TOMPKINS FINANCIAL CORP
Form 10-Q
May 09, 2018

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

FORM 10-Q

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

For the quarterly period ended March 31, 2018

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

For the transition period from _____ to ______

Commission File Number 1-12709

Tompkins Financial Corporation	
(Exact name of registrant as specified in its charter)	
New York	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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "non-accelerated filer", "smaller reporting company," and "emerging growth 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
		Emerging Growth Company

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

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

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

Class	Outstanding as of April 30, 2018
Common Stock, $0.10 par value	15,286,105 shares

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TOMPKINS FINANCIAL CORPORATION

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PART I -FINANCIAL INFORMATION

PART II - OTHER INFORMATION

TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share and per share data)	As of	As of
ASSETS	3/31/2018	12/31/2017
	(unaudited)	(audited)
Cash and noninterest bearing balances due from banks	$66,396	$77,688
Interest bearing balances due from banks	1,706	6,615
Cash and Cash Equivalents	68,102	84,303
Available-for-sale securities, at fair value (amortized cost of $1,408,360 at March 31, 2018 and $1,409,996 at December 31, 2017)	1,371,664	1,392,775
Held-to-maturity securities, at amortized cost (fair value of $137,843 at March 31, 2018 and $140,315 at December 31, 2017)	139,131	139,216
Originated loans and leases, net of unearned income and deferred costs and fees	4,408,081	4,358,543
Acquired loans and leases	296,765	310,577
Less: Allowance for loan and lease losses	40,211	39,771
Net Loans and Leases	4,664,635	4,629,349
Federal Home Loan Bank and other stock	47,020	50,498
Bank premises and equipment, net	92,139	86,995
Corporate owned life insurance	80,623	80,106
Goodwill	92,291	92,291
Other intangible assets, net	8,791	9,263
Accrued interest and other assets	83,732	83,494
Total Assets	$6,648,128	$6,648,290
LIABILITIES		
Deposits:		
Interest bearing:		
Checking, savings and money market	2,893,619	2,651,632
Time	685,600	748,250
Noninterest bearing	1,350,684	1,437,925
Total Deposits	4,929,903	4,837,807
Federal funds purchased and securities sold under agreements to repurchase	69,131	75,177
Other borrowings	995,074	1,071,742
Trust preferred debentures	16,734	16,691
Other liabilities	57,875	70,671
Total Liabilities	$6,068,717	$6,072,088
EQUITY		
Tompkins Financial Corporation shareholders' equity:		
Common Stock - par value $.10 per share: Authorized 25,000,000 shares; Issued: 15,321,245 at March 31, 2018; and 15,301,524 at December 31, 2017	1,532	1,530
Additional paid-in capital	366,666	364,031
Retained earnings	279,830	265,007
Accumulated other comprehensive loss	(65,617)	(51,296)
Treasury stock, at cost – 116,587 shares at March 31, 2018, and 120,805 shares at December 31, 2017	(4,444)	(4,492)

Total Tompkins Financial Corporation Shareholders’ Equity	577,967	574,780
Noncontrolling interests	1,444	1,422
Total Equity	$579,411	$576,202
Total Liabilities and Equity	$6,648,128	$6,648,290

See notes to unaudited condensed consolidated financial statements.

TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended	
(In thousands, except per share data) (Unaudited)	3/31/2018	3/31/2017
INTEREST AND DIVIDEND INCOME		
Loans	$50,894	$ 44,951
Due from banks	7	2
Available-for-sale securities	7,644	7,322
Held-to-maturity securities	858	878
Federal Home Loan Bank and other stock	737	468
Total Interest and Dividend Income	60,140	53,621
INTEREST EXPENSE		
Time certificates of deposits of $250,000 or more	(14)	441
Other deposits	2,783	2,347
Federal funds purchased and securities sold under agreements to repurchase	46	108
Trust preferred debentures	279	367
Other borrowings	4,359	2,324
Total Interest Expense	7,453	5,587
Net Interest Income	52,687	48,034
Less: Provision for loan and lease losses	567	769
Net Interest Income After Provision for Loan and Lease Losses	52,120	47,265
NONINTEREST INCOME		
Insurance commissions and fees	7,394	7,118
Investment services income	4,246	3,791
Service charges on deposit accounts	2,132	2,167
Card services income	2,146	2,009
Other income	1,788	2,155
Gain on sale of available-for-sale securities	124	0
Total Noninterest Income	17,830	17,240
NONINTEREST EXPENSES		
Salaries and wages	20,998	19,635
Other employee benefits	5,376	5,634
Net occupancy expense of premises	3,646	3,511
Furniture and fixture expense	1,975	1,597
FDIC insurance	667	538
Amortization of intangible assets	451	493
Other operating expense	10,608	9,960
Total Noninterest Expenses	43,721	41,368
Income Before Income Tax Expense	26,229	23,137
Income Tax Expense	5,761	7,388
Net Income attributable to Noncontrolling Interests and Tompkins Financial Corporation	20,468	15,749
Less: Net income attributable to noncontrolling interests	32	32
Net Income Attributable to Tompkins Financial Corporation	$20,436	$ 15,717
Basic Earnings Per Share	$1.34	$ 1.04
Diluted Earnings Per Share	$1.33	$ 1.03

See notes to unaudited condensed consolidated financial statements.

TOMPKINS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended	
(In thousands) (Unaudited)	3/31/2018	3/31/2017
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	$20,468	$15,749
Other comprehensive (loss) income, net of tax:		
Available-for-sale securities:		
Change in net unrealized gain/loss during the period	(14,610)	1,197
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(94)	0
Employee benefit plans:		
Amortization of net retirement plan actuarial gain	315	214
Amortization of net retirement plan prior service cost	3	14
Other comprehensive (loss)/gain	(14,386)	1,425
Subtotal comprehensive income attributable to noncontrolling interests and Tompkins Financial Corporation	6,082	17,174
Less: Net income attributable to noncontrolling interests	(32)	(32)
Total comprehensive income attributable to Tompkins Financial Corporation	$6,050	$17,142

See notes to unaudited condensed consolidated financial statements.

TOMPKINS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended	
(In thousands) (Unaudited)	3/31/2018	3/31/2017
OPERATING ACTIVITIES		
Net income attributable to Tompkins Financial Corporation	$20,436	$15,717
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	567	769
Depreciation and amortization of premises, equipment, and software	2,473	1,787
Amortization of intangible assets	451	493
Earnings from corporate owned life insurance	(517)	(630)
Net amortization on securities	2,371	2,782
Amortization/accretion related to purchase accounting	(972)	(747)
Net gain on securities transactions	124	0
Net gain on sale of loans originated for sale	(21)	(13)
Proceeds from sale of loans originated for sale	840	53
Loans originated for sale	(824)	(40)
Net gain on sale of bank premises and equipment	(6)	(6)
Net excess tax benefit from stock based compensation	56	299
Stock-based compensation expense	855	706
Decrease in accrued interest receivable	(734)	(1,425)
Decrease in accrued interest payable	(92)	(146)
Other, net	(5,862)	(4,690)
Net Cash Provided by Operating Activities	19,145	14,909
INVESTING ACTIVITIES		
Proceeds from maturities, calls and principal paydowns of available-for-sale securities	35,611	38,492
Proceeds from sales of available-for-sale securities	45,885	0
Proceeds from maturities, calls and principal paydowns of held-to-maturity securities	1,447	1,227
Purchases of available-for-sale securities	(82,256)	(37,169)
Purchases of held-to-maturity securities	(1,461)	(750)
Net increase in loans	(35,579)	(39,601)
Net decrease in Federal Home Loan Bank stock	3,478	8,120
Proceeds from sale of bank premises and equipment	17	19
Purchases of bank premises and equipment	(7,127)	(7,397)
Other, net	0	1,711
Net Cash Used in Investing Activities	(39,985)	(35,348)
FINANCING ACTIVITIES		
Net increase in demand, money market, and savings deposits	154,746	220,639
Net (decrease) increase in time deposits	(61,896)	5,092
Net (decrease) increase in Federal funds purchased and securities sold under agreements to repurchase	(6,046)	1,654
Increase in other borrowings	118,332	45,000
Repayment of other borrowings	(195,000)	(212,530)
Redemption of trust preferred debentures	0	(21,161)
Cash dividends	(7,328)	(6,815)
Repurchase of common stock	(1,205)	0
Shares issued for dividend reinvestment plan	0	1,078
Shares issued for employee stock ownership plan	3,073	2,296

