

TOMPKINS FINANCIAL CORP

Form 10-Q

November 08, 2018

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

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

(State or other jurisdiction of incorporation or organization) 16-1482357 (I.R.S. Employer Identification No.)

118 E. Seneca Street, P.O. Box 460, Ithaca, NY

(Address of principal executive offices)

14851

(Zip Code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No .

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

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Large Accelerated Filer Accelerated Filer  
Non-Accelerated Filer Smaller Reporting Company  
Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of Exchange Act.

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

Indicate the number of shares of the Registrant's Common Stock outstanding as of the latest practicable date:  
Class Outstanding as of October 24, 2018  
Common Stock, \$0.10 par value 15,277,915 shares

TOMPKINS FINANCIAL CORPORATION

FORM 10-Q

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TOMPKINS FINANCIAL CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share and per share data) (Unaudited)	As of 9/30/2018 (unaudited)	As of 12/31/2017 (audited)
<b>ASSETS</b>		
Cash and noninterest bearing balances due from banks	\$ 111,245	\$ 77,688
Interest bearing balances due from banks	1,917	6,615
Cash and Cash Equivalents	113,162	84,303
Available-for-sale securities, at fair value (amortized cost of \$1,360,508 at September 30, 2018 and \$1,408,996 at December 31, 2017)	1,310,672	1,391,863
Held-to-maturity securities, at amortized cost (fair value of \$138,232 at September 30, 2018 and \$140,315 at December 31, 2017)	141,236	139,216
Equity securities, at fair value (amortized cost \$1,000,000 at September 30, 2018 and \$1,000,000 at December 31, 2017)	880	913
Originated loans and leases, net of unearned income and deferred costs and fees (2)	4,531,241	4,358,543
Acquired loans (3)	271,468	310,577
Less: Allowance for loan and lease losses	41,358	39,771
Net Loans and Leases	4,761,351	4,629,349
Federal Home Loan Bank and other stock	48,456	50,498
Bank premises and equipment, net	95,638	86,995
Corporate owned life insurance	81,625	80,106
Goodwill	92,283	92,291
Other intangible assets, net	7,989	9,263
Accrued interest and other assets	93,668	83,494
Total Assets	\$6,746,960	\$6,648,290
<b>LIABILITIES</b>		
Deposits:		
Interest bearing:		
Checking, savings and money market	2,950,616	2,651,632
Time	640,102	748,250
Noninterest bearing	1,434,364	1,437,925
Total Deposits	5,025,082	4,837,807
Federal funds purchased and securities sold under agreements to repurchase	52,875	75,177
Other borrowings	988,515	1,071,742
Trust preferred debentures	16,820	16,691
Other liabilities	64,524	70,671
Total Liabilities	\$6,147,816	\$6,072,088
<b>EQUITY</b>		
Tompkins Financial Corporation shareholders' equity:		
Common Stock - par value \$.10 per share: Authorized 25,000,000 shares; Issued: 15,313,825 at September 30, 2018; and 15,301,524 at December 31, 2017	1,531	1,530
Additional paid-in capital	367,669	364,031
Retained earnings	308,121	265,007
Accumulated other comprehensive loss	(74,937)	(51,296)

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Treasury stock, at cost – 120,278 shares at September 30,2018, and 120,805 shares at December 31, 2017	(4,748	)(4,492	)
Total Tompkins Financial Corporation Shareholders' Equity	597,636	574,780	
Noncontrolling interests	1,508	1,422	
Total Equity	\$599,144	\$576,202	
Total Liabilities and Equity	\$6,746,960	\$6,648,290	

See notes to unaudited condensed consolidated financial statements.

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TOMPKINS FINANCIAL CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Nine Months Ended	
(In thousands, except per share data) (Unaudited)	9/30/2018	9/30/2017	9/30/2018	9/30/2017
<b>INTEREST AND DIVIDEND INCOME</b>				
Loans	\$54,769	\$48,949	\$158,419	\$141,257
Due from banks	8	9	22	15
Available-for-sale securities	7,448	7,415	22,821	22,384
Held-to-maturity securities	860	865	2,572	2,613
Federal Home Loan Bank and other stock	899	534	2,433	1,466
Total Interest and Dividend Income	63,984	57,772	186,267	167,735
<b>INTEREST EXPENSE</b>				
Time certificates of deposits of \$250,000 or more	563	457	1,088	1,364
Other deposits	3,830	2,679	9,699	7,508
Federal funds purchased and securities sold under agreements to repurchase	35	44	115	195
Trust preferred debentures	318	265	904	888
Other borrowings	6,075	3,327	15,897	8,445
Total Interest Expense	10,821	6,772	27,703	18,400
Net Interest Income	53,163	51,000	158,564	149,335
Less: Provision for loan and lease losses	272	402	1,884	2,147
Net Interest Income After Provision for Loan and Lease Losses	52,891	50,598	156,680	147,188
<b>NONINTEREST INCOME</b>				
Insurance commissions and fees	7,903	7,682	22,684	21,892
Investment services income	4,097	3,862	12,365	11,544
Service charges on deposit accounts	2,088	2,125	6,300	6,337
Card services income	2,442	2,190	7,209	6,875
Other income	2,057	1,766	8,743	5,667
Gain (loss) on securities transactions	16	(423)	290	(423)
Total Noninterest Income	18,603	17,202	57,591	51,892
<b>NONINTEREST EXPENSE</b>				
Salaries and wages	22,029	20,931	64,404	60,868
Other employee benefits	5,300	5,344	15,859	16,195
Net occupancy expense of premises	3,057	3,064	9,873	9,965
Furniture and fixture expense	1,814	1,585	5,461	4,819
FDIC insurance	712	620	2,083	1,775
Amortization of intangible assets	440	481	1,334	1,459
Other operating expense	11,781	9,858	34,825	29,738
Total Noninterest Expenses	45,133	41,883	133,839	124,819
Income Before Income Tax Expense	26,361	25,917	80,432	74,261
Income Tax Expense	5,427	8,491	16,939	24,127
Net Income Attributable to Noncontrolling Interests and Tompkins Financial Corporation	20,934	17,426	63,493	50,134
Less: Net Income Attributable to Noncontrolling Interests	32	32	96	97
Net Income Attributable to Tompkins Financial Corporation	\$20,902	\$17,394	\$63,397	\$50,037
Basic Earnings Per Share	\$1.37	\$1.14	\$4.15	\$3.30
Diluted Earnings Per Share	\$1.36	\$1.14	\$4.12	\$3.27

See notes to unaudited condensed consolidated financial statements.



