

TOMPKINS FINANCIAL CORP  
Form 10-Q  
May 10, 2016

**United States**

**Securities and Exchange Commission**

**Washington, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number **1-12709**

**Tompkins Financial Corporation**

(Exact name of registrant as specified in its charter)

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

**The Commons, P.O. Box 460, Ithaca, NY** **14851**  
(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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

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

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

Class	Outstanding as of April 25, 2016
Common Stock, \$0.10 par value	<u>15,024,177</u> 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)*

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

# **EQUITY**

Tompkins Financial Corporation shareholders' equity:

Common Stock - par value \$.10 per share: Authorized 25,000,000 shares; Issued: 15,059,686 at March 31, 2016; and 15,015,594 at December 31, 2015

Additional paid-in capital

Retained earnings

Accumulated other comprehensive loss

Treasury stock, at cost – 111,924 shares at March 31, 2016, and 116,126 shares at December 31, 2015

1,506	1,502
353,846	350,823
205,031	197,445
(18,341 )	(31,001 )
(3,634 )	(3,755 )

**Total Tompkins Financial Corporation Shareholders' Equity**

**538,408 515,014**

Noncontrolling interests

1,485 1,452

**Total Equity**

**\$539,893 \$516,466**

**Total Liabilities and Equity**

**\$5,764,971 \$5,689,995**

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

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

<b>Basic Earnings Per Share</b>	<b>\$0.95</b>	<b>\$0.85</b>
<b>Diluted Earnings Per Share</b>	<b>\$0.94</b>	<b>\$0.84</b>



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

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

*See notes to unaudited condensed consolidated financial statements.*

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

(In thousands) (Unaudited)

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

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

*See notes to unaudited condensed consolidated financial statements.*

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

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

*See notes to unaudited condensed consolidated financial statements.*

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

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

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

*See notes to unaudited condensed consolidated financial statements*

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Business

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

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

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

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

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

## 2. Basis of Presentation

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

In management's opinion, the unaudited condensed consolidated financial statements reflect all adjustments of a normal recurring nature. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year ended December 31, 2016. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. Refer to Note 3- "Accounting Standards Updates" of this Report for a discussion of recently issued accounting guidelines.

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



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

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

### 3. Accounting Standards Updates

*ASU 2015-01, "Income Statement - Extraordinary and Unusual Items (Subtopic 225-20) – Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items."* ASU 2015-01 eliminates from U.S. GAAP the concept of extraordinary items, which, among other things, required an entity to segregate extraordinary items considered to be unusual and infrequent from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. ASU 2015-01 became effective for Tompkins on January 1, 2016 and did not have a significant impact on our financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### 4. Securities

##### Available-for-Sale Securities

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

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

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

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

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

**Held-to-Maturity Securities**

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

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

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

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

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

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

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(in thousands)</i>						
Obligations of U.S. Government sponsored entities	\$ 700	\$ 1	\$ 698	\$ 1	\$ 1,398	\$ 2
Obligations of U.S. states and political subdivisions	9,280	35	6,382	23	15,662	58
Mortgage-backed securities – issued by U.S. Government agencies	31,122	77	26,216	441	57,338	518
U.S. Government sponsored entities	140,571	391	212,062	2,631	352,633	3,022



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

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

	<b>Less than 12 Months</b>		<b>12 Months or Longer</b>		<b>Total</b>	
<i>(in thousands)</i>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
Obligations of U.S. Government sponsored entities	\$802	\$ 3	\$0	\$ 0	\$802	\$ 3
Total held-to-maturity securities	\$802	\$ 3	\$0	\$ 0	\$802	\$ 3

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

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

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

	Less than 12 Months		12 Months or Longer		Total	
<i>(in thousands)</i>	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government sponsored entities	\$29,671	\$ 444	\$0	\$ 0	\$29,671	\$ 444
Obligations of U.S. sponsored entities	\$1,966	\$ 4	\$0	\$ 0	\$1,966	\$ 4
Total held-to-maturity securities	\$31,637	\$ 448	\$0	\$ 0	\$31,637	\$ 448

