TOMPKINS FINANCIAL CORP
Form 10-Q
August 09, 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 June 30, 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 July 31, 2016
Common Stock, $0.10 par value	15,042,060 shares

TOMPKINS FINANCIAL CORPORATION

FORM 10-Q

INDEX

PART I -FINANCIAL INFORMATION

TOMPKINS FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share and per share data) (Unaudited)	As of	As of
ASSETS	06/30/2016	12/31/2015
Cash and noninterest bearing balances due from banks	$64,551	$56,261
Interest bearing balances due from banks	1,834	1,996
Cash and Cash Equivalents	66,385	58,257
Trading securities, at fair value	6,719	7,368
Available-for-sale securities, at fair value (amortized cost of $1,388,108 at June 30, 2016 and $1,390,255 at December 31, 2015)	1,412,382	1,385,684
Held-to-maturity securities, at amortized cost (fair value of $152,901 at June 30, 2016 and $146,686 at December 31, 2015)	144,979	146,071
Originated loans and leases, net of unearned income and deferred costs and fees	3,551,628	3,310,768
Acquired loans and leases, covered	12,269	14,031
Acquired loans and leases, non-covered	414,216	447,243
Less: Allowance for loan and lease losses	33,125	32,004
Net Loans and Leases	3,944,988	3,740,038
Federal Home Loan Bank and Atlantic Community Bankers Bank stock	36,462	29,969
Bank premises and equipment, net	61,683	60,331
Corporate owned life insurance	76,921	75,792
Goodwill	92,942	91,792
Other intangible assets, net	12,532	12,448
Accrued interest and other assets	68,913	82,245
Total Assets	$5,924,906	$5,689,995
LIABILITIES		
Deposits:		
Interest bearing:		
Checking, savings and money market	2,462,885	2,401,519
Time	883,320	855,133
Noninterest bearing	1,123,516	1,138,654
Total Deposits	4,469,721	4,395,306
Federal funds purchased and securities sold under agreements to repurchase	97,180	136,513
Other borrowings, including certain amounts at fair value of $10,426 at June 30, 2016 and $10,576 at December 31, 2015	700,026	536,285
Trust preferred debentures	37,595	37,509
Other liabilities	65,949	67,916
Total Liabilities	$5,370,471	$5,173,529
EQUITY		
Tompkins Financial Corporation shareholders’ equity:		

Common Stock - par value $.10 per share: Authorized 25,000,000 shares; Issued: 15,071,279 at June 30, 2016; and 15,015,594 at December 31, 2015	1,507	1,502
Additional paid-in capital	355,462	350,823
Retained earnings	212,990	197,445
Accumulated other comprehensive loss	(13,267)	(31,001)
Treasury stock, at cost – 114,110 shares at June 30, 2016, and 116,126 shares at December 31, 2015	(3,774)	(3,755)
Total Tompkins Financial Corporation Shareholders' Equity	552,918	515,014
Noncontrolling interests	1,517	1,452
Total Equity	$554,435	$516,466
Total Liabilities and Equity	$5,924,906	$5,689,995

3

TOMPKINS FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Six Months Ended	
(In thousands, except per share data) (Unaudited)	06/30/2016	06/30/2015	06/30/2016	06/30/2015
INTEREST AND DIVIDEND INCOME				
Loans	$41,834	$ 38,059	$82,321	$ 75,435
Due from banks	1	1	3	2
Trading securities	77	90	158	184
Available-for-sale securities	7,284	7,374	14,815	15,188
Held-to-maturity securities	903	674	1,814	1,270
Federal Home Loan Bank and Atlantic Community Bankers Bank stock	318	225	615	572
Total Interest and Dividend Income	50,417	46,423	99,726	92,651
INTEREST EXPENSE				
Time certificates of deposits of $250,000 or more	422	354	812	689
Other deposits	2,264	2,267	4,473	4,553
Federal funds purchased and securities sold under agreements to repurchase	644	665	1,310	1,335
Trust preferred debentures	594	573	1,183	1,143
Other borrowings	1,586	1,234	3,003	2,373
Total Interest Expense	5,510	5,093	10,781	10,093
Net Interest Income	44,907	41,330	88,945	82,558
Less: Provision for loan and lease losses	978	922	1,833	1,131
Net Interest Income After Provision for Loan and Lease Losses	43,929	40,408	87,112	81,427
NONINTEREST INCOME				
Insurance commissions and fees	7,517	7,407	15,079	14,777
Investment services income	3,834	3,838	7,620	7,844
Service charges on deposit accounts	2,092	2,244	4,356	4,402
Card services income	2,002	2,025	3,943	3,843
Mark-to-market loss on trading securities	(60)	(74)	(106)	(137)
Mark-to-market gain on liabilities held at fair value	92	104	149	145
Other income	1,367	2,695	3,074	4,721
Gain on sale of available-for-sale securities	240	723	472	1,013
Total Noninterest Income	17,084	18,962	34,587	36,608
NONINTEREST EXPENSES				
Salaries and wages	19,333	18,394	38,322	35,962
Pension and other employee benefits	4,934	(519)	10,217	5,475
Net occupancy expense of premises	2,999	3,073	6,147	6,412
Furniture and fixture expense	1,577	1,483	3,266	2,933
FDIC insurance	783	748	1,605	1,489
Amortization of intangible assets	521	500	1,048	1,007
Other operating expense	9,241	9,239	18,289	19,332
Total Noninterest Expenses	39,388	32,918	78,894	72,610
Income Before Income Tax Expense	21,625	26,452	42,805	45,425
Income Tax Expense	7,022	9,030	13,989	15,290

