TOMPKINS FINANCIAL CORP
Form 10-Q
August 09, 2013

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from _______________ to _______________

Commission File Number 1-12709

Tompkins Financial Corporation

(Exact name of registrant as specified in its charter)

New York (State or other jurisdiction of incorporation or organization)	16-1482357 (I.R.S. Employer Identification No.)
The Commons, P.O. Box 460, Ithaca, NY (Address of principal executive offices)	14851 (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 x No o.

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 x No o.

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 o	Accelerated Filer x
Non-Accelerated Filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

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

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

Class	Outstanding as of July 31, 2013
Common Stock, $0.10 par value	14,455,200 shares

TOMPKINS FINANCIAL CORPORATION

FORM 10-Q

INDEX

PART I -FINANCIAL INFORMATION

TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share and per share data) (Unaudited) ASSETS	As of 06/30/2013	As of 12/31/2012
Cash and noninterest bearing balances due from banks	$ 65,064	$ 117,448
Interest bearing balances due from banks	1,479	1,482
Cash and Cash Equivalents	66,543	118,930
Trading securities, at fair value	14,688	16,450
Available-for-sale securities, at fair value (amortized cost of $1,434,468 at June 30, 2013 and $1,349,416 at December 31, 2012)	1,434,454	1,393,340
Held-to-maturity securities, fair value of $21,129 at June 30, 2013, and $25,163 at December 31, 2012	20,173	24,062
Originated loans and leases, net of unearned income and deferred costs and fees	2,309,232	2,133,106
Acquired loans and leases, covered	31,548	37,600
Acquired loans and leases, non-covered	714,403	783,904
Less: Allowance for loan and lease losses	25,458	24,643
Net Loans and Leases	3,029,725	2,929,967
FDIC Indemnification Asset	4,534	4,385
Federal Home Loan Bank stock and Federal Reserve Bank stock	26,039	19,388
Bank premises and equipment, net	54,824	54,581
Corporate owned life insurance	66,143	65,102
Goodwill	92,140	92,305
Other intangible assets, net	17,400	18,643
Accrued interest and other assets	105,220	100,044
Total Assets	$ 4,931,883	$ 4,837,197
LIABILITIES		
Deposits:		
Interest bearing:		
Checking, savings and money market	2,174,926	2,144,367
Time	937,775	973,883
Noninterest bearing	800,209	831,919
Total Deposits	3,912,910	3,950,169
Federal funds purchased and securities sold under agreements to repurchase	171,498	213,973
Other borrowings, including certain amounts at fair value of $11,423 at June 30, 2013 and $11,847 at December 31, 2012	299,098	111,848
Trust preferred debentures	43,703	43,668
Other liabilities	72,780	76,179

Total Liabilities	$	4,499,989	$	4,395,837
EQUITY				
Tompkins Financial Corporation shareholders' equity:				
Common Stock - par value $.10 per share: Authorized 25,000,000 shares; Issued: 14,635,468 at June 30, 2013; and 14,426,711 at December 31, 2012		1,464		1,443
Additional paid-in capital		339,233		334,649
Retained earnings		120,218		108,709
Accumulated other comprehensive loss		(27,667)		(2,106)
Treasury stock, at cost – 101,055 shares at June 30, 2013, and 100,054 shares at December 31, 2012		(2,871)		(2,787)
Total Tompkins Financial Corporation Shareholders’ Equity		430,377		439,908
Noncontrolling interests		1,517		1,452
Total Equity	$	431,894	$	441,360
Total Liabilities and Equity	$	4,931,883	$	4,837,197

See notes to unaudited condensed consolidated financial statements

TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data) (Unaudited)	Three Months Ended 06/30/2013	Three Months Ended 06/30/2012	Six Months Ended 06/30/2013	Six Months Ended 06/30/2012
INTEREST AND DIVIDEND INCOME				
Loans	$ 37,550	$ 25,403	$ 73,979	$ 50,706
Due from banks	1	5	8	8
Federal funds sold	0	0	0	2
Trading securities	160	189	325	387
Available-for-sale securities	7,912	7,523	15,392	14,699
Held-to-maturity securities	177	225	368	450
Federal Home Loan Bank stock and Federal Reserve Bank stock	160	196	345	417
Total Interest and Dividend Income	45,960	33,541	90,417	66,669
INTEREST EXPENSE				
Time certificates of deposits of $100,000 or more	1,239	720	2,443	1,454
Other deposits	2,016	1,798	4,198	3,825
Federal funds purchased and securities sold under agreements to repurchase	966	1,074	1,976	2,166
Trust preferred debentures	690	402	1,377	807
Other borrowings	1,223	1,437	2,391	2,866
Total Interest Expense	6,134	5,431	12,385	11,118
Net Interest Income	39,826	28,110	78,032	55,551
Less: Provision for loan and lease losses	2,489	1,011	3,527	2,136
Net Interest Income After Provision for Loan and Lease Losses	37,337	27,099	74,505	53,415
NONINTEREST INCOME				
Insurance commissions and fees	7,167	3,493	14,428	6,890
Investment services income	3,698	3,760	7,486	7,398
Service charges on deposit accounts	2,024	1,593	3,932	3,378
Card services income	1,690	1,280	3,428	2,849
Mark-to-market loss on trading securities	(270)	(75)	(385)	(157)
Mark-to-market gain on liabilities held at fair value	347	77	424	166
Net other-than-temporary impairment losses	0	(65)	0	(65)
Other income	1,810	1,770	4,176	3,034

Gain on securities transactions		75		933		442		935
Total Noninterest Income		16,541		12,766		33,931		24,428
NONINTEREST EXPENSES								
Salaries and wages		16,291		11,081		31,863		22,381
Pension and other employee benefits		5,338		4,123		11,408		8,422
Net occupancy expense of premises		2,954		1,793		6,015		3,598
Furniture and fixture expense		1,462		1,116		2,919		2,216
FDIC insurance		821		554		1,593		1,082
Amortization of intangible assets		547		124		1,104		257
Merger related expenses		37		879		233		972
Other operating expense		10,327		7,185		20,163		14,298
Total Noninterest Expenses		37,777		26,855		75,298		53,226
Income Before Income Tax Expense		16,101		13,010		33,138		24,617
Income Tax Expense		5,061		4,151		10,557		7,912
Net Income attributable to Noncontrolling Interests and Tompkins Financial Corporation		11,040		8,859		22,581		16,705
Less: Net income attributable to noncontrolling interests		33		33		65		65
Net Income Attributable to Tompkins Financial Corporation	$	11,007	$	8,826	$	22,516	$	16,640
Basic Earnings Per Share	$	0.76	$	0.72	$	1.55	$	1.43
Diluted Earnings Per Share	$	0.75	$	0.72	$	1.55	$	1.42

See notes to unaudited condensed consolidated financial statements

Consolidated Statements of Comprehensive Income

	Three Months Ended	
(in thousands) (Unaudited)	June 30, 2013	June 30, 2012
Net income (loss) attributable to noncontrolling interests and Tompkins Financial Corporation	$11,040	$8,859
Other comprehensive (loss) income, net of tax:		
Available-for-sale securities:		
Change in net unrealized (loss) gain during the period	(22,824)	4,407
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(45)	(561)
Change in non-credit impairment losses on available-for-sale securities	0	39
Employee benefit plans:		
Amortization of net retirement plan actuarial gain	381	414
Amortization of net retirement plan prior service cost	8	11
Amortization of net retirement plan transition liability	8	10
Other comprehensive (loss) income	(22,472)	4,320
Subtotal comprehensive (loss) income attributable to noncontrolling interests and Tompkins Financial Corporation	(11,432)	13,179
Less: Net income attributable to noncontrolling interests	(33)	(33)
Total comprehensive income attributable to Tompkins Financial Corporation	$(11,465)	$13,146

See notes to unaudited condensed consolidated financial statements.

Consolidated Statements of Comprehensive Income

	Six Months Ended	
(in thousands) (Unaudited)	June 30, 2013	June 30, 2012
Net income (loss) attributable to noncontrolling interests and Tompkins Financial Corporation	$ 22,581	$ 16,705
Other comprehensive (loss) income, net of tax:		
Available-for-sale securities:		
Change in net unrealized (loss) gain during the period	(26,102)	3,949
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(265)	(562)
Change in non-credit impairment losses on available-for-sale securities	0	39
Employee benefit plans:		
Amortization of net retirement plan actuarial gain	774	697

Amortization of net retirement plan prior service cost		17		18
Amortization of net retirement plan transition liability		15		20
Other comprehensive (loss) income		(25,561)		4,161
Subtotal comprehensive (loss) income attributable to noncontrolling interests and Tompkins Financial Corporation		(2,980)		20,866
Less: Net income attributable to noncontrolling interests		(65)		(65)
Total comprehensive (loss) income attributable to Tompkins Financial Corporation	$	(3,045)	$	20,801

See notes to unaudited condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) (Unaudited)

