TOMPKINS FINANCIAL CORP
Form 10-Q
May 10, 2016

**United States**

**Securities and Exchange Commission**

**Washington, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from _____ to ______

Commission File Number **1-12709**

**Tompkins Financial Corporation**

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

| Class | Outstanding as of April 25, 2016 |
|---|---|
| Common Stock, $0.10 par value | 15,024,177 shares |

**TOMPKINS FINANCIAL CORPORATION**

**FORM 10-Q**

**INDEX**


| | | PAGE |
|---|---|---|
| **PART I -FINANCIAL INFORMATION** | | |
| Item 1 – | Condensed Financial Statements Consolidated Statements of Condition as of March 31, 2016 (Unaudited) | 3 |
| | Consolidated Statements of Income for the three months ended March 31, 2016 and 2015 (Unaudited) | 4 |
| | Consolidated Statements of Comprehensive Income for the three months ended March 31, 2016 and 2015 (Unaudited) | 5 |
| | Consolidated Statements of Cash Flows for the three months ended March 31, 2016 and 2015 (Unaudited) | 6 |
| | Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2016 and 2015 (Unaudited) | 8 |
| | Notes to Unaudited Consolidated Condensed Financial Statements | 9-40 |
| Item 2 - | Management's Discussion and Analysis of Financial Condition and Results of Operations | 41-59 |
| Item 3 - | Quantitative and Qualitative Disclosures About Market Risk | 60 |
| Item 4 - | Controls and Procedures | 61 |
| **PART II - OTHER INFORMATION** | | |
| Item 1 – | Legal Proceedings | 61 |
| Item 1A – | Risk Factors | 61 |
| Item 2 – | Unregistered Sales of Equity Securities and Use of Proceeds | 61 |

| | |
|---|---|
| **Item 3 -Defaults Upon Senior Securities** | **62** |
| **Item 4 -Mine Safety Disclosures** | **62** |
| **Item 5 -Other Information** | **62** |
| **Item 6 -Exhibits** | **62** |
| **SIGNATURES** | **63** |
| **EXHIBIT INDEX** | **64** |

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

| *(In thousands, except share and per share data) (Unaudited)* | **As of** | **As of** |
|---|---|---|
| **ASSETS** | **03/31/2016** | **12/31/2015** |
| Cash and noninterest bearing balances due from banks | $53,637 | $56,261 |
| Interest bearing balances due from banks | 1,877 | 1,996 |
| **Cash and Cash Equivalents** | **55,514** | **58,257** |
| | | |
| Trading securities, at fair value | 7,023 | 7,368 |
| Available-for-sale securities, at fair value (amortized cost of $1,415,557 at March 31, 2016 and $1,390,255 at December 31, 2015) | 1,431,709 | 1,385,684 |
| Held-to-maturity securities, at amortized cost (fair value of $150,139 at March 31, 2016 and $146,686 at December 31, 2015) | 145,010 | 146,071 |
| Originated loans and leases, net of unearned income and deferred costs and fees | 3,370,791 | 3,310,768 |
| Acquired loans and leases, covered | 12,737 | 14,031 |
| Acquired loans and leases, non-covered | 437,385 | 447,243 |
| Less: Allowance for loan and lease losses | 32,530 | 32,004 |
| **Net Loans and Leases** | **3,788,383** | **3,740,038** |
| | | |
| Federal Home Loan Bank stock | 25,727 | 29,969 |
| Bank premises and equipment, net | 60,237 | 60,331 |
| Corporate owned life insurance | 76,410 | 75,792 |
| Goodwill | 92,617 | 91,792 |
| Other intangible assets, net | 13,233 | 12,448 |
| Accrued interest and other assets | 69,108 | 82,245 |
| **Total Assets** | **$5,764,971** | **$5,689,995** |
| | | |
| **LIABILITIES** | | |
| Deposits: | | |
| Interest bearing: | | |
| Checking, savings and money market | 2,574,523 | 2,401,519 |
| Time | 887,142 | 855,133 |
| Noninterest bearing | 1,093,563 | 1,138,654 |
| **Total Deposits** | **4,555,228** | **4,395,306** |
| | | |
| Federal funds purchased and securities sold under agreements to repurchase | 116,551 | 136,513 |
| Other borrowings, including certain amounts at fair value of $10,518 at March 31, 2016 and $10,576 at December 31, 2015 | 455,341 | 536,285 |
| Trust preferred debentures | 37,552 | 37,509 |
| Other liabilities | 60,406 | 67,916 |
| **Total Liabilities** | **$5,225,078** | **$5,173,529** |

| | | |
|---|---|---|
| **EQUITY** | | |
| Tompkins Financial Corporation shareholders’ equity: | | |
| Common Stock - par value $.10 per share: Authorized 25,000,000 shares; Issued: 15,059,686 at March 31, 2016; and 15,015,594 at December 31, 2015 | 1,506 | 1,502 |
| Additional paid-in capital | 353,846 | 350,823 |
| Retained earnings | 205,031 | 197,445 |
| Accumulated other comprehensive loss | (18,341 ) | (31,001 ) |
| Treasury stock, at cost – 111,924 shares at March 31, 2016, and 116,126 shares at December 31, 2015 | (3,634 ) | (3,755 ) |
| **Total Tompkins Financial Corporation Shareholders’ Equity** | **538,408** | **515,014** |
| Noncontrolling interests | 1,485 | 1,452 |
| **Total Equity** | **$539,893** | **$516,466** |
| **Total Liabilities and Equity** | **$5,764,971** | **$5,689,995** |

3

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

| | Three Months Ended | |
|---|---|---|
| *(In thousands, except per share data) (Unaudited)* | **03/31/2016** | **03/31/2015** |
| **INTEREST AND DIVIDEND INCOME** | | |
| Loans | $40,487 | $37,376 |
| Due from banks | 2 | 1 |
| Trading securities | 81 | 94 |
| Available-for-sale securities | 7,531 | 7,814 |
| Held-to-maturity securities | 911 | 596 |
| Federal Home Loan Bank stock and Federal Reserve Bank stock | 297 | 347 |
| **Total Interest and Dividend Income** | **49,309** | **46,228** |
| **INTEREST EXPENSE** | | |
| Time certificates of deposits of $250,000 or more | 390 | 335 |
| Other deposits | 2,209 | 2,286 |
| Federal funds purchased and securities sold under agreements to repurchase | 666 | 670 |
| Trust preferred debentures | 589 | 570 |
| Other borrowings | 1,417 | 1,139 |
| **Total Interest Expense** | **5,271** | **5,000** |
| **Net Interest Income** | **44,038** | **41,228** |
| Less: Provision for loan and lease losses | 855 | 209 |
| **Net Interest Income After Provision for Loan and Lease Losses** | **43,183** | **41,019** |
| **NONINTEREST INCOME** | | |
| Insurance commissions and fees | 7,562 | 7,370 |
| Investment services income | 3,786 | 4,007 |
| Service charges on deposit accounts | 2,264 | 2,157 |
| Card services income | 1,941 | 1,818 |
| Mark-to-market loss on trading securities | (46) | (63) |
| Mark-to-market gain on liabilities held at fair value | 57 | 41 |
| Other income | 1,707 | 2,026 |
| Gain on sale of available-for-sale securities | 232 | 290 |
| **Total Noninterest Income** | **17,503** | **17,646** |
| **NONINTEREST EXPENSES** | | |
| Salaries and wages | 18,989 | 17,568 |
| Pension and other employee benefits | 5,283 | 5,994 |
| Net occupancy expense of premises | 3,148 | 3,339 |
| Furniture and fixture expense | 1,689 | 1,450 |
| FDIC insurance | 822 | 741 |
| Amortization of intangible assets | 527 | 507 |
| Other operating expense | 9,048 | 10,093 |
| **Total Noninterest Expenses** | **39,506** | **39,692** |
| **Income Before Income Tax Expense** | **21,180** | **18,973** |
| **Income Tax Expense** | 6,967 | 6,260 |
| **Net Income attributable to Noncontrolling Interests and Tompkins Financial Corporation** | **14,213** | **12,713** |
| Less: Net income attributable to noncontrolling interests | 33 | 33 |
| **Net Income Attributable to Tompkins Financial Corporation** | **$14,180** | **$12,680** |

| | | |
|---|---|---|
| **Basic Earnings Per Share** | **$0.95** | **$0.85** |
| **Diluted Earnings Per Share** | **$0.94** | **$0.84** |

4

**TOMPKINS FINANCIAL CORPORATION CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

| | Three Months Ended | |
|---|---|---|
| *(In thousands) (Unaudited)* | **03/31/2016** | **03/31/2015** |
| Net income attributable to noncontrolling interests and Tompkins Financial Corporation | **$14,213** | $12,713 |
| Other comprehensive income, net of tax: | | |
| **Available-for-sale securities:** | | |
| Change in net unrealized gain during the period | **12,575** | 5,592 |
| Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income | **(139)** | (174) |
| **Employee benefit plans:** | | |
| Amortization of net retirement plan actuarial gain | **206** | 438 |
| Amortization of net retirement plan prior service cost (credit) | **18** | (107) |
| Other comprehensive income | **12,660** | 5,749 |
| **Subtotal comprehensive income attributable to noncontrolling interests and Tompkins Financial Corporation** | **26,873** | 18,462 |
| Less: Net income attributable to noncontrolling interests | **(33)** | (33) |
| **Total comprehensive income attributable to Tompkins Financial Corporation** | **$26,840** | $18,429 |

*See notes to unaudited condensed consolidated financial statements.*

**TOMPKINS FINANCIAL CORPORATION**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| *(In thousands) (Unaudited)* | **03/31/2016** | **03/31/2015** |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income attributable to Tompkins Financial Corporation | $14,180 | $12,680 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan and lease losses | 855 | 209 |
| Depreciation and amortization of premises, equipment, and software | 1,685 | 1,568 |
| Amortization of intangible assets | 527 | 507 |
| Earnings from corporate owned life insurance | (616) | (614) |
| Net amortization on securities | 2,581 | 2,744 |
| Amortization/accretion related to purchase accounting | (773) | (1,590) |
| Mark-to-market loss on trading securities | 46 | 63 |
| Mark-to-market gain on liabilities held at fair value | (57) | (41) |
| Net gain on securities transactions | (232) | (290) |
| Net gain on sale of loans originated for sale | (23) | (4) |
| Proceeds from sale of loans originated for sale | 823 | 331 |
| Loans originated for sale | (301) | (426) |
| Net loss on sale of bank premises and equipment | 12 | 0 |
| Stock-based compensation expense | 496 | 386 |
| Increase in accrued interest receivable | (1,051) | (339) |
| (Decrease) increase in accrued interest payable | (94) | 73 |
| Proceeds from maturities and payments of trading securities | 296 | 320 |
| Other, net | (832) | 2,620 |
| **Net Cash Provided by Operating Activities** | **17,522** | **18,197** |
| **INVESTING ACTIVITIES** | | |
| Proceeds from maturities, calls and principal paydowns of available-for-sale securities | 63,401 | 67,132 |
| Proceeds from sales of available-for-sale securities | 35,060 | 16,257 |
| Proceeds from maturities, calls and principal paydowns of held-to-maturity securities | 1,726 | 1,922 |
| Purchases of available-for-sale securities | (126,013) | (124,906) |
| Purchases of held-to-maturity securities | (760) | (10,890) |
| Net increase in loans | (49,340) | (33,000) |
| Net decrease in Federal Home Loan Bank stock | 4,242 | 224 |
| Proceeds from sale of bank premises and equipment | 22 | 0 |
| Purchases of bank premises and equipment | (1,482) | (1,222) |
| Net cash used in acquisition | (218) | 0 |
| Other, net | (789) | 259 |
| **Net Cash Used in Investing Activities** | **(74,151)** | **(84,224)** |
| **FINANCING ACTIVITIES** | | |
| Net increase in demand, money market, and savings deposits | 127,913 | 94,718 |
| Net increase in time deposits | 32,337 | 19,280 |
| Net decrease in Federal funds purchases and securities sold under agreements to repurchase | (19,828) | (10,985) |
| Increase in other borrowings | 115,524 | 73,950 |
| Repayment of other borrowings | (196,410) | (99,600) |
| Cash dividends | (6,594) | (6,261) |
| Repurchase of common stock | (1,166) | 0 |

| | | |
|---|---|---|
| Shares issued for employee stock ownership plan | 1,938 | 1,595 |
| Net shares issued related to restricted stock awards | (1) | 0 |
| Net proceeds from exercise of stock options | 103 | 1,120 |
| Tax benefit from stock option exercises | 70 | 136 |
| **Net Cash Provided by Financing Activities** | **53,886** | **73,953** |
| **Net (Decrease) Increase in Cash and Cash Equivalents** | **(2,743)** | **7,926** |
| Cash and cash equivalents at beginning of period | 58,257 | 56,070 |
| **Total Cash & Cash Equivalents at End of Period** | **55,514** | **63,996** |

*See notes to unaudited condensed consolidated financial statements.*

6

**TOMPKINS FINANCIAL CORPORATION**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| *(In thousands) (Unaudited)* | **03/31/2016** | 03/31/2015 |
|---|---|---|
| **Supplemental Information:** | | |
| Cash paid during the quarter for - Interest | **$5,693** | $5,313 |
| Cash paid during the quarter for - Taxes | **2,415** | 183 |
| Noncash investing and financing activities: | | |
| Fair value for non-cash assets other than goodwill acquired in purchase acquisitions | **115** | 0 |
| Fair value of liabilities assumed in purchase acquisitions | **51** | 0 |
| Goodwill related to acquisitions | **824** | 0 |
| Fair value of shares issued for acquisitions | **1,708** | 0 |
| Transfer of loans to other real estate owned | **172** | 187 |

*See notes to unaudited condensed consolidated financial statements.*

**TOMPKINS FINANCIAL CORPORATION CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

| *(In thousands except share and per share data) (Unaudited)* | **Common Stock** | **Additional Paid-in Capital** | **Retained Earnings** | **Accumulated Other Comprehensive (Loss) Income** | **Treasury Stock** | **Non-controlling Interests** | **Total** |
|---|---|---|---|---|---|---|---|
| **Balances at January 1, 2015** | **$ 1,493** | **$ 348,889** | **$ 165,160** | **$ (24,011 )** | **$ (3,400 )** | **$ 1,452** | **$ 489,583** |
| Net income attributable to noncontrolling interests and Tompkins Financial Corporation | | | 12,680 | | | 33 | 12,713 |
| Other comprehensive income | | | | 5,749 | | | 5,749 |
| **Total Comprehensive Income** | | | | | | | 18,462 |
| Cash dividends ($0.42 per share) | | | (6,261 ) | | | | (6,261 ) |
| Net exercise of stock options and related tax benefit (41,948 shares) | 4 | 1,252 | | | | | 1,256 |
| Stock-based compensation expense | | 386 | | | | | 386 |
| Shares issued for employee stock ownership plan (29,554 shares) | 3 | 1,592 | | | | | 1,595 |
| Directors deferred compensation plan (2,338 shares) | | (23 ) | | | 23 | | 0 |
| Restricted stock activity ((4,867) shares) | 0 | 0 | | | | | 0 |
| Adoption of ASU 2014-01 Investments | | | | | | | |
| Accounting for Investments in Qualified | | | | | | | |
| Affordable Housing Projects | | | (725 ) | | | | (725 ) |
| **Balances at March 31, 2015** | **$ 1,500** | **$ 352,096** | **$ 170,854** | **$ (18,262 )** | **$ (3,377 )** | **$ 1,485** | **$ 504,296** |
| | | | | | | | |
| **Balances at January 1, 2016** | **$ 1,502** | **$ 350,823** | **$ 197,445** | **$ (31,001 )** | **$ (3,755 )** | **$ 1,452** | **$ 516,466** |
| Net income attributable to noncontrolling interests and Tompkins Financial | | | 14,180 | | | 33 | 14,213 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Corporation | | | | | | | |
| Other comprehensive income | | | | 12,660 | | | 12,660 |
| **Total Comprehensive Income** | | | | | | | 26,873 |
| Cash dividends ($0.44 per share) | | | (6,594 ) | | | | (6,594 ) |
| Net exercise of stock options and related tax benefit (7,751 shares) | 1 | 172 | | | | | 173 |
| Common stock repurchased and returned to unissued status (22,356 shares) | (2 ) | (1,164 ) | | | | | (1,166 ) |
| Stock-based compensation expense | | 496 | | | | | 496 |
| Shares issued for employee stock ownership plan (31,435 shares) | 3 | 1,935 | | | | | 1,938 |
| Directors deferred compensation plan (4,202 shares) | | (121 ) | | | 121 | | 0 |
| Restricted stock activity ((5,291) shares) | (1 ) | 0 | | | | | (1 ) |
| Common stock issued for purchase acquisition (32,553 shares) | 3 | 1,705 | | | | | 1,708 |
| **Balances at March 31, 2016** | **$ 1,506** | **$ 353,846** | **$ 205,031** | **$ (18,341 )** | **$ (3,634 )** | **$ 1,485** | **$ 539,893** |

*See notes to unaudited condensed consolidated financial statements*

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Business

Tompkins Financial Corporation ("Tompkins" or the "Company") is headquartered in Ithaca, New York and is registered as a Financial Holding Company with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended. The Company is a locally oriented, community-based financial services organization that offers a full array of products and services, including commercial and consumer banking, leasing, trust and investment management, financial planning and wealth management, and insurance services. At March 31, 2016, the Company's subsidiaries included: four wholly-owned banking subsidiaries, Tompkins Trust Company (the "Trust Company"), The Bank of Castile (DBA Tompkins Bank of Castile), Mahopac Bank (formerly known as Mahopac National Bank, DBA Tompkins Mahopac Bank), VIST Bank (DBA Tompkins VIST Bank); and a wholly-owned insurance agency subsidiary, Tompkins Insurance Agencies, Inc. ("Tompkins Insurance"). The trust division of the Trust Company provides a full array of investment services, including investment management, trust and estate, financial and tax planning as well as life, disability and long-term care insurance services. The Company's principal offices are located at The Commons, Ithaca, New York, 14851, and its telephone number is (888) 503-5753. The Company's common stock is traded on the NYSE MKT LLC under the Symbol "TMP."

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

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

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

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

## 2. Basis of Presentation

The unaudited consolidated financial statements included in this quarterly report do not include all of the information and footnotes required by GAAP for a full year presentation and certain disclosures have been condensed or omitted in accordance with rules and regulations of the SEC. In the application of certain accounting policies, management is required to make assumptions regarding the effect of matters that are inherently uncertain. These estimates and assumptions affect the reported amounts of certain assets, liabilities, revenues, and expenses in the unaudited condensed consolidated financial statements. Different amounts could be reported under different conditions, or if different assumptions were used in the application of these accounting policies. The accounting policies that management considers critical in this respect are the determination of the allowance for loan and lease losses, the expenses and liabilities associated with the Company’s pension and post-retirement benefits, and the review of its securities portfolio for other than temporary impairment.