TOMPKINS FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended	
(In thousands) (Unaudited)	9/30/2018	9/30/2017
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	\$20,934	\$17,426
Other comprehensive (loss) income, net of tax:		
Available-for-sale securities:		
Change in net unrealized gain/loss during the period	(5,806 )	426
Reclassification adjustment for net realized (gain)loss on sale of available-for-sale securities included in net income	(23 )	254
Employee benefit plans:		
Amortization of net retirement plan actuarial loss	325	227
Amortization of net retirement plan prior service cost	3	2
Other comprehensive (loss) income	(5,501 )	909
Subtotal comprehensive income attributable to noncontrolling interests and Tompkins Financial Corporation	15,433	18,335
Less: Net income attributable to noncontrolling interests	(32 )	(32 )
Total comprehensive income attributable to Tompkins Financial Corporation	\$15,401	\$18,303
		Nine Months Ended
(In thousands) (Unaudited)	9/30/2018	9/30/2017
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	\$63,493	\$50,134
Other comprehensive (loss) income, net of tax:		
Available-for-sale securities:		
Change in net unrealized gain/loss during the period	(24,443 )	3,454
Reclassification adjustment for net realized (gain)loss on sale of available-for-sale securities included in net income	(245 )	254
Employee benefit plans:		
Amortization of net retirement plan actuarial loss	973	679
Amortization of net retirement plan prior service cost	9	7
Other comprehensive (loss) income	(23,706 )	4,394
Subtotal comprehensive income attributable to noncontrolling interests and Tompkins Financial Corporation	39,787	54,528
Less: Net income attributable to noncontrolling interests	(96 )	(97 )
Total comprehensive income attributable to Tompkins Financial Corporation	\$39,691	\$54,431

See notes to unaudited condensed consolidated financial statements.



TOMPKINS FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	9/30/2018	9/30/2017
(In thousands) (Unaudited)		
<b>OPERATING ACTIVITIES</b>		
Net income attributable to Tompkins Financial Corporation	\$63,397	\$50,037
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	1,884	2,147
Depreciation and amortization of premises, equipment, and software	6,937	5,666
Amortization of intangible assets	1,334	1,459
Earnings from corporate owned life insurance	(1,519)	(1,644)
Net amortization on securities	6,775	7,884
Amortization/accretion related to purchase accounting	(1,603)	(2,060)
Net gain (loss) on securities transactions	(290)	423
Net gain on sale of loans originated for sale	(295)	(39)
Proceeds from sale of loans originated for sale	15,585	2,249
Loans originated for sale	(16,970)	(2,409)
Net gain on sale of bank premises and equipment	(2,946)	(19)
Net excess tax benefit from stock based compensation	496	299
Stock-based compensation expense	2,511	2,120
Increase in accrued interest receivable	(2,989)	(3,081)
Increase in accrued interest payable	112	29
Contribution to pension plan	0	(1,750)
Other, net	(4,829)	(6,126)
<b>Net Cash Provided by Operating Activities</b>	<b>67,590</b>	<b>55,185</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from maturities, calls and principal paydowns of available-for-sale securities	105,220	125,761
Proceeds from sales of available-for-sale securities	60,888	23,828
Proceeds from maturities, calls and principal paydowns of held-to-maturity securities	5,791	6,626
Purchases of available-for-sale securities	(123,772)	(128,118)
Purchases of held-to-maturity securities	(8,110)	(4,768)
Net increase in loans	(131,513)	(230,739)
Net increase in Federal Home Loan Bank stock	2,042	2,823
Proceeds from sale of bank premises and equipment	3,274	85
Purchases of bank premises, equipment and software	(14,380)	(23,208)
Other, net	132	1,104
<b>Net Cash Used in Investing Activities</b>	<b>(100,428)</b>	<b>(226,606)</b>
<b>FINANCING ACTIVITIES</b>		
Net increase in demand, money market, and savings deposits	295,423	403,292
Net decrease in time deposits	(107,071)	(83,667)
Net (decrease) increase in Federal funds purchased and securities sold under agreements to repurchase	(22,302)	4,812
Increase in other borrowings	415,932	468,749
Repayment of other borrowings	(499,159)	(518,991)
Redemption of trust preferred debentures	0	(21,161)
Cash dividends	(21,998)	(20,481)
Repurchase of common stock	(1,206)	0
Shares issued for dividend reinvestment plan	0	2,872
Shares issued for employee stock ownership plan	3,073	2,296

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Net shares issued related to restricted stock awards	(494	)	(561	)
Net proceeds from exercise of stock options	(501	)	(281	)
Net Cash Provided by Financing Activities	61,697		236,879	
Net Increase in Cash and Cash Equivalents	28,859		65,458	
Cash and cash equivalents at beginning of period	84,303		63,954	
Total Cash and Cash Equivalents at End of Period	\$113,162		\$129,412	

See notes to unaudited condensed consolidated financial statements.

TOMPKINS FINANCIAL CORPORATION  
 CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)	Nine Months Ended	
Supplemental Information:	9/30/2018	9/30/2017
Cash paid during the year for - Interest	\$28,668	\$ 19,192
Cash paid during the year for - Taxes	14,963	13,801
Transfer of loans to other real estate owned	242	2,693

See notes to unaudited condensed consolidated financial statements.