	06/30/2013	06/30/2012
OPERATING ACTIVITIES		
Net income attributable to Tompkins Financial Corporation	$ 22,516	$ 16,640
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	3,527	2,136
Depreciation and amortization of premises, equipment, and software	2,890	2,416
Amortization of intangible assets	1,104	257
Earnings from corporate owned life insurance	(1,038)	(817)
Net amortization on securities	7,597	5,135
Other than temporary impairment loss	0	65
Mark-to-market loss on trading securities	385	157
Mark-to-market gain on liabilities held at fair value	(424)	(166)
Gain on securities transactions	(442)	(935)
Net gain on sale of loans	(97)	(250)
Proceeds from sale of loans	1,860	11,161
Loans originated for sale	(2,053)	(11,083)
Net gain on sale of bank premises and equipment	(13)	(6)
Stock-based compensation expense	567	688
Decrease (increase) in accrued interest receivable	484	(111)
Decrease in accrued interest payable	(152)	(67)
Proceeds from maturities and payments of trading securities	1,360	1,484
Contribution to pension plan	0	(5,000)
Decrease in FDIC prepaid insurance	5,386	0
Other, net	7,426	3,229
Net Cash Provided by Operating Activities	50,883	24,933
INVESTING ACTIVITIES		
Proceeds from maturities, calls and principal paydowns of available-for-sale securities	146,700	163,264
Proceeds from sales of available-for-sale securities	76,454	92,670
Proceeds from maturities, calls and principal paydowns of held-to-maturity securities	8,617	4,908
Purchases of available-for-sale securities	(315,342)	(294,007)
Purchases of held-to-maturity securities	(4,729)	(5,358)
Net increase in loans	(102,995)	(40,524)
Net (increase) decrease in Federal Home Loan Bank stock and Federal Reserve Bank stock	(6,651)	2,378
Proceeds from sale of bank premises and equipment	84	18

Purchases of bank premises and equipment	(2,792)	(2,413)
Net cash used in acquisition	0	(1,038)
Other, net	(3,503)	(748)
Net Cash Used in Investing Activities	(204,157)	(80,850)
FINANCING ACTIVITIES		
Net (decrease) increase in demand, money market, and savings deposits	(1,151)	113,300
Net decrease in time deposits	(36,108)	(8,771)
Net decrease in Federal funds purchases and securities sold under agreements to repurchase	(42,475)	(7,428)
Increase in other borrowings	194,674	0
Repayment of other borrowings	(7,000)	(63,975)
Cash dividends	(11,007)	(8,405)
Common stock issued	0	37,978
Shares issued for dividend reinvestment plan	1,941	936
Shares issued for employee stock ownership plan	717	1,037
Net proceeds from exercise of stock options	1,188	1,370
Tax benefit from stock option exercises	108	87
Net Cash Provided by Financing Activities	100,887	66,129
Net (Decrease) Increase in Cash and Cash Equivalents	(52,387)	10,212
Cash and cash equivalents at beginning of period	118,930	49,567
Total Cash & Cash Equivalents at End of Period	66,543	59,779

See notes to unaudited condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) (Unaudited)

	06/30/2013	06/30/2012
Supplemental Information:		
Cash paid during the year for - Interest	$12,537	$11,185
Cash paid during the year for - Taxes	697	8,629
Transfer of loans to other real estate owned	1,794	1,314

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, 2012	$1,116	$ 206,395	$96,445	$ (3,677)	$(2,588)	$ 1,452	$299,143
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			16,640			65	16,705
Other comprehensive income				4,161			4,161
Total Comprehensive Income							20,866
Cash dividends ($0.72 per share)			(8,405)				(8,405)
Exercise of stock options and related tax benefit (45,853 shares, net)	5	1,452					1,457
Stock-based compensation expense		688					688
Shares issued for dividend reinvestment plan (23,168 shares, net)	2	934					936
Shares issued for employee stock ownership plan (25,655 shares)	2	1,035					1,037
Directors deferred compensation plan (483) shares, net)		22			(22)		0
Common stock issued (1,006,250 shares)	101	37,877					37,978
Forfeiture of restricted shares (692 shares)							
Balances at June 30, 2012	$1,226	$ 248,403	$104,680	$ 484	$(2,610)	$ 1,517	$353,700
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			22,516			65	22,581
Other comprehensive loss				(25,561)			(25,561)
Total Comprehensive Income							(2,980)
Cash dividends ($0.76 per share)			(11,007)				(11,007)
Exercise of stock options and related tax benefit (38,742 shares, net)	4	1,292					1,296
Stock-based compensation expense		567					567
Shares issued for dividend reinvestment plan (47,019 shares, net)	5	1,936					1,941
Shares issued for employee stock ownership plan (17,290 shares, net)	2	715					717
Directors deferred compensation plan (1,001 shares, net)		84			(84)		0
Net shares issued related to restricted stock awards (106,325 shares)	10	(10)					0
Forfeiture of restricted shares (619 shares)							
Balances at June 30, 2013	$1,464	$339,233	$120,218	$ (27,667)	$(2,871)	$ 1,517	$431,894

See notes to unaudited condensed consolidated financial statements

7

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 June 30, 2013, the Company's subsidiaries included: four wholly-owned banking subsidiaries, Tompkins Trust Company (the "Trust Company"), The Bank of Castile, Mahopac National Bank, VIST Bank; TFA Wealth Management, Inc., a wholly owned registered investment advisor ("TFA Wealth Management"); 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. VIST Bank, through its VIST Capital Management brand ("VIST Capital Management") provides investment advisory, retirement planning solutions, and brokerage services to our customers in southeastern Pennsylvania. The Company's principal offices are located at The Commons, Ithaca, New York, 14851, and its telephone number is (607) 273-3210. 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 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 Office of the Comptroller of the Currency ("OCC"), 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, 2013. 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, 2012. There have been no significant changes to the Company's accounting policies from those presented in the 2012 Annual Report on Form 10-K. Refer to Note 3- "Accounting Standards Updates" of this Report for a discussion of recently issued accounting guidelines.

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

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

The consolidated financial information included herein combines the results of operations, the assets, liabilities, and shareholders' equity of the Company and its subsidiaries. Amounts in the prior periods' unaudited condensed consolidated financial statements are reclassified when necessary to conform to the current periods' presentation. All significant intercompany balances and transactions are eliminated in consolidation.

3. Accounting Standards Updates

ASU 2011-11, "Balance Sheet (Topic 210) – Disclosures about Offsetting Assets and Liabilities." ASU 2011-11 amends Topic 210, "Balance Sheet," to require an entity to disclose both gross and net information about financial instruments, such as sales and repurchase agreements and reverse sale and repurchase agreements and securities borrowing/lending arrangements, and derivative instruments that are eligible for offset in the statement of financial position and/or subject to a master netting arrangement or similar agreement. ASU No. 2013-01, "Balance Sheet (Topic 210) – Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities," clarifies that ordinary trade receivables are not within the scope of ASU 2011-11. ASU 2011-11, as amended by ASU 2013-01, became effective for the Company on January 1, 2013 and did not have a significant impact on the Company's financial statements.

ASU 2012-02, "Intangibles – Goodwill and Other (Topic 350) – Testing Indefinite-Lived Intangible Assets for Impairment." ASU 2012-02 gives entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that an indefinite-lived intangible asset is impaired, then the entity must perform the quantitative impairment test. If, under the quantitative impairment test, the carrying amount of the intangible asset exceeds its fair value, an entity should recognize an impairment loss in the amount of that excess. Permitting an entity to assess qualitative factors when testing indefinite-lived intangible assets for impairment results in guidance that is similar to the goodwill impairment testing guidance in ASU 2011-08. ASU 2012-02 became effective for the Company on January 1, 2013 and did not have a significant impact on the Company's financial statements.

ASU 2012-06, "Business Combinations (Topic 805) – Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution (a consensus of the FASB Emerging Issues Task Force)." ASU 2012-06 clarifies the applicable guidance for subsequently measuring an indemnification asset recognized as a result of a government-assisted acquisition of a financial institution. Under ASU 2012-06, when a reporting entity recognizes an indemnification asset as a result of a government-assisted acquisition of a financial institution and, subsequently, a change in the cash flows expected to be collected on the indemnification asset occurs (as a result of a change in cash flows expected to be collected on the assets subject to indemnification), the reporting entity should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement (that is, the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets). ASU 2012-06 became effective for the Company on January 1, 2013 and did not have a significant impact on the Company's financial statements.

ASU 2013-02, “Comprehensive Income (Topic 220) – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.” ASU 2013-02 amends recent guidance related to the reporting of comprehensive income to enhance the reporting of reclassifications out of accumulated other comprehensive income. ASU 2013-02 became effective for the Company on January 1, 2013 and did not have a significant impact on the Company’s financial statements other than providing the additional required disclosure, which are disclosed in Note 10 – “Other Comprehensive Income (Loss)”.

4. Mergers and Acquisitions

On August 1, 2012, Tompkins completed its acquisition of VIST Financial Corp. (“VIST Financial”), a financial holding company headquartered in Wyomissing, Pennsylvania, and parent to VIST Bank, VIST Insurance, LLC (“VIST Insurance”), and VIST Capital Management, LLC (“VIST Capital Management”). On the acquisition date, VIST Financial had $1.4 billion in total assets, which included $889.3 million in loans, and $1.2 billion in deposits. On the acquisition date, VIST Financial was merged into Tompkins. VIST Bank, a Pennsylvania state-chartered commercial bank, became a wholly-owned subsidiary of Tompkins and will continue to operate as a separate subsidiary bank of Tompkins. VIST Insurance was merged into Tompkins Insurance Agencies, Inc., and VIST Capital Management became part of VIST Bank. The acquisition expands the Company’s presence into the southeastern region of Pennsylvania.