Net Income attributable to Noncontrolling Interests and Tompkins Financial Corporation	14,603	17,422	28,816	30,135
Less: Net income attributable to noncontrolling interests	32	32	65	65
Net Income Attributable to Tompkins Financial Corporation	$14,571	$17,390	$28,751	$30,070
Basic Earnings Per Share	$0.97	$1.16	$1.91	$2.01
Diluted Earnings Per Share	$0.96	$1.15	$1.89	$2.00

4

Consolidated Statements of Comprehensive Income

	Three Months Ended	
(In thousands) (Unaudited)	06/30/2016	06/30/2015
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	$ 14,603	$ 17,422
Other comprehensive income, net of tax:		
Available-for-sale securities:		
Change in net unrealized gain (loss) during the period	5,018	(7,224)
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(144)	(434)
Employee benefit plans:		
Recognized actuarial gain due to curtailment	0	(3,196)
Net retirement plan loss	0	1,170
Amortization of net retirement plan actuarial gain	195	439
Amortization of net retirement plan prior service cost (credit)	5	(114)
Other comprehensive income (loss)	5,074	(9,359)
Subtotal comprehensive income attributable to noncontrolling interests and Tompkins Financial Corporation	19,677	8,063
Less: Net income attributable to noncontrolling interests	(32)	(32)
Total comprehensive income attributable to Tompkins Financial Corporation	$ 19,645	$ 8,031

See notes to unaudited condensed consolidated financial statements.

Consolidated Statements of Comprehensive Income

	Six Months	
(In thousands) (Unaudited)	06/30/2016	06
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	$ 28,816	$ 3
Other comprehensive income, net of tax:		
Available-for-sale securities:		
Change in net unrealized gain (loss) during the period	17,593	(
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(283)	(
Employee benefit plans:		
Recognized actuarial gain due to curtailment	0	(
Net retirement plan loss	0	1

Amortization of net retirement plan actuarial gain	401	8
Amortization of net retirement plan prior service cost (credit)	23	(
Other comprehensive income (loss)	17,734	(
Subtotal comprehensive income attributable to noncontrolling interests and Tompkins Financial Corporation	46,550	2
Less: Net income attributable to noncontrolling interests	(65)	(
Total comprehensive income attributable to Tompkins Financial Corporation	$46,485	$2

See notes to unaudited condensed consolidated financial statements.

5

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
(In thousands) (Unaudited)	06/30/2016	06/30/2015
OPERATING ACTIVITIES		
Net income attributable to Tompkins Financial Corporation	$28,751	$30,070
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	1,833	1,131
Depreciation and amortization of premises, equipment, and software	3,356	3,209
Amortization of intangible assets	1,048	1,007
Earnings from corporate owned life insurance	(1,127)	(1,169)
Net amortization on securities	5,301	5,835
Amortization/accretion related to purchase accounting	(1,345)	(3,034)
Mark-to-market loss on trading securities	106	137
Mark-to-market gain on liabilities held at fair value	(150)	(145)
Net gain on securities transactions	(472)	(1,013)
Net gain on sale of loans originated for sale	(35)	(10)
Proceeds from sale of loans originated for sale	1,493	669
Loans originated for sale	(912)	(1,050)
Net (loss) on sale of bank premises and equipment	20	(1)
Gain on pension curtailment	0	(6,003)
Stock-based compensation expense	1,115	953
Decrease in accrued interest receivable	81	495
(Decrease) increase in accrued interest payable	(173)	115
(Decrease) increase proceeds from maturities and payments of trading securities	536	695
Other, net	(243)	7,273
Net Cash Provided by Operating Activities	39,183	39,164
INVESTING ACTIVITIES		
Proceeds from maturities, calls and principal paydowns of available-for-sale securities	117,580	125,893
Proceeds from sales of available-for-sale securities	59,195	94,524
Proceeds from maturities, calls and principal paydowns of held-to-maturity securities	5,141	7,729
Purchases of available-for-sale securities	(179,260)	(209,545)
Purchases of held-to-maturity securities	(4,240)	(65,444)
Net increase in loans	(206,383)	(126,513)
Net increase in Federal Home Loan Bank stock	(6,492)	(5,869)
Proceeds from sale of bank premises and equipment	53	58
Purchases of bank premises and equipment	(4,485)	(2,524)
Net cash used in acquisition	(218)	0
Other, net	0	330
Net Cash Used in Investing Activities	(219,109)	(181,361)
FINANCING ACTIVITIES		
Net increase in demand, money market, and savings deposits	46,228	26,671
Net increase in time deposits	28,830	9,016
Net decrease in Federal funds purchases and securities sold under agreements to repurchase	(39,491)	(15,408)
Increase in other borrowings	400,301	277,350
Repayment of other borrowings	(236,410)	(140,421)

Cash dividends	(13,206)	(12,550)
Repurchase of common stock	(1,166)	(1,441)
Shares issued for dividend reinvestment plan	1,003	0
Shares issued for employee stock ownership plan	1,938	1,595
Net shares issued related to restricted stock awards	(150)	(152)
Net proceeds from exercise of stock options	(20)	1,426
Tax benefit from stock option exercises	197	180
Net Cash Provided by Financing Activities	188,054	146,266
Net Increase in Cash and Cash Equivalents	8,128	4,069
Cash and cash equivalents at beginning of period	58,257	56,070
Total Cash & Cash Equivalents at End of Period	66,385	60,139

See notes to unaudited condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)	06/30/2016	06/30/2015
Supplemental Information:		
Cash paid during the year for - Interest	$ 11,597	$ 10,730
Cash paid during the year for - Taxes	12,315	8,224
Transfer of loans to other real estate owned	448	187

