	(286 )	0	(431 )
Recoveries	68	944	1	115	0	1,128
Provision (credit)	249	(645 )	95	37	0	(264 )
Ending Balance	\$ 8,858	\$ 10,682	\$ 5,423	\$ 2,222	\$ 0	\$27,185

## Three months ended September 30, 2014

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Allowance for acquired loans						
Beginning balance	\$ 159	\$ 460	\$ 49	\$ 97	\$ 0	\$765
Charge-offs	(218 )	(80 )	(68 )	(3 )	0	(369)
Recoveries	0	0	0	0	0	0
Provision (credit)	154	(20 )	147	(76 )	0	205
Ending Balance	\$ 95	\$ 360	\$ 128	\$ 18	\$ 0	\$601

## Nine months ended September 30, 2015

(in thousands)	Commercial and	Commercial Real Estate	Residential Real	Consumer and Other	Finance Leases	Total
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	Industrial		Estate			
Allowance for originated loans and leases						
Beginning balance	\$ 9,157	\$ 12,069	\$ 5,030	\$ 1,900	\$ 0	\$ 28,156
Charge-offs	(169 )	(14 )	(408 )	(751 )	0	(1,342 )
Recoveries	792	1,064	107	391	0	2,354
Provision (credit)	(1,308 )	1,096	718	776	0	1,282
Ending Balance	\$ 8,472	\$ 14,215	\$ 5,447	\$ 2,316	\$ 0	\$ 30,450

## Nine months ended September 30, 2015

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Allowance for acquired loans						
Beginning balance	\$ 431	\$ 337	\$ 51	\$ 22	\$ 0	\$841
Charge-offs	(53 )	(216 )	(320 )	(5 )	0	(594)
Recoveries	7	129	2	0	0	138
Provision (credit)	(19 )	(187 )	353	(17 )	0	130
Ending Balance	\$ 366	\$ 63	\$ 86	\$ 0	\$ 0	\$515

## Nine months ended September 30, 2014

(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	\$ 8,406	\$ 10,459	\$ 5,771	\$ 2,059	\$ 5	\$26,700
Charge-offs	(275 )	(619 )	(385 )	(952 )	0	(2,231 )
Recoveries	557	1,506	87	375	0	2,525
Provision (credit)	170	(664 )	(50 )	740	(5 )	191
Ending Balance	\$ 8,858	\$ 10,682	\$ 5,423	\$ 2,222	\$ 0	\$27,185

## Nine months ended September 30, 2014

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Allowance for acquired loans						
Beginning balance	\$ 168	\$ 770	\$ 274	\$ 58	\$ 0	\$1,270
Charge-offs	(243 )	(631 )	(345 )	(10 )	0	(1,229)
Recoveries	0	0	0	0	0	0
Provision (credit)	170	221	199	(30 )	0	560
Ending Balance	\$ 95	\$ 360	\$ 128	\$ 18	\$ 0	\$601

At September 30, 2015 and December 31, 2014, the allocation of the allowance for loan and lease losses summarized on the basis of the Company's impairment methodology was as follows:

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(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer Finance and Other	Finance Leases	Total
Allowance for originated loans and leases						
September 30, 2015						
Individually evaluated for impairment	\$ 0	\$ 1,023	\$ 0	\$ 0	\$ 0	\$ 1,023
Collectively evaluated for impairment	8,472	13,192	5,447	2,316	0	29,427
Ending balance	\$ 8,472	\$ 14,215	\$ 5,447	\$ 2,316	\$ 0	\$ 30,450

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Allowance for acquired loans						
September 30, 2015						
Individually evaluated for impairment	\$ 366	\$ 30	\$ 0	\$ 0	\$ 0	\$396
Collectively evaluated for impairment	0	33	86	0	0	119
Ending balance	\$ 366	\$ 63	\$ 86	\$ 0	\$ 0	\$515

(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, 2014						
Individually evaluated for impairment	\$ 0	\$ 652	\$ 0	\$ 0	\$ 0	\$652
Collectively evaluated for impairment	9,157	11,417	5,030	1,900	0	27,504
Ending balance	\$ 9,157	\$ 12,069	\$ 5,030	\$ 1,900	\$ 0	\$28,156

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Allowance for acquired loans						
December 31, 2014						
Individually evaluated for impairment	\$ 414	\$ 100	\$ 0	\$ 0	\$ 0	\$514
Collectively evaluated for impairment	17	237	51	22	0	327
Ending balance	\$ 431	\$ 337	\$ 51	\$ 22	\$ 0	\$841

The recorded investment in loans and leases summarized on the basis of the Company's impairment methodology as of September 30, 2015 and December 31, 2014 was as

follows:

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Originated loans and leases						
September 30, 2015						
Individually evaluated for impairment	\$ 1,075	\$9,486	\$ 1,386	\$ 0	\$ 0	\$ 11,947
Collectively evaluated for impairment	806,167	1,264,784	995,424	59,396	14,339	3,140,110
Total	\$ 807,242	\$ 1,274,270	\$ 996,810	\$ 59,396	\$ 14,339	\$ 3,152,057

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired loans						
September 30, 2015						
Individually evaluated for impairment	\$ 1,174	\$ 6,314	\$ 1,218	\$ 0	\$0	\$8,706
Loans acquired with deteriorated credit quality	\$ 595	\$ 9,483	\$ 3,868	\$ 0	\$14,204	\$28,150
Collectively evaluated for impairment	88,874	287,722	69,223	880	1,372	448,071
Total	\$ 90,643	\$ 303,519	\$ 74,309	\$ 880	\$15,576	\$484,927

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer Finance and Other	Leases	Total
Originated loans and leases						
December 31, 2014						
Individually evaluated for impairment	\$ 1,283	7,675	\$ 1,408	\$ 0	\$0	\$10,366
Collectively evaluated for impairment	765,753	1,103,367	896,453	54,172	12,251	2,831,996
Total	\$ 767,036	\$ 1,111,042	\$ 897,861	\$ 54,172	\$12,251	\$ 2,842,362

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired loans						
December 31, 2014						
Individually evaluated for impairment	\$ 628	1,195	\$ 440	\$ 0	\$0	\$2,263
Loans acquired with deteriorated credit quality	995	11,640	3,669	0	18,106	34,410
Collectively evaluated for impairment	95,411	334,741	84,181	1,095	1,213	516,641
Total	\$ 97,034	\$ 347,576	\$ 88,290	\$ 1,095	\$19,319	\$553,314

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:





<i>(in thousands)</i>	09/30/2015			12/31/2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
<b>Originated loans and leases with no related allowance</b>						
Commercial and industrial						
Commercial and industrial other	\$ 1,075	\$ 1,080	\$ 0	\$ 1,283	\$ 1,307	\$ 0
Commercial real estate						
Commercial real estate other	7,211	7,540	0	6,021	6,628	0
Residential real estate						
Home equity	1,386	1,386	0	1,408	1,499	0
Subtotal	\$ 9,672	\$ 10,006	\$ 0	\$ 8,712	\$ 9,434	\$ 0
<b>Originated loans and leases with related allowance</b>						
Commercial real estate						
Commercial real estate other	2,275	2,298	1,023	1,654	1,654	652
Subtotal	\$ 2,275	\$ 2,298	\$ 1,023	\$ 1,654	\$ 1,654	\$ 652
<b>Total</b>	<b>\$ 11,947</b>	<b>\$ 12,304</b>	<b>\$ 1,023</b>	<b>\$ 10,366</b>	<b>\$ 11,088</b>	<b>\$ 652</b>

<i>(in thousands)</i>	09/30/2015			12/31/2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
<b>Acquired loans with no related allowance</b>						
Commercial and industrial						
Commercial and industrial other	\$ 371	\$ 371	\$ 0	\$ 64	\$ 64	\$ 0
Commercial real estate						
Construction	363	363	0	0	0	0
	5,951	6,143	0	941	1,204	0

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Commercial real estate other						
Residential real estate						
Home equity	1,218	1,218	0	440	440	0
Subtotal	\$7,903	\$8,095	\$0	\$1,445	\$1,708	\$0
<b>Acquired loans with related allowance</b>						
Commercial and industrial						
Commercial and industrial other	803	803	396	564	564	414
Commercial real estate						
Commercial real estate other	0	0	0	254	254	100
Subtotal	\$803	\$803	\$396	\$818	\$818	\$514
<b>Total</b>	<b>\$8,706</b>	<b>\$8,898</b>	<b>\$396</b>	<b>\$2,263</b>	<b>\$2,526</b>	<b>\$514</b>

The average recorded investment and interest income recognized on impaired loans for the three and nine months ended September 30, 2015 and 2014 was as follows:

(in thousands)	Three Months Ended 09/30/2015		Three Months Ended 09/30/2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Originated loans and leases with no related allowance				
Commercial and industrial Commercial and industrial other	755	0	1,422	0
Commercial real estate Commercial real estate other	7,972	0	7,940	42
Residential real estate Home equity	1,137	0	1,038	0
Subtotal	\$9,864	\$0	\$10,400	\$42
Originated loans and leases with related allowance				
Commercial and industrial other	0	0	511	7
Commercial real estate Commercial real estate other	1,110	0	0	0
Subtotal	\$1,110	\$0	\$511	\$7
Total	\$10,974	\$0	\$10,911	\$49

(in thousands)	Three Months Ended <b>09/30/2015</b>		Three Months Ended 09/30/2014	
	Average Interest Recorded	Income Recognized	Average Interest Recorded	Income Recognized
Acquired loans with no related allowance				
Commercial and industrial				
Commercial and industrial other	558	0	343	0
Commercial real estate				
Construction	366	0	0	0
Commercial real estate other	4,582	0	1,312	0
Residential real estate				
Home equity	1,065	0	290	0
Subtotal	\$6,571	\$ 0	\$1,945	\$ 0
Acquired loans with related allowance				
Commercial and industrial				
Commercial and industrial other	805	0	449	0
Commercial real estate				
Commercial real estate other	0	0	271	0
Subtotal	\$805	\$ 0	\$720	\$ 0
Total	\$7,376	\$ 0	\$2,665	\$ 0

(in thousands)	Nine Months Ended <b>09/30/2015</b>		Nine Months Ended 09/30/2014	
	Average Interest Recorded Income	InvestmenRecognized	Average Interest Recorded Income	InvestmenRecognized
Originated loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	567	0	1,636	0
Commercial real estate				
Commercial real estate other	8,123	0	7,871	42
Residential real estate				
Home equity	1,104	0	1,038	0
Subtotal	\$9,794	\$ 0	\$10,545	\$ 42
Originated loans and leases with related allowance				
Commercial and industrial				
Commercial and industrial other	0	0	511	7
Commercial real estate				
Commercial real estate other	949	0	0	0
Subtotal	\$949	\$ 0	\$511	\$ 7
Total	\$10,743	\$ 0	\$11,056	\$ 49

(in thousands)	Nine Months Ended <b>09/30/2015</b>		Nine Months Ended <b>09/30/2014</b>	
	Average Interest Recorded Income	InvestmenRecognized	Average Interest Recorded Income	InvestmenRecognized
Acquired loans with no related allowance				
Commercial and industrial				
Commercial and industrial other	565	0	346	0
Commercial real estate				
Construction	369	0	0	0
Commercial real estate other	3,820	0	1,333	0
Residential real estate				
Home equity	1,064	0	0	0
Residential real estate other	0	0	290	0
Subtotal	\$5,818	\$ 0	\$1,969	\$ 0
Acquired loans with related allowance				
Commercial and industrial				
Commercial and industrial other	809	0	454	0
Commercial real estate				

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Commercial real estate other	0	0	271	0
Residential real estate	0	0	0	0
Subtotal	\$809	\$ 0	\$725	\$ 0
Total	\$6,627	\$ 0	\$2,694	\$ 0

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. 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.

