TOMPKINS FINANCIAL CORP
Form 10-Q
May 10, 2013

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

FORM 10-Q

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from _____ to ______

Commission File Number 1-12709

Tompkins Financial Corporation
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code: (607) 273-3210

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

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

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

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

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

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

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

Class	Outstanding as of April 28, 2013
Common Stock, $0.10 par value	14,455,200 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) ASSETS		As of 03/31/2013		As of 12/31/2012
Cash and noninterest bearing balances due from banks	$	97,670	$	117,448
Interest bearing balances due from banks		1,483		1,482
Cash and Cash Equivalents		99,153		118,930
Trading securities, at fair value		15,631		16,450
Available-for-sale securities, at fair value (amortized cost of $1,489,481 at March 31, 2013 and $1,349,416 at December 31, 2012)		1,527,575		1,393,340
Held-to-maturity securities, fair value of $24,355 at March 31, 2013, and $25,163 at December 31, 2012		23,304		24,062
Originated loans and leases, net of unearned income and deferred costs and fees		2,208,346		2,133,106
Acquired loans and leases, covered		35,304		37,600
Acquired loans and leases, non-covered		750,145		783,904
Less: Allowance for loan and lease losses		24,661		24,643
Net Loans and Leases		2,969,134		2,929,967
FDIC Indemnification Asset		4,465		4,385
Federal Home Loan Bank stock and Federal Reserve Bank stock		19,646		19,388
Bank premises and equipment, net		54,901		54,581
Corporate owned life insurance		65,657		65,102
Goodwill		92,305		92,305
Other intangible assets, net		18,009		18,643
Accrued interest and other assets		97,500		100,044
Total Assets	$	4,987,280	$	4,837,197
LIABILITIES				
Deposits:				
Interest bearing:				
Checking, savings and money market		2,322,233		2,144,367
Time		978,351		973,883
Noninterest bearing		771,768		831,919
Total Deposits		4,072,352		3,950,169
Federal funds purchased and securities sold under agreements to repurchase		194,091		213,973
Other borrowings, including certain amounts at fair value of $11,770 at March 31, 2013 and $11,847 at December 31, 2012		156,649		111,848
Trust preferred debentures		43,687		43,668
Other liabilities		73,689		76,179
Total Liabilities	$	4,540,468	$	4,395,837

EQUITY				
Tompkins Financial Corporation shareholders' equity:				
Common Stock - par value $.10 per share: Authorized 25,000,000 shares; Issued: 14,482,927 at March 31, 2013; and 14,426,711 at December 31, 2012		1,448		1,443
Additional paid-in capital		337,097		334,649
Retained earnings		114,747		108,709
Accumulated other comprehensive loss		(5,195)		(2,106)
Treasury stock, at cost – 98,610 shares at March 31, 2013, and 100,054 shares at December 31, 2012		(2,770)		(2,787)
Total Tompkins Financial Corporation Shareholders’ Equity		445,327		439,908
Noncontrolling interests		1,485		1,452
Total Equity	$	446,812	$	441,360
Total Liabilities and Equity	$	4,987,280	$	4,837,197

See notes to unaudited condensed consolidated financial statements

TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended	
(In thousands, except per share data) (Unaudited)	03/31/2013	03/31/2012
INTEREST AND DIVIDEND INCOME		
Loans	$36,429	$25,303
Due from banks	7	3
Federal funds sold	0	2
Trading securities	165	198
Available-for-sale securities	7,480	7,176
Held-to-maturity securities	191	225
Federal Home Loan Bank stock and Federal Reserve Bank stock	185	221
Total Interest and Dividend Income	44,457	33,128
INTEREST EXPENSE		
Time certificates of deposits of $100,000 or more	1,204	734
Other deposits	2,182	2,027
Federal funds purchased and securities sold under agreements to repurchase	1,010	1,092
Trust preferred debentures	687	405
Other borrowings	1,168	1,429
Total Interest Expense	6,251	5,687
Net Interest Income	38,206	27,441
Less: Provision for loan and lease losses	1,038	1,125
Net Interest Income After Provision for Loan and Lease Losses	37,168	26,316
NONINTEREST INCOME		
Insurance commissions and fees	7,261	3,638
Investment services income	3,788	3,397
Service charges on deposit accounts	1,908	1,785
Card services income	1,738	1,569
Mark-to-market loss on trading securities	(115)	(82)
Mark-to-market gain on liabilities held at fair value	77	88
Other income	2,366	1,264
Gain on securities transactions	367	2
Total Noninterest Income	17,390	11,661
NONINTEREST EXPENSES		
Salaries and wages	15,572	11,300
Pension and other employee benefits	6,070	4,299
Net occupancy expense of premises	3,061	1,805
Furniture and fixture expense	1,457	1,100
FDIC insurance	772	528
Amortization of intangible assets	557	133
Merger related expenses	196	94
Other operating expense	9,835	7,112
Total Noninterest Expenses	37,520	26,371
Income Before Income Tax Expense	17,038	11,606
Income Tax Expense	5,495	3,762
Net Income attributable to Noncontrolling Interests and Tompkins Financial Corporation	11,543	7,844

Less: Net income attributable to noncontrolling interests	33	33
Net Income Attributable to Tompkins Financial Corporation	$11,510	$7,811
Basic Earnings Per Share	$0.80	$0.70
Diluted Earnings Per Share	$0.79	$0.70

See notes to unaudited condensed consolidated financial statements

Consolidated Statements of Comprehensive Income

(in thousands) (Unaudited)	Three Months Ended 03/31/2013	03/31/2012
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	$ 11,543	$ 7,844
Other comprehensive (loss) income, net of tax:		
Available-for-sale securities:		
Change in net unrealized gain/loss during the period	(3,278)	(459)
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(220)	(1)
Employee benefit plans:		
Amortization of net retirement plan actuarial gain	393	283
Amortization of net retirement plan prior service cost (credit)	8	7
Amortization of net retirement plan transition liability	8	10
Other comprehensive (loss) income	(3,089)	(160)
Subtotal comprehensive income attributable to noncontrolling interests and Tompkins Financial Corporation	8,454	7,684
Less: Net income attributable to noncontrolling interests	(33)	(33)
Total comprehensive income attributable to Tompkins Financial Corporation	$ 8,421	$ 7,651

See notes to unaudited condensed consolidated financial statements.

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

	03/31/2013	03/31/2012
OPERATING ACTIVITIES		
Net income attributable to Tompkins Financial Corporation	$11,510	$7,811
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	1,038	1,125
Depreciation and amortization of premises, equipment, and software	1,445	1,209
Amortization of intangible assets	557	133
Earnings from corporate owned life insurance	(552)	(426)
Net amortization on securities	3,898	2,700
Mark-to-market loss on trading securities	115	82
Mark-to-market gain on liabilities held at fair value	(77)	(88)
Gain on securities transactions	(367)	(2)
Net gain on sale of loans	(29)	(100)
Proceeds from sale of loans	720	4,281
Loans originated for sale	(589)	(5,072)
Net gain on sale of bank premises and equipment	(14)	(6)
Stock-based compensation expense	307	377
Increase in accrued interest receivable	(395)	(618)
Decrease in accrued interest payable	(457)	(52)
Proceeds from maturities and payments of trading securities	694	738
Contribution to pension plan	0	(5,000)
Other, net	3,626	(1,340)
Net Cash Provided by Operating Activities	21,430	5,752
INVESTING ACTIVITIES		
Proceeds from maturities, calls and principal paydowns of available-for-sale securities	77,907	89,456
Proceeds from sales of available-for-sale securities	25,222	0
Proceeds from maturities, calls and principal paydowns of held-to-maturity securities	1,433	1,043
Purchases of available-for-sale securities	(246,715)	(189,958)
Purchases of held-to-maturity securities	(676)	(692)
Net (increase) decrease in loans	(40,307)	3,401
Net (decrease) increase in Federal Home Loan Bank stock and Federal Reserve Bank stock	(258)	2,610
Proceeds from sale of bank premises and equipment	72	18
Purchases of bank premises and equipment	(1,618)	(1,473)
Net cash acquired (used) in acquisition	0	(755)
Other, net	(138)	(550)
Net Cash Used in Investing Activities	(185,078)	(96,900)
FINANCING ACTIVITIES		
Net increase in demand, money market, and savings deposits	117,715	157,086
Net increase in time deposits	4,468	41,786
Net (decrease) increase in Federal funds purchases and securities sold under agreements to repurchase	(19,882)	366
Increase in other borrowings	49,879	0