In management’s opinion, the unaudited condensed consolidated financial statements reflect all adjustments of a normal recurring nature. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year ended December 31, 2016. 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, 2015. 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 2015-01, "Income Statement - Extraordinary and Unusual Items (Subtopic 225-20) – Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items."* ASU 2015-01 eliminates from U.S. GAAP the concept of extraordinary items, which, among other things, required an entity to segregate extraordinary items considered to be unusual and infrequent from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. ASU 2015-01 became effective for Tompkins on January 1, 2016 and did not have a significant impact on our financial statements.

*ASU 2015-02, "Consolidation (Topic 810) – Amendments to the Consolidation Analysis."* ASU 2015-02 implements changes to both the variable interest consolidation model and the voting interest consolidation model. ASU 2015-02 (i) eliminates certain criteria that must be met when determining when fees paid to a decision maker or service provider do not represent a variable interest, (ii) amends the criteria for determining whether a limited partnership is a variable interest entity and (iii) eliminates the presumption that a general partner controls a limited partnership in the voting model. ASU 2015-02 became effective for Tompkins on January 1, 2016 and did not have a significant impact on our financial statements.

*ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs."* ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in ASU 2015-03. ASU 2015-03 became effective for Tompkins on January 1, 2016 and unamortized debt issuance costs are now presented as a direct deduction from the carrying amount of the related debt liability in our accompanying consolidated balance sheets.

*ASU 2015-05, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) – Customer's Accounting for Fees Paid in a Cloud Computing Arrangement."* ASU 2015-05 addresses accounting for fees paid by a customer in cloud computing arrangements such as (i) software as a service, (ii) platform as a service (iii) infrastructure as a

service and (iv) other similar hosting arrangements. ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. ASU 2015-05 became effective for Tompkins on January 1, 2016 and did not have a significant impact on our financial statements.

*ASU 2015-15, "Interest – Imputation of Interest (Subtopic 835-30) – Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting."* ASU 2015-15 adds SEC paragraphs pursuant to an SEC Staff Announcement that given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement.

*ASU 2015-16, "Business Combinations (Topic 805) – Simplifying the Accounting for Measurement-Period Adjustments."* ASU 2015-16 requires that adjustments to provisional amounts that are identified during the measurement period of a business combination be recognized in the reporting period in which the adjustment amounts are determined. Furthermore, the income statement effects of such adjustments, if any, must be calculated as if the accounting had been completed at the acquisition date. Any amounts that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date should be recorded in current-period earnings. Under previous guidance, adjustments to provisional amounts identified during the measurement period were to be recognized retrospectively. ASU 2015-16 became effective for Tompkins on January 1, 2016 and did not have a significant impact on our financial statements.

*ASU 2016-1, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities."* ASU 2016-1, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. ASU 2016-1 will be effective for Tompkins on January 1, 2018 and is not expected to have a significant impact on our financial statements.

*ASU 2016-02,"Leases (Topic 842)."* ASU 2016-02 will, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, "Revenue from Contracts with Customers." ASU 2016-1 will be effective for Tompkins on January 1, 2019 and will require transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Tompkins is currently evaluating the potential impact of ASU 2016-02 on our financial statements.

*ASU 2016-05"Derivatives and Hedging (Topic 815) Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships."* ASU 2016-05 *clarifies* that a change in the counterparty to a derivative instrument that

has been designated as the hedging instrument under ASC Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. *ASU 2016-05* will be effective for Tompkins on January 1, 2017 and is not expected to have a significant impact on our financial statements.

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

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

*ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting."* Under ASU 2016-09 all excess tax benefits and tax deficiencies related to share-based payment awards should be recognized as income tax expense or benefit in the income statement during the period in which they occur. Previously, such amounts were recorded in the pool of excess tax benefits included in additional paid-in capital, if such pool was available. Because excess tax benefits are no longer recognized in additional paid-in capital, the assumed proceeds from applying the treasury stock method when computing earnings per share should exclude the amount of excess tax benefits that would have previously been recognized in additional paid-in capital. Additionally, excess tax benefits should be classified along with other income tax cash flows as an operating activity rather than a financing activity, as was previously the case. ASU 2016-09 also provides that an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur. ASU 2016-09 changes the threshold to qualify for equity classification (rather than as a liability) to permit withholding up to the maximum statutory tax rates (rather than the minimum as was previously the case) in the applicable jurisdictions. ASU 2016-09 will be effective on January 1, 2017 and is not expected to have a significant impact on our financial statements.

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

**4.**
**Securities**

**Available-for-Sale Securities**
The following table summarizes available-for-sale securities held by the Company at March 31, 2016:

| | Available-for-Sale Securities | | | |
|---|---|---|---|---|
| **March 31, 2016** | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Fair Value** |
| *(in thousands)* | | | | |
| Obligations of U.S. Government sponsored entities | $523,478 | $12,417 | $2 | $535,893 |
| Obligations of U.S. states and political subdivisions | 85,443 | 1,136 | 58 | 86,521 |
| Mortgage-backed securities – residential, issued by | | | | |
| U.S. Government agencies | 136,417 | 1,690 | 518 | 137,589 |
| U.S. Government sponsored entities | 666,575 | 4,902 | 3,022 | 668,455 |
| Non-U.S. Government agencies or sponsored entities | 144 | 1 | 0 | 145 |
| U.S. corporate debt securities | 2,500 | 0 | 338 | 2,162 |
| Total debt securities | 1,414,557 | 20,146 | 3,938 | 1,430,765 |
| Equity securities | 1,000 | 0 | 56 | 944 |
| **Total available-for-sale securities** | $1,415,557 | $20,146 | $3,994 | $1,431,709 |

The following table summarizes available-for-sale securities held by the Company at December 31, 2015:

| | Available-for-Sale Securities | | | |
|---|---|---|---|---|
| **December 31, 2015** | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Fair Value** |
| *(in thousands)* | | | | |
| Obligations of U.S. Government sponsored entities | $551,176 | $3,512 | $1,795 | $552,893 |
| Obligations of U.S. states and political subdivisions | 83,981 | 898 | 153 | 84,726 |
| Mortgage-backed securities – residential, issued by | | | | |

| | | | | |
|---|---|---|---|---|
| U.S. Government agencies | 94,459 | 1,535 | 1,316 | 94,678 |
| U.S. Government sponsored entities | 656,947 | 3,599 | 10,449 | 650,097 |
| Non-U.S. Government agencies or sponsored entities | 192 | 2 | 0 | 194 |
| U.S. corporate debt securities | 2,500 | 0 | 338 | 2,162 |
| Total debt securities | 1,389,255 | 9,546 | 14,051 | 1,384,750 |
| Equity securities | 1,000 | 0 | 66 | 934 |
| **Total available-for-sale securities** | $1,390,255 | $9,546 | $14,117 | $1,385,684 |

**Held-to-Maturity Securities**

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

| | Held-to-Maturity Securities | | | |
|---|---|---|---|---|
| March 31, 2016 | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Fair Value** |
| *(in thousands)* | | | | |
| Obligations of U.S. Government sponsored entities | $132,387 | $4,723 | $0 | $137,110 |
| Obligations of U.S. states and political subdivisions | $12,623 | $409 | $3 | $13,029 |
| Total held-to-maturity debt securities | $145,010 | $5,132 | $3 | $150,139 |

13

The following table summarizes held-to-maturity securities held by the Company at December 31, 2015:

| | Held-to-Maturity Securities | | | |
|---|---|---|---|---|
| December 31, 2015 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| *(in thousands)* | | | | |
| Obligations of U.S. Government sponsored entities | $132,482 | $649 | $444 | $132,687 |
| Obligations of U.S. states and political subdivisions | 13,589 | 414 | 4 | 13,999 |
| Total held-to-maturity debt securities | $146,071 | $1,063 | $448 | $146,686 |

The Company may from time to time sell investment securities from its available-for-sale portfolio. Realized gains on sales, including called securities, of available-for-sale securities were $232,000 and $290,000 for the three month periods ending March 21, 2016 and 2015, respectively. The sales of available-for-sale investment securities were the result of general investment portfolio and interest rate risk management.

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

| | 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 | $700 | $ 1 | $698 | $ 1 | $1,398 | $ 2 |
| Obligations of U.S. states and political subdivisions | 9,280 | 35 | 6,382 | 23 | 15,662 | 58 |
| Mortgage-backed securities – issued by | | | | | | |
| U.S. Government agencies | 31,122 | 77 | 26,216 | 441 | 57,338 | 518 |
| U.S. Government sponsored entities | 140,571 | 391 | 212,062 | 2,631 | 352,633 | 3,022 |

| | | | | | | |
|---|---|---|---|---|---|---|
| U.S. corporate debt securities | 0 | 0 | 2,163 | 338 | 2,163 | 338 |
| Equity securities | 0 | 0 | 944 | 56 | 944 | 56 |
| Total available-for-sale securities | $181,673 | $ 504 | $248,465 | $ 3,490 | $430,138 | $ 3,994 |

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

| | 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 | $802 | $ 3 | $0 | $ 0 | $802 | $ 3 |
| Total held-to-maturity securities | $802 | $ 3 | $0 | $ 0 | $802 | $ 3 |

14

The following table summarizes available-for-sale securities that had unrealized losses at December 31, 2015:

| | 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 | $183,697 | $ 1,618 | $5,844 | $ 177 | $189,541 | $ 1,795 |
| Obligations of U.S. states and political subdivisions | 25,402 | 141 | 3,408 | 12 | 28,810 | 153 |
| Mortgage-backed securities – residential, issued by | | | | | | |
| U.S. Government agencies | 32,636 | 350 | 30,244 | 966 | 62,880 | 1,316 |
| U.S. Government sponsored entities | 364,420 | 4,102 | 176,325 | 6,347 | 540,745 | 10,449 |
| U.S. corporate debt securities | 0 | 0 | 2,163 | 338 | 2,163 | 338 |
| Equity securities | 0 | 0 | 934 | 66 | 934 | 66 |
| Total available-for-sale securities | $606,155 | $ 6,211 | $218,918 | $ 7,906 | $825,073 | $ 14,117 |

The following table summarizes held-to-maturity securities that had unrealized losses at December 31, 2015.

| | 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 | $29,671 | $ 444 | $0 | $ 0 | $29,671 | $ 444 |
| Obligations of U.S. sponsored entities | $1,966 | $ 4 | $0 | $ 0 | $1,966 | $ 4 |
| Total held-to-maturity securities | $31,637 | $ 448 | $0 | $ 0 | $31,637 | $ 448 |

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

The Company does not intend to sell other-than-temporarily impaired investment securities that are in an unrealized loss position until recovery of unrealized losses (which may be until maturity), and it is not more-likely-than not that the Company will be required to sell the investment securities, before recovery of their amortized cost basis, which may be at maturity. Accordingly, as of March 31, 2016, and December 31, 2015, management determined that the unrealized losses detailed in the tables above are not other-than-temporary.

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

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

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

- The length of time and the extent to which the fair value has been less than the amortized cost basis;
- The level of credit enhancement provided by the structure which includes, but is not limited to, credit subordination positions, excess spreads, overcollateralization, protective triggers;
- Changes in the near term prospects of the issuer or underlying collateral of a security, such as changes in default rates, loss severities given default and significant changes in prepayment assumptions;
- The level of excess cash flow generated from the underlying collateral supporting the principal and interest payments of the debt securities; and
- Any adverse change to the credit conditions of the issuer or the security such as credit downgrades by the rating agencies.

As a result of the other-than-temporarily impairment review process, the Company does not consider any investment security held at March 31, 2016 to be other-than-temporarily impaired.

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

**March 31, 2016**

| *(in thousands)* | **Amortized Cost** | **Fair Value** |
|---|---|---|
| Available-for-sale securities: | | |
| Due in one year or less | $33,020 | $33,573 |
| Due after one year through five years | 338,449 | 345,970 |
| Due after five years through ten years | 227,723 | 233,085 |
| Due after ten years | 12,229 | 11,948 |
| Total | 611,421 | 624,576 |
| Mortgage-backed securities | 803,136 | 806,189 |
| Total available-for-sale debt securities | $1,414,557 | $1,430,765 |

December 31, 2015

| (in thousands) | **Amortized Cost** | **Fair Value** |
|---|---|---|
| Available-for-sale securities: | | |
| Due in one year or less | $53,936 | $54,735 |
| Due after one year through five years | 351,462 | 353,736 |

| | | |
|---|---|---|
| Due after five years through ten years | 219,161 | 218,561 |
| Due after ten years | 13,098 | 12,749 |
| Total | 637,657 | 639,781 |
| Mortgage-backed securities | 751,598 | 744,969 |
| Total available-for-sale debt securities | $1,389,255 | $1,384,750 |

16

March 31, 2016

| (in thousands) | **Amortized Cost** | **Fair Value** |
| --- | --- | --- |
| Held-to-maturity securities: | | |
| Due in one year or less | $ 8,430 | $ 8,478 |
| Due after one year through five years | 13,893 | 14,422 |
| Due after five years through ten years | 122,519 | 127,041 |
| Due after ten years | 168 | 198 |
| Total held-to-maturity debt securities | $ 145,010 | $ 150,139 |

December 31, 2015

| (in thousands) | **Amortized Cost** | **Fair Value** |
| --- | --- | --- |
| Held-to-maturity securities: | | |
| Due in one year or less | $ 9,249 | $ 9,294 |
| Due after one year through five years | 14,069 | 14,341 |
| Due after five years through ten years | 122,585 | 122,853 |
| Due after ten years | 168 | 198 |
| Total held-to-maturity debt securities | $ 146,071 | $ 146,686 |

The Company also holds non-marketable Federal Home Loan Bank New York ("FHLBNY") stock, non-marketable Federal Home Loan Bank Pittsburgh ("FHLBPITT") stock and non-marketable Atlantic Community Bankers Bank ("ACBB") stock, all of which are required to be held for regulatory purposes and for borrowing availability. The required investment in FHLB stock is tied to the Company's borrowing levels with the FHLB. Holdings of FHLBNY stock, FHLBPITT stock, and ACBB stock totaled $13.9 million, $11.7 million and $95,000 at March 31, 2016, respectively. These securities are carried at par, which is also cost. The FHLBNY and FHLBPITT continue to pay dividends and repurchase stock. As such, the Company has not recognized any impairment on its holdings of FHLBNY and FHLBPITT stock. Quarterly, we evaluate our investment in the FHLB for impairment. We evaluate recent and long-term operating performance, liquidity, funding and capital positions, stock repurchase history, dividend history and impact of legislative and regulatory changes. Based on our most recent evaluation, as of March 31, 2016, 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) | **03/31/2016** | **12/31/2015** |
| --- | --- | --- |
| Obligations of U.S. Government sponsored entities | $ 6,421 | $ 6,601 |
| Mortgage-backed securities – residential, issued by U.S. Government sponsored entities | 602 | 767 |
| Total | $ 7,023 | $ 7,368 |

The decrease in the trading portfolio reflects maturities or payments during the three months ended March 31, 2016. For the three months ended March 31, 2016, net mark-to-market losses related to the securities trading portfolio were $46,000 compared to net mark-to-market losses of $63,000 for the three months ended March 31, 2015.

The Company pledges securities as collateral for public deposits and other borrowings, and sells securities under agreements to repurchase. Securities carried of $1.3 billion and $1.2 billion at March 31, 2016, and December 31, 2015, respectively, were either pledged or sold under agreements to repurchase.

**5. Loans and Leases**

Loans and Leases at March 31, 2016 and December 31, 2015 were as follows:

| | **03/31/2016** | | | 12/31/2015 | | |
|---|---|---|---|---|---|---|
| (in thousands) | Originated | Acquired | Total Loans and Leases | Originated | Acquired | Total Loans and Leases |
| Commercial and industrial | | | | | | |
| Agriculture | $74,890 | $0 | $74,890 | $88,299 | $0 | $88,299 |
| Commercial and industrial other | 769,047 | 86,542 | 855,589 | 768,024 | 84,810 | 852,834 |
| Subtotal commercial and industrial | 843,937 | 86,542 | 930,479 | 856,323 | 84,810 | 941,133 |
| Commercial real estate | | | | | | |
| Construction | 115,584 | 2,109 | 117,693 | 103,037 | 4,892 | 107,929 |
| Agriculture | 94,300 | 2,013 | 96,313 | 86,935 | 2,095 | 89,030 |
| Commercial real estate other | 1,214,190 | 278,023 | 1,492,213 | 1,167,250 | 284,952 | 1,452,202 |
| Subtotal commercial real estate | 1,424,074 | 282,145 | 1,706,219 | 1,357,222 | 291,939 | 1,649,161 |
| Residential real estate | | | | | | |
| Home equity | 199,245 | 40,842 | 240,087 | 202,578 | 42,092 | 244,670 |
| Mortgages | 834,298 | 26,871 | 861,169 | 823,841 | 27,491 | 851,332 |
| Subtotal residential real estate | 1,033,543 | 67,713 | 1,101,256 | 1,026,419 | 69,583 | 1,096,002 |
| Consumer and other | | | | | | |
| Indirect | 17,714 | 0 | 17,714 | 17,829 | 0 | 17,829 |
| Consumer and other | 40,002 | 985 | 40,987 | 40,904 | 911 | 41,815 |
| Subtotal consumer and other | 57,716 | 985 | 58,701 | 58,733 | 911 | 59,644 |
| Leases | 14,426 | 0 | 14,426 | 14,861 | 0 | 14,861 |
| Covered loans | 0 | 12,737 | 12,737 | 0 | 14,031 | 14,031 |
| Total loans and leases | 3,373,696 | 450,122 | 3,823,818 | 3,313,558 | 461,274 | 3,774,832 |
| Less: unearned income and deferred costs and fees | (2,905) | 0 | (2,905) | (2,790) | 0 | (2,790) |
| Total loans and leases, net of unearned income and deferred costs and fees | $3,370,791 | $450,122 | $3,820,913 | $3,310,768 | $461,274 | $3,772,042 |

The outstanding principal balance and the related carrying amount of the Company’s loans acquired in the VIST Bank acquisition are as follows at March 31, 2016 and December 31, 2015:

| (in thousands) | 03/31/2016 | 12/31/2015 |
|---|---|---|
| Acquired Credit Impaired Loans | | |
| Outstanding principal balance | $30,851 | $32,752 |
| Carrying amount | 25,460 | 26,507 |
| | | |
| Acquired Non-Credit Impaired Loans | | |
| Outstanding principal balance | 429,177 | 439,389 |
| Carrying amount | 424,662 | 434,767 |
| | | |
| Total Acquired Loans | | |
| Outstanding principal balance | 460,028 | 472,141 |

| | | |
|---|---|---|
| Carrying amount | 450,122 | 461,274 |

18

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

| *(in thousands)* | |
|---|---|
| Balance at January 1, 2015 | $8,604 |
| Accretion | (2,696) |
| Disposals (loans paid in full) | (331) |
| Reclassifications to/from nonaccretable difference[1] | 1,215 |
| **Balance at December 31, 2015** | **$6,792** |

| *(in thousands)* | |
|---|---|
| Balance at January 1, 2016 | $6,792 |
| Accretion | (532) |
| Reclassifications to/from nonaccretable difference[1] | 244 |
| **Balance at March 31, 2016** | **$6,504** |

*[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.*

At March 31, 2016, acquired loans included $12.7 million of covered loans. VIST Bank had previously acquired these loans in an FDIC assisted transaction in the fourth quarter of 2010. In accordance with a loss sharing agreement with the FDIC, certain losses and expenses relating to covered loans may be reimbursed by the FDIC at 70% or, if net losses exceed certain levels specified in the loss sharing agreements, 80%. See Note 7 – “FDIC Indemnification Asset Related to Covered Loans” for further discussion of the loss sharing agreements and related FDIC indemnification assets.

