TOMPKINS FINANCIAL CORP
Form 10-Q
November 10, 2014

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, 2014

OR

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

For the transition period from __________ to __________

Commission File Number **1-12709**

Tompkins Financial Corporation

(Exact name of registrant as specified in its charter)

New York	**16-1482357**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
The Commons, P.O. Box 460, Ithaca, NY	**14851**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(888) 503-5753**

Former name, former address, and former fiscal year, if changed since last report: NA

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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, 2014
Common Stock, $0.10 par value	14,763,078 shares

TOMPKINS FINANCIAL CORPORATION

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PART I -FINANCIAL INFORMATION

TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share and per share data) (Unaudited) ASSETS	**As of 09/30/2014**	**As of 12/31/2013**
Cash and noninterest bearing balances due from banks	$84,129	$82,163
Interest bearing balances due from banks	988	721
Cash and Cash Equivalents	85,117	82,884
Trading securities, at fair value	9,473	10,991
Available-for-sale securities, at fair value (amortized cost of $1,375,637 at September 30, 2014 and $1,368,736 at December 31, 2013)	1,374,756	1,354,811
Held-to-maturity securities, at amortized cost (fair value of $48,017 at September 30, 2014, and $19,625 at December 31, 2013)	47,608	18,980
Originated loans and leases, net of unearned income and deferred costs and fees	2,674,971	2,527,244
Acquired loans and leases, covered	20,910	25,868
Acquired loans and leases, non-covered	561,588	641,172
Less: Allowance for loan and lease losses	27,786	27,970
Net Loans and Leases	3,229,683	3,166,314
FDIC indemnification asset	2,298	4,790
Federal Home Loan Bank stock	14,838	25,041
Bank premises and equipment, net	59,550	55,932
Corporate owned life insurance	73,269	69,335
Goodwill	92,243	92,140
Other intangible assets, net	15,206	16,298
Accrued interest and other assets	86,878	105,523
Total Assets	$5,090,919	$5,003,039
LIABILITIES		
Deposits:		
Interest bearing:		
Checking, savings and money market	2,310,629	2,190,616
Time	930,796	865,702
Noninterest bearing	971,435	890,898
Total Deposits	4,212,860	3,947,216
Federal funds purchased and securities sold under agreements to repurchase	128,368	167,724
Other borrowings, including certain amounts at fair value of $11,032 at September 30, 2014 and $11,292 at December 31, 2013	166,509	331,531
Trust preferred debentures	37,298	37,169
Other liabilities	55,273	61,460
Total Liabilities	$4,600,308	$4,545,100
EQUITY		

Tompkins Financial Corporation shareholders' equity:		
Common Stock - par value $.10 per share: Authorized 25,000,000 shares; Issued: 14,830,002 at September 30, 2014; and 14,785,007 at December 31, 2013	1,483	1,479
Additional paid-in capital	348,992	346,096
Retained earnings	158,673	137,102
Accumulated other comprehensive loss	(16,810)	(25,119)
Treasury stock, at cost – 108,788 shares at September 30, 2014, and 105,449 shares at December 31, 2013	(3,277)	(3,071)
Total Tompkins Financial Corporation Shareholders' Equity	489,061	456,487
Noncontrolling interests	1,550	1,452
Total Equity	$490,611	$457,939
Total Liabilities and Equity	$5,090,919	$5,003,039

See notes to consolidated financial statements

TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Nine Months Ended	
(In thousands, except per share data) (Unaudited)	09/30/2014	09/30/2013	09/30/2014	09/30/2013
INTEREST AND DIVIDEND INCOME				
Loans	$38,298	$ 38,048	$112,601	$ 112,027
Due from banks	0	1	2	9
Trading securities	102	147	321	472
Available-for-sale securities	7,718	7,830	23,637	23,222
Held-to-maturity securities	288	160	626	528
Federal Home Loan Bank stock and Federal Reserve Bank stock	212	193	616	538
Total Interest and Dividend Income	46,618	46,379	137,803	136,796
INTEREST EXPENSE				
Time certificates of deposits of $100,000 or more	996	1,208	2,900	3,651
Other deposits	1,830	1,894	5,446	6,093
Federal funds purchased and securities sold under agreements to repurchase	683	901	2,263	2,877
Trust preferred debentures	573	660	1,714	2,037
Other borrowings	961	1,243	3,362	3,634
Total Interest Expense	5,043	5,906	15,685	18,292
Net Interest Income	41,575	40,473	122,118	118,504
Less: (Credit) Provision for loan and lease losses	(59)	2,049	751	5,576
Net Interest Income After Provision for Loan and Lease Losses	41,634	38,424	121,367	112,928
NONINTEREST INCOME				
Insurance commissions and fees	7,520	7,160	21,823	21,588
Investment services income	3,636	3,694	11,549	11,180
Service charges on deposit accounts	2,506	2,254	7,010	6,186
Card services income	1,936	1,735	5,968	5,163
Mark-to-market loss on trading securities	(87)	(87)	(181)	(472)
Mark-to-market gain on liabilities held at fair value	132	119	260	543
Other income	1,892	3,372	6,129	7,548
Gain on sale of available-for-sale securities	20	281	151	723
Total Noninterest Income	17,555	18,528	52,709	52,459
NONINTEREST EXPENSES				
Salaries and wages	17,553	16,755	51,859	48,618
Pension and other employee benefits	4,941	5,606	15,964	17,014
Net occupancy expense of premises	2,969	2,850	9,296	8,865
Furniture and fixture expense	1,451	1,448	4,247	4,367
FDIC insurance	682	808	2,228	2,401
Amortization of intangible assets	518	544	1,570	1,648
Merger related expenses	0	0	0	228
Other operating expense	10,423	9,543	30,511	29,710
Total Noninterest Expenses	38,537	37,554	115,675	112,851
Income Before Income Tax Expense	20,652	19,398	58,401	52,536
Income Tax Expense	6,897	5,316	18,951	15,873
Net Income attributable to Noncontrolling Interests and Tompkins Financial Corporation	13,755	14,082	39,450	36,663

Less: Net income attributable to noncontrolling interests	33	33	98	98
Net Income Attributable to Tompkins Financial Corporation	$13,722	$ 14,049	$39,352	$ 36,565
Basic Earnings Per Share	$0.92	$ 0.96	$2.65	$ 2.51
Diluted Earnings Per Share	$0.92	$ 0.95	$2.64	$ 2.50

See notes to consolidated financial statements

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Consolidated Statements of Comprehensive Income

(in thousands) (Unaudited)	Three Months Ended 09/30/2014	Three Months Ended 09/30/2013
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	$13,755	$ 14,082
Other comprehensive income, net of tax:		
Available-for-sale securities:		
Change in net unrealized gain (loss) during the period	(4,123)	(318)
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(12)	(169)
Employee benefit plans:		
Amortization of net retirement plan actuarial loss	159	387
Amortization of net retirement plan prior service cost	1	8
Amortization of net retirement plan transition liability	0	8
Other comprehensive (loss) income	(3,975)	(84)
Subtotal comprehensive income attributable to noncontrolling interests and Tompkins Financial Corporation	9,780	13,998
Less: Net income attributable to noncontrolling interests	(33)	(33)
Total comprehensive income attributable to Tompkins Financial Corporation	$9,747	$ 13,965

See notes to unaudited condensed consolidated financial statements.