Repayment of other borrowings	(5,000)	(53,103)
Cash dividends	(5,472)	(4,005)
Shares issued for dividend reinvestment plan	970	710
Shares issued for employee stock ownership plan	717	1,037
Net proceeds from exercise of stock options	416	966
Tax benefit from stock option exercises	60	55
Net Cash Provided by Financing Activities	143,871	144,898
Net (Decrease) Increase in Cash and Cash Equivalents	(19,777)	53,750
Cash and cash equivalents at beginning of period	118,930	49,567
Total Cash & Cash Equivalents at End of Period	99,153	103,317

See notes to unaudited condensed consolidated financial statements.

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

	03/31/2013	03/31/2012
Supplemental Information:		
Cash paid during the year for - Interest	$6,708	$5,739
Cash paid during the year for - Taxes	76	4,252
Transfer of loans to other real estate owned	550	592

See notes to unaudited condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(in thousands except share and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Non-controlling Interests	Total
Balances at January 1, 2012	$ 1,116	$ 206,395	$ 96,445	$ (3,677)	$ (2,588)	$ 1,452	$ 299,143
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			7,811			33	7,844
Other comprehensive income				(160)			(160)
Total Comprehensive Income							7,684
Cash dividends ($0.36 per share)			(4,005)				(4,005)
Exercise of stock options and related tax benefit (30,976 shares, net)	3	1,018					1,021
Stock-based compensation expense		377					377
Shares issued for dividend reinvestment plan (17,383 shares, net)	2	708					710
Shares issued for employee stock ownership plan (25,655 shares)	2	1,035					1,037
Directors deferred compensation plan ((1,672) shares, net)		(61)			61		0
Net shares issued related to restricted stock							
Forfeiture of restricted shares (200 shares)							
Balances at March 31, 2012	$ 1,123	$ 209,472	$ 100,251	$ (3,837)	$ (2,527)	$ 1,485	$ 305,967
Balances at January 1, 2013	$ 1,443	$ 334,649	$ 108,709	$ (2,106)	$ (2,787)	$ 1,452	$ 441,360
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			11,510			33	11,543
Other comprehensive (loss) income				(3,089)			(3,089)
Total Comprehensive Income							8,454

Cash dividends ($0.38 per share)			(5,472)				(5,472)
Exercise of stock options and related tax benefit (15,567 shares, net)	1	475					476
Shares issued for dividend reinvestment plan (23,532 shares, net)	2	968					970
Compensation expense stock options		307					307
Shares issued for employee stock ownership plan (17,290 shares, net)	2	715					717
Directors deferred compensation plan ((1,444) shares, net)		(17)			17		0
Forfeiture of restricted shares (173 shares)							
Balances at March 31, 2013	$ 1,448	$ 337,097	$ 114,747	$ (5,195)	$ (2,770)	$ 1,485	$ 446,812

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, insurance, and brokerage services. At March 31, 2013, the Company's subsidiaries included: four wholly-owned banking subsidiaries, Tompkins Trust Company (the "Trust Company"), The Bank of Castile, Mahopac National Bank, VIST Bank; TFA Wealth Management, Inc., a wholly owned registered investment advisor ("TFA Wealth Management"); and a wholly-owned insurance agency subsidiary, Tompkins Insurance Agencies, Inc. ("Tompkins Insurance"). TFA Wealth Management and the trust division of the Trust Company provide a full array of investment services under the Tompkins Financial Advisors brand, including investment management, trust and estate, financial and tax planning as well as life, disability and long-term care insurance services. VIST Bank, through its VIST Capital Management brand ("VIST Capital Management") provides investment advisory, retirement planning solutions, and brokerage services to our customers in southeastern Pennsylvania. The Company's principal offices are located at The Commons, Ithaca, New York, 14851, and its telephone number is (607) 273-3210. The Company's common stock is traded on the NYSE MKT LLC under the Symbol "TMP."

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

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

The Company's wealth management subsidiary is subject to examination and regulation by various regulatory agencies, including the SEC and the Financial Industry Regulatory Authority ("FINRA"). The trust division of Tompkins Trust Company is subject to examination and comprehensive regulation by the FDIC and NYSDFS.

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

2. Basis of Presentation

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

In management's opinion, the unaudited condensed consolidated financial statements reflect all adjustments of a normal recurring nature. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year ended December 31, 2013. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. There have been no significant changes to the Company's accounting policies from those presented in the 2012 Annual Report on Form 10-K. Refer to Note 3- "Accounting Standards Updates" of this Report for a discussion of recently issued accounting guidelines.

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

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

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

3. Accounting Standards Updates

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

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

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

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

4. Mergers and Acquisitions

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

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

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

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

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

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

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

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

	Acquired Credit Impaired Loans	Acquired Non-Credit Impaired Loans	Total Acquired Loans
Contractually required principal and interest at acquisition	$ 159,865	$ 1,058,168	$ 1,218,033
Contractual cash flows not expected to be collected (non-accretable difference)	59,128	0	59,128
Expected cash flows at acquisition	100,737	1,058,168	1,158,905
Interest component of expected cash flows (accretable difference)	8,425	261,144	269,569
Fair value of acquired loans	92,312	797,024	889,336

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

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

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

Direct costs related to the acquisition were expensed as incurred. During the twelve months ended December 31, 2012, the Company incurred $15.6 million of merger and acquisition integration-related expenses, which have been separately stated in the Company’s Consolidated Statements of Income. For the three months ended March 31, 2013, the Company incurred $196,000 of merger and acquisition integration-related expenses.

5. Securities

Available-for-Sale Securities
The following table summarizes available-for-sale securities held by the Company at March 31, 2013:

	Available-for-Sale Securities			
March 31, 2013 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. Government sponsored entities	$586,535	$20,943	$20	$607,458
Obligations of U.S. states and political subdivisions	76,308	2,211	291	78,228
Mortgage-backed securities – residential, issued by				
U.S. Government agencies	159,707	4,856	699	163,864
U.S. Government sponsored entities	659,471	13,860	2,819	670,512
Non-U.S. Government agencies or sponsored entities	395	8	0	403
U.S. corporate debt securities	5,007	80	13	5,074
Total debt securities	1,487,423	41,958	3,842	1,525,539
Equity securities	2,058	0	22	2,036
Total available-for-sale securities	$1,489,481	$41,958	$3,864	$1,527,575

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

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

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

Held-to-Maturity Securities

The following table summarizes held-to-maturity securities held by the Company at March 31, 2013:

	Held-to-Maturity Securities			
March 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. states and political subdivisions	$23,304	$1,051	$0	$24,355
Total held-to-maturity debt securities	$23,304	$1,051	$0	$24,355

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

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

Realized gains on available-for-sale securities were $367,000 and $2,000 in the quarters ending March 31, 2013 and 2012, respectively. There were no realized losses on available-for-sale securities in the quarters ending March 31, 2013 and 2012, respectively.