TOMPKINS FINANCIAL CORPORATION  
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, 2017	\$ 1,517	\$ 357,414	\$ 230,182	\$ (37,109 )	\$(4,051)	\$ 1,452	\$ 549,405
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			50,037			97	50,134
Other comprehensive income				4,394			4,394
Total Comprehensive Income							54,528
Cash dividends (\$1.35 per share)			(20,481 )				(20,481 )
Net exercise of stock options (12,677 shares)	1	(282 )					(281 )
Shares issued for dividend reinvestment plan (34,750 shares)	4	2,868					2,872
Stock-based compensation expense		2,120					2,120
Shares issued for employee stock ownership plan (27,412 shares)	3	2,293					2,296
Directors deferred compensation plan (1,145 shares)		297			(297 )		0
Restricted stock activity ((8,301) shares)	(1)	(560 )					(561 )
Partial repurchase of noncontrolling interest						(30 )	(30 )
Balances at September 30, 2017	\$ 1,524	\$ 364,150	\$ 259,738	\$ (32,715 )	\$(4,348)	\$ 1,519	\$ 589,868
Balances at January 1, 2018	\$ 1,530	\$ 364,031	\$ 265,007	\$ (51,296 )	\$(4,492)	\$ 1,422	\$ 576,202
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			63,397			96	63,493
Other comprehensive loss				(23,706 )			(23,706 )
Total Comprehensive Income							39,787
Cash dividends (\$1.44 per share)			(21,998 )				(21,998 )
Net exercise of stock options (10,136 shares)	1	(502 )					(501 )
Common stock repurchased and returned to unissued status (15,500 shares)	(2)	(1,204 )					(1,206 )
Stock-based compensation expense		2,511					2,511
Shares issued for employee stock ownership plan (38,883 shares)	4	3,069					3,073
Directors deferred compensation plan ((527) shares)		256			(256 )		0
Restricted stock activity ((21,218) shares)	(2)	(492 )					(494 )
Adoption of Accounting Guidance ASU 2016-01			(65 )	65			0
Adoption of Accounting Guidance ASU 2014-09			1,780				1,780

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Partial repurchase of noncontrolling interest						(10 )	(10 )
Balances at September 30, 2018	\$ 1,531	\$ 367,669	\$ 308,121	\$ (74,937 )	\$(4,748)	\$ 1,508	\$ 599,144

See notes to unaudited condensed consolidated financial statements

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## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Business

Tompkins Financial Corporation (“Tompkins” or the “Company”) is headquartered in Ithaca, New York and is registered as a Financial Holding Company with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended. The Company is a locally oriented, community-based financial services organization that offers a full array of products and services, including commercial and consumer banking, leasing, trust and investment management, financial planning and wealth management, and insurance services. At September 30, 2018, 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 118 E. Seneca Street, Ithaca, New York, 14851, and its telephone number is (888) 503-5753. The Company’s common stock is traded on the NYSE American 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 American 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 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, 2018. 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, 2017. There have been no significant changes to the Company's accounting policies from those presented in the 2017 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

#### Newly Adopted Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASC 606"). The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies generally will be required to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. Since the guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other GAAP, the new guidance did not have a material impact on revenue most closely associated with financial instruments, including interest income and expense. The Company completed its overall assessment of revenue streams and review of related contracts potentially affected by the ASU, including trust and asset management fees, deposit related fees, interchange fees, merchant income, and annuity and insurance commissions.

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method for all contracts. Results for reporting periods beginning January 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and continue to be reported in accordance with the Company's historic accounting under Topic 605, Revenue Recognition.

The Company recorded a net increase to beginning retained earnings of \$1.8 million as of January 1, 2018 due to the cumulative impact of adopting ASC 606. The impact to beginning retained earnings was primarily driven by the recognition of \$1.8 million of contingency income related to our insurance business segment. The adoption of ASC 606 did not have a significant impact on the Company's consolidated financial statements as of and for the three and nine months ended September 30, 2018 and, as a result, comparisons of revenues and operating profit performance between periods are not significantly affected by the adoption of this ASU. Refer to Note 11 "Revenue Recognition" for additional disclosures required by ASC 606.



In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." This ASU addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments by making targeted improvements to GAAP as follows: (1) require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (2) simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value; (3) eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (4) eliminate the requirement for public business entities to disclose the method(s) 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; (5) require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (6) require 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; (7) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (8) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The Company adopted ASU No. 2016-01 effective January 1, 2018, and recognized a cumulative-effect adjustment of \$65,000 for the after-tax impact of the unrealized loss on equity securities. In addition, the Company measured the fair value of its loan portfolio as of September 30, 2018 using an exit price notion. Refer to Note 14 "Fair Value".

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments." ASU 2016-15 provides guidance related to certain cash flow issues in order to reduce the current and potential future diversity in practice. The Company adopted ASU No. 2016-15 on January 1, 2018. ASU No. 2016-15 did not have a material impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." Under the new guidance, employers are required to present the service cost component of the net periodic benefit cost in the same income statement line item (e.g., Salaries and Benefits) as other employee compensation costs arising from services rendered during the period. In addition, only the service cost component will be eligible for capitalization in assets. Employers will present the other components of net periodic benefit cost separately (e.g., Other Noninterest Expense) from the line item that includes the service cost. ASU No. 2017-07 is effective for interim and annual reporting periods beginning after December 15, 2017. Employers will apply the guidance on the presentation of the components of net periodic benefit cost in the income statement retrospectively. The guidance limiting the capitalization of net periodic benefit cost in assets to the service cost component will be applied prospectively. The Company adopted ASU No. 2017-07 on January 1, 2018 and utilized the ASU's practical expedient allowing entities to estimate amounts for comparative periods using the information previously disclosed in their pension and other postretirement benefit plan footnote. ASU No. 2017-07 did not have a material impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation-Stock Compensation (Topic 718)- Scope of Modification Accounting." ASU 2017-09 clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Under ASU 2017-09, an entity will not apply modification accounting to a share-based payment award if all of the following are the same immediately before and after the change: (i) the

award's fair value, (ii) the award's vesting conditions and (iii) the award's classification as an equity or liability instrument. ASU 2017-09 became effective for us on January 1, 2018 and did not have a significant impact on our consolidated financial statements.

ASU 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" was issued to address a narrow-scope financial reporting issue that arose as a consequence of the change in the tax law. On December 22, 2017, the U.S. federal government enacted a tax bill, H.R.1, An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018 (Tax Cuts and Jobs Act of 2017). ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate. The amount of the reclassification would be the difference between the historical corporate income tax rate of 35 percent and the newly enacted 21 percent corporate income tax rate. ASU 2018-02 is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years with early adoption permitted, including adoption in any interim period, for (i) public business entities for reporting periods for which financial statements have not yet been issued and (ii) all other entities for reporting periods for which financial statements have not yet been made available for issuance. The changes are applied retrospectively to

each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act of 2017 is recognized. The Company early adopted ASU 2018-02 in 2017, which resulted in the reclassification from accumulated other comprehensive income (loss) to retained earnings totaling \$10.0 million, reflected in the consolidated statements of changes in shareholders' equity.

ASU 2018-05, "Income Taxes (Topic 740) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin (SAB) No. 118." ASU 2018-05 amends the Accounting Standards Codification to incorporate various SEC paragraphs pursuant to the issuance of SAB 118. SAB 118 addresses the application of generally accepted accounting principles in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Cuts and Jobs Act of 2017.