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

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

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

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

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

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

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

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

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

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

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

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

### March 31, 2016

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

### December 31, 2015

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

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

March 31, 2016

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

December 31, 2015

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

The Company also holds non-marketable Federal Home Loan Bank New York (“FHLBNY”) stock, non-marketable Federal Home Loan Bank Pittsburgh (“FHLBPITT”) stock and non-marketable Atlantic Community Bankers Bank (“ACBB”) stock, all of which are required to be held for regulatory purposes and for borrowing availability. The required investment in FHLB stock is tied to the Company’s borrowing levels with the FHLB. Holdings of FHLBNY stock, FHLBPITT stock, and ACBB stock totaled \$13.9 million, \$11.7 million and \$95,000 at March 31, 2016, respectively. These securities are carried at par, which is also cost. The FHLBNY and FHLBPITT continue to pay dividends and repurchase stock. As such, the Company has not recognized any impairment on its holdings of FHLBNY and FHLBPITT stock. Quarterly, we evaluate our investment in the FHLB for impairment. We evaluate recent and long-term operating performance, liquidity, funding and capital positions, stock repurchase history, dividend history and impact of legislative and regulatory changes. Based on our most recent evaluation, as of March 31, 2016, we have determined that no impairment write-downs are currently required.

#### Trading Securities

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

(in thousands)	<b>03/31/2016</b>	<b>12/31/2015</b>
Obligations of U.S. Government sponsored entities	\$ 6,421	\$ 6,601
Mortgage-backed securities – residential, issued by U.S. Government sponsored entities	602	767
Total	\$ 7,023	\$ 7,368

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

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

**5. Loans and Leases**

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

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

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

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



Carrying amount	450,122	461,274
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The following tables present changes in accretable yield on loans acquired from VIST Bank that were considered credit impaired.

*(in thousands)*

Balance at January 1, 2015	\$8,604
Accretion	(2,696)
Disposals (loans paid in full)	(331 )
Reclassifications to/from nonaccretable difference <sup>1</sup>	1,215
<b>Balance at December 31, 2015</b>	<b>\$6,792</b>

*(in thousands)*

Balance at January 1, 2016	\$6,792
Accretion	(532 )
Reclassifications to/from nonaccretable difference <sup>1</sup>	244
<b>Balance at March 31, 2016</b>	<b>\$6,504</b>

<sup>1</sup> Results in increased interest income as a prospective yield adjustment over the remaining life of the loans, as well as increased interest income from loan sales, modification and prepayments.

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

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

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

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

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

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

**March 31,  
2016**

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

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

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

**December 31, 2015**

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

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

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



## 6. Allowance for Loan and Lease Losses

### **Originated Loans and Leases**

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

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

Since the methodology is based upon historical experience and trends as well as management’s judgment, factors may arise that result in different estimates. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the local area, concentration of risk, changes in interest rates, and declines in local property values. While management’s evaluation of the allowance as of March 31, 2016, considers the allowance to be appropriate, under adversely different conditions or assumptions, the Company would need to increase or decrease the allowance.

### **Acquired Loans and Leases**

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

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

*Acquired loans accounted for under ASC 310-20*

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

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

**Three months ended March 31, 2016**

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

**Three months ended March 31, 2016**

<i>(in thousands)</i>	<b>Commercial and Industrial</b>	<b>Commercial Real Estate</b>	<b>Residential Real Estate</b>	<b>Consumer and Other</b>	<b>Finance Leases</b>	<b>Total</b>
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**Allowance for acquired loans**

Beginning balance	\$ 433	\$ 61	\$ 198	\$ 0	\$ 0	\$692
Charge-offs	(63 )	0	(16 )	(93 )	0	(172)
Recoveries	0	46	0	0	0	46
Provision (credit)	63	(74 )	(123 )	117	0	(17 )
Ending Balance	\$ 433	\$ 33	\$ 59	\$ 24	\$ 0	\$549