The following table summarizes available-for-sale securities that had unrealized losses at March 31, 2013:

	Less than 12 Months		12 Months or Longer		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government sponsored entities	$ 12,076	$ 20	$ 0	$ 0	$ 12,076	$ 20
Obligations of U.S. states and political subdivisions	11,911	291	0	0	11,911	291
Mortgage-backed securities – residential, issued by						
U.S. Government agencies	42,847	699	0	0	42,847	699
U.S. Government sponsored entities	290,799	2,819	0	0	290,799	2,819
U.S. corporate debt securities	2,488	13	0	0	2,488	13
Equity securities	979	22	0	0	979	22
Total available-for-sale securities	$ 361,100	$ 3,864	$ 0	$ 0	$ 361,100	$ 3,864

There were no unrealized losses on held-to-maturity securities at March 31, 2013.

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

	Less than 12 Months		12 Months or Longer		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government sponsored entities	$ 1,147	$ 2	$ 0	$ 0	$ 1,147	$ 2
Obligations of U.S. states and political subdivisions	10,307	73	0	0	10,307	73
Mortgage-backed securities – residential, issued by						

U.S. Government agencies	40,022	548	0	0	40,022	548
U.S. Government sponsored entities	128,365	1,768	0	0	128,365	1,768
Non-U.S. Government agencies or sponsored entities	833	143	0	0	833	143
U.S. corporate debt securities	2,487	13	0	0	2,487	13
Equity securities	985	15	0	0	985	15
Total available-for-sale securities	$ 184,146	$ 2,562	$ 0	$ 0	$ 184,146	$ 2,562

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

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

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

Ongoing Assessment of Other-Than-Temporary Impairment

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

The Company considers the following factors in determining whether a credit loss exists and the period over which the debt security is expected to recover.

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

As of March 31, 2013, the Company owned one corporate (non-agency) collateralized mortgage obligation issue ("CMO") in a super senior or senior tranche of which the aggregate historical cost basis for this non-agency CMO was less than their estimated fair value. At March 31, 2013, this non-agency CMO with an amortized cost basis of $395,000 was collateralized by residential real estate and is not currently deferring or is in default of interest payments to the Company. As of December 31, 2012, the Company owned 5 corporate, non-U.S. Government agency collateralized mortgage obligation issues ("CMO's") in super senior or senior tranches of which the aggregate historical cost basis for 3 of these non-agency CMO's was greater than their estimated fair value. At December 31, 2012, all 5 non-agency CMO's with an amortized cost basis of $4.5 million were collateralized by residential real estate. None of the 5 non-agency CMO's whose aggregate historical cost basis is greater than their estimated fair value are currently deferring or are in default of interest payments to the Company.

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

The following table summarizes the roll-forward of credit losses on debt securities held by the Company for which a portion of an other-than-temporary impairment is recognized in other comprehensive income:

	Three Months Ended	
(in thousands)	03/31/2013	03/31/2012
Credit losses at beginning of the period	$ 441	$ 245
Credit losses related to securities for which an other-than-temporary impairment was previously recognized	0	0
Sales of securities for which an other-than-temporary impairment was previously recognized	(441)	0
Ending balance of credit losses on debt securities held for which a portion of an other-than-temporary impairment was recognized in other comprehensive income	$ 0	$ 245

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

March 31, 2013 (in thousands)	Amortized Cost	Fair Value
Available-for-sale securities:		
Due in one year or less	$139,998	$141,550
Due after one year through five years	288,346	302,276
Due after five years through ten years	236,981	244,418
Due after ten years	2,525	2,516
Total	667,850	690,760
Mortgage-backed securities	819,573	834,779
Total available-for-sale debt securities	$1,487,423	$1,525,539

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

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

March 31, 2013 (in thousands)	Amortized Cost	Fair Value
Held-to-maturity securities:		
Due in one year or less	$13,399	$13,491
Due after one year through five years	7,039	7,567
Due after five years through ten years	2,146	2,458

Due after ten years	720	839
Total held-to-maturity debt securities	$23,304	$24,355

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

The Company also holds non-marketable Federal Home Loan Bank New York ("FHLBNY") stock, non-marketable Federal Home Loan Bank Pittsburgh ("FHLBPITT") stock, non-marketable Atlantic Central Bankers Bank ("ACBB") stock, and non-marketable Federal Reserve Bank ("FRB") stock, all of which are required to be held for regulatory purposes and for borrowing availability. The required investment in FHLB stock is tied to the Company's borrowing levels with each FHLB. Holdings of FHLBNY stock, FHLBPITT stock, ACBB stock, and FRB stock totaled $12.3 million, $5.2 million, $95,000, and $2.1 million at March 31, 2013, respectively, and $13.2 million, $4.1 million, $95,000 and $2.1 million at December 31, 2012, respectively. These securities are carried at par, which is also cost. The FHLBNY and FHLBPITT continue to pay dividends and repurchase stock. As such, the Company has not recognized any impairment on its holdings of FHLBNY and FHLBPITT stock.

Trading Securities

The following summarizes trading securities, at estimated fair value, as of:

(in thousands)	03/31/2013	12/31/2012
Obligations of U.S. Government sponsored entities	$11,526	$11,860
Mortgage-backed securities – residential, issued by		
U.S. Government sponsored entities	4,105	4,590
Total	$15,631	$16,450

The net loss on trading account securities, which reflects mark-to-market adjustments, totaled $115,000 for the three months ended March 31, 2013, and $82,000 for the three months ended March 31, 2012.

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 $1.0 million at March 31, 2013 and December 31, 2012, respectively, were either pledged or sold under agreements to repurchase.

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

	March 31, 2013			December 31, 2012		
(in thousands)	Originated	Acquired	Total Loans and Leases	Originated	Acquired	Total Loans and Leases
Commercial and industrial						
Agriculture	$ 63,469	$ 0	$ 63,469	$ 77,777	$ 0	$ 77,777
Commercial and industrial other	468,297	154,177	622,474	446,876	167,427	614,303
Subtotal commercial and industrial	531,766	154,177	685,943	524,653	167,427	692,080
Commercial real estate						
Construction	41,304	29,216	70,520	41,605	43,074	84,679
Agriculture	46,677	3,178	49,855	48,309	3,247	51,556
Commercial real estate other	763,876	445,133	1,209,009	722,273	445,359	1,167,632
Subtotal commercial real estate	851,857	477,527	1,329,384	812,187	491,680	1,303,867
Residential real estate						
Home equity	159,538	77,888	237,426	159,720	81,657	241,377
Mortgages	604,593	39,159	643,752	573,861	41,618	615,479
Subtotal residential real estate	764,131	117,047	881,178	733,581	123,275	856,856
Consumer and other						
Indirect	25,125	18	25,143	26,679	24	26,703
Consumer and other	31,418	1,376	32,794	32,251	1,498	33,749
Subtotal consumer and other	56,543	1,394	57,937	58,930	1,522	60,452
Leases	5,109	0	5,109	4,618	0	4,618
Covered loans	0	35,304	35,304	0	37,600	37,600
Total loans and leases	2,209,406	785,449	2,994,855	2,133,969	821,504	2,955,473
Less: unearned income and deferred costs and fees	(1,060)	0	(1,060)	(863)	0	(863)
Total loans and leases, net of unearned income and deferred costs and fees	$ 2,208,346	$ 785,449	$ 2,993,795	$ 2,133,106	$ 821,504	$ 2,954,610