Consolidated Statements of Comprehensive Income

(in thousands) (Unaudited)	Nine Months Ended 09/30/2014	Nine Months Ended 09/30/2013
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	$39,450	$ 36,663
Other comprehensive income, net of tax:		
Available-for-sale securities:		
Change in net unrealized gain (loss) during the period	7,918	(26,420)
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(90)	(434)
Employee benefit plans:		
Amortization of net retirement plan actuarial gain	479	1,160
Amortization of net retirement plan prior service cost	2	26
Amortization of net retirement plan transition liability	0	23
Other comprehensive income (loss)	8,309	(25,645)
Subtotal comprehensive income attributable to noncontrolling interests and Tompkins Financial Corporation	47,759	11,018

Less: Net income attributable to noncontrolling interests	(98)	(98)
Total comprehensive income attributable to Tompkins Financial Corporation	$47,661	$ 10,920

See notes to unaudited condensed consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)	**09/30/2014**	**09/30/2013**
OPERATING ACTIVITIES		
Net income attributable to Tompkins Financial Corporation	$ 39,352	$ 36,565
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	751	5,576
Depreciation and amortization of premises, equipment, and software	4,203	4,284
Amortization of intangible assets	1,570	1,648
Earnings from corporate owned life insurance	(1,431)	(1,482)
Net amortization on securities	7,824	10,724
Amortization/accretion related to purchase accounting	(6,147)	(7,212)
Mark-to-market loss on trading securities	181	472
Mark-to-market gain on liabilities held at fair value	(260)	(543)
Net gain on securities transactions	(151)	(723)
Net gain on sale of loans	(345)	(212)
Proceeds from sale of loans	19,007	7,076
Loans originated for sale	(18,357)	(8,271)
Gain on conversion of deposits	(140)	0
Net loss (gain) on sale of bank premises and equipment	2	(7)
Gain on redemption of trust preferred	0	(1,410)
Stock-based compensation expense	1,081	960
Decrease in accrued interest receivable	92	927
Decrease in accrued interest payable	(294)	(809)
Proceeds from maturities and payments of trading securities	1,323	4,425
Decrease in FDIC prepaid insurance	0	5,386
Other, net	9,494	20,241
Net Cash Provided by Operating Activities	57,755	77,615
INVESTING ACTIVITIES		
Proceeds from maturities, calls and principal paydowns of available-for-sale securities	157,157	197,009
Proceeds from sales of available-for-sale securities	48,005	99,378
Proceeds from maturities, calls and principal paydowns of held-to-maturity securities	10,325	11,798
Purchases of available-for-sale securities	(219,695)	(316,705)
Purchases of held-to-maturity securities	(38,981)	(7,511)
Net increase in loans	(60,416)	(167,106)
Net decrease (increase) in Federal Home Loan Bank stock	10,203	(2,567)
Proceeds from sale of bank premises and equipment	172	116
Purchases of bank premises and equipment	(7,445)	(4,811)
Purchase of corporate owned life insurance	(2,500)	(1,500)
Net cash used in acquisition	(415)	0
Other, net	386	(3,417)
Net Cash Used in Investing Activities	(103,204)	(195,316)
FINANCING ACTIVITIES		
Net increase in demand, money market, and savings deposits	200,550	90,297
Net increase (decrease) in time deposits	66,568	(67,710)
Net decrease in Federal funds purchases and securities sold under agreements to repurchase	(38,507)	(51,856)
Increase in other borrowings	149,845	194,674
Repayment of other borrowings	(314,606)	(63,801)

Redemption of trust preferred debentures	0	(5,191)
Cash dividends	(17,781)	(16,574)
Common stock issued	50	0
Repurchase of common stock	(2,932)	0
Shares issued for dividend reinvestment plan	2,186	3,009
Shares issued for employee stock ownership plan	1,528	717
Net shares issued related to restricted stock awards	64	(68)
Net proceeds from exercise of stock options	633	3,639
Tax benefit from stock option exercises	84	215
Net Cash Provided by Financing Activities	47,682	87,351
Net Increase (Decrease) in Cash and Cash Equivalents	2,233	(30,350)
Cash and cash equivalents at beginning of period	82,884	118,930
Total Cash & Cash Equivalents at End of Period	85,117	88,580

See notes to unaudited condensed consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)	**09/30/2014**	09/30/2013
Supplemental Information:		
Cash paid during the year for - Interest	$ 18,033	$ 21,534
Cash paid during the year for - Taxes	3,258	6,283
Transfer of loans to other real estate owned	4,697	4,407

See notes to unaudited condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(in thousands except share and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Non-controlling Interests	Total
Balances at January 1, 2013	$ 1,443	$ 334,649	$ 108,709	$ (2,106)	$ (2,787)	$ 1,452	$ 441,360
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			36,565			98	36,663
Other comprehensive loss				(25,645)			(25,645)
Total Comprehensive Income							11,018
Cash dividends ($1.14 per share)			(16,574)				(16,574)
Net exercise of stock options and related tax benefit (111,307 shares)	11	3,843					3,854
Stock-based compensation expense		960					960
Shares issued for dividend reinvestment plan (70,530 shares)	7	3,002					3,009
Shares issued for employee stock ownership plan (17,290 shares)	2	715					717
Directors deferred compensation plan (3,228 shares)		185			(185)		0
Restricted stock activity (102,743 shares)	10	(78)					(68)
Balances at September 30, 2013	$ 1,473	$ 343,276	$ 128,700	$ (27,751)	$ (2,972)	$ 1,550	$ 444,276
Balances at January 1, 2014	$ 1,479	$ 346,096	$ 137,102	$ (25,119)	$ (3,071)	$ 1,452	$ 457,939
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			39,352			98	39,450
Other comprehensive income				8,309			8,309
Total Comprehensive Income							47,759
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
	(7)	(2,925)					(2,932)

Common stock repurchased and returned to unissued status (65,059 shares)							
Shares issued for dividend reinvestment plan (46,081 shares)	4	2,182					2,186
Stock-based compensation expense		1,081					1,081
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
Restricted stock activity ((5,184) shares)	0	64					64
Stock issued for purchase acquisition (1,080 shares)	0	50					50
Balances at September 30, 2014	$ 1,483	$ 348,992	$ 158,673	$ (16,810)	$ (3,277)	$ 1,550	$ 490,611

See notes to unaudited condensed consolidated financial statements

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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, insurance, and brokerage services. At September 30, 2014, 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"). TFA Wealth Management and the trust division of the Trust Company provide a full array of investment services under the Tompkins Financial Advisors brand, 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 Company's wealth management subsidiary is subject to examination and regulation by various regulatory agencies, including the SEC and the Financial Industry Regulatory Authority ("FINRA"). 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, 2014. 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, 2013. There have been no significant changes to the Company's accounting policies from those presented in the 2013 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. During the quarter ended March 31, 2014, the Company revised the comparative December 31, 2013 outstanding principal balance of acquired credit impaired loans from $70,727 to $62,146, and the balance of outstanding principal balance of acquired non-credit impaired loans from $666,089 to $630,600. The Company has assessed the materiality of this correction of an error and concluded, based on qualitative and quantitative considerations, that the adjustments are not material to the financial statements as a whole. 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 recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this ASU are effective for the Company for annual periods beginning January 1, 2015 and should 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 does not expect the adoption of this ASU to have a material impact on the Company's consolidated financial statements.

ASU 2014-04, "*Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40")*, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure." This new guidance clarifies when an in substance repossession or foreclosure occurs, and requires all creditors who obtain physical possession (resulting from an in substance repossession or foreclosure) of residential real estate property collateralizing a consumer mortgage loan in satisfaction of a receivable to reclassify the collateralized mortgage loan such that the loan should be derecognized and the collateral asset recognized. This guidance is effective prospectively for the Company for annual and interim periods beginning after December 15, 2014. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

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.