The acquisition was a stock transaction. Under the terms of the merger agreement, each share of VIST Financial common stock was cancelled and converted into the right to receive 0.3127 shares of Tompkins common stock, with any fractional share entitlement paid in cash, resulting in the Company issuing 2,093,689 shares at a fair value of $82.2 million. The Company also paid $1.2 million to retire outstanding VIST Financial employee stock options; while other VIST Financial employee stock options were converted into options to purchase Tompkins’ common stock, with an aggregate fair value of $1.1 million. In addition, immediately prior to the completion of the merger, Tompkins purchased from the United States Department of the Treasury the issued and outstanding shares of VIST Financial Fixed Rate Cumulative Perpetual Preferred Stock, Series A, as well as the warrant to purchase shares of VIST Financial common stock issued in connection with the issuance of the preferred stock (the “TARP Purchase”) and any accrued and unpaid dividends for an aggregate purchase price of $26.5 million. The securities purchased in the TARP Purchase were cancelled in connection with the consummation of the merger.

The acquisition was accounted for under the acquisition method of accounting and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at their estimated fair values as of acquisition date. VIST Financial’s assets and liabilities were recorded at their preliminary estimated fair values as of August 1, 2012, the acquisition date, and VIST Financial’s results of operations have been included in the Company’s Consolidated Statements of Income since that date.

The assets acquired and liabilities assumed in the acquisition were recorded at their estimated fair values based upon management’s best estimates using information available at the date of the acquisition, including the use of third party valuation specialist. The fair values are preliminary estimates and subject to adjustment for up to one year after the closing date of the acquisition. The following table summarizes the estimated fair value of the acquired assets and liabilities.

Consideration Paid (in thousands)	August 1, 2012
Tompkins common stock issued	$82,198
Cash payment for fractional shares	13
Cash payments for VIST Financial employee stock options	1,236
Fair value of VIST Financial employee stock options, converted to Tompkins' common stock options	1,107
Cash payment for VIST Financial TARP, warrants and accrued and unpaid dividends	26,454
	$111,008
Recognized amounts of identifiable assets acquired and liabilities assumed at estimated fair value	
Cash and cash equivalents	$32,985

Available-for-sale securities	376,298
FHLB stock	4,751
Loans and leases	889,336
Premises and equipment	7,343
Identifiable intangible assets	16,017
Accrued interest receivable and other assets	68,045
Deposits	(1,185,235)
Borrowings	(138,263)
Other liabilities	(7,698)
Total identifiable assets	$63,579
Goodwill	$47,429

Loans and leases acquired in the VIST Financial acquisition were recorded at fair value and subsequently accounted for in accordance with ASC Topic 310, and there was no carryover of related allowance for loan and lease losses. The fair values of loans acquired from VIST Financial were estimated using cash flow projections based on the remaining maturity and repricing terms. Cash flows were adjusted for estimated future credit losses and the rate of prepayments. Projected cash flows were then discounted to present value using a risk-adjusted market rate for similar loans.

The following is a summary of the loans acquired in the VIST Financial acquisition as of the closing date.

	Acquired Credit Impaired Loans	Acquired Non-Credit Impaired Loans	Total Acquired Loans
Contractually required principal and interest at acquisition	$159,325	$1,058,708	$1,218,033
Contractual cash flows not expected to be collected (non-accretable difference)	57,545	0	57,545
Expected cash flows at acquisition	101,780	1,058,708	1,160,488
Interest component of expected cash flows (accretable difference)	10,008	261,144	271,152
Fair value of acquired loans	91,772	797,564	889,336

The core deposit intangible and customer related intangibles totaled $10.7 million and $5.3 million, respectively and are being amortized over their estimated useful lives of approximately 10 years and 15 years, respectively, using an accelerated method. The goodwill is not being amortized but will be evaluated at least annually for impairment. The goodwill, core deposit intangibles, and customer related intangibles are not deductible for taxes.

The fair values of deposit liabilities with no stated maturities such as checking, money market, and savings accounts, were assumed to equal the carrying amounts since these deposits are payable on demand. The fair values of certificates of deposits and IRAs represent the present value of contractual cash flows discounted at market rates for similar certificates of deposit.

The fair value of borrowings, which were mainly repurchase agreements with a large money center bank, was determined by discounted cash flow, as well as obtaining quotes from the money center bank. The Company also assumed trust preferred debentures. The fair value of these instruments was estimated by using the income approach whereby the expected cash flows over remaining estimated life are discounted using the Company’s credit spread over the current fully indexed yield based on an expectation of future interest rates derived from observed market interest rate curve and volatilities.

Direct costs related to the acquisition were expensed as incurred. During the twelve months ended December 31, 2012, the Company incurred $15.6 million of merger and acquisition integration-related expenses, which have been separately stated in the Company’s Consolidated Statements of Income. For the six months ended June 30, 2013, the Company incurred $233,000 of merger and acquisition integration-related expenses.

5. Securities

Available-for-Sale Securities

The following table summarizes available-for-sale securities held by the Company at June 30, 2013:

	Available-for-Sale Securities			
June 30, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. Government sponsored entities	$585,539	$9,625	$6,853	$588,311
Obligations of U.S. states and political subdivisions	73,769	1,417	1,235	73,951
Mortgage-backed securities – residential, issued by				
U.S. Government agencies	143,418	3,223	2,348	144,293
U.S. Government sponsored entities	624,318	8,860	12,600	620,578
Non-U.S. Government agencies or sponsored entities	385	9	0	394
U.S. corporate debt securities	5,005	53	113	4,945
Total debt securities	1,432,434	23,187	23,149	1,432,472
Equity securities	2,034	0	52	1,982
Total available-for-sale securities	$1,434,468	$23,187	$23,201	$1,434,454

The following table summarizes available-for-sale securities held by the Company at December 31, 2012:

	Available-for-Sale Securities			
December 31, 2012	Amortized Cost1	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
U.S. Treasury securities	$1,001	$3	$0	$1,004
Obligations of U.S. Government sponsored entities	570,871	22,909	2	593,778
Obligations of U.S. states and political subdivisions	76,803	2,326	73	79,056
Mortgage-backed securities – residential, issued by				
U.S. Government agencies	162,853	5,362	548	167,667
U.S. Government sponsored entities	526,364	15,759	1,768	540,355
Non-U.S. Government agencies or sponsored entities	4,457	40	143	4,354
U.S. corporate debt securities	5,009	87	13	5,083
Total debt securities	1,347,358	46,486	2,547	1,391,297
Equity securities	2,058	0	15	2,043
Total available-for-sale securities	$1,349,416	$46,486	$2,562	$1,393,340

1 Net of other-than-temporary impairment losses recognized in earnings.

Held-to-Maturity Securities

The following table summarizes held-to-maturity securities held by the Company at June 30, 2013:

	Held-to-Maturity Securities			
June 30, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. states and political subdivisions	$20,173	$956	$0	$21,129
Total held-to-maturity debt securities	$20,173	$956	$0	$21,129

12

The following table summarizes held-to-maturity securities held by the Company at December 31, 2012:

	Held-to-Maturity Securities			
December 31, 2012 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. states and political subdivisions	$24,062	$1,101	$0	$25,163
Total held-to-maturity debt securities	$24,062	$1,101	$0	$25,163

Realized gains on available-for-sale securities were $138,000 and $505,000 in the second quarter and six months ending June 30, 2013, respectively, and $933,000 and $935,000 in the same periods of 2012. Realized losses on available-for-sale securities were $63,000 in the second quarter and six months ending June 30, 2013, respectively, and $0 in the same time periods of 2012.

The following table summarizes available-for-sale securities that had unrealized losses at June 30, 2013:

	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	$316,509	$ 6,853	$0	$ 0	$316,509	$ 6,853
Obligations of U.S. states and political subdivisions	30,641	1,235	0	0	30,641	1,235
Mortgage-backed securities – issued by						
U.S. Government agencies	63,312	2,348	0	0	63,312	2,348
U.S. Government sponsored entities	372,386	12,600	0	0	372,386	12,600
U.S. corporate debt securities	2,387	113	0	0	2,387	113
Equity securities	948	52	0	0	948	52
Total available-for-sale securities	$786,183	$ 23,201	$0	$ 0	$786,183	$ 23,201

There were no unrealized losses on held-to-maturity securities at June 30, 2013.

The following table summarizes available-for-sale securities that had unrealized losses at December 31, 2012:

	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	$1,147	$ 2	$0	$ 0	$1,147	$ 2
Obligations of U.S. states and political subdivisions	10,307	73	0	0	10,307	73
Mortgage-backed securities – residential, issued by						
U.S. Government agencies	40,022	548	0	0	40,022	548

U.S. Government sponsored entities	128,365	1,768	0	0	128,365	1,768
Non-U.S. Government agencies or sponsored entities	833	143	0	0	833	143
U.S. corporate debt securities	2,487	13	0	0	2,487	13
Equity securities	985	15	0	0	985	15
Total available-for-sale securities	$184,146	$ 2,562	$0	$ 0	$184,146	$ 2,562

There were no unrealized losses on held-to-maturity securities at December 31, 2012.

13

The gross unrealized losses reported at June 30, 2013 and December 31, 2012 for mortgage-backed securities-residential relate to investment securities issued by U.S. government sponsored entities such as Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, and U.S. government agencies such as Government National Mortgage Association, and non-U.S. Government agencies or sponsored entities. The total gross unrealized losses shown in the table above were primarily attributable to changes in interest rates and levels of market liquidity, relative to when the investment securities were purchased, and generally not due to the credit quality of the investment securities.

The Company does not intend to sell the securities that are in an unrealized loss position and it is not more-likely-than not that the Company will be required to sell these available-for-sale investment securities before recovery of their amortized cost basis, which may be at maturity. Accordingly, as of June 30, 2013, and December 31, 2012, management believes the unrealized losses detailed in the tables above are not other-than-temporary.