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

(in thousands)	03/31/2013	12/31/2012
Acquired Credit Impaired Loans		
Outstanding principal balance	$104,070	$114,516
Carrying amount	76,062	80,223

Acquired Non-Credit Impaired Loans		
Outstanding principal balance	718,048	750,380
Carrying amount	709,387	741,281
Total Acquired Loans		
Outstanding principal balance	822,118	864,896
Carrying amount	785,449	821,504

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

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

(in thousands)	
Balance at January 1, 2013	$7,337
Accretion	(1,452)
Disposals (loans paid in full)	(2)
Reclassifications to/from nonaccretable difference	119
Balance at March 31, 2013	$6,002

At March 31, 2013, acquired loans included $35.3 million of covered loans. VIST Financial had previously acquired these loans in an FDIC assisted transaction in the fourth quarter of 2010. In accordance with a loss sharing agreement with the FDIC, certain losses and expenses relating to covered loans may be reimbursed by the FDIC at 70% or, if net losses exceed certain levels specified in the loss sharing agreements, 80%. See Note 8 – “FDIC Indemnification Asset Related to Covered Loans” for further discussion of the loss sharing agreements and related FDIC indemnification asset.

The Company has adopted comprehensive lending policies, underwriting standards and loan review procedures. The Company reviewed the lending policies of Tompkins and VIST Financial, and adopted a uniform policy for the Company. There were no significant changes to the Company’s existing policies, underwriting standards and loan review. The Company’s Board of Directors approves the lending policies at least annually. The Company recognizes that exceptions to policy guidelines may occasionally occur and has established procedures for approving exceptions to these policy guidelines. Management has also implemented reporting systems to monitor loan originations, loan quality, concentrations of credit, loan delinquencies and nonperforming loans and potential problem loans.

The Company has adopted comprehensive lending policies, underwriting standards and loan review procedures. Management review these policies and procedures on a regular basis. The Company discussed its lending policies and underwriting guidelines for its various lending portfolios in Note 4 – “Loans and Leases” in the Notes to Consolidated Financial Statements contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012. There have been no significant changes in these policies and guidelines. As such, these policies are reflective of new originations as well as those balances held at March 31, 2013. The Company’s Board of Directors approves the lending policies at least annually. The Company recognizes that exceptions to policy guidelines may occasionally occur and has established procedures for approving exceptions to these policy guidelines. Management has also implemented reporting systems to monitor loan origination, loan quality, concentrations of credit, loan delinquencies and nonperforming loans and potential problem loans.

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

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

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

March 31, 2013

(in thousands)	30-89 days	90 days or more	Current Loans	Total Loans	90 days and accruing1	Nonaccrual
Originated Loans and Leases						
Commercial and industrial						
Agriculture	$ 0	$ 0	$ 63,469	$ 63,469	$ 0	$ 42
Commercial and industrial other	1,355	493	466,449	468,297	0	927
Subtotal commercial and industrial	1,355	493	529,918	531,766	0	969
Commercial real estate						
Construction	313	7,658	33,333	41,304	0	10,193
Agriculture	211	19	46,447	46,677	0	22
Commercial real estate other	4,481	9,415	749,980	763,876	0	12,601
Subtotal commercial real estate	5,005	17,092	829,760	851,857	0	22,816
Residential real estate						
Home equity	811	2,356	156,371	159,538	119	1,630
Mortgages	3,203	6,361	595,029	604,593	38	6,904
Subtotal residential real estate	4,014	8,717	751,400	764,131	157	8,534
Consumer and other						
Indirect	415	269	24,441	25,125	0	230
Consumer and other	99		31,319	31,418	0	5
Subtotal consumer and other	514	269	55,760	56,543	0	235
Leases	0	0	5,109	5,109	0	0
Total loans and leases	10,888	26,571	2,171,947	2,209,406	157	32,554
Less: unearned income and deferred costs and fees	0	0	0	(1,060)	0	0
Total originated loans and leases, net of unearned income and deferred costs and fees	$ 10,888	$ 26,571	$ 2,171,947	$ 2,208,346	$ 157	$ 32,554
Acquired Loans and Leases						
Commercial and industrial						
Commercial and industrial other	154	1,017	153,006	154,177	1,006	330
Subtotal commercial and industrial	154	1,017	153,006	154,177	1,006	330
Commercial real estate						
Construction	0	6,113	23,103	29,216	5,928	185
Agriculture	0	0	3,178	3,178	0	0
Commercial real estate other	1,189	5,749	438,195	445,133	4,240	1,781
Subtotal commercial real estate	1,189	11,862	464,476	477,527	10,168	1,966

Residential real estate						
Home equity	1,669	1,644	74,575	77,888	692	1,384
Mortgages	2,723	2,438	33,998	39,159	2,160	880
Subtotal residential real estate	4,392	4,082	108,573	117,047	2,852	2,264
Consumer and other						
Indirect	0	1	17	18	0	1
Consumer and other	3	0	1,373	1,376	0	0
Subtotal consumer and other	3	1	1,390	1,394	0	1
Covered loans	3,503	3,809	27,992	35,304	3,809	0
Total acquired loans and leases, net of unearned income and deferred costs and fees	$ 9,241	$ 20,771	$ 755,437	$ 785,449	$ 17,835	$ 4,561

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

December 31, 2012

(in thousands)	30-89 days	90 days or more	Current Loans	Total Loans	90 days and accruing1	Nonaccrual
Originated loans and leases						
Commercial and industrial						
Agriculture	$ 0	$ 0	$ 77,777	$ 77,777	$ 0	$ 28
Commercial and industrial other	2,575	509	443,792	446,876	0	748
Subtotal commercial and industrial	2,575	509	521,569	524,653	0	776
Commercial real estate						
Construction	91	8,469	33,045	41,605	0	10,306
Agriculture	212	0	48,097	48,309	0	22
Commercial real estate other	1,232	9,541	711,500	722,273	0	13,168
Subtotal commercial real estate	1,535	18,010	792,642	812,187	0	23,496
Residential real estate						
Home equity	582	2,348	156,790	159,720	120	1,641
Mortgages	2,303	6,975	564,583	573,861	137	7,182
Subtotal residential real estate	2,885	9,323	721,373	733,581	257	8,823
Consumer and other						
Indirect	869	233	25,577	26,679	0	277
Consumer and other	126	0	32,125	32,251	0	16
Subtotal consumer and other	995	233	57,702	58,930	0	293
Leases	0	0	4,618	4,618	0	0
Total loans and leases	7,990	28,075	2,097,904	2,133,969	257	33,388
Less: unearned income and deferred costs and fees	0	0	0	(863)	0	0
Total originated loans and leases, net of unearned income and deferred costs and fees	$ 7,990	$ 28,075	$ 2,097,904	$ 2,133,106	$ 257	$ 33,388
Acquired loans and leases						
Commercial and industrial						
Commercial and industrial other	13	1,646	165,768	167,427	1,082	564
Subtotal commercial and industrial	13	1,646	165,768	167,427	1,082	564
Commercial real estate						
Construction	53	6,607	36,414	43,074	6,419	188
Agriculture	0	0	3,247	3,247	0	0
Commercial real estate other	1,139	5,043	439,177	445,359	3,790	1,330
Subtotal commercial real estate	1,192	11,650	478,838	491,680	10,209	1,518
Residential real estate						
Home equity	1,626	1,913	78,118	81,657	865	1,453