See notes to unaudited condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(In thousands except share and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Non-controlling Interests	Total
Balances at January 1, 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			30,070			65	30,135
Other comprehensive loss				(3,610)			(3,610)
Total Comprehensive Income							26,525
Cash dividends ($0.84 per share)			(12,550)				(12,550)
Net exercise of stock options and related tax benefit (56,756 shares)	6	1,600					1,606
Common stock repurchased and returned to unissued status (27,892 shares)	(3)	(1,438)					(1,441)
Stock-based compensation expense		953					953
Shares issued for employee stock ownership plan (29,575 shares)	3	1,592					1,595
Directors deferred compensation plan (31 shares)		104			(104)		0
Restricted stock activity ((11,776) shares)	(1)	(151)					(152)
Adoption of ASU 2014-01 Investments Accounting for Investments in Qualified Affordable Housing Projects			(725)				(725)
Balances at June 30, 2015	$ 1,498	$ 351,549	$ 181,955	$ (27,621)	$ (3,504)	$ 1,517	$ 505,394
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 Corporation			28,751			65	28,816
Other comprehensive income				17,734			17,734
Total Comprehensive Income							46,550
Cash dividends ($0.88 per share)			(13,206)				(13,206)
Net exercise of stock options and related tax benefit (12,168 shares)	1	176					177
	(2)	(1,164)					(1,166)

Common stock repurchased and returned to unissued status (22,356 shares)							
Shares issued for dividend reinvestment plan (15,516 shares)	1	1,002					1,003
Stock-based compensation expense		1,115					1,115
Shares issued for employee stock ownership plan (31,435 shares)	3	1,935					1,938
Directors deferred compensation plan ((2,016) shares)		19			(19)		0
Restricted stock activity ((13,631) shares)	(1)	(149)					(150)
Stock issued for purchase acquisition (32,553 shares)	3	1,705					1,708
Balances at June 30, 2016	$ 1,507	$ 355,462	$ 212,990	$ (13,267)	$ (3,774)	$ 1,517	$ 554,435

See notes to unaudited condensed consolidated financial statements

8

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 June 30, 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. There have been no significant changes to the Company’s accounting policies from those presented in the 2015 Annual Report on Form 10-K. Refer to Note 3- “Accounting Standards Updates” of this Report for a discussion of recently issued accounting guidelines.

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

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

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

3. Accounting Standards Updates

ASU 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 2015-15, "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.

ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective on January 1, 2020. Tompkins is currently evaluating the potential impact of ASU 2016-13 on our financial statements.

4. Securities

Available-for-Sale Securities

The following table summarizes available-for-sale securities held by the Company at June 30, 2016:

June 30, 2016	Available-for-Sale Securities Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. Government sponsored entities	$522,686	$ 16,061	$ 0	$538,747
Obligations of U.S. states and political subdivisions	84,449	1,462	2	85,909
Mortgage-backed securities – residential, issued by				
U.S. Government agencies	135,157	2,114	267	137,004
U.S. Government sponsored entities	642,180	6,877	1,579	647,478
Non-U.S. Government agencies or sponsored entities	136	0	0	136
U.S. corporate debt securities	2,500	0	338	2,162
Total debt securities	1,387,108	26,514	2,186	1,411,436
Equity securities	1,000	0	54	946
Total available-for-sale securities	$1,388,108	$ 26,514	$ 2,240	$1,412,382

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

December 31, 2015	Available-for-Sale Securities 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 June 30, 2016:

	Held-to-Maturity Securities			
June 30, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. Government sponsored entities	$132,291	$ 7,524	$0	$139,815
Obligations of U.S. states and political subdivisions	$12,688	$ 398	$0	$13,086
Total held-to-maturity debt securities	$144,979	$ 7,922	$0	$152,901

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 available-for-sale securities were $239,000 and $472,000 for the three and six months ending June 30, 2016 and $725,000 and $1,015,000 in the same periods during 2015. Realized losses on available-for-sale securities were $0 for the three and six months ending June 30, 2016 and $2,000 for the three and six months ending June 30, 2015. 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 June 30, 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	$503	$ 0	$0	$ 0	$503	$ 0
Obligations of U.S. states and political subdivisions	1,408	1	759	1	2,167	2
Mortgage-backed securities – issued by						
U.S. Government agencies	553	3	24,541	264	25,094	267
U.S. Government sponsored entities	15,832	98	145,587	1,481	161,419	1,579
U.S. corporate debt securities	0	0	2,163	338	2,163	338
Equity securities	0	0	946	54	946	54
Total available-for-sale securities	$18,296	$ 102	$173,996	$ 2,138	$192,292	$ 2,240

There were no unrealized losses on held-to-maturity securities for June 30, 2016.

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 June 30, 2016, and December 31, 2015, management has determined that the unrealized losses detailed in the tables above are not other-than-temporary.

Ongoing Assessment of Other-Than-Temporary Impairment

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

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

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

As a result of the other-than-temporary impairment review process, the Company does not consider any investment security held at June 30, 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.