**Three months ended March 31, 2015**

<i>(in thousands)</i>	<b>Commercial and Industrial</b>	<b>Commercial Real Estate</b>	<b>Residential Real Estate</b>	<b>Consumer and Other</b>	<b>Finance Leases</b>	<b>Total</b>
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**Allowance for originated loans and leases**

Beginning balance	\$ 9,157	\$ 12,069	\$ 5,030	\$ 1,900	\$ 0	\$28,156
Charge-offs	(2 )	(14 )	(93 )	(267 )	0	(376 )
Recoveries	147	208	47	168	0	570
Provision (credit)	528	75	(319 )	56	0	340
Ending Balance	\$ 9,830	\$ 12,338	\$ 4,665	\$ 1,857	\$ 0	\$28,690

**Three months ended March 31, 2015**

<i>(in thousands)</i>	<b>Commercial and Industrial</b>	<b>Commercial Real Estate</b>	<b>Residential Real Estate</b>	<b>Consumer and Other</b>	<b>Covered Loans</b>	<b>Total</b>
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**Allowance for acquired loans**

Beginning balance	\$ 431	\$ 337	\$ 51	\$ 22	\$ 0	\$841
Charge-offs	(1 )	0	(30 )	0	0	(31 )
Recoveries	7	107	2	0	0	116
Provision (credit)	126	(278 )	20	1	0	(131)
Ending Balance	\$ 563	\$ 166	\$ 43	\$ 23	\$ 0	\$795

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

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

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

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

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

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

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

<b>Total</b>	<b>\$ 843,937</b>	<b>\$ 1,424,074</b>	<b>\$ 1,033,543</b>	<b>\$ 57,716</b>	<b>\$ 14,426</b>	<b>\$ 3,373,696</b>
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<i>(in thousands)</i>	<b>Commercial and Industrial</b>	<b>Commercial Real Estate</b>	<b>Residential Real Estate</b>	<b>Consumer and Other</b>	<b>Covered Loans</b>	<b>Total</b>
<b>Acquired loans</b>						
March 31, 2016						
Individually evaluated for impairment	\$ 566	\$ 5,078	\$ 1,253	\$ 0	\$0	\$6,897
Loans acquired with deteriorated credit quality	515	9,086	3,762	0	12,097	25,460
Collectively evaluated for impairment	85,461	267,981	62,698	985	640	417,765
<b>Total</b>	<b>\$ 86,542</b>	<b>\$ 282,145</b>	<b>\$ 67,713</b>	<b>\$ 985</b>	<b>\$12,737</b>	<b>\$450,122</b>

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

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

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

<i>(in thousands)</i>	<b>Recorded Investment</b>	<b>03/31/2016 Unpaid Principal Balance</b>	<b>Related Allowance</b>	<b>Recorded Investment</b>	<b>12/31/2015 Unpaid Principal Balance</b>	<b>Related Allowance</b>
<b>Originated loans and leases with no related allowance</b>						
Commercial and industrial						
Commercial and industrial other	\$ 625	\$ 635	\$ 0	\$ 1,206	\$ 1,211	\$ 0
Commercial real estate						
Commercial real estate other	5,406	5,816	0	5,049	5,249	0
Residential real estate						
Home equity	2,311	2,311	0	2,270	2,270	0
Subtotal	\$ 8,342	\$ 8,762	\$ 0	\$ 8,525	\$ 8,730	\$ 0
<b>Originated loans and leases with related allowance</b>						
Commercial and industrial						
Commercial and industrial other	4	4	4	0	0	0
Commercial real estate						
Commercial real estate other	880	880	345	606	606	288
Subtotal	\$ 884	\$ 884	\$ 349	\$ 606	\$ 606	\$ 288
Total	\$ 9,226	\$ 9,646	\$ 349	\$ 9,131	\$ 9,336	\$ 288