<b>September 30, 2015</b>	<b>Three months ended</b>			<b>Defaulted TDRs<sup>4</sup></b>	
	<b>Number of Loans</b>	<b>Pre-Modification Outstanding Recorded Investment</b>	<b>Post-Modification Outstanding Recorded Investment</b>	<b>Number of Loans</b>	<b>Post-Modification Outstanding Recorded Investment</b>
<i>(in thousands)</i>					
Commercial and industrial					
Commercial and industrial other <sup>1</sup>	1	\$ 52	\$ 52	2	\$ 311
Commercial real estate					
Commercial real estate other <sup>2</sup>	1	1,938	1,938	0	0
Residential real estate					
Home equity <sup>3</sup>	2	76	76	1	43
<b>Total</b>	<b>4</b>	<b>\$ 2,066</b>	<b>\$ 2,066</b>	<b>3</b>	<b>\$ 354</b>

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

<sup>2</sup> Represents the following concessions: reduction of rate

<sup>3</sup> Represents the following concessions: extension of term and reduction of rate

<sup>4</sup> TDRs that defaulted during the three months ended September 30, 2015 that were restructured in the prior



twelve  
months.

<b>September 30, 2015</b>	Nine months ended		<b>Defaulted TDRs<sup>4</sup></b>		
(in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	<b>Post-Modification Outstanding Recorded Investment</b>
Commercial and industrial					
Commercial and industrial other <sup>1</sup>	5	\$ 433	\$ 433	2	\$ 311
Commercial real estate					
Commercial real estate other <sup>2</sup>	3	\$ 2,552	\$ 2,552	0	\$ 0
Residential real estate					
Home equity <sup>3</sup>	14	1,558	1,558	4	279
<b>Total</b>	<b>22</b>	<b>\$ 4,543</b>	<b>\$ 4,543</b>	<b>6</b>	<b>\$ 590</b>

<sup>1</sup> Represents  
the following  
concessions:  
extension of  
term (2 loans  
\$319,000)  
and

reduction of  
rate (3 loans  
\$114,000)

<sup>2</sup> Represents  
the following  
concessions:  
extension of  
term (1 loan  
\$28,000) and  
reduction of  
rate (1 loan  
\$2.5 million)

<sup>3</sup> Represents  
the following  
concessions:  
extension of  
term (9 loans  
\$1.2 million)  
and  
reduction of  
rate (5 loans  
\$928,000)

<sup>4</sup> TDRs that  
defaulted  
during the  
nine months

*ended  
September  
30, 2015 that  
had been  
restructured  
in the prior  
twelve  
months.*

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**September 30, 2014**

Nine months ended

<i>(in thousands)</i>	Pre-Modification		Post-Modification		Defaulted TDRs <sup>4</sup>	
	Number of Loans	Outstanding Recorded Investment	Outstanding Recorded Investment	Number of Loans	Outstanding Recorded Investment	
Commercial and industrial						
Commercial and industrial other <sup>1</sup>	1	\$ 88	\$ 88	0	\$ 0	
Commercial real estate						
Commercial real estate other <sup>2</sup>	1	480	480	1	63	
Residential real estate						
Home equity <sup>3</sup>	0	0	0	1	195	
<b>Total</b>	<b>2</b>	<b>\$ 568</b>	<b>\$ 568</b>	<b>2</b>	<b>\$ 258</b>	

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

<sup>2</sup> Represents the following concessions: extension of term and reduction of rate

<sup>3</sup> TDRs that defaulted during the nine months ended September 30, 2014 that were 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 September 30, 2015 and December 31, 2014.

September 30, 2015

(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	\$ 735,770	\$ 64,778	\$ 1,070,148	\$ 83,277	\$ 82,469	\$ 2,036,442
Special Mention	1,690	164	19,555	143	3,581	25,133
Substandard	3,951	889	14,382	715	0	19,937
Total	\$ 741,411	\$ 65,831	\$ 1,104,085	\$ 84,135	\$ 86,050	\$ 2,081,512

September 30, 2015

(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						
Internal risk grade:						
Pass	\$ 85,897	\$ 0	\$ 248,455	\$ 2,154	\$ 32,527	\$ 369,033
Special Mention	201	0	1,245	0	0	1,446
Substandard	4,545	0	17,426	0	1,712	23,683
Total	\$ 90,643	\$ 0	\$ 267,126	\$ 2,154	\$ 34,239	\$ 394,162

December 31, 2014

(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	\$ 670,478	\$ 78,250	\$ 945,898	\$ 58,455	\$ 68,696	\$ 1,821,777
Special Mention	12,602	151	19,692	155	3,731	36,331
Substandard	5,449	106	14,031	384	0	19,970
Total	\$ 688,529	\$ 78,507	\$ 979,621	\$ 58,994	\$ 72,427	\$ 1,878,078

December 31, 2014

(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						
Internal risk grade:						
Pass	\$ 94,054	\$ 0	\$ 288,193	\$ 1,352	\$ 33,686	\$ 417,285
Special Mention	83	0	5,675	0	0	5,758
Substandard	2,897	0	14,620	1,830	2,220	21,567
Total	\$ 97,034	\$ 0	\$ 308,488	\$ 3,182	\$ 35,906	\$ 444,610

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 September 30, 2015 and December 31, 2014. 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.

September 30, 2015

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Originated Loans and Leases					
Performing	\$ 198,518	\$ 791,093	\$ 17,673	\$ 41,455	\$ 1,048,739
Nonperforming	1,631	5,568	115	153	7,467
Total	\$ 200,149	\$ 796,661	\$ 17,788	\$ 41,608	\$ 1,056,206

September 30, 2015

(in thousands)	Residential Home	Residential Mortgages	Consumer Indirect	Consumer Other	Total
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	Equity				
Acquired Loans					
Performing	\$ 44,376	\$ 26,388	\$ 0	\$ 880	\$71,644
Nonperforming	994	2,551	0	0	3,545
Total	\$ 45,370	\$ 28,939	\$ 0	\$ 880	\$75,189

December 31, 2014

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Originated Loans and Leases					
Performing	\$ 185,619	\$ 704,663	\$ 18,197	\$ 35,626	\$944,105
Nonperforming	1,338	6,241	101	248	7,928
Total	\$ 186,957	\$ 710,904	\$ 18,298	\$ 35,874	\$952,033

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December 31, 2014

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Acquired Loans					
Performing	\$ 55,416	\$ 31,304	\$ 0	\$ 1,095	\$87,815
Nonperforming	592	978	0	0	1,570
Total	\$ 56,008	\$ 32,282	\$ 0	\$ 1,095	\$89,385

## 7. FDIC Indemnification Asset Related to Covered Loans

Certain loans acquired in the VIST Financial acquisition were covered loans with loss share agreements with the FDIC. Under the terms of loss sharing agreements, the FDIC will reimburse the Company for 70 percent of net losses on covered single family assets up to \$4.0 million, and 70 percent of net losses incurred on covered commercial assets up to \$12.0 million. The FDIC will increase its reimbursement of net losses to 80 percent if net losses exceed the \$4.0 million and \$12 million thresholds, respectively. The term for loss sharing on residential real estate loans is ten years, while the term for loss sharing on non-residential real estate loans is five years in respect to losses and eight years in respect to loss recoveries. The loss share period for the residential real estate loans expires on December 31, 2020, while the loss share period for the nonresidential real estate loans expires December 31, 2015.

The receivable arising from the loss sharing agreements (referred to as the “FDIC indemnification asset” on our consolidated statements of financial condition) is measured separately from covered loans because the agreements are not contractually part of the covered loans and are not transferable should the Company choose to dispose of the covered loans. As of the acquisition date with VIST Financial, the Company recorded an aggregate FDIC indemnification asset of \$4.4 million, consisting of the present value of the expected future cash flows the Company expected to receive from the FDIC under loss sharing agreements. The FDIC indemnification asset is reduced as loss sharing payments are received from the FDIC for losses realized on covered loans. Actual or expected losses in excess of the acquisition date estimates and accretion of the acquisition date present value discount will result in an increase in the FDIC indemnification asset and the immediate recognition of non-interest income in our financial statements.

A decrease in expected losses would generally result in a corresponding decline in the FDIC indemnification asset and the non-accretable difference. Reductions in the FDIC indemnification asset due to actual or expected losses that are less than the acquisition date estimates are recognized prospectively over the shorter of (i) the estimated life of the applicable covered loans or (ii) the term of the loss sharing agreements with the FDIC.

Changes in the FDIC indemnification asset during the nine months ended September 30, 2015 are shown below.

**Nine months ended September 30, 2015**

<i>(in thousands)</i>	<b>Nine Months Ended</b>
Balance, beginning of the period	\$ 1,903
Prospective adjustment for additional cash flows	(585)
Increase due to impairment on covered loans	0
Reimbursements from the FDIC	(984)
Balance, end of period	\$ 334

**8. Earnings Per Share**

Earnings per share in the table below, for the three and nine month periods ending September 30, 2015 and 2014 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 additional potential shares from stock compensations awards.



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(in thousands, except share and per share data)	Three Months Ended	
	09/30/2015	09/30/2014
<b>Basic</b>		
Net income available to common shareholders	\$ 14,497	\$ 13,722
Less: dividends and undistributed earnings allocated to unvested restricted stock awards	(189 )	(119 )
Net earnings allocated to common shareholders	14,308	13,603
Weighted average shares outstanding, including participating securities	14,934,287	14,839,663
Less: average participating securities	(194,372 )	(127,954 )
Weighted average shares outstanding - Basic	14,739,915	14,711,709
<b>Diluted</b>		
Net earnings allocated to common shareholders	14,308	13,603
Weighted average shares outstanding - Basic	14,739,915	14,711,709
Dilutive effect of common stock options or restricted stock awards	126,820	83,634
Weighted average shares outstanding - Diluted	14,866,735	14,795,343
Basic EPS	0.97	0.92
Diluted EPS	0.96	0.92

The dilutive effect of common stock options or restricted awards calculation for the three months ended September 30, 2015 and 2014 excludes stock options, stock appreciation rights and restricted stock awards covering an aggregate of 78,255 and 208,324 shares, respectively, because the exercise prices were greater than the average market price during these periods.

(in thousands, except share and per share data)	Nine Months Ended	
	09/30/2015	09/30/2014
<b>Basic</b>		
Net income available to common shareholders	\$44,567	\$39,352
Less: dividends and undistributed earnings allocated to unvested restricted stock awards	(609 )	(353 )
Net earnings allocated to common shareholders	43,958	38,999
Weighted average shares outstanding, including participating securities	14,937,988	14,821,992
Less: average participating securities	(206,886 )	(133,066 )
Weighted average shares outstanding - Basic	14,731,102	14,688,926
<b>Diluted</b>		
Net earnings allocated to common shareholders	43,958	38,999

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Weighted average shares outstanding - Basic	14,731,102	14,688,926
Dilutive effect of common stock options or restricted stock awards	129,874	108,594
Weighted average shares outstanding - Diluted	14,860,976	14,797,520
Basic EPS	2.98	2.65
Diluted EPS	2.96	2.64

The dilutive effect of common stock options or restricted awards calculation for the nine months ended September 30, 2015 and 2014 excludes stock options, stock appreciation rights and restricted stock awards covering an aggregate of 241,066 and 116,527 shares, respectively, because the exercise prices were greater than the average market price during these periods.







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

<i>(in thousands)</i>	Available-for-Sale Securities	Employee Benefit Plans	Accumulated Other Comprehensive Income
Balance at July 1, 2015	\$ 627	\$(28,248)	\$ (27,621 )
Other comprehensive loss before reclassifications	5,515	0	5,515
Amounts reclassified from accumulated other comprehensive loss	(55 )	133	78
Net current-period other comprehensive income (loss)	5,460	133	5,593
Balance at September 30, 2015	\$ 6,087	\$(28,115)	\$ (22,028 )
Balance at January 1, 2015	\$ 2,867	\$(26,878)	\$ (24,011 )
Other comprehensive income before reclassifications	3,883	0	3,883
Amounts reclassified from accumulated other comprehensive loss	(663 )	(1,237 )	(1,900 )
Net current-period other comprehensive income (loss)	3,220	(1,237 )	1,983
Balance at September 30, 2015	\$ 6,087	\$(28,115)	\$ (22,028 )

<i>(in thousands)</i>	Available-for-Sale Securities	Employee Benefit Plans	Accumulated Other Comprehensive Income
Balance at July 1, 2014	\$ 3,606	\$(16,441)	\$ (12,835 )
Other comprehensive income (loss) before reclassifications	(4,123 )	0	(4,123 )
Amounts reclassified from accumulated other comprehensive income	(12 )	160	148
Net current-period other comprehensive (loss) income	(4,135 )	160	(3,975 )
Balance at September 30, 2014	\$ (529 )	\$(16,281)	\$ (16,810 )
Balance at January 1, 2014	\$ (8,357 )	\$(16,762)	\$ (25,119 )
Other comprehensive income before reclassifications	7,918	0	7,918
Amounts reclassified from accumulated other comprehensive (loss) income	(90 )	481	391
Net current-period other comprehensive income	7,828	481	8,309
Balance at September 30, 2014	\$ (529 )	\$(16,281)	\$ (16,810 )

The following tables present the amounts reclassified out of each component of accumulated other comprehensive (loss) income for the three and nine months ended September 30, 2015 and 2014. In the below tables the accumulated other comprehensive income components are included in the computation of net periodic benefit cost (See Note 10 - "Employee Benefit Plan"), and amounts in parentheses indicate debits to the income statement.

