TOMPKINS FINANCIAL CORP
Form 10-Q
November 12, 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 September 30, 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: (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 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 October 31, 2013
Common Stock, $0.10 par value	14,709,021 shares

TOMPKINS FINANCIAL CORPORATION

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TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share and per share data) (Unaudited)	As of	As of
ASSETS	09/30/2013	12/31/2012
Cash and noninterest bearing balances due from banks	$87,595	$117,448
Interest bearing balances due from banks	985	1,482
Cash and Cash Equivalents	88,580	118,930
Trading securities, at fair value	11,530	16,450
Available-for-sale securities, at fair value (amortized cost of $1,359,757 at September 30, 2013 and $1,349,416 at December 31, 2012)	1,358,930	1,393,340
Held-to-maturity securities, fair value of $20,403 at September 30, 2013, and $25,163 at December 31, 2012	19,773	24,062
Originated loans and leases, net of unearned income and deferred costs and fees	2,420,695	2,133,106
Acquired loans and leases, covered	27,363	37,600
Acquired loans and leases, non-covered	671,254	783,904
Less: Allowance for loan and lease losses	26,408	24,643
Net Loans and Leases	3,092,904	2,929,967
FDIC Indemnification Asset	4,536	4,385
Federal Home Loan Bank stock and Federal Reserve Bank stock	21,955	19,388
Bank premises and equipment, net	55,607	54,581
Corporate owned life insurance	68,087	65,102
Goodwill	92,140	92,305
Other intangible assets, net	16,841	18,643
Accrued interest and other assets	101,545	100,044
Total Assets	$4,932,428	$4,837,197
LIABILITIES		
Deposits:		
Interest bearing:		
Checking, savings and money market	2,219,136	2,144,367
Time	906,173	973,883
Noninterest bearing	847,447	831,919
Total Deposits	3,972,756	3,950,169
Federal funds purchased and securities sold under agreements to repurchase	162,117	213,973
Other borrowings, including certain amounts at fair value of $11,304 at September 30, 2013 and $11,847 at December 31, 2012	242,177	111,848
Trust preferred debentures	37,127	43,668
Other liabilities	73,975	76,179
Total Liabilities	$4,488,152	$4,395,837
EQUITY		
Tompkins Financial Corporation shareholders’ equity:		
Common Stock - par value $.10 per share: Authorized 25,000,000 shares; Issued: 14,728,581 at September 30, 2013; and 14,426,711 at December 31, 2012	1,473	1,443
Additional paid-in capital	343,276	334,649
Retained earnings	128,700	108,709
Accumulated other comprehensive loss	(27,751)	(2,106)

Treasury stock, at cost – 103,282 shares at September 30, 2013, and 100,054 shares at December 31, 2012	(2,972)	(2,787)
Total Tompkins Financial Corporation Shareholders' Equity	442,726	439,908
Noncontrolling interests	1,550	1,452
Total Equity	$444,276	$441,360
Total Liabilities and Equity	$4,932,428	$4,837,197

See notes to unaudited condensed consolidated financial statements

TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Nine Months Ended	
(In thousands, except per share data) (Unaudited)	09/30/2013	09/30/2012	09/30/2013	09/30/2012
INTEREST AND DIVIDEND INCOME				
Loans	$38,048	$34,003	$112,027	$84,709
Due from banks	1	6	9	14
Federal funds sold	0	0	0	2
Trading securities	147	182	472	569
Available-for-sale securities	7,830	8,317	23,222	23,016
Held-to-maturity securities	160	208	528	658
Federal Home Loan Bank stock and Federal Reserve Bank stock	193	203	538	620
Total Interest and Dividend Income	46,379	42,919	136,796	109,588
INTEREST EXPENSE				
Time certificates of deposits of $100,000 or more	1,208	1,043	3,651	2,497
Other deposits	1,894	2,105	6,093	5,930
Federal funds purchased and securities sold under agreements to repurchase	901	1,174	2,877	3,340
Trust preferred debentures	660	489	2,037	1,296
Other borrowings	1,243	1,365	3,634	4,231
Total Interest Expense	5,906	6,176	18,292	17,294
Net Interest Income	40,473	36,743	118,504	92,294
Less: Provision for loan and lease losses	2,049	1,042	5,576	3,178
Net Interest Income After Provision for Loan and Lease Losses	38,424	35,701	112,928	89,116
NONINTEREST INCOME				
Insurance commissions and fees	7,160	5,786	21,588	13,184
Investment services income	3,694	3,614	11,180	10,504
Service charges on deposit accounts	2,254	1,988	6,186	5,366
Card services income	1,735	1,504	5,163	4,353
Mark-to-market loss on trading securities	(87)	(41)	(472)	(198)
Mark-to-market gain (loss) on liabilities held at fair value	119	(27)	543	138
Net other-than-temporary impairment losses	0	(55)	0	(120)
Other income	3,372	2,116	7,548	5,151
Gain (loss) on sale of available-for-sale securities	281	(112)	723	822
Total Noninterest Income	18,528	14,773	52,459	39,200
NONINTEREST EXPENSES				
Salaries and wages	16,755	13,892	48,618	36,273
Pension and other employee benefits	5,606	4,826	17,014	13,248
Net occupancy expense of premises	2,850	2,472	8,865	6,070
Furniture and fixture expense	1,448	1,364	4,367	3,580
FDIC insurance	808	759	2,401	1,841
Amortization of intangible assets	544	426	1,648	684
Merger related expenses	0	13,842	228	14,814
Other operating expense	9,543	8,613	29,710	22,910
Total Noninterest Expenses	37,554	46,194	112,851	99,420
Income Before Income Tax Expense	19,398	4,280	52,536	28,896

