TOMPKINS FINANCIAL CORP
Form 10-Q
November 12, 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 September 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 October 31, 2013
Common Stock, $0.10 par value	14,709,021 shares

TOMPKINS FINANCIAL CORPORATION

FORM 10-Q

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TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share and per share data) (Unaudited)	As of	As of
ASSETS	09/30/2013	12/31/2012
Cash and noninterest bearing balances due from banks	$87,595	$117,448
Interest bearing balances due from banks	985	1,482
Cash and Cash Equivalents	88,580	118,930
Trading securities, at fair value	11,530	16,450
Available-for-sale securities, at fair value (amortized cost of $1,359,757 at September 30, 2013 and $1,349,416 at December 31, 2012)	1,358,930	1,393,340
Held-to-maturity securities, fair value of $20,403 at September 30, 2013, and $25,163 at December 31, 2012	19,773	24,062
Originated loans and leases, net of unearned income and deferred costs and fees	2,420,695	2,133,106
Acquired loans and leases, covered	27,363	37,600
Acquired loans and leases, non-covered	671,254	783,904
Less: Allowance for loan and lease losses	26,408	24,643
Net Loans and Leases	3,092,904	2,929,967
FDIC Indemnification Asset	4,536	4,385
Federal Home Loan Bank stock and Federal Reserve Bank stock	21,955	19,388
Bank premises and equipment, net	55,607	54,581
Corporate owned life insurance	68,087	65,102
Goodwill	92,140	92,305
Other intangible assets, net	16,841	18,643
Accrued interest and other assets	101,545	100,044
Total Assets	$4,932,428	$4,837,197
LIABILITIES		
Deposits:		
Interest bearing:		
Checking, savings and money market	2,219,136	2,144,367
Time	906,173	973,883
Noninterest bearing	847,447	831,919
Total Deposits	3,972,756	3,950,169
Federal funds purchased and securities sold under agreements to repurchase	162,117	213,973
Other borrowings, including certain amounts at fair value of $11,304 at September 30, 2013 and $11,847 at December 31, 2012	242,177	111,848
Trust preferred debentures	37,127	43,668
Other liabilities	73,975	76,179
Total Liabilities	$4,488,152	$4,395,837
EQUITY		
Tompkins Financial Corporation shareholders' equity:		
Common Stock - par value $.10 per share: Authorized 25,000,000 shares; Issued: 14,728,581 at September 30, 2013; and 14,426,711 at December 31, 2012	1,473	1,443
Additional paid-in capital	343,276	334,649
Retained earnings	128,700	108,709
Accumulated other comprehensive loss	(27,751)	(2,106)

Treasury stock, at cost – 103,282 shares at September 30, 2013, and 100,054 shares at December 31, 2012	(2,972)	(2,787)
Total Tompkins Financial Corporation Shareholders' Equity	442,726	439,908
Noncontrolling interests	1,550	1,452
Total Equity	$444,276	$441,360
Total Liabilities and Equity	$4,932,428	$4,837,197

See notes to unaudited condensed consolidated financial statements

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TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Nine Months Ended	
(In thousands, except per share data) (Unaudited)	09/30/2013	09/30/2012	09/30/2013	09/30/2012
INTEREST AND DIVIDEND INCOME				
Loans	$38,048	$34,003	$112,027	$84,709
Due from banks	1	6	9	14
Federal funds sold	0	0	0	2
Trading securities	147	182	472	569
Available-for-sale securities	7,830	8,317	23,222	23,016
Held-to-maturity securities	160	208	528	658
Federal Home Loan Bank stock and Federal Reserve Bank stock	193	203	538	620
Total Interest and Dividend Income	46,379	42,919	136,796	109,588
INTEREST EXPENSE				
Time certificates of deposits of $100,000 or more	1,208	1,043	3,651	2,497
Other deposits	1,894	2,105	6,093	5,930
Federal funds purchased and securities sold under agreements to repurchase	901	1,174	2,877	3,340
Trust preferred debentures	660	489	2,037	1,296
Other borrowings	1,243	1,365	3,634	4,231
Total Interest Expense	5,906	6,176	18,292	17,294
Net Interest Income	40,473	36,743	118,504	92,294
Less: Provision for loan and lease losses	2,049	1,042	5,576	3,178
Net Interest Income After Provision for Loan and Lease Losses	38,424	35,701	112,928	89,116
NONINTEREST INCOME				
Insurance commissions and fees	7,160	5,786	21,588	13,184
Investment services income	3,694	3,614	11,180	10,504
Service charges on deposit accounts	2,254	1,988	6,186	5,366
Card services income	1,735	1,504	5,163	4,353
Mark-to-market loss on trading securities	(87)	(41)	(472)	(198)
Mark-to-market gain (loss) on liabilities held at fair value	119	(27)	543	138
Net other-than-temporary impairment losses	0	(55)	0	(120)
Other income	3,372	2,116	7,548	5,151
Gain (loss) on sale of available-for-sale securities	281	(112)	723	822
Total Noninterest Income	18,528	14,773	52,459	39,200
NONINTEREST EXPENSES				
Salaries and wages	16,755	13,892	48,618	36,273
Pension and other employee benefits	5,606	4,826	17,014	13,248
Net occupancy expense of premises	2,850	2,472	8,865	6,070
Furniture and fixture expense	1,448	1,364	4,367	3,580
FDIC insurance	808	759	2,401	1,841
Amortization of intangible assets	544	426	1,648	684
Merger related expenses	0	13,842	228	14,814
Other operating expense	9,543	8,613	29,710	22,910
Total Noninterest Expenses	37,554	46,194	112,851	99,420
Income Before Income Tax Expense	19,398	4,280	52,536	28,896

Income Tax Expense	5,316	761	15,873	8,674
Net Income attributable to Noncontrolling Interests and Tompkins Financial Corporation	14,082	3,519	36,663	20,222
Less: Net income attributable to noncontrolling interests	33	32	98	98
Net Income Attributable to Tompkins Financial Corporation	$14,049	$3,487	$36,565	$20,124
Basic Earnings Per Share	$0.96	$0.26	$2.51	$1.63
Diluted Earnings Per Share	$0.95	$0.25	$2.50	$1.63

See notes to unaudited condensed consolidated financial statements.

Consolidated Statements of Comprehensive Income

(in thousands) (Unaudited)	Three Months Ended 09/30/2013	09/30/2012
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	$14,082	$3,519
Other comprehensive income, net of tax:		
Available-for-sale securities:		
Change in net unrealized (loss) gain during the period	(318)	3,706
Reclassification adjustment for net realized (gain) loss on sale of available-for-sale securities included in net income	(169)	67
Change in non-credit impairment losses on available-for-sale securities	0	33
Employee benefit plans:		
Amortization of net retirement plan actuarial gain	387	349
Amortization of net retirement plan prior service cost	8	8
Amortization of net retirement plan transition liability	8	10
Other comprehensive (loss) income	(84)	4,173
Subtotal comprehensive income attributable to noncontrolling interests and Tompkins Financial Corporation	13,998	7,692
Less: Net income attributable to noncontrolling interests	(33)	(32)
Total comprehensive income attributable to Tompkins Financial Corporation	$13,965	$7,660

See notes to unaudited condensed consolidated financial statements.

Consolidated Statements of Comprehensive Income

(in thousands) (Unaudited)	Nine Months Ended 09/30/2013	09/30/2012
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	$ 36,663	$ 20,222
Other comprehensive income, net of tax:		
Available-for-sale securities:		
Change in net unrealized (loss) gain during the period	(26,420)	7,657
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(434)	(494)
Change in non-credit impairment losses on available-for-sale securities	0	72
Employee benefit plans:		
Amortization of net retirement plan actuarial gain	1,160	1,046
Amortization of net retirement plan prior service cost	26	26
Amortization of net retirement plan transition liability	23	30
Other comprehensive (loss) income	(25,645)	8,337
Subtotal comprehensive income attributable to noncontrolling interests and Tompkins Financial Corporation	11,018	28,559

Less: Net income attributable to noncontrolling interests		(98)		(98)
Total comprehensive income attributable to Tompkins Financial Corporation	$	10,920	$	28,461

See notes to unaudited condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)	09/30/2013	09/30/2012
OPERATING ACTIVITIES		
Net income attributable to Tompkins Financial Corporation	$36,565	$20,124
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	5,576	3,178
Depreciation and amortization of premises, equipment, and software	4,284	3,810
Amortization of intangible assets	1,648	684
Earnings from corporate owned life insurance	(1,482)	(1,246)
Net amortization on securities	10,724	8,615
Other than temporary impairment loss	0	120
Mark-to-market loss on trading securities	472	198
Mark-to-market gain on liabilities held at fair value	(543)	(138)
Gain on securities transactions	(723)	(822)
Net gain on sale of loans	(212)	(579)
Proceeds from sale of loans	7,076	25,660
Loans originated for sale	(8,271)	(24,913)
Gain on redemption of trust preferred	(1,410)	0
Net gain on sale of bank premises and equipment	(7)	2
Stock-based compensation expense	960	975
Decrease (increase) in accrued interest receivable	927	(1,381)
Decrease in accrued interest payable	(809)	(686)
Proceeds from maturities and payments of trading securities	4,425	1,996
Contribution to pension plan	0	(5,000)
Decrease in FDIC prepaid insurance	5,386	0
Other, net	13,029	(6,033)
Net Cash Provided by Operating Activities	77,615	24,564
INVESTING ACTIVITIES		
Proceeds from maturities, calls and principal paydowns of available-for-sale securities	197,009	236,181
Proceeds from sales of available-for-sale securities	99,378	180,545
Proceeds from maturities, calls and principal paydowns of held-to-maturity securities	11,798	10,321
Purchases of available-for-sale securities	(316,705)	(364,721)
Purchases of held-to-maturity securities	(7,511)	(11,155)
Net increase in loans	(167,106)	(62,872)
Net (increase) decrease in Federal Home Loan Bank stock and Federal Reserve Bank stock	(2,567)	3,121
Proceeds from sale of bank premises and equipment	116	42
Purchases of bank premises and equipment	(4,811)	(5,021)
(Purchase) redemption of corporate owned life insurance	(1,500)	0
Net cash used in acquisition	0	4,289
Other, net	(3,417)	(748)
Net Cash Used in Investing Activities	(195,316)	(10,018)
FINANCING ACTIVITIES		
Net increase in demand, money market, and savings deposits	90,297	217,264
Net decrease in time deposits	(67,710)	(25,419)
Net decrease in Federal funds purchases and securities sold under agreements to repurchase	(51,856)	(81,784)
Increase in other borrowings	194,674	20,000

Repayment of other borrowings	(63,801)	(80,476)
Redemption of trust preferred debentures	(5,191)	0
Cash dividends	(16,574)	(13,561)
Common stock issued	0	37,978
Shares issued for dividend reinvestment plan	3,009	939
Shares issued for employee stock ownership plan	717	1,037
Net shares issued related to restricted stock awards	(68)	0
Net proceeds from exercise of stock options	3,639	2,416
Tax benefit from stock option exercises	215	159
Net Cash Provided by Financing Activities	87,351	78,553
Net (Decrease) Increase in Cash and Cash Equivalents	(30,350)	93,099
Cash and cash equivalents at beginning of period	118,930	49,567
Total Cash & Cash Equivalents at End of Period	88,580	142,666

See notes to unaudited condensed consolidated financial statements.