#### Accounting Standards Pending Adoption

Information about certain recently issued accounting standards updates is presented below. Also refer to Note 1 - "Summary of Significant Accounting Policies" in our 2017 Form 10-K for additional information related to previously issued accounting standards updates.

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 2016-2 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. The Company occupies certain banking offices and uses certain equipment under noncancelable operating lease agreements, which currently are not reflected in its consolidated statements of condition. Tompkins is preparing an inventory of its leases and evaluating the impact of this ASU on these leases. Upon adoption of the guidance, the Company expects to report increased assets and increased liabilities as a result of recognizing right-of-use assets and lease liabilities on its consolidated statements of condition. Tompkins is currently evaluating the extent of the impact that the adoption of this ASU will have on our consolidated 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 requirements of the new guidance to determine what modifications to our existing allowance methodology may be required. The Company expects that the new guidance will likely result in an increase in the allowance; however, Tompkins is unable to quantify the impact at this time since we are still reviewing the guidance. The extent of any impact to our allowance will depend, in part, upon the composition of our loan portfolio at the adoption date as well as economic conditions and loss forecasts at that date.

ASU 2017-08 “Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20) - Premium Amortization on Purchased Callable Debt Securities.” ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium to require such premiums to be amortized to the earliest call date unless applicable guidance related to certain pools of securities is applied to consider estimated prepayments. Under prior guidance, entities were generally required to amortize premiums on individual, non-pooled callable debt securities as a yield adjustment over the contractual life of the security. ASU 2017-08 does not change the accounting for callable debt securities held at a discount. ASU 2017-08 will be effective for us on January 1, 2019, with early adoption permitted. Tompkins is currently evaluating the potential impact of ASU 2017-08 on our consolidated financial statements.

## 4. Securities

## Available-for-Sales Securities

The following table summarizes available-for-sale securities held by the Company at September 30, 2018:

September 30, 2018	Available-for-Sale Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. Government sponsored entities	\$498,837	\$ 0	\$ 13,104	\$485,733
Obligations of U.S. states and political subdivisions	86,517	33	1,788	84,762
Mortgage-backed securities – residential, issued by				
U.S. Government agencies	114,417	143	5,404	109,156
U.S. Government sponsored entities	658,195	205	29,596	628,804
Non-U.S. Government agencies or sponsored entities	42	0	0	42
U.S. corporate debt securities	2,500	0	325	2,175
Total available-for-sale securities	\$1,360,508	\$ 381	\$ 50,217	\$1,310,672

The following table summarizes available-for-sale securities held by the Company at December 31, 2017:

December 31, 2017	Available-for-Sale Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. Government sponsored entities	\$507,248	\$ 278	\$ 3,333	\$504,193
Obligations of U.S. states and political subdivisions	91,659	281	421	91,519
Mortgage-backed securities – residential, issued by				
U.S. Government agencies	139,747	659	2,671	137,735
U.S. Government sponsored entities	667,767	1,045	12,634	656,178
Non-U.S. Government agencies or sponsored entities	75	0	0	75
U.S. corporate debt securities	2,500	0	338	2,162
Total debt securities	1,408,996	2,263	19,397	1,391,862
Equity securities	1,000	0	87	913
Total available-for-sale securities	\$1,409,996	\$ 2,263	\$ 19,484	\$1,392,775

## Held-to-Maturity Securities

The following table summarizes held-to-maturity securities held by the Company at September 30, 2018:

September 30, 2018	Held-to-Maturity Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. Government sponsored entities	\$131,407	\$ 0	\$ 3,040	\$128,367
Obligations of U.S. states and political subdivisions	9,829	36	0	9,865
Total held-to-maturity debt securities	\$141,236	\$ 36	\$ 3,040	\$138,232



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The following table summarizes held-to-maturity securities held by the Company at December 31, 2017:

December 31, 2017	Held-to-Maturity Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. Government sponsored entities	\$ 131,707	\$ 1,103	\$ 90	\$ 132,720
Obligations of U.S. states and political subdivisions	7,509	93	7	7,595
Total held-to-maturity debt securities	\$ 139,216	\$ 1,196	\$ 97	\$ 140,315

The Company may from time to time sell investment securities from its available-for-sale portfolio. Realized gains on available-for-sale securities were \$30,000 and \$327,000 for the three and nine months ended September 30, 2018 and \$3,000 for the same periods during 2017. Realized losses on available-for-sale securities were \$0 and \$3,000 for the three and nine months ended September 30, 2018 and \$426,000 for the same periods during 2017. The sales of available-for-sale investment securities were the result of general investment portfolio and interest rate risk management. The Company also recognized losses of \$14,000 and \$34,000 for the three and nine months ended September 30, 2018, on equity securities, reflecting the change in fair value.

The following table summarizes available-for-sale securities that had unrealized losses at September 30, 2018:

(in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government sponsored entities	\$ 298,473	\$ 6,017	\$ 187,260	\$ 7,087	\$ 485,733	\$ 13,104
Obligations of U.S. states and political subdivisions	52,521	687	22,773	1,101	75,294	1,788
Mortgage-backed securities – residential, issued by						
U.S. Government agencies	9,338	284	93,660	5,120	102,998	5,404
U.S. Government sponsored entities	142,152	4,221	471,869	25,375	614,021	29,596
U.S. corporate debt securities	0	0	2,175	325	2,175	325
Total available-for-sale securities	\$ 502,484	\$ 11,209	\$ 777,737	\$ 39,008	\$ 1,280,221	\$ 50,217

The following table summarizes available-for-sale securities that had unrealized losses at December 31, 2017:

(in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government sponsored entities	\$ 319,545	\$ 2,301	\$ 39,791	\$ 1,032	\$ 359,336	\$ 3,333
Obligations of U.S. states and political subdivisions	39,571	219	11,729	202	51,300	421
Mortgage-backed securities – residential, issued by						
U.S. Government agencies	33,056	452	86,562	2,219	119,618	2,671
U.S. Government sponsored entities	208,524	1,941	410,767	10,693	619,291	12,634
U.S. corporate debt securities	0	0	2,163	338	2,163	338
Equity securities	0	0	913	87	913	87
Total available-for-sale securities	\$ 600,696	\$ 4,913	\$ 551,925	\$ 14,571	\$ 1,152,621	\$ 19,484

Beginning January 1, 2018, upon adoption of ASU 2016-01, equity securities with readily determinable fair values are stated at fair value with realized and unrealized gains and losses reported in the consolidated statement of income. For periods prior to adoption, equity securities were classified as available-for-sale and stated at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income, net of tax.