Income Tax Expense	5,316	761	15,873	8,674
Net Income attributable to Noncontrolling Interests and Tompkins Financial Corporation	14,082	3,519	36,663	20,222
Less: Net income attributable to noncontrolling interests	33	32	98	98
Net Income Attributable to Tompkins Financial Corporation	$14,049	$3,487	$36,565	$20,124
Basic Earnings Per Share	$0.96	$0.26	$2.51	$1.63
Diluted Earnings Per Share	$0.95	$0.25	$2.50	$1.63

See notes to unaudited condensed consolidated financial statements.

Consolidated Statements of Comprehensive Income

(in thousands) (Unaudited)	Three Months Ended 09/30/2013	09/30/2012
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	$14,082	$3,519
Other comprehensive income, net of tax:		
Available-for-sale securities:		
Change in net unrealized (loss) gain during the period	(318)	3,706
Reclassification adjustment for net realized (gain) loss on sale of available-for-sale securities included in net income	(169)	67
Change in non-credit impairment losses on available-for-sale securities	0	33
Employee benefit plans:		
Amortization of net retirement plan actuarial gain	387	349
Amortization of net retirement plan prior service cost	8	8
Amortization of net retirement plan transition liability	8	10
Other comprehensive (loss) income	(84)	4,173
Subtotal comprehensive income attributable to noncontrolling interests and Tompkins Financial Corporation	13,998	7,692
Less: Net income attributable to noncontrolling interests	(33)	(32)
Total comprehensive income attributable to Tompkins Financial Corporation	$13,965	$7,660

See notes to unaudited condensed consolidated financial statements.

Consolidated Statements of Comprehensive Income

(in thousands) (Unaudited)	Nine Months Ended 09/30/2013	09/30/2012
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	$ 36,663	$ 20,222
Other comprehensive income, net of tax:		
Available-for-sale securities:		
Change in net unrealized (loss) gain during the period	(26,420)	7,657
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(434)	(494)
Change in non-credit impairment losses on available-for-sale securities	0	72
Employee benefit plans:		
Amortization of net retirement plan actuarial gain	1,160	1,046
Amortization of net retirement plan prior service cost	26	26
Amortization of net retirement plan transition liability	23	30
Other comprehensive (loss) income	(25,645)	8,337
Subtotal comprehensive income attributable to noncontrolling interests and Tompkins Financial Corporation	11,018	28,559

Less: Net income attributable to noncontrolling interests		(98)		(98)
Total comprehensive income attributable to Tompkins Financial Corporation	$	10,920	$	28,461

See notes to unaudited condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)	09/30/2013	09/30/2012
OPERATING ACTIVITIES		
Net income attributable to Tompkins Financial Corporation	$36,565	$20,124
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	5,576	3,178
Depreciation and amortization of premises, equipment, and software	4,284	3,810
Amortization of intangible assets	1,648	684
Earnings from corporate owned life insurance	(1,482)	(1,246)
Net amortization on securities	10,724	8,615
Other than temporary impairment loss	0	120
Mark-to-market loss on trading securities	472	198
Mark-to-market gain on liabilities held at fair value	(543)	(138)
Gain on securities transactions	(723)	(822)
Net gain on sale of loans	(212)	(579)
Proceeds from sale of loans	7,076	25,660
Loans originated for sale	(8,271)	(24,913)
Gain on redemption of trust preferred	(1,410)	0
Net gain on sale of bank premises and equipment	(7)	2
Stock-based compensation expense	960	975
Decrease (increase) in accrued interest receivable	927	(1,381)
Decrease in accrued interest payable	(809)	(686)
Proceeds from maturities and payments of trading securities	4,425	1,996
Contribution to pension plan	0	(5,000)
Decrease in FDIC prepaid insurance	5,386	0
Other, net	13,029	(6,033)
Net Cash Provided by Operating Activities	77,615	24,564
INVESTING ACTIVITIES		
Proceeds from maturities, calls and principal paydowns of available-for-sale securities	197,009	236,181
Proceeds from sales of available-for-sale securities	99,378	180,545
Proceeds from maturities, calls and principal paydowns of held-to-maturity securities	11,798	10,321
Purchases of available-for-sale securities	(316,705)	(364,721)
Purchases of held-to-maturity securities	(7,511)	(11,155)
Net increase in loans	(167,106)	(62,872)
Net (increase) decrease in Federal Home Loan Bank stock and Federal Reserve Bank stock	(2,567)	3,121
Proceeds from sale of bank premises and equipment	116	42
Purchases of bank premises and equipment	(4,811)	(5,021)
(Purchase) redemption of corporate owned life insurance	(1,500)	0
Net cash used in acquisition	0	4,289
Other, net	(3,417)	(748)
Net Cash Used in Investing Activities	(195,316)	(10,018)
FINANCING ACTIVITIES		
Net increase in demand, money market, and savings deposits	90,297	217,264
Net decrease in time deposits	(67,710)	(25,419)
Net decrease in Federal funds purchases and securities sold under agreements to repurchase	(51,856)	(81,784)
Increase in other borrowings	194,674	20,000