### Three months ended September 30, 2015

Details about Accumulated other Comprehensive Income Components (in thousands)	Amount Reclassified from Accumulated Other Comprehensive (Loss) Income	Affected Line Item in the Statement Where Net Income is Presented
Available-for-sale securities:		
Unrealized gains and losses on available-for-sale securities	\$ 92	Net gain on securities transactions
	(37 )	Tax expense
	55	Net of tax
Employee benefit plans:		
Amortization of the following		
Net retirement plan actuarial loss	(201 )	
Net retirement plan prior service credit	(20 )	
	(221 )	Total before tax
	88	Tax benefit
	(133 )	Net of tax

### Nine months ended September 30, 2015

Details about Accumulated other Comprehensive Income Components (in thousands)	Amount Reclassified from Accumulated Other Comprehensive (Loss) Income	Affected Line Item in the Statement Where Net Income is Presented
Available-for-sale securities:		
Unrealized gains and losses on available-for-sale securities	\$ 1,105	Net gain on securities transactions
	(442 )	Tax expense
	663	Net of tax
Employee benefit plans:		

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Amortization of the following

Net retirement plan actuarial loss	(1,663	)	
Net retirement plan prior service cost	351		
	(1,312	)	Total before tax
	523		Tax benefit
	(789	)	Net of tax

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**Three months ended September 30, 2014**

Details about Accumulated other Comprehensive Income Components (in thousands)	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
Available-for-sale securities:		
Unrealized gains and losses on available-for-sale securities	\$ 20	Net gain on securities transactions
	(8 )	Tax expense
	12	Net of tax
Employee benefit plans:		
Amortization of the following		
Net retirement plan actuarial loss	(266 )	
Net retirement plan prior service cost	(1 )	
	(267 )	Total before tax
	107	Tax benefit
	(160 )	Net of tax

**Nine months ended September 30, 2014**

Details about Accumulated other Comprehensive Income Components (in thousands)	Amount Reclassified from Accumulated Other Comprehensive (Loss) Income	Affected Line Item in the Statement Where Net Income is Presented
Available-for-sale securities:		
Unrealized gains and losses on available-for-sale securities	\$ 151	Net gain on securities transactions
	(61 )	Tax expense
	90	Net of tax
Employee benefit plans:		
Amortization of the following		
Net retirement plan actuarial loss	(798 )	
Net retirement plan prior service cost	(3 )	
	(801 )	Total before tax
	320	Tax benefit
	(481 )	Net of tax



**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 Cost**

(in thousands)	Pension Benefits		Life and Health		SERP Benefits	
	Three Months Ended		Three Months Ended		Three Months Ended	
	09/30/2015	09/30/2014	09/30/2015	09/30/2014	09/30/2015	09/30/2014
Service cost	\$22	\$608	\$59	\$50	\$50	\$56
Interest cost	145	767	81	92	232	216
Expected return on plan assets	(240 )	(1,256 )	0	0	0	0
Amortization of net retirement plan actuarial loss	41	215	5	0	156	51
Amortization of net retirement plan prior service (credit) cost	(3 )	(31 )	4	4	18	28
Net periodic benefit cost	\$(35 )	\$303	\$149	\$146	\$456	\$351

**Components of Net Period Benefit Cost**

(in thousands)	Pension Benefits		Life and Health		SERP Benefits	
	Nine Months Ended		Nine Months Ended		Nine Months Ended	
	09/30/2015	09/30/2014	09/30/2015	09/30/2014	09/30/2015	09/30/2014
Service cost	\$1,394	\$1,825	\$177	\$151	\$150	\$167
Interest cost	1,610	2,302	242	275	696	649
Expected return on plan assets	(2,748)	(3,768 )	0	0	0	0
Amortization of net retirement plan actuarial loss	1,180	644	14	0	469	154
	(417 )	(92 )	12	12	54	84

Amortization of net retirement plan prior service cost  
(credit)

Recognized actuarial gain due to curtailments	(6,003)	0	0	0	0	0
Net periodic benefit cost	\$(4,984)	\$ 911	\$445	\$ 438	\$1,369	\$ 1,054

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 \$1.2 million and \$481,000, net of tax, as amortization of amounts previously recognized in accumulated other comprehensive income, for the nine months ended September 30, 2015 and 2014, respectively.

The Company is not required to contribute to the pension plan in 2015, but it may make voluntary contributions. The Company did not contribute to the pension plan in the nine months ended September 30, 2015 or 2014.

Effective July 31, 2015, the Retirement Plan (Accruing Pension Plan) was frozen (participants will no longer accrue benefits after July 31, 2015). The plan freeze was reflected on June 30, 2015, and in accordance with ASC 715 Compensation – Retirement Benefits, a curtailment was triggered. Under a Curtailment due to a plan freeze, any unrecognized Prior Service Cost bases must be fully recognized in benefit cost at the time of the curtailment. The sum of unrecognized Prior Service Cost bases as of June 30, 2015 was \$6.0 million.

## 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		Nine Months Ended	
	09/30/2015	09/30/2014	09/30/2015	09/30/2014
Noninterest Income				
Other service charges	\$710	\$ 708	\$2,208	\$ 2,511
Increase in cash surrender value of corporate owned life insurance	474	456	1,643	1,431
Net gain on sale of loans	11	125	21	345
Other income	474	603	2,518	1,842
Total other income	\$1,669	\$ 1,892	\$6,390	\$ 6,129
Noninterest Expenses				
Marketing expense	\$919	\$ 1,029	\$3,373	\$ 3,448
Professional fees	1,334	1,585	4,248	4,484
Legal fees	377	130	1,130	1,191
Software licensing and maintenance	1,186	1,196	3,407	3,512
Cardholder expense	684	678	1,951	2,076
Other expenses	4,009	5,805	13,732	15,800
Total other operating expense	\$8,509	\$ 10,423	\$27,841	\$ 30,511

## 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 September 30, 2015, the Company's maximum potential obligation under standby letters of credit was \$58.4 million compared to \$58.2 million at December 31, 2014. 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 Agencies, Inc.") 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 four banking subsidiaries: Tompkins Trust Company, a commercial bank with thirteen 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 nineteen 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. Through the 2012 acquisition of VIST Financial, Tompkins Insurance expanded its operations with the addition of VIST Insurance, a full service insurance agency offering a similar array of insurance products as Tompkins Insurance in southeastern 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 2014 Annual Report on Form 10-K.

**As of and for the three months ended September 30, 2015**

<i>(in thousands)</i>	Banking	Insurance	Wealth Management	Intercompany	Consolidated
Interest income	\$47,490	\$0	\$ 40	\$ 0	\$47,530
Interest expense	5,144	0	0	0	5,144
<b>Net interest income</b>	42,346	0	40	0	42,386
Provision for loan and lease losses	281	0	0	0	281
Noninterest income	6,293	7,621	3,788	(280 )	17,422
Noninterest expense	29,247	6,069	2,846	(280 )	37,882
<b>Income before income tax expense</b>	19,111	1,552	982	0	21,645

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Income tax expense	6,156	634	325	0	7,115
<b>Net Income attributable to noncontrolling interests and Tompkins Financial Corporation</b>	12,955	918	657	0	14,530
Less: Net income attributable to noncontrolling interests	33	0	0	0	33
<b>Net Income attributable to Tompkins Financial Corporation</b>	\$12,922	\$918	\$ 657	\$ 0	\$14,497
Depreciation and amortization	\$1,503	\$93	\$ 30	\$ 0	\$1,626
Assets	5,551,880	36,825	13,782	(7,769 )	5,594,718
Goodwill	64,500	19,662	8,081	0	92,243
Other intangibles, net	8,173	4,388	467	0	13,028
Net loans and leases	3,603,348	0	0	0	3,603,348
Deposits	4,444,332	0	0	(7,259 )	4,437,073
Total Equity	478,567	27,776	11,616	0	517,959



**As of and  
for the  
three  
months  
ended  
September  
30, 2014**

<i>(in thousands)</i>	Banking	Insurance	Wealth Management	Intercompany	Consolidated
Interest income	\$46,583	\$ 1	\$ 35	\$ (1 )	\$46,618
Interest expense	5,044	0	0	(1 )	5,043
<b>Net interest income</b>	41,539	1	35	0	41,575
Provision for loan and lease losses	(59 )	0	0	0	(59 )
Noninterest income	6,607	7,555	3,746	(353 )	17,555
Noninterest expense	30,129	5,977	2,784	(353 )	38,537
<b>Income before income tax expense</b>	18,076	1,579	997	0	20,652
Income tax expense	5,903	653	341	0	6,897
<b>Net Income attributable to noncontrolling interests and Tompkins Financial Corporation</b>	12,173	926	656	0	13,755
Less: Net income attributable to noncontrolling interests	33	0	0	0	33
<b>Net Income attributable to Tompkins Financial Corporation</b>	\$12,140	\$926	\$ 656	\$ 0	\$13,722
Depreciation and amortization	\$1,320	\$75	\$ 36	\$ 0	\$1,431
Assets	5,049,237	34,742	13,634	(6,694 )	5,090,919
Goodwill	64,500	19,662	8,081	0	92,243
Other intangibles, net	9,681	4,987	538	0	15,206
Net loans and leases	3,229,683	0	0	0	3,229,683
Deposits	4,219,127	0	0	(6,267 )	4,212,860
Total Equity	453,317	27,177	10,117	0	490,611

**For the nine months ended September 30, 2015**

<i>(in thousands)</i>	Banking	Insurance	Wealth Management	Intercompany	Consolidated
Interest income	\$140,066	\$2	\$ 114	\$ (1 )	\$ 140,181
Interest expense	15,238	0	0	(1 )	15,237
<b>Net interest income</b>	124,828	2	114	0	124,944
Provision for loan and lease losses	1,412	0	0	0	1,412
Noninterest income	20,346	22,508	11,919	(743 )	54,030
Noninterest expense	85,092	17,653	8,490	(743 )	110,492
<b>Income before income tax expense</b>	58,670	4,857	3,543	0	67,070
Income tax expense	19,260	1,951	1,194	0	22,405
<b>Net Income attributable to noncontrolling interests and Tompkins Financial Corporation</b>	39,410	2,906	2,349	0	44,665
	98	0	0	0	98

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Less: Net income attributable to noncontrolling interests

<b>Net Income attributable to Tompkins Financial Corporation</b>	\$39,312	\$2,906	\$ 2,349	\$ 0	\$ 44,567
Depreciation and amortization	\$4,465	\$276	\$ 93	\$ 0	\$ 4,834

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**For the nine months ended September 30, 2014**

<i>(in thousands)</i>	Banking	Insurance	Wealth Management	Intercompany	Consolidated
Interest income	\$ 137,703	\$ 5	\$ 100	\$ (5 )	\$ 137,803
Interest expense	15,688	2	0	(5 )	15,685
<b>Net interest income</b>	122,015	3	100	0	122,118
Provision for loan and lease losses	751	0	0	0	751
Noninterest income	19,835	21,918	11,990	(1,034 )	52,709
Noninterest expense	90,560	17,541	8,608	(1,034 )	115,675
<b>Income before income tax expense</b>	50,539	4,380	3,482	0	58,401
Income tax expense	15,982	1,776	1,193	0	18,951
<b>Net Income attributable to noncontrolling interests and Tompkins Financial Corporation</b>	34,557	2,604	2,289	0	39,450
Less: Net income attributable to noncontrolling interests	98	0	0	0	98
<b>Net Income attributable to Tompkins Financial Corporation</b>	\$ 34,459	\$ 2,604	\$ 2,289	\$ 0	\$ 39,352
Depreciation and amortization	\$ 3,909	\$ 184	\$ 110	\$ 0	\$ 4,203

**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 September 30, 2015 and December 31, 2014, segregated by the level of valuation inputs within the fair value hierarchy used to measure fair value.