Net proceeds from exercise of stock options	(37)	(296)
Net Cash Provided by Financing Activities	4,639	34,957
Net (Decrease) Increase in Cash and Cash Equivalents	(16,201)	14,518
Cash and cash equivalents at beginning of period	84,303	63,954
Total Cash & Cash Equivalents at End of Period	$68,102	$78,472

See notes to unaudited condensed consolidated financial statements.

TOMPKINS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)	3/31/2018	3/31/2017
Supplemental Information:		
Cash paid during the year for - Interest	$ 8,300	$ 6,018
Cash paid during the year for - Taxes	62	89
Transfer of loans to other real estate owned	0	2,520

See notes to unaudited condensed consolidated financial statements.

TOMPKINS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(In thousands except share and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Non-controlling Interests	Total
Balances at January 1, 2017	$ 1,517	$ 357,414	$ 230,182	$ (37,109)	$ (4,051)	$ 1,452	$ 549,405
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			15,717			32	15,749
Other comprehensive income				1,425			1,425
Total Comprehensive Income							17,174
Cash dividends ($0.45 per share)			(6,815)				(6,815)
Net exercise of stock options (7,372 shares)	1	(297)					(296)
Shares issued for dividend reinvestment plan (11,343 shares)	1	1,077					1,078
Stock-based compensation expense		706					706
Shares issued for employee stock ownership plan (27,412 shares)	3	2,293					2,296
Directors deferred compensation plan (2,552 shares)		6			(6)		0
Restricted stock activity ((1,027) shares)	0	0					0
Partial repurchase of noncontrolling interest						(30)	(30)
Balances at March 31, 2017	$ 1,522	$ 361,199	$ 239,084	$ (35,684)	$ (4,057)	$ 1,454	$ 563,518
Balances at January 1, 2018	$ 1,530	$ 364,031	$ 265,007	$ (51,296)	$ (4,492)	$ 1,422	$ 576,202
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			20,436			32	20,468
Other comprehensive loss				(14,386)			(14,386)
Total Comprehensive Income							6,082
Cash dividends ($0.48 per share)			(7,328)				(7,328)
Net exercise of stock options (1,670 shares)	0	(37)					(37)
Common stock repurchased and returned to unissued status (15,500 shares)	(1)	(1,204)					(1,205)
Stock-based compensation expense		855					855
Shares issued for employee stock ownership plan (38,883 shares)	4	3,069					3,073
Directors deferred compensation plan ((4,218) shares)		(48)			48		0
Restricted stock activity ((5,332) shares)	(1)	0					(1)

Adoption of ASU 2014-09			1,780				1,780
Adoption of ASU 2016-01			(65)	65			0
Partial repurchase of noncontrolling interest						(10)	(10)
Balances at March 31, 2018	$ 1,532	$ 366,666	$ 279,830	$ (65,617)	$ (4,444)	$ 1,444	$ 579,411