Repayment of other borrowings	(63,801)	(80,476)
Redemption of trust preferred debentures	(5,191)	0
Cash dividends	(16,574)	(13,561)
Common stock issued	0	37,978
Shares issued for dividend reinvestment plan	3,009	939
Shares issued for employee stock ownership plan	717	1,037
Net shares issued related to restricted stock awards	(68)	0
Net proceeds from exercise of stock options	3,639	2,416
Tax benefit from stock option exercises	215	159
Net Cash Provided by Financing Activities	87,351	78,553
Net (Decrease) Increase in Cash and Cash Equivalents	(30,350)	93,099
Cash and cash equivalents at beginning of period	118,930	49,567
Total Cash & Cash Equivalents at End of Period	88,580	142,666

See notes to unaudited condensed consolidated financial statements.

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

	09/30/2013	09/30/2012
Supplemental Information:		
Cash paid during the year for - Interest	$21,534	$17,980
Cash paid during the year for - Taxes	6,283	13,314
Transfer of loans to other real estate owned	4,407	492

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			20,124			98	20,222
Other comprehensive income				8,337			8,337
Total Comprehensive Income							28,559
Cash dividends ($1.08 per share)			(13,561)				(13,561)
Exercise of stock options and related tax benefit (89,451 shares, net)	9	2,566					2,575
Stock-based compensation expense		975					975
Shares issued for dividend reinvestment plan (23,247 shares, net)	2	937					939
Shares issued for employee stock ownership plan (25,655 shares)	2	1,035					1,037
Directors deferred compensation plan (2,491 shares, net)		100			(100)		0
Common stock issued (1,006,250 shares)	101	37,877					37,978
Common stock issued for purchase acquisition (2,093,689 shares)	209	83,096					83,305
Forfeiture of restricted shares (3,618 shares)							0
Balances at September 30, 2012	$1,439	$ 332,981	$103,008	$ 4,660	$(2,688)	$ 1,550	$440,950
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			36,565			98	36,663
Other comprehensive loss				(25,645)			(25,645)
							11,018

Total Comprehensive Income							
Cash dividends ($1.14 per share)			(16,574)				(16,574)
Exercise of stock options and related tax benefit (111,307 shares, net)	11	3,843					3,854
Shares issued for dividend reinvestment plan (70,530 shares, net)	7	3,002					3,009
Compensation expense stock options		960					960
Shares issued for employee stock ownership plan (17,290 shares, net)	2	715					717
Directors deferred compensation plan (3,228 shares, net)		185			(185)		0
Shares issued related to restricted stock awards (106,325 shares)	10	(10)					0
Shares redeemed related to restricted stock awards (1,298 shares)		(68)					(68)
Forfeiture of restricted shares (2,284 shares)							0
Balances at September 30, 2013	$1,473	$ 343,276	$128,700	$ (27,751)	$(2,972)	$ 1,550	$444,276

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 September 30, 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., ("TFA Wealth Management") a wholly owned registered investment advisor; 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 (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 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 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, 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 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 also had $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 VIST Bank. The acquisition expands the Company's presence into the southeastern region of Pennsylvania.

The acquisition was a merger 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") 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 the 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 a third party valuation specialist. The fair values were preliminary estimates and subject to adjustment for up to one year after the closing date of the acquisition. The one year period ended August 1, 2013. 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

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.