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

	09/30/2013	09/30/2012
Supplemental Information:		
Cash paid during the year for - Interest	$21,534	$17,980
Cash paid during the year for - Taxes	6,283	13,314
Transfer of loans to other real estate owned	4,407	492

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			20,124			98	20,222
Other comprehensive income				8,337			8,337
Total Comprehensive Income							28,559
Cash dividends ($1.08 per share)			(13,561)				(13,561)
Exercise of stock options and related tax benefit (89,451 shares, net)	9	2,566					2,575
Stock-based compensation expense		975					975
Shares issued for dividend reinvestment plan (23,247 shares, net)	2	937					939
Shares issued for employee stock ownership plan (25,655 shares)	2	1,035					1,037
Directors deferred compensation plan (2,491 shares, net)		100			(100)		0
Common stock issued (1,006,250 shares)	101	37,877					37,978
Common stock issued for purchase acquisition (2,093,689 shares)	209	83,096					83,305
Forfeiture of restricted shares (3,618 shares)							0
Balances at September 30, 2012	$1,439	$ 332,981	$103,008	$ 4,660	$(2,688)	$ 1,550	$440,950
Balances at January 1, 2013	$1,443	$ 334,649	$108,709	$ (2,106)	$(2,787)	$ 1,452	$441,360
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			36,565			98	36,663
Other comprehensive loss				(25,645)			(25,645)
							11,018

Total Comprehensive Income							
Cash dividends ($1.14 per share)			(16,574)				(16,574)
Exercise of stock options and related tax benefit (111,307 shares, net)	11	3,843					3,854
Shares issued for dividend reinvestment plan (70,530 shares, net)	7	3,002					3,009
Compensation expense stock options		960					960
Shares issued for employee stock ownership plan (17,290 shares, net)	2	715					717
Directors deferred compensation plan (3,228 shares, net)		185			(185)		0
Shares issued related to restricted stock awards (106,325 shares)	10	(10)					0
Shares redeemed related to restricted stock awards (1,298 shares)		(68)					(68)
Forfeiture of restricted shares (2,284 shares)							0
Balances at September 30, 2013	$1,473	$ 343,276	$128,700	$ (27,751)	$(2,972)	$ 1,550	$444,276

See notes to unaudited condensed consolidated financial statements.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Business

Tompkins Financial Corporation ("Tompkins" or the "Company") is headquartered in Ithaca, New York and is registered as a Financial Holding Company with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended. The Company is a locally oriented, community-based financial services organization that offers a full array of products and services, including commercial and consumer banking, leasing, trust and investment management, financial planning and wealth management, insurance, and brokerage services. At September 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., ("TFA Wealth Management") a wholly owned registered investment advisor; 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 (888) 503-5753. The Company's common stock is traded on the NYSE MKT LLC under the Symbol "TMP."

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

The Company's banking subsidiaries are subject to examination and comprehensive regulation by various regulatory authorities, including the Federal Deposit Insurance Corporation ("FDIC"), the 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 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 also had $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 merger 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") 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 the 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 a third party valuation specialist. The fair values were preliminary estimates and subject to adjustment for up to one year after the closing date of the acquisition. The one year period ended August 1, 2013. 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.

(in thousands)	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 second quarter of 2013 included an adjustment of $165,000 to goodwill due to the completion of the final income tax return related to the VIST acquisition. 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 nine months ended September 30, 2013, the Company incurred $228,000 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 September 30, 2013:

	Available-for-Sale Securities			
September 30, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. Government sponsored entities	$569,867	$9,233	$6,189	$572,911
Obligations of U.S. states and political subdivisions	72,981	1,278	1,335	72,924
Mortgage-backed securities – residential, issued by				
U.S. Government agencies	131,347	3,009	2,354	132,002
U.S. Government sponsored entities	578,161	9,184	13,334	574,011
Non-U.S. Government agencies or sponsored entities	375	8	0	383
U.S. corporate debt securities	5,002	28	300	4,730
Total debt securities	1,357,733	22,740	23,512	1,356,961
Equity securities	2,024	0	55	1,969
Total available-for-sale securities	$1,359,757	$22,740	$23,567	$1,358,930

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 September 30, 2013:

	Held-to-Maturity Securities			
September 30, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. states and political subdivisions	$19,773	$633	$3	$20,403
Total held-to-maturity debt securities	$19,773	$633	$3	$20,403

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

	Held-to-Maturity Securities			
December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
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 $303,000 and $808,000 in the third quarter and nine months ending September 30, 2013, respectively, and $251,000 and $1,185,000 in the same periods of 2012. Realized losses on available-for-sale securities were $22,000 and $85,000 in the third quarter and nine months ending September 30, 2013, respectively, and $363,000 in the same time periods of 2012.

The following table summarizes available-for-sale securities that had unrealized losses at September 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	$ 277,303	$ 6,189	$ 0	$ 0	$ 277,303	$ 6,189
Obligations of U.S. states and political subdivisions	30,305	1,335	0	0	30,305	1,335
Mortgage-backed securities – issued by						
U.S. Government agencies	57,139	2,128	7,880	226	65,019	2,354
U.S. Government sponsored entities	310,494	11,774	39,069	1,560	349,563	13,334
U.S. corporate debt securities	2,200	300	0	0	2,200	300
Equity securities	0	0	945	55	945	55
Total available-for-sale securities	$ 677,441	$ 21,726	$ 47,894	$ 1,841	$ 725,335	$ 23,567

The following table summarizes held-to-maturity securities that had unrealized losses at September 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. states and political subdivisions	$ 2,688	$ 3	$ 0	$ 0	$ 2,688	$ 3
Total held-to-maturity securities	$ 2,688	$ 3	$ 0	$ 0	$ 2,688	$ 3

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.

The gross unrealized losses reported at September 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 September 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 September 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 September 30, 2013, this non-agency CMO with an amortized cost basis of $375,000 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 $55,000 and $120,000, respectively, in net credit impairment charges to earnings on these securities in the third quarter and nine months ending September 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		Nine Months Ended	
(in thousands)	09/30/2013	09/30/2012	09/30/2013	09/30/2012
Credit losses at beginning of the period	$0	$310	$441	$245
Credit losses related to securities for which an other-than-temporary impairment was previously recognized	0	55	0	120
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	$365	$0	$365

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

September 30, 2013		
(in thousands)	Amortized Cost	Fair Value
Available-for-sale securities:		

Due in one year or less	$26,371	$26,486
Due after one year through five years	224,856	234,238
Due after five years through ten years	365,281	359,993
Due after ten years	31,342	29,848
Total	647,850	650,565
Mortgage-backed securities	709,883	706,396
Total available-for-sale debt securities	$1,357,733	$1,356,961

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.

September 30, 2013 (in thousands)	Amortized Cost	Fair Value
Held-to-maturity securities:		
Due in one year or less	$ 11,093	$11,151
Due after one year through five years	6,071	6,427
Due after five years through ten years	2,030	2,216
Due after ten years	579	609
Total held-to-maturity debt securities	$ 19,773	$20,403

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. 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 $14.1 million, $5.7 million, $95,000, and $2.1 million at September 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)	09/30/2013	12/31/2012
Obligations of U.S. Government sponsored entities	$ 8,467	$ 11,860
Mortgage-backed securities – residential, issued by U.S. Government sponsored entities	3,063	4,590
Total	$ 11,530	$ 16,450

The net loss on trading account securities, which reflects mark-to-market adjustments, totaled $87,000 and $472,000 for the third quarter and nine months ending September 30, 2013, respectively, and $41,000 and $198,000 for the third quarter and nine months ending September 30, 2012.

The Company pledges securities as collateral for public deposits and other borrowings, and sells securities under agreements to repurchase. Securities carried of $1.1 billion at September 30, 2013 and $1.0 billion at December 31, 2012, were either pledged or sold under agreements to repurchase.

6. Loans and Leases
Loans and Leases at September 30, 2013 and December 31, 2012 were as follows:

	09/30/2013			12/31/2012		
(in thousands)	Originated	Acquired	Total Loans and Leases	Originated	Acquired	Total Loans and Leases
Commercial and industrial						
Agriculture	$ 59,041	$ 0	$ 59,041	$ 77,777	$ 0	$ 77,777
Commercial and industrial other	530,878	126,348	657,226	446,876	167,427	614,303
Subtotal commercial and industrial	589,919	126,348	716,267	524,653	167,427	692,080
Commercial real estate						
Construction	41,868	38,036	79,904	41,605	43,074	84,679
Agriculture	48,657	3,528	52,185	48,309	3,247	51,556
Commercial real estate other	862,023	394,559	1,256,582	722,273	445,359	1,167,632
Subtotal commercial real estate	952,548	436,123	1,388,671	812,187	491,680	1,303,867
Residential real estate						
Home equity	166,800	70,315	237,115	159,720	81,657	241,377
Mortgages	653,086	37,131	690,217	573,861	41,618	615,479
Subtotal residential real estate	819,886	107,446	927,332	733,581	123,275	856,856
Consumer and other						
Indirect	22,488	7	22,495	26,679	24	26,703
Consumer and other	32,996	1,330	34,326	32,251	1,498	33,749
Subtotal consumer and other	55,484	1,337	56,821	58,930	1,522	60,452

Leases	5,102	0	5,102	4,618	0	4,618
Covered loans	0	27,363	27,363	0	37,600	37,600
Total loans and leases	2,422,939	698,617	3,121,556	2,133,969	821,504	2,955,473
Less: unearned income and deferred costs and fees	(2,244)	0	(2,244)	(863)	0	(863)
Total loans and leases, net of unearned income and deferred costs and fees	$ 2,420,695	$ 698,617	$ 3,119,312	$ 2,133,106	$ 821,504	$ 2,954,610

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

(in thousands)	09/30/13	12/31/12
Acquired Credit Impaired Loans		
Outstanding principal balance	$93,155	$114,516
Carrying amount	58,172	80,223
Acquired Non-Credit Impaired Loans		
Outstanding principal balance	689,695	750,380
Carrying amount	640,445	741,281
Total Acquired Loans		
Outstanding principal balance	782,850	864,896
Carrying amount	698,617	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	(6,054)
Disposals (loans paid in full)	(196)
Reclassifications to/from nonaccretable difference1	4,818
Other changes in expected cash flows2	4,792
Balance at September 30, 2013	$10,697

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 and third quarter of 2013 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 decreases in prepayment speed assumptions and increases in interest rate assumptions increased our accretable discount by $4.8 million. This change did not materially impact our current quarter interest income or net interest margin.

At September 30, 2013, acquired loans included $27.4 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 reviews these policies and procedures on a regular basis. The Company discussed its lending policies and underwriting guidelines for its various lending portfolios in Note 6 – "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 September 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 after the date of acquisition, regardless of whether the customer is contractually delinquent, if we can reasonably estimate the timing and amount of the expected cash flows on such loans and if the Company expects to fully collect the new carrying value of the loans. As such, we may no longer consider the loan to be nonaccrual or nonperforming and may accrue interest on these loans, including the impact of any accretable discount. To the extent we cannot reasonably estimate cash flows, interest income recognition is discontinued. The Company has determined that it can reasonably estimate future cash flows on our acquired loans that are past due 90 days or more and accruing interest and the Company expects to fully collect the carrying value of the loans.

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

September 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	$ 59,041	$ 59,041	$ 0	$ 0
Commercial and industrial other	2,403	766	527,709	530,878	0	2,422
Subtotal commercial and industrial	2,403	766	586,750	589,919	0	2,422
Commercial real estate						
Construction	606	7,658	33,604	41,868	88	9,935
Agriculture	229	0	48,428	48,657	0	20
Commercial real estate other	4,243	8,444	849,336	862,023	52	11,826
Subtotal commercial real estate	5,078	16,102	931,368	952,548	140	21,781
Residential real estate						
Home equity	368	1,537	164,895	166,800	63	1,872
Mortgages	3,389	6,226	643,471	653,086	1,014	7,630
Subtotal residential real estate	3,757	7,763	808,366	819,886	1,077	9,502
Consumer and other						
Indirect	686	101	21,701	22,488	0	142
Consumer and other	269	0	32,727	32,996	0	34
Subtotal consumer and other	955	101	54,428	55,484	0	176
Leases	0	0	5,102	5,102	0	0
Total loans and leases	12,193	24,732	2,386,014	2,422,939	1,217	33,881
Less: unearned income and deferred costs and fees	0	0	0	(2,244)	0	0
Total originated loans and leases, net of unearned income and deferred costs and fees	$ 12,193	$ 24,732	$ 2,386,014	$ 2,420,695	$ 1,217	$ 33,881

Acquired Loans and Leases						
Commercial and industrial						
Commercial and industrial other	587	1,100	124,661	126,348	913	345
Subtotal commercial and industrial	587	1,100	124,661	126,348	913	345
Commercial real estate						
Construction	86	4,552	33,398	38,036	3,327	392
Agriculture	0	0	3,528	3,528	0	0
Commercial real estate other	2,206	7,659	384,694	394,559	3,078	3,687
Subtotal commercial real estate	2,292	12,211	421,620	436,123	6,405	4,079
Residential real estate						
Home equity	1,211	2,239	66,865	70,315	597	1,989
Mortgages	2,771	3,836	30,524	37,131	2,606	1,591
Subtotal residential real estate	3,982	6,075	97,389	107,446	3,203	3,580
Consumer and other						
Indirect	0	1	6	7	0	4
Consumer and other	26	0	1,304	1,330	0	0
Subtotal consumer and other	26	1	1,310	1,337	0	4
Covered loans	1,132	2,980	23,251	27,363	2,980	0
Total acquired loans and leases, net of unearned income and deferred costs and fees	$ 8,019	$ 22,367	$ 668,231	$ 698,617	$ 13,501	$ 8,008

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 factors are reasonable.