4. Securities

Available-for-Sale Securities

The following table summarizes available-for-sale securities held by the Company at September 30, 2014:

September 30, 2014	Available-for-Sale Securities Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. Government sponsored entities	$587,933	$ 6,061	$ 3,100	$590,894
Obligations of U.S. states and political subdivisions	69,704	1,179	381	70,502
Mortgage-backed securities – residential, issued by				
U.S. Government agencies	119,049	2,370	1,702	119,717
U.S. Government sponsored entities	594,700	7,195	12,116	589,779
Non-U.S. Government agencies or sponsored entities	276	4	0	280
U.S. corporate debt securities	2,500	0	337	2,163
Total debt securities	1,374,162	16,809	17,636	1,373,335
Equity securities	1,475	0	54	1,421
Total available-for-sale securities	$1,375,637	$ 16,809	$ 17,690	$1,374,756

The following table summarizes available-for-sale securities held by the Company at December 31, 2013:

December 31, 2013	Available-for-Sale Securities Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. Government sponsored entities	$558,130	$ 7,720	$ 9,505	$556,345
Obligations of U.S. states and political subdivisions	68,216	1,193	1,447	67,962
Mortgage-backed securities – residential, issued by				
U.S. Government agencies	147,766	2,554	3,642	146,678
U.S. Government sponsored entities	587,843	8,122	18,493	577,472
Non-U.S. Government agencies or sponsored entities	306	5	0	311
U.S. corporate debt securities	5,000	8	375	4,633
Total debt securities	1,367,261	19,602	33,462	1,353,401
Equity securities	1,475	0	65	1,410
Total available-for-sale securities	$1,368,736	$ 19,602	$ 33,527	$1,354,811

Held-to-Maturity Securities

The following table summarizes held-to-maturity securities held by the Company at September 30, 2014:

	Held-to-Maturity Securities			
September 30, 2014	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
(in thousands)				
Obligations of U.S. Government sponsored entities	$30,869	$ 0	$ 197	$30,672
Obligations of U.S. states and political subdivisions	$16,739	$ 606	$ 0	$17,345
Total held-to-maturity debt securities	$47,608	$ 606	$ 197	$48,017

The following table summarizes held-to-maturity securities held by the Company at December 31, 2013:

	Held-to-Maturity Securities			
December 31, 2013	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
(in thousands)				
Obligations of U.S. states and political subdivisions	$18,980	$ 645	$ 0	$19,625
Total held-to-maturity debt securities	$18,980	$ 645	$ 0	$19,625

The Company may from time to time sell investment securities from its available-for-sale portfolio. Realized gains on available-for-sale securities sold were $20,000 and $186,000 in the third quarter and nine months ending September 30, 2014, respectively, and $303,000 and $808,000 in the same periods of 2013. Realized losses on available-for-sale securities sold were $0 and $78,000 in the third quarter and nine months ending September 30, 2014, respectively, and $22,000 and $85,000 in the third quarter and nine months ending September 30, 2013, respectively.

The following table summarizes available-for-sale securities that had unrealized losses at September 30, 2014:

	Less than 12 Months		12 Months or Longer		**Total**	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government sponsored entities	$169,741	$ 849	$95,197	$ 2,251	$264,938	$ 3,100
Obligations of U.S. states and political subdivisions	15,235	105	11,929	276	27,164	381
Mortgage-backed securities – issued by						
U.S. Government agencies	27,840	101	41,748	1,601	69,588	1,702
U.S. Government sponsored entities	133,210	1,095	270,358	11,021	403,568	12,116
U.S. corporate debt securities	0	0	2,163	337	2,163	337
Equity securities	0	0	946	54	946	54
Total available-for-sale securities	$346,026	$ 2,150	$422,341	$ 15,540	$768,367	$ 17,690

The following table summarizes held-to-maturity securities that had unrealized losses at September 30, 2014.

	Less than 12 Months		12 Months or Longer		**Total**	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses

Obligations of U.S. Government sponsored entities	$30,672	$ 197	$0	$ 0	$30,672	$ 197
Total held-to-maturity securities	$30,672	$ 197	$0	$ 0	$30,672	$ 197

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The following table summarizes available-for-sale securities that had unrealized losses at December 31, 2013:

(in thousands)	Less than 12 Months Fair Value	Unrealized Losses	12 Months or Longer Fair Value	Unrealized Losses	**Total** Fair Value	Unrealized Losses
Obligations of U.S. Government sponsored entities	$337,967	$ 9,467	$1,761	$ 38	$339,728	$ 9,505
Obligations of U.S. states and political subdivisions	21,821	821	6,173	626	27,994	1,447
Mortgage-backed securities – residential, issued by						
U.S. Government agencies	70,052	2,701	14,874	941	84,926	3,642
U.S. Government sponsored entities	293,945	14,061	76,070	4,432	370,015	18,493
U.S. corporate debt securities	0	0	2,125	375	2,125	375
Equity securities	0	0	935	65	935	65
Total available-for-sale securities	$723,785	$ 27,050	$101,938	$ 6,477	$825,723	$ 33,527

There were no unrealized losses on held-to-maturity securities at December 31, 2013.

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, 2014, and December 31, 2013, management has determined that the unrealized losses detailed in the tables above are not other-than-temporary.

<u>Ongoing Assessment of Other-Than-Temporary Impairment</u>

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, 2014 to be other-than-temporarily impaired.

The following table summarizes the roll-forward of credit losses on debt securities held by the Company for which a portion of an other-than-temporary impairment is recognized in other comprehensive income:

	Three Months Ended		Nine Months Ended	
(in thousands)	09/30/2014	09/30/2013	09/30/2014	09/30/2013
Credit losses at beginning of the period	$0	$ 441	$0	$ 441
Sales of securities for which an other-than-temporary impairment was previously recognized	0	(441)	0	(441)
Ending balance of credit losses on debt securities held for which a portion of another-than temporary impairment was recognized in other comprehensive income	$0	$ 0	$0	$ 0

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, 2014

(in thousands)	**Amortized Cost**	Fair Value
Available-for-sale securities:		
Due in one year or less	$47,644	$48,142
Due after one year through five years	409,758	415,198
Due after five years through ten years	182,467	180,485
Due after ten years	20,268	19,734
Total	660,137	663,559
Mortgage-backed securities	714,025	709,776
Total available-for-sale debt securities	$1,374,162	$1,373,335

December 31, 2013

(in thousands)	**Amortized Cost**	Fair Value
Available-for-sale securities:		
Due in one year or less	$25,596	$26,017
Due after one year through five years	263,553	271,303
Due after five years through ten years	313,245	304,414

Due after ten years	28,952	27,206
Total	631,346	628,940
Mortgage-backed securities	735,915	724,461
Total available-for-sale debt securities	$1,367,261	$1,353,401

September 30, 2014

(in thousands)	Amortized Cost	Fair Value
Held-to-maturity securities:		
Due in one year or less	$ 11,454	$11,534
Due after one year through five years	3,648	3,938
Due after five years through ten years	32,133	32,121
Due after ten years	373	424
Total held-to-maturity debt securities	$ 47,608	$48,017

December 31, 2013

(in thousands)	Amortized Cost	Fair Value
Held-to-maturity securities:		
Due in one year or less	$ 10,952	$11,021
Due after one year through five years	5,636	6,004
Due after five years through ten years	1,878	2,051
Due after ten years	514	549
Total held-to-maturity debt securities	$ 18,980	$19,625

The Company also holds non-marketable Federal Home Loan Bank New York ("FHLBNY") stock, non-marketable Federal Home Loan Bank Pittsburgh ("FHLBPITT") stock and non-marketable Atlantic Central Bankers Bank stock, all of which are required to be held for regulatory purposes and for borrowing availability. The required investment in FHLB stock is tied to the Company's borrowing levels with the FHLB. Holdings of FHLBNY stock, FHLBPITT stock and ACBB stock totaled $9.4 million, $5.3 million and $95,000 at September 30, 2014, respectively. These securities are carried at par, which is also cost. The FHLBNY and FHLBPITT continue to pay dividends and repurchase stock. As such, the Company has not recognized any impairment on its holdings of FHLBNY 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, 2014, 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)	09/30/2014	12/31/2013
Obligations of U.S. Government sponsored entities	$ 7,631	$ 8,275
Mortgage-backed securities – residential, issued by U.S. Government sponsored entities	1,842	2,716
Total	$ 9,473	$ 10,991

The decrease in trading securities reflects principal repayments and maturities received during the quarter ended September 30, 2014. The pre-tax mark-to-market losses on trading securities totaled $87,000 and $181,000 for the third quarter and nine months ending September 30, 2014, respectively, and $87,000 and $472,000 for the third quarter and nine months ending September 30, 2013, respectively.

The Company pledges securities as collateral for public deposits and other borrowings, and sells securities under agreements to repurchase. Securities carried of $1.1 billion and $1.0 billion at September 30, 2014, and December 31, 2013, respectively, were either pledged or sold under agreements to repurchase.