The Company has adopted comprehensive lending policies, underwriting standards and loan review procedures. Management reviews these policies and procedures on a regular basis. The Company discussed its lending policies and underwriting guidelines for its various lending portfolios in Note 3 – “Loans and Leases” in the Notes to

Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. There have been no significant changes in these policies and guidelines since December 31, 2015. As such, these policies are reflective of new originations as well as those balances held at March 31, 2016. The Company's Board of Directors approves the lending policies at least annually. The Company recognizes that exceptions to policy guidelines may occasionally occur and has established procedures for approving exceptions to these policy guidelines. Management has also implemented reporting systems to monitor loan origination, loan quality, concentrations of credit, loan delinquencies and nonperforming loans and potential problem loans.

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

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

The below table is an age analysis of past due loans, segregated by originated and acquired loan and lease portfolios, and by class of loans, as of March 31, 2016 and December 31, 2015.

| **March 31, 2016** | | | | | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | **30-89 days** | **90 days or more** | **Current Loans** | **Total Loans** | **90 days and accruing**[1] | **Nonaccrual** |
| **Originated Loans and Leases** | | | | | | |
| Commercial and industrial | | | | | | |
| Agriculture | $0 | $0 | $ 74,890 | $ 74,890 | $ 0 | $ 0 |
| Commercial and industrial other | 178 | 172 | 768,697 | 769,047 | 0 | 575 |
| Subtotal commercial and industrial | 178 | 172 | 843,587 | 843,937 | 0 | 575 |
| Commercial real estate | | | | | | |
| Construction | 0 | 0 | 115,584 | 115,584 | 0 | 0 |
| Agriculture | 0 | 0 | 94,300 | 94,300 | 0 | 105 |
| Commercial real estate other | 1,016 | 2,303 | 1,210,871 | 1,214,190 | 0 | 5,007 |
| Subtotal commercial real estate | 1,016 | 2,303 | 1,420,755 | 1,424,074 | 0 | 5,112 |
| Residential real estate | | | | | | |
| Home equity | 602 | 1,304 | 197,339 | 199,245 | 57 | 1,423 |
| Mortgages | 317 | 4,647 | 829,334 | 834,298 | 0 | 5,397 |
| Subtotal residential real estate | 919 | 5,951 | 1,026,673 | 1,033,543 | 57 | 6,820 |
| Consumer and other | | | | | | |
| Indirect | 361 | 36 | 17,317 | 17,714 | 0 | 70 |
| Consumer and other | 45 | 22 | 39,935 | 40,002 | 0 | 94 |
| Subtotal consumer | 406 | 58 | 57,252 | 57,716 | 0 | 164 |

| | | | | | | |
|---|---|---|---|---|---|---|
| and other Leases | 0 | 0 | 14,426 | 14,426 | 0 | 0 |
| **Total loans and leases** | **2,519** | **8,484** | **3,362,693** | **3,373,696** | **57** | **12,671** |
| Less: unearned income and deferred costs and fees | 0 | 0 | (2,905) | (2,905) | 0 | 0 |
| **Total originated loans and leases, net of unearned income and deferred costs and fees** | **$ 2,519** | **$ 8,484** | **$ 3,359,788** | **$ 3,370,791** | **$ 57** | **$ 12,671** |
| **Acquired Loans and Leases** | | | | | | |
| Commercial and industrial | | | | | | |
| Commercial and industrial other | 56 | 620 | 85,866 | 86,542 | 54 | 566 |
| Subtotal commercial and industrial | 56 | 620 | 85,866 | 86,542 | 54 | 566 |
| Commercial real estate | | | | | | |
| Construction | 0 | 354 | 1,755 | 2,109 | 0 | 354 |
| Agriculture | 0 | 0 | 2,013 | 2,013 | 0 | 0 |
| Commercial real estate other | 67 | 1,510 | 276,446 | 278,023 | 502 | 1,257 |
| Subtotal commercial real estate | 67 | 1,864 | 280,214 | 282,145 | 502 | 1,611 |
| Residential real estate | | | | | | |
| Home equity | 317 | 312 | 40,213 | 40,842 | 0 | 597 |
| Mortgages | 598 | 1,664 | 24,609 | 26,871 | 890 | 1,371 |
| Subtotal residential real estate | 915 | 1,976 | 64,822 | 67,713 | 890 | 1,968 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Consumer and other | | | | | | |
| Consumer and other | 0 | 0 | 985 | 985 | 0 | 0 |
| Subtotal consumer and other | 0 | 0 | 985 | 985 | 0 | 0 |
| Covered loans | 1 | 469 | 12,267 | 12,737 | 469 | 0 |
| **Total acquired loans and leases, net of unearned income and deferred costs and fees** | **$ 1,039** | **$ 4,929** | **$ 444,154** | **$ 450,122** | **$ 1,915** | **$ 4,145** |

20

**December 31, 2015**

| *(in thousands)* | **30-89 days** | **90 days or more** | **Current Loans** | **Total Loans** | **90 days and accruing[1]** | **Nonaccrual** |
|---|---|---|---|---|---|---|
| **Originated loans and leases** | | | | | | |
| Commercial and industrial | | | | | | |
| Agriculture | $0 | $0 | $ 88,299 | $ 88,299 | $ 0 | $ 0 |
| Commercial and industrial other | 507 | 867 | 766,650 | 768,024 | 0 | 1,091 |
| Subtotal commercial and industrial | 507 | 867 | 854,949 | 856,323 | 0 | 1,091 |
| Commercial real estate | | | | | | |
| Construction | 0 | 0 | 103,037 | 103,037 | 0 | 0 |
| Agriculture | 0 | 0 | 86,935 | 86,935 | 0 | 106 |
| Commercial real estate other | 225 | 3,580 | 1,163,445 | 1,167,250 | 0 | 4,365 |
| Subtotal commercial real estate | 225 | 3,580 | 1,353,417 | 1,357,222 | 0 | 4,471 |
| Residential real estate | | | | | | |
| Home equity | 729 | 1,868 | 199,981 | 202,578 | 58 | 1,873 |
| Mortgages | 1,161 | 5,140 | 817,540 | 823,841 | 0 | 5,889 |
| Subtotal residential real estate | 1,890 | 7,008 | 1,017,521 | 1,026,419 | 58 | 7,762 |
| Consumer and other | | | | | | |
| Indirect | 494 | 250 | 17,085 | 17,829 | 0 | 107 |
| Consumer and other | 164 | 0 | 40,740 | 40,904 | 0 | 75 |
| Subtotal consumer and other | 658 | 250 | 57,825 | 58,733 | 0 | 182 |
| Leases | 0 | 0 | 14,861 | 14,861 | 0 | 0 |
| Total loans and leases | 3,280 | 11,705 | 3,298,573 | 3,313,558 | 58 | 13,506 |
| Less: unearned income and deferred costs and fees | 0 | 0 | (2,790) | (2,790) | 0 | 0 |
| **Total originated loans and leases, net of unearned income and deferred costs and fees** | **$ 3,280** | **$ 11,705** | **$ 3,295,783** | **$ 3,310,768** | **$ 58** | **$ 13,506** |
| **Acquired loans and leases** | | | | | | |
| Commercial and industrial | | | | | | |
| Commercial and industrial other | 20 | 936 | 83,854 | 84,810 | 338 | 647 |
| Subtotal commercial and industrial | 20 | 936 | 83,854 | 84,810 | 338 | 647 |
| Commercial real estate | | | | | | |
| Construction | 0 | 359 | 4,533 | 4,892 | 0 | 359 |
| Agriculture | 0 | 0 | 2,095 | 2,095 | 0 | 0 |
| Commercial real estate other | 150 | 1,671 | 283,131 | 284,952 | 550 | 1,224 |
| Subtotal commercial real estate | 150 | 2,030 | 289,759 | 291,939 | 550 | 1,583 |
| Residential real estate | | | | | | |
| Home equity | 426 | 364 | 41,302 | 42,092 | 0 | 712 |
| Mortgages | 336 | 1,926 | 25,229 | 27,491 | 1,103 | 1,389 |
| Subtotal residential real estate | 762 | 2,290 | 66,531 | 69,583 | 1,103 | 2,101 |
| Consumer and other | | | | | | |
| Consumer and other | 1 | 0 | 910 | 911 | 0 | 0 |
| Subtotal consumer and other | 1 | 0 | 910 | 911 | 0 | 0 |
| Covered loans | 276 | 524 | 13,231 | 14,031 | 524 | 0 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Total acquired loans and leases, net of unearned income and deferred costs and fees** | **$ 1,209** | **$ 5,780** | **$ 454,285** | **$ 461,274** | **$ 2,515** | **$ 4,331** |

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

21

**6. Allowance for Loan and Lease Losses**

**Originated Loans and Leases**

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

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

Since the methodology is based upon historical experience and trends as well as management’s judgment, factors may arise that result in different estimates. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the local area, concentration of risk, changes in interest rates, and declines in local property values. While management’s evaluation of the allowance as of March 31, 2016, 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 impaired loans, our allowance for loan losses is estimated based upon our expected cash flows for these loans. To the extent that we experience a deterioration in borrower credit quality resulting in a decrease in our expected cash flows subsequent to the acquisition of the loans, an allowance for loan losses would be established based on our estimate of future credit losses over the remaining life of the loans.

*Acquired loans accounted for under ASC 310-20*

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

The following tables detail activity in the allowance for loan and lease losses segregated by originated and acquired loan and lease portfolios and by portfolio segment for the three months ended March 31, 2016 and 2015. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

**Three months ended March 31, 2016**

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

22

**Three months ended March 31, 2016**

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

**Three months ended March 31, 2015**

| *(in thousands)* | **Commercial and Industrial** | **Commercial Real Estate** | **Residential Real Estate** | **Consumer and Other** | **Finance Leases** | **Total** |
|---|---|---|---|---|---|---|
| **Allowance for originated loans and leases** | | | | | | |
| Beginning balance | $ 9,157 | $ 12,069 | $ 5,030 | $ 1,900 | $ 0 | $28,156 |
| Charge-offs | (2) | (14) | (93) | (267) | 0 | (376) |
| Recoveries | 147 | 208 | 47 | 168 | 0 | 570 |
| Provision (credit) | 528 | 75 | (319) | 56 | 0 | 340 |
| Ending Balance | $ 9,830 | $ 12,338 | $ 4,665 | $ 1,857 | $ 0 | $28,690 |

**Three months ended March 31, 2015**

| *(in thousands)* | **Commercial and Industrial** | **Commercial Real Estate** | **Residential Real Estate** | **Consumer and Other** | **Covered Loans** | **Total** |
|---|---|---|---|---|---|---|
| **Allowance for acquired loans** | | | | | | |
| Beginning balance | $ 431 | $ 337 | $ 51 | $ 22 | $ 0 | $841 |
| Charge-offs | (1) | 0 | (30) | 0 | 0 | (31) |
| Recoveries | 7 | 107 | 2 | 0 | 0 | 116 |
| Provision (credit) | 126 | (278) | 20 | 1 | 0 | (131) |
| Ending Balance | $ 563 | $ 166 | $ 43 | $ 23 | $ 0 | $795 |

At March 31, 2016 and December 31, 2015, the allocation of the allowance for loan and lease losses summarized on the basis of the Company's impairment methodology was as follows:

| *(in thousands)* | **Commercial and Industrial** | **Commercial Real Estate** | **Residential Real Estate** | **Consumer and Other** | **Finance Leases** | **Total** |
|---|---|---|---|---|---|---|
| **Allowance for originated loans and leases** | | | | | | |
| March 31, 2016 | | | | | | |
| Individually evaluated for impairment | $ 4 | $ 345 | $ 0 | $ 0 | $ 0 | $349 |
| Collectively evaluated for impairment | 9,287 | 16,763 | 4,275 | 1,307 | 0 | 31,632 |
| Ending balance | $ 9,291 | $ 17,108 | $ 4,275 | $ 1,307 | $ 0 | $31,981 |

| *(in thousands)* | **Commercial and Industrial** | **Commercial Real Estate** | **Residential Real Estate** | **Consumer and Other** | **Covered Loans** | **Total** |
|---|---|---|---|---|---|---|
| **Allowance for acquired loans** | | | | | | |
| March 31, 2016 | | | | | | |
| Individually evaluated for impairment | $ 433 | $ 31 | $ 0 | $ 0 | $ 0 | $464 |
| Collectively evaluated for impairment | 0 | 2 | 59 | 24 | 0 | 85 |
| Ending balance | $ 433 | $ 33 | $ 59 | $ 24 | $ 0 | $549 |

| *(in thousands)* | **Commercial and Industrial** | **Commercial Real Estate** | **Residential Real Estate** | **Consumer and Other** | **Finance Leases** | **Total** |
|---|---|---|---|---|---|---|
| **Allowance for originated loans and leases** | | | | | | |
| December 31, 2015 | | | | | | |
| Individually evaluated for impairment | $ 0 | $ 288 | $ 0 | $ 0 | $ 0 | $288 |
| Collectively evaluated for impairment | 10,495 | 15,191 | 4,070 | 1,268 | 0 | 31,024 |
| Ending balance | $ 10,495 | $ 15,479 | $ 4,070 | $ 1,268 | $ 0 | $31,312 |

| *(in thousands)* | **Commercial and Industrial** | **Commercial Real Estate** | **Residential Real Estate** | **Consumer and Other** | **Covered Loans** | **Total** |
|---|---|---|---|---|---|---|
| **Allowance for acquired loans** | | | | | | |
| December 31, 2015 | | | | | | |
| Individually evaluated for impairment | $ 433 | $ 0 | $ 128 | $ 0 | $ 0 | $561 |
| Collectively evaluated for impairment | 0 | 61 | 70 | 0 | 0 | 131 |
| Ending balance | $ 433 | $ 61 | $ 198 | $ 0 | $ 0 | $692 |

The recorded investment in loans and leases summarized on the basis of the Company's impairment methodology as of March 31, 2016 and December 31, 2015 was as follows:

| *(in thousands)* | **Commercial and Industrial** | **Commercial Real Estate** | **Residential Real Estate** | **Consumer and Other** | **Finance Leases** | **Total** |
|---|---|---|---|---|---|---|
| **Originated loans and leases** | | | | | | |
| March 31, 2016 | | | | | | |
| Individually evaluated for impairment | $ 629 | $ 6,286 | $ 2,311 | $ 0 | $ 0 | $ 9,226 |
| Collectively evaluated for impairment | 843,308 | 1,417,788 | 1,031,232 | 57,716 | 14,426 | 3,364,470 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Total** | **$ 843,937** | **$ 1,424,074** | **$ 1,033,543** | **$ 57,716** | **$ 14,426** | **$ 3,373,696** |

| *(in thousands)* | **Commercial and Industrial** | **Commercial Real Estate** | **Residential Real Estate** | **Consumer and Other** | **Covered Loans** | **Total** |
|---|---|---|---|---|---|---|
| **Acquired loans** | | | | | | |
| March 31, 2016 | | | | | | |
| Individually evaluated for impairment | $ 566 | $ 5,078 | $ 1,253 | $ 0 | $ 0 | $ 6,897 |
| Loans acquired with deteriorated credit quality | 515 | 9,086 | 3,762 | 0 | 12,097 | 25,460 |
| Collectively evaluated for impairment | 85,461 | 267,981 | 62,698 | 985 | 640 | 417,765 |
| **Total** | **$ 86,542** | **$ 282,145** | **$ 67,713** | **$ 985** | **$ 12,737** | **$ 450,122** |

| *(in thousands)* | **Commercial and Industrial** | **Commercial Real Estate** | **Residential Real Estate** | **Consumer and Other** | **Finance Leases** | **Total** |
|---|---|---|---|---|---|---|
| **Originated loans and leases** | | | | | | |
| December 31, 2015 | | | | | | |
| Individually evaluated for impairment | $ 1,206 | $ 5,655 | $ 2,270 | $ 0 | $ 0 | $ 9,131 |
| Collectively evaluated for impairment | 855,117 | 1,351,567 | 1,024,149 | 58,733 | 14,861 | 3,304,427 |
| **Total** | **$ 856,323** | **$ 1,357,222** | **$ 1,026,419** | **$ 58,733** | **$ 14,861** | **$ 3,313,558** |

| *(in thousands)* | **Commercial and Industrial** | **Commercial Real Estate** | **Residential Real Estate** | **Consumer and Other** | **Covered Loans** | **Total** |
|---|---|---|---|---|---|---|
| **Acquired loans** | | | | | | |
| December 31, 2015 | | | | | | |
| Individually evaluated for impairment | $ 647 | $ 5,226 | $ 1,177 | $ 0 | $ 0 | $ 7,050 |
| Loans acquired with deteriorated credit quality | 567 | 9,335 | 3,801 | 0 | 12,804 | 26,507 |
| Collectively evaluated for impairment | 83,596 | 277,378 | 64,605 | 911 | 1,227 | 427,717 |
| **Total** | **$ 84,810** | **$ 291,939** | **$ 69,583** | **$ 911** | **$ 14,031** | **$ 461,274** |