Since the methodology is based upon historical experience and trends as well as management's judgment, factors may arise that result in different estimates. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the local area, concentration of risk, changes in

interest rates, and declines in local property values. While management's evaluation of the allowance as of September 30, 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 nine months ended September 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 September 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	$ 6,955	$10,409	$5,273	$2,195	$21	$24,853
Charge-offs	(55)	(49)	(116)	(578)	0	(798)
Recoveries	48	21	3	96	0	168
Provision	790	516	149	65	(21)	1,499
Ending Balance	$ 7,738	$10,897	$5,309	$1,778	$0	$25,722

Three months ended September 30, 2013

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

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Three months ended September 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	$7,807	$12,967	$4,350	$1,720	$21	$26,865
Charge-offs	(307)	(644)	(427)	(169)	0	(1,547)
Recoveries	86	128	1	57	0	272
Provision	416	(467)	717	396	(20)	1,042
Ending Balance	$8,002	$11,984	$4,641	$2,004	$1	$26,632

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

Nine months ended September 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	(487)	(539)	(455)	(1,040)	0	(2,521)
Recoveries	1,490	457	32	296	0	2,275
Provision	(798)	795	751	582	(5)	1,325
Ending Balance	$7,738	$10,897	$5,309	$1,778	$0	$25,722

Nine months ended September 30, 2013

(in thousands)	Commercial and 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	(2,930)	(32)	(577)	(25)	0	(3,564)
Recoveries	0	0	0	0	0	0
Provision	2,981	469	740	60	0	4,250
Ending Balance	$51	$437	$163	$35	$0	$686

Nine months ended September 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	(888)	(2,332)	(931)	(580)	0	(4,731)
Recoveries	151	166	29	246	0	592
Provision	(197)	1,488	1,296	629	(38)	3,178
Ending Balance	$8,002	$11,984	$4,641	$2,004	$1	$26,632

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

At September 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 Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Originated						
September 30, 2013						
Individually evaluated for impairment	$ 664	$ 185	$0	$0	$0	$849
Collectively evaluated for impairment	7,074	10,712	5,309	1,778	0	24,873
Ending balance	$ 7,738	$ 10,897	$5,309	$ 1,778	$0	$25,722

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired						
September 30, 2013						
Individually evaluated for impairment	$ 0	$ 127	$0	$0	$0	$ 127
Collectively evaluated for impairment	51	310	163	35	0	559
Ending balance	$ 51	$ 437	$ 163	$35	$0	$686

(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 September 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						
September 30, 2013						
Individually evaluated for impairment	$5,723	$18,767	$ 1,047	$0	$0	$25,537

Collectively evaluated for impairment	584,196	933,781	818,839	55,484	5,102	2,397,402
Total	$589,919	$952,548	$819,886	$55,484	$5,102	$2,422,939

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired						
September 30, 2013						
Individually evaluated for impairment	$ 1,323	$ 3,441	$ 85	$ 0	$ 0	$ 4,849
Loans acquired with deteriorated credit quality	3,010	14,783	13,016	0	27,363	58,172
Collectively evaluated for impairment	122,015	417,899	94,345	1,337	0	635,596
Total	$ 126,348	$ 436,123	$ 107,446	$ 1,337	$ 27,363	$ 698,617

(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 September 30, 2013 and December 31, 2012.

	09/30/2013			12/31/2012		
(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Originated loans and leases with no related allowance						
Commercial and industrial						
Commercial and industrial other	$4,185	$6,165	$0	$2,771	$2,891	$0
Commercial real estate						
Construction	6,110	11,720	0	6,763	12,373	0
Commercial real estate other	12,297	12,993	0	14,715	16,940	0
Residential real estate						
Residential real estate other	1,047	1,154	0	483	483	0
Subtotal	$23,639	$32,032	$0	$24,732	$32,687	$0
Originated loans and leases with related allowance						
Commercial and industrial						
Commercial and industrial other	1,538	1,538	664	0	0	0
Commercial real estate						
Commercial real estate other	360	360	185	0	0	0
Subtotal	$1,898	$1,898	$849	$0	$0	$0
Total	$25,537	$33,930	$849	$24,732	$32,687	$0

	09/30/2013			12/31/2012		
(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Acquired loans and leases with no related allowance						
Commercial and industrial						
Commercial and industrial other	$ 1,323	$ 4,174	$ 0	$ 519	$ 519	$ 0
Commercial real estate						
Commercial real estate other	2,748	2,748	0	1,816	1,861	0
Residential real estate						
Residential real estate other	85	85	0	0	0	0
Subtotal	$ 4,156	$ 7,007	$ 0	$ 2,335	$ 2,380	$ 0
Acquired loans and leases with related allowance						

Commercial and industrial						
Commercial real estate						
Commercial real estate other	693	693	127	0	0	0
Subtotal	$ 693	$ 693	$ 127	$ 0	$ 0	$ 0
Total	$ 4,849	$ 7,700	$ 127	$ 2,335	$ 2,380	$ 0

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

	Three Months Ended 09/30/2013		Three Months Ended 09/30/2012	
(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	4,040	0	2,339	0
Commercial real estate				
Construction	6,184	0	10,953	0
Commercial real estate other	13,918	0	12,447	0
Residential real estate				
Residential real estate other	1,047	0	486	0
Subtotal	$25,189	$0	$26,225	$0
Originated loans and leases with related allowance				
Commercial and industrial				
Commercial and industrial other	1,544	0	4,091	0
Commercial real estate				
Commercial real estate other	360	0	654	6
Subtotal	$1,904	$0	$4,745	$6
Total	$27,093	$0	$30,970	$6

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

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

Commercial real estate other	701	0
Subtotal	$701	$0
Total	$4,877	$0

(in thousands)	Nine Months Ended 09/30/2013 Average Recorded Investment	Nine Months Ended 09/30/2013 Interest Income Recognized	Nine Months Ended 09/30/2012 Average Recorded Investment	Nine Months Ended 09/30/2012 Interest Income Recognized
Originated loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	4,057	0	2,347	4
Commercial real estate				
Construction	6,374	0	9,732	0
Commercial real estate other	12,892	0	12,940	0
Residential real estate				
Residential real estate other	1,047	0	461	0
Subtotal	$24,370	$0	$25,480	$4
Originated loans and leases with related allowance				
Commercial and industrial				
Commercial and industrial other	1,560	0	4,116	0
Commercial real estate				
Construction	0	0	869	0
Commercial real estate other	319	0	696	24
Subtotal	$1,879	$0	$5,681	$24
Total	$26,249	$0	$31,161	$28

(in thousands)	Nine Months Ended 09/30/2013 Average Recorded Investment	Nine Months Ended 09/30/2013 Interest Income Recognized
Acquired loans and leases with no related allowance		
Commercial and industrial		
Commercial and industrial other	2,783	5
Commercial real estate		
Commercial real estate other	2,785	31
Residential real estate		
Residential real estate other	85	0
Subtotal	$5,653	$36
Acquired loans and leases with related allowance		
Commercial and industrial		
Residential real estate other	718	4
Subtotal	$718	$4
Total	$6,371	$40

Average balances were not calculated on the acquired loan and lease portfolio during the third quarter of 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.

September 30, 2013	Three months ended			Defaulted TDRs4	
(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	4	$ 1,275	$ 1,275	0	$ 0
Commercial real estate					
Commercial real estate other2	6	1,530	1,530	0	0
Residential real estate					
Residential real estate other3	1	195	195	0	0
Total	11	$ 3,000	$ 3,000	0	$ 0

1 Represents the following concessions: extension of term and reduction of rate (3 loans: $1.2 million) and extended term (1 loan: $87,000)
2 Represents the following concessions: extension of term and reduction of rate
3 Represents the following concessions: extension of term and reduction of rate
4 TDRs that defaulted during the last three months that were restructured in the prior twelve months.

September 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
Originated loans and leases					
Commercial and industrial other1	2	$ 4,224	$ 4,224	0	$ 0
Residential Real Estate					
Mortgages1	1	146	146	0	0
Total	3	$ 4,370	$ 4,370	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.

September 30, 2013		Nine months ended			
				Defaulted TDRs4	
(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	6	$ 1,414	$ 1,414	0	$ 0
Commercial Real Estate					
Commercial real estate other2	9	$ 1,901	$ 1,901	0	$ 0
Residential Real Estate					
Residential real estate other3	1	195	195		
Total	16	$ 3,510	$ 3,510	0	$ 0

1 Represents the following concessions: extension of term and reduction in rate (5 loans: $1.3 million) and extended term (1 loan: $87,000)
2 Represents the following concessions: extension of term and reduction of rate(8 loans: $1.8 million) and extension of term (1 loan: $129,000)
3 Represents the following concessions: extension of term and reduction of rate
4 TDRs that defaulted during the last nine months that were restructured in the prior twelve months.

September 30, 2012		Nine 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
Originated loans and leases					
Commercial and industrial					
Commercial and industrial other1	2	$ 4,224	$ 4,224	1	2 $ 51
Residential Real Estate					
Mortgages1	2	208	208	0	0
Total	4	$ 4,432	$ 4,432	1	$ 51

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 September 30, 2013 and December 31, 2012.

September 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	$ 497,491	$ 57,231	$ 830,444	$ 48,153	$ 29,169	$ 1,462,488

Special Mention	22,987	123	13,150	125	6,590	42,975
Substandard	10,400	1,687	18,429	379	6,109	37,004
Total	$ 530,878	$ 59,041	$ 862,023	$ 48,657	$ 41,868	$ 1,542,467

September 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	$ 103,661	$ 0	$ 359,718	$ 1,161	$ 31,559	$ 496,099
Special Mention	11,987	0	8,145	2,023	1,784	23,939
Substandard	10,700	0	26,696	344	4,693	42,433
Total	$ 126,348	$ 0	$ 394,559	$ 3,528	$ 38,036	$ 562,471

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 September 30, 2013 and December 31, 2012. For purposes of this footnote, acquired loans that were recorded at fair value at the acquisition date and are 90 days or greater past due are considered performing.

September 30, 2013

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Originated Loans and Leases					
Performing	$164,865	$644,442	$22,346	$32,962	$864,615

Nonperforming	1,935	8,644	142	34	10,755
Total	$166,800	$653,086	$22,488	$32,996	$875,370

September 30, 2013

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Acquired Loans and Leases					
Performing	$69,816	$35,481	$7	$1,330	$106,634
Nonperforming	499	1,650	0	0	2,149
Total	$70,315	$37,131	$7	$1,330	$108,783

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 up to $4.0 million, and 70 percent of net losses incurred on covered commercial assets up to $12.0 million. The FDIC will increase its reimbursement of net losses to 80 percent if net losses exceed the $4.0 million and $12 million thresholds, respectively. The term for loss sharing on residential real estate loans is ten years, while the term for loss sharing on non-residential real estate loans is five years in respect to losses and eight years in respect to loss recoveries.

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

A decrease in expected losses would generally result in a corresponding decline in the FDIC indemnification asset and the non-accretable difference. Reductions in the FDIC indemnification asset due to actual or expected losses that are

less than the acquisition date estimates are recognized prospectively over the shorter of (i) the estimated life of the applicable covered loans or (ii) the term of the loss sharing agreements with the FDIC.

Changes in the FDIC indemnification asset during the nine months ended September 30, 2013 are shown below. The Company acquired the FDIC indemnification asset as part of the VIST acquisition on August 1, 2012.

Nine months ended September 30, 2013

(in thousands)	09/30/2013
Balance, beginning of the period	$4,385
Discount accretion of the present value at the acquisition date	297
Prospective adjustment for additional cash flows	(182)
Increase due to impairment on covered loans	96
Reimbursements from the FDIC	(60)
Balance, end of period	$4,536

9. Earnings Per Share

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

	Three Months Ended	
(in thousands, except share and per share data)	09/30/2013	09/30/2012
Basic		
Net income available to common shareholders	$14,049	$3,487
Less: dividends and undistributed earnings allocated to unvested restricted stock awards	(137)	(12)
Net earnings allocated to common shareholders	13,912	3,475
Weighted average shares outstanding, including participating securities	14,658,056	13,626,283
Less: average participating securities	(143,003)	(45,512)
Weighted average shares outstanding - Basic	14,515,053	13,580,771
Diluted		
Net earnings allocated to common shareholders	13,912	3,475
Weighted average shares outstanding - Basic	14,515,053	13,580,771
Dilutive effect of common stock options or restricted stock awards	107,459	49,693
Weighted average shares outstanding - Diluted	14,622,512	13,630,464
Basic EPS	0.96	0.26
Diluted EPS	0.95	0.25

The dilutive effect of common stock options or restricted awards calculation for the three months ended September 30, 2013 and 2012 excludes stock options, stock appreciation rights and restricted stock awards covering an aggregate

of 221,525 and 717,373 shares, respectively, because the exercise prices were greater than the average market price during these periods.