**Recurring Fair Value Measurements**

September 30, 2015

(in thousands)	Total	(Level 1)	(Level 2)	(Level 3)
<b>Trading securities</b>				
Obligations of U.S. Government sponsored entities	\$6,814	\$6,814	\$0	\$0
Mortgage-backed securities – residential U.S. Government sponsored entities	935	935		0
<b>Available-for-sale securities</b>				
Obligations of U.S. Government sponsored entities	557,271	0	557,271	0
Obligations of U.S. states and political subdivisions	74,405	0	74,405	0
Mortgage-backed securities – residential, issued by:				
U.S. Government agencies	101,554	0	101,554	0
U.S. Government sponsored entities	651,745	0	651,745	0
Non-U.S. Government agencies or sponsored entities	203	0	203	0
U.S. corporate debt securities	2,162	0	2,162	0
Equity securities	943	0	0	943
<b>Borrowings</b>				
Other borrowings	10,736	0	10,736	0

The change in the fair value of available-for-sale equity securities valued using significant unobservable inputs (level 3), between January 1, 2015 and September 30, 2015 was mainly due to the reclassification of \$475,000 of securities from available-for-sale securities to other assets to reflect the nonmarketable nature of these securities.

**Recurring Fair Value Measurements**

December 31, 2014

(in thousands)	Total	(Level 1)	(Level 2)	(Level 3)
<b>Trading securities</b>				
Obligations of U.S. Government sponsored entities	\$7,404	\$ 0	\$7,404	\$0
Mortgage-backed securities – residential U.S. Government sponsored entities	1,588	0	1,588	0
<b>Available-for-sale securities</b>				
Obligations of U.S. Government sponsored entities	557,820	0	557,820	0
Obligations of U.S. states and political subdivisions	71,510	0	71,510	0
Mortgage-backed securities – residential, issued by:				
U.S. Government agencies	109,926	0	109,926	0
U.S. Government sponsored entities	659,120	0	659,120	0
Non-U.S. Government agencies or sponsored entities	271	0	271	0
U.S. corporate debt securities	2,162	0	2,162	0
Equity securities	1,427	0	0	1,427
<b>Borrowings</b>				
Other borrowings	10,961	0	10,961	0

The change in the fair value of the \$1.4 million of available-for-sale securities valued using significant unobservable inputs (level 3), between January 1, 2014 and December 31, 2014 was immaterial.

There were no transfers between Levels 1, 2 and 3 for the three months ended September 30, 2015.

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. The Company's potential credit risk did not have a material impact on the quoted settlement prices used in measuring the fair value of the FHLB borrowings at September 30, 2015.

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 third quarter of 2015, 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.

**Three months ended September 30, 2015**

		<b>Fair value measurements at reporting date using:</b>	<b>Gain (losses) from fair value changes</b>
	As of	Quoted prices in active markets for identical assets Significant other observable inputs Significant unobservable inputs	Three months ended
Assets:	09/30/2015	(Level 2) (Level 3)	09/30/2015

		(Level 1)			
Impaired Loans	\$ 1,362	\$0	\$ 1,362	\$ 0	\$ 0
Other real estate owned	1,049	0	1,049	0	(30 )

**Three months ended September 30, 2014**

		Fair value measurements at reporting date using:			Gain (losses) from fair value changes
	As of	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Three months ended
Assets:	09/30/2014	(Level 1)	(Level 2)	(Level 3)	09/30/2014
Impaired Loans	\$ 8,149	\$0	\$ 8,149	\$ 0	\$ (67 )
Other real estate owned	2,689	0	2,689	0	10



## Nine months ended September 30, 2015

	As of	Fair value measurements at reporting date using:			Gain (losses) from fair value changes
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Nine months ended
Assets:	09/30/2015				09/30/2015
Impaired Loans	\$ 4,307	\$ 0	\$ 4,307	\$ 0	\$ (80 )
Other real estate owned	2,629	0	2,629	0	786

## Nine months ended September 30, 2014

	As of	Fair value measurements at reporting date using:			Gain (losses) from fair value changes
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Nine months ended
Assets:	09/30/2014				09/30/2014
Impaired Loans	\$ 9,226	\$ 0	\$ 9,226	\$ 0	\$ (252 )
Other real estate owned	5,182	0	5,182	0	(32 )

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at September 30, 2015 and December 31, 2014. 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  
September 30, 2015**

<i>(in thousands)</i>	Carrying Amount	Fair Value	(Level 1)	(Level 2)	(Level 3)
<b>Financial Assets:</b>					
Cash and cash equivalents	\$ 107,093	\$ 107,093	\$ 107,093	\$ 0	\$ 0
Securities - held to maturity	146,300	149,112	0	149,112	0
FHLB stock	23,562	23,562	0	23,562	0
Accrued interest receivable	17,439	17,439	0	17,439	0
Loans/leases, net <sup>1</sup>	3,603,348	3,624,408	0	4,307	3,620,101
<b>Financial Liabilities:</b>					
Time deposits	\$ 877,422	\$ 879,294	\$ 0	\$ 879,294	\$ 0
Other deposits	3,559,651	3,559,651	0	3,559,651	0
Fed funds purchased and securities sold under agreements to repurchase	134,941	137,266	0	137,266	0
Other borrowings	388,210	391,879	0	391,879	0
Trust preferred debentures	37,466	42,861	0	42,861	0
Accrued interest payable	1,952	1,952	0	1,952	0

**Estimated Fair Value of Financial Instruments**  
**December 31, 2014**

<i>(in thousands)</i>	Carrying Amount	Fair Value	(Level 1)	(Level 2)	(Level 3)
<b>Financial Assets:</b>					
Cash and cash equivalents	\$56,070	\$56,070	\$56,070	\$0	\$0
Securities - held to maturity	88,168	89,036	0	89,036	0
FHLB and FRB stock	21,259	21,259	0	21,259	0
Accrued interest receivable	16,518	16,518	0	16,518	0
Loans/leases, net <sup>1</sup>	3,364,291	3,383,742	0	2,891	3,380,851

**Financial Liabilities:**

Time deposits	\$898,081	\$899,871	\$0	\$899,871	\$0
Other deposits	3,271,073	3,271,073	0	3,271,073	0
Fed funds purchased and securities sold under agreements to repurchase	147,037	151,201	0	151,201	0
Other borrowings	345,580	350,043	0	350,043	0
Trust preferred debentures	37,337	39,453	0	39,453	0
Accrued interest payable	1,868	1,868	0	1,868	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 September 30, 2015, 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' 63 banking offices (44 offices in New York and 19 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 under the trade name Tompkins Financial Advisors. Tompkins Financial Advisors has office locations 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. The VIST Financial acquisition in 2012, which included VIST Insurance, was the largest acquisition and nearly doubled the Company's annual insurance revenues. 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 and nine months ended September 30, 2015. 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, 2014, 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 117 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 June 30, 2015 (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, 2014. 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, the review of the securities portfolio for other-than-temporary impairment, and acquired loans 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, 2014. There have been no significant changes in the Company's application of critical accounting policies since December 31, 2014. 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 third quarter was \$14.5 million or \$0.96 diluted earnings per share, compared to \$13.7 million or \$0.92 diluted earnings per share for the same period in 2014. Net income for the first nine months of 2015 was \$44.6 million or \$2.96 diluted earnings per share, compared to \$39.4 million or \$2.64 diluted earnings per share in the first nine months of 2014. Results for the year to date were positively impacted by a one-time curtailment gain of \$3.6 million, after-tax, related to changes to the Company's defined benefit pension plan. Exclusive of this one-time gain, net income and diluted earnings per share for the first nine months of 2015 were \$41.0 million and \$2.72, respectively.

Return on average assets (“ROA”) for the quarter ended September 30, 2015 was 1.05%, compared to 1.08% for the quarter ended September 30, 2014. Return on average shareholders’ equity (“ROE”) for the third quarter of 2015 was 11.29%, compared to 11.11%, for the same period in 2014. Tompkins’ 2015 third quarter ROA and ROE compare to the most recent peer average ratios of 0.98% and 8.70%, respectively, ranking Tompkins’ ROA in the 7<sup>th</sup> percentile and ROE in the 84<sup>th</sup> percentile of the peer group.

The following table summarizes the Company’s results of operations for the periods indicated on a GAAP basis and on an operating (non-GAAP) basis for the periods indicated. Operating results in the below table exclude nonrecurring income and expenses. The Company believes the non-GAAP measures provide meaningful comparisons of our underlying operational performance and facilitates management’s and investors’ assessments of business and performance trends in comparison to others in the financial services industry. In addition, the Company believes the exclusion of the nonoperating items from our performance enables management and investors to perform a more effective evaluation and comparison of our results and to assess performance in relation to our ongoing operations. These non-GAAP financial measures should not be considered in isolation or as a measure of the Company’s profitability or liquidity; they are in addition to, and are not a substitute for, financial measures under GAAP. Net operating income, adjusted diluted earnings per share, and operating return on average tangible equity capital as presented herein may be different from non-GAAP financial measures used by other companies, and may not be comparable to similarly titled measures reported by other companies. Further, the Company may utilize other measures to illustrate performance in the future. Non-GAAP financial measures have limitations since they do not reflect all of the amounts associated with the Company’s results of operations as determined in accordance with GAAP.

**Adjusted Diluted Earnings Per Share**

<i>(in thousands, except per share data)</i>	Three Months Ended		Nine Months Ended	
	09/30/2015	09/30/2014	09/30/2015	09/30/2014
Net income attributable to Tompkins Financial Corporation	\$ 14,497	\$ 13,722	\$ 44,567	\$ 39,352
Less: dividends and undistributed earnings allocated to unvested stock awards	(189 )	(119 )	(609 )	(353 )
Net income available to common shareholders (GAAP)	14,308	13,603	43,958	38,999
Diluted earnings per share (GAAP)	0.96	0.92	2.96	2.64
Adjustments for non-operating income and expense, net of tax:				
Gain on pension plan curtailment	0	0	(3,602 )	0
Total adjustments, net of tax	0	0	(3,602 )	0
Net operating income available to common shareholders (Non-GAAP)	14,308	13,603	40,356	38,999
Adjusted diluted earnings per share (Non-GAAP)	0.96	0.92	2.72	2.64

**Operating Return on Average Tangible Common Equity (Non-GAAP)**

<i>(in thousands)</i>	Three Months Ended		Nine Months Ended	
	09/30/2015	09/30/2014	09/30/2015	09/30/2014
Net operating income available to common shareholders (Non-GAAP)	14,308	13,603	40,356	38,999
Amortization of intangibles, net of tax	298	311	902	942
Adjusted net operating income available to common shareholders (Non-GAAP)	14,606	13,914	41,258	39,941
Average Tompkins Financial Corporation shareholders' common equity	507,984	488,386	502,622	478,077
Average goodwill and intangibles <sup>1</sup>	104,633	106,471	105,132	106,949
Average Tompkins financial Corporation shareholders' tangible common equity (Non-GAAP)	403,351	381,915	397,490	371,128
Adjusted operating return on average shareholders' tangible common equity (Non-GAAP)	14.37 %	14.46 %	13.88 %	14.39 %

<sup>1</sup> Average goodwill and intangibles exclude mortgage servicing rights

**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 \$12.9 million for the third quarter of 2015, up \$782,000 or 6.4% from net income of \$12.1 million for the same period in 2014. For the nine months ended September 30, 2015, the banking segment reported net income of \$39.3 million, up \$4.9 million or 14.1% over the same period in 2014.

Net interest income of \$42.3 million for the third quarter of 2015 was up \$807,000 or 1.9% over the same period in 2014. For the nine months ended September 30, 2015, net interest income of \$124.8 million was up \$2.8 million or 2.3% compared to prior year. Growth in average earning assets and lower funding costs offset the effect of lower asset yields and contributed to favorable year-over-year comparisons. Net interest margin for the nine months ended September 30, 2015 was 3.39% compared to 3.58% for the same period prior year.