5. Loans and Leases
Loans and Leases at September 30, 2014 and December 31, 2013 were as follows:

(in thousands)	09/30/2014 Originated	Acquired	Total Loans and Leases	12/31/2013 Originated	Acquired	Total Loans and Leases
Commercial and industrial						
Agriculture	$49,828	$0	$49,828	$74,788	$0	$74,788
Commercial and industrial other	627,290	102,601	729,891	562,439	128,503	690,942
Subtotal commercial and industrial	677,118	102,601	779,719	637,227	128,503	765,730
Commercial real estate						
Construction	51,988	41,313	93,301	46,441	39,353	85,794
Agriculture	57,158	3,182	60,340	52,627	3,135	55,762
Commercial real estate other	960,346	321,714	1,282,060	903,320	366,438	1,269,758
Subtotal commercial real estate	1,069,492	366,209	1,435,701	1,002,388	408,926	1,411,314
Residential real estate						
Home equity	182,994	58,459	241,453	171,809	67,183	238,992
Mortgages	685,989	33,200	719,189	658,966	35,336	694,302
Subtotal residential real estate	868,983	91,659	960,642	830,775	102,519	933,294
Consumer and other						
Indirect	18,825	0	18,825	21,202	5	21,207
Consumer and other	34,327	1,119	35,446	32,312	1,219	33,531
Subtotal consumer and other	53,152	1,119	54,271	53,514	1,224	54,738
Leases	8,317	0	8,317	5,563	0	5,563
Covered loans	0	20,910	20,910	0	25,868	25,868
Total loans and leases	2,677,062	582,498	3,259,560	2,529,467	667,040	3,196,507
Less: unearned income and deferred costs and fees	(2,091)	0	(2,091)	(2,223)	0	(2,223)
Total loans and leases, net of unearned income and deferred costs and fees	$2,674,971	$582,498	$3,257,469	$2,527,244	$667,040	$3,194,284

The outstanding principal balance and the related carrying amount of the Company’s loans acquired in the VIST Bank acquisition are as follows at September 30, 2014 and December 31, 2013:

(in thousands)	**09/30/2014**	12/31/2013
Acquired Credit Impaired Loans		
Outstanding principal balance	$ 49,410	$ 62,146
Carrying amount	38,561	46,809
Acquired Non-Credit Impaired Loans		
Outstanding principal balance	551,074	630,600
Carrying amount	543,937	620,231
Total Acquired Loans		

Outstanding principal balance	600,484	692,746
Carrying amount	582,498	667,040

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, 2013	$7,337
Accretion	(8,896)
Disposals (loans paid in full)	(212)
Reclassifications to/from nonaccretable difference[1]	7,933
Other changes in expected cash flows2	4,792
Balance at December 31, 2013	$10,954

(in thousands)	
Balance at January 1, 2014	$10,954
Accretion	(3,740)
Disposals (loans paid in full)	(250)
Reclassifications to/from nonaccretable difference[1]	1,873
Other changes in expected cash flows2	0
Balance at September 30, 2014	$8,837

[1] 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.
[2] Represents changes in cash flows expected to be collected due to factors other than credit (e.g. changes in prepayment assumptions and/or changes in interest rates on variable rate loans).

At September 30, 2014, acquired loans included $20.9 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 4 – “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, 2013. 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, 2014. 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 improbable, 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. Nonaccrual loans represent loans that were performing at acquisition date but have subsequently become past due.

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, 2014 and December 31, 2013.

September 30, 2014

(in thousands)	**30-89 days**	**90 days or more**	**Current Loans**	**Total Loans**	**90 days and accruing**	**Nonaccrual**
Originated Loans and Leases						
Commercial and industrial						
Agriculture	$0	$0	$49,828	$49,828	$ 0	$ 0
Commercial and industrial other	169	508	626,613	627,290	0	1,639
Subtotal commercial and industrial	169	508	676,441	677,118	0	1,639
Commercial real estate						
Construction	0	0	51,988	51,988	0	534
Agriculture	0	29	57,129	57,158	0	132
Commercial real estate other	473	4,325	955,548	960,346	0	5,162
Subtotal commercial real estate	473	4,354	1,064,665	1,069,492	0	5,828
Residential real estate						
Home equity	1,175	1,384	179,785	182,994	60	1,550
Mortgages	1,250	6,964	676,943	685,989	335	6,850
Subtotal residential real estate	2,425	8,348	856,728	868,983	395	8,400
Consumer and other						
Indirect	508	0	18,317	18,825	0	72
Consumer and other	236	241	33,850	34,327	0	380
Subtotal consumer and other	744	241	52,167	53,152	0	452
Leases	0	0	8,317	8,317	0	0
Total loans and leases	3,811	14,933	2,658,318	2,677,062	395	16,319
Less: unearned income and deferred costs and fees	0	0	0	(2,091)	0	0
Total originated loans and leases, net of unearned income and deferred costs and fees	$3,811	$14,933	$2,658,318	$2,674,971	$ 395	$ 16,319
Acquired Loans and Leases						
Commercial and industrial						
Commercial and industrial other	0	941	101,660	102,601	649	761
Subtotal commercial and industrial	0	941	101,660	102,601	649	761
Commercial real estate						
Construction	0	1,970	39,343	41,313	1,709	466
Agriculture	0	0	3,182	3,182	0	0
Commercial real estate other	0	1,857	319,857	321,714	79	2,084
Subtotal commercial real estate	0	3,827	362,382	366,209	1,788	2,550
Residential real estate						
Home equity	156	643	57,660	58,459	173	660
Mortgages	580	703	31,917	33,200	561	1,027
Subtotal residential real estate	736	1,346	89,577	91,659	734	1,687
Consumer and other						

Consumer and other	0	0	1,119	1,119	0	0
Subtotal consumer and other	0	0	1,119	1,119	0	0
Covered loans	0	1,149	19,761	20,910	1,149	0
Total acquired loans and leases, net of unearned income and deferred costs and fees	$736	$7,263	$574,499	$582,498	$ 4,320	$ 4,998

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December 31, 2013

(in thousands)	30-89 days	90 days or more	Current Loans	Total Loans	**90 days and accruing**	Nonaccrual
Originated loans and leases						
Commercial and industrial						
Agriculture	$0	$0	$74,788	$74,788	$ 0	$ 0
Commercial and industrial other	211	1,187	561,041	562,439	0	1,260
Subtotal commercial and industrial	211	1,187	635,829	637,227	0	1,260
Commercial real estate						
Construction	216	7,657	38,568	46,441	0	9,873
Agriculture	180	0	52,447	52,627	0	46
Commercial real estate other	1,104	6,976	895,240	903,320	161	9,522
Subtotal commercial real estate	1,500	14,633	986,255	1,002,388	161	19,441
Residential real estate						
Home equity	784	1,248	169,777	171,809	62	1,477
Mortgages	2,439	5,946	650,581	658,966	384	7,443
Subtotal residential real estate	3,223	7,194	820,358	830,775	446	8,920
Consumer and other						
Indirect	768	152	20,282	21,202	0	216
Consumer and other	60	0	32,252	32,312	0	38
Subtotal consumer and other	828	152	52,534	53,514	0	254
Leases	0	0	5,563	5,563	0	0
Total loans and leases	5,762	23,166	2,500,539	2,529,467	607	29,875
Less: unearned income and deferred costs and fees	0	0	0	(2,223)	0	0
Total originated loans and leases, net of unearned income and deferred costs and fees	$5,762	$23,166	$2,500,539	$2,527,244	$ 607	$ 29,875
Acquired loans and leases						
Commercial and industrial						
Commercial and industrial other	554	1,651	126,298	128,503	1,231	419
Subtotal commercial and industrial	554	1,651	126,298	128,503	1,231	419
Commercial real estate						
Construction	0	2,148	37,205	39,353	1,676	473
Agriculture	0	0	3,135	3,135	0	0
Commercial real estate other	403	3,585	362,450	366,438	709	3,450
Subtotal commercial real estate	403	5,733	402,790	408,926	2,385	3,923
Residential real estate						
Home equity	213	934	66,036	67,183	347	1,844
Mortgages	345	1,264	33,727	35,336	594	2,322
Subtotal residential real estate	558	2,198	99,763	102,519	941	4,166
Consumer and other						
Indirect	0	0	5	5	0	0
Consumer and other	17	0	1,202	1,219	0	0
Subtotal consumer and other	17	0	1,207	1,224	0	0
Covered loans	0	2,416	23,452	25,868	2,416	0
	$1,532	$11,998	$653,510	$667,040	$ 6,973	$ 8,508

Total acquired loans and leases, net of unearned income and deferred costs and fees

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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 Company’s methodology for determining and allocating the allowance for loan and lease losses focuses on ongoing reviews of larger individual loans and leases, historical net charge-offs, delinquencies in the loan and lease portfolio, the level of impaired and nonperforming loans, values of underlying loan and lease collateral, the overall risk characteristics of the portfolios, changes in character or size of the portfolios, geographic location, current economic conditions, changes in capabilities and experience of lending management and staff, and other relevant factors. The various factors used in the methodologies are reviewed on a regular basis.