(in thousands, except share and per share data)	Nine Months Ended 09/30/2013	09/30/2012
Basic		
Net income available to common shareholders	$36,565	$20,124
Less: dividends and undistributed earnings allocated to unvested restricted stock awards	(284)	(81)
Net earnings allocated to common shareholders	36,281	20,043
Weighted average shares outstanding, including participating securities	14,539,728	12,329,190
Less: average participating securities	(99,794)	(47,578)
Weighted average shares outstanding - Basic	14,439,934	12,281,612
Diluted		
Net earnings allocated to common shareholders	36,281	20,043
Weighted average shares outstanding - Basic	14,439,934	12,281,612
Dilutive effect of common stock options or restricted stock awards	80,848	37,929
Weighted average shares outstanding - Diluted	14,520,782	12,319,541
Basic EPS	2.51	1.63
Diluted EPS	2.50	1.63

The dilutive effect of common stock options or restricted awards calculation for the nine months ended September 30, 2013 and 2012 excludes stock options, stock appreciation rights and restricted stock awards covering an aggregate of 283,725 and 693,309 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 nine month periods ended September 30, 2013 and 2012.

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

Amortization of net retirement plan transition liability	13	(5)	8
Employee benefit plans	672	(269)	403
Other comprehensive (loss) income	$(140)	$56	$(84)

	Three months ended September 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	$ 6,176	$ (2,470)	$ 3,706
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	112	(45)	67
Reclassification adjustment for credit impairment on available-for-sale securities	55	(22)	33
Net unrealized gains	6,343	(2,537)	3,806
Employee benefit plans:			
Amortization of net retirement plan actuarial loss	581	(232)	349
Amortization of net retirement plan prior service cost	14	(6)	8
Amortization of net retirement plan transition liability	17	(7)	10
Employee benefit plans	612	(245)	367
Other comprehensive (loss) income	$ 6,955	$ (2,782)	$ 4,173

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

	Nine months ended September 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	$12,762	$(5,105)	$7,657
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(822)	328	(494)
Reclassification adjustment for credit impairment on available-for-sale securities	120	(48)	72
Net unrealized gains	12,060	(4,825)	7,235
Employee benefit plans:			
Amortization of net retirement plan actuarial loss	1,743	(697)	1,046
Amortization of net retirement plan prior service cost	44	(18)	26
Amortization of net retirement plan transition liability	50	(20)	30
Employee benefit plans	1,837	(735)	1,102
Other comprehensive income (loss)	$13,897	$(5,560)	$8,337

(in thousands)	Available-for-Sale Securities	Employee Benefit Plans	Accumulated Other Comprehensive Income
Balance at July 1, 2013	$ (11)	$(27,656)	$ (27,667)
Other comprehensive (loss) income before reclassifications	(318)	0	(318)
Amounts reclassified from accumulated other comprehensive (loss) income	(169)	403	234
Net current-period other comprehensive loss (income)	(487)	403	(84)
Balance at September 30, 2013	$ (498)	$(27,253)	$ (27,751)
Balance at January 1, 2013	$ 26,356	$(28,462)	$ (2,106)
Other comprehensive (loss) income before reclassifications	(26,420)	0	(26,420)
Amounts reclassified from accumulated other comprehensive (loss) income	(434)	1,209	775
Net current-period other comprehensive loss (income)	(26,854)	1,209	(25,645)
Balance at September 30, 2013	$ (498)	$(27,253)	$ (27,751)

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

(in thousands)	Available-for-Sale Securities	Employee Benefit Plans	Accumulated Other Comprehensive Income
Balance at July 1, 2012	$ 26,643	$(26,160)	$ 483
Other comprehensive income before reclassifications	3,706	0	3,706
Amounts reclassified from accumulated other comprehensive income	100	367	467
Net current-period other comprehensive loss	3,806	367	4,173
Balance at September 30, 2012	$ 30,449	$(25,793)	$ 4,656

Balance at January 1, 2012	$ 23,218	$(26,895)	$ (3,677)
Other comprehensive income (loss) before reclassifications	7,657	0	7,657
Amounts reclassified from accumulated other comprehensive (loss) income	(422)	1,102	680
Net current-period other comprehensive loss	7,235	1,102	8,337
Balance at September 30, 2012	$ 30,453	$(25,793)	$ 4,660

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

Three months ended September 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	$	281	Net gain on securities transactions
		(112)	Tax expense
		169	Net of tax
Employee benefit plans:			
Amortization of the following 2			
Net retirement plan actuarial loss		(645)	
Net retirement plan prior service cost		(14)	
Net retirement plan transition liability		(13)	
		(672)	Total before tax
		269	Tax benefit
		(403)	Net of tax

Nine months ended September 30, 2013

Details about Accumulated other Comprehensive Income Components (in thousands)		Amount Reclassified from Accumulated Other Comprehensive 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	$	723	Net gain on securities transactions
		(289)	Tax expense
		434	Net of tax
Employee benefit plans:			
Amortization of the following 2			
Net retirement plan actuarial loss		(1,934)	
Net retirement plan prior service cost		(44)	
Net retirement plan transition liability		(38)	
		(2,016)	Total before tax
		807	Tax benefit
		(1,209)	Net of tax

1 Amounts in parentheses indicated debits in income statement

2 The accumulated other comprehensive income components are included in the computation of net periodic benefit cost (See Note 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)	09/30/2013	09/30/2012	09/30/2013	09/30/2012	09/30/2013	09/30/2012
Service cost	$729	$680	$66	$42	$120	$91
Interest cost	672	680	86	91	184	179
Expected return on plan assets	(1,002)	(944)	0	0	0	0
Amortization of net retirement plan actuarial loss	506	471	24	18	115	92
Amortization of net retirement plan prior service cost (credit)	(31)	(31)	4	4	41	41
Amortization of net retirement plan transition liability	0	0	13	17	0	0
Net periodic benefit cost	$874	$856	$193	$172	$460	$403

Components of Net Period Benefit Cost

	Pension Benefits Nine Months Ended		Life and Health Nine Months Ended		SERP Benefits Nine Months Ended	
(in thousands)	09/30/2013	09/30/2012	09/30/2013	09/30/2012	09/30/2013	09/30/2012
Service cost	$2,187	$2,040	$199	$127	$359	$272
Interest cost	2,016	2,041	259	272	553	537
Expected return on plan assets	(3,007)	(2,833)	0	0	0	0
Amortization of net retirement plan actuarial loss	1,517	1,412	72	55	345	276
Amortization of net retirement plan prior service cost (credit)	(92)	(93)	12	13	124	124
Amortization of net retirement plan transition liability	0	0	38	50	0	0
Net periodic benefit cost	$2,621	$2,567	$580	$517	$1,381	$1,209

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

The Company realized approximately $1.2 million and $1.1 million, net of tax, as amortization of amounts previously recognized in accumulated other comprehensive income, for the nine months ended September 30, 2013 and September 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 nine months ended September 30, 2013. For the nine months

ended September 30, 2012, the Company contributed $5.0 million to the pension plan.

12. Other Income and Operating Expense

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

	Three Months Ended		Nine Months Ended	
(in thousands)	09/30/2013	09/30/2012	09/30/2013	09/30/2012
Noninterest Income				
Other service charges	$959	$824	$2,569	$1,948
Increase in cash surrender value of corporate owned life insurance	444	429	1,482	1,246
Net gain on sale of loans	115	329	212	579
Other income	1,854	534	3,285	1,378
Total other income	$3,372	$2,116	$7,548	$5,151
Noninterest Expenses				
Marketing expense	$1,055	$879	$3,597	$3,302
Professional fees	1,490	968	4,255	2,755
Legal fees	410	473	1,532	806
Software licensing and maintenance	1,082	1,044	3,642	2,911
Cardholder expense	827	582	2,363	1,703
Other expenses	4,679	4,667	14,321	11,433
Total other operating expense	$9,543	$8,613	$29,710	$22,910

13. Financial Guarantees

The Company currently does not issue any guarantees that would require liability recognition or disclosure, other than standby letters of credit. The Company extends standby letters of credit to its customers in the normal course of business. The standby letters of credit are generally short-term. As of September 30, 2013, the Company's maximum potential obligation under standby letters of credit was $66.5 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.

14. 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. Tompkins Financial Advisors offers a comprehensive suite of financial services to customers, including trust and estate services, investment management and financial and insurance planning for individuals, corporate executives, small business owners and high net worth individuals. Tompkins Financial Advisors has offices in each of the Company's three subsidiary banks in New York.

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 September 30, 2013

(in thousands)	Banking	Insurance	Wealth Management	Intercompany	Consolidated
Interest income	$ 46,334	$ 2	$ 45	$ (2)	$ 46,379
Interest expense	5,908	0	0	(2)	5,906
Net interest income	40,426	2	45	0	40,473
Provision for loan and lease losses	2,049	0	0	0	2,049
Noninterest income	7,956	7,077	3,877	(382)	18,528
Noninterest expense	29,552	5,532	2,852	(382)	37,554
Income before income tax expense	16,781	1,547	1,070	0	19,398
Income tax expense	4,308	646	362	0	5,316
Net Income attributable to noncontrolling interests and Tompkins Financial Corporation	12,473	901	708	0	14,082
Less: Net income attributable to noncontrolling interests	33	0	0	0	33
Net Income attributable to Tompkins Financial Corporation	$ 12,440	$ 901	$ 708	$ 0	$ 14,049
Depreciation and amortization	$ 1,310	$ 51	$ 33	$ 0	$ 1,394
Assets	4,894,161	34,087	12,702	(8,522)	4,932,428
Goodwill	64,500	19,559	8,081	0	92,140
Other intangibles, net	11,070	5,150	621	0	16,841
Net loans and leases	3,092,904	0	0	0	3,092,904
Deposits	3,980,890	0	0	(8,134)	3,972,756
Total Equity	408,102	25,524	10,650	0	444,276

As of and for the three months ended September 30, 2012

(in thousands)	Banking	Insurance	Wealth Management	Intercompany & Merger	Consolidated
Interest income	$42,864	$2	$66	$(13)	$42,919
Interest expense	6,178	11	0	(13)	6,176
Net interest income	36,686	(9)	66	0	36,743
Provision for loan and lease losses	1,042	0	0	0	1,042
Noninterest income	5,645	5,665	3,792	(329)	14,773
Noninterest expense1	25,400	4,359	2,922	13,513	46,194
Income before income tax expense	15,889	1,297	936	(13,842)	4,280
Income tax expense	5,393	517	317	(5,466)	761
Net Income attributable to noncontrolling interests and Tompkins Financial Corporation	10,496	780	619	(8,376)	3,519
Less: Net income attributable to noncontrolling interests	32	0	0	0	32
Net Income attributable to Tompkins Financial Corporation	$10,464	$780	$619	$(8,376)	$3,487
Depreciation and amortization	$1,304	$53	$37	$0	$1,394
Assets	4,885,127	31,426	12,052	(3,819)	4,924,786
Goodwill	66,807	20,663	8,096	0	95,566
Other intangibles, net	12,785	5,823	685	0	19,293
Net loans and leases	2,903,118	0	0	0	2,903,118
Deposits	4,041,070	0	0	(3,426)	4,037,644
Total Equity	407,877	23,839	9,234	0	440,950

1 Merger and acquisition integration related expenses of $13.5 million were deducted from banking segment expenses and reclassified to Intercompany/Merger column to reflect the non-operating costs from the VIST holding company Financial acquisition in August 2012 and provide a more accurate representation of segment performance. Income taxes have been adjusted in the banking segment on a weighted average rate.