Ongoing Assessment of Other-Than-Temporary Impairment

On a quarterly basis, the Company performs an assessment to determine whether there have been any events or economic circumstances indicating that a security with an unrealized loss has suffered other-than-temporary impairment. A debt security is considered impaired if the fair value is less than its amortized cost basis 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 and the period over which the debt security is expected to recover.

- 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, and 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 of June 30, 2013, the Company owned one corporate (non-agency) collateralized mortgage obligation issue ("CMO") in a senior tranche of which the aggregate historical cost basis for this non-agency CMO was less than its estimated fair value. At June 30, 2013, this non-agency CMO with an amortized cost basis of $385,000 was collateralized by residential real estate and is not currently deferring or in default of interest payments to the Company. As of

December 31, 2012, the Company owned 5 corporate, non-U.S. Government agency collateralized mortgage obligation issues ("CMO's") in super senior or senior tranches of which the aggregate historical cost basis for 3 of these non-agency CMO's was greater than their estimated fair value. At December 31, 2012, all 5 non-agency CMO's with an amortized cost basis of $4.5 million were collateralized by residential real estate. None of the 5 non-agency CMO's whose aggregate historical cost basis was greater than their estimated fair value were deferring or were in default of interest payments to the Company.

During the first quarter of 2013, the Company sold three non-agency CMO securities for a gain of approximately $94,000. Prior to the first quarter of 2013, these three non-agency CMO securities were determined to be other-than-temporarily impaired and the Company did recognize net credit impairment charges to earnings of $441,000 over the life of these three securities. Also during the first quarter of 2013, one non-agency CMO security was repaid in full. The Company did not recognize any net credit impairment charge to earnings on these securities in 2013. The Company did recognize $65,000 in net credit impairment charges to earnings on these securities in the second quarter and six months ending June 30, 2012.

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		Six Months Ended	
(in thousands)	06/30/2013	06/30/2012	06/30/2013	06/30/2012
Credit losses at beginning of the period	$0	$245	$441	$245
Credit losses related to securities for which an other-than-temporary impairment was previously recognized	0	65	0	65
Sales of securities for which an other-than-temporary impairment was previously recognized	0	0	(441)	0
Ending balance of credit losses on debt securities held for which a portion of an other-than-temporary impairment was recognized in other comprehensive income	$0	$310	$0	$310

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.

June 30, 2013		
(in thousands)	Amortized Cost	Fair Value
Available-for-sale securities:		
Due in one year or less	$21,957	$22,249
Due after one year through five years	229,402	239,169
Due after five years through ten years	381,530	375,541
Due after ten years	31,424	30,248
Total	664,313	667,207
Mortgage-backed securities	768,121	765,265
Total available-for-sale debt securities	$1,432,434	$1,432,472

December 31, 2012		
(in thousands)	Amortized Cost1	Fair Value
Available-for-sale securities:		
Due in one year or less	$39,552	$39,990
Due after one year through five years	355,296	370,933
Due after five years through ten years	255,795	264,966
Due after ten years	3,041	3,032
Total	653,684	678,921
Mortgage-backed securities	693,674	712,376
Total available-for-sale debt securities	$1,347,358	$1,391,297

1 Net of other-than-temporary impairment losses recognized in earnings.

June 30, 2013		
(in thousands)	Amortized Cost	Fair Value
Held-to-maturity securities:		

Due in one year or less	$	11,167	$	11,254
Due after one year through five years		6,336		6,815
Due after five years through ten years		2,080		2,370
Due after ten years		590		690
Total held-to-maturity debt securities	$	20,173	$	21,129

December 31, 2012 (in thousands)	Amortized Cost	Fair Value
Held-to-maturity securities:		
Due in one year or less	$13,070	$13,154
Due after one year through five years	7,974	8,535
Due after five years through ten years	2,283	2,619
Due after ten years	735	855
Total held-to-maturity debt securities	$24,062	$25,163

The Company also holds non-marketable Federal Home Loan Bank New York ("FHLBNY") stock, non-marketable Federal Home Loan Bank Pittsburgh ("FHLBPITT") stock, non-marketable Atlantic Central Bankers Bank ("ACBB") stock, and non-marketable Federal Reserve Bank ("FRB") 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 each FHLB. Holdings of FHLBNY stock, FHLBPITT stock, ACBB stock, and FRB stock totaled $16.6 million, $7.4 million, $95,000, and $2.1 million at June 30, 2013, respectively, and $13.2 million, $4.1 million, $95,000 and $2.1 million at December 31, 2012, 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. Federal law requires a member institution of the Federal Home Loan Bank (FHLB) system to hold stock of its district FHLB according to a predetermined formula. This stock is recorded at cost. 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, 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)	June 30, 2013	December 31, 2012
Obligations of U.S. Government sponsored entities	$11,185	$11,860
Mortgage-backed securities – residential, issued by U.S. Government sponsored entities	3,503	4,590
Total	$14,688	$16,450

The net loss on trading account securities, which reflects mark-to-market adjustments, totaled $270,000 and $385,000 for the second quarter and six months ending June 30, 2013, respectively, and $75,000 and $157,000 for the second quarter and six months ending June 30, 2012.

The Company pledges securities as collateral for public deposits and other borrowings, and sells securities under agreements to repurchase. Securities carried of $1.0 billion and $1.0 billion at June 30, 2013 and December 31, 2012, respectively, were either pledged or sold under agreements to repurchase.

6. Loans and Leases

Loans and Leases at June 30, 2013 and December 31, 2012 were as follows:

	June 30, 2013			December 31, 2012		
(in thousands)	Originated	Acquired	Total Loans and Leases	Originated	Acquired	Total Loans and Leases
Commercial and industrial						
Agriculture	$ 59,722	$ 0	$ 59,722	$ 77,777	$ 0	$ 77,777
Commercial and industrial other	497,191	137,423	634,614	446,876	167,427	614,303
Subtotal commercial and industrial	556,913	137,423	694,336	524,653	167,427	692,080
Commercial real estate						
Construction	35,418	29,257	64,675	41,605	43,074	84,679
Agriculture	47,947	3,178	51,125	48,309	3,247	51,556
Commercial real estate other	815,323	430,726	1,246,049	722,273	445,359	1,167,632
Subtotal commercial real estate	898,688	463,161	1,361,849	812,187	491,680	1,303,867
Residential real estate						
Home equity	161,191	74,396	235,587	159,720	81,657	241,377
Mortgages	632,996	38,037	671,033	573,861	41,618	615,479
Subtotal residential real estate	794,187	112,433	906,620	733,581	123,275	856,856
Consumer and other						
Indirect	23,783	12	23,795	26,679	24	26,703
Consumer and other	31,740	1,374	33,114	32,251	1,498	33,749
Subtotal consumer and other	55,523	1,386	56,909	58,930	1,522	60,452
Leases	5,048	0	5,048	4,618	0	4,618
Covered loans	0	31,548	31,548	0	37,600	37,600
Total loans and leases	2,310,359	745,951	3,056,310	2,133,969	821,504	2,955,473
Less: unearned income and deferred costs and fees	(1,127)	0	(1,127)	(863)	0	(863)
Total loans and leases, net of unearned income and deferred costs and fees	$ 2,309,232	$ 745,951	$ 3,055,183	$ 2,133,106	$ 821,504	$ 2,954,610

The outstanding principal balance and the related carrying amount of the Company's loans acquired in the VIST Bank Acquisition are as follows at June 30, 2013 and December 31, 2012:

(in thousands)	June 30, 2013	December 31, 2012
Acquired Credit Impaired Loans		
Outstanding principal balance	$107,633	$114,516
Carrying amount	67,690	80,223

Acquired Non-Credit Impaired Loans		
Outstanding principal balance	727,763	750,380
Carrying amount	678,261	741,281
Total Acquired Loans		
Outstanding principal balance	835,396	864,896
Carrying amount	745,951	821,504

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

(in thousands)		
Balance at August 1, 2012	$0	
VIST Acquisition	10,008	
Accretion	(3,836	)
Disposals (loans paid in full)	(96	)
Reclassifications to/from nonaccretable difference	1,261	
Balance at December 31, 2012	$7,337	

(in thousands)		
Balance at January 1, 2013	$7,337	
Accretion	(4,012	)
Disposals (loans paid in full)	(76	)
Reclassifications to/from nonaccretable difference1	1,780	
Other changes in expected cash flows2	4,284	
Balance at June 30, 2013	$9,313	

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).

During the second quarter, we increased our estimate of future cash flows on acquired loans to reflect our current outlook for prepayment speeds on these balances and increases in interest rates on variable rate loans. The decrease in prepayment speed assumptions and increases in interest rate assumptions increased our accretable discount by $4.3 million. This change did not materially impact our current quarter interest income or net interest margin.

At June 30, 2013, acquired loans included $31.5 million of covered loans. VIST Financial 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 8 – “FDIC Indemnification Asset Related to Covered Loans” for further discussion of the loss sharing agreements and related FDIC indemnification asset.

The Company has adopted comprehensive lending policies, underwriting standards and loan review procedures. Management review 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, 2012. 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 June 30, 2013. 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 upon acquisition, regardless of whether the customer is contractually delinquent, if we can reasonably estimate the timing and amount of the expected cash flows on such loans and if the Company expects to fully collect the new carrying value of the loans. As such, we may no longer consider the loan to be nonaccrual or nonperforming and may accrue interest on these loans, including the impact of any accretable discount. To the extent we cannot reasonably estimate cash flows, interest income recognition is discontinued. The Company has determined that it can reasonably estimate future cash flows on our acquired loans that are past due 90 days or more and accruing interest and the Company expects to fully collect the carrying value of the loans.