The provision for loan and lease losses was \$281,000 for the three months ended September 30, 2015; up from a credit of \$59,000 for the same period in 2014. Provision expense also increased for the nine months ended September 30, 2015 to \$1.4 million from \$751,000 in the previous year. The increase in provision expense was largely attributable to growth in total loans.

Noninterest income for the three months ended September 30, 2015 of \$6.3 million was down \$314,000 or 4.8% compared to the same period in 2014, and for the nine months ended September 30, 2015 was up \$511,000 or 2.6% to \$20.3 million compared to \$19.8 million for the nine months ended September 30, 2014. The primary contributors to the decrease in the third quarter of 2015 compared to the third quarter of 2014 were: service charges on deposit accounts were down \$96,000, mainly due to lower overdraft fees; gains on the sales of residential mortgage loans were down \$114,000, mainly a result of the decision to hold more loans in the portfolio; and other income was down \$129,000. The primary contributors to the increase for the nine months ended September 30, 2015 compared to the same period in 2014 were: cycle fees on deposit accounts were up \$120,000, primarily in personal and business checking; increased realized gains on available for sale securities of \$72,000; and increased card services fees of \$65,000, primarily due to income from debit cards.

Noninterest expense of \$29.2 million for the third quarter and \$85.1 million for the nine months ended September 30, 2015 were down \$882,000 or 2.9% and down \$5.5 million or 6.0%, respectively, from the same periods in 2014. The favorable quarterly comparison is mainly a result of lower professional fees and lower amortization of our FDIC Indemnification asset in 2015 than 2014. The year to date decline is primarily attributed to the curtailment of the Company's defined benefit pension plan, which resulted in a \$5.5 million credit to pension and other employee benefits expense in the second quarter of 2015 in accordance with accounting guidance. This decrease was partially offset by an increase in salaries and wages due to normal annual merit and market increases, increases in incentive compensation, as well as an increase in the number of employees.

### **Insurance Segment**

The insurance segment reported net income of \$918,000 for the three months ended September 30, 2015; down \$8,000 or 0.9% from the third quarter of 2014. For the nine month period ended September 30, 2015, net income rose \$302,000 or 11.6% compared to 2014. Noninterest income was up \$66,000 or 0.9% in the third quarter of 2015, compared to the same period in 2014 and up \$590,000 or 2.7% to \$22.5 million for the nine months ended September 30, 2015. Noninterest expenses for the three months ended September 30, 2015 were up \$92,000 or 1.5% compared to the third quarter of 2014 and for the first nine months of 2015 were up \$112,000 or 0.6% compared to the same period in 2014. The increase in noninterest expense for the third quarter and year ending September 30, 2015 is the result of increases in salaries and wages reflecting normal annual merit adjustments and sales commissions. The year over year increase was partially offset by a second quarter adjustment of \$462,000 related to the curtailment of the Company's defined pension plan mentioned above.

### **Wealth Management Segment**

The wealth management segment reported net income of \$657,000 for the three months ended September 30, 2015, flat compared to the third quarter of 2014. Net income for the nine months ended September 30, 2015 increased \$60,000 or 2.6% to \$2.3 million compared to the same period in 2014. Noninterest income was up \$42,000 or 1.1% for the third quarter of 2015 and down \$71,000 or 0.6% for the first nine months of 2015 compared to the prior year. Noninterest expenses for the three months ended September 30, 2015 were up \$62,000 or 2.2% and were down \$118,000 or 1.4% for the nine months ended September 30, 2015 compared to the same period of 2014. The third quarter increase in noninterest expense is due primarily to the increases in salaries and wages reflecting normal annual merit adjustments.

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

<i>(Dollar amounts in thousands)</i>	Quarter Ended September 30, 2015		Year to Date Period Ended September 30, 2015			Year to Date Period Ended September 30, 2014			Average Yield/Rate
	Average Balance (QTD)	Interest	Average Yield/Rate	Average Balance (YTD)	Interest	Average Yield/Rate	Average Balance (YTD)	Interest	
<b>ASSETS</b>									
Interest-earning assets									
Interest-bearing balances due from banks	\$1,957	\$1	0.20%	\$1,725	\$3	0.23%	\$782	\$2	0.34%
Securities (1)									
U.S. Government securities	1,438,436	7,439	2.05%	1,441,360	22,807	2.12%	1,304,141	22,163	2.27%
Trading securities	8,008	86	4.26%	8,437	270	4.28%	10,327	321	4.16%
State and municipal (2)	85,554	783	3.63%	86,846	2,486	3.83%	96,992	3,157	4.35%
Other securities (2)	3,705	31	3.32%	3,740	91	3.25%	4,571	107	3.13%
Total securities	1,535,703	8,339	2.15%	1,540,383	25,654	2.23%	1,416,031	25,748	2.43%
FHLB NY and FRB stock	26,556	262	3.93%	23,771	834	4.69%	20,192	616	4.08%
Total loans and leases, net of unearned income (2)(3)	3,574,449	39,913	4.43%	3,479,528	116,547	4.48%	3,218,371	113,924	4.73%
<b>Total interest-earning assets</b>	<b>5,138,665</b>	<b>48,517</b>	<b>3.75%</b>	<b>5,045,407</b>	<b>143,038</b>	<b>3.79%</b>	<b>4,655,376</b>	<b>140,290</b>	<b>4.03%</b>
Other assets	347,980			352,808			368,584		
<b>Total assets</b>	<b>5,486,645</b>			<b>5,398,215</b>			<b>5,023,960</b>		
<b>LIABILITIES &amp; EQUITY</b>									
Deposits									
Interest-bearing deposits	2,322,974	949	0.16%	2,332,674	2,863	0.16%	2,265,787	3,276	0.19%

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Interest bearing checking, savings, & money market									
Time deposits	890,933	1,704	0.76 %	904,911	5,032	0.75 %	901,283	5,070	0.75 %
<b>Total</b>									
interest-bearing deposits	3,213,907	2,653	0.33 %	3,237,585	7,895	0.33 %	3,167,070	8,346	0.35 %
Federal funds purchased & securities sold under agreements to repurchase	134,620	685	2.02 %	136,073	2,020	1.98 %	147,775	2,263	2.05 %
Other borrowings	470,060	1,223	1.03 %	413,819	3,596	1.16 %	258,578	3,362	1.74 %
Trust preferred debentures	37,438	583	6.18 %	37,395	1,726	6.17 %	37,227	1,714	6.16 %
<b>Total interest-bearing liabilities</b>	<b>3,856,025</b>	<b>5,144</b>	<b>0.53 %</b>	<b>3,824,872</b>	<b>15,237</b>	<b>0.53 %</b>	<b>3,610,650</b>	<b>15,685</b>	<b>0.58 %</b>
Noninterest bearing deposits	1,052,669			1,003,318			879,691		
Accrued expenses and other liabilities	68,433			65,902			54,040		
<b>Total liabilities</b>	<b>4,977,127</b>			<b>4,894,092</b>			<b>4,544,381</b>		
Tompkins Financial Corporation Shareholders' equity	507,984			502,622			478,078		
Noncontrolling interest	1,534			1,501			1,501		
<b>Total equity</b>	<b>509,518</b>			<b>504,123</b>			<b>479,579</b>		
<b>Total liabilities and equity</b>	<b>\$5,486,645</b>			<b>\$5,398,215</b>			<b>\$5,023,960</b>		
Interest rate spread			<b>3.22 %</b>			<b>3.26 %</b>			<b>3.45 %</b>
Net interest income/margin on earning assets		<b>43,373</b>	<b>3.35 %</b>		<b>127,801</b>	<b>3.39 %</b>		<b>124,605</b>	<b>3.58 %</b>
Tax Equivalent Adjustment		<b>(987 )</b>			<b>(2,857 )</b>			<b>(2,487 )</b>	
Net interest income per consolidated financial statements		<b>\$ 42,386</b>			<b>\$ 124,944</b>			<b>\$ 122,118</b>	

*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. Payment received on nonaccrual loans have been recognized as disclosed in Note 1 of the Company's condensed consolidated financial statements included in Part 1 of the Company's annual report on Form 10-K for the fiscal year ended December 31, 2014.*



## Net Interest Income

Net interest income is the Company's largest source of revenue, representing 70.9% and 69.8% of total revenues for the three and nine month periods ended September 30, 2015, compared to 70.3% and 69.9% for the same periods in 2014. 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 and nine months ended September 30, 2015 was up 2.3% and 2.6%, respectively, over the same periods in 2014. Taxable-equivalent net interest income in 2015 benefitted from growth in average earning assets, which increased by 9.4% and 8.4% for the three and nine month periods ended September 30, 2015, and growth in noninterest bearing deposits which increased by 13.7% and 14.1% compared to the same periods prior year. These factors offset the impact of lower asset yields and lower net interest margins compared to prior year. The taxable equivalent net interest margin was 3.35% and 3.58%, respectively, for the three and nine month periods ended September 30, 2015 compared to 3.58% for the same periods in 2014.

Taxable-equivalent interest income for the three and nine month periods ended September 30, 2015 was \$48.5 million and \$143.0 million, respectively, which is up 2.3% and 2.0% from the same periods in 2014. Growth in average earning assets offset lower asset yields. The average yield on interest earning assets declined 26 basis points or 6.5% and 24 basis points or 6.0% for the three and nine months ended September 30, 2015 compared to the same periods in 2014. Average loan balances for the three and nine months ended September 30, 2015 were up \$333.6 million or 10.3%, and \$261.2 million or 8.1%, respectively, while the average yields on loans for the same periods were down 31 basis points and 25 basis points, respectively, compared to the same periods in 2014. Average loan balances represented about 69.6% and 69.0% of average earning assets for the three and nine months ended September 30, 2015, up from 69.0% and down from 69.1%, respectively, for the same periods in 2014. Average securities balances for the three months ended September 30, 2015 were up \$100.5 million or 7.0%, and for the nine months ended September 30, 2015 were up by \$124.4 million or 8.8% from the same periods in 2014. The average yield on securities for the third quarter of 2015 was down 19 basis points and for the nine months ended September 30, 2015 was down 20 basis points compared to the same periods prior year.

Interest expense for the three and nine months ended September 30, 2015 increased by \$101,000 or 2.0% and decreased \$448,000 or 2.9%, respectively, compared to the same periods in 2014. Both periods benefitted from lower average rates paid on deposits and borrowings; however, this benefit was more than offset by higher average balances of deposits and borrowings in the third quarter of 2015 compared to the third quarter of 2014, resulting in the increase in interest expense. The average rate paid on interest bearing deposits was 0.33% during both the three and nine months ended September 30, 2015, down 2 basis points from the same periods in 2014. Average interest bearing deposits for the third quarter of 2015 were up \$47.8 million or 1.5% compared to the same period in 2014, while year-to-date average interest bearing deposits were up \$70.5 million or 2.2% from the same period in 2014. Average noninterest bearing deposits for the three and nine month periods ended September 30, 2015 were up \$126.7 million or 13.7% and \$123.6 million or 14.1%, respectively, compared to the same periods in 2014. Average other borrowings for the three and nine months ended September 30, 2015 increased by \$221.4 million or 89.1% and \$155.2 million or 60.0%, respectively, compared to the same periods in 2014. The increase was mainly in overnight borrowings with the

FHLB, which contributed to the decrease in average funding cost in this category in 2015.

### **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 an expense of \$281,000 for the third quarter of 2015 and \$1.4 million for the nine months ended September 30, 2015, compared to a credit of \$59,000 and expense of \$751,000 for the respective periods in 2014. The increase in provision expense was mainly a result of growth in total loans over prior year. Asset quality metrics were improved from prior year, with lower levels of nonperforming loans and leases and criticized and classified loans compared to prior year. 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 \$17.4 million for the third quarter of 2015 and \$54.0 million for the nine months ended September 30, 2015, representing a decrease of 0.8% for the quarter and an increase of 2.5% for the year to date, compared to the same periods prior year. Noninterest income represented 29.1% of total revenue for the three months ended September 30, 2015 compared to 29.7% in the third quarter of 2014, and 30.2% for the nine months ended September 30, 2015 compared to 30.1% for the same period in 2014.