(in thousands)	Acquired Credit Impaired Loans	Acquired Non-Credit Impaired Loans	Total Acquired Loans
Contractually required principal and interest at acquisition	$ 159,325	$ 1,058,708	$ 1,218,033
Contractual cash flows not expected to be collected (non-accretable difference)	57,545	0	57,545
Expected cash flows at acquisition	101,780	1,058,708	1,160,488
Interest component of expected cash flows (accretable difference)	10,008	261,144	271,152
Fair value of acquired loans	91,772	797,564	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 second quarter of 2013 included an adjustment of $165,000 to goodwill due to the completion of the final income tax return related to the VIST acquisition. 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 nine months ended September 30, 2013, the Company incurred $228,000 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 September 30, 2013:

	Available-for-Sale Securities			
September 30, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. Government sponsored entities	$569,867	$9,233	$6,189	$572,911
Obligations of U.S. states and political subdivisions	72,981	1,278	1,335	72,924
Mortgage-backed securities – residential, issued by				
U.S. Government agencies	131,347	3,009	2,354	132,002
U.S. Government sponsored entities	578,161	9,184	13,334	574,011
Non-U.S. Government agencies or sponsored entities	375	8	0	383
U.S. corporate debt securities	5,002	28	300	4,730
Total debt securities	1,357,733	22,740	23,512	1,356,961
Equity securities	2,024	0	55	1,969
Total available-for-sale securities	$1,359,757	$22,740	$23,567	$1,358,930

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

	Available-for-Sale Securities			
December 31, 2012	Amortized Cost1	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
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 September 30, 2013:

	Held-to-Maturity Securities			
September 30, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. states and political subdivisions	$19,773	$633	$3	$20,403
Total held-to-maturity debt securities	$19,773	$633	$3	$20,403

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

	Held-to-Maturity Securities			
December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
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 $303,000 and $808,000 in the third quarter and nine months ending September 30, 2013, respectively, and $251,000 and $1,185,000 in the same periods of 2012. Realized losses on available-for-sale securities were $22,000 and $85,000 in the third quarter and nine months ending September 30, 2013, respectively, and $363,000 in the same time periods of 2012.

The following table summarizes available-for-sale securities that had unrealized losses at September 30, 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	$ 277,303	$ 6,189	$ 0	$ 0	$ 277,303	$ 6,189
Obligations of U.S. states and political subdivisions	30,305	1,335	0	0	30,305	1,335
Mortgage-backed securities – issued by						
U.S. Government agencies	57,139	2,128	7,880	226	65,019	2,354
U.S. Government sponsored entities	310,494	11,774	39,069	1,560	349,563	13,334
U.S. corporate debt securities	2,200	300	0	0	2,200	300
Equity securities	0	0	945	55	945	55
Total available-for-sale securities	$ 677,441	$ 21,726	$ 47,894	$ 1,841	$ 725,335	$ 23,567

The following table summarizes held-to-maturity securities that had unrealized losses at September 30, 2013.

(in thousands)	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or Longer Fair Value	12 Months or Longer Unrealized Losses	Total Fair Value	Total Unrealized Losses
Obligations of U.S. states and political subdivisions	$ 2,688	$ 3	$ 0	$ 0	$ 2,688	$ 3
Total held-to-maturity securities	$ 2,688	$ 3	$ 0	$ 0	$ 2,688	$ 3

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 September 30, 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 September 30, 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 September 30, 2013, the Company owned one corporate (non-agency) collateralized mortgage obligation issue ("CMO") in a senior tranche of which the aggregate historical cost basis for this non-agency CMO was less than its estimated fair value. At September 30, 2013, this non-agency CMO with an amortized cost basis of $375,000 was collateralized by residential real estate and is not currently deferring or 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 was greater than their estimated fair value were deferring or were 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 on these securities in 2013. The Company did recognize $55,000 and $120,000, respectively, in net credit impairment charges to earnings on these securities in the third quarter and nine months ending September 30, 2012.

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		Nine Months Ended	
(in thousands)	09/30/2013	09/30/2012	09/30/2013	09/30/2012
Credit losses at beginning of the period	$0	$310	$441	$245
Credit losses related to securities for which an other-than-temporary impairment was previously recognized	0	55	0	120
Sales of securities for which an other-than-temporary impairment was previously recognized	0	0	(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	$365	$0	$365

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

September 30, 2013		
(in thousands)	Amortized Cost	Fair Value
Available-for-sale securities:		

Due in one year or less	$26,371	$26,486
Due after one year through five years	224,856	234,238
Due after five years through ten years	365,281	359,993
Due after ten years	31,342	29,848
Total	647,850	650,565
Mortgage-backed securities	709,883	706,396
Total available-for-sale debt securities	$1,357,733	$1,356,961

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.