The following table summarizes held-to-maturity securities that had unrealized losses at September 30, 2018.

(in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government sponsored entities	\$ 123,589	\$ 2,818	\$ 4,778	\$ 222	\$ 128,367	\$ 3,040
Total held-to-maturity securities	\$ 123,589	\$ 2,818	\$ 4,778	\$ 222	\$ 128,367	\$ 3,040

The following table summarizes held-to-maturity securities that had unrealized losses at December 31, 2017.

(in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government sponsored entities	\$ 20,505	\$ 90	\$ 0	\$ 0	\$ 20,505	\$ 90
Obligations of U.S. states and political subdivisions	5,094	7	0	0	5,094	7
Total held-to-maturity securities	\$ 25,599	\$ 97	\$ 0	\$ 0	\$ 25,599	\$ 97

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

The Company does not intend to sell other-than-temporarily impaired investment securities that are in an unrealized loss position until recovery of unrealized losses (which may be until maturity), and it is not more-likely-than not that the Company will be required to sell the investment securities, before recovery of their amortized cost basis, which may be at maturity. Accordingly, as of September 30, 2018, and December 31, 2017, 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 (loss) 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.

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

- The length of time and the extent to which the fair value has been less than the amortized cost basis;

- The level of credit enhancement provided by the structure which includes, but is not limited to, credit subordination positions, excess spreads, overcollateralization, protective triggers;

- Changes in the near term prospects of the issuer or underlying collateral of a security, such as changes in default rates, loss severities given default and significant changes in prepayment assumptions;

- The level of excess cash flow generated from the underlying collateral supporting the principal and interest payments of the debt securities; and

- Any adverse change to the credit conditions of the issuer or the security such as credit downgrades by the rating agencies.

As a result of the other-than-temporarily impairment review process, the Company does not consider any investment security held at September 30, 2018 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.

September 30, 2018

(in thousands)	Amortized Cost	Fair Value
Available-for-sale securities:		
Due in one year or less	\$87,756	\$87,434
Due after one year through five years	320,407	313,052
Due after five years through ten years	167,362	160,599
Due after ten years	12,329	11,585
Total	587,854	572,670
Mortgage-backed securities	772,654	738,002
Total available-for-sale debt securities	\$1,360,508	\$1,310,672

December 31, 2017

(in thousands)	Amortized Cost	Fair Value
Available-for-sale securities:		
Due in one year or less	\$51,909	\$51,932
Due after one year through five years	368,846	367,377
Due after five years through ten years	162,061	160,374
Due after ten years	18,591	18,192
Total	601,407	597,875
Mortgage-backed securities	807,589	793,988
Total available-for-sale debt securities	\$1,408,996	\$1,391,863



September 30, 2018

(in thousands)	Amortized Fair	
	Cost	Value
Held-to-maturity securities:		
Due in one year or less	\$ 9,247	\$ 9,253
Due after one year through five years	81,686	79,931
Due after five years through ten years	50,303	49,048
Total held-to-maturity debt securities	\$ 141,236	\$ 138,232

December 31, 2017

(in thousands)	Amortized Fair	
	Cost	Value
Held-to-maturity securities:		
Due in one year or less	\$ 5,980	\$ 5,979
Due after one year through five years	51,936	52,227
Due after five years through ten years	81,300	82,109
Total held-to-maturity debt securities	\$ 139,216	\$ 140,315

The Company also holds non-marketable Federal Home Loan Bank New York ("FHLB NY") stock, non-marketable Federal Home Loan Bank Pittsburgh ("FHLBPITT") stock and non-marketable Atlantic Community Bankers Bank stock ("ACBB"), 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 FHLB NY stock, FHLBPITT stock, and ACBB stock totaled \$35.0 million, \$13.4 million and \$95,000 at September 30, 2018, respectively. These securities are carried at par, which is also cost. The FHLB NY 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 September 30, 2018, we have determined that no impairment write-downs are currently required.

## 5. Loans and Leases

Loans and Leases at September 30, 2018 and December 31, 2017 were as follows:

(in thousands)	9/30/2018		Total Loans and Leases	12/31/2017		Total Loans and Leases
	Originated	Acquired		Originated	Acquired	
Commercial and industrial						
Agriculture	93,228	0	93,228	108,608	0	108,608
Commercial and industrial other	927,866	44,291	972,157	932,067	50,976	983,043
Subtotal commercial and industrial	1,021,094	44,291	1,065,385	1,040,675	50,976	1,091,651
Commercial real estate						
Construction	179,083	1,410	180,493	202,486	1,480	203,966
Agriculture	147,582	231	147,813	129,712	247	129,959
Commercial real estate other	1,811,348	181,504	1,992,852	1,660,782	206,020	1,866,802
Subtotal commercial real estate	2,138,013	183,145	2,321,158	1,992,980	207,747	2,200,727
Residential real estate						
Home equity	209,168	22,433	231,601	212,812	28,444	241,256
Mortgages	1,086,065	20,740	1,106,805	1,039,040	22,645	1,061,685
Subtotal residential real estate	1,295,233	43,173	1,338,406	1,251,852	51,089	1,302,941
Consumer and other						
Indirect	11,963	0	11,963	12,144	0	12,144
Consumer and other	54,480	859	55,339	50,214	765	50,979
Subtotal consumer and other	66,443	859	67,302	62,358	765	63,123
Leases	14,055	0	14,055	14,467	0	14,467
Total loans and leases	4,534,838	271,468	4,806,306	4,362,332	310,577	4,672,909
Less: unearned income and deferred costs and fees	(3,597 )	0	(3,597 )	(3,789 )	0	(3,789 )
Total loans and leases, net of unearned income and deferred costs and fees	4,531,241	271,468	4,802,709	4,358,543	310,577	4,669,120

The outstanding principal balance and the related carrying amount of the Company's loans acquired in the VIST Bank acquisition are as follows at September 30, 2018 and December 31, 2017:

(in thousands)	09/30/2018	12/31/2017
Acquired Credit Impaired Loans		
Outstanding principal balance	\$ 13,290	\$ 14,337
Carrying amount	11,309	11,962
Acquired Non-Credit Impaired Loans		
Outstanding principal balance	262,362	301,128
Carrying amount	260,159	298,615
Total Acquired Loans		
Outstanding principal balance	275,652	315,465
Carrying amount	271,468	310,577



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 5 – “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, 2017. 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 September 30, 2018. 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.