The below table is an age analysis of past due loans, segregated by originated and acquired loan and lease portfolios, and by class of loans, as of June 30, 2013 and December 31, 2012.

June 30, 2013

(in thousands)	30-89 days	90 days or more	Current Loans	Total Loans	90 days and accruing1	Nonaccrual
Originated Loans and Leases						
Commercial and industrial						
Agriculture	$ 0	$ 0	$ 59,722	$ 59,722	$ 0	$ 0
Commercial and industrial other	634	485	496,072	497,191	0	1,193
Subtotal commercial and industrial	634	485	555,794	556,913	0	1,193
Commercial real estate						
Construction	422	7,658	27,338	35,418	0	10,083
Agriculture	210	0	47,737	47,947	0	21
Commercial real estate other	3,407	9,215	802,701	815,323	0	11,929
Subtotal commercial real estate	4,039	16,873	877,776	898,688	0	22,033
Residential real estate						
Home equity	476	1,535	159,180	161,191	118	1,778
Mortgages	3,873	5,881	623,242	632,996	38	6,684
Subtotal residential real estate	4,349	7,416	782,422	794,187	156	8,462
Consumer and other						
Indirect	528	190	23,065	23,783	0	188
Consumer and other	47	0	31,693	31,740	0	224
Subtotal consumer and other	575	190	54,758	55,523	0	412
Leases	0	0	5,048	5,048	0	0
Total loans and leases	9,597	24,964	2,275,798	2,310,359	156	32,100
Less: unearned income and deferred costs and fees	0	0	0	(1,127)	0	0
Total originated loans and leases, net of unearned income and deferred costs and fees	$ 9,597	$ 24,964	$ 2,275,798	$ 2,309,232	$ 156	$ 32,100
Acquired Loans and Leases						
Commercial and industrial						
Commercial and industrial other	1,088	838	135,497	137,423	838	359

Subtotal commercial and industrial	1,088	838	135,497	137,423	838	359
Commercial real estate						
Construction	250	6,017	22,990	29,257	5,857	183
Agriculture	212	0	2,966	3,178	0	0
Commercial real estate other	1,325	5,304	424,097	430,726	3,545	2,823
Subtotal commercial real estate	1,787	11,321	450,053	463,161	9,402	3,006
Residential real estate						
Home equity	963	1,881	71,552	74,396	759	1,530
Mortgages	1,749	3,021	33,267	38,037	2,325	2,021
Subtotal residential real estate	2,712	4,902	104,819	112,433	3,084	3,551
Consumer and other						
Indirect	0	1	11	12	0	0
Consumer and other	4	0	1,370	1,374	0	0
Subtotal consumer and other	4	1	1,381	1,386	0	0
Covered loans	1,613	3,091	26,844	31,548	3,091	0
Total acquired loans and leases, net of unearned income and deferred costs and fees	$ 7,204	$ 20,153	$ 718,594	$ 745,951	$ 16,415	$ 6,916

1 Includes acquired loans that were recorded at fair value at the acquisition date.

December 31, 2012

(in thousands)	30-89 days	90 days or more	Current Loans	Total Loans	90 days and accruing1	Nonaccrual
Originated loans and leases						
Commercial and industrial						
Agriculture	$ 0	$ 0	$ 77,777	$ 77,777	$ 0	$ 28
Commercial and industrial other	2,575	509	443,792	446,876	0	748
Subtotal commercial and industrial	2,575	509	521,569	524,653	0	776
Commercial real estate						
Construction	91	8,469	33,045	41,605	0	10,306
Agriculture	212	0	48,097	48,309	0	22
Commercial real estate other	1,232	9,541	711,500	722,273	0	13,168
Subtotal commercial real estate	1,535	18,010	792,642	812,187	0	23,496
Residential real estate						
Home equity	582	2,348	156,790	159,720	120	1,641
Mortgages	2,303	6,975	564,583	573,861	137	7,182
Subtotal residential real estate	2,885	9,323	721,373	733,581	257	8,823
Consumer and other						
Indirect	869	233	25,577	26,679	0	277
Consumer and other	126	0	32,125	32,251	0	16
Subtotal consumer and other	995	233	57,702	58,930	0	293
Leases	0	0	4,618	4,618	0	0
Total loans and leases	7,990	28,075	2,097,904	2,133,969	257	33,388
Less: unearned income and deferred costs and fees	0	0	0	(863)	0	0
Total originated loans and leases, net of unearned income and deferred costs and fees	$ 7,990	$ 28,075	$ 2,097,904	$ 2,133,106	$ 257	$ 33,388
Acquired loans and leases						
Commercial and industrial						
Commercial and industrial other	13	1,646	165,768	167,427	1,082	564

Subtotal commercial and industrial	13	1,646	165,768	167,427	1,082	564
Commercial real estate						
Construction	53	6,607	36,414	43,074	6,419	188
Agriculture	0	0	3,247	3,247	0	0
Commercial real estate other	1,139	5,043	439,177	445,359	3,790	1,330
Subtotal commercial real estate	1,192	11,650	478,838	491,680	10,209	1,518
Residential real estate						
Home equity	1,626	1,913	78,118	81,657	865	1,453
Mortgages	1,416	2,968	37,234	41,618	2,282	808
Subtotal residential real estate	3,042	4,881	115,352	123,275	3,147	2,261
Consumer and other						
Indirect	0	0	24	24	0	0
Consumer and other	2	9	1,487	1,498	0	9
Subtotal consumer and other	2	9	1,511	1,522	0	9
Covered loans	1,014	4,272	32,314	37,600	4,272	0
Total acquired loans and leases, net of unearned income and deferred costs and fees	$ 5,263	$ 22,458	$ 793,783	$ 821,504	$ 18,710	$ 4,352

1 Includes acquired loans that were recorded at fair value at the acquisition date.

7. 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 factor is 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 June 30, 2013, considers the allowance to be appropriate, under adversely different conditions or assumptions, the Company would need to increase or decrease the allowance.

Acquired Loans and Leases

Acquired loans accounted for under ASC 310-30

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

Acquired loans accounted for under ASC 310-20

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

The following tables detail activity in the allowance for loan and lease losses segregated by originated and acquired loan and lease portfolios and by portfolio segment for the three and six months ended June 30, 2013 and 2012. 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 June 30, 2013

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Originated						
Allowance for credit losses:						
Beginning balance	$ 7,037	$ 10,644	$ 5,036	$ 1,879	$ 2	$ 24,598
Charge-offs	(42)	(144)	(147)	(198)	0	(531)
Recoveries	1,282	358	27	113	0	1,780
Provision	(1,322)	(449)	357	401	19	(994)
Ending Balance	$ 6,955	$ 10,409	$ 5,273	$ 2,195	$ 21	$ 24,853

Three months ended June 30, 2013

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired						
Allowance for credit losses:						
Beginning balance	$ 0	$ 63	$ 0	$ 0	$ 0	$ 63
Charge-offs	(2,906)	(32)	(3)	0	0	(2,941)
Recoveries	0	0	0	0	0	0
Provision	2,970	350	129	34	0	3,483
Ending Balance	$ 64	$ 381	$ 126	$ 34	$ 0	$ 605

Three months ended June 30, 2012

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Originated						
Allowance for credit losses:						

Beginning balance	$ 8,270	$ 12,314	$ 4,491	$ 1,868	$ 5	$ 26,948
Charge-offs	(329)	(200)	(614)	(152)	0	(1,295)
Recoveries	46	0	66	89	0	201
Provision	(180)	853	407	(85)	16	1,011
Ending Balance	$ 7,807	$ 12,967	$ 4,350	$ 1,720	$ 21	$ 26,865

There was no allowance for acquired loans and leases as of June 30, 2012.

Six months ended June 30, 2013

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Originated						
Allowance for credit losses:						
Beginning balance	$7,533	$ 10,184	$4,981	$ 1,940	$5	$24,643
Charge-offs	(432)	(490)	(339)	(462)	0	(1,723)
Recoveries	1,442	436	29	200	0	2,107
Provision	(1,588)	279	602	517	16	(174)
Ending Balance	$6,955	$ 10,409	$5,273	$ 2,195	$21	$24,853

Six months ended June 30, 2013

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired						
Allowance for credit losses:						
Beginning balance	$0	$ 0	$0	$ 0	$0	$0
Charge-offs	(2,929)	(32)	(110)	(25)	0	(3,096)
Recoveries	0	0	0	0	0	0
Provision	2,993	413	236	59	0	3,701
Ending Balance	$64	$ 381	$126	$ 34	$0	$605

Six months ended June 30, 2012

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Originated						
Allowance for credit losses:						
Beginning balance	$ 8,936	$ 12,662	$4,247	$ 1,709	$39	$27,593
Charge-offs	(581)	(1,169)	(1,023)	(411)	0	(3,184)
Recoveries	65	0	66	189	0	320
Provision	(613)	1,474	1,060	233	(18)	2,136
Ending Balance	$ 7,807	$ 12,967	$4,350	$ 1,720	$21	$26,865

There was no allowance for acquired loans and leases as of June 30, 2012.