September 30, 2013 (in thousands)	Amortized Cost	Fair Value
Held-to-maturity securities:		
Due in one year or less	$ 11,093	$11,151
Due after one year through five years	6,071	6,427
Due after five years through ten years	2,030	2,216
Due after ten years	579	609
Total held-to-maturity debt securities	$ 19,773	$20,403

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. 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 $14.1 million, $5.7 million, $95,000, and $2.1 million at September 30, 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. Federal law requires a member institution of the Federal Home Loan Bank (FHLB) system to hold stock of its district FHLB according to a predetermined formula. This stock is recorded at cost. 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, 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)	09/30/2013	12/31/2012
Obligations of U.S. Government sponsored entities	$ 8,467	$ 11,860
Mortgage-backed securities – residential, issued by U.S. Government sponsored entities	3,063	4,590
Total	$ 11,530	$ 16,450

The net loss on trading account securities, which reflects mark-to-market adjustments, totaled $87,000 and $472,000 for the third quarter and nine months ending September 30, 2013, respectively, and $41,000 and $198,000 for the third quarter and nine months ending September 30, 2012.

The Company pledges securities as collateral for public deposits and other borrowings, and sells securities under agreements to repurchase. Securities carried of $1.1 billion at September 30, 2013 and $1.0 billion at December 31, 2012, were either pledged or sold under agreements to repurchase.

6. Loans and Leases
Loans and Leases at September 30, 2013 and December 31, 2012 were as follows:

	09/30/2013			12/31/2012		
(in thousands)	Originated	Acquired	Total Loans and Leases	Originated	Acquired	Total Loans and Leases
Commercial and industrial						
Agriculture	$ 59,041	$ 0	$ 59,041	$ 77,777	$ 0	$ 77,777
Commercial and industrial other	530,878	126,348	657,226	446,876	167,427	614,303
Subtotal commercial and industrial	589,919	126,348	716,267	524,653	167,427	692,080
Commercial real estate						
Construction	41,868	38,036	79,904	41,605	43,074	84,679
Agriculture	48,657	3,528	52,185	48,309	3,247	51,556
Commercial real estate other	862,023	394,559	1,256,582	722,273	445,359	1,167,632
Subtotal commercial real estate	952,548	436,123	1,388,671	812,187	491,680	1,303,867
Residential real estate						
Home equity	166,800	70,315	237,115	159,720	81,657	241,377
Mortgages	653,086	37,131	690,217	573,861	41,618	615,479
Subtotal residential real estate	819,886	107,446	927,332	733,581	123,275	856,856
Consumer and other						
Indirect	22,488	7	22,495	26,679	24	26,703
Consumer and other	32,996	1,330	34,326	32,251	1,498	33,749
Subtotal consumer and other	55,484	1,337	56,821	58,930	1,522	60,452

Leases	5,102	0	5,102	4,618	0	4,618
Covered loans	0	27,363	27,363	0	37,600	37,600
Total loans and leases	2,422,939	698,617	3,121,556	2,133,969	821,504	2,955,473
Less: unearned income and deferred costs and fees	(2,244)	0	(2,244)	(863)	0	(863)
Total loans and leases, net of unearned income and deferred costs and fees	$ 2,420,695	$ 698,617	$ 3,119,312	$ 2,133,106	$ 821,504	$ 2,954,610

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The outstanding principal balance and the related carrying amount of the Company's loans acquired in the VIST Bank acquisition are as follows at September 30, 2013 and December 31, 2012:

(in thousands)	09/30/13	12/31/12
Acquired Credit Impaired Loans		
Outstanding principal balance	$93,155	$114,516
Carrying amount	58,172	80,223
Acquired Non-Credit Impaired Loans		
Outstanding principal balance	689,695	750,380
Carrying amount	640,445	741,281
Total Acquired Loans		
Outstanding principal balance	782,850	864,896
Carrying amount	698,617	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	(6,054)
Disposals (loans paid in full)	(196)
Reclassifications to/from nonaccretable difference1	4,818
Other changes in expected cash flows2	4,792
Balance at September 30, 2013	$10,697

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

2 Represents changes in cash flows expected to be collected due to factors other than credit (e.g. changes in prepayment assumptions and/or changes in interest rates on variable rate loans).

During the second and third quarter of 2013 we increased our estimate of future cash flows on acquired loans to reflect our current outlook for prepayment speeds on these balances and increases in interest rates on variable rate loans. The decreases in prepayment speed assumptions and increases in interest rate assumptions increased our accretable discount by $4.8 million. This change did not materially impact our current quarter interest income or net interest margin.

At September 30, 2013, acquired loans included $27.4 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. 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 6 – "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 September 30, 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 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 September 30, 2013 and December 31, 2012.