At least annually, management reviews all commercial and commercial real estate loans exceeding a certain threshold and assigns a risk rating. The Company uses an internal loan rating system of pass credits, special mention loans, substandard loans, doubtful loans, and loss loans (which are fully charged off). The definitions of “special mention”, “substandard”, “doubtful” and “loss” are consistent with banking regulatory definitions. Factors considered in assigning loan ratings include: the customer’s ability to repay based upon customer’s expected future cash flow, operating results, and financial condition; the underlying collateral, if any; and the economic environment and industry in which the customer operates. Special mention loans have potential weaknesses that if left uncorrected may result in deterioration of the repayment prospects and a downgrade to a more severe risk rating. A substandard loan credit has a well-defined weakness which makes payment default or principal exposure likely, but not yet certain. There is a possibility that the Company will sustain some loss if the deficiencies are not corrected. A doubtful loan has a high possibility of loss, but the extent of the loss is difficult to quantify because of certain important and reasonably specific pending factors.

At least quarterly, management reviews all commercial and commercial real estate loans and leases and agriculturally related loans with an outstanding principal balance of over $500,000 that are internally risk rated special mention or worse, giving consideration to payment history, debt service payment capacity, collateral support, strength of guarantors, local market trends, industry trends, and other factors relevant to the particular borrowing relationship. Through this process, management identifies impaired loans. For loans and leases considered impaired, estimated exposure amounts are based upon collateral values or present value of expected future cash flows discounted at the original effective interest rate of each loan. For commercial loans, commercial mortgage loans, and agricultural loans not specifically reviewed, and for homogenous loan portfolios such as residential mortgage loans and consumer loans, estimated exposure amounts are assigned based upon historical net loss experience and current charge-off trends, past due status, and management's judgment of the effects of current economic conditions on portfolio performance. In determining and assigning historical loss factors to the various homogeneous portfolios, the Company calculates average net losses over a period of time and compares this average to current levels and trends to ensure that the calculated average loss factors are reasonable.

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, 2014, considers the allowance to be appropriate, under adversely different conditions or assumptions, the Company would need to increase or decrease the allowance.

Acquired Loans and Leases

Acquired loans accounted for under ASC 310-30

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

Acquired loans accounted for under ASC 310-20

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

The following tables detail activity in the allowance for loan and lease losses segregated by originated and acquired loan and lease portfolios and by portfolio segment for the three months ended September 30, 2014 and 2013. 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, 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		(264)
Ending Balance	$ 8,858	$ 10,682	$ 5,423	$ 2,222	$ 0	$27,185
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

Three months ended September 30, 2013						
(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	$ 6,955	$ 10,409	$ 5,273	$ 2,195	$ 21	$24,853
Charge-offs	(55)	(49)	(116)	(578)	0	(798)
Recoveries	48	21	3	96	0	168
Provision (credit)	790	516	149	65	(21)	1,499
Ending Balance	$ 7,738	$ 10,897	$ 5,309	$ 1,778	$ 0	$25,722

Three months ended September 30, 2013

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Allowance for acquired loans						
Beginning balance	$ 64	$ 381	$ 126	$ 34	$ 0	$605
Charge-offs	(1)	0	(467)	0	0	(468)
Recoveries	0	0	0	0	0	0
Provision (credit)	(12)	56	504	1	0	549
Ending Balance	$ 51	$ 437	$ 163	$ 35	$ 0	$686

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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

Nine months ended September 30, 2013

(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	$ 7,533	$ 10,184	$ 4,981	$ 1,940	$ 5	$24,643
Charge-offs	(487)	(539)	(455)	(1,040)	0	(2,521)
Recoveries	1,490	457	32	296	0	2,275
Provision (credit)	(798)	795	751	582	(5)	1,325
Ending Balance	$ 7,738	$ 10,897	$ 5,309	$ 1,778	$ 0	$25,722

Nine months ended September 30, 2013

(in thousands)	Commercial and	Commercial Real Estate	Residential Real	Consumer and Other	Covered Loans	Total

	Industrial		Estate			
Allowance for acquired loans						
Beginning balance	$ 0	$ 0	$ 0	$ 0	$ 0	$0
Charge-offs	(2,930)	(32)	(577)	(25)	0	(3,564)
Recoveries	0	0	0	0	0	0
Provision (credit)	2,981	469	740	60	0	4,250
Ending Balance	$ 51	$ 437	$ 163	$ 35	$ 0	$686

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At September 30, 2014 and December 31, 2013, the allocation of the allowance for loan and lease losses summarized on the basis of the Company's impairment methodology was as follows:

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for originated loans and leases						
September 30, 2014						
Individually evaluated for impairment	$ 302	$ 0	$ 0	$ 0	$ 0	$302
Collectively evaluated for impairment	8,556	10,682	5,423	2,222	0	26,883
Ending balance	$ 8,858	$ 10,682	$ 5,423	$ 2,222	$ 0	$27,185
Allowance for acquired loans						
September 30, 2014						
Individually evaluated for impairment	$ 80	$ 80	$ 0	$ 0	$ 0	$160
Collectively evaluated for impairment	15	280	128	18	0	441
Ending balance	$ 95	$ 360	$ 128	$ 18	$ 0	$601

(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, 2013						
Individually evaluated for impairment	$ 0	$ 0	$ 0	$ 0	$ 0	$0
Collectively evaluated for impairment	8,406	10,459	5,771	2,059	5	26,700
Ending balance	$ 8,406	$ 10,459	$ 5,771	$ 2,059	$ 5	$26,700
Allowance for acquired loans						
December 31, 2013						
Individually evaluated for impairment	$ 0	$ 250	$ 0	$ 0	$ 0	$250
Collectively evaluated for impairment	168	520	274	58	0	1,020
Ending balance	$ 168	$ 770	$ 274	$ 58	$ 0	$1,270

The recorded investment in loans and leases summarized on the basis of the Company's impairment methodology as of September 30, 2014 and December 31, 2013 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, 2014						
Individually evaluated for impairment	$ 1,917	$ 7,889	$ 1,038	$ 0	$ 0	$ 10,844
Collectively evaluated for impairment	675,201	1,061,603	867,945	53,152	8,317	2,666,218
Total	$ 677,118	$ 1,069,492	$ 868,983	$ 53,152	$ 8,317	$ 2,677,062

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired loans						
September 30, 2014						
Individually evaluated for impairment	$ 785	$ 1,582	$ 290	$ 0	$0	$2,657
Loans acquired with deteriorated credit quality	$ 1,142	$ 8,294	$ 8,215	$ 0	$20,910	$38,561
Collectively evaluated for impairment	100,674	356,333	83,154	1,119	0	541,280
Total	$ 102,601	$ 366,209	$ 91,659	$ 1,119	$20,910	$582,498

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Originated loans and leases						
December 31, 2013						
Individually evaluated for impairment	$ 4,664	16,269	$ 1,223	$ 0	$ 0	$ 22,156
Collectively evaluated for impairment	632,563	986,119	829,552	53,514	5,563	2,507,311
Total	$ 637,227	$ 1,002,388	$ 830,775	$ 53,514	$ 5,563	$ 2,529,467

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired loans						
December 31, 2013						
Individually evaluated for impairment	$ 2,231	2,429	$ 73	$ 0	$0	$4,733
Loans acquired with deteriorated credit quality	2,558	10,263	9,355	0	24,633	46,809
Collectively evaluated for impairment	123,714	396,234	93,091	1,224	1,235	615,498
Total	$ 128,503	$ 408,926	$ 102,519	$ 1,224	$25,868	$667,040

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.