For the nine months ended September 30, 2013

(in thousands)	Banking	Insurance	Wealth Management	Intercompany	Consolidated
Interest income	$ 136,647	$ 5	$ 149	$ (5)	$ 136,796
Interest expense	18,297	0	0	(5)	18,292
Net interest income	118,350	5	149	0	118,504
Provision for loan and lease losses	5,576	0	0	0	5,576
Noninterest income	20,410	21,371	11,813	(1,135)	52,459
Noninterest expense	88,555	16,589	8,842	(1,135)	112,851
Income before income tax expense	44,629	4,787	3,120	0	52,536
Income tax expense	12,883	1,935	1,055	0	15,873
	31,746	2,852	2,065	0	36,663

Net Income attributable to noncontrolling interests and Tompkins Financial Corporation					
Less: Net income attributable to noncontrolling interests	98	0	0	0	98
Net Income attributable to Tompkins Financial Corporation	$ 31,648	$ 2,852	$ 2,065	$ 0	$ 36,565
Depreciation and amortization	$ 4,021	$ 160	$ 103	$ 0	$ 4,284

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For the nine months ended September 30, 2012

(in thousands)	Banking	Insurance	Wealth Management	Intercompany & Merger	Consolidated
Interest income	$109,408	$6	$191	$(17)	$109,588
Interest expense	17,300	11	0	(17)	17,294
Net interest income	92,108	(5)	191	0	92,294
Provision for loan and lease losses	3,178	0	0	0	3,178
Noninterest income	16,257	12,746	11,211	(1,014)	39,200
Noninterest expense1	66,447	9,877	9,296	13,800	99,420
Income before income tax expense	38,740	2,864	2,106	(14,814)	28,896
Income tax expense	13,156	1,135	683	(6,300)	8,674
Net Income attributable to noncontrolling interests and Tompkins Financial Corporation	25,584	1,729	1,423	(8,514)	20,222
Less: Net income attributable to noncontrolling interests	98	0	0	0	98
Net Income attributable to Tompkins Financial Corporation	$25,486	$1,729	$1,423	$(8,514)	$20,124
Depreciation and amortization	$3,565	$137	$108	$0	$3,810

1 Merger and acquisition integration related expenses of $13.8 million were deducted from banking segment holding company expenses and reclassified to Intercompany/Merger column to reflect the non-operating costs from VIST Financial acquisition in August 2012 and provide a more accurate representation of segment performance. Income taxes have been adjusted in the banking segment on a weighted average rate.

15. Fair Value

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

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

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

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

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

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of September 30, 2013 and December 31, 2012, segregated by the level of valuation inputs within the fair value hierarchy used to measure fair value.

Recurring Fair Value Measurements
September 30, 2013

(in thousands)	Total	(Level 1)	(Level 2)	(Level 3)
Trading securities				
Obligations of U.S. Government sponsored entities	$8,467	$8,467	$0	$0
Mortgage-backed securities – residential U.S. Government sponsored entities	3,063	3,063	0	0
Available-for-sale securities				
Obligations of U.S. Government sponsored entities	572,911	0	572,911	0
Obligations of U.S. states and political subdivisions	72,924	0	72,924	0
Mortgage-backed securities – residential, issued by:				
U.S. Government agencies	132,002	0	132,002	0
U.S. Government sponsored entities	574,011	0	574,011	0
Non-U.S. Government agencies or sponsored entities	383	0	383	0
U.S. corporate debt securities	4,730	0	4,730	0
Equity securities	1,969	0	0	1,969
Borrowings				
Other borrowings	11,304	0	11,304	0

The change in the fair value of the $1.9 million of available-for-sale securities valued using significant unobservable inputs (level 3), between January 1, 2013 and September 30, 2013 was immaterial.

Recurring Fair Value Measurements
December 31, 2012

(in thousands)	Total	(Level 1)	(Level 2)	(Level 3)
Trading securities				
Obligations of U.S. Government sponsored entities	$11,860	$11,860	$0	$0
Mortgage-backed securities – residential U.S. Government sponsored entities	4,590	4,590	0	0
Available-for-sale securities				
U.S. Treasury securities	1,004	1,004	0	0
Obligations of U.S. Government sponsored entities	593,778	0	593,778	0
Obligations of U.S. states and political subdivisions	79,056	0	79,056	0
Mortgage-backed securities – residential, issued by:				
U.S. Government agencies	167,667	0	167,667	0
U.S. Government sponsored entities	540,355	0	540,355	0
Non-U.S. Government agencies or sponsored entities	4,354	0	4,354	0
U.S. corporate debt securities	5,083	0	5,083	0
Equity securities	2,043	0	985	1,058
Borrowings				
Other borrowings	11,847	0	11,847	0

The change in the fair value of the $1.0 million of available-for-sale securities valued using significant unobservable inputs (level 3), between January 1, 2012

and December 31, 2012 was immaterial.

There were no transfers between Levels 1, 2 and 3 for the three months ended September 30, 2013.

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

Fair values of borrowings are estimated using Level 2 inputs based upon observable market data. The Company determines fair value for its borrowings using a discounted cash flow technique based upon expected cash flows and current spreads on FHLB advances with the same structure and terms. The Company also receives pricing information from third parties, including the FHLB. The pricing obtained is considered representative of the transfer price if the liabilities were assumed by a third party. The Company's potential credit risk did not have a material impact on the quoted settlement prices used in measuring the fair value of the FHLB borrowings at September 30, 2013.

Certain assets are measured at fair value on a nonrecurring basis. For the Company, these include loans held for sale, collateral dependent impaired loans, and other real estate owned ("OREO"). During the third quarter of 2013, certain collateral dependent impaired loans were remeasured and reported at fair value through a specific valuation allowance and/or partial charge-offs for loan and lease losses based upon the fair value of the underlying collateral. Collateral values are estimated using Level 2 inputs based upon observable market data. In addition to collateral dependent impaired loans, certain other real estate owned were remeasured and reported at fair value based upon the fair value of the underlying collateral. The fair values of other real estate owned are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. In general, the fair values of other real estate owned are based upon appraisals, with discounts made to reflect estimated costs to sell the real estate. Upon initial recognition, fair value write-downs on other real estate owned are taken through a charge-off to the allowance for loan and lease losses. Subsequent fair value write-downs on other real estate owned are reported in other noninterest expense.

		Fair value measurements at reporting date using:			Gain (losses) from fair value changes	
Assets:	As of 09/30/2013	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Three months ended 09/30/2013	Nine months ended 09/30/2013
Impaired Loans	$10,530	$0	$10,530	$0	$(650)	$(884)
Other real estate owned	1,625	0	1,625	0	(56)	(247)

		Fair value measurements at reporting date using:			Gain (losses) from fair value changes	
Assets:	As of 09/30/2012	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Three months ended 09/30/212	Nine months ended 09/30/2012
Impaired Loans	$13,111	$0	$13,111	$0	$(1,991)	$(2,485)

Other real estate owned	720	0	720	0	0	(198	)

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at September 30, 2013 and December 31, 2012. The carrying amounts shown in the table are included in the Consolidated Statements of Condition under the indicated captions.

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

Estimated Fair Value of Financial Instruments
September 30, 2013

(in thousands)	Carrying Amount	Fair Value	(Level 1)	(Level 2)
Financial Assets:				
Cash and cash equivalents	$88,580	$88,580	$88,580	$0
Securities - held to maturity	19,773	20,403	0	20,403
FHLB and FRB stock	21,955	21,955	0	21,955
Accrued interest receivable	16,589	16,589	0	16,589
Loans/leases, net1	3,092,904	3,124,094	0	10,530
Financial Liabilities:				
Time deposits	$906,173	$911,100	$0	$911,100
Other deposits	3,066,583	3,066,583	0	3,066,583
Fed funds purchased and securities sold under agreements to repurchase	162,117	168,541	0	168,541
Other borrowings	230,873	237,663	0	237,663
Accrued interest payable	2,257	2,257	0	2,257
Trust preferred debentures	37,127	43,471	0	43,471

Estimated Fair Value of Financial Instruments
December 31, 2012

(in thousands)	Carrying Amount	Fair Value	(Level 1)	(Level 2)
Financial Assets:				
Cash and cash equivalents	$118,930	$118,930	$118,930	$0
Securities - held to maturity	24,062	25,163	0	25,163
FHLB and FRB stock	19,388	19,388	0	19,388
Accrued interest receivable	17,516	17,516	0	17,516
Loans/leases, net1	2,929,967	3,047,833	0	8,918
Financial Liabilities:				
Time deposits	$973,883	$984,435	$0	$984,435
Other deposits	2,976,286	2,976,286	0	2,976,286
Fed funds purchased and securities sold under agreements to repurchase	213,973	222,873	0	222,873
Other borrowings	100,001	111,203	0	111,203
Accrued interest payable	3,067	3,067	0	3,067
Trust preferred debentures	43,668	49,421	0	49,421

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

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

CASH AND CASH EQUIVALENTS: The carrying amounts reported in the Consolidated Statements of Condition for cash, noninterest-bearing deposits, money market funds, and Federal funds sold approximate the fair value of those

assets.

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

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

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

ACCRUED INTEREST RECEIVABLE AND ACCRUED INTEREST PAYABLE: The carrying amount of these short term instruments approximate fair value.

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

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

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

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

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

BUSINESS

Corporate Overview and Strategic Initiatives
Tompkins Financial Corporation ("Tompkins" or the "Company") is a registered financial holding company incorporated in 1995 under the laws of the State of New York and its common stock is listed on the NYSE MKT LLC (Symbol: TMP). Tompkins is headquartered at The Commons, Ithaca, New York. The Company is a locally-oriented, community-based financial services organization that offers a full array of financial products and services, including commercial and consumer banking, leasing, trust and investment services, financial planning and wealth management, insurance and brokerage services. At September 30, 2013, Tompkins subsidiaries included: four wholly-owned community banking subsidiaries, Tompkins Trust Company (the "Trust Company"), The Bank of Castile, Mahopac National Bank and VIST Bank; a wholly-owned registered investment advisor subsidiary, TFA Wealth Management, Inc. ("TFA Wealth Management"), previously known as AM&M Financial Services, Inc.; 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 suite 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 provides investment advisory, retirement planning solutions, and brokerage services to our customers in southeastern Pennsylvania. Unless the context otherwise requires, the term "Company" refers collectively to Tompkins Financial Corporation and its subsidiaries.

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

In the second quarter of 2012, the Company completed a capital raise through a registered public offering of shares of its common stock. The Company believes that this capital raise helped position the Company for future growth, including its acquisition of VIST Financial Corp. (“VIST Financial”), described below. After transaction costs, net proceeds from the capital raise were approximately $38.0 million, and resulted in the issuance of 1,006,250 shares of Tompkins common stock on April 3, 2012.

Acquisitions
On August 1, 2012, Tompkins completed its acquisition of 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. On the acquisition date, VIST Financial had $1.4 billion in total assets, $889.3 million in loans, and $1.2 billion in deposits. Following its merger with a wholly-owned subsidiary of Tompkins, 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 the VIST Capital Management, LLC business was moved to VIST Bank under the brand name “VIST Capital Management.” The acquisition expands the Company’s presence into the southeastern region of Pennsylvania.

The VIST acquisition was a merger 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, as of the acquisition date. 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”), 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 VIST Acquisition.

The VIST 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.

Business Segments
The Company has identified the following three business segments, banking, insurance, and wealth management. Insurance services activities include the results of the Company’s property and casualty insurance services and employee benefits consulting operations. Wealth management activities include the results of the Company’s trust, financial planning, wealth management services and risk management operations. All other activities are considered banking. Information about the Company’s business segments is included in Note 14 “Segment and Related Information,” in the Notes to Unaudited Consolidated Financial Statements contained in Part I of this Quarterly Report on Form 10-Q.

Business Overview
Banking services consist primarily of attracting deposits from the areas served by the Company’s banking offices and using those deposits to originate a variety of commercial loans, consumer loans, real estate loans (including commercial loans collateralized by real estate), and leases. The Company’s lending function is managed within the guidelines of a comprehensive Board-approved lending policy. Reporting systems are in place to provide

management with ongoing information related to loan production, loan quality, concentrations of credit, loan delinquencies, and nonperforming and potential problem loans.

The Company may sell residential real estate loans in the secondary market based on interest rate considerations. These residential real estate loans are generally sold without recourse and in accordance with standard secondary market loan sale agreements. The Company primarily sells loans to the Federal Home Loan Mortgage Corporation, and retains servicing rights on the sold loans. These residential real estate loans are subject to normal representations and warranties, including representations and warranties related to gross fraud and incompetence. The Company has not had to repurchase any loans as a result of these representations and warranties. The Company reviews the risks in residential real estate lending related to representations and warranties, title issues, and servicing. The Company determined that these risks are immaterial and do not require any reserves on the Company’s statements of condition.

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

Wealth management consists of providing trust, financial planning, wealth management services and risk management services to individuals and businesses in the Company’s market areas. In 2010, the Company unified the branding of its trust and investment services businesses and began marketing these services under the name “Tompkins Financial Advisors”. Tompkins Financial Advisors has office locations at all three of the Company’s subsidiary banks in New York, and VIST Capital Management has offices at VIST Bank.