September 30, 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	$ 59,041	$ 59,041	$ 0	$ 0
Commercial and industrial other	2,403	766	527,709	530,878	0	2,422
Subtotal commercial and industrial	2,403	766	586,750	589,919	0	2,422
Commercial real estate						
Construction	606	7,658	33,604	41,868	88	9,935
Agriculture	229	0	48,428	48,657	0	20
Commercial real estate other	4,243	8,444	849,336	862,023	52	11,826
Subtotal commercial real estate	5,078	16,102	931,368	952,548	140	21,781
Residential real estate						
Home equity	368	1,537	164,895	166,800	63	1,872
Mortgages	3,389	6,226	643,471	653,086	1,014	7,630
Subtotal residential real estate	3,757	7,763	808,366	819,886	1,077	9,502
Consumer and other						
Indirect	686	101	21,701	22,488	0	142
Consumer and other	269	0	32,727	32,996	0	34
Subtotal consumer and other	955	101	54,428	55,484	0	176
Leases	0	0	5,102	5,102	0	0
Total loans and leases	12,193	24,732	2,386,014	2,422,939	1,217	33,881
Less: unearned income and deferred costs and fees	0	0	0	(2,244)	0	0
Total originated loans and leases, net of unearned income and deferred costs and fees	$ 12,193	$ 24,732	$ 2,386,014	$ 2,420,695	$ 1,217	$ 33,881

Acquired Loans and Leases						
Commercial and industrial						
Commercial and industrial other	587	1,100	124,661	126,348	913	345
Subtotal commercial and industrial	587	1,100	124,661	126,348	913	345
Commercial real estate						
Construction	86	4,552	33,398	38,036	3,327	392
Agriculture	0	0	3,528	3,528	0	0
Commercial real estate other	2,206	7,659	384,694	394,559	3,078	3,687
Subtotal commercial real estate	2,292	12,211	421,620	436,123	6,405	4,079
Residential real estate						
Home equity	1,211	2,239	66,865	70,315	597	1,989
Mortgages	2,771	3,836	30,524	37,131	2,606	1,591
Subtotal residential real estate	3,982	6,075	97,389	107,446	3,203	3,580
Consumer and other						
Indirect	0	1	6	7	0	4
Consumer and other	26	0	1,304	1,330	0	0
Subtotal consumer and other	26	1	1,310	1,337	0	4
Covered loans	1,132	2,980	23,251	27,363	2,980	0
Total acquired loans and leases, net of unearned income and deferred costs and fees	$ 8,019	$ 22,367	$ 668,231	$ 698,617	$ 13,501	$ 8,008

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.

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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 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 factors are 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 September 30, 2013, considers the allowance to be appropriate, under adversely different conditions or assumptions, the Company would need to increase or decrease the allowance.

Acquired Loans and Leases

Acquired loans accounted for under ASC 310-30

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

Acquired loans accounted for under ASC 310-20

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

The following tables detail activity in the allowance for loan and lease losses segregated by originated and acquired loan and lease portfolios and by portfolio segment for the three and nine months ended September 30, 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 September 30, 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	$ 6,955	$10,409	$5,273	$2,195	$21	$24,853
Charge-offs	(55)	(49)	(116)	(578)	0	(798)
Recoveries	48	21	3	96	0	168
Provision	790	516	149	65	(21)	1,499
Ending Balance	$ 7,738	$10,897	$5,309	$1,778	$0	$25,722

Three months ended September 30, 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	$ 64	$381	$126	$34	$0	$605
Charge-offs	(1)	0	(467)	0	0	(468)
Recoveries	0	0	0	0	0	0
Provision	(12)	56	504	1	0	549
Ending Balance	$ 51	$437	$163	$35	$0	$686

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Three months ended September 30, 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	$ 7,807	$ 12,967	$4,350	$ 1,720	$21	$26,865
Charge-offs	(307)	(644)	(427)	(169)	0	(1,547)
Recoveries	86	128	1	57	0	272
Provision	416	(467)	717	396	(20)	1,042
Ending Balance	$ 8,002	$ 11,984	$4,641	$ 2,004	$ 1	$26,632

There was no allowance for acquired loans and leases as of September 30, 2012.

Nine months ended September 30, 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	(487)	(539)	(455)	(1,040)	0	(2,521)
Recoveries	1,490	457	32	296	0	2,275
Provision	(798)	795	751	582	(5)	1,325
Ending Balance	$7,738	$10,897	$5,309	$1,778	$0	$25,722

Nine months ended September 30, 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	(2,930)	(32)	(577)	(25)	0	(3,564)
Recoveries	0	0	0	0	0	0
Provision	2,981	469	740	60	0	4,250
Ending Balance	$51	$437	$163	$35	$0	$686

Nine months ended September 30, 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	(888)	(2,332)	(931)	(580)	0	(4,731)
Recoveries	151	166	29	246	0	592
Provision	(197)	1,488	1,296	629	(38)	3,178
Ending Balance	$8,002	$11,984	$4,641	$2,004	$1	$26,632

There was no allowance for acquired loans and leases as of September 30, 2012.