Mortgages	1,416	2,968	37,234	41,618	2,282	808
Subtotal residential real estate	3,042	4,881	115,352	123,275	3,147	2,261
Consumer and other						
Indirect	0	0	24	24	0	0
Consumer and other	2	9	1,487	1,498	0	9
Subtotal consumer and other	2	9	1,511	1,522	0	9
Covered loans	1,014	4,272	32,314	37,600	4,272	0
Total acquired loans and leases, net of unearned income and deferred costs and fees	$ 5,263	$ 22,458	$ 793,783	$ 821,504	$ 18,710	$ 4,352

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

7. Allowance for Loan and Lease Losses

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

The Company's methodology for determining and allocating the allowance for loan and lease losses focuses on ongoing reviews of larger individual loans and leases, historical net charge-offs, delinquencies in the loan and lease portfolio, the level of impaired and nonperforming loans, values of underlying loan and lease collateral, the overall risk characteristics of the portfolios, changes in character or size of the portfolios, geographic location, current economic conditions, changes in capabilities and experience of lending management and staff, and other relevant factors. The various factors used in the methodologies are reviewed on a regular basis.

At least annually, management reviews all commercial and commercial real estate loans exceeding a certain threshold and assigns a risk rating. The Company uses an internal loan rating system of pass credits, special mention loans, substandard loans, doubtful loans, and loss loans (which are fully charged off). The definitions of "special mention", "substandard", "doubtful" and "loss" are consistent with banking regulatory definitions. Factors considered in assigning loan ratings include: the customer's ability to repay based upon customer's expected future cash flow, operating results, and financial condition; the underlying collateral, if any; and the economic environment and industry in which the customer operates. Special mention loans have potential weaknesses that if left uncorrected may result in deterioration of the repayment prospects and a downgrade to a more severe risk rating. A substandard loan credit has a well-defined weakness which makes payment default or principal exposure likely, but not yet certain. There is a possibility that the Company will sustain some loss if the deficiencies are not corrected. A doubtful loan has a high possibility of loss, but the extent of the loss is difficult to quantify because of certain important and reasonably specific pending factors.

At least quarterly, management reviews all commercial and commercial real estate loans and leases and agriculturally related loans with an outstanding principal balance of over $500,000 that are internally risk rated special mention or worse, giving consideration to payment history, debt service payment capacity, collateral support, strength of guarantors, local market trends, industry trends, and other factors relevant to the particular borrowing relationship. Through this process, management identifies impaired loans. For loans and leases considered impaired, estimated exposure amounts are based upon collateral values or present value of expected future cash flows discounted at the original effective interest rate of each loan. For commercial loans, commercial mortgage loans, and agricultural loans not specifically reviewed, and for homogenous loan portfolios such as residential mortgage loans and consumer loans, estimated exposure amounts are assigned based upon historical net loss experience and current charge-off trends, past due status, and management's judgment of the effects of current economic conditions on portfolio performance. In determining and assigning historical loss factors to the various homogeneous portfolios, the Company calculates average net losses over a period of time and compares this average to current levels and trends to ensure that the calculated average loss factor is reasonable.

Since the methodology is based upon historical experience and trends as well as management's judgment, factors may arise that result in different estimates. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the local area, concentration of risk, changes in interest rates, and declines in local property values. While management's evaluation of the allowance as of March 31, 2013, considers the allowance to be appropriate, under adversely different conditions or assumptions, the Company would need to increase 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 March 31, 2013 and 2012. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

Three months ended March 31, 2013

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Originated						
Allowance for credit losses:						
Beginning balance	$7,533	$10,184	$4,981	$ 1,940	$5	$24,643
Charge-offs	(390)	(346)	(192)	(264)	0	(1,192)
Recoveries	160	78	2	87	0	327
Provision	(266)	728	245	116	(3)	820
Ending Balance	$7,037	$10,644	$5,036	$ 1,879	$2	$24,598

Three months ended March 31, 2013

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired						
Allowance for credit losses:						
Beginning balance	$ 0	$ 0	$ 0	$ 0	$0	$0
Charge-offs	(23)	0	(107)	(25)	0	(155)
Recoveries	0	0	0	0	0	0
Provision	23	63	107	25	0	218
Ending Balance	$ 0	$ 63	$ 0	$ 0	$0	$63

Three months ended March 31, 2012

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

Beginning balance	$ 8,936	$ 12,662	$ 4,247	$ 1,709	$39	$27,593
Charge-offs	(252)	(969)	(409)	(259)	0	(1,889)
Recoveries	19	0	0	100	0	119
Provision	(433)	621	653	318	(34)	1,125
Ending Balance	$ 8,270	$ 12,314	$ 4,491	$ 1,868	$5	$26,948

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

At March 31, 2013 and December 31, 2012, the allocation of the allowance for loan and lease losses summarized on the basis of the Company's impairment methodology was as follows:

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Originated						
March 31, 2013						
Individually evaluated for impairment	$ 0	$ 0	$ 0	$ 0	$0	$0
Collectively evaluated for impairment	7,037	10,644	5,036	1,879	2	24,598
Ending balance	$ 7,037	$ 10,644	$ 5,036	$ 1,879	$2	$24,598

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired						
March 31, 2013						
Individually evaluated for impairment	$ 0	$ 63	$ 0	$ 0	$0	$63
Collectively evaluated for impairment	0	0	0	0	0	0
Ending balance	$ 0	$ 63	$ 0	$ 0	$0	$63

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

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

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

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Originated						
March 31, 2013						
Individually evaluated for impairment	$ 4,115	$ 17,366	$ 480	$ 0	$0	$21,961
Collectively evaluated for impairment	527,651	834,491	763,651	56,543	5,109	2,187,445
Total	$ 531,766	$ 851,857	$ 764,131	$ 56,543	$5,109	$2,209,406

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired						
March 31, 2013						
Individually evaluated for impairment	$ 319	$ 2,026	$ 0	$ 0	$0	$2,345
Loans acquired with deteriorated credit quality	5,475	20,805	15,498	0	34,068	75,846
Collectively evaluated for impairment	148,383	454,696	101,549	1,394	1,236	707,258
Total	$ 154,177	$ 477,527	$ 117,047	$ 1,394	$35,304	$785,449

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

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired						
December 31, 2012						
Individually evaluated for impairment	$ 0	0	$ 0	$ 0	$0	$0
Loans acquired with deteriorated credit quality	7,144	24,032	17,650	0	36,251	85,077
Collectively evaluated for impairment	160,283	467,648	105,625	1,522	1,349	736,427

Total	$ 167,427	$ 491,680	$ 123,275	$ 1,522	$37,600	$821,504

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

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

	03/31/2013			12/31/2012		
(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Originated loans and leases with no related allowance						
Commercial and industrial						
Commercial and industrial other	$4,115	$5,745	$ 0	$2,771	$2,891	$ 0
Commercial real estate						
Construction	6,364	11,974	0	6,763	12,373	0
Commercial real estate other	11,002	12,087	0	14,715	16,940	0
Residential real estate						
Residential real estate other	480	480	0	483	483	0
Total	$21,961	$30,286	$ 0	$24,732	$32,687	$ 0

There were no originated impaired loans that had a related allowance as of March 31, 2013 and December 31, 2012.