(in thousands)	09/30/2014 Recorded Investment	Unpaid Principal Balance	Related Allowance	12/31/2013 Recorded Investment	Unpaid Principal Balance	Related Allowance
Originated loans and leases with no related allowance						
Commercial and industrial						
Commercial and industrial other	$1,408	$1,432	$ 0	$4,664	$5,069	$ 0
Commercial real estate						
Construction	0	0	0	6,073	11,683	0
Commercial real estate other	7,889	8,567	0	10,196	13,518	0
Residential real estate						
Residential real estate other	1,038	1,129	0	1,223	1,299	0
Subtotal	$10,335	$11,128	$ 0	$22,156	$31,569	$ 0
Originated loans and leases with related allowance						
Commercial and industrial						
Commercial and industrial other	509	509	302	0	0	0
Subtotal	$509	$509	$ 302	$0	$0	$ 0
Total	$10,844	$11,637	$ 302	$22,156	$31,569	$ 0

(in thousands)	09/30/2014 Recorded Investment	Unpaid Principal Balance	Related Allowance	12/31/2013 Recorded Investment	Unpaid Principal Balance	Related Allowance
Acquired loans and leases with no related allowance						
Commercial and industrial						
Commercial and industrial other	$341	$ 341	$ 0	$2,231	$ 5,081	$ 0
Commercial real estate						
Commercial real estate other	1,311	1,311	0	1,960	1,960	0
Residential real estate						
Residential real estate other	290	290	0	73	73	0
Subtotal	$1,942	$ 1,942	$ 0	$4,264	$ 7,114	$ 0
Acquired loans and leases with related allowance						
Commercial and industrial						
Commercial and industrial other	444	444	80	0	0	0
Commercial real estate						
Commercial real estate other	271	271	80	469	719	250
Subtotal	$715	$ 715	$ 160	$469	$ 719	$ 250
Total	$2,657	$ 2,657	$ 160	$4,733	$ 7,833	$ 250

The average recorded investment and interest income recognized on impaired loans for the three months ended September 30, 2014 and 2013 was as follows:

(in thousands)	**Three Months Ended 09/30/2014** Average Recorded Investment	Interest Income Recognized	**Three Months Ended 09/30/2013** Average Recorded Investment	Interest Income Recognized
Originated loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	1,422	0	4,040	0
Commercial real estate				
Construction	0	0	6,184	0
Commercial real estate other	7,940	42	13,918	0
Residential real estate				
Residential real estate other	1,038	0	1,047	0
Subtotal	$10,400	$ 42	$25,189	$ 0
Originated loans and leases with related allowance				
Commercial and industrial				
Commercial and industrial other	511	7	1,544	0
Commercial real estate				
Commercial real estate other	0	0	360	0
Subtotal	$511	$ 7	$1,904	$ 0
Total	$10,911	$ 49	$27,093	$ 0

(in thousands)	**Three Months Ended 09/30/2014** Average Recorded Investment	Interest Income Recognized	**Three Months Ended 09/30/2013** Average Recorded Investment	Interest Income Recognized
Acquired loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	343	0	1,327	0
Commercial real estate				
Commercial real estate other	1,312	0	2,764	5
Residential real estate other	290	0	85	0
Subtotal	$1,945	$ 0	$4,176	$ 5
Acquired loans and leases with related allowance				

Commercial and industrial				
Commercial and industrial other	449	0	0	0
Commercial real estate				
Commercial real estate other	271	0	701	0
Subtotal	$720	$ 0	$701	$ 0
Total	$2,665	$ 0	$4,877	$ 5

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(in thousands)	**Nine Months Ended 09/30/2014** Average Recorded Investment	Interest Income Recognized	**Nine Months Ended 09/30/2013** Average Recorded Investment	Interest Income Recognized
Originated loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	1,636	0	4,057	0
Commercial real estate				
Construction	0	0	6,374	0
Commercial real estate other	7,871	42	12,892	0
Residential real estate				
Residential real estate other	1,038	0	1,047	0
Subtotal	$10,545	$ 42	$24,370	$ 0
Originated loans and leases with related allowance				
Commercial and industrial				
Commercial and industrial other	511	7	1,560	0
Commercial real estate				
Commercial real estate other	0	0	319	0
Subtotal	$511	$ 7	$1,879	$ 0
Total	$11,056	$ 49	$26,249	$ 0

(in thousands)	**Nine Months Ended 09/30/2014** Average Recorded Investment	Interest Income Recognized	**Nine Months Ended 09/30/2013** Average Recorded Investment	Interest Income Recognized
Acquired loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	346	0	2,783	5
Commercial real estate				
Commercial real estate other	1,333	0	2,785	31
Residential real estate				
Residential real estate other	290	0	85	0
Subtotal	$1,969	$ 0	$5,653	$ 36
Acquired loans and leases with related allowance				
Commercial and industrial				
Commercial and industrial other	454	0	0	0
Commercial real estate				
Commercial real estate other	271	0	0	0
Residential real estate				

Residential real estate other	0		0	718		4
Subtotal	$725	$	0	$718	$	4
Total	$2,694	$	0	$6,371	$	40

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.

There we no loans modified in a TDR for the quarter ending September 30, 2014.

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

September 30, 2013	**Three months ended**					
				Defaulted TDRs[4]		
(in thousands)	**Number of Loans**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**	**Number of Loans**	**Post-Modification Outstanding Recorded Investment**	
Commercial and industrial						
Commercial and industrial other[1]	4	$ 1,275	1,275	0	$	0
Commercial real estate						
Commercial real estate other[2]	6	1,530	1,530	0		0
Residential real estate						
Residential real estate other[3]	1	195	195	0		0
Total	11	$ 3,000	3,000	0	$	0

[1] Represents the following concessions: extension of term and reduction of rate (3 loans: $1.2 million) and extended term (1 loan: $87,000)
[2] Represents the following concessions: extension of term and reduction of rate
[3] Represents the following concessions: extension of term and reduction of rate
[4] TDRs that defaulted in the quarter

ended September 30, 2013 that had been restructured in the prior twelve months.

September 30, 2014	Nine months ended			Defaulted TDRs[3]	
(in thousands)	**Number of Loans**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**	**Number of Loans**	**Post-Modification Outstanding Recorded Investment**
Commercial and industrial					
Commercial and industrial other[1]	1	$ 88	88	0	$ 0
Commercial real estate					
Commercial real estate other[2]	1	$ 480	480	1	$ 63
Residential real estate					
Residential real estate other	0	0	0	1	195
Total	2	$ 568	568	2	$ 258

[1] *Represents the following concessions: extension of term and reduction of rate*

[2] *Represents the following concessions: extension of term and reduction of rate*

[3] *TDRs that defaulted during the nine months ended September 30, 2014, that had been restructured in the prior twelve months.*

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September 30, 2013	Nine months ended			Defaulted TDRs[4]	
(in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Post-Modification Outstanding Recorded Investment
Commercial and industrial					
Commercial and industrial other[1]	6	$ 1,414	1,414	0	$ 0
Commercial real estate					
Commercial real estate other[2]	9	1,901	1,901	0	0
Residential real estate					
Residential real estate other[3]	1	195	195	0	0
Total	16	$ 3,510	3,510	0	$ 0

[1] Represents the following concessions: extension of term and reduction in rate (5 loans: $1.3 million) and extended term (1 loan: $87,000)

[2] Represents the following concessions: extension of term and reduction of rate (8 loans: $1.8 million) and extension of term (1 loan: $129,000)

[3] Represents the following concessions: extension of term and reduction of rate

[4] TDRs that defaulted during the nine months ended September 30, 2013, that had been restructured in the prior twelve months.