At September 30, 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						
September 30, 2013						
Individually evaluated for impairment	$ 664	$ 185	$0	$0	$0	$849
Collectively evaluated for impairment	7,074	10,712	5,309	1,778	0	24,873
Ending balance	$ 7,738	$ 10,897	$5,309	$1,778	$0	$25,722

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired						
September 30, 2013						
Individually evaluated for impairment	$ 0	$ 127	$0	$0	$0	$127
Collectively evaluated for impairment	51	310	163	35	0	559
Ending balance	$ 51	$ 437	$163	$35	$0	$686

(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 September 30, 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						
September 30, 2013						
Individually evaluated for impairment	$5,723	$18,767	$1,047	$0	$0	$25,537

Collectively evaluated for impairment	584,196	933,781	818,839	55,484	5,102	2,397,402
Total	$589,919	$952,548	$819,886	$55,484	$5,102	$2,422,939

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired						
September 30, 2013						
Individually evaluated for impairment	$ 1,323	$ 3,441	$ 85	$ 0	$ 0	$ 4,849
Loans acquired with deteriorated credit quality	3,010	14,783	13,016	0	27,363	58,172
Collectively evaluated for impairment	122,015	417,899	94,345	1,337	0	635,596
Total	$ 126,348	$ 436,123	$ 107,446	$ 1,337	$ 27,363	$ 698,617

(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	$ 519	1,816	$ 0	$ 0	$ 0	$ 2,335
Loans acquired with deteriorated credit quality	7,144	24,032	17,650	0	36,251	85,077
Collectively evaluated for impairment	159,764	465,832	105,625	1,522	1,349	734,092
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 September 30, 2013 and December 31, 2012.

	09/30/2013			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	$4,185	$6,165	$0	$2,771	$2,891	$0
Commercial real estate						
Construction	6,110	11,720	0	6,763	12,373	0
Commercial real estate other	12,297	12,993	0	14,715	16,940	0
Residential real estate						
Residential real estate other	1,047	1,154	0	483	483	0
Subtotal	$23,639	$32,032	$0	$24,732	$32,687	$0
Originated loans and leases with related allowance						
Commercial and industrial						
Commercial and industrial other	1,538	1,538	664	0	0	0
Commercial real estate						
Commercial real estate other	360	360	185	0	0	0
Subtotal	$1,898	$1,898	$849	$0	$0	$0
Total	$25,537	$33,930	$849	$24,732	$32,687	$0

	09/30/2013			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	$ 1,323	$ 4,174	$ 0	$ 519	$ 519	$ 0
Commercial real estate						
Commercial real estate other	2,748	2,748	0	1,816	1,861	0
Residential real estate						
Residential real estate other	85	85	0	0	0	0
Subtotal	$ 4,156	$ 7,007	$ 0	$ 2,335	$ 2,380	$ 0
Acquired loans and leases with related allowance						

Commercial and industrial												
Commercial real estate												
Commercial real estate other		693		693		127		0		0		0
Subtotal	$	693	$	693	$	127	$	0	$	0	$	0
Total	$	4,849	$	7,700	$	127	$	2,335	$	2,380	$	0

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The average recorded investment and interest income recognized on impaired originated loans for the three months ended September 30, 2013 and 2012 was as follows:

	Three Months Ended 09/30/2013		Three Months Ended 09/30/2012	
(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	4,040	0	2,339	0
Commercial real estate				
Construction	6,184	0	10,953	0
Commercial real estate other	13,918	0	12,447	0
Residential real estate				
Residential real estate other	1,047	0	486	0
Subtotal	$25,189	$0	$26,225	$0
Originated loans and leases with related allowance				
Commercial and industrial				
Commercial and industrial other	1,544	0	4,091	0
Commercial real estate				
Commercial real estate other	360	0	654	6
Subtotal	$1,904	$0	$4,745	$6
Total	$27,093	$0	$30,970	$6

The average recorded investment and interest income recognized on impaired acquired loans for the three months ended September 30, 2013 was as follows:

	Three Months Ended 09/30/2013	
(in thousands)	Average Recorded Investment	Interest Income Recognized
Acquired loans and leases with no related allowance		
Commercial and industrial		
Commercial and industrial other	1,327	0
Commercial real estate		
Commercial real estate other	2,764	0
Residential real estate		
Residential real estate other	85	0
Subtotal	$4,176	$0
Acquired loans and leases with related allowance		
Commercial real estate		

Commercial real estate other	701	0
Subtotal	$701	$0
Total	$4,877	$0

	Nine Months Ended 09/30/2013		Nine Months Ended 09/30/2012	
(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	4,057	0	2,347	4
Commercial real estate				
Construction	6,374	0	9,732	0
Commercial real estate other	12,892	0	12,940	0
Residential real estate				
Residential real estate other	1,047	0	461	0
Subtotal	$24,370	$0	$25,480	$4
Originated loans and leases with related allowance				
Commercial and industrial				
Commercial and industrial other	1,560	0	4,116	0
Commercial real estate				
Construction	0	0	869	0
Commercial real estate other	319	0	696	24
Subtotal	$1,879	$0	$5,681	$24
Total	$26,249	$0	$31,161	$28