Insurance services include property and casualty insurance services, employee benefit consulting, and life, long-term care and disability insurance. Tompkins Insurance is headquartered in Batavia, New York. Over the past twelve years, Tompkins Insurance has acquired smaller insurance agencies in the market areas serviced by the Company’s banking subsidiaries and successfully consolidated them into Tompkins Insurance. As part of the Company’s August 1, 2012 acquisition of VIST Financial, VIST Insurance was merged with and into Tompkins Insurance and nearly doubled annual insurance revenues. Tompkins Insurance offers services to customers of the Company’s banking subsidiaries by sharing offices with The Bank of Castile, Trust Company, and VIST Bank. In addition to these shared offices, Tompkins Insurance has five stand-alone offices in Western New York and two stand-alone offices in Tompkins County, New York and one stand-alone office in Montgomery County, Pennsylvania.

Competition

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

Competition among financial institutions is based upon interest rates offered on deposit accounts, interest rates charged on loans and other credit and service charges, the quality and scope of the services rendered, the convenience of facilities and, in the case of the loans to commercial borrowers, relative lending limits. Management believes that a community based financial organization is better positioned to establish personalized financial relationships with both commercial customers and individual households. The Company’s community commitment and involvement in its primary market areas, as well as its commitment to quality and personalized financial services, are factors that contribute to the Company’s competitiveness. Management believes that each of the Company’s subsidiary banks can compete successfully in its primary market areas by making prudent lending decisions quickly and more efficiently than its competitors, without compromising asset quality or profitability, although no assurances can be given that such factors will assure success.

Regulation

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

Other Factors Affecting Performance

Other external factors affecting the Company’s operating results are market rates of interest, the condition of financial markets, and both national and regional economic conditions. The low market interest rates continue to put pressure on the Company’s net interest margin. The Company has offset some of this pressure with strategic deposit pricing and growth in average earning assets. Weak economic conditions beginning in 2008 contributed to increases in the Company’s past due loans and leases, nonperforming assets, and net loan and lease losses, as well as decreases in certain fee-based products and services. The Company has seen some signs of improving economic conditions within the market areas in which it operates, which have contributed to improvement in its credit quality metrics in recent quarters, including decreases in the level of internally classified assets and nonperforming assets. With the strength of the economic recovery uncertain, there is no assurance that these conditions may not adversely affect the credit quality of the Company’s loans and leases, results of operations, and financial condition going forward. Refer to the section captioned “Financial Condition- Allowance for Loan and Lease Losses” below for further details on asset quality.

OTHER IMPORTANT INFORMATION

The following discussion is intended to provide an understanding of the consolidated financial condition and results of operations of the Company for the three and nine months ended September 30, 2013. It should be read in conjunction with the Company's Audited Consolidated Financial Statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, and the Unaudited Consolidated Financial Statements and notes thereto included in Part I of this Quarterly Report on Form 10-Q.

Forward-Looking Statements

The Company is making this statement in order to satisfy the "Safe Harbor" provision contained in the Private Securities Litigation Reform Act of 1995. The statements contained in this Quarterly Report on Form 10-Q that are not statements of historical fact may include forward-looking statements that involve a number of risks and uncertainties. Such forward-looking statements are made based on management's expectations and beliefs concerning future events impacting the Company and are subject to certain uncertainties and factors relating to the Company's operations and economic environment, all of which are difficult to predict and many of which are beyond the control of the Company. These uncertainties and factors that could cause actual results of the Company to differ materially from those matters expressed and/or implied by such forward-looking statements. The following factors are among those that could cause actual results to differ materially from the forward-looking statements: changes in general economic, market and regulatory conditions; the development of an interest rate environment that may adversely affect the Company's interest rate spread, other income or cash flow anticipated from the Company's operations, investment and/or lending activities; changes in laws and regulations affecting banks, insurance companies, bank holding companies and/or financial holding companies, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act and Basel III; technological developments and changes; the ability to continue to introduce competitive new products and services on a timely, cost-effective basis; governmental and public policy changes, including environmental regulation; protection and validity of intellectual property rights; reliance on large customers; financial resources in the amounts, at the times and on the terms required to support the Company's future businesses; and other factors discussed elsewhere in this Quarterly Report on Form 10-Q and in other reports we file with the SEC, in particular the "Risk Factors" discussed in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2012. In addition, such forward-looking statements could be affected by general industry and market conditions and growth rates, general economic and political conditions, including interest rate and currency exchange rate fluctuations, and other factors.

Critical Accounting Policies

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

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

For additional information on critical accounting policies and to gain a greater understanding of how the Company's financial performance is reported, refer to Note 1 – "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements, and the section captioned "Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. There have been no significant changes in the Company's application of critical accounting policies since December 31, 2012. Refer to Note 3 – "Accounting Standards Updates" in the Notes to Unaudited Consolidated Financial Statements included in Part I of this Quarterly Report on Form 10-Q for a discussion of recent accounting updates.

In this Report there are comparisons of the Company's performance to that of a peer group. Unless otherwise stated, this peer group is comprised of the group of 117 domestic bank holding companies with $3 billion to $10 billion in total assets as defined in the Federal Reserve's "Bank Holding Company Performance Report" for June 30, 2013 (the most recent report available).

OVERVIEW

Net income for the third quarter was $14.0 million, or $0.95 diluted earnings per share, compared to $3.5 million, or $0.25 diluted earnings per share for the same period in 2012. The third quarter of 2012 included $8.4 million of after-tax merger related expenses. Net income for the first nine months of 2013 was $36.6 million, or $2.50 diluted earnings per share, compared to $20.1 million or $1.63 diluted earnings per share in the first nine months of 2012. Net income for the first nine months of 2013 and 2012 was reduced by after-tax merger expenses of $140,000 and $9.2 million, respectively. Comparisons of the Statements of Income and Statement of Condition to the same periods last year are impacted by the acquisition of VIST Financial Corporation on August 1, 2012.

Return on average assets ("ROA") for the quarter and nine months ended September 30, 2013 were 1.10% and 0.99%, respectively, compared to 0.31% for the quarter and 0.70% for the nine months ended September 30, 2012. Return on average shareholders' equity ("ROE") for the third quarter and first nine months of 2013 were 12.83% and 11.07%, respectively, compared to 3.37% and 7.58%, respectively, for the same period in 2012. Tompkins' second quarter ROA and ROE compare to the most recent peer average ratios of 1.08% and 8.43%, respectively, published, published as of June 30, 2013 by the Federal Reserve, ranking Tompkins' ROA in the 45th percentile and ROE in the 62nd percentile of the peer group.

The Company's operating (Non-GAAP) net income for the third quarter was $13.2 million, or $0.90 diluted per share, compared to $11.9 million, or $0.87 diluted per share for the third quarter of 2012. The Company's operating (Non-GAAP) net income was $35.9 million, or $2.45 diluted per share for the nine months ended September 30, 2013, compared to $29.1 million or $2.36 diluted per share for the same period in 2012. Operating (Non-GAAP) income excludes after-tax merger and acquisition integration expense of, $0 and $8.4 million for the three months ended September 30, 2013 and 2012, respectively and $140,000 and $9.2 million for the nine months ended September 30, 2013 and 2013, respectively. In addition, operating (Non-GAAP) income for the third quarter and first nine months of 2013, excludes an after-tax gain of $846,000 on the redemption of a Trust Preferred debenture. Operating (Non-GAAP income for the nine months ended September 30, 2012, excludes an after-tax benefit of $246,000 related to a reversal of an accrual for VISA litigation.

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

(in thousands)	Three months ended 09/30/2013	09/30/2012	Nine months ended 09/30/2013	09/30/2012
Net income attributable to Tompkins Financial Corporation	$14,049	$3,487	$36,565	$20,124
Less: dividends and undistributed earnings allocated to unvested stock awards	(137)	(12)	(284)	(81)
Net income available to common shareholders (GAAP)	13,912	3,475	36,281	20,043
Diluted earnings per share (GAAP)	0.95	0.25	2.50	1.63
Adjustments for non-operating income and expense, net of tax:				
Reversal of VISA Covered Litigation accrual	0	0	0	(243)
Gain on redemption of trust preferred	(846)		(846)	
Merger and acquisition integration related expenses	0	8,424	140	9,202
Total adjustments, net of tax	(846)	8,424	(706)	8,959
Net operating income available to common shareholders (Non-GAAP)	$13,066	$11,899	$35,575	$29,002
Adjusted diluted earnings per share (Non-GAAP)	0.89	0.87	2.45	2.36

(in thousands)	Three months ended 09/30/2013	09/30/2012	Nine months ended 09/30/2013	09/30/2012
Net income attributable to Tompkins Financial Corporation	$14,049	$3,487	$36,565	$20,124
Adjustments for non-operating income and expense, net of tax:				
Reversal of VISA Covered Litigation accrual	0	0	0	(243)
Gain on redemption of trust preferred	(846)	0	(846)	0
Merger and acquisition integration related expenses	0	8,424	140	9,202
Total adjustments, net of tax	(846)	8,424	(706)	8,959
Net operating income (Non-GAAP)	13,203	11,911	35,859	29,083
Amortization of intangibles, net of tax	327	256	990	410
Adjusted net operating income (Non-GAAP)	13,530	12,167	36,849	29,493
Average total shareholders’ equity	434,482	410,300	441,583	354,493
Average goodwill and intangibles	109,277	92,748	109,995	63,220
Average shareholders’ tangible equity (Non-GAAP)	325,205	317,552	331,588	291,273
Adjusted operating return on average shareholders’ tangible equity (annualized) (Non-GAAP)	16.51%	15.24%	14.86%	13.53%

(in thousands)	Three months ended 09/30/2013	09/30/2012	Nine months ended 09/30/2013	09/30/2012

Adjusted net operating income (Non-GAAP)	$13,530	$12,167	$36,849	$29,736
Average total assets	4,897,678	4,450,013	4,921,092	3,820,340
Average goodwill and intangibles	109,277	92,748	109,995	63,220
Average tangible assets	4,788,401	4,357,265	4,811,097	3,757,120
Adjusted operating return on average shareholders' tangible assets (annualized) (Non-GAAP)	1.12 %	1.11 %	1.02 %	1.06 %

Segment Reporting

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

Banking Segment

The banking segment reported net income of $12.4 million for the third quarter of 2013, up $2.0 million or 18.9% from net income of $10.5 million for the same period in 2012. For the nine months ended September 30, 2013, the banking segment reported net income of $31.6 million, up $6.2 million or 24.2% from 2012. The acquisition of VIST Bank contributed to the increases over prior periods measured.

Net interest income of $40.4 million for the third quarter and $118.4 million for the nine month period ended September 30, 2013 was up 10.2% and 28.5%, respectively, over the same periods in 2012. Growth in average earning assets and lower funding costs more than offset the lower asset yields and contributed to favorable year-over-year comparisons. Net interest margin for the nine months ended September 30, 2013 was 3.60% compared to 3.57% for the same period prior year.

The provision for loan and lease losses totaled $2.0 million for the three months ended September 30, 2013 and $1.0 million for the same period in 2012. For the nine month period ended September 30, 2013, provision expense increased $2.4 million compared to the same period last year. The increase in provision expense was largely attributable to the acquired loan portfolio and was mainly related to one large commercial relationship.

Noninterest income for the three months ended September 30, 2013 of $8.0 million was up $2.3 million or 40.9% compared to the same period in 2012. For the first nine months of 2013, noninterest income of $20.4 million was up $4.2 million or 25.5%. The main drivers behind the increase in year to date noninterest income included: a $1.4 million pre-tax gain on the redemption of a Trust Preferred debenture acquired as part of the VIST acquisition; service charges on deposit accounts (up $820,000); card services income (up $810,000); mark-to-market gains on liabilities held at fair value (up $405,000); and income from a Small Business Investment Company "SBIC" (up $279,000). These increases were due in large part to the VIST acquisition. Partially offsetting these items were mark-to-market losses on trading securities (up $274,000) and gains on sale of securities (down $99,000), mainly a result of market conditions.

Noninterest expenses for the quarter ended September 30, 2013 were up $4.2 million or 16.3% from the same period in 2012. For the nine month period ended September 30, 2013, noninterest expense increased $22.1 million or 33.3%. Merger-related expenses of $13.8 million for both the three and nine months ended September 30, 2012, were excluded in calculating the growth rate between 2013 and 2012. Most expense categories increased over the same period last year, reflecting the operational costs of a larger organization with the inclusion of VIST Bank.

Insurance Segment

The insurance segment reported net income of $901,000 for the three months ended September 30, 2013, up $121,000 or 15.5% from the third quarter of 2012. For the nine months ended September 30, 2013, net income was up $1.1 million or 65.0% from the same period of 2012. Noninterest income for the third quarter of 2013 was up $1.4 million or 24.9% and up $8.6 million or 67.7% for the nine months ended September 30, 2013 compared to the same periods in 2012. Commercial and personal insurance lines, in addition to life and health insurance commissions experienced the most growth in revenues for both periods in 2013 compared to the same periods last year. Noninterest expenses for the three months ended September 30, 2013, were up $1.2 million or 26.9% compared to the third quarter of 2012. For the nine months ending September 30, 2013, noninterest expenses increased $6.7 million or 68.0% over the

previous year. Salaries and benefits costs were the largest contributors to the increase in noninterest expense compared to the same periods last year. Increases in noninterest income and noninterest expense were mainly attributed to the addition of VIST Insurance pursuant to the VIST Financial acquisition. The operating results of VIST Insurance have been consolidated into the operating results of Tompkins Insurance Agencies, Inc.