June 30, 2016

(in thousands)	Amortized Cost	Fair Value
Available-for-sale securities:		
Due in one year or less	$27,577	$27,854
Due after one year through five years	346,074	355,429
Due after five years through ten years	223,789	231,552
Due after ten years	12,195	11,983
Total	609,635	626,818
Mortgage-backed securities	777,473	784,618
Total available-for-sale debt securities	$1,387,108	$1,411,436

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

June 30, 2016		
(in thousands)	Amortized Cost	Fair Value
Held-to-maturity securities:		
Due in one year or less	$8,781	$8,813
Due after one year through five years	28,560	29,900
Due after five years through ten years	107,535	114,061
Due after ten years	103	127
Total held-to-maturity debt securities	$144,979	$152,901

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 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 $21.7 million, $14.7 million and $95,000 at June 30, 2016, respectively. These securities are carried at par, which is also cost. The FHLBNY and FHLBPITT continue to pay dividends and repurchase 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 June 30, 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)	**06/30/2016**	**12/31/2015**
Obligations of U.S. Government sponsored entities	$6,249	$6,601
Mortgage-backed securities – residential, issued by U.S. Government sponsored entities	470	767
Total	$6,719	$7,368

The decrease in the trading portfolio reflects maturities or payments during the three and six months ended June 30, 2016. For the three and six months ended June 30, 2016, net mark-to-market losses related to the securities trading portfolio were $60,000 and $106,000, respectively, compared to net mark-to-market losses for the three and six months ended June 30, 2015 of $74,000 and $137,000, respectively.

The Company pledges securities as collateral for public deposits and other borrowings, and sells securities under agreements to repurchase. Securities carried of $1.2 billion and $1.2 billion at June 30, 2016, and December 31, 2015, respectively, were either pledged or sold under agreements to repurchase.

5. Loans and Leases

Loans and Leases at June 30, 2016 and December 31, 2015 were as follows:

	06/30/2016			12/31/2015		
(in thousands)	Originated	Acquired	Total Loans and Leases	Originated	Acquired	Total Loans and Leases
Commercial and industrial						
Agriculture	$76,872	$0	$76,872	$88,299	$0	$88,299
Commercial and industrial other	814,470	84,947	899,417	768,024	84,810	852,834
Subtotal commercial and industrial	891,342	84,947	976,289	856,323	84,810	941,133
Commercial real estate						
Construction	125,447	4,796	130,243	103,037	4,892	107,929
Agriculture	97,645	5,253	102,898	86,935	2,095	89,030
Commercial real estate other	1,291,764	253,707	1,545,471	1,167,250	284,952	1,452,202
Subtotal commercial real estate	1,514,856	263,756	1,778,612	1,357,222	291,939	1,649,161
Residential real estate						
Home equity	204,138	38,232	242,370	202,578	42,092	244,670
Mortgages	870,869	26,304	897,173	823,841	27,491	851,332
Subtotal residential real estate	1,075,007	64,536	1,139,543	1,026,419	69,583	1,096,002
Consumer and other						
Indirect	17,034	0	17,034	17,829	0	17,829
Consumer and other	41,925	977	42,902	40,904	911	41,815
Subtotal consumer and other	58,959	977	59,936	58,733	911	59,644
Leases	14,687	0	14,687	14,861	0	14,861
Covered loans	0	12,269	12,269	0	14,031	14,031
Total loans and leases	3,554,851	426,485	3,981,336	3,313,558	461,274	3,774,832
Less: unearned income and deferred costs and fees	(3,223)	0	(3,223)	(2,790)	0	(2,790)
Total loans and leases, net of unearned income and deferred costs and fees	$3,551,628	$426,485	$3,978,113	$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 June 30, 2016 and December 31, 2015:

(in thousands)	06/30/2016	12/31/2015
Acquired Credit Impaired Loans		
Outstanding principal balance	$29,916	$32,752
Carrying amount	24,587	26,507

Acquired Non-Credit Impaired Loans		
Outstanding principal balance	405,858	439,389
Carrying amount	401,898	434,767
Total Acquired Loans		
Outstanding principal balance	435,774	472,141
Carrying amount	426,485	461,274

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	(910)
Reclassifications to/from nonaccretable difference[1]	(331)
Balance at June 30, 2016	$5,551

[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 June 30, 2016, acquired loans included $12.3 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 the date of that report. As such, these policies are reflective of new originations as well as those balances held at June 30, 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 June 30, 2016 and December 31, 2015.

June 30, 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	$76,872	$76,872	$ 0	$ 0
Commercial and industrial other	454	92	813,924	814,470	0	159
Subtotal commercial and industrial	454	92	890,796	891,342	0	159
Commercial real estate						
Construction	0	0	125,447	125,447	0	0
Agriculture	0	0	97,645	97,645	0	11
Commercial real estate other	1,006	2,378	1,288,380	1,291,764	0	4,420
Subtotal commercial real estate	1,006	2,378	1,511,472	1,514,856	0	4,431
Residential real estate						
Home equity	528	1,297	202,313	204,138	55	1,416
Mortgages	1,921	3,622	865,326	870,869	34	4,914
Subtotal residential real estate	2,449	4,919	1,067,639	1,075,007	89	6,330
Consumer and other						
Indirect	499	69	16,466	17,034	0	79
Consumer and other	56	0	41,869	41,925	0	9
Subtotal consumer and other	555	69	58,335	58,959	0	88
Leases	0	0	14,687	14,687	0	0
Total loans and leases	4,464	7,458	3,542,929	3,554,851	89	11,008
Less: unearned income and deferred costs and fees	0	0	(3,223)	(3,223)	0	0
Total originated loans and leases, net of unearned income and deferred costs and fees	$4,464	$7,458	$3,539,706	$3,551,628	$ 89	$ 11,008
Acquired Loans and Leases						
Commercial and industrial						
Commercial and industrial other	0	100	84,847	84,947	53	47
Subtotal commercial and industrial	0	100	84,847	84,947	53	47
Commercial real estate						
Construction	0	253	4,543	4,796	0	253
Agriculture	0	0	5,253	5,253	0	0
Commercial real estate other	50	1,307	252,350	253,707	508	2,809
Subtotal commercial real estate	50	1,560	262,146	263,756	508	3,062
Residential real estate						
Home equity	308	569	37,355	38,232	0	636
Mortgages	539	1,435	24,330	26,304	826	1,086
Subtotal residential real estate	847	2,004	61,685	64,536	826	1,722
Consumer and other						
Consumer and other	3	0	974	977	0	0