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The below table is an age analysis of past due loans, segregated by originated and acquired loan and lease portfolios, and by class of loans, as of September 30, 2018 and December 31, 2017.

September 30, 2018

(in thousands)	30-89 days	90 days or more	Current Loans	Total Loans	90 days and accruing <sup>1</sup>	Nonaccrual
<b>Originated Loans and Leases</b>						
<b>Commercial and industrial</b>						
Agriculture	\$0	\$0	\$93,228	\$93,228	\$0	\$0
Commercial and industrial other	46	1,147	926,673	927,866	0	3,911
Subtotal commercial and industrial	46	1,147	1,019,901	1,021,094	0	3,911
<b>Commercial real estate</b>						
Construction	0	0	179,083	179,083	0	0
Agriculture	82	0	147,500	147,582	0	0
Commercial real estate other	1,837	1,549	1,807,962	1,811,348	0	3,821
Subtotal commercial real estate	1,919	1,549	2,134,545	2,138,013	0	3,821
<b>Residential real estate</b>						
Home equity	664	1,018	207,486	209,168	0	1,597
Mortgages	2,963	3,209	1,079,893	1,086,065	0	7,936
Subtotal residential real estate	3,627	4,227	1,287,379	1,295,233	0	9,533
<b>Consumer and other</b>						
Indirect	244	67	11,652	11,963	0	184
Consumer and other	618	12	53,850	54,480	0	69
Subtotal consumer and other	862	79	65,502	66,443	0	253
Leases	0	0	14,055	14,055	0	0
Total loans and leases	6,454	7,002	4,521,382	4,534,838	0	17,518
Less: unearned income and deferred costs and fees	0	0	(3,597)	(3,597)	0	0
Total originated loans and leases, net of unearned income and deferred costs and fees	\$6,454	\$7,002	\$4,517,785	\$4,531,241	\$0	\$17,518
<b>Acquired Loans and Leases</b>						
<b>Commercial and industrial</b>						
Commercial and industrial other	0	0	44,291	44,291	17	23
Subtotal commercial and industrial	0	0	44,291	44,291	17	23
<b>Commercial real estate</b>						
Construction	0	0	1,410	1,410	0	0
Agriculture	0	0	231	231	0	0
Commercial real estate other	135	115	181,254	181,504	567	151
Subtotal commercial real estate	135	115	182,895	183,145	567	151
<b>Residential real estate</b>						
Home equity	537	693	21,203	22,433	61	1,204
Mortgages	437	327	19,976	20,740	775	1,281
Subtotal residential real estate	974	1,020	41,179	43,173	836	2,485
<b>Consumer and other</b>						
Consumer and other	0	0	859	859	0	0
Subtotal consumer and other	0	0	859	859	0	0
Total acquired loans and leases, net of unearned income and deferred costs and fees	\$1,109	\$1,135	\$269,224	\$271,468	\$1,420	\$2,659



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December 31, 2017

(in thousands)	30-89 days	90 days or more	Current Loans	Total Loans	90 days and accruing <sup>1</sup>	Nonaccrual
Originated loans and leases						
Commercial and industrial						
Agriculture	\$0	\$0	\$108,608	\$108,608	\$0	\$0
Commercial and industrial other	431	849	930,787	932,067	0	2,852
Subtotal commercial and industrial	431	849	1,039,395	1,040,675	0	2,852
Commercial real estate						
Construction	0	0	202,486	202,486	0	0
Agriculture	0	0	129,712	129,712	0	0
Commercial real estate other	1,583	2,125	1,657,074	1,660,782	0	5,402
Subtotal commercial real estate	1,583	2,125	1,989,272	1,992,980	0	5,402
Residential real estate						
Home equity	1,045	448	211,319	212,812	0	1,537
Mortgages	3,153	2,692	1,033,195	1,039,040	0	6,108
Subtotal residential real estate	4,198	3,140	1,244,514	1,251,852	0	7,645
Consumer and other						
Indirect	449	205	11,490	12,144	6	278
Consumer and other	130	42	50,042	50,214	38	76
Subtotal consumer and other	579	247	61,532	62,358	44	354
Leases	0	0	14,467	14,467	0	0
Total loans and leases	6,791	6,361	4,349,180	4,362,332	44	16,253
Less: unearned income and deferred costs and fees	0	0	(3,789)	(3,789)	0	0
Total originated loans and leases, net of unearned income and deferred costs and fees	\$6,791	\$6,361	\$4,345,391	\$4,358,543	\$44	\$16,253
Acquired loans and leases						
Commercial and industrial						
Commercial and industrial other	12	61	50,903	50,976	61	0
Subtotal commercial and industrial	12	61	50,903	50,976	61	0
Commercial real estate						
Construction	0	0	1,480	1,480	0	0
Agriculture	0	0	247	247	0	0
Commercial real estate other	167	727	205,126	206,020	515	546
Subtotal commercial real estate	167	727	206,853	207,747	515	546
Residential real estate						
Home equity	601	564	27,279	28,444	130	1,604
Mortgages	472	942	21,231	22,645	440	1,114
Subtotal residential real estate	1,073	1,506	48,510	51,089	570	2,718
Consumer and other						
Consumer and other	4	0	761	765	0	0
Subtotal consumer and other	4	0	761	765	0	0
Total acquired loans and leases, net of unearned income and deferred costs and fees	\$1,256	\$2,294	\$307,027	\$310,577	\$1,146	\$3,264

<sup>1</sup> Includes acquired loans that were recorded at fair value at the acquisition date.



## 6. Allowance for Loan and Lease Losses

### Originated Loans and Leases

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

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

Since the methodology is based upon historical experience and trends as well as management’s judgment, factors may arise that result in different estimates. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the local area, concentration of risk, changes in interest rates, and declines in local property values. While management’s evaluation of the allowance as of September 30, 2018, considers the allowance to be appropriate, under adversely different conditions or assumptions, the Company would need to increase or decrease the allowance.