	03/31/2013			12/31/2012		
(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Acquired loans and leases with no related allowance						
Commercial and industrial						
Commercial and industrial other	$ 319	$ 328	$ 0	$ 519	$ 519	$ 0
Commercial real estate						
Commercial real estate other	1,811	1,829	0	1,816	1,861	0
Subtotal	$ 2,130	$ 2,157	$ 0	$ 2,335	$ 2,380	$ 0
Acquired loans and leases with related allowance						
Commercial real estate						
Commercial real estate other	215	215	63	0	0	0
Subtotal	$ 215	$ 215	$ 63	$ 0	$ 0	$ 0
Total	$ 2,345	$ 2,372	$ 63	$ 2,335	$ 2,380	$ 0

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

The average recorded investment and interest income recognized on impaired originated loans for the three months ended March 31, 2013 and 2012 was as follows:

	Three Months Ended 03/31/2013		Three Months Ended 03/31/2012	
(in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Originated loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	5,307	0	2,143	0
Commercial real estate				
Construction	6,547	0	9,207	0
Commercial real estate other	11,024	0	16,619	0
Residential real estate				
Residential real estate other	480	0	407	0
Subtotal	$ 23,358	$ 0	$ 28,376	$ 0
Originated loans and leases with related allowance				
Commercial and industrial				
Commercial and industrial other	0	0	4,142	0
Commercial real estate				
Commercial real estate other	0	0	493	0
Subtotal	$ 0	$ 0	$ 4,635	$ 0
Total	$ 23,358	$ 0	$ 33,011	$ 0

The average recorded investment and interest income recognized on impaired acquired loans for the three months ended March 31, 2013 was as follows:

	Three Months Ended 03/31/2013	
(in thousands)	Average Recorded Investment	Interest Income Recognized
Acquired loans and leases with no related allowance		
Commercial and industrial		
Commercial and industrial other	$419	5
Commercial real estate		
Commercial real estate other	1,797	26
Subtotal	$2,216	$ 31
Acquired loans and leases with related allowance		
Commercial real estate		
Commercial real estate other	214	4
Subtotal	$214	$ 4
Total	$2,430	$ 35

There were no acquired loans and leases at March 31, 2012.

Loans are considered modified in a TDR when, due to a borrower's financial difficulties; the Company makes a concession(s) to the borrower that it would not otherwise consider. These modifications may include, among others, an extension for the term of the loan, and granting a period when interest-only payments can be made with the principal payments made over the remaining term of the loan or at maturity. There were no loans modified as TDRs during the three months ended March 31, 2012.

A loan that was restructured as a TDR is considered to be in payment default once it is 90 days contractually past due under the modified terms. During the three months ended March 31, 2013, all TDRS were reported as nonaccrual, and two loans were more than 90 days past due with a total balance of $552,000. At March 31, 2012 the Company had $19.4 million in TDRs, of which $19.0 million were in nonaccrual.

March 31, 2013	Three months ended				
				Defaulted TDRs3	
(in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Post Modification Outstanding Recorded Investment
Commercial and industrial					
Commercial and industrial other1	1	92	92	0	0
Commercial real estate					
Commercial real estate other2	3	371	371	0	0

Total	4	$ 463	$ 463	$ 0	$ 0

1 Represents the following concessions: extension of term
2 Represents the following concessions: extension of term (1 loan: $129,000) and extended term and lowered rate (2 loans: $242,000)
3 TDRs that defaulted in the current quarter 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 March 31, 2013 and December 31, 2012.

March 31, 2013

(in thousands)	Commercial and Industrial Other	Commercial and Industrial Agriculture	Commercial Real Estate Other	Commercial Real Estate Agriculture	Commercial Real Estate Construction	Total
Originated Loans and Leases						
Internal risk grade:						
Pass	$437,530	$60,775	$721,463	$44,840	$ 27,098	$1,291,706
Special Mention	19,832	842	19,481	681	7,632	48,468
Substandard	10,935	1,852	22,932	1,156	6,574	43,449
Total	$468,297	$63,469	$763,876	$46,677	$ 41,304	$1,383,623

March 31, 2013

(in thousands)	Commercial and Industrial Other	Commercial and Industrial Agriculture	Commercial Real Estate Other	Commercial Real Estate Agriculture	Commercial Real Estate Construction	Total
Acquired Loans and Leases						
Internal risk grade:						
Pass	$129,477	$0	$410,373	$786	$ 16,802	$557,438
Special Mention	8,183	0	12,299	2,099	3,987	26,568
Substandard	16,517	0	22,461	293	8,427	47,698
Total	$154,177	$0	$445,133	$3,178	$ 29,216	$631,704

December 31, 2012

(in thousands)	Commercial and Industrial Other	Commercial and Industrial Agriculture	Commercial Real Estate Other	Commercial Real Estate Agriculture	Commercial Real Estate Construction	Total
Originated Loans and Leases						
Internal risk grade:						
Pass	$410,255	$75,456	$677,261	$46,317	$ 26,126	$1,235,415
Special Mention	25,308	2,055	19,782	692	8,505	56,342
Substandard	11,313	266	25,230	1,300	6,974	45,083
Total	$446,876	$77,777	$722,273	$48,309	$ 41,605	$1,336,840

December 31, 2012

(in thousands)	Commercial and Industrial Other	Commercial and Industrial Agriculture	Commercial Real Estate Other	Commercial Real Estate Agriculture	Commercial Real Estate Construction	Total
Acquired Loans and Leases						
Internal risk grade:						
Pass	$139,719	$0	$415,397	$813	$ 27,590	$583,519
Special Mention	7,717	0	10,112	2,136	5,416	25,381

Substandard	14,991	0	19,850	298	10,068	45,207
Total	$162,427	$0	$445,359	$3,247	$ 43,074	$654,107

The following tables present credit quality indicators by class of residential real estate loans and by class of consumer loans. Nonperforming loans include nonaccrual, impaired, and loans 90 days past due and accruing interest. All other loans are considered performing as of March 31, 2013 and December 31, 2012. For purposes of this footnote, acquired loans 90 days or greater past due are considered performing.

March 31, 2013

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Originated Loans and Leases					
Performing	$157,789	$597,651	$24,895	$31,413	$811,748
Nonperforming	1,749	6,942	230	5	8,926
Total	$159,538	$604,593	$25,125	$31,418	$820,674

March 31, 2013

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Acquired Loans and Leases					
Performing	$75,812	$36,119	$17	$1,376	$113,324
Nonperforming	2,076	3,040	1	0	5,117
Total	$77,888	$39,159	$18	$1,376	$118,441

December 31, 2012

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

December 31, 2012

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

8. FDIC Indemnification Asset Related to Covered Loans

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

The receivable arising from the loss sharing agreements (referred to as the “FDIC indemnification asset” on our consolidated statements of financial condition) is measured separately from covered loans because the agreements are not contractually part of the covered loans and are not transferable should the Company choose to dispose of the covered loans. As of the acquisition date with VIST Financial, the Company recorded an aggregate FDIC indemnification asset of $4.4 million, consisting of the present value of the expected future cash flows the Company expected to receive from the FDIC under loss sharing agreements. The FDIC indemnification asset is reduced as loss sharing payments are received from the FDIC for

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losses realized on covered loans. Actual or expected losses in excess of the acquisition date estimates and accretion of the acquisition date present value discount will result in an increase in the FDIC indemnification asset and the immediate recognition of non-interest income in our financial statements.