The following tables present credit quality indicators (internal risk grade) by class of commercial and industrial loans and commercial real estate loans as of September 30, 2014 and December 31, 2013.

September 30, 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	$ 608,164	$ 49,405	$ 930,551	$ 56,540	$ 48,207	$ 1,692,867
Special Mention	11,146	197	12,503	227	3,781	27,854
Substandard	7,980	226	17,292	391	0	25,889
Total	$ 627,290	$ 49,828	$ 960,346	$ 57,158	$ 51,988	$ 1,746,610

September 30, 2014

	Commercial	**Commercial**	**Commercial**	**Commercial**	**Commercial**

(in thousands)	**and Industrial Other**	**and Industrial Agriculture**	**Real Estate Other**	**Real Estate Agriculture**	**Real Estate Construction**	**Total**
Acquired Loans and Leases						
Internal risk grade:						
Pass	$99,323	$0	$296,680	$3,182	$37,986	$437,171
Special Mention	109	0	7,496	0	0	7,605
Substandard	3,169	0	17,538	0	3,327	24,034
Total	$102,601	$0	$321,714	$3,182	$41,313	$468,810

December 31, 2013

(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	$ 531,293	$ 72,997	$ 869,488	$ 52,054	$ 36,396	$1,562,228
Special Mention	20,688	100	17,536	123	3,918	42,365
Substandard	10,458	1,691	16,296	450	6,127	35,022
Total	$ 562,439	$ 74,788	$ 903,320	$ 52,627	$ 46,441	$1,639,615

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December 31, 2013

(in thousands)	**Commercial and Industrial Other**	**Commercial and Industrial Agriculture**	**Commercial Real Estate Other**	**Commercial Real Estate Agriculture**	**Commercial Real Estate Construction**	**Total**
Acquired Loans and Leases						
Internal risk grade:						
Pass	$116,160	$0	$363,427	$1,150	$5,809	$486,546
Special Mention	3,821	0	11,516	1,985	0	17,322
Substandard	8,522	0	22,028	0	3,011	33,561
Total	$128,503	$0	$396,971	$3,135	$8,820	$537,429

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, 2014 and December 31, 2013. 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, 2014

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Originated Loans and Leases					
Performing	$ 181,384	$ 678,804	$ 18,753	$ 33,947	$912,888
Nonperforming	1,610	7,185	72	380	9,247
Total	$ 182,994	$ 685,989	$ 18,825	$ 34,327	$922,135

September 30, 2014

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Acquired Loans and Leases					
Performing	$ 57,626	$ 31,612	$ 0	$ 1,119	$90,357
Nonperforming	833	1,588	0	0	2,421
Total	$ 58,459	$ 33,200	$ 0	$ 1,119	$92,778

December 31, 2013

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Originated Loans and Leases					
Performing	$ 170,270	$ 651,139	$ 20,986	$ 32,274	$874,669
Nonperforming	1,539	7,827	216	38	9,620
Total	$ 171,809	$ 658,966	$ 21,202	$ 32,312	$884,289

December 31, 2013

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Acquired Loans and Leases					
Performing	$ 65,339	$ 33,014	$ 5	$ 1,219	$99,577
Nonperforming	1,844	2,322	0	0	4,166
Total	$ 67,183	$ 35,336	$ 5	$ 1,219	$103,743

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 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, 2014 are shown below.

Nine months ended September 30, 2014

(in thousands)	Nine Months Ended
Balance, beginning of the period	$4,790
Discount accretion of the present value at the acquisition date	44
Prospective adjustment for additional cash flows	(1,520)
Increase due to impairment on covered loans	0
Reimbursements from the FDIC	(1,016)

Balance, end of period	$2,298

8. Earnings Per Share

Earnings per share in the table below, for the three and nine month periods ending September 30, 2014 and 2013 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.

(in thousands, except share and per share data)	Three Months Ended 09/30/2014	09/30/2013
Basic		
Net income available to common shareholders	$13,722	$14,049
Less: dividends and undistributed earnings allocated to unvested restricted stock awards	(119)	(137)
Net earnings allocated to common shareholders	13,603	13,912
Weighted average shares outstanding, including participating securities	14,839,663	14,658,056
Less: average participating securities	(127,954)	(143,003)
Weighted average shares outstanding - Basic	14,711,709	14,515,053
Diluted		
Net earnings allocated to common shareholders	13,603	13,912
Weighted average shares outstanding - Basic	14,711,709	14,515,053
Dilutive effect of common stock options or restricted stock awards	83,634	107,459
Weighted average shares outstanding - Diluted	14,795,343	14,622,512
Basic EPS	0.92	0.96
Diluted EPS	0.92	0.95

The dilutive effect of common stock options or restricted awards calculation for the three months ended September 30, 2014 and 2013 excludes stock options, stock appreciation rights and restricted stock awards covering an aggregate of 208,324 and 221,525 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 09/30/2014	09/30/2013
Basic		
Net income available to common shareholders	$39,352	$36,565
Less: dividends and undistributed earnings allocated to unvested restricted stock awards	(353)	(284)
Net earnings allocated to common shareholders	38,999	36,281
Weighted average shares outstanding, including participating securities	14,821,992	14,539,728
Less: average participating securities	(133,066)	(99,794)
Weighted average shares outstanding - Basic	14,688,926	14,439,934
Diluted		
Net earnings allocated to common shareholders	38,999	36,281
Weighted average shares outstanding - Basic	14,688,926	14,439,934

Dilutive effect of common stock options or restricted stock awards	108,594	80,848
Weighted average shares outstanding - Diluted	14,797,520	14,520,782
Basic EPS	2.65	2.51
Diluted EPS	2.64	2.50

The dilutive effect of common stock options or restricted awards calculation for the nine months ended September 30, 2014 and 2013 excludes stock options, stock appreciation rights and restricted stock awards covering an aggregate of 116,527 and 283,725 shares, respectively, because the exercise prices were greater than the average market price during these periods.

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9. Other Comprehensive Income (Loss)

The following table presents reclassifications out of the accumulated other comprehensive income for the three and nine month periods ended September 30, 2014 and 2013.

	Three months ended September 30, 2014		
(in thousands)	Before-Tax Amount	Tax (Expense) Benefit	Net of Tax
Available-for-sale securities:			
Change in net unrealized gain/loss during the period	$(6,871)	$ 2,748	$(4,123)
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(20)	8	(12)
Net unrealized losses	(6,891)	2,756	(4,135)
Employee benefit plans:			
Amortization of net retirement plan actuarial gain	266	(107)	159
Amortization of net retirement plan prior service cost	1	0	1
Employee benefit plans	267	(107)	160
Other comprehensive (loss) income	$(6,624)	$ 2,649	$(3,975)

	Three months ended September 30, 2013		
(in thousands)	Before-Tax Amount	Tax (Expense) Benefit	Net of Tax
Available-for-sale securities:			
Change in net unrealized gain/loss during the period	$(531)	$ 213	$(318)
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(281)	112	(169)
Reclassification adjustment for credit impairment on available-for-sale			
Net unrealized losses	(812)	325	(487)
Employee benefit plans:			
Amortization of net retirement plan actuarial loss	645	(258)	387
Amortization of net retirement plan prior service cost	14	(6)	8
Amortization of net retirement plan transition liability	13	(5)	8
Employee benefit plans	672	(269)	403
Other comprehensive (loss) income	$(140)	$ 56	$(84)

(in thousands)	Nine months ended September 30, 2014 Before-Tax Amount	Tax (Expense) Benefit	Net of Tax
Available-for-sale securities:			
Change in net unrealized gain/loss during the period	$13,195	$ (5,277)	$7,918
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(151)	61	(90)
Net unrealized gains	13,044	(5,216)	7,828
Employee benefit plans:			
Amortization of net retirement plan actuarial gain	798	(319)	479
Amortization of net retirement plan prior service cost	3	(1)	2
Employee benefit plans	801	(320)	481
Other comprehensive income (loss)	$13,845	$ (5,536)	$8,309