Insurance commissions and fees were \$7.6 million and \$22.3 million for the three and nine months ended September 30, 2015, compared to \$7.5 million and \$21.8 million, respectively, for the same periods in 2014. The increase for the year to date period in 2015 is mainly due to growth in property and casualty policies and financial services policies.

Investment services income was \$3.7 million in third quarter of 2015, an increase of 1.0% from \$3.6 million in the third quarter of 2014. Investment services income of \$11.5 million for the first nine months of 2015 was unchanged from the comparable period in 2014. 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 \$3.8 billion at September 30, 2015, up 3.6% from \$3.7 billion at September 30, 2014. These figures include \$1.1 billion and \$1.0 billion, respectively, of Company-owned securities where Tompkins Trust Company is custodian. The increase in assets under management contributed to an increase in trust and wealth management fees in 2015 over prior year. Fees from brokerage services were down in 2015 from 2014. At the end of the first quarter of 2015, the Company concluded operations attributable to its internal broker dealer and registered investment advisory group and engaged a new broker dealer of record. This transition has contributed to the decrease in year over year brokerage services income.

Service charges on deposit accounts were down \$96,000 or 3.8% for the third quarter of 2015 compared to the third quarter of 2014 and down \$198,000 or 2.8% for the nine months ended September 30, 2015 compared to the same period in 2014. The decrease was mainly due to a decrease in overdraft fees offset by higher personal and business cycle fees. Overdraft fees, the largest component of service charges on deposit accounts, were down \$192,000 or 10.8% and \$395,000 or 7.9% for both the three and nine months ended September 30, 2015 compared to same periods prior year.

Card services income for the three months and nine months ended September 30, 2015 was up \$65,000 or 3.4% and down \$124,000 or 2.1% compared to the same periods in 2014. Debit card income, the largest component of card services income, was up \$68,000 or 5.0% for the third quarter and down \$166,000 or 3.8% for the nine months ended September 30, 2015.

The Company recognized gains on the sales/calls of available-for-sale securities of \$92,000 and \$1.1 million for the three and nine months ended September 30, 2015, which were up from gains of \$20,000 and \$151,000, respectively, for the same periods in 2014. Sales of available-for-sale securities are generally the result of general portfolio maintenance and interest rate risk management.

Other income of \$1.7 million in the third quarter of 2015 was down 11.8% from the third quarter of 2014. For the first nine months of 2015, other income was \$6.4 million, up 4.3% from the same period in 2014. The significant components of other income are other service charges, increases in cash surrender value of corporate owned life insurance (“COLI”), gains on the sales of residential mortgage loans and income from miscellaneous equity investments.

The primary contributors to the decrease in the third quarter of 2015 compared to the third quarter of 2014 were: gains on the sales of residential mortgage loans were down by \$114,000, mainly a result of the decision to hold more loans in portfolio; and other income was down \$129,000, mainly a result of lower income on miscellaneous investments.

### **Noninterest Expense**

Noninterest expense of \$37.9 million and \$110.5 million for the three and nine months ended September 30, 2015, was down 1.7% and 4.5%, respectively, compared to the same periods in 2014. The year to date decline is mainly attributable to the curtailment of the Company's defined benefit pension plan, which resulted in a \$6.0 million credit to pension and other employee benefits expense in the second quarter of 2015 in accordance with accounting guidance. Excluding the pension gain in 2015, total noninterest expenses for the first nine months of 2015 would be up less than 1% from 2014.

Salaries and wages expense for the three and nine months ended September 30, 2015 were up by \$804,000 or 4.6% and \$2.5 million or 4.7%, respectively, over the same periods in 2014. The increases reflect additional employees, annual merit increases and higher accruals for incentive compensation. Pension and other employee related benefits were up 8.6% for the third quarter of 2015 and down 32.1% for the nine months ended September 30, 2015 compared to the same periods in 2014. Pension expense is down year over year, mainly a result of pension curtailment discussed above.

Net occupancy expense was \$2.9 million for the third quarter of 2015, down \$78,000 or 2.6% from the same period in 2014 and was \$9.3 million for the nine months ended September 30, 2015, unchanged from the same period in 2014.

Other operating expense for the three and nine months ended September 30, 2015 was down 18.4% and 8.8%, respectively, compared to the same periods prior year. The favorable quarterly comparison is mainly a result of lower professional fees and lower amortization of our FDIC Indemnification asset in 2015 than 2014.

Overall, all other expense categories remained relatively flat compared to the same period prior year.

### Income Tax Expense

The provision for income taxes was \$7.1 million for an effective rate of 32.9% for the third quarter of 2015, compared to tax expense of \$6.9 million and an effective rate of 33.4% for the same quarter in 2014. For the first nine months of 2015, the tax provision was \$22.4 million for an effective rate of 33.4% compared to a tax provision of \$18.9 million and an effective rate of 32.5% for the same period in 2014. The effective rates differ from the U.S. statutory rate of 35.0% during the comparable periods primarily due to the effect of tax-exempt income from loans, securities and life insurance assets.

### FINANCIAL CONDITION

Total assets were \$5.6 billion at September 30, 2015, up \$325.2 million or 6.2% over December 31, 2014. The growth over year-end was primarily attributable to growth in originated loans, which were up \$309.4 million or 10.9%, increased cash and cash equivalents, which were up \$51.0 million or 91.0%, and growth in held-to-maturity securities, which were up \$58.1 million or 65.9%. This growth was partially offset by a decrease in acquired loans, which were down \$68.4 million or 12.4%. Total deposits increased \$267.9 million or 6.4% compared to December 31, 2014, mainly a result of an inflow of municipal deposits. Other borrowings increased \$42.4 million or 11.9% from December 31, 2014, as a result of loan growth outpacing deposit growth.

### Securities

As of September 30, 2015, the Company's securities portfolio was \$1.5 billion or 27.6% of total assets, compared to \$1.4 billion or 28.5% of total assets at year-end 2014. The following table details the composition of available-for-sale and held-to-maturity securities.

#### Available-for-Sale Securities

<i>(in thousands)</i>	09 Amortized Cost	/30/2015 Fair Value	12/31/2014 Amortized Cost	Fair Value
Obligations of U.S. Government sponsored entities	\$ 548,390	\$ 557,271	\$ 553,300	\$ 557,820
Obligations of U.S. states and political subdivisions	73,585	74,405	70,790	71,510
Mortgage-backed securities				
U.S. Government agencies	100,448	101,554	108,931	109,926

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U.S. Government sponsored entities	652,015	651,745	660,195	659,120
Non-U.S. Government agencies or sponsored entities	200	203	267	271
U.S. corporate debt securities	2,500	2,162	2,500	2,162
Total debt securities	1,377,138	1,387,340	1,395,983	1,400,809
Equity securities	1,000	943	1,475	1,427
<b>Total available-for-sale securities</b>	<b>\$ 1,378,138</b>	<b>\$ 1,388,283</b>	<b>\$ 1,397,458</b>	<b>\$ 1,402,236</b>

**Held-to-Maturity Securities**

(in thousands)	09 <b>Amortized Cost</b>	/30/2015 <b>Fair Value</b>	12/31/2014 <b>Amortized Cost</b>	<b>Fair Value</b>
Obligations of U.S. Government sponsored entities	\$ 132,577	\$ 134,962	\$ 71,906	\$ 72,269
Obligations of U.S. states and political subdivisions	\$ 13,723	\$ 14,150	\$ 16,262	\$ 16,767
Total held-to-maturity debt securities	\$ 146,300	\$ 149,112	\$ 88,168	\$ 89,036

Unrealized gains, which represent the amount by which the fair value exceeds amortized cost, in the available-for-sale securities portfolio increased as of September 30, 2015, compared to unrealized gains at December 31, 2014, as a result of favorable movement in market interest rates. 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. The increase in the held-to-maturity portfolio was due to purchases of Obligations of U.S. Government sponsored entities during the nine month period ended September 30, 2015.

The Company has no investments in preferred stock of U.S. government sponsored entities and no investments in pools of Trust Preferred securities. 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-temporarily impairment review process, the Company does not consider any investment security held at September 30, 2015 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.

The Company maintained a trading portfolio with a fair value of \$7.7 million as of September 30, 2015, compared to \$9.0 million at December 31, 2014. The decrease in the trading portfolio reflects maturities or payments during the three and nine months ended September 30, 2015. For the three and nine months ended September 30, 2015, net mark-to-market losses related to the securities trading portfolio were \$69,000 and \$206,000, respectively, compared to net mark-to-market losses for the three and nine months ended September 30, 2014 of \$87,000 and \$181,000, respectively.

## Loans and Leases

Loans and leases at September 30, 2015 and December 31, 2014 were as follows:

(in thousands)	09/30/2015			12/31/2014		
	Originated	Acquired	Total Loans and Leases	Originated	Acquired	Total Loans and Leases
Commercial and industrial						
Agriculture	\$65,831	\$0	\$65,831	\$78,507	\$0	\$78,507
Commercial and industrial other	741,411	90,643	832,054	688,529	97,034	785,563
Subtotal commercial and industrial	807,242	90,643	897,885	767,036	97,034	864,070
Commercial real estate						
Construction	86,050	34,239	120,289	72,427	35,906	108,333
Agriculture	84,135	2,154	86,289	58,994	3,182	62,176
Commercial real estate other	1,104,085	267,126	1,371,211	979,621	308,488	1,288,109
Subtotal commercial real estate	1,274,270	303,519	1,577,789	1,111,042	347,576	1,458,618
Residential real estate						
Home equity	200,149	45,370	245,519	186,957	56,008	242,965

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Mortgages	796,661	28,939	825,600	710,904	32,282	743,186
Subtotal residential real estate	996,810	74,309	1,071,119	897,861	88,290	986,151
Consumer and other						
Indirect	17,788	0	17,788	18,298	0	18,298
Consumer and other	41,608	880	42,488	35,874	1,095	36,969
Subtotal consumer and other	59,396	880	60,276	54,172	1,095	55,267
Leases	14,339	0	14,339	12,251	0	12,251
Covered loans	0	15,576	15,576	0	19,319	19,319
Total loans and leases	3,152,057	484,927	3,636,984	2,842,362	553,314	3,395,676
Less: unearned income and deferred costs and fees	(2,671 )	0	(2,671 )	(2,388 )	0	(2,388 )
Total loans and leases, net of unearned income and deferred costs and fees	\$3,149,386	\$484,927	\$3,634,313	\$2,839,974	\$553,314	\$3,393,288

Residential real estate loans, including home equity loans at September 30, 2015 were \$1.1 billion, up \$85.0 million or 8.6% compared to December 31, 2014, and comprised 29.5% of total loans and leases. 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. While in the past in rare circumstances the Company agreed to sell residential real estate loans with recourse, the Company has not done so in the past several years and the amount of such loans included on the Company's balance sheet at September 30, 2015 was insignificant. The Company has never had to repurchase a loan sold with recourse.



During the first nine months of 2015 and 2014, the Company sold residential mortgage loans totaling \$1.4 million and \$18.7 million, respectively, and realized gains on these sales of \$21,000 and \$345,000, 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 \$922,000 at September 30, 2015 and \$1.0 million at December 31, 2014.

The Company has not originated any hybrid loans, such as payment option ARMs. The Company underwrites residential real estate loans in accordance with secondary market standards in effect at the time of origination, including loan-to-value (“LTV”) and documentation requirements. The Company does not underwrite low or reduced documentation loans other than those that meet secondary market standards for low or reduced documentation loans. In those instances, W-2’s and paystubs are used instead of sending Verification of Employment forms to employers to verify income and bank deposit statements are used instead of Verification of Deposit forms mailed to financial institutions to verify deposit balances.

Commercial and industrial loans and commercial real estate loans totaled \$897.9 million and \$1.6 billion, and represented 24.7% and 43.4%, respectively of total loans as of September 30, 2015. The commercial real estate portfolio was up 8.2% over year-end 2014, while commercial and industrial loans were up 3.9%. As of September 30, 2015, agriculturally-related loans totaled \$152.1 million or 4.2% of total loans and leases, up from \$140.7 million or 4.2% of total loans and leases at December 31, 2014. There is generally an increase in agriculturally-related loans at year end related to tax planning and these loans are typically paid down over the first part of the year. 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 the acquired loans reflects management’s best estimate of the amount to be realized from the acquired loan and lease portfolios. However, the amounts the Company actually realizes on these loans could differ materially from the carrying value reflected in these financial statements, based upon the timing of collections on the acquired loans in future periods, underlying collateral values and the ability of borrowers to continue to make payments.