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

| | | 03/31/2016 | | | 12/31/2015 | |
|---|---|---|---|---|---|---|
| *(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 | $ 625 | $ 635 | $ 0 | $ 1,206 | $ 1,211 | $ 0 |
| Commercial real estate | | | | | | |
| Commercial real estate other | 5,406 | 5,816 | 0 | 5,049 | 5,249 | 0 |
| Residential real estate | | | | | | |
| Home equity | 2,311 | 2,311 | 0 | 2,270 | 2,270 | 0 |
| Subtotal | $ 8,342 | $ 8,762 | $ 0 | $ 8,525 | $ 8,730 | $ 0 |
| Originated loans and leases with related allowance | | | | | | |
| Commercial and industrial | | | | | | |
| Commercial and industrial other | 4 | 4 | 4 | 0 | 0 | 0 |
| Commercial real estate | | | | | | |
| Commercial real estate other | 880 | 880 | 345 | 606 | 606 | 288 |
| Subtotal | $ 884 | $ 884 | $ 349 | $ 606 | $ 606 | $ 288 |
| Total | $ 9,226 | $ 9,646 | $ 349 | $ 9,131 | $ 9,336 | $ 288 |

| | | 03/31/2016 | | | 12/31/2015 | |
|---|---|---|---|---|---|---|
| *(in thousands)* | **Recorded Investment** | **Unpaid Principal Balance** | **Related Allowance** | **Recorded Investment** | **Unpaid Principal Balance** | **Related Allowance** |
| **Acquired loans with no related allowance** | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Commercial and industrial | | | | | | |
| Commercial and industrial other | $ 49 | $ 49 | $ 0 | $ 128 | $ 128 | $ 0 |
| Commercial real estate | | | | | | |
| Construction | 354 | 510 | 0 | 359 | 359 | 0 |
| Commercial real estate other | 4,693 | 4,875 | 0 | 4,739 | 5,077 | 0 |
| Residential real estate | | | | | | |
| Home equity | 1,253 | 1,253 | 0 | 1,177 | 1,177 | 0 |
| Subtotal | $ 6,349 | $ 6,687 | $ 0 | $ 6,403 | $ 6,741 | $ 0 |
| | | | | | | |
| Acquired loans with related allowance | | | | | | |
| | | | | | | |
| Commercial and industrial | | | | | | |
| Commercial and industrial other | 517 | 517 | 433 | 519 | 519 | 433 |
| Commercial real estate | | | | | | |
| Commercial real estate other | 31 | 31 | 31 | 128 | 128 | 128 |
| Subtotal | $ 548 | $ 548 | $ 464 | $ 647 | $ 647 | $ 561 |
| Total | $ 6,897 | $ 7,235 | $ 464 | $ 7,050 | $ 7,388 | $ 561 |

The average recorded investment and interest income recognized on impaired loans for the three months ended March 31, 2016 and 2015 was as follows:

| *(in thousands)* | **Three Months Ended 03/31/2016** | | **Three Months Ended 03/31/2015** | |
|---|---|---|---|---|
| | **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 | $ 624 | $ 0 | $ 786 | $ 0 |
| Commercial real estate | | | | |
| Commercial real estate other | 5,699 | 0 | 8,471 | 0 |
| Residential real estate | | | | |
| Home equity | 2,290 | 0 | 924 | 0 |
| Subtotal | $ 8,613 | $ 0 | $ 10,181 | $ 0 |
| Originated loans and leases with related allowance | | | | |
| Commercial and industrial | | | | |
| Commercial and industrial other | $ 4 | $ 0 | $ 0 | $ 0 |
| Commercial real estate | | | | |
| Commercial real estate other | 587 | 0 | 1,678 | 0 |
| Subtotal | $ 591 | $ 0 | $ 1,678 | $ 0 |
| Total | $ 9,204 | $ 0 | $ 11,859 | $ 0 |

| *(in thousands)* | **Three Months Ended 03/31/2016** | | **Three Months Ended 03/31/2015** | |
|---|---|---|---|---|
| | **Average Recorded Investment** | **Interest Income Recognized** | **Average Recorded Investment** | **Interest Income Recognized** |
| **Acquired loans with no related allowance** | | | | |
| Commercial and industrial | | | | |
| Commercial and industrial other | $ 594 | $ 0 | $ 581 | $ 0 |
| Commercial real estate | | | | |

| | | | | |
|---|---|---|---|---|
| Construction | 359 | 0 | 373 | 0 |
| Commercial real estate other | 5,176 | 0 | 2,480 | 0 |
| Residential real estate | | | | |
| Home equity | 893 | 0 | 947 | 0 |
| Subtotal | $7,022 | $ 0 | $4,381 | $ 0 |
| | | | | |
| Acquired loans with related allowance | | | | |
| | | | | |
| Commercial and industrial | | | | |
| Commercial and industrial other | $518 | $ 0 | $815 | $ 0 |
| Commercial real estate | | | | |
| Commercial real estate other | 32 | 0 | 245 | 0 |
| Subtotal | $550 | $ 0 | $1,060 | $ 0 |
| Total | $7,572 | $ 0 | $5,441 | $ 0 |

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

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

| March 31, 2016 | Three months ended | | | Defaulted TDRs[3] | |
|---|---|---|---|---|---|
| (in thousands) | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Loans | Post-Modification Outstanding Recorded Investment |
| Commercial and industrial | | | | | |
| Commercial real estate | | | | | |
| Commercial real estate other[1] | 2 | $ 1,115 | $ 1,115 | 0 | $ 0 |
| Residential real estate | | | | | |
| Home equity[2] | 3 | 169 | 169 | 0 | 0 |
| **Total** | 5 | **$** 1,284 | **$** 1,284 | 0 | $ 0 |

[1] *Represents the following concessions: extension of term and reduction of rate*
[2] *Represents the following concessions: extension of term and reduction of rate*
[3] TDRs that defaulted during the three months ended March 31, 2016 that were restructured in the prior twelve months.

| March 31, 2015 | Three months ended | | | Defaulted TDRs[4] | |
|---|---|---|---|---|---|
| (in thousands) | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Loans | Post-Modification Outstanding Recorded Investment |
| Commercial and industrial | | | | | |
| Commercial and industrial other[1] | 2 | $ 319 | $ 319 | 0 | $ 0 |
| Commercial real estate | | | | | |
| Commercial real estate other[2] | 2 | 614 | 614 | 0 | 0 |
| Residential real estate | | | | | |
| Home equity[3] | 9 | 1,108 | 1,108 | 0 | 0 |
| **Total** | 13 | **$** 2,041 | **$** 2,041 | 0 | $ 0 |

[1] *Represents the following concessions: extension of*

*term*
*[2] Represents the following concessions: extension of term and reduction of rate (1 loan: $28,000) and extension of term (1 loan: $585,000)*
*[3] Represents the following concessions: extension of term and reduction of rate (6 loans: $732,000) and reduction of rate (3 loans: $376,000)*
*[4] TDRs that defaulted in the quarter ended March 31, 2015 that had been restructured in the prior twelve months.*

The following tables present credit quality indicators (internal risk grade) by class of commercial and industrial loans and commercial real estate loans as of March 31, 2016 and December 31, 2015.

| March 31, 2016 | | | | | | |
|---|---|---|---|---|---|---|
| (in thousands) | Commercial and Industrial Other | Commercial and Industrial Agriculture | Commercial Real Estate Other | Commercial Real Estate Agriculture | Commercial Real Estate Construction | **Total** |
| Originated Loans and Leases | | | | | | |
| Internal risk grade: | | | | | | |
| Pass | $ 761,441 | $ 74,054 | $ 1,184,727 | $ 93,791 | $ 115,584 | $ 2,229,597 |
| Special Mention | 3,839 | 145 | 16,269 | 135 | 0 | 20,388 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Substandard | 3,767 | 691 | 13,194 | 374 | 0 | 18,026 |
| Total | $ 769,047 | $ 74,890 | $ 1,214,190 | $ 94,300 | $ 115,584 | $ 2,268,011 |

28

March 31, 2016

| (in thousands) | Commercial and Industrial Other | Commercial and Industrial Agriculture | Commercial Real Estate Other | Commercial Real Estate Agriculture | Commercial Real Estate Construction | **Total** |
|---|---|---|---|---|---|---|
| Acquired Loans | | | | | | |
| Internal risk grade: | | | | | | |
| Pass | $ 84,175 | $ 0 | $ 262,847 | $ 1,904 | $ 1,782 | $ 350,708 |
| Special Mention | 0 | 0 | 534 | 0 | 0 | 534 |
| Substandard | 2,367 | 0 | 14,642 | 109 | 327 | 17,445 |
| Total | $ 86,542 | $ 0 | $ 278,023 | $ 2,013 | $ 2,109 | $ 368,687 |

December 31, 2015

| (in thousands) | Commercial and Industrial Other | Commercial and Industrial Agriculture | Commercial Real Estate Other | Commercial Real Estate Agriculture | Commercial Real Estate Construction | Total |
|---|---|---|---|---|---|---|
| Originated Loans and Leases | | | | | | |
| Internal risk grade: | | | | | | |
| Pass | $ 759,023 | $ 87,488 | $ 1,143,238 | $ 86,445 | $ 99,508 | $ 2,175,702 |
| Special Mention | 3,531 | 78 | 12,378 | 141 | 3,529 | 19,657 |
| Substandard | 5,470 | 733 | 11,634 | 349 | 0 | 18,186 |
| Total | $ 768,024 | $ 88,299 | $ 1,167,250 | $ 86,935 | $ 103,037 | $ 2,213,545 |

December 31, 2015

| (in thousands) | Commercial and Industrial Other | Commercial and Industrial Agriculture | Commercial Real Estate Other | Commercial Real Estate Agriculture | Commercial Real Estate Construction | Total |
|---|---|---|---|---|---|---|
| Acquired Loans | | | | | | |
| Internal risk grade: | | | | | | |
| Pass | $ 82,662 | $ 0 | $ 271,584 | $ 423 | $ 4,533 | $ 359,202 |
| Special Mention | 0 | 0 | 540 | 0 | 0 | 540 |
| Substandard | 2,148 | 0 | 12,828 | 1,672 | 359 | 17,007 |
| Total | $ 84,810 | $ 0 | $ 284,952 | $ 2,095 | $ 4,892 | $ 376,749 |

The following tables present credit quality indicators by class of residential real estate loans and by class of consumer loans. Nonperforming loans include nonaccrual, impaired, and loans 90 days past due and accruing interest. All other loans are considered performing as of March 31, 2016 and December 31, 2015. For purposes of this footnote, acquired loans that were recorded at fair value at the acquisition date and are 90 days or greater past due are considered performing.

March 31, 2016

| (in thousands) | Residential Home Equity | Residential Mortgages | Consumer Indirect | Consumer Other | Total |
|---|---|---|---|---|---|
| Originated Loans and Leases | | | | | |
| Performing | $ 197,765 | $ 828,901 | $ 17,644 | $ 39,908 | $ 1,084,218 |
| Nonperforming | 1,480 | 5,397 | 70 | 94 | 7,041 |
| Total | $ 199,245 | $ 834,298 | $ 17,714 | $ 40,002 | $ 1,091,259 |

March 31, 2016

| (in thousands) | Residential Home Equity | Residential Mortgages | Consumer Indirect | Consumer Other | Total |
|---|---|---|---|---|---|
| Acquired Loans | | | | | |
| Performing | $ 40,245 | $ 24,610 | $ 0 | $ 985 | $ 65,840 |
| Nonperforming | 597 | 2,261 | 0 | 0 | 2,858 |
| Total | $ 40,842 | $ 26,871 | $ 0 | $ 985 | $ 68,698 |

29

December 31, 2015

| (in thousands) | Residential Home Equity | Residential Mortgages | Consumer Indirect | Consumer Other | Total |
|---|---|---|---|---|---|
| Originated Loans and Leases | | | | | |
| Performing | $ 200,647 | $ 817,952 | $ 17,722 | $ 40,829 | $ 1,077,150 |
| Nonperforming | 1,931 | 5,889 | 107 | 75 | 8,002 |
| Total | $ 202,578 | $ 823,841 | $ 17,829 | $ 40,904 | $ 1,085,152 |

**December 31, 2015**

| (in thousands) | Residential Home Equity | Residential Mortgages | Consumer Indirect | Consumer Other | Total |
|---|---|---|---|---|---|
| Acquired Loans | | | | | |
| Performing | $ 41,380 | $ 26,102 | $ 0 | $ 911 | $ 68,393 |
| Nonperforming | 712 | 1,389 | 0 | 0 | 2,101 |
| Total | $ 42,092 | $ 27,491 | $ 0 | $ 911 | $ 70,494 |

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

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

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

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

Changes in the FDIC indemnification asset during the three months ended March 31, 2016 are shown below.

**March 31, 2016**

| *(in thousands)* | **Three Months Ended** | |
|---|---|---|
| Balance, beginning of the period | $ | 158 |
| Prospective adjustment for additional cash flows | | (11) |
| Increase due to impairment on covered loans | | 0 |
| Reimbursements from the FDIC | | 0 |
| Balance, end of period | $ | 147 |

**8. Earnings Per Share**

Earnings per share in the table below, for the three months ending March 31, 2016 and 2015 are calculated under the two-class method as required by ASC Topic 260, Earnings Per Share. ASC 260 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The Company has issued restricted stock awards that contain such rights and are therefore considered participating securities. Basic earnings per common share are calculated by dividing net income allocable to common stock by the weighted average number of common shares, excluding participating securities, during the period. Diluted earnings per common share include the dilutive effect of additional potential shares from stock compensations awards.

| | Three Months Ended | |
|---|---|---|
| *(in thousands, except share and per share data)* | **03/31/2016** | **03/31/2015** |
| Basic | | |
| Net income available to common shareholders | $14,180 | $12,680 |
| Less: dividends and undistributed earnings allocated to unvested restricted stock awards | (229) | (182) |
| Net earnings allocated to common shareholders | 13,951 | 12,498 |
| Weighted average shares outstanding, including participating securities | 15,002,332 | 14,920,648 |
| Less: average participating securities | (242,056) | (219,251) |
| Weighted average shares outstanding - Basic | 14,760,276 | 14,701,397 |
| Diluted | | |
| Net earnings allocated to common shareholders | 13,956 | 12,498 |
| Weighted average shares outstanding - Basic | 14,760,276 | 14,701,397 |
| Dilutive effect of common stock options or restricted stock awards | 145,643 | 136,538 |
| Weighted average shares outstanding - Diluted | 14,905,919 | 14,837,935 |
| Basic EPS | 0.95 | 0.85 |
| Diluted EPS | 0.94 | 0.84 |

The dilutive effect of common stock options or restricted awards calculation for the three months ended March 31, 2016 and 2015 excludes stock options, stock appreciation rights and restricted stock awards covering an aggregate of 48,515 and 81,495 shares, respectively, because the exercise prices were greater than the average market price during these periods.

**9. Other Comprehensive Income (Loss)**

The following table presents reclassifications out of the accumulated other comprehensive income for the three months ended March 31, 2016 and 2015.

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

| | Three months ended March 31, 2015 | | |
|---|---|---|---|
| *(in thousands)* | Before-Tax Amount | Tax (Expense) Benefit | Net of Tax |
| Available-for-sale securities: | | | |
| Change in net unrealized gain/loss during the period | $9,320 | $ (3,728) | $5,592 |
| Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income | (290) | 116 | (174) |
| Net unrealized gains | 9,030 | (3,612) | 5,418 |

| | | | |
|---|---|---|---|
| Employee benefit plans: | | | |
| Amortization of net retirement plan actuarial gain | 731 | (293) | 438 |
| Amortization of net retirement plan prior service (credit) cost | (179) | 72 | (107) |
| Employee benefit plans | 552 | (221) | 331 |
| Other comprehensive income | $9,582 | $ (3,833) | $5,749 |

32

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

| *(in thousands)* | Available-for-Sale Securities | Employee Benefit Plans | Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|
| Balance at January 1, 2016 | $ (2,744) | $ (28,257) | $ (31,001) |
| Other comprehensive income before reclassifications | 12,575 | 0 | 12,575 |
| Amounts reclassified from accumulated other comprehensive loss | (139) | 224 | 85 |
| Net current-period other comprehensive income (loss) | 12,436 | 224 | 12,660 |
| Balance at March 31, 2016 | $ 9,692 | $ (28,033) | $ (18,341) |
| | | | |
| Balance at January 1, 2015 | $ 2,867 | $ (26,878) | $ (24,011) |
| Other comprehensive loss before reclassifications | 5,592 | 0 | 5,592 |
| Amounts reclassified from accumulated other comprehensive loss | (174) | 331 | 157 |
| Net current-period other comprehensive income (loss) | 5,418 | 331 | 5,749 |
| Balance at March 31, 2015 | $ 8,285 | $ (26,547) | $ (18,262) |

The following tables present the amounts reclassified out of each component of accumulated other comprehensive (loss) income for the three months ended March 31, 2016 and 2015. In the below tables the accumulated other comprehensive income components are included in the computation of net periodic benefit cost (See Note 10 - "Employee Benefit Plan"), and amounts in parentheses indicate debits to the income statement.

**Three months ended March 31, 2016**

| **Details about Accumulated other Comprehensive Income Components (in thousands)** | **Amount Reclassified from Accumulated Other Comprehensive (Loss) Income[1]** | **Affected Line Item in the Statement Where Net Income is Presented** |
|---|---|---|
| **Available-for-sale securities:** | | |
| Unrealized gains and losses on available-for-sale securities | $ 232 | Net gain on securities transactions |

| | | |
|---|---|---|
| | (93 | ) Tax expense |
| | 139 | Net of tax |
| **Employee benefit plans:** | | |
| Amortization of the following [2] | | |
| Net retirement plan actuarial loss | (343 | ) Pension and other employee benefits |
| Net retirement plan prior service credit | (30 | ) Pension and other employee benefits |
| | (373 | ) Total before tax |
| | 149 | Tax benefit |
| | $(224 | ) Net of tax |

33

**Three months ended March 31, 2015**

| Details about Accumulated other Comprehensive Income Components (in thousands) | Amount Reclassified from Accumulated Other Comprehensive (Loss) Income[1] | Affected Line Item in the Statement Where Net Income is Presented |
|---|---|---|
| **Available-for-sale securities:** | | |
| Unrealized gains and losses on available-for-sale securities | $ 290 | Net gain on securities transactions |
| | (116) | Tax expense |
| | 174 | Net of tax |
| **Employee benefit plans:** | | |
| Amortization of the following [2] | | |
| Net retirement plan actuarial loss | (731) | Pension and other employee benefits |
| Net retirement plan prior service cost | 179 | Pension and other employee benefits |
| | (552) | Total before tax |
| | 221 | Tax benefit |
| | $ (331) | Net of tax |

[1] *Amounts in parentheses indicated debits in income statement*
[2] *The accumulated other comprehensive (loss) income components are included in the computation of net periodic benefit cost (see Note 10 - "Employee Benefit Plan")*

**10. Employee Benefit Plan**

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

**Components of Net Periodic Benefit (Credit) Cost**

| | Pension Benefits Three Months | Life and Health Three Months | SERP Benefits Three Months |
|---|---|---|---|

| | Ended | | Ended | | Ended | |
|---|---|---|---|---|---|---|
| *(in thousands)* | **03/31/2016** | **03/31/2015** | **03/31/2016** | **03/31/2015** | **03/31/2016** | **03/31/2015** |
| Service cost | $0 | $ 684 | $82 | $ 61 | $72 | $ 66 |
| Interest cost | 649 | 752 | 77 | 93 | 211 | 240 |
| Expected return on plan assets | (1,215) | (1,242 ) | 0 | 0 | 0 | 0 |
| Amortization of net retirement plan actuarial loss | 239 | 586 | 1 | 15 | 104 | 130 |
| Amortization of net retirement plan prior service (credit) cost | (4 ) | (217 ) | 4 | 4 | 30 | 34 |
| Net periodic benefit (credit) cost | $(331 ) | $ 563 | $164 | $ 173 | $417 | $ 470 |

The net periodic benefit (credit) 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 $224,000 and $331,000, net of tax, as amortization of amounts previously recognized in accumulated other comprehensive income, for the three months ended March 31, 2016 and 2015, respectively.