At June 30, 2013 and December 31, 2012, 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	Commercial Real Estate	Residential Real	Consumer and	Finance Leases	Total

	Industrial		Estate	Other		
Originated June 30, 2013						
Individually evaluated for impairment	$234	$0	$0	$0	$0	$234
Collectively evaluated for impairment	6,721	10,409	5,273	2,195	21	24,619
Ending balance	$6,955	$10,409	$5,273	$2,195	$21	$24,853

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired						
June 30, 2013						
Individually evaluated for impairment	$ 0	$ 63	$ 0	$ 0	$ 0	$ 63
Collectively evaluated for impairment	64	318	126	34	0	542
Ending balance	$ 64	$ 381	$ 126	$ 34	$ 0	$ 605

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Originated						
December 31, 2012						
Individually evaluated for impairment	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Collectively evaluated for impairment	7,533	10,184	4,981	1,940	5	24,643
Ending balance	$ 7,533	$ 10,184	$ 4,981	$ 1,940	$ 5	$ 24,643

There was no allowance for acquired loans and leases as of December 31, 2012.

The recorded investment in loans and leases summarized on the basis of the Company's impairment methodology as of June 30, 2013 and December 31, 2012 was as follows:

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Originated						
June 30, 2013						
Individually evaluated for impairment	$ 4,615	$ 17,742	$ 447	$ 0	$ 0	$ 22,804
Collectively evaluated for impairment	552,298	880,946	793,740	55,523	5,048	2,287,555
Total	$ 556,913	$ 898,688	$ 794,187	$ 55,523	$ 5,048	$ 2,310,359

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired						
June 30, 2013						
Individually evaluated for impairment	$ 1,045	$ 2,677	$ 0	$ 0	$ 0	$ 3,722
Loans acquired with deteriorated credit	4,386	17,626	14,130	0	31,548	67,690

quality						
Collectively evaluated for impairment	131,992	442,858	98,303	1,386	0	674,539
Total	$ 137,423	$ 463,161	$ 112,433	$ 1,386	$ 31,548	$ 745,951

25

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Originated						
December 31, 2012						
Individually evaluated for impairment	$ 2,771	21,478	$ 483	$ 0	$ 0	$ 24,732
Collectively evaluated for impairment	521,882	790,709	733,098	58,930	4,618	2,109,237
Total	$ 524,653	$ 812,187	$ 733,581	$ 58,930	$ 4,618	$ 2,133,969

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired						
December 31, 2012						
Individually evaluated for impairment	$ 519	1,816	$ 0	$ 0	$ 0	$ 2,335
Loans acquired with deteriorated credit quality	7,144	24,032	17,650	0	36,251	85,077
Collectively evaluated for impairment	159,764	465,832	105,625	1,522	1,349	734,092
Total	$ 167,427	$ 491,680	$ 123,275	$ 1,522	$ 37,600	$ 821,504

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

Impaired loans are set forth in the tables below as of June 30, 2013 and December 31, 2012.

(in thousands)	June 30, 2013 Recorded Investment	June 30, 2013 Unpaid Principal Balance	June 30, 2013 Related Allowance	December 31, 2012 Recorded Investment	December 31, 2012 Unpaid Principal Balance	December 31, 2012 Related Allowance
Originated loans and leases with no related allowance						
Commercial and industrial						
Commercial and industrial other	$4,381	$6,287	$0	$2,771	$2,891	$0
Commercial real estate						
Construction	6,258	11,868	0	6,763	12,373	0
Commercial real estate other	11,484	15,150	0	14,715	16,940	0
Residential real estate						
Residential real estate other	447	447	0	483	483	0
Subtotal	$22,570	$33,752	$0	$24,732	$32,687	$0
Originated loans and leases with related allowance						
Commercial and industrial						
Commercial and industrial other	234	415	234	0	0	0
Subtotal	$234	$415	$234	$0	$0	$0
Total	$22,804	$34,167	$234	$24,732	$32,687	$0

(in thousands)	June 30, 2013 Recorded Investment	June 30, 2013 Unpaid Principal Balance	June 30, 2013 Related Allowance	December 31, 2012 Recorded Investment	December 31, 2012 Unpaid Principal Balance	December 31, 2012 Related Allowance
Acquired loans and leases with no related allowance						
Commercial and industrial						
Commercial and industrial other	$1,045	$3,896	$0	$519	$519	$0
Commercial real estate						
Commercial real estate other	2,468	2,468	0	1,816	1,861	0
Subtotal	$3,513	$6,364	$0	$2,335	$2,380	$0
Acquired loans and leases with related allowance						
Commercial real estate						
Commercial real estate other	209	209	63	0	0	0
Subtotal	$209	$209	$63	$0	$0	$0
Total	$3,722	$6,573	$63	$2,335	$2,380	$0

There was no allowance for acquired loan and leases at December 31, 2012.

27

The average recorded investment and interest income recognized on impaired originated loans for the three months ended June 30, 2013 and 2012 was as follows:

(in thousands)	Three Months Ended June 30, 2013 Average Recorded Investment	Three Months Ended June 30, 2013 Interest Income Recognized	Three Months Ended June 30, 2012 Average Recorded Investment	Three Months Ended June 30, 2012 Interest Income Recognized
Originated loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	4,397	0	2,966	4
Commercial real estate				
Construction	6,311	0	11,247	0
Commercial real estate other	15,012	0	10,380	0
Residential real estate				
Residential real estate other	447	0	488	0
Subtotal	$26,167	$0	$25,081	$4
Originated loans and leases with related allowance				
Commercial and industrial				
Commercial and industrial other	416	0	4,067	0
Commercial real estate				
Commercial real estate other	0	0	1,026	6
Subtotal	$416	$0	$5,093	$6
Total	$26,583	$0	$30,174	$10

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

(in thousands)	Three Months Ended June 30, 2013 Average Recorded Investment	Three Months Ended June 30, 2013 Interest Income Recognized
Acquired loans and leases with no related allowance		
Commercial and industrial		
Commercial and industrial other	2,517	0
Commercial real estate		
Commercial real estate other	2,481	5
Subtotal	$4,998	$5
Acquired loans and leases with related allowance		
Commercial real estate		
Commercial real estate other	212	0
Subtotal	$212	$0
Total	$5,210	$5

There were no acquired loans and leases at June 30, 2012.

	Six Months Ended June 30, 2013		Six Months Ended June 30, 2012	
(in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Originated loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	5,085	0	3,108	4
Commercial real estate				
Construction	6,529	0	13,196	0
Commercial real estate other	13,867	0	10,516	0
Residential real estate				
Residential real estate other	447	0	488	0
Subtotal	$25,928	$0	$27,308	$4
Originated loans and leases with related allowance				
Commercial and industrial				
Commercial and industrial other	417	0	4,110	0
Commercial real estate				
Commercial real estate other	0	0	1,049	24
Subtotal	$417	$0	$5,159	$24
Total	$26,345	$0	$32,467	$28

	Six Months Ended June 30, 2013	
(in thousands)	Average Recorded Investment	Interest Income Recognized
Acquired loans and leases with no related allowance		
Commercial and industrial		
Commercial and industrial other	3,017	5
Commercial real estate		
Commercial real estate other	2,492	31
Residential real estate		
Subtotal	$5,509	$36
Acquired loans and leases with related allowance		
Commercial and industrial		
Commercial real estate		
Residential real estate other	214	4
Subtotal	$214	$4
Total	$5,723	$40

There were no acquired loans and leases at June 30, 2012.

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

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

June 30, 2013	Three months ended			Defaulted TDRs2	
(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 other1	1	$ 47	$ 47	0	$ 0
Total	1	$ 47	$ 47	0	$ 0

1 Represents the following concessions: extension of term and reduction of rate
2 TDRs that defaulted during the last three months that were restructured in the prior twelve months.

June 30, 2012	Three months ended			Defaulted TDRs2	
(in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Post-Modification Outstanding Recorded Investment
Residential Real Estate					
Mortgages1	1	62	62	0	0
Total	1	$ 62	$ 62	0	$ 0

1 Represents the following concessions: extension of term and reduction in rate
2 TDRs that defaulted during the last three months that were restructured in the prior twelve months.

June 30, 2013	Six months ended			Defaulted TDRs3	
(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 other1	2	$ 139	$ 139	0	$ 0
Commercial Real Estate					
Commercial real estate other2	3	$ 371	$ 371	0	$ 0
Total	5	$ 510	$ 510	0	$ 0

1 Represents the following concessions: extension of term and reduction in rate
2 Represents the following concessions: extension of term (1 loan: $129,000) and extended term and lowered rate (2 loans: $242,000)
3 TDRs that defaulted during the last six months that were restructured in the prior twelve months.

June 30, 2012		Six months ended			
				Defaulted TDRs2	
(in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Post-Modification Outstanding Recorded Investment
Residential Real Estate					
Mortgages1	1	$ 62	$ 62	0	$ 0
Total	1	$ 62	$ 62	0	$ 0

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

2 TDRs that defaulted during the last six months that were restructured in the prior twelve months.

The following tables present credit quality indicators (internal risk grade) by class of commercial and industrial loans and commercial real estate loans as of June 30, 2013 and December 31, 2012.