Subtotal consumer and other	3	0	974	977	0	0
Covered loans	850	475	10,944	12,269	474	0
Total acquired loans and leases, net of unearned income and deferred costs and fees	$1,750	$4,139	$420,596	$426,485	$ 1,861	$ 4,831

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

Since the methodology is based upon historical experience and trends as well as management’s judgment, factors may arise that result in different estimates. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the local area, concentration of risk, changes in interest rates, and declines in local property values. While management’s evaluation of the allowance as of June 30, 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 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 June 30, 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 June 30, 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	$9,291	$17,108	$4,275	$1,307	$0	$31,981
Charge-offs	(337)	(12)	0	(115)	0	(464)
Recoveries	89	210	15	159	0	473
Provision (credit)	(106)	923	196	(35)		978
Ending Balance	$8,937	$18,229	$4,486	$1,316	$0	$32,968

22

Three months ended June 30, 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	$33	$59	$24	$0	$549
Charge-offs	(324)	(182)	0	0	0	(506)
Recoveries	0	114	0	0	0	114
Provision (credit)	(62)	100	(36)	(2)	0	0
Ending Balance	$47	$65	$23	$22	$0	$157

Three months ended June 30, 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	$9,830	$12,338	$4,665	$1,857	$0	$28,690
Charge-offs	(42)	0	(219)	(243)	0	(504)
Recoveries	88	269	2	114	0	473
Provision (credit)	(1,652)	880	1,135	406	0	769
Ending Balance	$8,224	$13,487	$5,583	$2,134	$0	$29,428

Three months ended June 30, 2015

(in thousands)	**Commercial and Industrial**	**Commercial Real Estate**	**Residential Real Estate**	**Consumer and Other**	**Covered Loans**	**Total**
Allowance for acquired loans						
Beginning balance	$563	$166	$43	$23	$0	$795
Charge-offs	(52)	(156)	(82)	0	0	(290)
Recoveries	0	5	0	0	0	5
Provision (credit)	(127)	152	139	(11)	0	153
	$384	$167	$100	$12	$0	$663

Ending Balance

Six months ended June 30, 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	(451)	(12)	(201)	(361)	0	(1,025)
Recoveries	107	420	32	272	0	831
Provision (credit)	(1,214)	2,342	585	137	0	1,850
Ending Balance	$8,937	$18,229	$4,486	$1,316	$0	$32,968

23

Six months ended June 30, 2016

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Allowance for acquired loans						
Beginning balance	$433	$61	$198	$0	$0	$692
Charge-offs	(387)	(182)	(16)	(93)	0	(678)
Recoveries	0	160	0	0	0	160
Provision (credit)	1	26	(159)	115		(17)
Ending Balance	$47	$65	$23	$22	$0	$157

Six months ended June 30, 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	(44)	(14)	(312)	(510)	0	(880)
Recoveries	235	477	49	282	0	1,043
Provision (credit)	(1,124)	955	816	462	0	1,109
Ending Balance	$8,224	$13,487	$5,583	$2,134	$0	$29,428

Six months ended June 30, 2015

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Allowance for acquired loans						
Beginning balance	$431	$337	$51	$22	$0	$841
Charge-offs	(53)	(156)	(112)	0	0	(321)
Recoveries	7	112	2	0	0	121
Provision (credit)	(1)	(126)	159	(10)	0	22
	$384	$167	$100	$12	$0	$663

Ending
Balance

At June 30, 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						
June 30, 2016						
Individually evaluated for impairment	$73	$255	$0	$0	$0	$328
Collectively evaluated for impairment	8,864	17,974	4,486	1,316	0	32,640
Ending balance	$8,937	$18,229	$4,486	$1,316	$0	$32,968

24

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Allowance for acquired loans June 30, 2016						
Individually evaluated for impairment	$47	$31	$0	$0	$0	$78
Collectively evaluated for impairment	0	34	23	22	0	79
Ending balance	$47	$65	$23	$22	$0	$157

(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 June 30, 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						
June 30, 2016						
Individually evaluated for impairment	$ 205	$ 8,033	$ 2,776	$ 0	$ 0	$ 11,014
Collectively evaluated for impairment	891,137	1,506,823	1,072,231	58,959	14,687	3,543,837
Total	$ 891,342	$ 1,514,856	$ 1,075,007	$ 58,959	$ 14,687	$ 3,554,851

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired loans						
June 30, 2016						
Individually evaluated for impairment	$ 59	$ 4,177	$ 1,267	$ 0	$0	$5,503
Loans acquired with deteriorated credit quality	$ 340	$ 9,072	$ 3,532	$ 0	$11,643	$24,587
Collectively evaluated for impairment	84,548	250,507	59,737	977	626	396,395
Total	$ 84,947	$ 263,756	$ 64,536	$ 977	$12,269	$426,485

(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:

26

	06/30/2016			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	$115	$120	$ 0	$1,206	$ 1,211	$ 0
Commercial real estate						
Commercial real estate other	7,407	7,900	0	5,049	5,249	0
Residential real estate						
Home equity	2,776	2,805	0	2,270	2,270	0
Subtotal	$10,298	$10,825	$ 0	$8,525	$ 8,730	$ 0
Originated loans and leases with related allowance						
Commercial and industrial						
Commercial and industrial other	90	90	73	0	0	0
Commercial real estate						
Commercial real estate other	626	626	255	606	606	288
Subtotal	$716	$716	$ 328	$606	$ 606	$ 288
Total	$11,014	$11,541	$ 328	$9,131	$ 9,336	$ 288