<i>(in thousands)</i>	<b>Recorded Investment</b>	<b>03/31/2016 Unpaid Principal Balance</b>	<b>Related Allowance</b>	<b>Recorded Investment</b>	<b>12/31/2015 Unpaid Principal Balance</b>	<b>Related Allowance</b>
<b>Acquired loans with no related allowance</b>						



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Commercial and industrial						
Commercial and industrial other	\$ 49	\$ 49	\$ 0	\$ 128	\$ 128	\$ 0
Commercial real estate						
Construction	354	510	0	359	359	0
Commercial real estate other	4,693	4,875	0	4,739	5,077	0
Residential real estate						
Home equity	1,253	1,253	0	1,177	1,177	0
Subtotal	\$ 6,349	\$ 6,687	\$ 0	\$ 6,403	\$ 6,741	\$ 0

Acquired loans with related allowance

Commercial and industrial						
Commercial and industrial other	517	517	433	519	519	433
Commercial real estate						
Commercial real estate other	31	31	31	128	128	128
Subtotal	\$ 548	\$ 548	\$ 464	\$ 647	\$ 647	\$ 561
Total	\$ 6,897	\$ 7,235	\$ 464	\$ 7,050	\$ 7,388	\$ 561

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

	<b>Three Months Ended 03/31/2016</b>		<b>Three Months Ended 03/31/2015</b>	
	<b>Average Interest Recorded</b>		<b>Average Interest Recorded</b>	
<i>(in thousands)</i>	<b>Investment Recognized</b>		<b>Investment Recognized</b>	

**Originated loans and leases with no  
related allowance**

Commercial and industrial				
Commercial and industrial other	\$ 624	\$ 0	\$ 786	\$ 0
Commercial real estate				
Commercial real estate other	5,699	0	8,471	0
Residential real estate				
Home equity	2,290	0	924	0
Subtotal	\$ 8,613	\$ 0	\$ 10,181	\$ 0

**Originated loans and leases with related  
allowance**

Commercial and industrial				
Commercial and industrial other	\$ 4	\$ 0	\$ 0	\$ 0
Commercial real estate				
Commercial real estate other	587	0	1,678	0
Subtotal	\$ 591	\$ 0	\$ 1,678	\$ 0
Total	\$ 9,204	\$ 0	\$ 11,859	\$ 0

	<b>Three Months Ended 03/31/2016</b>		<b>Three Months Ended 03/31/2015</b>	
	<b>Average Interest Recorded</b>		<b>Average Interest Recorded</b>	
<i>(in thousands)</i>	<b>Investment Recognized</b>		<b>Investment Recognized</b>	

**Acquired loans with no related allowance**

Commercial and industrial				
Commercial and industrial other	\$ 594	\$ 0	\$ 581	\$ 0
Commercial real estate				

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Construction	359	0	373	0
Commercial real estate other	5,176	0	2,480	0
Residential real estate				
Home equity	893	0	947	0
Subtotal	\$ 7,022	\$ 0	\$ 4,381	\$ 0

Acquired loans with related allowance

Commercial and industrial				
Commercial and industrial other	\$ 518	\$ 0	\$ 815	\$ 0
Commercial real estate				
Commercial real estate other	32	0	245	0
Subtotal	\$ 550	\$ 0	\$ 1,060	\$ 0
Total	\$ 7,572	\$ 0	\$ 5,441	\$ 0

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

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

**March 31, 2016 Three months ended**

			<b>Defaulted TDRs<sup>3</sup></b>	
	<b>Pre-Modification Number of Outstanding Loans Recorded Investment</b>	<b>Post-Modification Outstanding Recorded Investment</b>	<b>Number of Loans</b>	<b>Post-Modification Outstanding Recorded Investment</b>
<i>(in thousands)</i>				