June 30, 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	$ 467,831	$ 57,479	$ 776,632	$ 46,021	$ 22,570	$1,370,533
Special Mention	19,358	299	16,054	798	6,590	43,099
Substandard	10,002	1,944	22,637	1,128	6,258	41,969
Total	$ 497,191	$ 59,722	$ 815,323	$ 47,947	$ 35,418	$1,455,601

June 30, 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	$ 109,404	$ 0	$ 386,008	$ 1,117	$ 19,676	$516,205
Special Mention	12,509	0	13,306	2,061	1,424	29,300
Substandard	15,510	0	31,412	0	8,157	55,079
Total	$ 137,423	$ 0	$ 430,726	$ 3,178	$ 29,257	$600,584

31

December 31, 2012

(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	$ 410,255	$ 75,456	$ 677,261	$ 46,317	$ 26,126	$1,235,415
Special Mention	25,308	2,055	19,782	692	8,505	56,342
Substandard	11,313	266	25,230	1,300	6,974	45,083
Total	$ 446,876	$ 77,777	$ 722,273	$ 48,309	$ 41,605	$1,336,840

December 31, 2012

(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	$ 139,719	$ 0	$ 415,397	$ 813	$ 27,590	$583,519
Special Mention	7,717	0	10,112	2,136	5,416	25,381
Substandard	14,991	0	19,850	298	10,068	45,207
Total	$ 162,427	$ 0	$ 445,359	$ 3,247	$ 43,074	$654,107

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 June 30, 2013 and December 31, 2012. Acquired loans that are 90 days or greater past due and accruing interest are considered performing. Acquired loans that are nonperforming in the below tables represent loans that experienced deteriorating credit quality subsequent to the acquisition date.

June 30, 2013

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Originated Loans and Leases					
Performing	$159,295	$626,274	$23,595	$31,516	$840,680
Nonperforming	1,896	6,722	188	224	9,030
Total	$161,191	$632,996	$23,783	$31,740	$849,710

June 30, 2013

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Acquired Loans and Leases					
Performing	$72,866	$36,016	$12	$1,374	$110,268
Nonperforming	1,530	2,021	0	0	3,551
Total	$74,396	$38,037	$12	$1,374	$113,819

December 31, 2012

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Originated Loans and Leases					
Performing	$157,959	$566,542	$26,402	$32,235	$783,138
Nonperforming	1,761	7,319	277	16	9,373
Total	$159,720	$573,861	$26,679	$32,251	$792,511

December 31, 2012

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Acquired Loans and Leases					
Performing	$80,204	$40,810	$24	$1,498	$122,536
Nonperforming	1,453	808	0	0	2,261
Total	$81,657	$41,618	$24	$1,498	$124,797

8. 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 incurred up to $4.0 million, and 70 percent of net losses on covered commercial assets incurred 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 six months ended June 30, 2013 is shown below. The Company acquired the FDIC indemnification asset as part of the VIST acquisition on August 1, 2012.

Six months ended June 30, 2013

(in thousands)	06/30/2013
Balance, beginning of the period	$4,385
Discount accretion of the present value at the acquisition date	264
Prospective adjustment for additional cash flows	(115)
Increase due to impairment on covered loans	0
Reimbursements from the FDIC	0
Balance, end of period	$4,534

9. Earnings Per Share

Earnings per share in the table below, for the three and six month periods ending June 30, 2013 and 2012 is 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 includes the dilutive effect of additional potential shares from stock compensations awards.

(in thousands, except share and per share data)	Three Months Ended June 30, 2013	June 30, 2012
Basic		
Net income available to common shareholders	$11,007	$8,826
Less: dividends and undistributed earnings allocated to unvested restricted stock awards	(112)	(33)
Net earnings allocated to common shareholders	10,895	8,793
Weighted average shares outstanding, including participating securities	14,541,222	12,195,047
Less: average participating securities	(113,384)	(48,425)
Weighted average shares outstanding - Basic	14,427,838	12,146,622
Diluted		
Net earnings allocated to common shareholders	10,895	8,793
Weighted average shares outstanding - Basic	14,427,838	12,146,622
Dilutive effect of common stock options or restricted stock awards	69,021	19,795
Weighted average shares outstanding - Diluted	14,496,859	12,166,417
Basic EPS	0.76	0.72
Diluted EPS	0.75	0.72

The dilutive effect of common stock options or restricted awards calculation for the three months ended June 30, 2013 and 2012 excludes stock options, stock appreciation rights and restricted stock awards covering an aggregate of 341,206 and 776,465 shares, respectively, because the exercise prices were greater than the average market price during these periods.

(in thousands, except share and per share data)	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Basic		
Net income available to common shareholders	$22,516	$16,640
Less: dividends and undistributed earnings allocated to unvested restricted stock awards	(147)	(67)
Net earnings allocated to common shareholders	22,369	16,573
Weighted average shares outstanding, including participating securities	14,482,584	11,673,332
Less: average participating securities	(78,190)	(48,607)
Weighted average shares outstanding - Basic	14,404,394	11,624,725
Diluted		
Net earnings allocated to common shareholders	22,369	16,573
Weighted average shares outstanding - Basic	14,404,394	11,624,725
Dilutive effect of common stock options or restricted stock awards	67,542	32,046
Weighted average shares outstanding - Diluted	14,471,936	11,656,771
Basic EPS	1.55	1.43
Diluted EPS	1.55	1.42

The dilutive effect of common stock options or restricted awards calculation for the six months ended June 30, 2013 and 2012 excludes stock options, stock appreciation rights and restricted stock awards covering an aggregate of 315,340 and 681,145 shares, respectively, because the exercise prices were greater than the average market price during these periods.

10. Other Comprehensive Income (Loss)

The following table presents reclassifications out of the accumulated other comprehensive income for the three and six month periods ended June 30, 2013 and 2012.

	Three months ended June 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	$(38,033)	$15,209	$(22,824)
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(75)	30	(45)
Net unrealized losses	(38,108)	15,239	(22,869)
Employee benefit plans:			
Amortization of net retirement plan actuarial gain	636	(255)	381
Amortization of net retirement plan prior service cost	14	(6)	8
Amortization of net retirement plan transition liability	13	(5)	8
Employee benefit plans	663	(266)	397
Other comprehensive (loss) income	$(37,445)	$14,973	$(22,472)

	Three months ended June 30, 2012		
(in thousands)	Before-Tax Amount	Tax (Expense) Benefit	Net of Tax
Available-for-sale securities:			
Change in net unrealized gain/loss during the period	$7,342	$(2,935)	$4,407
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(933)	372	(561)
Reclassification adjustment for credit impairment on available-for-sale securities	65	(26)	39
Net unrealized gains	6,474	(2,589)	3,885
Employee benefit plans:			
Amortization of net retirement plan actuarial loss	689	(275)	414
Amortization of net retirement plan prior service cost	18	(7)	11
Amortization of net retirement plan transition liability	17	(7)	10
Employee benefit plans	724	(289)	435
Other comprehensive (loss) income	$7,198	$(2,878)	$4,320

	Six months ended June 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	$(43,496)	$17,394	$(26,102)
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(442)	177	(265)
Net unrealized losses	(43,938)	17,571	(26,367)
Employee benefit plans:			
Amortization of net retirement plan actuarial gain	1,291	(517)	774
Amortization of net retirement plan prior service cost	29	(12)	17
Amortization of net retirement plan transition liability	25	(10)	15
Employee benefit plans	1,345	(539)	806
Other comprehensive (loss) income	$(42,593)	$17,032	$(25,561)

	Six months ended June 30, 2012		
(in thousands)	Before-Tax Amount	Tax (Expense) Benefit	Net of Tax
Available-for-sale securities:			
Change in net unrealized gain/loss during the period	$6,579	$(2,630)	$3,949
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(934)	372	(562)
Reclassification adjustment for credit impairment on available-for-sale securities	65	(26)	39
Net unrealized gains	5,710	(2,284)	3,426
Employee benefit plans:			
Amortization of net retirement plan actuarial loss	1,162	(465)	697
Amortization of net retirement plan prior service cost	30	(12)	18
Amortization of net retirement plan transition liability	34	(14)	20
Employee benefit plans	1,226	(491)	735
Other comprehensive (loss) income	$6,936	$(2,775)	$4,161

(in thousands)	Available-for-Sale Securities	Employee Benefit Plans	Accumulated Other Comprehensive Income
Balance at April 1, 2013	$ 22,858	$(28,053)	$(5,195)
Other comprehensive (loss) income before reclassifications	(22,824)	0	(22,824)
Amounts reclassified from accumulated other comprehensive (loss) income	(45)	397	352
Net current-period other comprehensive loss (income)	(22,869)	397	(22,472)
Balance at June 30, 2013	$ (11)	$(27,656)	$(27,667)
Balance at January 1, 2013	$ 26,356	$(28,462)	$(2,106)
Other comprehensive (loss) income before reclassifications	(26,102)	0	(26,102)
Amounts reclassified from accumulated other comprehensive (loss) income	(265)	806	541
Net current-period other comprehensive loss (income)	(26,367)	806	(25,561)
Balance at June 30, 2013	$ (11)	$(27,656)	$(27,667)

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 April 1, 2012	$ 22,758	$(26,595)	$(3,837)
Other comprehensive income (loss) before reclassifications	4,407	0	4,407
Amounts reclassified from accumulated other comprehensive (loss) income	(522)	435	(87)
Net current-period other comprehensive loss (income)	3,885	435	4,320
Balance at June 30, 2012	$ 26,643	$(26,160)	$483
Balance at January 1, 2012	$ 23,218	$(26,895)	$(3,677)
Other comprehensive income (loss) before reclassifications	3,949	0	3,949
Amounts reclassified from accumulated other comprehensive (loss) income	(523)	735	212
Net current-period other comprehensive loss (income)	3,426	735	4,161
Balance at June 30, 2012	$ 26,644	$(26,160)	$484

The following table presents the amounts reclassified out of each component of accumulated other comprehensive income for the three and six months ended June 30, 2013.