	06/30/2016			12/31/2015		
(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Acquired loans and leases with no related allowance						
Commercial and industrial						
Commercial and industrial other	$ 12	$ 12	$ 0	$ 128	$ 128	$ 0
Commercial real estate						
Construction	253	253	0	359	359	0
Commercial real estate other	3,893	4,257	0	4,739	5,077	0
Residential real estate						
Home equity	1,267	1,267	0	1,177	1,177	0
Subtotal	$ 5,425	$ 5,789	$ 0	$ 6,403	$ 6,741	$ 0
Acquired loans and leases with related allowance						
Commercial and industrial						
Commercial and industrial other	47	47	47	519	519	433
Commercial real estate						
Commercial real estate other	31	31	31	128	128	128
Subtotal	$ 78	$ 78	$ 78	$ 647	$ 647	$ 561
Total	$ 5,503	$ 5,867	$ 78	$ 7,050	$ 7,388	$ 561

27

The average recorded investment and interest income recognized on impaired loans for the three months ended June 30, 2016 and 2015 was as follows:

(in thousands)	Three Months Ended 06/30/2016 Average Recorded Investment	Three Months Ended 06/30/2016 Interest Income Recognized	Three Months Ended 06/30/2015 Average Recorded Investment	Three Months Ended 06/30/2015 Interest Income Recognized
Originated loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	382	0	560	0
Commercial real estate				
Commercial real estate other	6,445	0	7,739	0
Residential real estate				
Home equity	2,544	0	1,137	0
Subtotal	$9,371	$ 0	$9,436	$ 0
Originated loans and leases with related allowance				
Commercial and industrial				
Commercial and industrial other	34	0	0	0
Commercial real estate				
Commercial real estate other	767	0	1,678	0
Subtotal	$801	$ 0	$1,678	$ 0
Total	$10,172	$ 0	$11,114	$ 0

(in thousands)	Three Months Ended 06/30/2016 Average Recorded Investment	Three Months Ended 06/30/2016 Interest Income Recognized	Three Months Ended 06/30/2015 Average Recorded Investment	Three Months Ended 06/30/2015 Interest Income Recognized
Acquired loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	289	0	559	0
Commercial real estate				
Construction	304	0	371	0
Commercial real estate other	4,292	0	3,074	0
Residential real estate				
Home equity	997	0	1,109	0
Subtotal	$5,882	$ 0	$5,113	$ 0

Acquired loans and leases with related allowance

Commercial and industrial				
Commercial and industrial other	23	0	778	0
Commercial real estate				
Commercial real estate other	31	0	143	0
Subtotal	$54	$ 0	$921	$ 0
Total	$5,936	$ 0	$6,034	$ 0

The average recorded investment and interest income recognized on impaired loans for the six months ended June 30, 2016 and 2015 was as follows:

(in thousands)	Six Months Ended 06/30/2016 Average Recorded Investment	Six Months Ended 06/30/2016 Interest Income Recognized	Six Months Ended 06/30/2015 Average Recorded Investment	Six Months Ended 06/30/2015 Interest Income Recognized
Originated loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	572	0	1,688	0
Commercial real estate				
Commercial real estate other	6,022	0	9,045	0
Residential real estate				
Home equity	2,452	0	2,169	0
Subtotal	$9,046	$ 0	$12,902	$ 0
Originated loans and leases with related allowance				
Commercial and industrial				
Commercial and industrial other	46	0	0	0
Commercial real estate				
Commercial real estate other	607	0	1,669	0
Subtotal	$653	$ 0	$1,669	$ 0
Total	$9,699	$ 0	$14,571	$ 0

(in thousands)	Six Months Ended 06/30/2016 Average Recorded Investment	Six Months Ended 06/30/2016 Interest Income Recognized	Six Months Ended 06/30/2015 Average Recorded Investment	Six Months Ended 06/30/2015 Interest Income Recognized
Acquired loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	408	0	600	0
Commercial real estate				
Construction	322	0	375	0
Commercial real estate other	4,447	0	3,176	0
Residential real estate				
Home equity	1,260	0	1,060	0
Subtotal	$6,437	$ 0	$5,211	$ 0

Acquired loans and leases with related allowance

Commercial and industrial				
Commercial and industrial other	16	0	787	0
Commercial real estate				
Commercial real estate other	31	0	144	0
Subtotal	$47	$ 0	$931	$ 0
Total	$6,484	$ 0	$6,142	$ 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.

29

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

June 30, 2016	Three months ended			Defaulted TDRs[2]	
(in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Post-Modification Outstanding Recorded Investment
Residential real estate					
Home equity[1]	2	613	613	0	0
Total	2	$ 613	$ 613	0	$ 0

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

[2] TDRs that defaulted during the three months ended June 30, 2016 that were restructured in the prior twelve months.

June 30, 2015	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 and industrial other[1]	2	$ 62	$ 62	0	$ 0
Residential real estate					
Home equity[2]	3	450	450	2	143
Total	5	$ 512	$ 512	2	$ 143

[1] Represents the following concessions: reduction of rate

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

[3] TDRs that defaulted in the quarter ended June 30, 2015 that had been restructured in the prior twelve months.

June 30, 2016	Six months ended	Defaulted TDRs[3]
(in thousands)		

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Post-Modification Outstanding Recorded Investment
Commercial and industrial					
Commercial and industrial other[1]	2	$ 1,115	$ 1,115	0	$ 0
Residential real estate					
Home equity[2]	5	782	782	0	0
Total	7	$ 1,897	$ 1,897	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 six months ended June 30, 2016 that had been restructured in the prior twelve months.