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

Changes in the FDIC indemnification asset during the three months ended March 31, 2013 is shown below. There was no FDIC indemnification asset during the three months ended March 31, 2012. The Company acquired the FDIC indemnification asset as part of the VIST acquisition on August 1, 2012.

Three months ended March 31, 2013 (in thousands)	03/31/2013
Balance, beginning of the period	$4,385
Discount accretion of the present value at the acquisition dates	192
Prospective adjustment for additional cash flows	(112)
Increase due to impairment on covered loans	0
Reimbursements from the FDIC	0
Balance, end of period	$4,465

9. Earnings Per Share

Earnings per share in the table below, for the three months period ending March 31, 2013, is calculated under the two-class method as required by ASC Topic 260, Earnings Per Share. ASC 260 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The Company has issued restricted stock awards that contain such rights and are therefore considered participating securities. Basic earnings per common share are calculated by dividing net income allocable to common stock by the weighted average number of common shares, excluding participating securities, during the period. Diluted earnings per common share includes the dilutive effect of additional potential shares from stock compensations awards.

	Three Months Ended	
(in thousands, except share and per share data)	03/31/2013	03/31/2012
Basic		
Net income available to common shareholders	$ 11,510	$ 7,811
Less: dividends and undistributed earnings allocated to unvested restricted stock awards	(34)	(34)
Net earnings allocated to common shareholders	11,476	7,777
Weighted average shares outstanding, including participating securities	14,427,114	11,151,981
Less: average participating securities	(52,849)	(48,789)
Weighted average shares outstanding - Basic	14,374,265	11,103,192
Diluted		
Net earnings allocated to common shareholders	11,476	7,777
Weighted average shares outstanding - Basic	14,374,265	11,103,192
Dilutive effect of common stock options or restricted stock awards	62,492	44,298
Weighted average shares outstanding - Diluted	14,436,757	11,147,490
Basic EPS	0.80	0.70
Diluted EPS	0.79	0.70

The dilutive effect of common stock options or restricted awards calculation for the three months ended March 31, 2013 and 2012 excludes stock options, stock appreciation rights and restricted stock awards covering an aggregate of 572,068 and 585,824 shares, respectively, because the exercise prices were greater than the average market price during these periods.

10. Other Comprehensive Income (Loss)

The following table presents reclassifications out of the accumulated other comprehensive income for the periods ended March 31, 2013 and 2012.

March 31, 2013 (in thousands)	Before-Tax Amount	Tax (Expense) Benefit	Net of Tax
Available-for-sale securities:			
Change in net unrealized gain/loss during the period	$ (5,463)	$ 2,185	$ (3,278)
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(367)	147	(220)
Net unrealized losses	(5,830)	2,332	(3,498)
Employee benefit plans:			
Amortization of net retirement plan actuarial gain	654	(261)	393
Amortization of net retirement plan prior service cost	14	(6)	8
Amortization of net retirement plan transition liability	13	(5)	8
Employee benefit plans	681	(272)	409
Other comprehensive (loss) income	$ (5,149)	$ 2,060	$ (3,089)

March 31, 2012 (in thousands)	Before-Tax Amount	Tax (Expense) Benefit	Net of Tax
Available-for-sale securities:			
Change in net unrealized gain/loss during the period	$ (768)	$ 309	$ (459)
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(2)	1	(1)
Net unrealized losses	(770)	310	(460)
Employee benefit plans:			
Amortization of net retirement plan actuarial loss	472	(189)	283
Amortization of net retirement plan prior service cost	11	(4)	7
Amortization of net retirement plan transition liability	17	(7)	10
Employee benefit plans	500	(200)	300
Other comprehensive (loss) income	$ (270)	$ 110	$ (160)

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

(in thousands)	Available-for-Sale Securities	Employee Benefit Plans	Accumulated Other Comprehensive Income
Balance at January 1, 2012	$ 23,218	$ (26,895)	$ (3,677)
Other comprehensive (loss) income before reclassifications	(459)	0	(459)
Amounts reclassified from accumulated other comprehensive (loss) income	(1)	300	299
Net current-period other comprehensive loss (income)	(460)	300	(160)
Balance at March 31, 2012	$ 22,758	$ (26,595)	$ (3,837)
Balance at January 1, 2013	$ 26,356	$ (28,462)	$ (2,106)
Other comprehensive (loss) income before reclassifications	(3,278)	0	(3,278)
Amounts reclassified from accumulated other comprehensive (loss) income	(220)	409	189
Net current-period other comprehensive loss (income)	(3,498)	409	(3,089)
Balance at March 31, 2013	$ 22,858	$ (28,053)	$ (5,195)

The following table presents the amounts reclassified out of each component of accumulated other comprehensive income for the three months ended March 31, 2013.

Details about Accumulated other Comprehensive Income Components (in thousands)	Amount Reclassified from Accumulated Other Comprehensive Income1	Affected Line Item in the Statement Where Net Income is Presented
Available-for-sale securities:		
Unrealized gains and losses on available-for-sale securities	$ 367	Net gain on securities transactions
	(147)	Tax expense
	220	Net of tax
Employee benefit plans:		
Amortization of the following 2		
Net retirement plan actuarial loss	(654)	
Net retirement plan prior service cost	(14)	
Net retirement plan transition liability	(13)	
	(681)	Total before tax
	272	Tax benefit
	(409)	Net of tax

1 Amounts in parentheses indicated debits in income statement

2 The accumulated other comprehensive income components are included in the computation of net periodic benefit cost (See Note 11 - Employee Benefit Plan)

11. Employee Benefit Plan

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

Components of Net Periodic Benefit Cost

	Pension Benefits Three Months Ended		Life and Health Three Months Ended		SERP Benefits Three Months Ended	
(in thousands)	03/31/2013	03/31/2012	03/31/2013	03/31/2012	03/31/2013	03/31/2012
Service cost	$ 772	$ 624	$ 51	$ 33	$ 109	$ 81
Interest cost	669	713	86	102	185	181
Expected return on plan assets	(995)	(824)	0	0	0	0
Amortization of net retirement plan actuarial loss	505	414	27	1	122	57
Amortization of net retirement plan prior service cost (credit)	(31)	(31)	4	4	41	38
Amortization of net retirement plan transition liability	0	0	13	17	0	0
Net periodic benefit cost	$ 920	$ 896	$ 181	$ 157	$ 457	$ 357

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

The Company realized approximately $409,000 and $300,000, net of tax, of amortization of amounts previously recognized in accumulated other comprehensive income, for the three months ended March 31, 2013 and 2012, respectively.

The Company is not required to contribute to the pension plan in 2013, but it may make voluntary contributions. The Company did not contribute to the pension plan in the first three months of 2013; the Company contributed $5.0 million to the pension plan in the first three months of 2012.

12. Other Income and Operating Expense

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

	Three Months Ended			
(in thousands)	03/31/2013		03/31/2012	
Noninterest Income				
Other service charges	$	839	$	537
Increase in cash surrender value of corporate owned life insurance		552		426
Net gain on sale of loans		29		100
Other income		946		201
Total other income	$	2,366	$	1,264
Noninterest Expenses				
Marketing expense	$	1,165	$	1,173
Professional fees		1,355		887
Legal fees		592		155
Software licensing and maintenance		1,139		947
Cardholder expense		748		582
Other expenses		4,836		3,368
Total other operating expense	$	9,835	$	7,112

13. Financial Guarantees

The Company currently does not issue any guarantees that would require liability recognition or disclosure, other than standby letters of credit. The Company extends standby letters of credit to its customers in the normal course of business. The standby letters of credit are generally short-term. As of March 31, 2013, the Company's maximum potential obligation under standby letters of credit was $67.9 million compared to $68.7 million at December 31, 2012. Management uses the same credit policies to extend standby letters of credit that it uses for on-balance sheet lending decisions and may require collateral to support standby letters of credit based upon its evaluation of the counterparty. Management does not anticipate any significant losses as a result of these transactions, and has determined that the fair value of standby letters of credit is not significant.