The Company is not required to contribute to the pension plan in 2016, but it may make voluntary contributions. The Company did not contribute to the pension plan in the first three months of 2016 and 2015.

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

**11. Other Income and Operating Expense**

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

| | Three Months Ended | |
|---|---|---|
| (in thousands) | 03/31/2016 | 03/31/2015 |
| Noninterest Income | | |
| Other service charges | $750 | $821 |
| Increase in cash surrender value of corporate owned life insurance | 616 | 614 |
| Net gain on sale of loans | 23 | 4 |
| Other income | 318 | 587 |
| Total other income | $1,707 | $2,026 |
| Noninterest Expenses | | |
| Marketing expense | $902 | $989 |
| Professional fees | 1,343 | 1,338 |
| Legal fees | 348 | 393 |
| Software licensing and maintenance | 1,348 | 1,196 |
| Cardholder expense | 745 | 626 |
| Other expenses | 4,362 | 5,551 |
| Total other operating expense | $9,048 | $10,093 |

12. Financial Guarantees

The Company currently does not issue any guarantees that would require liability recognition or disclosure, other than standby letters of credit. The Company extends standby letters of credit to its customers in the normal course of business. The standby letters of credit are generally short-term. As of March 31, 2016, the Company’s maximum potential obligation under standby letters of credit was $58.7 million compared to $58.6 million at December 31, 2015. Management uses the same credit policies to extend standby letters of credit that it uses for on-balance sheet lending decisions and may require collateral to support standby letters of credit based upon its evaluation of the counterparty. Management does not anticipate any significant losses as a result of these transactions, and has determined that the fair value of standby letters of credit is not significant.

13. Segment and Related Information

The Company manages its operations through three reportable business segments in accordance with the standards set forth in FASB ASC 280, “Segment Reporting”: (i) banking (“Banking”), (ii) insurance (“Tompkins Insurance Agencies,

Inc.") and (iii) wealth management ("Tompkins Financial Advisors"). The Company's insurance services and wealth management services, other than trust services, are managed separately from the Banking segment.

*Banking*

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

*Insurance*

The Company provides property and casualty insurance services and employee benefits consulting through Tompkins Insurance Agencies, Inc., a 100% wholly-owned subsidiary of the Company, headquartered in Batavia, New York. Tompkins Insurance is an independent insurance agency, representing many major insurance carriers and provides employee benefit consulting to employers in Western and Central New York and Southeastern Pennsylvania, assisting them with their medical, group life insurance and group disability insurance. Through the 2012 acquisition of VIST Financial, Tompkins Insurance expanded its operations with the addition of VIST Insurance, a full service insurance agency offering a similar array of insurance products as Tompkins Insurance in southeastern Pennsylvania.

*Wealth Management*

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

Summarized financial information concerning the Company's reportable segments and the reconciliation to the Company's consolidated results is shown in the following table. Investment in subsidiaries is netted out of the presentations below. The "Intercompany" column identifies the intercompany activities of revenues, expenses and other assets between the banking, insurance and wealth management services segments. The Company accounts for intercompany fees and services at an estimated fair value according to regulatory requirements for the services provided. Intercompany items relate primarily to the use of human resources, information systems, accounting and marketing services provided by any of the banks and the holding company. All other accounting policies are the same as those described in the summary of significant accounting policies in the 2015 Annual Report on Form 10-K.

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

| *(in thousands)* | Banking | Insurance | Wealth Management | Intercompany | Consolidated |
|---|---|---|---|---|---|
| Interest income | $49,309 | $0 | $ 0 | $ 0 | $49,309 |
| Interest expense | 5,271 | 0 | 0 | 0 | 5,271 |
| **Net interest income** | 44,038 | 0 | 0 | 0 | 44,038 |
| Provision for loan and lease losses | 855 | 0 | 0 | 0 | 855 |
| Noninterest income | 6,272 | 7,599 | 3,910 | (278) | 17,503 |
| Noninterest expense | 30,374 | 6,339 | 3,071 | (278) | 39,506 |
| **Income before income tax expense** | 19,081 | 1,260 | 839 | 0 | 21,180 |
| Income tax expense | 6,194 | 502 | 271 | 0 | 6,967 |
| **Net Income attributable to noncontrolling interests and Tompkins Financial Corporation** | 12,887 | 758 | 568 | 0 | 14,213 |
| Less: Net income attributable to noncontrolling interests | 33 | 0 | 0 | 0 | 33 |
| **Net Income attributable to Tompkins Financial Corporation** | $12,854 | $758 | $ 568 | $ 0 | $14,180 |
| | | | | | |
| Depreciation and amortization | $1,575 | $91 | $ 19 | $ 0 | $1,685 |
| Assets | 5,719,963 | 39,825 | 14,088 | (8,905) | 5,764,971 |
| Goodwill | 64,370 | 20,036 | 8,211 | 0 | 92,617 |
| Other intangibles, net | 7,472 | 5,344 | 417 | 0 | 13,233 |
| Net loans and leases | 3,788,383 | 0 | 0 | 0 | 3,788,383 |
| Deposits | 4,563,951 | 0 | 0 | (8,723) | 4,555,228 |
| Total Equity | 497,519 | 30,757 | 11,617 | 0 | 539,893 |

36

**As of and for the three months ended March 31, 2015**

| *(in thousands)* | Banking | Insurance | Wealth Management | Intercompany | Consolidated |
|---|---|---|---|---|---|
| Interest income | $46,192 | $1 | $ 35 | $ 0 | $46,228 |
| Interest expense | 5,000 | 0 | 0 | 0 | 5,000 |
| **Net interest income** | 41,192 | 1 | 35 | 0 | 41,228 |
| Provision for loan and lease losses | 209 | 0 | 0 | 0 | 209 |
| Noninterest income | 6,390 | 7,406 | 4,127 | (277) | 17,646 |
| Noninterest expense | 30,950 | 6,015 | 3,004 | (277) | 39,692 |
| **Income before income tax expense** | 16,423 | 1,392 | 1,158 | 0 | 18,973 |
| Income tax expense | 5,312 | 554 | 394 | 0 | 6,260 |
| **Net Income attributable to noncontrolling interests and Tompkins Financial Corporation** | 11,111 | 838 | 764 | 0 | 12,713 |
| Less: Net income attributable to noncontrolling interests | 33 | 0 | 0 | 0 | 33 |
| **Net Income attributable to Tompkins Financial Corporation** | $11,078 | $838 | $ 764 | $ 0 | $12,680 |
| | | | | | |
| Depreciation and amortization | $1,444 | $92 | $ 32 | $ 0 | $1,568 |
| Assets | 5,315,921 | 36,283 | 12,402 | (7,073) | 5,357,533 |
| Goodwill | 64,500 | 19,662 | 8,081 | 0 | 92,243 |
| Other intangibles, net | 8,929 | 4,680 | 501 | 0 | 14,110 |
| Net loans and leases | 3,398,072 | 0 | 0 | 0 | 3,398,072 |
| Deposits | 4,289,693 | 0 | 0 | (6,927) | 4,282,766 |
| Total Equity | 468,128 | 26,763 | 9,405 | 0 | 504,296 |

**14. Fair Value**

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

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

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

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

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

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of March 31, 2016 and December 31, 2015, segregated by the level of valuation inputs within the fair value hierarchy used to measure fair value.

Recurring Fair Value Measurements
March 31, 2016

| (in thousands) | Total | (Level 1) | (Level 2) | (Level 3) |
|---|---|---|---|---|
| Trading securities | | | | |
| Obligations of U.S. Government sponsored entities | $ 6,421 | $ 0 | $ 6,421 | $ 0 |
| Mortgage-backed securities – residential U.S. Government sponsored entities | 602 | 0 | 602 | 0 |
| Available-for-sale securities | | | | |
| Obligations of U.S. Government sponsored entities | 535,893 | 0 | 535,893 | 0 |
| Obligations of U.S. states and political subdivisions | 86,521 | 0 | 86,521 | 0 |
| Mortgage-backed securities – residential, issued by: | | | | |
| U.S. Government agencies | 137,589 | 0 | 137,589 | 0 |
| U.S. Government sponsored entities | 668,455 | 0 | 668,455 | 0 |
| Non-U.S. Government agencies or sponsored entities | 145 | 0 | 145 | 0 |
| U.S. corporate debt securities | 2,162 | 0 | 2,162 | 0 |
| Equity securities | 944 | 0 | 0 | 944 |
| Borrowings | | | | |
| Other borrowings | 10,518 | 0 | 10,518 | 0 |

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

Recurring Fair Value Measurements
December 31, 2015

| (in thousands) | Total | (Level 1) | (Level 2) | (Level 3) |
|---|---|---|---|---|
| Trading securities | | | | |
| Obligations of U.S. Government sponsored entities | $ 6,601 | $ 0 | $ 6,601 | $ 0 |
| Mortgage-backed securities – residential U.S. Government sponsored entities | 767 | 0 | 767 | 0 |
| Available-for-sale securities | | . | | |
| Obligations of U.S. Government sponsored entities | 552,893 | 0 | 552,893 | 0 |
| Obligations of U.S. states and political subdivisions | 84,726 | 0 | 84,726 | 0 |
| Mortgage-backed securities – residential, issued by: | | | | |
| U.S. Government agencies | 94,678 | 0 | 94,678 | 0 |
| U.S. Government sponsored entities | 650,097 | 0 | 650,097 | 0 |
| Non-U.S. Government agencies or sponsored entities | 194 | 0 | 194 | 0 |
| U.S. corporate debt securities | 2,162 | 0 | 2,162 | 0 |
| Equity securities | 934 | 0 | 0 | 934 |
| Borrowings | | | | |
| Other borrowings | 10,576 | 0 | 10,576 | 0 |

There were no transfers between Levels 1, 2 and 3 for the three months ended March 31, 2016.

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 March 31, 2016.

Certain assets are measured at fair value on a nonrecurring basis. For the Company, these include loans held for sale, collateral dependent impaired loans, and other real estate owned (“OREO”). During the first quarter of 2016, certain collateral dependent impaired loans were remeasured and reported at fair value through a specific valuation allowance and/or partial charge-offs for loan and lease losses based upon the fair value of the underlying collateral. Collateral values are estimated using Level 2 inputs based upon observable market data. In addition to collateral dependent impaired loans, certain other real estate owned were remeasured and reported at fair value based upon the fair value of the underlying collateral. The fair values of other real estate owned are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. In general, the fair values of other real estate owned are based upon appraisals, with discounts made to reflect estimated costs to sell the real estate. Upon initial recognition, fair value write-downs on other real estate owned are taken through a charge-off to the allowance for loan and lease losses. Subsequent fair value write-downs on other real estate owned are reported in other noninterest expense.

**Three months ended March 31, 2016**

| | | **Fair value measurements at reporting date using**: | | | **Gain (losses) from fair value changes** |
|---|---|---|---|---|---|
| | As of | Quoted prices in active markets for identical assets | Significant other observable inputs | Significant unobservable inputs | Three months ended |
| Assets: | 03/31/2016 | (Level 1) | (Level 2) | (Level 3) | 03/31/2016 |
| Impaired Loans | $1,987 | $0 | $1,987 | $0 | $9 |
| Other real estate owned | 432 | 0 | 432 | 0 | 11 |

**Three months ended March 31, 2015**

| | | Fair value measurements at reporting date using: | | | Gain (losses) from fair value changes |
|---|---|---|---|---|---|
| | As of | Quoted prices in active markets for identical assets | Significant other observable inputs | Significant unobservable inputs | Three months ended |
| Assets: | 03/31/2015 | (Level 1) | (Level 2) | (Level 3) | 03/31/2015 |
| Impaired Loans | $2,881 | $0 | $2,881 | $0 | $(80) |
| Other real estate owned | 287 | 0 | 287 | 0 | (68) |

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at March 31, 2016 and December 31, 2015. The carrying amounts shown in the table are included in the Consolidated Statements of Condition under the indicated captions.

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

**Estimated Fair Value of Financial Instruments**

**March 31, 2016**

| *(in thousands)* | **Carrying Amount** | **Fair Value** | **(Level 1)** | **(Level 2)** | **(Level 3)** |
|---|---|---|---|---|---|
| **Financial Assets:** | | | | | |
| Cash and cash equivalents | $55,514 | $55,514 | $55,514 | $0 | $0 |
| Securities - held to maturity | 145,010 | 150,139 | 0 | 150,139 | 0 |
| FHLB stock | 25,727 | 25,727 | 0 | 25,727 | 0 |
| Accrued interest receivable | 17,484 | 17,484 | 0 | 17,484 | 0 |
| Loans/leases, net[1] | 3,788,383 | 3,813,734 | 0 | 1,987 | 3,811,747 |
| **Financial Liabilities:** | | | | | |
| Time deposits | $887,142 | $887,887 | $0 | $887,887 | $0 |
| Other deposits | 3,668,086 | 3,668,086 | 0 | 3,668,086 | 0 |
| Fed funds purchased and securities sold under agreements to repurchase | 116,551 | 117,939 | 0 | 117,939 | 0 |
| Other borrowings | 444,823 | 446,592 | 0 | 446,592 | 0 |
| Trust preferred debentures | 37,552 | 43,345 | 0 | 43,345 | 0 |
| Accrued interest payable | 1,879 | 1,879 | 0 | 1,879 | 0 |

**Estimated Fair Value of Financial Instruments**
**December 31, 2015**

| *(in thousands)* | **Carrying Amount** | **Fair Value** | **(Level 1)** | **(Level 2)** | **(Level 3)** |
|---|---|---|---|---|---|
| **Financial Assets:** | | | | | |
| Cash and cash equivalents | $58,257 | $58,257 | $58,257 | $0 | $0 |
| Securities - held to maturity | 146,071 | 146,686 | 0 | 146,686 | 0 |
| FHLB and FRB stock | 29,969 | 29,969 | 0 | 29,969 | 0 |
| Accrued interest receivable | 16,433 | 16,433 | 0 | 16,433 | 0 |
| Loans/leases, net[1] | 3,740,038 | 3,739,695 | 0 | 5,730 | 3,733,965 |
| **Financial Liabilities:** | | | | | |
| Time deposits | $855,133 | $853,839 | $0 | $853,839 | $0 |
| Other deposits | 3,540,173 | 3,540,173 | 0 | 3,540,173 | 0 |
| Fed funds purchased and securities sold under agreements to repurchase | 136,513 | 138,161 | 0 | 138,161 | 0 |
| Other borrowings | 525,709 | 527,041 | 0 | 527,041 | 0 |
| Trust preferred debentures | 37,509 | 45,190 | 0 | 45,190 | 0 |
| Accrued interest payable | 1,973 | 1,973 | 0 | 1,973 | 0 |

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

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

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

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

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

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

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

**BUSINESS**

**Corporate Overview and Strategic Initiatives**

Tompkins Financial Corporation ("Tompkins" or the "Company") is headquartered in Ithaca, New York and is registered as a Financial Holding Company with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended. The Company is a locally oriented, community-based financial services organization that offers a full array of products and services, including commercial and consumer banking, leasing, trust and investment management, financial planning and wealth management, and insurance services. At March 31, 2016, the Company's subsidiaries included: four wholly-owned banking subsidiaries, Tompkins Trust Company (the "Trust Company"), The Bank of Castile (DBA Tompkins Bank of Castile), Mahopac Bank (formerly known as Mahopac National Bank, DBA Tompkins Mahopac Bank), VIST Bank (DBA Tompkins VIST Bank); and a wholly-owned insurance agency subsidiary, Tompkins Insurance Agencies, Inc. ("Tompkins Insurance"). The Trust Company provides a full array of trust and investment services under the Tompkins Financial Advisors brand, including investment management, trust and estate, financial and tax planning as well as life, disability and long-term care insurance services. The Company's principal offices are located at The Commons, Ithaca, New York, 14851, and its telephone number is (888) 503-5753. The Company's common stock is traded on the NYSE MKT LLC under the symbol "TMP."

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. The Company's most recent acquisition, of a property and casualty insurance agency located in western New York, was completed effective January 1, 2016, as described below under "Business Segments".

**Business Segments**

Banking services consist primarily of attracting deposits from the areas served by the Company’s four banking subsidiaries’ 63 banking offices (44 offices in New York and 19 offices in Pennsylvania) and using those deposits to originate a variety of commercial loans, consumer loans, real estate loans (including commercial loans collateralized by real estate), and leases. The Company’s lending function is managed within the guidelines of a comprehensive Board-approved lending policy. Reporting systems are in place to provide management with ongoing information related to loan production, loan quality, concentrations of credit, loan delinquencies, and nonperforming and potential problem loans. Banking services also include a full suite of products such as debit cards, credit cards, remote deposit, electronic banking, mobile banking, cash management, and safe deposit services.

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

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

Effective, January 1, 2016, Tompkins Insurance acquired all the outstanding shares of Shepard, Maxwell & Hale Insurance, a property and casualty insurance agency located in western New York. The acquisition-date fair value of the merger consideration was $2.2 million and included $0.2 million of cash and 32,553 shares of Tompkins’ common stock ($2.0 million). Including the present value of expected contingent payments, the Company recorded the following intangible assets as a result of the acquisition: goodwill ($0.8 million), customer related intangible ($1.1 million) and a covenant-not-to-compete ($0.3 million). The values of the customer related intangible and covenant-not-to-compete are being amortized over 15 years and 5 years, respectively. The goodwill is not being amortized but will be evaluated at least annually for impairment. The goodwill is not deductible for taxes.

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

**Competition**

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

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 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 New York State Department of Financial Services, Pennsylvania Department of Banking and Securities, Financial Industry Regulatory Authority, and the Pennsylvania Insurance Department.

**OTHER IMPORTANT INFORMATION**

The following discussion is intended to provide an understanding of the consolidated financial condition and results of operations of the Company for the three months ended March 31, 2016. 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, 2015, and the Unaudited Consolidated Financial Statements and notes thereto included in Part I of this Quarterly Report on Form 10-Q.

In this Report there are comparisons of the Company's performance to that of a peer group. Unless otherwise stated, this peer group is comprised of the group of 117 domestic bank holding companies with $3 billion to $10 billion in total assets as defined in the Federal Reserve's "Bank Holding Company Performance Report" for December 31, 2015 (the most recent report available).