Wealth Management Segment
The wealth management segment reported net income of $708,000 for the three months ended September 30, 2013, up $89,000 or 14.4% compared to the third quarter of 2012 and increased $642,000 or 45.1% for the first nine months of 2013 compared to the same period in 2012. Noninterest income for the third quarter of 2013 was $3.9 million; up $85,000 or 2.2% compared to the prior year and for the nine month period ended September 30, 2013 was up $602,000 or 5.4% over the same nine month period of 2012. The increase in noninterest income compared to the first nine months of 2012 is mainly a result of an increase in investment management and brokerage income which benefited from the growth in assets under management and improved market conditions. Noninterest expenses for the three months and nine months ended September 30, 2013, were down $70,000 or 2.4% and $454,000 or 4.9% compared to the same periods of 2012, mainly a result of lower marketing expenses and lower external broker commission payouts. The 2013 results include VIST Capital Management, which was acquired as part of the VIST Financial acquisition.

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

(Dollar amounts in thousands)	Quarter Ended September 30, 2013 Average Balance (QTD)	Interest	Average Yield/Rate	Year to Date Period Ended September 30, 2013 Average Balance (YTD)	Interest	Average Yield/Rate	Year to Date Period Ended September 30, 2012 Average Balance (YTD)	Interest	Average Yield/Rate
ASSETS									
Interest-earning assets									
Interest-bearing balances due from banks	$1,281	$1	0.31%	$2,261	$9	0.53%	$19,272	$14	0.10%
Money market funds	—	—	0.00%	—	—	0.00%	24	—	0.00%
Securities (1)									
U.S. Government securities	1,319,413	7,208	2.17%	1,334,735	21,269	2.13%	1,170,885	21,089	2.41%
Trading securities	13,978	147	4.17%	15,141	472	4.17%	18,526	569	4.10%
State and municipal (2)	93,464	1,194	5.07%	97,253	3,750	5.16%	91,452	3,594	5.25%
Other securities (2)	7,409	60	3.21%	7,996	210	3.51%	11,773	403	4.57%
Total securities	1,434,264	8,609	2.38%	1,455,125	25,701	2.36%	1,292,636	25,655	2.65%
Federal Funds Sold	—	—	0.00%	—	—	0.00%	2,453	2	0.11%
FHLBNY and FRB stock	24,234	193	3.16%	22,051	538	3.26%	18,107	620	4.57%
Total loans and leases, net of unearned income (2)(3)	3,073,824	38,535	4.97%	3,025,846	113,440	5.01%	2,194,852	85,281	5.19%
Total interest-earning assets	4,533,603	47,338	4.14%	4,505,283	139,688	4.15%	3,527,344	111,572	4.23%
Other assets	364,075			415,809			293,527		
Total assets	4,897,678			4,921,092			3,820,871		
LIABILITIES & EQUITY									
Deposits									

Interest-bearing deposits									
Interest bearing checking, savings, & money market	2,164,364	1,134	0.21 %	2,224,540	3,816	0.23 %	1,610,667	3,250	0.27 %
Time deposits	925,863	1,968	0.84 %	955,284	5,928	0.83 %	786,856	5,177	0.88 %
Total interest-bearing deposits	3,090,227	3,102	0.40 %	3,179,824	9,744	0.41 %	2,397,523	8,427	0.47 %
Federal funds purchased & securities sold under agreements to repurchase	168,446	901	2.12 %	180,939	2,877	2.13 %	195,553	3,340	2.28 %
Other borrowings	271,904	1,243	1.81 %	211,828	3,634	2.29 %	139,148	4,231	4.06 %
Trust preferred debentures	42,131	660	6.21 %	43,160	2,037	6.31 %	29,201	1,296	5.93 %
Total interest-bearing liabilities	3,572,708	5,906	0.66 %	3,615,751	18,292	0.68 %	2,761,425	17,294	0.84 %
Noninterest bearing deposits	814,865			790,557			645,801		
Accrued expenses and other liabilities	75,623			73,201			59,152		
Total liabilities	4,463,196			4,479,509			3,466,378		
Tompkins Financial Corporation Shareholders' equity	432,948			440,082			352,991		
Noncontrolling interest	1,534			1,501			1,502		
Total equity	434,482			441,583			354,493		
Total liabilities and equity	$ 4,897,678			$ 4,921,092			$ 3,820,871		
Interest rate spread			3.48 %			3.47 %			3.39 %
Net interest income/margin on earning assets		41,432	3.63 %		121,396	3.60 %		94,278	3.57 %
		(959)			(2,892)			(1,984)	

Tax Equivalent Adjustment			
Net interest income per consolidated financial statements	$40,473	$118,504	$92,294

(1) Average balances and yields on available-for-sale securities are based on historical amortized cost.
(2) Interest income includes the tax effects of taxable-equivalent adjustments using a combined New York State and Federal effective income tax rate of 40% to increase tax exempt interest income to taxable-equivalent basis.
(3) Nonaccrual loans are included in the average asset totals presented above. Payments received on nonaccrual loans have been recognized as disclosed in Note 1 of the Company's condensed consolidated financial statement included in Part 1 of the Company's annual report on Form 10-K for the fiscal year ended December 31, 2012.

Net Interest Income

Net interest income is the Company's largest source of revenue, representing 68.6% and 69.3% of total revenues for the three and nine months ended September 30, 2013, compared to 71.3% and 70.2%, respectively, for the same periods in 2012. Net interest income was up for both the three and nine month periods ended September 30, 2013 over the same periods in 2012; however, the growth in noninterest income, the other component of revenue, exceeded the growth in net interest income, resulting in the decrease in the current period ratios from prior year periods. Net interest income is dependent on the volume and composition of interest earning assets and interest-bearing liabilities and the level of market interest rates. The historically low interest rate environment has resulted in lower asset yields and lower funding costs in 2013 compared to 2012. The Company has been able to lessen the impact of lower asset yields with growth in average earning assets as well as increasing the loan portfolio as a percentage of average earnings assets. The Company has been able to reduce its funding costs by growing its deposit base, including the balances of noninterest bearing deposits, and replacing maturing FHLB borrowings with lower cost funding.

The above table shows average interest-earning assets and interest-bearing liabilities, and the corresponding yield or cost associated with each. The taxable equivalent net interest margin was 3.63% for the three month period ended September 30, 2013 and 3.60% for the nine month period ended September 30, 2013, compared to 3.66% and 3.57%, respectively, for the same periods in 2012. Taxable-equivalent net interest income for the three and nine months ended September 30, 2013 was $41.4 million and $121.4 million, respectively, up 10.3% and 28.8% when compared to the same periods in 2012. The acquisition of VIST Financial on August 31, 2012 contributed significantly to the increase in average earnings assets and net interest income in 2013 over 2012.

Taxable-equivalent interest income for the third quarter of 2013 was $47.3 million, up 8.2% when compared to the same quarter in 2012. Taxable-equivalent interest income for the nine months ending September 30, 2013 was $139.7 million, up 25.2% from $111.6 million for the first nine months of 2012. The increase in taxable equivalent interest income for the quarter and year-to-date period ended September 30 2013, was mainly a result of the $1.3 billion in earning assets acquired in the acquisition of VIST Financial in August 2012. Average earning assets for the third quarter and the first nine months of 2013 are up 10.9% and 27.7%, respectively, over the same periods in 2012. This increase in average balances was partially offset by a decline in the yield on average earning assets. The yields on average earning assets were down 12 basis points and 7 basis points for the three and nine month periods ended September 30, 2013 compared to the same periods in 2012. Average earning asset yields were impacted by the low rate environment as cash flows from existing higher yielding assets are reinvested at lower rates. The impact of the lower market rates on the overall yield on average earning assets in the third quarter of 2013 compared to the same period in 2012 was partially offset by the mix of earning assets acquired in the VIST acquisition, which was more heavily weighted in loans than securities. Average loan balances for the three and nine months ended September 30, 2013 were up $455.4 million or 17.4% and $831.0 million or 37.9%, respectively. Average loan balances represented about 67.8% and 67.2% of average earning assets for the three and nine months ended September 30, 2013, up from 64.1% and 62.2%, respectively, for the same periods in 2012. Average loan yields were down 18 and 24 basis points in the three and nine month periods ended September 30, 2013, respectively, as compared to the same periods in 2012. Average securities balances for the third quarter of 2013 were up $2.8 million or 0.2% over average balances in the third quarter of 2012, while average yields were down 18 basis points. For the nine months ended September 30, 2013 average securities balances increased $162,000 or 12.5% from the same period in 2012, while yields declined 29 basis points.

Interest expense for the three and nine months ended September 30, 2013 was $5.9 million and $18.3 million, respectively, down by 4.4% and up by 5.8% when compared to the same periods in 2012, reflecting an increase in interest bearing liabilities, largely deposits of $1.2 billion, acquired from VIST Bank, partially offset by lower average rates paid on deposits and borrowings. The VIST Bank acquisition impacted 2012 for only two months for the three and nine-month period ended September 30, 2012, whereas the impact to 2013 was for the full three and nine month periods ended September 30, 2013. Average interest-bearing deposit balances for the three and nine months ended

September 30, 2013, were up by $255.7 million or 8.3% and $782.3 million or 24.6%, respectively, compared to the same periods in 2012. The average rate paid on interest bearing deposits during the three and nine months ended September 30, 2013 was 0.40% and 0.41%, respectively, down 4 basis points and 6 basis points from the average rates paid during the same periods in 2012. The rates paid were lower across all deposit categories, including interest bearing checking, savings and money market accounts and time deposit. Total funding costs also benefitted from the growth in average noninterest bearing deposit balances. For the three and nine months ended September 30, 2013, average noninterest bearing deposits of $814.9 million and $790.6 million were up 12.1% and 22.4%, respectively, over the same periods in 2012. At the time of acquisition, VIST Bank had noninterest bearing balances of $129.5 million. Other borrowings were up $142.9 million or 110.7% for the three months ended September 30, 2013, compared to the third quarter of 2012; however, the average cost of 1.81% for the third quarter of 2013 is down considerably from the 4.21% for the third quarter of 2012.

Provision for Loan and Lease Losses

The provision for loan and lease losses represents management's estimate of the amount necessary to maintain the allowance for loan and lease losses at an adequate level. The provision for loan and lease losses was $2.0 million for the third quarter of 2013 and $5.6 million for the nine months ended September 30, 2013, compared to $1.0 million and $3.2 million for the respective periods in 2012. The year-over-year increase in provision expense was mainly in the acquired loan portfolio and was primarily related to one large commercial relationship that was partially charged off in the second quarter of 2013. The section captioned "Financial Condition-Allowance for Loan and Lease Losses and Nonperforming Assets" below has further details on the allowance for loan and lease losses and asset quality metrics.

Noninterest Income

Noninterest income totaled $18.5 million and $52.5 million for the three and nine months ended September 30, 2013, compared with $14.8 million and $39.2 million for the same periods in 2012. Noninterest income represented 31.4% and 30.7% of total revenues for the three and nine months ended September 30, 2013 compared to 28.7% and 29.8% for the same periods in 2012. Noninterest income for the three and nine months ended September 30, 2013 included a pre-tax gain of $1.4 million on the redemption of a Trust Preferred debenture acquired as part of the VIST acquisition.

Insurance commissions and fees for the three and nine months ended September 30, 2013 increased by $1.4 million and $8.4 million or 23.7% and 63.7% as compared to the same periods in 2012. The acquisition of VIST Insurance contributed $1.2 million and $7.7 million, respectively, to the increase over the prior year periods. Revenues for commercial insurance lines, personal insurance lines, and health and benefit related insurance products were up for the quarter and nine months ended September 30, 2013 compared to the same periods in 2012.