The carrying value of acquired loans acquired and accounted for in accordance with ASC Subtopic 310-30, “Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality,” was \$28.2 million at September

30, 2015 as compared to \$34.4 million at December 31, 2014. Under ASC Subtopic 310-30, loans may be aggregated and accounted for as pools of loans if the loans being aggregated have common risk characteristics. The Company elected to account for the loans with evidence of credit deterioration individually rather than aggregate them into pools. The difference between the undiscounted cash flows expected at acquisition and the investment in the acquired loans, or the “accretable yield,” is recognized as interest income utilizing the level-yield method over the life of each loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the “non-accretable difference,” are not recognized as a yield adjustment, as a loss accrual or as a valuation allowance.

Increases in expected cash flows subsequent to the acquisition are recognized prospectively through an adjustment of the yield on the loans over the remaining life. Subsequent decreases to the expected cash flows require us to evaluate the need for an addition to the allowance for loan losses. Valuation allowances (recognized in the allowance for loan losses) on these impaired loans reflect only losses incurred after the acquisition (representing all cash flows that were expected at acquisition but currently are not expected to be received).

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 \$456.6 million at September 30, 2015. At acquisition, these loans were recorded at fair value, including a credit discount. Credit losses on acquired performing loans are estimated based on analysis of the performing portfolio. The purchased performing portfolio also included a general interest rate mark (premium). Both the credit discount and interest rate mark are accreted/amortized as a yield adjustment over the estimated lives of the loans. Interest is accrued daily on the outstanding principal balance of purchased performing loans.

At September 30, 2015, acquired loans included \$15.6 million of covered loans. VIST Financial Corp had acquired these loans in an FDIC assisted transaction in the fourth quarter of 2010. In accordance with loss sharing agreements with the FDIC, certain losses and expenses relating to covered loans may be reimbursed by the FDIC at 70% or, if certain levels of reimbursement are reached, 80%. See Note 7 – “FDIC Indemnification Asset Related to Covered Loans” in the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I of this Quarterly Report on Form 10-Q.

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, 2014. There have been no significant changes in these policies and guidelines. As such, these policies are reflective of new originations as well as those balances held at September 30, 2015. 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. 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**

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) 09/30/2015 **12/31/2014** 09/30/2014

Allowance for originated loans and leases

Commercial and industrial	\$ 8,472	\$ 9,157	\$ 8,858
Commercial real estate	14,215	12,069	10,682
Residential real estate	5,447	5,030	5,423
Consumer and other	2,316	1,900	2,222
Total	\$ 30,450	\$ 28,156	\$ 27,185

(in thousands) 09/30/2015 12/31/2014 09/30/2014

Allowance for acquired loans

Commercial and industrial	\$ 366	\$ 431	\$ 95
Commercial real estate	63	337	360
Residential real estate	86	51	128
Consumer and other	0	22	18
Total	\$ 515	\$ 841	\$ 601

As of September 30, 2015, the total allowance for loan and lease losses was \$31.0 million, which was up \$2.0 million or 6.8% over year-end 2014. The increase in the allowance compared to year-end was mainly due to growth in the originated loan portfolio. Loans internally-classified Special Mention, Substandard and Doubtful were down from prior year as were the level of nonperforming loans and leases. The allowance for loan and lease losses covered 133.18% of nonperforming loans and leases as of September 30, 2015, compared to 128.43% at December 31, 2014, and 108.92% at September 30, 2014.

The Company's allowance for originated loan and lease losses totaled \$30.5 million at September 30, 2015, which represented 0.97% of total originated loans, compared to 0.98% at prior quarter end, and 1.02% at September 30, 2014. Originated loans internally-classified as Special Mention, Substandard and Doubtful totaled \$45.1 million at September 30, 2015, which were down \$2.2 million or 4.7% compared to prior quarter, and down \$8.7 million or 16.1% compared to September 30, 2014. The decrease is mainly due to paydowns of classified assets and upgrades of risk ratings in our commercial loan portfolio and commercial real estate construction portfolios as a result of improving financial conditions of our commercial customers.

The allowance for acquired loans at September 30, 2015 was \$515,000, down \$326,000 or 38.8% from year-end 2014 and down \$86,000 or 14.3% compared to September 30, 2014. The amount of acquired loans internally-classified as Special Mention, Substandard and Doubtful totaled \$25.1 million at September 30, 2015, up from \$23.5 million at prior quarter end and down from \$31.6 million at September 30, 2014. Loan pay downs coupled with charge offs contributed to the decrease from the same quarter prior year. Nonaccrual acquired loans were \$4.9 million as of September 30, 2015 compared to \$5.0 million at prior quarter end, and \$5.0 million at September 30, 2014.

Activity in the Company's allowance for loan and lease losses during the nine months of 2015 and 2014 is illustrated in the table below.

#### Analysis of the Allowance for Originated Loan and Lease Losses

(in thousands)	09/30/2015	09/30/2014
Average originated loans outstanding during period	\$2,960,045	\$2,586,982
Balance of originated allowance at beginning of year	\$28,156	\$26,700
<b>ORIGINATED LOANS CHARGED-OFF:</b>		
Commercial and industrial	169	275
Commercial real estate	14	619
Residential real estate	408	385
Consumer and other	751	952
Total loans charged-off	\$1,342	\$2,231

## RECOVERIES OF ORIGINATED LOANS PREVIOUSLY CHARGED-OFF:

Commercial and industrial	792		557	
Commercial real estate	1,064		1,506	
Residential real estate	107		87	
Consumer and other	391		375	
Total loans recoveries	\$2,354		\$2,525	
Net loans (recovered) charged-off	(1,012	)	(294	)
Additions to originated allowance charged to operations	1,282		191	
Balance of originated allowance at end of period	\$30,450		\$27,185	
Allowance for originated loans and leases as a percentage of originated loans and leases	0.97	%	1.02	%
Annualized net (recoveries) charge-offs on originated loans to average total originated loans and leases during the period	(0.05	%)	(0.02	%)

**Analysis of the Allowance for Acquired Loan Losses**

(in thousands)	09/30/2015	09/30/2014		
Average acquired loans outstanding during period	\$519,483	\$631,389		
Balance of acquired allowance at beginning of year	841	1,270		
<b>ACQUIRED LOANS CHARGED-OFF:</b>				
Commercial and industrial	53	243		
Commercial real estate	216	631		
Residential real estate	320	345		
Consumer and other	5	10		
Total loans charged-off	\$594	\$1,229		
Commercial and industrial	7	0		
Commercial real estate	129	0		
Residential real estate	2	0		
Total loans recovered	\$138	\$0		
Net loans charged-off	456	1,229		
Additions to acquired allowance charged to operations	130	560		
Balance of acquired allowance at end of period	\$515	\$601		
Allowance for acquired loans as a percentage of acquired loans outstanding	0.10	%	0.10	%
Annualized net (recoveries) charge-offs on acquired loans as a percentage of average acquired loans outstanding during the period	0.12	%	0.26	%
Annualized total net charge-offs as a percentage of average loans and leases outstanding during the period	(0.02	%)	0.04	%

For the three months ended September 30, 2015, net loan and lease recoveries totaled \$593,000 compared to net loan and lease recoveries of \$328,000 for the same period in 2014. For the nine months ended September 30, 2015, net loan and lease recoveries were \$556,000 compared to net charge-offs of \$935,000 for the same period in 2014. In 2015 and 2014, the Company recognized significant recoveries on two commercial relationships that were previously charged-off. Annualized net (recoveries) charge-offs for the nine month period ended September 30, 2015 as a percentage of average total loans and leases was (0.02%) compared to 0.04% for the nine months ended September 30, 2014. The most recent peer ratio is 0.08%.

For the three and nine months ended September 30, 2015, the provision for loan and lease losses was \$281,000 and \$1.4 million compared to a provision credit of \$59,000 and provision expense of \$751,000 for the same periods in 2014. The increase in provision for loan and lease losses in 2015 compared to 2014 was mainly a result of growth in total loans, which was partially offset by generally favorable asset quality trends.

#### **Analysis of Past Due and Nonperforming Loans**

<i>(in thousands)</i>	09/30/2015 <sup>1</sup>	12/31/2014 <sup>1</sup>	09/30/2014 <sup>1</sup>		
Loans 90 days past due and accruing					
Commercial and industrial	\$0	\$0	\$0		
Residential real estate	57	106	395		
Total loans 90 days past due and accruing	57	106	395		
Nonaccrual loans					
Commercial and industrial	2,194	2,116	2,400		
Commercial real estate	7,722	7,520	8,378		
Residential real estate	9,545	9,043	10,087		
Consumer and other	268	349	452		
Total nonaccrual loans	19,729	19,028	21,317		
Troubled debt restructurings not included above	3,465	3,444	3,800		
<b>Total nonperforming loans and leases</b>	<b>23,251</b>	<b>22,578</b>	<b>25,512</b>		
Other real estate owned	3,188	5,683	6,533		
<b>Total nonperforming assets</b>	<b>\$26,439</b>	<b>\$28,261</b>	<b>\$32,045</b>		
<b>Allowance as a percentage of nonperforming loans and leases</b>	133.18	% 128.43	% 108.92	%	%
<b>Total nonperforming loans and leases as percentage of total loans and leases</b>	0.64	% 0.67	% 0.78	%	%
<b>Total nonperforming assets as percentage of total assets</b>	0.47	% 0.54	% 0.63	%	%

<sup>1</sup> The  
September  
30, 2015,



*December 31, 2014, and September 30, 2014 columns in the above table exclude \$2.6 million, \$3.5 million, and \$4.3 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 0.47% of total assets at September 30, 2015, compared to 0.54% at December 31, 2014, and 0.63% at September 30, 2014. The Company’s ratio of nonperforming assets to total assets continues to compare favorably to our peer group’s most recent ratio of 1.02% at June 30, 2015.

Total nonperforming loans and leases were up \$673,000 or 3.0% from year end 2014, and down \$2.3 million or 8.9% from September 30, 2014. A breakdown of nonperforming loans by portfolio segment is shown above. The decrease in nonperforming commercial real estate loans since September 30, 2014 is mainly due to significant payments received on two large commercial relationships in 2014. Total nonperforming assets were down \$1.8 million from December 31, 2014 and \$5.6 million from September 30, 2014. The decrease is mainly due to the sale of one property that was acquired through foreclosure in the second quarter of 2014.

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 September 30, 2015 the Company had \$7.3 million in TDRs, and of that total \$3.8 million were reported as nonaccrual and \$3.5 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 \$20.7 million at September 30, 2015, compared to \$12.6 million at December 31, 2014 and \$13.5 million at September 30, 2014. The increase in impaired loans over year end 2014, was mainly a result of one credit in the acquired portfolio. 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 year-to-date average recorded investment in impaired loans and leases was \$17.4 million at September 30, 2015, compared to \$13.7 million at September 30, 2014. At September 30, 2015 there was a specific reserve of \$1.4 million on impaired loans compared to \$1.2 million of specific reserves at December 31, 2014. The specific reserve of \$1.1 million reported at September 30, 2015 includes specific reserves of \$1.0 million for two commercial real estate loans in the originated portfolio and specific reserves of \$396,000 on 5 loans within 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 133.18% at September 30, 2015, improved from 128.43% in December 31, 2014, and 108.92% at September 30, 2014. 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. The Company's peer group ratio as provided by the Federal Reserve Bank was 176.4% as of September 30, 2015.

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 31 commercial relationships from the originated portfolio and 27 commercial relationships from the acquired portfolio totaling \$13.0 million and \$15.2 million, respectively at September 30, 2015 that were potential problem loans. At December 31, 2014, the Company had identified 34 relationships totaling \$14.8 million in the originated portfolio and 21 relationships totaling \$8.8 million in the acquired portfolio that were potential problem loans. Of the 31 commercial relationships in the originated portfolio at September 30, 2015, that were Substandard, there were 3 relationships that equaled or exceeded \$1.0 million, which in aggregate totaled \$6.7 million, the largest of which was \$3.4 million. Of the 27 commercial relationships from the acquired loan portfolio at September 30, 2015, that were Substandard, there were 4 relationships that equaled or exceeded \$1.0 million, which in aggregate totaled \$7.8 million, the largest of which is \$3.0 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 \$518.0 million at September 30, 2015, an increase of \$28.4 million or 5.8% from December 31, 2014. The increase reflects growth in retained earnings, additional paid-in capital and a reduction of accumulated other comprehensive losses.