**Forward-Looking Statements**

The Company is making this statement in order to satisfy the "Safe Harbor" provision contained in the Private Securities Litigation Reform Act of 1995. The statements contained in this Quarterly Report on Form 10-Q that are not statements of historical fact may include forward-looking statements that involve a number of risks and uncertainties. Such forward-looking statements are made based on management's expectations and beliefs concerning future events impacting the Company and are subject to certain uncertainties and factors relating to the Company's operations and economic environment, all of which are difficult to predict and many of which are beyond the control of the Company. These uncertainties and factors that could cause actual results of the Company to differ materially from those matters expressed and/or implied by such forward-looking statements. The following factors are among those that could cause actual results to differ materially from the forward-looking statements: changes in general economic, market and regulatory conditions; the development of an interest rate environment that may adversely affect the Company's interest rate spread, other income or cash flow anticipated from the Company's operations, investment and/or lending activities; changes in laws and regulations affecting banks, insurance companies, bank holding companies and/or financial holding companies, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act and Basel III; technological developments and changes; the ability to continue to introduce competitive new products and services on a timely, cost-effective basis; governmental and public policy changes, including environmental regulation; protection and validity of intellectual property rights; reliance on large customers; the

expenses and reputational damage if there were ever a material cybersecurity breach; financial resources in the amounts, at the times and on the terms required to support the Company's future businesses; and other factors discussed elsewhere in this Quarterly Report on Form 10-Q and in other reports we file with the SEC, in particular the "Risk Factors" discussed in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2015. In addition, such forward-looking statements could be affected by general industry and market conditions and growth rates, general economic and political conditions (including changes in economic conditions in the Company's primary market areas), including interest rate and currency exchange rate fluctuations, and other factors.

**Critical Accounting Policies**

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

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

For additional information on critical accounting policies and to gain a greater understanding of how the Company's financial performance is reported, refer to Note 1 – "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements, and the section captioned "Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. There have been no significant changes in the Company's application of critical accounting policies since December 31, 2015. Refer to Note 3 – "Accounting Standards Updates" in the Notes to Unaudited Consolidated Financial Statements included in Part I of this Quarterly Report on Form 10-Q for a discussion of recent accounting updates.

**OVERVIEW**

Net income for the first quarter was $14.2 million or $0.94 diluted earnings per share, compared to $12.7 million or $0.84 diluted earnings per share for the same period in 2015. Net interest income of $44.0 million for the quarter ended March 31, 2016 was up compared to the $41.2 million reported for the same period in 2015.

Return on average assets ("ROA") for the quarter ended March 31, 2016 was 0.99%, compared to 0.97% for the quarter ended March 31, 2015. Return on average shareholders' equity ("ROE") for the first quarter of 2016 was 10.77%, compared to 10.35%, for the same period in 2015. Tompkins' 2016 first quarter ROA and ROE compare to the most recent peer average ratios of 0.97% and 8.68%, respectively, ranking Tompkins' ROA in the 65th percentile and ROE in the 83rd percentile of the peer group.

**Segment Reporting**

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

**Banking Segment**

The banking segment reported net income of $12.9 million for the first quarter of 2016, up $1.8 million or 16.2% from net income of $11.1 million for the same period in 2015.

Net interest income of $44.0 million for the first quarter of 2016 was up $2.8 million or 6.9% over the same period in 2015. Growth in average earning assets and lower funding costs offset the effect of lower asset yields and contributed

to favorable year-over-year comparisons. Net interest margin for the three months ended March 31, 2016 was 3.36% compared to 3.45% for the same period prior year. Although down from the same period prior year, the net interest margin for the current period is consistent with the most recent three prior quarters.

The provision for loan and lease losses was $855,000 for the three months ended March 31, 2016; up from $209,000 for the same period in 2015. The increase in provision expense was largely attributable to growth in total loans and lower net recoveries.

Noninterest income for the three months ended March 31, 2016 of $6.3 million was down $118,000 or 1.8% compared to the same period in 2015. The decrease was mainly in miscellaneous income sources, with no one item accounting for a significant amount of the total.

Noninterest expense of $30.4 million for the first quarter was down $576,000 or 1.9% compared to the same period in 2015. The favorable quarterly comparison is mainly a result of lower pension and healthcare expense. These favorable items were partially offset by an increase in salaries and wages due to normal annual merit and market increases, increases in incentive compensation, as well as an increase in the number of employees.

**Insurance Segment**

The insurance segment reported net income of $758,000 for the three months ended March 31, 2016; down $80,000 or 9.5% from the first quarter of 2015. Revenue was up $193,000 or 2.6% in the first quarter of 2016, compared to the same period in 2015. The increase was partially due to the acquisition of an insurance agency in the first quarter of 2016, as described above under “Business Segments”. Noninterest expenses for the three months ended March 31, 2016 were up $324,000 or 5.4% compared to the first quarter of 2015. The increase in noninterest expense for the first quarter of 2016 is the result of increases in salaries and wages reflecting normal annual merit adjustments and sales commissions, and expenses related to the acquisition.

**Wealth Management Segment**

The wealth management segment reported net income of $568,000 for the three months ended March 31, 2016, down $196,000 or 25.7% compared to the first quarter of 2015. Revenue declined $217,000 or 5.3% for the first quarter of 2016 compared to the same period of the prior year. Although we have seen an increase in assets year-over-year, concentration in lower margin business lines has contributed to the overall decrease in investment services income. Noninterest expenses for the three months ended March 31, 2016 were up $67,000 or 2.2%. The first quarter increase in noninterest expense is due primarily to increases in salaries and wages reflecting normal annual merit adjustments.

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

| | **Year to Date Period Ended March 31, 2016** | | | **Year to Date Period Ended March 31, 2015** | | |
|---|---|---|---|---|---|---|
| *(Dollar amounts in thousands)* | Average Balance (YTD) | Interest | Average Yield/Rate | Average Balance (YTD) | Interest | Average Yield/Rate |
| **ASSETS** | | | | | | |
| Interest-earning assets | | | | | | |
| Interest-bearing balances due from banks | $ 2,094 | $ 2 | 0.38% | $ 1,388 | $ 1 | 0.29% |
| Securities (1) | | | | | | |
| U.S. Government securities | 1,458,755 | 7,903 | 2.18% | 1,435,574 | 7,853 | 2.22% |
| Trading securities | 7,248 | 81 | 4.49% | 8,858 | 94 | 4.30% |
| State and municipal (2) | 97,631 | 838 | 3.45% | 88,304 | 870 | 4.00% |
| Other securities (2) | 3,686 | 31 | 3.38% | 3,764 | 30 | 3.23% |
| Total securities | 1,567,320 | 8,853 | 2.27% | 1,536,500 | 8,847 | 2.34% |
| FHLBNY and FRB stock | 27,799 | 298 | 4.31% | 20,765 | 347 | 6.78% |
| Total loans and leases, net of unearned income (2)(3) | 3,791,207 | 41,185 | 4.37% | 3,398,319 | 37,954 | 4.53% |
| **Total interest-earning assets** | **5,388,420** | **50,338** | **3.76%** | **4,956,972** | **47,149** | **3.86%** |
| Other assets | 341,851 | | | 358,030 | | |
| **Total assets** | **5,730,271** | | | **5,315,002** | | |
| **LIABILITIES & EQUITY** | | | | | | |
| Deposits | | | | | | |
| Interest-bearing deposits | | | | | | |
| Interest bearing checking, savings, & money market | 2,533,185 | 956 | 0.15% | 2,348,973 | 990 | 0.17% |
| Time deposits | 868,095 | 1,643 | 0.76% | 905,981 | 1,631 | 0.73% |
| Total interest-bearing deposits | 3,401,280 | 2,599 | 0.31% | 3,254,954 | 2,621 | 0.33% |
| Federal funds purchased & securities sold under agreements to repurchase | 126,262 | 666 | 2.12% | 142,359 | 670 | 1.91% |
| Other borrowings | 502,319 | 1,417 | 1.13% | 347,690 | 1,139 | 1.33% |
| Trust preferred debentures | 37,524 | 589 | 6.31% | 37,352 | 570 | 6.19% |
| **Total interest-bearing liabilities** | **4,067,385** | **5,271** | **0.52%** | **3,782,355** | **5,000** | **0.54%** |
| Noninterest bearing deposits | 1,067,638 | | | 973,212 | | |
| Accrued expenses and other liabilities | 66,934 | | | 62,388 | | |
| **Total liabilities** | 5,201,957 | | | 4,817,955 | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Tompkins Financial Corporation Shareholders' equity | 526,846 | | | 495,579 | | |
| Noncontrolling interest | 1,468 | | | 1,468 | | |
| **Total equity** | **528,314** | | | **497,047** | | |
| **Total liabilities and equity** | **$ 5,730,271** | | | **$ 5,315,002** | | |
| Interest rate spread | | | **3.24%** | | | **3.32%** |
| Net interest income/margin on earning assets | | **45,067** | **3.36%** | | **42,149** | **3.45%** |
| Tax Equivalent Adjustment | | **(1,029)** | | | **(921)** | |
| Net interest income per consolidated financial statements | | **$ 44,038** | | | **$ 41,228** | |

*1 Average balances and yields on available-for-sale securities are based on historical amortized cost*
*2 Interest income includes the tax effects of taxable-equivalent adjustments using a combined New York State and Federal effective income tax rate of 40% to increase tax exempt interest income to taxable-equivalent basis.*
*3 Nonaccrual loans are included in the average asset totals presented above. Payment received on nonaccrual loans have been recognized as disclosed in Note 1 of the Company's condensed consolidated financial statements included in Part 1 of the Company's annual report on Form 10-K for the fiscal year ended December 31, 2015.*

**Net Interest Income**

Net interest income is the Company's largest source of revenue, representing 71.56% of total revenues for the three months ended March 31, 2016, compared to 70.03% for the same period in 2015. Net interest income is dependent on the volume and composition of interest earning assets and interest-bearing liabilities and the level of market interest rates.

The above table shows average interest-earning assets and interest-bearing liabilities, and the corresponding yield or cost associated with each. Taxable-equivalent net interest income for the three months ended March 31, 2016 was up 6.9% when compared to the same period in 2015. Growth in average earning assets, which were up $431.4 million or 8.7%, helped offset a 9 basis point drop in net interest margin from 3.45% for the first quarter of 2015 to 3.36% for the first quarter of 2016. Although down from the same quarter prior year, the net interest margin for the first quarter of 2016 remained fairly consistent with the most recent three prior quarters. The decrease in the year over year net interest margin reflects lower yields on average earning assets as a result of the low interest rate environment. As of March 31, 2016 average loans and average securities totaled 70.4% and 29.1%, respectively, of average earning assets compared with 68.6% and 31.0%, respectively, at March 31, 2015.

Taxable-equivalent interest income for the first quarter of 2016 was $50.3 million, up 6.8% when compared to the first quarter of 2015. The increase in taxable-equivalent interest income was mainly the result of an increase in average loans, which was somewhat offset by a decrease in the yield on average loans. Average loan balances for the three months ended March 31, 2016, were up $392.9 million or 11.6% while the average yield decreased 16 basis points from the same period in 2015. Average securities balances for the three months ended March 31, 2016 were up by $30.8 million or 2.0% from the same period in 2015.

Interest expense for the first quarter of 2016 increased by $271,000 or 5.4% compared to the first quarter in 2015, mainly a result of increased interest expense on other borrowings. The average rate paid on interest bearing deposits during the first quarter of 2016 was 0.31% compared to 0.33% from the first quarter in 2015. Average interest bearing deposits for the first quarter of 2016 were up $146.3 million or 4.5% compared to the same period in 2015. Average noninterest bearing deposits increased $94.4 million or 9.7% in the first quarter of 2016 over the first quarter of 2015. Average other borrowings for the first quarter increased by $154.6 million or 44.5% compared to the first quarter of 2015.

**Provision for Loan and Lease Losses**

The provision for loan and lease losses represents management's estimate of the amount necessary to maintain the allowance for loan and lease losses at an appropriate level. The provision for loan and lease losses was $855,000 for the first quarter of 2016, as compared to $209,000 for the same period in 2015. The $646,000 increase in provision expense was a result of loan growth and lower recoveries. For the first three months of 2016, net charge-offs were $329,000 compared to net recoveries of $279,000 for the same period in 2015. The section captioned "Financial Condition – Allowance for Loan and Lease Losses and Nonperforming Assets" below has further details on the

allowance for loan and lease losses and asset quality metrics.

**Noninterest Income**

Noninterest income was $17.5 million for the first quarter of 2016, relatively flat compared to $17.6 million for the same period prior year. Noninterest income represented 28.4% of total revenue for the three months ended March 31, 2016 compared to 30.0% in the first quarter of 2015.

Insurance commissions and fees were $7.6 million for the three months ended March 31, 2016, compared to $7.4 million for the same period in 2015. The increase for the year to date period in 2016 is mainly due to an acquisition completed on January 1, 2016 as described above under “Business Segments”.

Investment services revenue was $3.8 million in the first quarter of 2016, a decrease of 5.5% from $4.0 million in the first quarter of 2015. Investment services revenue 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 $3.9 billion at March 31, 2016, up 2.3% from $3.8 billion at March 31, 2015. These figures include $1.2 billion and $1.1 billion, respectively, of Company-owned securities where the Trust Company is custodian.

Service charges on deposit accounts were up $107,000 or 5.0% for the first quarter of 2016, compared to the first quarter of 2015. The increase was mainly due to higher personal and business cycle fees, which were partially offset by decrease in net overdraft fees.

Card services income for the three months ended March 31, 2016, was up $123,000 or 6.8% compared to the same period in 2015. Debit card income, the largest component of card services income, was up $87,000 or 6.8% for the first quarter of 2016 compared to the same period in 2015.

The Company recognized gains on the sales/calls of available-for-sale securities of $232,000 for the three months ended March 31, 2016, which were down from gains of $290,000 for the same period in 2015. Sales of available-for-sale securities are generally the result of general portfolio maintenance and interest rate risk management.

Other income of $1.7 million in the first quarter of 2016 was down 15.8% from the first quarter of 2015. The significant components of other income are other service charges, increases in cash surrender value of corporate owned life insurance ("COLI"), gains on the sales of residential mortgage loans and income from miscellaneous equity investments. The decrease in 2016 compared to 2015 was mainly concentrated in miscellaneous other income.

**Noninterest Expense**

Noninterest expense of $39.5 million for the three months ended March 31, 2016 was down less than 1% compared to the same period in 2015.

Salaries and wages expense for the three months ended March 31, 2016 were up by $1.4 million or 8.1% compared with the same period in 2015. The increases reflect annual merit increases, additional employees, and higher accruals for incentive compensation. Pension and other employee related benefit expenses were down 11.9% for the first quarter of 2016 compared to the same period in 2015. Pension expense was down year over year, mainly attributable to the curtailment of the Company's defined benefit pension plan in the second quarter of 2015. Healthcare expense was also down in the first quarter of 2016 compared to the first quarter of 2015.

Other operating expense for the three months ended March 31, 2016 was down 10.4% compared to the same period prior year.

**Income Tax Expense**

The provision for income taxes was $7.0 million for an effective rate of 32.9% for the first quarter of 2016, compared to tax expense of $6.3 million and an effective rate of 33.0% for the same quarter in 2015. The effective rates differ from the U.S. statutory rate of 35.0% during the comparable periods primarily due to the effect of tax-exempt income from loans, securities and life insurance assets.

FINANCIAL CONDITION

Total assets were $5.8 billion at March 31, 2016, up $75.0 million or 1.3% over December 31, 2015. The growth over year-end was primarily attributable to growth in originated loans, which were up $60.0 million or 1.8%. This growth was partially offset by a decrease in acquired loans, which were down $11.2 million or 2.4%. Total deposits increased $159.9 million or 3.6% compared to December 31, 2015, mainly a result of a seasonal inflow of municipal deposits. Other borrowings, mainly overnight advances with the FHLB, decreased $80.9 million or 15.1% from December 31, 2015, as a result of higher deposit balances.

**Securities**

As of March 31, 2016, the Company's securities portfolio was $1.6 billion or 27.5% of total assets, compared to $1.5 billion or 27.0% of total assets at year-end 2015. The following table details the composition of available-for-sale and held-to-maturity securities.

**Available-for-Sale Securities**

| *(in thousands)* | 03/31/2016 Amortized Cost | 03/31/2016 Fair Value | 12/31/2015 Amortized Cost | 12/31/2015 Fair Value |
|---|---|---|---|---|
| Obligations of U.S. Government sponsored entities | $523,478 | $535,893 | $551,176 | $552,893 |
| Obligations of U.S. states and political subdivisions | 85,443 | 86,521 | 83,981 | 84,726 |
| Mortgage-backed securities | | | | |
| U.S. Government agencies | 136,417 | 137,589 | 94,459 | 94,678 |
| U.S. Government sponsored entities | 666,575 | 668,455 | 656,947 | 650,097 |
| Non-U.S. Government agencies or sponsored entities | 144 | 145 | 192 | 194 |
| U.S. corporate debt securities | 2,500 | 2,162 | 2,500 | 2,162 |
| Total debt securities | 1,414,557 | 1,430,765 | 1,389,255 | 1,384,750 |
| Equity securities | 1,000 | 944 | 1,000 | 934 |
| **Total available-for-sale securities** | **$1,415,557** | **$1,431,709** | **$1,390,255** | **$1,385,684** |

Held-to-Maturity Securities

| *(in thousands)* | 03/31/2016 Amortized Cost | 03/31/2016 Fair Value | 12/31/2015 Amortized Cost | 12/31/2015 Fair Value |
|---|---|---|---|---|
| Obligations of U.S. Government sponsored entities | $132,387 | $137,110 | $132,482 | $132,687 |
| Obligations of U.S. states and political subdivisions | $12,623 | $13,029 | $13,589 | $13,999 |
| Total held-to-maturity debt securities | $145,010 | $150,139 | $146,071 | $146,686 |

Net unrealized gains of $16,152, which represent the amount by which the fair value exceeds amortized cost, in the available-for-sale securities portfolio increased as of March 31, 2016, compared to net unrealized losses of $4,571 at December 31, 2015, as a result of a decline in market interest rates. Management’s policy is to purchase investment grade securities that on average have relatively short duration, which helps mitigate interest rate risk and provides sources of liquidity without significant risk to capital. The decrease in the held-to-maturity portfolio was due to maturities of Obligations of U.S. states and political subdivisions during the three month period ended March 31, 2016.

Quarterly, the Company evaluates all investment securities with a fair value less than amortized cost to identify any other-than-temporary impairment as defined under generally accepted accounting principles.

As a result of the other-than-temporarily impairment review process, the Company did not consider any investment security held at March 31, 2016 to be other-than-temporarily impaired. Future changes in interest rates or the credit quality and credit support of the underlying issuers may reduce the market value of these and other securities. If such decline is determined to be other than temporary, the Company will record the necessary charge to earnings and/or accumulated other comprehensive income to reduce the securities to their then current fair value.

The Company maintained a trading portfolio with a fair value of $7.0 million as of March 31, 2016, compared to $7.4 million at December 31, 2015. The decrease in the trading portfolio reflects maturities or payments during the three months ended March 31, 2016. For the three months ended March 31, 2016, net mark-to-market losses related to the securities trading portfolio were $46,000, compared to net mark-to-market losses of $63,000 for the three months ended March 31, 2015.