14. Segment and Related Information

The Company manages its operations through three reportable business segments in accordance with the standards set forth in FASB ASC 280, "Segment Reporting": (i) banking ("Banking"), (ii) insurance ("Tompkins Insurance Agencies, Inc.") and (iii) wealth management ("Tompkins Financial Advisors" and "VIST Capital Management"). The Company's insurance services and wealth management services, other than trust services and the services offered by VIST Capital Management, are managed separately from the Banking segment.

Banking

The Banking segment is primarily comprised of the four banking subsidiaries: Tompkins Trust Company, a commercial bank with fifteen banking offices operated in Ithaca, NY and surrounding communities, The Bank of Castile, a commercial bank with sixteen banking offices conducting operations in the towns situated in and around the areas commonly known as the Letchworth State Park area and the Genesee Valley region of New York State, Mahopac National Bank, a commercial bank operating fifteen full-service banking offices and one limited service office in the counties north of New York City, and VIST Bank, a banking organization containing twenty banking offices headquartered and operating in the areas surrounding southeastern Pennsylvania.

Insurance

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

Wealth Management

The Wealth Management segment is generally organized under the Tompkins Financial Advisors brand name and consists of services and products offered through Tompkins Investment Services ("TIS"), a division of Tompkins Trust Company, and TFA Wealth Management. VIST Capital Management provides investment management services to our customers in southeastern Pennsylvania. Tompkins Financial Advisors offers a comprehensive suite of financial services to customers, including trust and estate services, investment management and financial and insurance planning for individuals, corporate executives, small business owners and high net worth individuals. VIST Capital Management, offers a complementary assortment of investment advisory, retirement planning, and brokerage services. Tompkins Financial Advisors has offices in each of the Company's three subsidiary banks located in New York, and VIST Capital Management has offices at VIST Bank.

Summarized financial information concerning the Company's reportable segments and the reconciliation to the Company's consolidated results is shown in the following table. Investment in subsidiaries is netted out of the presentations below. The "Intercompany" column identifies the intercompany activities of revenues, expenses and other assets between the banking insurance and wealth management services segments. The Company accounts for intercompany fees and services at an estimated fair value according to regulatory requirements for the services provided. Intercompany items relate primarily to the use of human resources, information systems, accounting and marketing services provided by any of the banks and the holding company. All other accounting policies are the same as those described in the summary of significant accounting policies in the 2012 Annual Report on Form 10-K.

As of and for the three months ended March 31, 2013

(in thousands)	Banking	Insurance	Wealth Management	Intercompany	Consolidated
Interest income	$ 44,401	$ 2	$ 55	$ (1)	$ 44,457
Interest expense	6,252	0	0	(1)	6,251
Net interest income	38,149	2	55	0	38,206
Provision for loan and lease losses	1,038	0	0	0	1,038
Noninterest income	6,636	7,066	4,190	(502)	17,390
Noninterest expense	29,406	5,566	3,050	(502)	37,520
Income before income tax expense	14,341	1,502	1,195	0	17,038
Income tax expense	4,466	625	404	0	5,495
Net Income attributable to noncontrolling interests and Tompkins Financial Corporation	9,875	877	791	0	11,543
Less: Net income attributable to noncontrolling interests	33	0	0	0	33
Net Income attributable to Tompkins Financial Corporation	$ 9,842	$ 877	$ 791	$ 0	$ 11,510
Depreciation and amortization	$ 1,354	$ 55	$ 36	$ 0	$ 1,445
Assets	4,948,301	34,427	11,981	(7,429)	4,987,280
Goodwill	64,665	19,559	8,081	0	92,305
Other intangibles, net	11,884	5,476	649	0	18,009
Net loans and leases	2,969,134	0	0	0	2,969,134
Deposits	4,079,623	0	0	(7,271)	4,072,352
Total Equity	412,256	25,150	9,406	0	446,812

As of and for the three months ended March 31, 2012

(in thousands)	Banking	Insurance	Wealth Management	Intercompany	Consolidated
Interest income	$ 33,070	$ 2	$ 58	$ (2)	$ 33,128
Interest expense	5,689	0	0	(2)	5,687
Net interest income	27,381	2	58	0	27,441
Provision for loan and lease losses	1,125	0	0	0	1,125
Noninterest income	4,839	3,493	3,688	(359)	11,661
Noninterest expense	20,689	2,789	3,252	(359)	26,371
Income before income tax expense	10,406	706	494	0	11,606
Income tax expense	3,333	277	152	0	3,762
Net Income attributable to noncontrolling interests and Tompkins Financial Corporation	7,073	429	342	0	7,844
Less: Net income attributable to noncontrolling interests	33	0	0	0	33
Net Income attributable to Tompkins Financial Corporation	$ 7,040	$ 429	$ 342	$ 0	$ 7,811
Depreciation and amortization	$ 1,131	$ 43	$ 35	$ 0	$ 1,209
Assets	3,519,337	19,393	11,717	(3,753)	3,546,694
Goodwill	23,600	13,041	8,012	0	44,653

Other intangibles, net	2,333	1,103	480	0	3,916
Net loans and leases	1,950,621	0	0	0	1,950,621
Deposits	2,863,031	0	0	(3,595)	2,859,436
Total Equity	282,863	14,167	8,937	0	305,967

15. Fair Value

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

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

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

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

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

Recurring Fair Value Measurements March 31, 2013 (in thousands)	Fair Value	(Level 1)	(Level 2)	(Level 3)
Trading securities				
Obligations of U.S. Government sponsored entities	$ 11,526	$ 11,526	$ 0	$ 0
Mortgage-backed securities – residential				
U.S. Government sponsored entities	4,105	4,105	0	0
Available-for-sale securities				
Obligations of U.S. Government sponsored entities	607,458	0	607,458	0
Obligations of U.S. states and political subdivisions	78,228	0	78,228	0
Mortgage-backed securities – residential, issued by:				
U.S. Government agencies	163,864	0	163,864	0
U.S. Government sponsored entities	670,512	0	670,512	0
Non-U.S. Government agencies or sponsored entities	403	0	403	0
U.S. corporate debt securities	5,074	0	5,074	0

Equity securities	2,036	0	979	1,057
Borrowings				
Other borrowings	11,770	0	11,770	0

The change in the fair value of the $1.1 million of available-for-sale securities valued using significant unobservable inputs (level 3), between January 1, 2013 and March 31, 2013 was immaterial.

Recurring Fair Value Measurements December 31, 2012 (in thousands)	Fair Value	(Level 1)	(Level 2)	(Level 3)
Trading securities				
Obligations of U.S. Government sponsored entities	$11,860	$11,860	$0	$0
Mortgage-backed securities – residential				
U.S. Government sponsored entities	4,590	4,590	0	0
Available-for-sale securities				
U.S. Treasury securities	1,004	1,004	0	0
Obligations of U.S. Government sponsored entities	593,778	0	593,778	0
Obligations of U.S. states and political subdivisions	79,056	0	79,056	0
Mortgage-backed securities – residential, issued by:				
U.S. Government agencies	167,667	0	167,667	0
U.S. Government sponsored entities	540,355	&#16		