Additional paid-in capital increased by \$1.5 million, from \$348.9 million at December 31, 2014, to \$350.4 million at September 30, 2015. The increase is primarily attributable to the following: \$1.6 million related to shares issued under the employee stock ownership plan, \$1.7 million related to shares issued for the exercise of stock options, and \$1.4 million related to stock-based compensation. These increases were partially offset by a \$3.3 million reduction attributed to the repurchase of common stock. Retained earnings increased by \$25.0 million from \$165.2 million at December 31, 2014, to \$190.2 million at September 30, 2015, reflecting net income of \$44.6 million less dividends paid of \$18.8 million. Retained earnings were also impacted by the adoption of accounting guidance related to accounting for investments in qualified affordable housing projects in the first quarter of 2015. The adoption resulted in a \$725,000 reduction of retained earnings. Accumulated other comprehensive loss declined from a net loss of \$24.0 million at December 31, 2014 to a net loss of \$22.0 million at September 30, 2015, reflecting a \$3.2 million increase in unrealized gains on available-for-sale securities due to changes in market rates, and a \$1.3 million decrease related to postretirement benefit plans. During the second quarter of 2015, the Company recorded a one-time \$3.2 million loss to accumulated other comprehensive income due to the curtailment of its defined benefit pension plan in accordance with FASB ASC 715. Under regulatory requirements, 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 nine months of 2015 totaled approximately \$18.8 million, representing 42.2% of year to date 2015 earnings. Cash dividends of \$1.26 per common share paid in the first nine months of 2015 were up 5.0% over cash dividends of \$1.20 per common share paid in the first nine months of 2014.

On July 24, 2014, the Company's Board of Directors authorized, at the discretion of senior management, the repurchase of up to 400,000 shares of the Company's outstanding common stock. Purchases may be made on the open market or in privately negotiated transactions over the 24 months following adoption of the repurchase program. The Company repurchased 27,892 shares in the second quarter of 2015 at an average price of \$51.66 and 35,289 shares in the third quarter of 2015 at an average price of \$52.11. As of September 30, 2015 the Company has repurchased an aggregate of 164,647 shares under the plan at an average price of \$47.90.

The Company and its banking subsidiaries are subject to various regulatory capital requirements administered by Federal banking agencies. In July 2013, the FRB approved and published the final Basel III Capital Rules establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain

provisions of the Dodd-Frank Act. The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, including Tompkins Financial, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital, and address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios. It also replaces the existing risk-weighting approach, with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee's 2004 "Basel II" capital accords and implements the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings utilized in the federal banking agencies' rules. The Basel III Capital Rules were effective for Tompkins on January 1, 2015 (subject to a phase-in period).

As required under Dodd-Frank, a new capital ratio, "common equity tier 1 capital ratio" (CET1) was established. This ratio allows only common equity to qualify as tier 1 capital. The new CET1 ratio also will include most elements of accumulated other comprehensive income, including unrealized securities gains and losses, as part of both total regulatory capital (numerator) and total assets (denominator). Community banks however were given the opportunity to make a one-time irrevocable election to include or not to include certain elements of other comprehensive income, most notably unrealized securities gains or losses. Tompkins elected to not include the certain items of other comprehensive income in its capital calculation.

In addition to setting higher minimum capital ratios, the new rules, introduce 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 will be phased-in over five years beginning on January 1, 2016 and will be set at 2.5% when fully phased-in. If a banking organization fails to hold capital above minimum capital ratios, including the capital conservation buffer, it will be subject to certain restrictions on capital distributions and discretionary bonus payments.

The final rules eliminated the proposed phase-out over 10 years of Trust Preferred Services, or “TRUPs” as tier 1 capital for banks, such as Tompkins Financial, that have less than \$15 billion in total assets. Under the final rule, grandfathered TRUPs, such as Tompkins Financial’s outstanding TRUPs, would continue to qualify as tier 1 capital until they mature or are redeemed, up to a limit of 25% of tier 1 capital (for grandfathered TRUPs and other grandfathered tier 1 capital components).

The following table provides a summary of the Company’s capital ratios as of September 30, 2015.

#### REGULATORY CAPITAL ANALYSIS

September 30, 2015 (dollar amounts in thousands)	Actual		Well Capitalized Requirement	
	Amount	Ratio	Amount	Ratio
Total Capital (to risk weighted assets)	\$511,668	13.29%	\$385,139	10.00%
Tier 1 Capital (to risk weighted assets)	\$478,761	12.43%	\$308,110	8.00%
Tier 1 Common Equity (to risk weighted assets)	\$441,295	11.46%	\$250,340	6.50%
Tier 1 Capital (to average assets)	\$478,761	8.89%	\$269,410	5.00%

As illustrated above, the Company’s capital ratios at September 30, 2015 remained above the minimum requirements for well capitalized institutions. Total capital as a percent of risk weighted assets decreased from 13.6% as of December 31, 2014 to 13.3% at September 30, 2015. Tier 1 capital as a percent of risk weighted assets decreased from 12.8% at the end of 2014 to 12.4% as of September 30, 2015. Tier 1 capital as a percent of average assets was 8.9% at September 30, 2015 up from 8.7% at year-end December 31, 2014. Tier 1 common equity capital was 11.5% at the end of the third quarter of 2015, comparable to the first quarter of 2015. All risk based capital ratios were negatively impacted by the new Basel III requirements the Company was subject to in the reporting period.

As of September 30, 2015, the capital ratios for the Company’s subsidiary banks also exceeded the minimum levels required to be considered well capitalized.

#### Deposits and Other Liabilities

Total deposits of \$4.4 billion at September 30, 2015 increased \$267.9 million or 6.4% from December 31, 2014. The increase from year-end 2014 was comprised mainly of increases in money market savings and interest bearing checking deposits (up \$200.1 million), and non interest bearing deposits (up \$88.4 million) offset by lower time deposit accounts (down \$20.7 million).

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 (formerly \$100,000), brokered deposits and municipal money market

deposits. Core deposits of \$3.6 billion increased \$218.7 million at September 30, 2015 compared to year-end 2014. Core deposits represented 81.1% of total deposits at September 30, 2015, unchanged from December 31, 2014.

Municipal money market savings and interest checking accounts of \$522.6 million at September 30, 2015 decreased \$135.6 million or 20.6% from \$658.2 million at year-end 2014. 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 the Company receives 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 \$49.5 million at September 30, 2015, and \$60.7 million at December 31, 2014. Management generally views local repurchase agreements as an alternative to large time deposits. The Company's wholesale repurchase agreements totaled \$85.4 million at September 30, 2015 and included \$55.0 million with the FHLB and \$30.4 million with a large financial institution. Wholesale repurchase agreements totaled \$86.3 million at December 31, 2014.

The Company's other borrowings totaled \$398.9 million at September 30, 2015, up \$42.4 million or 11.9% from \$356.5 million at December 31, 2014. Borrowings at September 30, 2015 included \$64.7 million in FHLB overnight advances, \$320.7 million of FHLB term advances, and a \$13.5 million advance from a bank. Borrowings at year-end 2014 included \$232.1 million in overnight advances from FHLB, \$111.0 million of FHLB term advances, and a \$13.5 million advance from a bank. Of the \$320.7 million in FHLB term advance at September 30, 2015, \$125.0 million is due over one year. In 2007, the Company elected the fair value option under FASB ASC Topic 825 for a \$10.0 million advance with the FHLB. The fair value of this advance decreased by \$226,000 (net mark-to-market gain of \$226,000) over the nine months ended September 30, 2015.



## 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 \$1.4 billion at September 30, 2015 increased \$79.0 million or 6.2% as compared to year end 2014. Non-core funding sources, as a percentage of total liabilities, were 27.0% at September 30, 2015, unchanged from December 31, 2014. The increase in non-core funding sources reflects an increase in FHLB borrowings, municipal money market deposits, and non-core time deposits.

Non-core funding sources may require securities to be pledged against the underlying liability. Securities carried at \$1.3 billion and \$1.1 billion at September 30, 2015 and December 31, 2014, respectively, were either pledged or sold under agreements to repurchase. Pledged securities represented 83.0% of total securities at September 30, 2015, compared to 72.3% of total securities at December 31, 2014.

Cash and cash equivalents totaled \$107.1 million as of September 30, 2015 which increased from \$56.1 million at December 31, 2014. Short-term investments, consisting of securities due in one year or less, decreased from \$79.8 million at December 31, 2014, to \$68.5 million on September 30, 2015. The Company also had \$7.7 million of securities designated as trading securities at September 30, 2015.

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 \$753.5 million at September 30, 2015 compared with \$769.3 million at December 31, 2014. Outstanding principal balances of residential mortgage loans, consumer loans, and leases totaled approximately \$1.1 billion at September 30, 2015 as compared to \$1.1 billion at December 31, 2014. Aggregate amortization from

monthly payments on these assets provides significant additional cash flow to the Company.

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 September 30, 2015, 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 September 30, 2015, total unencumbered residential mortgage loans and securities of the Company were \$536.1 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.

The Company continues to evaluate the potential impact on liquidity management of regulatory proposals, including Basel III and those required under the Dodd-Frank Act.

### **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 August 31, 2015 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 1.0%, 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 1.0%. The simulation assumes no balance sheet growth and no management action to address balance sheet mismatches.

If rates rise in a parallel fashion (+200 basis points over 12 months, or +400 basis points over 24 months), 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 market movements stabilize over the next 12 to 24 months, funding cost increases slow while asset yields continue to cycle into the higher rate environment. As a result, net interest income improves for the remainder of the projection period.

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 September 30, 2015. The Company's one-year net interest rate gap was a negative \$249.2 million or 4.5% of total assets at September 30, 2015, compared with a negative \$225.8 million or 4.28% of total assets at December 31, 2014. 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 – September 30, 2015**

<i>(in thousands)</i>	Total	Repricing Interval				Cumulative 12 months
		0-3 months	3-6 months	6-12 months		
Interest-earning assets <sup>1</sup>	\$5,192,080	\$1,012,675	\$265,649	\$436,336	\$1,714,660	
Interest-bearing liabilities	3,896,615	1,416,598	250,793	296,420	1,963,811	
Net gap position		(403,923 )	14,856	139,916	(249,151 )	
Net gap position as a percentage of total assets		(7.22 %)	0.27 %	2.50 %	(4.45 %)	

<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 September 30, 2015. 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 September 30, 2015, 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, 2014.

**Item 2. Unregistered Sales of Equity Securities and the 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)
July 1, 2015 through July 31, 2015	1,724	\$53.92	0	270,642
August 1, 2015 through August 31, 2015	5,380	52.22	3,589	267,053
September 1, 2015 through September 30, 2015	32,062	52.18	31,700	235,353
Total	39,166	\$52.26	35,289	235,353

Included in the table above are 1,724 shares purchased in July 2015, at an average cost of \$53.92, and 596 shares purchased in August 2015, at an average cost of \$54.42 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 and were part of the director deferred compensation under that plan. In addition, (i) 1,195 shares tendered by employees, with an average value of \$52.96, in July 2015, in order to cover option exercise prices, and (ii) 362 shares, with an average value of \$52.98; which were withheld in September 2015 from vested restricted stock grants in order to fund the employee's tax liabilities in connection therewith.

On July 24, 2014, the Company's Board of Directors authorized a new 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 at any time for any reason. As of the date of this report, the Company has repurchased 164,647 shares under this program, at an average price of \$47.90.

**Recent Sales of Unregistered Securities**

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Mine Safety Disclosure**

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: November 09, 2015

**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**

- 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 September 30, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Condition as of September 30, 2015 and December 31, 2014; (ii) Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2015 and 2014; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2015 and 2014; (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014; (v) Condensed Consolidated Statements of Changes in Shareholders' Equity for the nine months ended September 30, 2015 and 2014; and (vi) Notes to Unaudited Condensed Consolidated Financial Statements.