**Loans and Leases**

Loans and leases at March 31, 2016 and December 31, 2015 were as follows:

| | **03/31/2016** | | | 12/31/2015 | | |
|---|---|---|---|---|---|---|
| (in thousands) | **Originated** | **Acquired** | **Total Loans and Leases** | Originated | Acquired | Total Loans and Leases |
| Commercial and industrial | | | | | | |
| Agriculture | $74,890 | $0 | $74,890 | $88,299 | $0 | $88,299 |
| Commercial and industrial other | 769,047 | 86,542 | 855,589 | 768,024 | 84,810 | 852,834 |
| Subtotal commercial and industrial | 843,937 | 86,542 | 930,479 | 856,323 | 84,810 | 941,133 |
| Commercial real estate | | | | | | |
| Construction | 115,584 | 2,109 | 117,693 | 103,037 | 4,892 | 107,929 |
| Agriculture | 94,300 | 2,013 | 96,313 | 86,935 | 2,095 | 89,030 |
| Commercial real estate other | 1,214,190 | 278,023 | 1,492,213 | 1,167,250 | 284,952 | 1,452,202 |
| Subtotal commercial real estate | 1,424,074 | 282,145 | 1,706,219 | 1,357,222 | 291,939 | 1,649,161 |
| Residential real estate | | | | | | |
| Home equity | 199,245 | 40,842 | 240,087 | 202,578 | 42,092 | 244,670 |
| Mortgages | 834,298 | 26,871 | 861,169 | 823,841 | 27,491 | 851,332 |
| Subtotal residential real estate | 1,033,543 | 67,713 | 1,101,256 | 1,026,419 | 69,583 | 1,096,002 |
| Consumer and other | | | | | | |
| Indirect | 17,714 | 0 | 17,714 | 17,829 | 0 | 17,829 |
| Consumer and other | 40,002 | 985 | 40,987 | 40,904 | 911 | 41,815 |
| Subtotal consumer and other | 57,716 | 985 | 58,701 | 58,733 | 911 | 59,644 |
| Leases | 14,426 | 0 | 14,426 | 14,861 | 0 | 14,861 |
| Covered loans | 0 | 12,737 | 12,737 | 0 | 14,031 | 14,031 |
| Total loans and leases | 3,373,696 | 450,122 | 3,823,818 | 3,313,558 | 461,274 | 3,774,832 |
| Less: unearned income and deferred costs and fees | (2,905) | 0 | (2,905) | (2,790) | 0 | (2,790) |
| Total loans and leases, net of unearned income and deferred costs and fees | $3,370,791 | $450,122 | $3,820,913 | $3,310,768 | $461,274 | $3,772,042 |

Residential real estate loans, including home equity loans at March 31, 2016 were $1.1 billion, which was comparable to December 31, 2015, and comprised 28.8% of total loans and leases. Growth in residential loan balances is impacted by the Company's decision to retain these loans or sell them in the secondary market due to interest rate considerations. The Company's Asset/Liability Committee meets regularly and establishes standards for selling and retaining residential real estate mortgage originations.

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

circumstances the Company agreed to sell residential real estate loans with recourse, the Company has not done so in the past several years and the amount of such loans included on the Company's balance sheet at March 31, 2016 was insignificant. The Company has never had to repurchase a loan sold with recourse.

During the first three months of 2016 and 2015, the Company sold residential mortgage loans totaling $800,000 and $300,000, respectively, and realized gains on these sales of $23,000 and $4,000, respectively. These residential real estate loans were sold without recourse in accordance with standard secondary market loan sale agreements. When residential mortgage loans are sold, the Company typically retains all servicing rights, which provides the Company with a source of fee income. Mortgage servicing rights, at amortized basis, totaled $863,000 at March 31, 2016 and $894,000 at December 31, 2015.

The Company underwrites residential real estate loans in accordance with secondary market standards in effect at the time of origination, including loan-to-value (“LTV”) and documentation requirements. The Company does not underwrite low or reduced documentation loans other than those that meet secondary market standards for low or reduced documentation loans.

Commercial and industrial loans and commercial real estate loans totaled $930.5 million and $1.7 billion, and represented 24.4% and 44.7%, respectively of total loans as of March 31, 2016. The commercial real estate portfolio was up 3.5% over year-end 2015, while commercial and industrial loans were down 1.1%. As of March 31, 2016, agriculturally-related loans totaled $171.2 million or 4.5% of total loans and leases, down from $177.3 million or 4.7% of total loans and leases at December 31, 2015. There is generally an increase in agriculturally-related loans at year-end related to year-end planning and these loans are typically paid down over the first part of the year. Agriculturally-related loans are primarily made based on identified cash flows of the borrower with consideration given to underlying collateral, personal guarantees, and government related guarantees. Agriculturally-related loans are generally secured by the assets or property being financed or other business assets such as accounts receivable, livestock, equipment or commodities/crops.

The acquired loans in the above table reflect loans acquired in the acquisition of VIST Financial Corp. during the third quarter of 2012. The acquired loans were recorded at fair value pursuant to the purchase accounting guidelines in FASB ASC 805 – “Fair Value Measurements and Disclosures” (as determined by the present value of expected future cash flows) with no valuation allowance (i.e., the allowance for loan losses). Upon acquisition, the Company evaluated whether each acquired loan (regardless of size) was within the scope of ASC 310-30, “Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality”. The carrying value of the acquired loans reflects management’s best estimate of the amount to be realized from the acquired loan and lease portfolios. However, the amounts the Company actually realizes on these loans could differ materially from the carrying value reflected in these financial statements, based upon the timing of collections on the acquired loans in future periods, underlying collateral values and the ability of borrowers to continue to make payments.

The carrying value of loans acquired and accounted for in accordance with ASC Subtopic 310-30, “Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality,” was $25.5 million at March 31, 2016 as compared to $26.5 million at December 31, 2015. Under ASC Subtopic 310-30, loans may be aggregated and accounted for as pools of loans if the loans being aggregated have common risk characteristics. The Company elected to account for the loans with evidence of credit deterioration individually rather than aggregate them into pools. The difference between the undiscounted cash flows expected at acquisition and the investment in the acquired loans, or the “accretable yield,” is recognized as interest income utilizing the level-yield method over the life of each loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the “non-accretable difference,” are not recognized as a yield adjustment, as a loss accrual or as a valuation allowance.

Increases in expected cash flows subsequent to the acquisition are recognized prospectively through an adjustment of the yield on the loans over the remaining life. Subsequent decreases to the expected cash flows require us to evaluate

the need for an addition to the allowance for loan losses. Valuation allowances (recognized in the allowance for loan losses) on these impaired loans reflect only losses incurred after the acquisition (representing all cash flows that were expected at acquisition but currently are not expected to be received).

The carrying value of loans not exhibiting evidence of credit impairment at the time of the acquisition (i.e. loans outside of the scope of ASC 310-30) was $424.7 million at March 31, 2016. At acquisition, these loans were recorded at fair value, including a credit discount. Credit losses on acquired performing loans are estimated based on analysis of the performing portfolio. The purchased performing portfolio also included a general interest rate mark (premium). Both the credit discount and interest rate mark are accreted/amortized as a yield adjustment over the estimated lives of the loans. Interest is accrued daily on the outstanding principal balance of purchased performing loans.

At March 31, 2016, acquired loans included $12.7 million of covered loans. VIST Financial Corp had acquired these loans in an FDIC assisted transaction in the fourth quarter of 2010. In accordance with loss sharing agreements with the FDIC, certain losses and expenses relating to covered loans may be reimbursed by the FDIC at 70% or, if certain levels of reimbursement are reached, 80%. See Note 7 – “FDIC Indemnification Asset Related to Covered Loans” in the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I of this Quarterly Report on Form 10-Q.

The Company has adopted comprehensive lending policies, underwriting standards and loan review procedures. Management reviews these policies and procedures on a regular basis. The Company discussed its lending policies and underwriting guidelines for its various lending portfolios in Note 3 – “Loans and Leases” in the Notes to Consolidated Financial Statements contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. 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 March 31, 2016. The Company’s Board of Directors approves the lending policies at least annually. The Company recognizes that exceptions to policy guidelines may occasionally occur and has established procedures for approving exceptions to these policy guidelines. Management has also implemented reporting systems to monitor loan originations, loan quality, concentrations of credit, loan delinquencies and nonperforming loans and potential problem loans.

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

**The Allowance for Loan and Lease Losses**

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

| ***(in thousands)*** | **03/31/2016** | **12/31/2015** | **03/31/2015** |
|---|---|---|---|
| **Allowance for originated loans and leases** | | | |
| Commercial and industrial | $ 9,291 | $ 10,495 | $ 9,830 |
| Commercial real estate | 17,108 | 15,479 | 12,338 |
| Residential real estate | 4,275 | 4,070 | 4,665 |
| Consumer and other | 1,307 | 1,268 | 1,857 |
| **Total** | **$ 31,981** | **$ 31,312** | **$ 28,690** |

| *(in thousands)* | 03/31/2016 | 12/31/2015 | 03/31/2015 |
|---|---|---|---|
| Allowance for acquired loans | | | |
| Commercial and industrial | $ 433 | $ 433 | $ 563 |
| Commercial real estate | 33 | 61 | 166 |
| Residential real estate | 59 | 198 | 43 |
| Consumer and other | 24 | 0 | 23 |
| Total | $ 549 | $ 692 | $ 795 |

As of March 31, 2016, the total allowance for loan and lease losses was $32.5 million, which was up $526,000 or 1.6% over year-end 2015. The increase in the allowance compared to year-end was mainly due to growth in the originated loan portfolio. Loans internally-classified Special Mention, Substandard and Doubtful were down from prior year end as were the level of nonperforming loans and leases. The allowance for loan and lease losses covered 156.88% of nonperforming loans and leases as of March 31, 2016, compared to 146.74% at December 31, 2015, and 145.11% at March 31, 2015.

The Company's allowance for originated loan and lease losses totaled $32.0 million at March 31, 2016, which represented 0.95% of total originated loans, unchanged from December 31, 2015, and down from 0.99% at March 31, 2015. Originated loans internally-classified as Special Mention, Substandard and Doubtful totaled $38.4 million at March 31, 2016, which were up $571,000 or 1.5% compared to prior quarter, and down $15.7 million or 29.0% compared to March 31, 2015. Originated nonaccrual loans were $12.7 million at March 31, 2016 compared to $13.5 million at December 31, 2015, and $13.8 million at March 31, 2015. I think this is where Barb wanted us to add a comment that for the performing acquired portfolio we have credit and interest rate marks on books -

As part of the determination of the fair value of acquired loans at the time of acquisition, the Company established a credit mark to provide for future losses in the acquired loan portfolio. To the extent that credit quality deteriorates subsequent to acquisition, such deterioration will result in the establishment of an allowance for the acquired portfolio. As of March 31, 2016, the allowance for acquired loans was $549,000, down $143,000 or 20.7% from year-end 2015 and down $246,000 or 30.9% compared to March 31, 2015. The amount of acquired loans internally-classified as Special Mention, Substandard and Doubtful totaled $18.0 million at March 31, 2016, up from $17.5 million at prior quarter end and down from $26.8 million at March 31, 2015. Nonaccrual acquired loans were $4.1 million as of March 31, 2016 compared to $4.3 million at 2015 year end, and $4.7 million at March 31, 2015.

Activity in the Company's allowance for loan and lease losses during the first three months of 2016 and 2015 is illustrated in the table below.

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

| (in thousands) | 03/31/2016 | 03/31/2015 |
|---|---|---|
| Average originated loans outstanding during period | $3,335,520 | $2,856,175 |
| Balance of originated allowance at beginning of year | $31,312 | $28,156 |
| | | |
| ORIGINATED LOANS CHARGED-OFF: | | |
| Commercial and industrial | 115 | 2 |
| Commercial real estate | 0 | 14 |
| Residential real estate | 200 | 93 |
| Consumer and other | 246 | 267 |
| Total loans charged-off | $561 | $376 |
| | | |
| RECOVERIES OF ORIGINATED LOANS PREVIOUSLY CHARGED-OFF: | | |
| Commercial and industrial | 18 | 147 |
| Commercial real estate | 211 | 208 |
| Residential real estate | 17 | 47 |
| Consumer and other | 112 | 168 |
| Total loans recoveries | $358 | $570 |
| Net loans charged-off (recovered) | 203 | (194) |
| Additions to originated allowance charged to operations | 872 | 340 |
| Balance of originated allowance at end of period | $31,981 | $28,690 |
| Allowance for originated loans and leases as a percentage of originated loans and leases | 0.95% | 0.99% |
| Annualized net (recoveries) charge-offs on originated loans to average total originated loans and leases during the period | 0.02% | (0.03%) |

Analysis of the Allowance for Acquired Loan Losses

| (in thousands) | 03/31/2016 | 03/31/2015 |
|---|---|---|
| Average acquired loans outstanding during period | $455,687 | $542,144 |
| Balance of acquired allowance at beginning of year | 692 | 841 |
| | | |
| ACQUIRED LOANS CHARGED-OFF: | | |
| Commercial and industrial | 63 | 1 |
| Residential real estate | 16 | 30 |
| Consumer and other | 93 | 0 |
| Total loans charged-off | $172 | $31 |
| | | |
| RECOVERIES OF ACQUIRED LOANS PREVIOUSLY CHARGED-OFF: | | |
| Commercial and industrial | 0 | 7 |
| Commercial real estate | 46 | 107 |
| Residential real estate | 0 | 2 |
| Total loans recovered | $46 | $116 |
| Net loans charged-off (recovered) | 126 | (85) |
| Additions to acquired allowance (credited) charged to operations | (17) | (131) |
| Balance of acquired allowance at end of period | $549 | $795 |
| Allowance for acquired loans as a percentage of acquired loans outstanding | 0.12% | 0.15% |
| Annualized net charge-offs (recoveries) on acquired loans as a percentage of average acquired loans outstanding during the period | 0.11% | (0.06%) |
| Annualized total net charge-offs (recoveries) as a percentage of average loans and leases outstanding during the period | 0.03% | (0.03%) |

Total net loan and lease charge-offs (recoveries) totaled $329,000 for the three months ended March 31, 2016, compared to $(279,000) for the same period in 2015. Annualized net charge-offs (recoveries) as a percentage of average total loans and leases for the three month period ended March 31, 2016 was 0.03% compared to (0.03%) for the three months ended March 31, 2015. The most recent peer percentage is 0.09%. The peer data is from the Federal Reserve Board and represents banks or bank holding companies with assets between $3.0 billion and $10.0 billion.

The provision for loan and lease losses was $855,000 for the first three months of 2016 compared to $209,000 for the first three months of 2015. The provision for originated loan and lease losses was $872,000 for the three months ended March 31, 2016, compared to $340,000 for the same period in 2015. The increase in provision for originated loan and lease losses in 2016 compared to 2015 was mainly a result of growth in the originated portfolio, and asset quality metrics. For the first quarter of 2016, the acquired portfolio had provision recapture of $17,000 compared to provision recapture of $131,000 for the first quarter of 2015, reflecting lower recoveries in the first quarter 2016, compared to same period prior year.

**Analysis of Past Due and Nonperforming Loans**

| *(in thousands)* | 03/31/2016[1] | 12/31/2015[1] | 03/31/2015[1] |
|---|---|---|---|
| Loans 90 days past due and accruing | | | |
| Commercial and industrial | $0 | $0 | $0 |
| Residential real estate | 57 | 58 | 236 |
| Total loans 90 days past due and accruing | 57 | 58 | 236 |
| Nonaccrual loans | | | |
| Commercial and industrial | 1,141 | 1,738 | 1,629 |
| Commercial real estate | 6,723 | 6,054 | 7,058 |
| Residential real estate | 8,788 | 9,863 | 9,564 |
| Consumer and other | 164 | 182 | 243 |
| Total nonaccrual loans | 16,816 | 17,837 | 18,494 |
| Troubled debt restructurings not included above | 3,862 | 3,915 | 1,589 |
| **Total nonperforming loans and leases** | 20,735 | 21,810 | 20,319 |
| Other real estate owned | 1,865 | 2,692 | 5,816 |
| **Total nonperforming assets** | $22,600 | $24,502 | $26,135 |
| **Allowance as a percentage of nonperforming loans and leases** | 156.88 % | 146.74 % | 145.11 % |
| **Total nonperforming loans and leases as percentage of total loans and leases** | 0.54 % | 0.58 % | 0.59 % |
| **Total nonperforming assets as percentage of total assets** | 0.39 % | 0.43 % | 0.49 % |

[1] The March 31, 2016, December 31, 2015, and March 31, 2015 columns in the above table exclude $1.9 million, $2.5 million, and $3.5 million, respectively, of acquired loans that are 90 days past due and accruing interest. These loans were originally recorded at fair value on the acquisition date of August 1, 2012. These loans are considered to be accruing as we can reasonably estimate future cash flows on these acquired loans and we expect to fully collect the carrying value of these loans. Therefore, we are accreting the difference between the carrying value of these loans and their expected cash flows into interest income.

Nonperforming assets include nonaccrual loans, troubled debt restructurings (“TDR”), and foreclosed real estate/other real estate owned. Nonperforming assets represented 0.39% of total assets at March 31, 2016, compared to 0.43% at December 31, 2015, and 0.49% at March 31, 2015. The Company’s ratio of nonperforming assets to total assets continues to compare favorably to our peer group’s most recent ratio of 0.90% at December 31, 2015.

Total nonperforming loans and leases were down $1.1 million or 4.9% from year end 2015, and down $416,000 or 2.1% from March 31, 2015. Total nonperforming assets were down $1.9million from December 31, 2015 and $3.5 million from March 31, 2015.

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

maturity. TDRs are included in the above table within the following categories: “loans 90 days past due and accruing”, “nonaccrual loans”, or “troubled debt restructurings not included above”. Loans in the latter category include loans that meet the definition of a TDR but are performing in accordance with the modified terms and therefore classified as accruing loans. At March 31, 2016 the Company had $9.2 million in TDRs, and of that total $5.3 million were reported as nonaccrual and $3.9 million were considered performing and included in the table above.

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

The Company’s recorded investment in loans and leases that are considered impaired totaled $16.1 million at March 31, 2016, compared to $16.2 million at December 31, 2015 and $16.3 million at March 31, 2015. A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans consist of our non-homogenous nonaccrual loans, and all TDRs. Specific reserves on individually identified impaired loans that are not collateral dependent are measured based on the present value of expected future cash flows discounted at the original effective interest rate of each loan. For loans that are collateral dependent, impairment is measured based on the fair value of the collateral less estimated selling costs, and such impaired amounts are generally charged off.