	Nine Months Ended 09/30/2013	
(in thousands)	Average Recorded Investment	Interest Income Recognized
Acquired loans and leases with no related allowance		
Commercial and industrial		
Commercial and industrial other	2,783	5
Commercial real estate		
Commercial real estate other	2,785	31
Residential real estate		
Residential real estate other	85	0
Subtotal	$5,653	$36
Acquired loans and leases with related allowance		
Commercial and industrial		
Residential real estate other	718	4
Subtotal	$718	$4
Total	$6,371	$40

Average balances were not calculated on the acquired loan and lease portfolio during the third quarter of 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.

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

September 30, 2013	Three months ended			Defaulted TDRs4	
(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	4	$ 1,275	$ 1,275	0	$ 0
Commercial real estate					
Commercial real estate other2	6	1,530	1,530	0	0
Residential real estate					
Residential real estate other3	1	195	195	0	0
Total	11	$ 3,000	$ 3,000	0	$ 0

1 Represents the following concessions: extension of term and reduction of rate (3 loans: $1.2 million) and extended term (l loan: $87,000)

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

3 Represents the following concessions: extension of term and reduction of rate

4 TDRs that defaulted during the last three months that were restructured in the prior twelve months.

September 30, 2012	Three months ended			Defaulted TDRs2	
(in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Post-Modification Outstanding Recorded Investment
Originated loans and leases					
Commercial and industrial other1	2	$ 4,224	$ 4,224	0	$ 0
Residential Real Estate					
Mortgages1	1	146	146	0	0
Total	3	$ 4,370	$ 4,370	0	$ 0

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

2 TDRs that defaulted during the last three months that were restructured in the prior twelve months.

September 30, 2013		Nine months ended			
				Defaulted TDRs4	
(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	6	$ 1,414	$ 1,414	0	$ 0
Commercial Real Estate					
Commercial real estate other2	9	$ 1,901	$ 1,901	0	$ 0
Residential Real Estate					
Residential real estate other3	1	195	195		
Total	16	$ 3,510	$ 3,510	0	$ 0

1 Represents the following concessions: extension of term and reduction in rate (5 loans: $1.3 million) and extended term (1 loan: $87,000)
2 Represents the following concessions: extension of term and reduction of rate(8 loans: $1.8 million) and extension of term (1 loan: $129,000)
3 Represents the following concessions: extension of term and reduction of rate
4 TDRs that defaulted during the last nine months that were restructured in the prior twelve months.

September 30, 2012		Nine months ended			
				Defaulted TDRs2	
(in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Post-Modification Outstanding Recorded Investment
Originated loans and leases					
Commercial and industrial					
Commercial and industrial other1	2	$ 4,224	$ 4,224	1	2 $ 51
Residential Real Estate					
Mortgages1	2	208	208	0	0
Total	4	$ 4,432	$ 4,432	1	$ 51

1 Represents the following concessions: extension of term and reduction in rate
2 TDRs that defaulted during the last six months 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 September 30, 2013 and December 31, 2012.

September 30, 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	$ 497,491	$ 57,231	$ 830,444	$ 48,153	$ 29,169	$ 1,462,488

Special Mention	22,987	123	13,150	125	6,590	42,975
Substandard	10,400	1,687	18,429	379	6,109	37,004
Total	$ 530,878	$ 59,041	$ 862,023	$ 48,657	$ 41,868	$ 1,542,467

September 30, 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	$ 103,661	$ 0	$ 359,718	$ 1,161	$ 31,559	$ 496,099
Special Mention	11,987	0	8,145	2,023	1,784	23,939
Substandard	10,700	0	26,696	344	4,693	42,433
Total	$ 126,348	$ 0	$ 394,559	$ 3,528	$ 38,036	$ 562,471

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 September 30, 2013 and December 31, 2012. For purposes of this footnote, acquired loans that were recorded at fair value at the acquisition date and are 90 days or greater past due are considered performing.

September 30, 2013

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Originated Loans and Leases					
Performing	$164,865	$644,442	$22,346	$32,962	$864,615

Nonperforming	1,935	8,644	142	34	10,755
Total	$166,800	$653,086	$22,488	$32,996	$875,370

September 30, 2013

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Acquired Loans and Leases					
Performing	$69,816	$35,481	$7	$1,330	$106,634
Nonperforming	499	1,650	0	0	2,149
Total	$70,315	$37,131	$7	$1,330	$108,783

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 up to $4.0 million, and 70 percent of ne