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(in thousands)	Nine months ended September 30, 2013 Before-Tax Amount	Tax (Expense) Benefit	Net of Tax
Available-for-sale securities:			
Change in net unrealized gain/loss during the period	$(44,028)	$ 17,608	$(26,420)
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(723)	289	(434)
Reclassification adjustment for credit impairment on available-for-sale			
Net unrealized losses	(44,751)	17,897	(26,854)
Employee benefit plans:			
Amortization of net retirement plan actuarial loss	1,934	(774)	1,160
Amortization of net retirement plan prior service cost	44	(18)	26
Amortization of net retirement plan transition liability	38	(15)	23
Employee benefit plans	2,016	(807)	1,209
Other comprehensive (loss) income	$(42,735)	$ 17,090	$(25,645)

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

(in thousands)	**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 (loss) 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)

(in thousands)	**Available-for-Sale Securities**	**Employee Benefit Plans**	**Accumulated Other Comprehensive Income**
Balance at July 1, 2013	$ (11)	$(27,656)	$ (27,667)

Other comprehensive (loss) income before reclassifications	(318)	0	(318)
Amounts reclassified from accumulated other comprehensive (loss) income	(169)	403	234
Net current-period other comprehensive (loss) income	(487)	403	(84)
Balance at September 30, 2013	$ (498)	$ (27,253)	$ (27,751)
Balance at January 1, 2013	$ 26,356	$ (28,462)	$ (2,106)
Other comprehensive (loss) income before reclassifications	(26,420)	0	(26,420)
Amounts reclassified from accumulated other comprehensive (loss) income	(434)	1,209	775
Net current-period other comprehensive (loss) income	(26,854)	1,209	(25,645)
Balance at September 30, 2013	$ (498)	$ (27,253)	$ (27,751)

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The following tables present the amounts reclassified out of each component of accumulated other comprehensive income for the three and nine months ended September 30, 2014 and 2013.

Three months ended September 30, 2014 Details about Accumulated other Comprehensive Income Components (in thousands)	**Amount Reclassified from Accumulated Other Comprehensive Income[1]**	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 [2]		
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 Income[1]**	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 [2]		
Net retirement plan actuarial loss	(798)	
Net retirement plan prior service cost	(3)	
	(801)	Total before tax
	320	Tax benefit
	(481)	Net of tax

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Three months ended September 30, 2013

Details about Accumulated other Comprehensive Income Components (in thousands)	**Amount Reclassified from Accumulated Other Comprehensive Income[1]**	Affected Line Item in the Statement Where Net Income is Presented
Available-for-sale securities:		
Unrealized gains and losses on available-for-sale securities	$281	Net gain on securities transactions
	(112)	Tax expense
	169	Net of tax
Employee benefit plans:		
Amortization of the following [2]		
Net retirement plan actuarial loss	(645)	
Net retirement plan prior service cost	(14)	
Net retirement plan transition liability	(13)	
	(672)	Total before tax
	269	Tax benefit
	(403)	Net of tax

Nine months ended September 30, 2013

Details about Accumulated other Comprehensive Income Components (in thousands)	**Amount Reclassified from Accumulated Other Comprehensive Income[1]**	**Affected Line Item in the Statement Where Net Income is Presented**
Available-for-sale securities:		
Unrealized gains and losses on available-for-sale securities	$ 723	Net gain on securities transactions
	(289)	Tax expense
	434	Net of tax
Employee benefit plans:		
Amortization of the following [2]		
Net retirement plan actuarial loss	(1,934)	
Net retirement plan prior service cost	(44)	
Net retirement plan transition liability	(38)	
	(2,016)	Total before tax
	807	Tax benefit
	(1,209)	Net of tax

[1] Amounts in parentheses indicated debits in income statement

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

10. Employee Benefit Plan

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

Components of Net Periodic Benefit Cost

	Pension Benefits		Life and Health		SERP Benefits	
	Three Months Ended		Three Months Ended		Three Months Ended	
(in thousands)	09/30/2014	09/30/2013	09/30/2014	09/30/2013	09/30/2014	09/30/2013
Service cost	$608	$ 729	$50	$ 66	$56	$ 120
Interest cost	767	672	92	86	216	184
Expected return on plan assets	(1,256)	(1,002)	0	0	0	0
Amortization of net retirement plan actuarial loss	215	506	0	24	51	115
Amortization of net retirement plan prior service cost (credit)	(31)	(31)	4	4	28	41
Amortization of net retirement plan transition liability	0	0	0	13	0	0
Net periodic benefit cost	$303	$ 874	$146	$ 193	$351	$ 460

Components of Net Period Benefit Cost

	Pension Benefits		Life and Health		SERP Benefits	
	Nine Months Ended		Nine Months Ended		Nine Months Ended	
(in thousands)	09/30/2014	09/30/2013	09/30/2014	09/30/2013	09/30/2014	09/30/2013
Service cost	$1,825	$ 2,187	$151	$ 199	$167	$ 359
Interest cost	2,302	2,016	275	259	649	553
Expected return on plan assets	(3,768)	(3,007)	0	0	0	0
Amortization of net retirement plan actuarial loss	644	1,517	0	72	154	345
Amortization of net retirement plan prior service cost (credit)	(92)	(92)	12	12	84	124
Amortization of net retirement plan transition liability	0	0	0	38	0	0
Net periodic benefit cost	$911	$ 2,621	$438	$ 580	$1,054	$ 1,381

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 $481,000 and $1.2 million, net of tax, as amortization of amounts previously recognized in accumulated other comprehensive income, for the nine months ended September 30, 2014 and 2013, respectively.

The Company is not required to contribute to the pension plan in 2014, but it may make voluntary contributions. The Company did not contribute to the pension plan in the nine months ended September 30, 2014 or 2013.

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.

	Three Months Ended		Nine Months Ended	
(in thousands)	09/30/2014	09/30/2013	09/30/2014	09/30/2013
Noninterest Income				
Other service charges	$708	$ 959	$2,511	$ 2,569
Increase in cash surrender value of corporate owned life insurance	456	444	1,431	1,482
Net gain on sale of loans	125	115	345	212
Other income	603	1,854	1,842	3,285
Total other income	$1,892	$ 3,372	$6,129	$ 7,548
Noninterest Expenses				
Marketing expense	$1,029	$ 1,055	$3,448	$ 3,597
Professional fees	1,585	1,490	4,484	4,255
Legal fees	130	410	1,191	1,532
Software licensing and maintenance	1,196	1,082	3,512	3,642
Cardholder expense	678	827	2,076	2,363
Other expenses	5,805	4,679	15,800	14,321
Total other operating expense	$10,423	$ 9,543	$30,511	$ 29,710

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, 2014, the Company’s maximum potential obligation under standby letters of credit was $60.5 million compared to $62.6 million at December 31, 2013. 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 fifteen banking offices located in Ithaca, NY and surrounding communities; The Bank of Castile, a commercial bank with sixteen banking offices located in the Genesee Valley region of New York State as well as Monroe County; Mahopac Bank, a commercial bank with fifteen full-service banking offices and one limited service office in the counties north of New York City; and VIST Bank, a banking organization with twenty 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, 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 2013 Annual Report on Form 10-K.

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

(in thousands)	Banking	Insurance	Wealth Management	Intercompany	Consolidated
Interest income	$46,583	$1	$ 35	$ (1)	$46,618
Interest expense	5,044	0	0	(1)	5,043
Net interest income	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
Income before income tax expense	18,076	1,579	997	0	20,652
Income tax expense	5,903	653	341	0	6,897
Net Income attributable to noncontrolling interests and Tompkins Financial Corporation	12,173	926	656	0	13,755
Less: Net income attributable to noncontrolling interests	33	0	0	0	33
Net Income attributable to Tompkins Financial Corporation	$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

As of and for the three months ended September 30, 2013

(in thousands)	Banking	Insurance	Wealth Management	Intercompany	Consolidated
Interest income	$46,334	$ 2	$ 45	$ (2)	$ 46,379
Interest expense	5,908	0	0	(2)	5,906
Net interest income	40,426	2	45	0	40,473
Provision for loan and lease losses	2,049	0	0	0	2,049
Noninterest income	7,956	7,077	3,877	(382)	18,528
Noninterest expense	29,552	5,532	2,852	(382)	37,554