The average recorded investment in impaired loans and leases was $16.8 million for the quarter ending March 31, 2016, compared to $17.3 million for the same period prior year. At March 31, 2016 there was a specific reserve of $813,000 on impaired loans compared to $849,000 of specific reserves at December 31, 2015. The specific reserve reported at March 31, 2016 includes specific reserves totaling $349,000 for two commercial real estate loan and one commercial loan in the originated portfolio and specific reserves totaling $465,000 on 3 loans within the acquired portfolio. The majority of impaired loans are collateral dependent impaired loans that have limited exposure or require limited specific reserve because of the amount of collateral support with respect to these loans and previous charge-offs. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured. In these cases, interest is recognized on a cash basis.

The ratio of the allowance to nonperforming loans (loans past due 90 days and accruing, nonaccrual loans and restructured troubled debt) was 156.88% at March 31, 2016, improved from 146.74% in December 31, 2015, and 145.11% at March 31, 2015. The improvement in the ratio reflects the decrease in nonperforming loans over the year as well as an increase in the total allowance. The Company’s nonperforming loans are mostly made up of collateral dependent impaired loans with limited exposure or require limited specific reserve due to the level of collateral available with respect to these loans and/or previous charge-offs. The Company’s peer group ratio as provided by the Federal Reserve Bank was 188.69% as of December 31, 2015.

Management reviews the loan portfolio continuously for evidence of potential problem loans and leases. Potential problem loans and leases are loans and leases that are currently performing in accordance with contractual terms, but where known information about possible credit problems of the related borrowers causes management to have doubt as to the ability of such borrowers to comply with the present loan payment terms and may result in such loans and leases becoming nonperforming at some time in the future. Management considers loans and leases classified as Substandard, which continue to accrue interest, to be potential problem loans and leases. The Company, through its internal loan review function, identified 29 commercial relationships from the originated portfolio and 27 commercial relationships from the acquired portfolio totaling $11.6 million and $13.9 million, respectively at March 31, 2016 that were potential problem loans. At December 31, 2015, the Company had identified 29 commercial relationships totaling $12.2 million in the originated portfolio and 23 commercial relationships totaling $3.1 million in the acquired portfolio that were potential problem loans. Of the 29 commercial relationships in the originated portfolio at March 31, 2016, that were classified as Substandard, there were 3 relationships that equaled or exceeded $1.0 million, in aggregate totaling $5.9 million, the largest of which was $3.3 million. Of the 27 commercial relationships from the acquired loan portfolio at March 31, 2016, that were classified as Substandard, there were 4 relationships that equaled or exceeded $1.0 million, in aggregate totaling $6.1 million, the largest of which was $2.0 million. The Company continues to monitor these potential problem relationships; however, management cannot predict the extent to which continued weak economic conditions or other factors may further impact borrowers. These loans remain in a performing status due to a variety of factors, including payment history, the value of collateral supporting the credits, and personal or government guarantees. These factors, when considered in the aggregate, give management reason to believe that the current risk exposure on these loans does not warrant accounting for these loans as nonperforming. However, these loans do exhibit certain risk factors, which have the potential to cause them to become nonperforming. Accordingly, management’s attention is focused on these credits, which are reviewed on at least a quarterly basis.

**Capital**

Total equity was $539.9 million at March 31, 2016, an increase of $23.4 million or 4.5% from December 31, 2015. The increase reflects growth in retained earnings, additional paid-in capital and a reduction of accumulated other comprehensive losses.

Additional paid-in capital increased by $3.0 million, from $350.8 million at December 31, 2015, to $353.8 million at March 31, 2016. The increase is primarily attributable to the following: $1.9 million related to shares issued under the employee stock ownership plan, $1.7 million related to shares issued for an acquisition, $496,000 related to stock-based compensation and $172,000 related to shares issued for the exercise of stock options. These increases were partially offset by a $1.2 million reduction attributed to the repurchase of common stock. Retained earnings increased by $7.6 million from $197.4 million at December 31, 2015, to $205.0 million at March 31, 2016, reflecting net income of $14.2 million less dividends paid of $6.6 million. Accumulated other comprehensive loss declined from a net loss of $31.0 million at December 31, 2015 to a net loss of $18.3 million at March 31, 2016, reflecting a $12.4 million increase in unrealized gains on available-for-sale securities due to changes in market rates, and a $224,000 increase related to postretirement benefit plans. Under regulatory requirements, amounts reported as accumulated other comprehensive income/loss related to net unrealized gain or loss on available-for-sale securities and the funded status of the Company's defined benefit post-retirement benefit plans do not increase or reduce regulatory capital and are not included in the calculation of risk-based capital and leverage ratios.

Cash dividends paid in the first three months of 2016 totaled approximately $6.6 million, representing 46.5% of year to date 2016 earnings. Cash dividends of $0.44 per common share paid in the first three months of 2016 were up 4.8% over cash dividends of $0.42 per common share paid in the first three months of 2015.

On July 24, 2014, the Company's Board of Directors authorized, the repurchase of up to 400,000 shares of the Company's outstanding common stock. Purchases may be made on the open market or in privately negotiated transactions over the 24 months following adoption of the repurchase program. The Company repurchased 22,356 shares in the first quarter of 2016 at an average price of $52.18. As of March 31, 2016, the Company had repurchased an aggregate of 191,303 shares under the plan at an average price of $48.51.

The Company and its banking subsidiaries are subject to various regulatory capital requirements administered by Federal banking agencies. In July 2013, the FRB approved and published the final Basel III Capital Rules establishing a comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, including Tompkins Financial, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital, and address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios. It also replaces the existing risk-weighting approach, with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee's 2004 "Basel II" capital accords and implements the requirements of Section 939A of the

Dodd-Frank Act to remove references to credit ratings utilized in the federal banking agencies' rules. The Basel III Capital Rules were effective for Tompkins on January 1, 2015 (subject to a phase-in period).

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

In addition to setting higher minimum capital ratios, the new rules, introduce a capital conservation buffer, which must be added to each of the minimum capital ratios and is designed to absorb losses during periods of economic stress. The capital conservation buffer will be phased-in over five years beginning on January 1, 2016 and will range from 0.625% in year 1 to 2.5% when fully phased-in. As of March 31, 2016, all of the Company's subsidiary banks are in compliance with the required conservation buffer of 0.625%. If a banking organization fails to hold capital above minimum capital ratios, including the capital conservation buffer, it will be subject to certain restrictions on capital distributions and discretionary bonus payments.

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

The following table provides a summary of the Company's capital ratios as of March 31, 2016.

**REGULATORY CAPITAL ANALYSIS**

| **March 31, 2016** | **Actual** | | **Well Capitalized Requirement** | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **Amount** | **Ratio** | **Amount** | **Ratio** |
| Total Capital (to risk weighted assets) | $528,614 | 13.18% | $400,992 | 10.00% |
| Tier 1 Capital (to risk weighted assets) | $494,208 | 12.32% | $320,794 | 8.00% |
| Tier 1 Common Equity (to risk weighted assets) | $456,656 | 11.39% | $260,645 | 6.50% |
| Tier 1 Capital (to average assets) | $494,208 | 8.79% | $281,262 | 5.00% |

As illustrated above, the Company's capital ratios at March 31, 2016 remained above the minimum requirements for well capitalized institutions. Total capital as a percent of risk weighted assets increased from 13.0% as of December 31, 2015 to 13.2% at March 31, 2016. Tier 1 capital as a percent of risk weighted assets increased from 12.2% at the end of 2015 to 12.3% as of March 31, 2016. Tier 1 capital as a percent of average assets was 8.8% at March 31, 2016 which was flat compared to year-end December 31, 2015. Tier 1 common equity capital was 11.4% at the end of the first quarter of 2016, up compared to 11.3% at year-end 2015.

As of March 31, 2016 the capital ratios for the Company's subsidiary banks also exceeded the minimum levels required to be considered well capitalized.

Deposits and Other Liabilities

Total deposits of $4.6 billion at March 31, 2016 increased $159.9 million or 3.6% from December 31, 2015. The increase from year-end 2015 was comprised mainly of increases in money market savings and interest bearing checking deposits (up $173.0 million), and time deposits accounts (up $32.0 million) partially offset by lower noninterest bearing deposits (down $45.1 million).

The most significant source of funding for the Company is core deposits. The Company defines core deposits as total deposits less time deposits of $250,000 or more, brokered deposits and municipal money market deposits. Core deposits grew by $88.9 million or 2.5% to $3.6 billion at March 31, 2016 from $3.5 billion at year-end 2015. Core deposits represented 79.2% of total deposits at March 31, 2016, compared to 80.1% of total deposits at December 31, 2015. The decrease in the percentage of core deposits to total deposits reflects growth in noncore deposits categories, mainly municipal deposits and time deposits of $250,000 or more, exceeding the growth in core deposits.

Municipal money market and savings accounts totaled $606.3 million at March 31, 2016, which was an increase of 7.1% over year-end 2015. In general, there is a seasonal pattern to municipal deposits starting with a low point during July and August. Account balances tend to increase throughout the fall and into the winter months from tax deposits and receive an additional inflow at the end of March from the electronic deposit of state funds.

The Company uses both retail and wholesale repurchase agreements. Retail repurchase agreements are arrangements with local customers of the Company, in which the Company agrees to sell securities to the customer with an agreement to repurchase those securities at a specified later date. Retail repurchase agreements totaled $46.5 million at March 31, 2016, and $66.3 million at December 31, 2015. Management generally views retail repurchase agreements as an alternative to large time deposits. The Company's wholesale repurchase agreements totaled $70.0 million at March 31, 2016 and $70.2 million at December 31, 2015. At March 31, 2016 wholesale repurchase agreements included $55.0 million with the FHLB and $15.0 million with a large financial institution.

The Company's other borrowings totaled $455.3 million at March 31, 2016, down $80.9 million or 15.1% from $536.3 million at December 31, 2015. Borrowings at March 31, 2016 included $179.8 million in FHLB overnight advances, $265.5 million of FHLB term advances, and a $10.0 million advance from a bank. Borrowings at year-end 2015 included $272.2 million in overnight advances from FHLB, $250.0 million of FHLB term advances, and a $13.5 million advance from a bank. Of the $265.5 million in FHLB term advances at March 31, 2016 $100.0 million are due over one year. In 2007, the Company elected the fair value option under FASB ASC Topic 825 for a $10.0 million advance with the FHLB. The fair value of this advance decreased by $57,000 (net mark-to-market gain of $57,000) over the three months ended March 31, 2016.

58

**Liquidity**

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

Core deposits, discussed above under "Deposits and Other Liabilities", are a primary and low cost funding source obtained primarily through the Company's branch network. In addition to core deposits, the Company uses non-core funding sources to support asset growth. These non-core funding sources include time deposits of $250,000 or more, brokered time deposits, national deposit listing services, municipal money market deposits, bank borrowings, securities sold under agreements to repurchase and overnight and term advances from the FHLB. Rates and terms are the primary determinants of the mix of these funding sources.

Non-core funding sources of $1.5 billion at March 31, 2016, decreased $29.9 million or 1.9% as compared to year-end 2015. Non-core funding sources, as a percentage of total liabilities, were 29.1% at March 31, 2016, compared to 29.9% at December 31, 2015.

Non-core funding sources may require securities to be pledged against the underlying liability. Securities carried at $1.3 billion and $1.2 billion at March 31, 2016, and December 31, 2015, respectively, were either pledged or sold under agreements to repurchase. Pledged securities represented 82.8% of total securities at March 31, 2016 compared to 81.2% of total securities at December 31, 2015.

Cash and cash equivalents totaled $55.5 million as of March 31, 2016, down from $58.3 million at December 31, 2015. Short-term investments, consisting of securities due in one year or less, decreased from $64.0 million at December 31, 2015, to $42.0 million on March 31, 2016. The Company also had $7.0 million of securities designated as trading securities at March 31, 2016.

Cash flow from the loan and investment portfolios provides a significant source of liquidity. These assets may have stated maturities in excess of one year, but have monthly principal reductions. Total mortgage-backed securities, at fair value, were $806.2 million at March 31, 2016 compared with $745.0 million at December 31, 2015. Outstanding

principal balances of residential mortgage loans, consumer loans, and leases totaled approximately $1.2 billion at March 31, 2016 which is comparable to year-end 2015. Aggregate amortization from monthly payments on these assets provides significant additional cash flow to the Company.

Liquidity is enhanced by ready access to national and regional wholesale funding sources including Federal funds purchased, repurchase agreements, brokered certificates of deposit, and FHLB advances. Through its subsidiary banks, the Company has borrowing relationships with the FHLB and correspondent banks, which provide secured and unsecured borrowing capacity. At March 31, 2016, the unused borrowing capacity on established lines with the FHLB was $1.3 billion. As members of the FHLB, the Company's subsidiary banks can use certain unencumbered mortgage-related assets and securities to secure additional borrowings from the FHLB. At March 31, 2016, total unencumbered residential mortgage loans and securities of the Company were $684.8 million. Additional assets may also qualify as collateral for FHLB advances upon approval of the FHLB.

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

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

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

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

The Company’s Board of Directors has set a policy that interest rate risk exposure will remain within a range whereby net interest income will not decline by more than 10% in one year as a result of a 100 basis point parallel change in rates. Based upon the simulation analysis performed as of February 29, 2016 a 200 basis point parallel upward change in interest rates over a one-year time frame would result in a one-year decrease in net interest income from the base case of approximately 1.3%, while a 100 basis point parallel decline in interest rates over a one-year period would result in an decrease in one-year net interest income from the base case of 1.5%. The simulation assumes no balance sheet growth and no management action to address balance sheet mismatches.

If rates rise in a parallel fashion (+200 basis points over 12 months, or +400 basis points over 24 months), net interest income is expected to trend below the base assumption, as upward adjustments to rate sensitive deposits and short-term funding outpace increases to asset yields as market movements stabilize over the next 12 to 24 months, funding cost increases slow while asset yields continue to cycle into the higher rate environment. As a result, net interest income begins to improve in rising rate simulations for periods beyond 24 months.

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

In addition to the simulation analysis, management uses an interest rate gap measure. The table below is a Condensed Static Gap Report, which illustrates the anticipated repricing intervals of assets and liabilities as of March 31, 2016. The Company’s one-year net interest rate gap was a negative $422.4 million or 7.33% of total assets at March 31,

2016, compared with a negative $423.8 million or 7.45% of total assets at December 31, 2015. A negative gap position exists when the amount of interest-bearing liabilities maturing or repricing exceeds the amount of interest-earning assets maturing or repricing within a particular time period. This analysis suggests that the Company's net interest income is moderately more vulnerable to an increasing rate environment than it is to a prolonged declining interest rate environment. An interest rate gap measure could be significantly affected by external factors such as a rise or decline in interest rates, loan or securities prepayments, and deposit withdrawals.

| **Condensed Static Gap – March 31, 2016** | | Repricing Interval | | | |
|---|---|---|---|---|---|
| *(in thousands)* | Total | 0-3 months | 3-6 months | 6-12 months | Cumulative 12 months |
| Interest-earning assets[1] | $5,416,107 | $1,090,901 | $259,271 | $462,427 | $1,812,599 |
| Interest-bearing liabilities | 4,071,109 | 1,707,035 | 209,080 | 318,917 | 2,235,032 |
| Net gap position | | (616,134) | 50,191 | 143,510 | (422,433) |
| Net gap position as a percentage of total assets | | (10.69%) | 0.87% | 2.49% | (7.33%) |

[1] *Balances of available securities are shown at amortized cost*

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of March 31, 2016. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Report on Form 10-Q, the Company's disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2016, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

There have been no material changes in the risk factors previously disclosed under Item 1A. of the Company's Annual Report on Form 10-K, for the fiscal year ended December 31, 2015.

**Item 2. Unregistered Sales of Equity Securities and the Use of Proceeds**

**Issuer Purchases of Equity Securities**

| | Total Number of Shares Purchased (a) | Average Price Paid Per Share (b) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (c) | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (d) |
|---|---|---|---|---|
| January 1, 2016 through January 31, 2016 | 23,484 | $ 52.38 | 21,700 | 209,353 |
| February 1, 2016 through February 29, 2016 | 1,258 | 53.99 | 656 | 208,697 |
| March 1, 2016 through March 31, 2016 | 4,088 | 58.12 | 0 | 208,697 |
| **Total** | **28,830** | **$ 53.26** | **22,356** | **208,697** |

Included in the table above are 1,784 shares purchased in January 2016, at an average cost of $55.11, and 602 shares purchased in February 2016, at an average cost of $55.14 by the trustee of the rabbi trust established by the Company under the Company’s Stock Retainer Plan For Eligible Directors of Tompkins Financial Corporation and Participating Subsidiaries and were part of the director deferred compensation under that plan. In addition, 4,088 shares were tendered by employees with an average value of $58.12, in March 2016, in order to cover option exercise prices. No shares were withheld to cover taxes owed in connection with the vesting of restricted shares during the first quarter of 2016.

On July 24, 2014, the Company's Board of Directors authorized a stock repurchase plan for the Company to repurchase up to 400,000 shares of the Company's common stock over the 24 months following adoption of the plan. The repurchase program may be suspended, modified or terminated at any time for any reason. As of the date of this report, the Company has repurchased 191,303 shares under this program, at an average price of $48.51.

**Recent Sales of Unregistered Securities**

On January 1, 2016, Tompkins Insurance acquired all the outstanding shares of Shepard, Maxwell & Hale Insurance, a property and casualty insurance agency located in Batavia, New York. In connection with the acquisition, 32,553 shares of the Company's common stock were issued to three shareholders in a transaction exempt from registration pursuant to Section 4(2) of the Securities Act of 1933. The acquisition-date fair value of the merger consideration was $2.2 million and included $218,000 of cash and 32,553 shares of Tompkins' common stock ($2.0 million). Including the present value of expected contingent payments, the Company recorded the following intangible assets as a result of the acquisition: goodwill ($800,000), customer related intangible ($1.1 million) and a covenant-not-to-compete ($276,000).

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Mine Safety Disclosure**

Not applicable

**Item 5. Other Information**

None

**Item 6. Exhibits**

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

**SIGNATURES**

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

Date: May 09, 2016

**TOMPKINS FINANCIAL CORPORATION**

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

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

63

**EXHIBIT INDEX**

| Exhibit Number | Description |
|---|---|
| **10.1** | Supplemental Executive Retirement Agreement between Alyssa Hochberg Fontaine and Tompkins Financial Corporation dated April 26, 2016, filed herewith. |
| **10.2** | Supplemental Executive retirement Agreement between John McKenna and Tompkins Financial Corporation dated April 29, 2016, filed herewith. |
| **31.1** | Certification of Principal Executive Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. |
| **31.2** | Certification of Principal Financial Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. |
| **32.1** | Certification of Principal Executive Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, 18 U.S.C. Section 1350 |
| **32.2** | Certification of Principal Financial Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, 18 U.S.C. Section 1350 |
| **101** | The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Condition as of March 31, 2016 and December 31, 2015; (ii) Condensed Consolidated Statements of Income for the three months ended March 31, 2016 and 2015; (iii) Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2016 and 2015; (iv) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2016 and 2015; (v) Condensed Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2016 and 2015; and (vi) Notes to Unaudited Condensed Consolidated Financial Statements. |