Three months ended June 30, 2013

Details about Accumulated other Comprehensive Income Components (in thousands)		Amount Reclassified from Accumulated Other Comprehensive Income1	Affected Line Item in the Statement Where Net Income is Presented
Available-for-sale securities:			
Unrealized gains and losses on available-for-sale securities	$	75	Net gain on securities transactions
		(30)	Tax expense
		45	Net of tax
Employee benefit plans:			
Amortization of the following 2			
Net retirement plan actuarial loss		(636)	
Net retirement plan prior service cost		(14)	
Net retirement plan transition liability		(13)	
		(663)	Total before tax
		266	Tax benefit
		(397)	Net of tax

Six months ended June 30, 2013

Details about Accumulated other Comprehensive Income Components (in thousands)		Amount Reclassified from Accumulated Other Comprehensive Income1	Affected Line Item in the Statement Where Net Income is Presented
Available-for-sale securities:			
Unrealized gains and losses on available-for-sale securities	$	442	Net gain on securities transactions
		(177)	Tax expense
		265	Net of tax
Employee benefit plans:			
Amortization of the following 2			
Net retirement plan actuarial loss		(1,291)	
Net retirement plan prior service cost		(29)	
Net retirement plan transition liability		(25)	
		(1,345)	Total before tax
		539	Tax benefit
		(806)	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 11 - "Employee Benefit Plan")

11. 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 Three Months Ended		Life and Health Three Months Ended		SERP Benefits Three Months Ended	
(in thousands)	06/30/2013	06/30/2012	06/30/2013	06/30/2012	06/30/2013	06/30/2012
Service cost	$685	$ 736	$81	$ 51	$130	$ 100
Interest cost	676	648	87	87	184	177
Expected return on plan assets	(1,010)	(1,066)	0	0	0	0
Amortization of net retirement plan actuarial loss	506	526	20	28	108	127
Amortization of net retirement plan prior service cost (credit)	(31)	(31)	4	4	41	45
Amortization of net retirement plan transition liability	0	0	13	17	0	0
Net periodic benefit cost	$826	$ 813	$205	$ 187	$463	$ 449

Components of Net Period Benefit Cost

	Pension Benefits Six Months Ended		Life and Health Six Months Ended		SERP Benefits Six Months Ended	
(in thousands)	06/30/2013	06/30/2012	06/30/2013	06/30/2012	06/30/2013	06/30/2012
Service cost	$1,458	$ 1,360	$133	$ 85	$239	$ 181
Interest cost	1,344	1,361	172	181	369	358
Expected return on plan assets	(2,005)	(1,889)	0	0	0	0
Amortization of net retirement plan actuarial loss	1,011	941	48	37	230	184
Amortization of net retirement plan prior service cost (credit)	(62)	(62)	8	9	83	83
Amortization of net retirement plan transition liability	0	0	25	33	0	0
Net periodic benefit cost	$1,746	$ 1,711	$386	$ 345	$921	$ 806

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 $806,000 and $735,000, net of tax, as amortization of amounts previously recognized in accumulated other comprehensive income, for the six months ended June 30, 2013 and June 30, 2012.

The Company is not required to contribute to the pension plan in 2013, but it may make voluntary contributions. The Company did not contribute to the pension plan in the six months ended June 30, 2013. For the six months ended June 30, 2012, the Company contributed $5.0 million to the pension plan.

12. Stock Plans

Under the Tompkins Financial Corporation 2009 Equity Plan ("2009 Equity Plan"), the Company may grant incentive stock options, non-qualified stock options, stock appreciation rights, shares of restricted stock and restricted stock units covering up to 902,000 common shares to certain officers, employees, and nonemployee directors. Prior to the adoption of the 2009 Equity Plan, the Company had similar stock option plans, which remain in effect solely with respect to unexercised options issued under these plans. The Company granted 168,745 equity awards to its employees in the second quarter of 2013. The Company granted 71,420 incentive stock options in the third quarter of 2012. These options were granted to VIST employees to replace outstanding and vested VIST employee stock options at the time of acquisition. The Company granted 155,725 equity awards to its employees in the third quarter of 2011. The third quarter 2011 awards included 37,725 shares of restricted stock and 118,000 stock appreciation rights. The second quarter of 2013 awards included 106,325 shares of restricted stock and 62,420 stock appreciation rights. The Company's practice is to deliver original issue shares of its common stock upon exercise of equity awards rather than treasury shares.

The Company uses the Black-Scholes option-valuation model to determine the fair value of each incentive stock option and stock appreciation right at the date of grant. This valuation model estimates fair value based on the assumptions listed in the table below. The risk-free interest rate is the interest rate available on zero coupon U.S. Treasury instruments with a remaining term equal to the expected term of the share option at the time of grant. The expected dividend yield is based on dividend trends and the market price of the Company's stock price at grant. Volatility is largely based on historical volatility of the Company's stock price. In general, the expected term is based upon historical experience of employee exercises and terminations as well as the vesting term of the grants. For the options granted in 2012, which are solely options granted to VIST employees to replace options outstanding at acquisition date, the expected term considered that the option grants were fully vested and in-the-money. The fair values of the grants are expensed over the vesting period.

	2013			2012			2011		
Weighted per share average fair value at granted date	$	9.50		$	15.50		$	9.26	
Risk-free interest rate		0.78	%		0.26	%		1.28	%
Expected dividend yield		4.00	%		3.80	%		4.10	%
Volatility		38.46	%		28.34	%		39.19	%
Expected life (years)		5.50			2.00			6.50	

For the three and six months ended June 30, 2013, stock-based compensation expense related to stock options and stock appreciation rights was $150,000 and $375,000, respectively, compared to $246,000 and $554,000, respectively, for the same periods in 2012.

The following table presents the activity related to restricted stock awards for the six months ended June 30, 2013.

	Number of Shares		Weighted Average Exercise Price
Unvested at January 1, 2013	$43,053		$37.89
Granted	106,325		40.60
Forfeited	(619	)	38.67
Unvested at June 30, 2013	$148,759		$39.82

For the three and six months ended June 30, 2013, stock-based compensation expense related to restrcited stock awards was $111,000 and $193,000, respectively, compared to $65,000 and $134,000, respectively, for the same periods in 2012.

13. 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		Six Months Ended	
(in thousands)	06/30/2013	06/30/2012	06/30/2013	06/30/2012
Noninterest Income				
Other service charges	$771	$588	$1,609	$1,125
Increase in cash surrender value of corporate owned life insurance	486	391	1,038	817
Net gain on sale of loans	68	150	97	250

Other income	485	641	1,432	842
Total other income	$1,810	$1,770	$4,176	$3,034
Noninterest Expenses				
Marketing expense	$1,378	$1,250	$2,542	$2,422
Professional fees	1,411	901	2,765	1,787
Legal fees	529	178	1,121	333
Software licensing and maintenance	1,422	920	2,561	1,868
Cardholder expense	788	539	1,536	1,121
Other expenses	4,799	3,397	9,638	6,767
Total other operating expense	$10,327	$7,185	$20,163	$14,298

14. 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 June 30, 2013, the Company's maximum potential obligation under standby letters of credit was $67.9 million compared to $68.7 million at December 31, 2012. 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.

15. 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" and "VIST Capital Management"). The Company's insurance services and wealth management services, other than trust services and the services offered by VIST Capital Management, 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 operated in Ithaca, NY and surrounding communities, The Bank of Castile, a commercial bank with sixteen banking offices conducting operations in the towns situated in and around the areas commonly known as the Letchworth State Park area and the Genesee Valley region of New York State, Mahopac National Bank, a commercial bank operating fifteen full-service banking offices and one limited service office in the counties north of New York City, and VIST Bank, a banking organization containing 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. Recently, through the 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 name and consists of services and products offered through Tompkins Investment Services ("TIS"), a division of Tompkins Trust Company, and TFA Wealth Management. VIST Capital Management provides investment management services to our customers in southeastern Pennsylvania. 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. VIST Capital Management, offers a complementary assortment of investment advisory, retirement planning, and brokerage services. Tompkins Financial Advisors has offices in each of the Company's three subsidiary banks located in New York, and

VIST Capital Management has offices at VIST Bank.

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 2012 Annual Report on Form 10-K.

As of and for the three months ended June 30, 2013
(in thousands)

	Banking	Insurance	Wealth Management	Intercompany	Consolidated
Interest income	$ 45,911	$ 2	$ 49	$ (2)	$ 45,960
Interest expense	6,136	0	0	(2)	6,134
Net interest income	39,775	2	49	0	39,826
Provision for loan and lease losses	2,489	0	0	0	2,489
Noninterest income	5,818	7,229	3,746	(252)	16,541
Noninterest expense	29,602	5,491	2,936	(252)	37,777
Income before income tax expense	13,502	1,740	859	0	16,101
Income tax expense	4,107	665	289	0	5,061
Net Income attributable to noncontrolling interests and Tompkins Financial Corporation	9,395	1,075	570	0	11,040
Less: Net income attributable to noncontrolling interests	33	0	0	0	33
Net Income attributable to Tompkins Financial Corporation	$ 9,362	$ 1,075	$ 570	$ 0	$ 11,007
Depreciation and amortization	$ 1,359	$ 53	$ 34	$ 0	$ 1,446
Assets	4,892,300	35,356	12,857	(8,630)	4,931,883
Goodwill	64,500	19,559	8,081	0	92,140
Other intangibles, net	11,450	5,313	637	0	17,400
Net loans and leases	3,029,725	0	0	0	3,029,725
Deposits	3,921,307	0	0	(8,397)	3,912,910
Total Equity	395,147	25,698	11,049	0	431,894

As of and for the three months ended June 30, 2012
(in thousands)