30

June 30, 2015	Six months ended			Defaulted TDRs[4]	
(in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Post-Modification Outstanding Recorded Investment
Commercial and industrial					
Commercial and industrial other[1]	4	$ 381	$ 381	0	$ 0
Commercial real estate					
Commercial real estate other[2]	2	614	614	0	0
Residential real estate					
Home equity[3]	12	1,558	1,558	2	143
Total	18	$ 2,553	$ 2,553	2	$ 143

1

Represents the following concessions: extension of term (2 loans $319,000) and reduction of rate (2 loans $62,000)

2

Represents the following concessions: extension of term (1loan $28,000) and extension of term (1 loan $585,000)

3

Represents the following concessions: extension of term (9 loans $1.2 million) and reduction of rate (3 loans $376,000)

4

TDRs that defaulted during the six months ended June 30, 2015 that were restructured in the prior twelve months.

The following tables present credit quality indicators (internal risk grade) by class of commercial and industrial loans and commercial real estate loans as of June 30, 2016 and December 31, 2015.

June 30, 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	$ 807,104	$ 76,210	$ 1,263,372	$ 96,964	$ 125,447	$ 2,369,097
Special Mention	5,425	65	14,964	185	0	20,639

Substandard	1,941	597	13,428	496	0	16,462
Total	$ 814,470	$ 76,872	$ 1,291,764	$ 97,645	$ 125,447	$ 2,406,198

June 30, 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 and Leases						
Internal risk grade:						
Pass	$ 83,692	$ 0	$ 240,690	$ 5,253	$ 4,543	$ 334,178
Special Mention	0	0	550	0	0	550
Substandard	1,255	0	12,467	0	253	13,975
Total	$ 84,947	$ 0	$ 253,707	$ 5,253	$ 4,796	$ 348,703

31

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 and Leases						
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 June 30, 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.

June 30, 2016

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Originated Loans and Leases					
Performing	$ 202,667	$ 865,921	$ 16,955	$ 41,916	$ 1,127,459
Nonperforming	1,471	4,948	79	9	6,507
Total	$ 204,138	$ 870,869	$ 17,034	$ 41,925	$ 1,133,966

June 30, 2016

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total

Acquired Loans and Leases					
Performing	$ 37,596	$ 24,392	$ 0	$ 977	$ 62,965
Nonperforming	636	1,912	0	0	2,548
Total	$ 38,232	$ 26,304	$ 0	$ 977	$ 65,513

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 and Leases					
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. The loss share period for the nonresidential real estate loans expired on 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 six months ended June 30, 2016 are shown below.

Six months ended June 30, 2016

(in thousands)	Six Months Ended
Balance, beginning of the period	$ 158
Prospective adjustment for additional cash flows	(19)
Increase due to impairment on covered loans	0
Reimbursements from the FDIC	0
Balance, end of period	$ 139

8. Earnings Per Share

Earnings per share in the table below, for the three and six month periods ending June 30, 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 participating securities.

	Three Months Ended	
(in thousands, except share and per share data)	06/30/2016	06/30/2015
Basic		
Net income available to common shareholders	$14,571	$17,390
Less: Income attributable to unvested stock-based compensation awards	(224)	(234)
Net earnings allocated to common shareholders	14,347	17,156
Weighted average shares outstanding, including unvested stock-based compensation awards	15,027,648	14,958,878
Less: unvested stock-based compensation awards	(229,133)	(207,034)
Weighted average shares outstanding – Basic	14,798,515	14,751,844
Diluted		
Net earnings allocated to common shareholders	14,347	17,156
Weighted average shares outstanding – Basic	14,798,515	14,751,844
Plus: Incremental shares from assumed conversion of stock-based compensation awards	176,600	126,263
Weighted average shares outstanding – Diluted	14,975,115	14,878,107
Basic EPS	0.97	1.16
Diluted EPS	0.96	1.15

Stock-based compensation awards representing approximately 0 and 81,316 of common shares during the three months ended June 30, 2016 and 2015, respectively were not included in the computations of diluted earnings per common share because the effect on those periods would have been antidilutive.

	Six Months Ended	
(in thousands, except share and per share data)	06/30/2016	06/30/2015
Basic		
Net income available to common shareholders	$28,751	$30,070
Less: Income attributable to unvested stock-based compensation awards	(453)	(420)
Net earnings allocated to common shareholders	28,298	29,650
Weighted average shares outstanding, including unvested stock-based compensation awards	15,014,991	14,939,869
Less: unvested stock-based compensation awards	(235,595)	(213,143)
Weighted average shares outstanding - Basic	14,779,396	14,726,726
Diluted		
Net earnings allocated to common shareholders	28,298	29,650

Weighted average shares outstanding - Basic	14,779,396	14,726,726
Plus: Incremental shares from assumed conversion of stock-based compensation awards	161,122	131,401
Weighted average shares outstanding - Diluted	14,940,518	14,858,127
Basic EPS	1.91	2.01
Diluted EPS	1.89	2.00

Stock-based compensation awards representing approximately 24,123 and 162,811 of common shares during the six months ended June 30, 2016 and 2015, respectively were not included in the computations of diluted earnings per common share because the effect on those periods would have been antidilutive.

9. Other Comprehensive Income (Loss)

The following tables present reclassifications out of the accumulated other comprehensive income for the three and six month periods ended June 30, 2016 and 2015.