### Acquired Loans and Leases

#### Acquired loans accounted for under ASC 310-30

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

#### Acquired loans accounted for under ASC 310-20

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

The following tables detail activity in the allowance for loan and lease losses segregated by originated and acquired loan and lease portfolios and by portfolio segment for the three and nine months ended September 30, 2018 and 2017. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

Three Months Ended September 30, 2018

(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	\$ 12,866	\$ 20,770	\$ 6,147	\$ 1,328	\$ 0	\$ 41,111
Charge-offs	(118 )	0	(2 )	(224 )	0	(344 )
Recoveries	8	203	96	7	0	314
Provision (credit)	(335 )	199	204	140	0	208
Ending Balance	\$ 12,421	\$ 21,172	\$ 6,445	\$ 1,251	\$ 0	\$ 41,289

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Three Months Ended September 30, 2018

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for acquired loans						
Beginning balance	19	25	65	5	0	114
Charge-offs	(42	) (81	) (45	) 0	0	(168 )
Recoveries	32	4	23	0	0	59
Provision (credit)	(9	) 52	21	0	0	64
Ending Balance	0	0	64	5	0	69

Three Months Ended September 30, 2017

(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	10,842	19,121	5,761	1,236	0	36,960
Charge-offs	(85	) 0	(41	) (212	) 0	(338 )
Recoveries	(18	) 264	33	71	0	350
Provision (credit)	951	70	(262	) 172	0	931
Ending Balance	11,690	19,455	5,491	1,267	0	37,903

Three Months Ended September 30, 2017

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Allowance for acquired loans						
Beginning balance	50	87	54	6	0	197
Charge-offs	0	(10	) (34	) (1	) 0	(45 )
Recoveries	0	499	12	1	0	512
Provision (credit)	(50	) (501	) 22	0	0	(529 )
Ending Balance	0	75	54	6	0	135

Nine Months Ended September 30, 2018

(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	11,812	20,412	6,161	1,301	0	39,686
Charge-offs	(224	) (60	) (208	) (1,166	) 0	(1,658 )
Recoveries	16	549	232	613	0	1,410
Provision (credit)	817	271	260	503	0	1,851
Ending Balance	12,421	21,172	6,445	1,251	0	41,289





## Nine Months Ended September 30, 2018

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Allowance for acquired loans						
Beginning balance	25	0	54	6	0	85
Charge-offs	(43	) (81	) (148	) 0	0	(272 )
Recoveries	88	27	106	2	0	223
Provision (credit)	(70	) 54	52	(3	) 0	33
Ending Balance	0	0	64	5	0	69

## Nine Months Ended September 30, 2017

(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	9,389	19,836	5,149	1,224	0	35,598
Charge-offs	(162	) (21	) (483	) (742	) 0	(1,408 )
Recoveries	112	717	169	336	0	1,334
Provision (credit)	2,351	(1,077	) 656	449	0	2,379
Ending Balance	11,690	19,455	5,491	1,267	0	37,903

## Nine Months Ended September 30, 2017

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Allowance for acquired loans						
Beginning balance	0	97	54	6	0	157
Charge-offs	(74	) (84	) (186	) (1	) 0	(345 )
Recoveries	0	524	24	7	0	555
Provision (credit)	74	(462	) 162	(6	) 0	(232 )
Ending Balance	0	75	54	6	0	135

At September 30, 2018 and December 31, 2017, the allocation of the allowance for loan and lease losses summarized on the basis of the Company's impairment methodology was as follows:

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for originated loans and leases						
September 30, 2018						
Individually evaluated for impairment	376	0	0	0	0	376
Collectively evaluated for impairment	12,045	21,172	6,445	1,251	0	40,913
Ending balance	12,421	21,172	6,445	1,251	0	41,289

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Allowance for acquired loans						
September 30, 2018						
Individually evaluated for impairment	0	0	0	0	0	0
Collectively evaluated for impairment	0	0	64	5	0	69
Ending balance	0	0	64	5	0	69

(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, 2017						
Individually evaluated for impairment	441	0	0	0	0	441
Collectively evaluated for impairment	11,371	20,412	6,161	1,301	0	39,245
Ending balance	11,812	20,412	6,161	1,301	0	39,686

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Allowance for acquired loans						
December 31, 2017						
Individually evaluated for impairment	25	0	0	0	0	25
Collectively evaluated for impairment	0	0	54	6	0	60
Ending balance	25	0	54	6	0	85

The recorded investment in loans and leases summarized on the basis of the Company's impairment methodology as of September 30, 2018 and December 31, 2017 was as follows:

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Originated loans and leases						
September 30, 2018						
Individually evaluated for impairment	3,928	5,136	4,009	0	0	13,073
Collectively evaluated for impairment	1,017,166	2,132,877	1,291,224	66,443	14,055	4,521,765
Total	1,021,094	2,138,013	1,295,233	66,443	14,055	4,534,838

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired loans September 30, 2018						
Individually evaluated for impairment	261	1,400	1,780	0	0	3,441
Loans acquired with deteriorated credit quality	209	5,974	5,126	0	0	11,309
Collectively evaluated for impairment	43,821	175,771	36,267	859	0	256,718
Total	44,291	183,145	43,173	859	0	271,468

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Originated loans and leases December 31, 2017						
Individually evaluated for impairment	1,759	6,626	3,965	0	0	12,350
Collectively evaluated for impairment	1,038,916	1,986,354	1,247,887	62,358	14,467	4,349,982
Total	1,040,675	1,992,980	1,251,852	62,358	14,467	4,362,332

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired loans December 31, 2017						
Individually evaluated for impairment	276	1,372	1,823	0	0	3,471
Loans acquired with deteriorated credit quality	506	7,481	3,975	0	0	11,962
Collectively evaluated for impairment	50,194	198,894	45,291	765	0	295,144
Total	50,976	207,747	51,089	765	0	310,577

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:



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(in thousands)	September 30, 2018			December 31, 2017		
	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	2,503	2,597	0	1,246	1,250	0
Commercial real estate						
Commercial real estate other	5,136	5,336	0	6,626	6,533	0
Residential real estate						
Home equity	4,009	4,230	0	3,965	4,049	0
Subtotal	11,648	12,163	0	11,837	11,832	0

Originated loans and leases with related allowance

Commercial and industrial						
Commercial and industrial other	1,425	1,436	376	513	532	441
Subtotal	1,425	1,436	376	513	532	441
Total	13,073	13,599	376	12,350	12,364	441