Investment services income was $3.7 million in third quarter of 2013, an increase of 2.2% from $3.6 million in the third quarter of 2012. Investment services income totaled $11.2 million for the first nine months of 2013, up 6.4% over the same period in 2012. The increase was mainly attributed to changes in the pricing structure of brokerage related fees instituted in the second quarter of 2012, increases in assets under management and the VIST Financial acquisition. Investment services income includes trust services, financial planning, wealth management services, and brokerage related services. With fees largely based on the market value and the mix of assets managed, the general direction of the stock market can have a considerable impact on fee income. The fair value of assets managed by, or in custody of, Tompkins was $3.4 billion at September 30, 2013, up 3.0% from $3.3 billion at September 30, 2012. These figures include $921.8 million and $1.0 billion, respectively, of Company-owned securities where Tompkins Financial Advisors is custodian. The increase in fair value of assets also reflects successful business development initiatives resulting in customer retention and the impact of the VIST Financial acquisition.

Service charges on deposit accounts were up $266,000 or 13.4% for the third quarter of 2013 compared to the third quarter of 2012 and up $820,000 or 15.3% for the nine month period ended September 30, 2013 compared to the same period in the prior year. The largest component of this category is overdraft fees, which is largely driven by customer activity. The increase over the prior year is primarily due to the addition of VIST Bank. However, all four of the Company's banking subsidiaries reported an increase in service charges on deposit accounts for the three and nine months ended September 30, 2013, compared to the same periods in 2012.

Card services income for the three and nine months ended September 30, 2013 was up $231,000 or 15.4% and $810,000 or 18.6% over the same periods in 2012. The increase was mainly in debit card income and was due to the acquisition of VIST Bank. Favorable trends in the number of cards issued and transaction volume have been partially offset by lower interchange fees as a result of regulatory changes.

Net mark-to-market gains on securities and borrowings held at fair value totaled $32,000 in the third quarter of 2013, compared to net mark-to-market losses of $68,000 in the third quarter of 2012. For the nine months ended September

30, 2013, net mark-to-market gains totaled $71,000 compared to mark-to-market losses of $60,000 for the comparable period in 2012. Mark-to-market losses or gains related to the change in the fair value of trading securities and certain borrowings where the Company has elected the fair value option are unrealized amounts primarily impacted by changes in interest rates.

For the three and nine months ended September 30, 2013, the Company recognized $281,000 and $723,000 in gains on sales of available-for-sale securities, compared to $112,000 in losses and $822,000 in gains for the three and nine months ended September 30, 2012. Sales of available-for-sale securities are generally the result of general portfolio maintenance and interest rate risk management. The gains recognized in the nine months ended September 30, 2013, included $94,000 of gains related to the sale of three non-agency bonds, which had previously been determined to be other-than-temporarily impaired.

Other income was $3.4 million for the third quarter of 2013 as compared to $2.1 million for the same quarter in 2012. For the nine months ended September 30, 2013 other income was $7.5 million, up $2.4 million or 31.8% from 2012. The significant components of other income are other service charges, increases in cash surrender value of corporate owned life insurance ("COLI"), gains on the sales of residential mortgage loans, FDIC indemnification asset accretion and income from miscellaneous equity investments, including the Company's investment in a Small Business Investment Company ("SBIC"). Other income for the three and nine months ended September 30, 2013 included a pre-tax gain of $1.4 million on the redemption of a Trust Preferred debenture acquired as part of the VIST acquisition. Most other income categories were up in 2013 over the same periods last year due to the VIST Financial acquisition. The second quarter of 2012 included $405,000 in pre-tax income related to the reversal of an accrued liability related to the settlement of litigation between VISA Inc. and certain merchants.

Net gains on sale of residential mortgage loans, included in other income on the consolidated statements of income, of $115,000 in the third quarter of 2013 were down by $214,000 or 65.0% compared to the third quarter of 2012. For the nine month period ended September 30, 2013 net gains on the sale of mortgage loans was $212,000, down $367,000 or 63.4% from the same period in 2012. The decrease in gains on sale of residential mortgage loans is mainly due to lower sales volumes, reflecting a decision to hold certain loans in the portfolio rather than sell them in the secondary market. To manage interest rate risk exposures, the Company from time to time sells certain fixed rate loan originations that have rates below or maturities greater than the standards set by the Company's Asset/Liability Committee for loans held in the portfolio.

Noninterest Expense

Noninterest expense was $37.6 million for the third quarter of 2013, down $8.6 million or 18.7% compared to the same period of the prior year and was $112.9 million for the nine months ended September 30, 2013, up $13.4 million or 13.5% from $99.4 million for the first nine months of 2012. The year-over-year increase was largely the result of the acquisition of VIST Financial. The decrease for the three month period was the result of $13.8 million of merger related expenses that were included in the three month period ended September 30, 2012. The three month period ended September 30, 2013 did not include any merger related expenses.

Salaries and wages expense increased by $2.9 million or 20.6% in the third quarter of 2013 compared to the same period in 2012. For the nine months ended September 30, 2013, salaries and wages were up $12.3 million or 34.0% over the prior year period. The increase is mainly a result of the additional employees acquired in the VIST acquisition. In addition, annual merit increases and higher accruals for business development activities affected salaries and wages. Pension and other employee benefits were up $780,000 or 16.2%, and $3.8 million or 28.4% for the third quarter and nine months ended September 30, 2013, mainly a result of the VIST Financial acquisition. Lower market interest rates have contributed to the increase in the cost of pension and other postretirement benefit plans. Healthcare insurance is also up over the prior year as a result of additional employees and an increase in annual premiums.

Net occupancy expense was $2.9 million for the third quarter of 2013, up $378,000 or 15.3% from the same period in 2012 and was $8.9 million for the nine months ended September 30, 2013, up $2.8 million or 46.0% from the same period in 2012. The acquisition of VIST Financial contributed to the increase in net occupancy expense for the quarter and year-to date period ended September 30, 2013.

Other operating expenses were $9.5 million for the third quarter ended September 30, 2013, up by $930,000 or 10.8% compared to the same period in 2012. Other operating expenses were $29.7 million for the nine months ended September 30, 2013, an increase of $6.8 million or 29.7% compared to the prior year period. The acquisition of VIST Financial contributed to this year-over-year increase in other expenses. The third quarter of 2013 included $431,000 of amortization of a historic tax credit investment. This increase was partially offset by a decrease in other real estate owned expense as the Company was able to recapture some expense as a result of the resolution of a large

other real estate owned property. Please see "Note 12. Other income and operating expense" for more detail on the changes within other operating expenses.

Income Tax Expense

The provision for income taxes provides for Federal and New York State income taxes. The provision for income taxes was $5.3 million for an effective rate of 27.4% for the third quarter of 2013, compared to tax expense of $761,000 and an effective rate of 17.8% for the same quarter in 2012. For the nine month period ended September 30, 2013, the tax provision was $15.9 million for an effective rate of 30.2%, compared to tax expense of $8.7 million and an effective rate of 30.0% for the same period in 2012. The third quarter 2013 tax expense and effective rate were favorably impacted by the recognition of the tax benefit of an historic tax credit investment. The third quarter of 2012 was impacted by merger expenses in the quarter. The effective rates differ from the U.S. statutory rate of 35.0% during the comparable periods primarily due to the effect of tax-exempt income from loans and securities, life insurance assets, and investments in tax credits.

FINANCIAL CONDITION

Total assets were $4.9 billion at September 30, 2013, up $95.2 million or 2.0% over December 31, 2012, and flat compared to September 30, 2012. The growth over year-end was mainly in originated loans, net of unearned income and deferred costs and fees, which were up $287.6 million or 13.5%. This was offset by declines in acquired loans ($122.9 million or 15.0%), available-for-sale securities ($34.4 million or 2.5%) and cash and cash equivalents ($30.4 million or 25.5%). Total deposits were up less than 1.0% compared to year end, as increases in interest bearing checking, savings, and money market balances of $74.8 million or 3.5% and $15.5 million or 1.9% increases noninterest bearing deposits were mainly offset by a $67.7 million or 7.0% decrease in time deposits. Other borrowings, consisting mainly of short term advance with the FHLB, were up $130.3 million or 116.5% from year-end. The VIST acquisition provided total deposits of $1.2 billion on acquisition date.

Securities

As of September 30, 2013, total securities were $1.4 billion or 28.2% of total assets, compared to $1.4 billion or 29.6% of total assets at year-end 2012, and $1.5 billion or 30.8% at September 30, 2012. The following table details the composition of securities available-for-sale and securities held-to-maturity.

Available-for-Sale Securities

	09/30/2013		12/31/2012	
(in thousands)	Amortized Cost1	Fair Value	Amortized Cost1	Fair Value
U.S. Treasury securities	$0	$0	$1,001	$1,004
Obligations of U.S. Government sponsored entities	569,867	572,911	570,871	593,778
Obligations of U.S. states and political subdivisions	72,981	72,924	76,803	79,056
Mortgage-backed securities				
U.S. Government agencies	131,347	132,002	162,853	167,667
U.S. Government sponsored entities	578,161	574,011	526,364	540,355
Non-U.S. Government agencies or sponsored entities	375	383	4,457	4,354
U.S. corporate debt securities	5,002	4,730	5,009	5,083
Total debt securities	1,357,733	1,356,961	1,347,358	1,391,297
Equity securities	2,024	1,969	2,058	2,043
Total available-for-sale securities	$1,359,757	$1,358,930	$1,349,416	$1,393,340

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

Held-to-Maturity Securities

	09/30/2013		12/31/2012	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of U.S. states and political subdivisions	$19,773	$20,403	$24,062	$25,163
Total held-to-maturity debt securities	$19,773	$20,403	$24,062	$25,163

The decrease in the fair value of the available-for-sale portfolio was due to the changes in interest rates during the third quarter of 2013. The rise in interest rates during the quarter resulted in a decrease in the unrealized gains in the available-for-sale portfolio. Management's policy is to purchase investment grade securities that on average have relatively short duration, which helps mitigate interest rate risk and provides sources of liquidity without significant risk to capital. The decrease in the held-to-maturity portfolio was due to maturities and calls during the year.

The Company has no investments in preferred stock of U.S. government sponsored entities and no investments in pools of Trust Preferred securities. Quarterly, the Company evaluates all investment securities with a fair value less than amortized cost to identify any other-than-temporary impairment as defined under generally accepted accounting principles.

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 $55,000 and $120,000, respectively, in net credit impairment charges to earnings on these securities in the third quarter and nine months ending September 30, 2012.

As a result of the impairment review process, the Company does not consider the remaining non-agency CMO held at September 30, 2013 to be other-than-temporarily impaired. Future changes in interest rates or the credit quality and credit support of the underlying issuers may reduce the market value of these and other securities. If such decline is determined to be other than temporary, the Company will record the necessary charge to earnings and/or accumulated other comprehensive income to reduce the securities to their then current fair value.

The Company maintains a trading portfolio with a fair value of $11.5 million as of September 30, 2013, compared to $16.5 million at December 31, 2012. The decrease in the trading portfolio reflects maturities or payments during 2013. For the nine months ended September 30, 2013, net mark-to-market losses related to the securities trading portfolio were $472,000, compared to net mark-to-market losses of $198,000 for the same period in 2012.

Loans and Leases

Loans and leases at September 30, 2013 and December 31, 2012 were as follows:

	09/30/2013			12/31/2012		
(in thousands)	Originated	Acquired	Total Loans and Leases	Originated	Acquired	Total Loans and Leases
Commercial and industrial						
Agriculture	$ 59,041	$ 0	$ 59,041	$ 77,777	$ 0	$ 77,777
Commercial and industrial other	530,878	126,348	657,226	446,876	167,427	614,303
Subtotal commercial and industrial	589,919	126,348	716,267	524,653	167,427	692,080
Commercial real estate						
Construction	41,868	38,036	79,904	41,605	43,074	84,679
Agriculture	48,657	3,528	52,185	48,309	3,247	51,556
Commercial real estate other	862,023	394,559	1,256,582	722,273	445,359	1,167,632
Subtotal commercial real estate	952,548	436,123	1,388,671	812,187	491,680	1,303,867
Residential real estate						
Home equity	166,800	70,315	237,115	159,720	81,657	241,377
Mortgages	653,086	37,131	690,217	573,861	41,618	615,479
Subtotal residential real estate	819,886	107,446	927,332	733,581	123,275	856,856
Consumer and other						
Indirect	22,488	7	22,495	26,679	24	26,703
Consumer and other	32,996	1,330	34,326	32,251	1,498	33,749
Subtotal consumer and other	55,484	1,337	56,821	58,930	1,522	60,452

Leases	5,102	0	5,102	4,618	0	4,618
Covered loans		27,363	27,363	0	37,600	37,600
Total loans and leases	2,422,939	698,617	3,121,556	2,133,969	821,504	2,955,473
Less: unearned income and deferred costs and fees	(2,244)	0	(2,244)	(863)	0	(863)
Total loans and leases, net of unearned income and deferred costs and fees	$ 2,420,695	$				