	Three months ended June 30, 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	$8,362	$(3,344)	$5,018
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(240)	96	(144)
Net unrealized gains	8,122	(3,248)	4,874
Employee benefit plans:			
Amortization of net retirement plan actuarial gain	326	(131)	195
Amortization of net retirement plan prior service cost	8	(3)	5
Employee benefit plans	334	(134)	200
Other comprehensive income	$8,456	$(3,382)	$5,074

	Three months ended June 30, 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	$(12,041)	$4,817	$(7,224)
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(723)	289	(434)
Net unrealized losses	(12,764)	5,106	(7,658)
Employee benefit plans:			
Net retirement plan gain due to curtailment	(5,326)	2,130	(3,196)
Net retirement plan prior service cost	1,950	(780)	1,170
Amortization of net retirement plan actuarial loss	729	(290)	439
Amortization of net retirement plan prior service credit	(190)	76	(114)
Employee benefit plans	(2,837)	1,136	(1,701)
Other comprehensive loss	$(15,601)	$6,242	$(9,359)

35

(in thousands)	Six months ended June 30, 2016 Before-Tax Amount	Tax (Expense) Benefit	Net of Tax
Available-for-sale securities:			
Change in net unrealized gain/loss during the period	$29,317	$(11,724)	$17,593
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(472)	189	(283)
Net unrealized gains	28,845	(11,535)	17,310
Employee benefit plans:			
Amortization of net retirement plan actuarial loss	669	(268)	401
Amortization of net retirement plan prior service cost	38	(15)	23
Employee benefit plans	707	(283)	424
Other comprehensive income	$29,552	$(11,818)	$17,734

(in thousands)	Six months ended June 30, 2015 Before-Tax Amount	Tax (Expense) Benefit	Net of Tax
Available-for-sale securities:			
Change in net unrealized gain/loss during the period	$(2,721)	$ 1,089	$(1,632)
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(1,013)	405	(608)
Net unrealized losses	(3,734)	1,494	(2,240)
Employee benefit plans:			
Recognized actuarial gain due to curtailment	(5,326)	2,130	(3,196)
Net retirement plan gain	1,950	(780)	1,170
Amortization of net retirement plan actuarial gain	1,462	(585)	877
Amortization of net retirement plan prior service credit	(369)	148	(221)
Employee benefit plans	(2,283)	913	(1,370)
Other comprehensive loss	$(6,017)	$ 2,407	$(3,610)

36

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 (Loss) Income
Balance at March 31, 2016	$ 9,692	$(28,033)	$ (18,341)
Other comprehensive income before reclassifications	5,018	0	5,018
Amounts reclassified from accumulated other comprehensive (loss) income	(144)	200	56
Net current-period other comprehensive income	4,874	200	5,074
Balance at June 30, 2016	$ 14,566	$(27,833)	$ (13,267)
Balance at January 1, 2016	$ (2,744)	$(28,257)	$ (31,001)
Other comprehensive income before reclassifications	17,593	0	17,593
Amounts reclassified from accumulated other comprehensive (loss) income	(283)	424	141
Net current-period other comprehensive income	17,310	424	17,734
Balance at June 30, 2016	$ 14,566	$(27,833)	$ (13,267)

(in thousands)	Available-for-Sale Securities	Employee Benefit Plans	Accumulated Other Comprehensive (Loss) Income
Balance at March 31, 2015	$ 8,285	$(26,547)	$ (18,262)
Other comprehensive loss before reclassifications	(7,224)	0	(7,224)
Amounts reclassified from accumulated other comprehensive loss	(434)	(1,701)	(2,135)
Net current-period other comprehensive loss	(7,658)	(1,701)	(9,359)
Balance at June 30, 2015	$ 627	$(28,248)	$ (27,621)
Balance at January 1, 2015	$ 2,867	$(26,878)	$ (24,011)
Other comprehensive loss before reclassifications	(1,632)	0	(1,632)
Amounts reclassified from accumulated other comprehensive loss	(608)	(1,370)	(1,978)
Net current-period other comprehensive loss	(2,240)	(1,370)	(3,610)
Balance at June 30, 2015	$ 627	$(28,248)	$ (27,621)

The following tables present the amounts reclassified out of each component of accumulated other comprehensive (loss) income for the three and six months ended June 30, 2016 and 2015.

Three months ended June 30, 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	$ 240	Net gain on securities transactions
	(96)	Tax expense
	144	Net of tax
Employee benefit plans:		
Amortization of the following [2]		
Net retirement plan actuarial loss	(326)	Pension and other employee benefits
Net retirement plan prior service credit	(8)	Pension and other employee benefits
	(334)	Total before tax
	134	Tax benefit
	(200)	Net of tax

37

Six months ended June 30, 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	$ 472	Net gain on securities transactions
	(189)	Tax expense
	283	Net of tax
Employee benefit plans: Amortization of the following [2]		
Net retirement plan actuarial loss	(669)	Pension and other employee benefits
Net retirement plan prior service cost	(38)	Pension and other employee benefits
	(707)	Total before tax
	283	Tax benefit
	(424)	Net of tax

Three months ended June 30, 2015

Details about Accumulated other Comprehensive Income Components (in thousands)	**Amount Reclassified from Accumulated Other Comprehensive Income[1]**	Affected Line Item in the Statement Where Net Income is Presented
Available-for-sale securities:		
Unrealized gains and losses on available-for-sale securities	$ 723	Net gain on securities transactions
	(289)	Tax expense
	434	Net of tax
Employee benefit plans: Amortization of the following [2]		
Net retirement plan actuarial loss	(729)	Pension and other employee benefits
Net retirement plan prior service cost	190	Pension and other employee benefits
	(539)	Total before tax
	214	Tax benefit