(in thousands)	September 30, 2018			December 31, 2017		
	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	261	353	0	226	226	0
Commercial real estate						
Commercial real estate other	1,400	1,378	0	1,372	1,474	0
Residential real estate						
Home equity	1,780	1,812	0	1,823	1,854	0
Subtotal	3,441	3,543	0	3,421	3,554	0

Acquired loans and leases with related allowance

Commercial and industrial						
Commercial and industrial other	0	0	0	50	50	25
Subtotal	0	0	0	50	50	25
Total	3,441	3,543	0	3,471	3,604	25

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The average recorded investment and interest income recognized on impaired loans for the three months ended September 30, 2018 and 2017 was as follows:

(in thousands)	Three Months Ended September 30, 2018		Three Months Ended September 30, 2017	
	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
Originated loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	2,963	0	404	0
Commercial real estate				
Commercial real estate other	5,705	0	6,409	0
Residential real estate				
Home equity	4,023	0	3,581	0
Subtotal	12,691	0	10,394	0

Originated loans and leases with related allowance

Commercial and industrial				
Commercial and industrial other	1,200	0	1,083	0
Commercial real estate				
Commercial real estate other	44	0	50	0
Subtotal	1,244	0	1,133	0
Total	13,935	0	11,527	0

(in thousands)	Three Months Ended September 30, 2018		Three Months Ended September 30, 2017	
	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
Acquired loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	289	0	0	0
Commercial real estate				
Commercial real estate other	1,504	0	1,516	0
Residential real estate				
Home equity	1,779	0	1,440	0
Subtotal	3,572	0	2,956	0

Acquired loans and leases with related allowance

Commercial real estate				
Commercial real estate other	0	0	267	0
Subtotal	0	0	267	0
Total	3,572	0	3,223	0

The average recorded investment and interest income recognized on impaired loans for the nine months ended September 30, 2018 and 2017 was as follows:

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(in thousands)	Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	Average	Interest	Average	Interest
	Recorded	Income	Recorded	Income
	Investment	Recognized	Investment	Recognized
Originated loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	2,370	0	290	0
Commercial real estate				
Commercial real estate other	6,006	0	7,569	0
Residential real estate				
Home equity	3,862	0	3,441	0
Subtotal	12,238	0	11,300	0
Originated loans and leases with related allowance				
Commercial and industrial				
Commercial and industrial other	955	0	335	0
Commercial real estate				
Commercial real estate other	22	0	20	0
Subtotal	977	0	355	0
Total	13,215	0	11,655	0

(in thousands)	Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	Average	Interest	Average	Interest
	Recorded	Income	Recorded	Income
	Investment	Recognized	Investment	Recognized
Acquired loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	235	0	66	0
Commercial real estate				
Construction	0	0	16	0
Commercial real estate other	1,613	0	2,402	0
Residential real estate				
Home equity	2,135	0	1,722	0
Subtotal	3,983	0	4,206	0
Acquired loans and leases with related allowance				
Commercial real estate				
Commercial real estate other	0	0	267	0
Subtotal	0	0	267	0
Total	3,983	0	4,473	0

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

The following tables present information on loans modified in troubled debt restructuring during the periods indicated.  
September 30, 2018 Three Months Ended

(in thousands)	Pre-Modification		Post-Modification		Defaulted TDRs <sup>2</sup>	
	Number of Outstanding Loans Recorded Investment	Number of Outstanding Loans Recorded Investment	Number of Outstanding Loans Recorded Investment	Number of Outstanding Loans Recorded Investment	Number of Outstanding Loans Recorded Investment	Number of Outstanding Loans Recorded Investment
Residential real estate						
Home equity <sup>1</sup>	2	115	115	0	0	
Total	2	115	115	0	0	

<sup>1</sup> Represents the following concessions: extension of term and reduction of rate.

<sup>2</sup> TDRs that defaulted during the three months ended September 30, 2018 that were restructured in the prior twelve months.

There were no new TDRs for the three months ended September 30, 2017.

September 30, 2018 Nine Months Ended

(in thousands)	Pre-Modification		Post-Modification		Defaulted TDRs <sup>2</sup>	
	Number of Outstanding Loans Recorded Investment	Number of Outstanding Loans Recorded Investment	Number of Outstanding Loans Recorded Investment	Number of Outstanding Loans Recorded Investment	Number of Outstanding Loans Recorded Investment	Number of Outstanding Loans Recorded Investment
Residential real estate						
Home equity <sup>1</sup>	4	227	227	0	0	
Total	4	227	227	0	0	

<sup>1</sup> Represents the following concessions: extension of term and reduction of rate.

<sup>2</sup> TDRs that defaulted during the nine months ended September 30, 2018 that had been restructured in the prior twelve months.

September 30, 2017 Nine Months Ended

(in thousands)	Pre-Modification		Post-Modification		Defaulted TDRs <sup>2</sup>	
	Number of Outstanding Loans Recorded Investment	Number of Outstanding Loans Recorded Investment	Number of Outstanding Loans Recorded Investment	Number of Outstanding Loans Recorded Investment	Number of Outstanding Loans Recorded Investment	Number of Outstanding Loans Recorded Investment
Residential real estate						
Home equity <sup>1</sup>	2	162	162	1	55	
Total	2	162	162	1	55	

<sup>1</sup> Represents the following concessions: extension of term and reduction of rate.

<sup>2</sup> TDRs that defaulted during the nine months ended September 30, 2017 that had been restructured in the prior twelve months.

The following tables present credit quality indicators (internal risk grade) by class of commercial and industrial loans and commercial real estate loans as of September 30, 2018 and December 31, 2017.

September 30, 2018

(in thousands)	Commercial and Industrial Other	Commercial and Industrial Agriculture	Commercial Estate Other	Real Estate Agriculture	Commercial Real Estate Construction	Total
Originated Loans and Leases						
Internal risk grade:						
Pass	902,263	80,541	1,782,283	131,095	179,083	3,075,265
Special Mention	10,201	6,315	10,773	6,956	0	34,245
Substandard	15,402	6,372	18,292	9,531	0	49,597
Total	927,866	93,228	1,811,348	147,582	179,083	3,159,107

September 30, 2018

(in thousands)	Commercial and Industrial Other	Commercial and Industrial Agriculture	Commercial Estate Other	Real Estate Agriculture	Commercial Real Estate Construction	Total
Acquired Loans and Leases						
Internal risk grade:						
Pass	44,008	0	178,281			