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, 2018, the Company's subsidiaries included: four wholly-owned banking subsidiaries, Tompkins Trust Company (the "Trust Company"), The Bank of Castile (DBA Tompkins Bank of Castile), Mahopac Bank (formerly known as Mahopac National Bank, DBA Tompkins Mahopac Bank), VIST Bank (DBA Tompkins VIST Bank); and a wholly-owned insurance agency subsidiary, Tompkins Insurance Agencies, Inc. ("Tompkins Insurance"). The trust division of the Trust Company provides a full array of investment services, including investment management, trust and estate, financial and tax planning as well as life, disability and long-term care insurance services. The Company's principal offices are located at The Commons, Ithaca, New York, 14851, and its telephone number is (888) 503-5753. The Company's common stock is traded on the NYSE American under the Symbol "TMP."

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

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

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

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

2. Basis of Presentation

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

In management’s opinion, the unaudited condensed consolidated financial statements reflect all adjustments of a normal recurring nature. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year ended December 31, 2018. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. There have been no significant changes to the Company’s accounting policies from those presented in the 2017 Annual Report on Form 10-K. The Company did adopt several accounting pronouncements effective January 1, 2018, which resulted in some revisions to the Company's accounting policies. Refer to Note 3 - "New Accounting Standards" below for details.

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. New Accounting Standards

Newly Adopted Accounting Standards

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

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

The Company recorded a net increase to beginning retained earnings of $1.8 million as of January 1, 2018 due to the cumulative impact of adopting ASC 606. The impact to beginning retained earnings was primarily driven by the recognition of $1.8 million of contingency income related to our insurance business segment. The adoption of ASC 606 did not have a significant impact on the Company's consolidated financial statements as of and for the three-month period ended March 31, 2018 and, as a result, comparisons of revenues and operating profit performance between periods are not affected by the adoption of this ASU. Refer to Note 11 for additional disclosures required by ASC 606.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." This ASU addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments by making targeted improvements to GAAP as follows: (1) require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (2) simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value; (3) eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (4) eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (5) require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (6) require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (7) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (8) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The Company adopted ASU No. 2016-01 effective January 1, 2018, and recognized a cumulative-effect adjustment of $65,000 for the after-tax impact of the unrealized loss on equity securities. In addition, the Company measured the fair value of its loan portfolio as of March 31, 2018 using an exit price notion. Refer to Note 14 "Fair Value".

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

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

In May 2017, the FASB issued ASU 2017-09, "Compensation-Stock Compensation (Topic 718)- Scope of Modification Accounting." ASU 2017-09 clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Under ASU 2017-09, an entity will not apply modification accounting to a share-based payment award if all of the following are the same immediately before and after the change: (i) the award's fair value, (ii) the award's vesting conditions and (iii) the award's classification as an equity or liability instrument. ASU 2017-09 became effective for us on January 1, 2018 and did not have a significant impact on our consolidated financial statements.

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

2017, which resulted in the reclassification from accumulated other comprehensive income (loss) to retained earnings totaling $10.0 million, reflected in the consolidated statements of changes in shareholders' equity.

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

Accounting Standards Pending Adoption

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

ASU 2016-02,“Leases (Topic 842).” ASU 2016-02 will, among other things, require lessees to recognize a lease liability, which is a lessee‘s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, “Revenue from Contracts with Customers.” ASU 2016-2 will be effective for Tompkins on January 1, 2019 and will require transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company occupies certain banking offices and uses certain equipment under noncancelable operating lease agreements, which currently are not reflected in its consolidated statements of condition. Tompkins is preparing an inventory of its leases and evaluating the impact of this ASU on these leases. Upon adoption of the guidance, the Company expects to report increased assets and increased liabilities as a result of recognizing right-of-use assets and lease liabilities on its consolidated statements of condition. Tompkins is currently evaluating the extent of the impact that the adoption of this ASU will have on our consolidated financial statements.

ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective on January 1, 2020. Tompkins is currently evaluating the requirements of the new guidance to determine what modifications to our existing allowance methodology may be required. The Company expects that the new guidance will likely result in an increase in the allowance; however, Tompkins is unable to quantify the impact at this time since we are still reviewing the guidance. The extent of any impact to our allowance will depend, in part, upon the composition of our loan portfolio at the adoption date as well as economic conditions and loss forecasts at that date.

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

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4. Securities

Available-for-Sales Securities

The following table summarizes available-for-sale securities held by the Company at March 31, 2018:

	Available-for-Sale Securities			
March 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. Government sponsored entities	$498,644	$ 7	$ 8,804	$489,847
Obligations of U.S. states and political subdivisions	91,623	106	1,381	90,348
Mortgage-backed securities – residential, issued by				
U.S. Government agencies	133,524	461	4,305	129,680
U.S. Government sponsored entities	681,110	422	22,877	658,655
Non-U.S. Government agencies or sponsored entities	64	0	0	64
U.S. corporate debt securities	2,500	0	325	2,175
Total debt securities	1,407,465	996	37,692	1,370,769
Equity securities	895	0	0	895
Total available-for-sale securities	$1,408,360	$ 996	$ 37,692	$1,371,664

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

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

Held-to-Maturity Securities

The following table summarizes held-to-maturity securities held by the Company at March 31, 2018:

	Held-to-Maturity Securities			
March 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. Government sponsored entities	$131,607	$ 0	$ 1,327	$130,280
Obligations of U.S. states and political subdivisions	7,524	46	7	7,563
Total held-to-maturity debt securities	$139,131	$ 46	$ 1,334	$137,843

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

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

The Company may from time to time sell investment securities from its available-for-sale portfolio. Realized gains on available-for-sale securities were $124,000 for the three months ended March 31, 2018 and $0 for the three months ended March 31, 2017. Realized losses on available-for-sale securities were $0 for the three months ended March 31, 2018 and $0 for the three months ended March 31, 2017. 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, 2018:

	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	$409,674	$ 7,130	$53,485	$ 1,674	$463,159	$ 8,804
Obligations of U.S. states and political subdivisions	55,531	854	11,677	527	67,208	1,381
Mortgage-backed securities – residential, issued by						
U.S. Government agencies	29,731	892	83,490	3,413	113,221	4,305
U.S. Government sponsored entities	254,886	5,999	387,360	16,878	642,246	22,877
U.S. corporate debt securities	0	0	2,175	325	2,175	325
Total available-for-sale securities	$749,822	$ 14,875	$538,187	$ 22,817	$1,288,009	$ 37,692

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

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

The following table summarizes held-to-maturity securities that had unrealized losses at March 31, 2018.

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(in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government sponsored entities	$130,280	$ 1,327	$ 0	$ 0	$130,280	$ 1,327
Obligations of U.S. states and political subdivisions	4,193	7	0	0	4,193	7
Total held-to-maturity securities	$134,473	$ 1,334	$ 0	$ 0	$134,473	$ 1,334

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

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

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

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

Ongoing Assessment of Other-Than-Temporary Impairment

On a quarterly basis, the Company performs an assessment to determine whether there have been any events or economic circumstances indicating that a security with an unrealized loss has suffered other-than-temporary impairment (“OTTI”). A debt security is considered impaired if the fair value is less than its amortized cost basis (including any previous OTTI charges) at the reporting date. If impaired, the Company then assesses whether the unrealized loss is other-than-temporary. An unrealized loss on a debt security is generally deemed to be other-than-temporary and a credit loss is deemed to exist if the present value, discounted at the security’s effective rate, of the expected future cash flows is less than the amortized cost basis of the debt security. As a result, the credit loss component of an other-than-temporary impairment write-down for debt securities is recorded in earnings while the remaining portion of the impairment loss is recognized, net of tax, in other comprehensive income 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, 2018 to be other-than-temporarily impaired.

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

March 31, 2018

(in thousands)	Amortized Cost	Fair Value
Available-for-sale securities:		
Due in one year or less	$36,830	$36,761
Due after one year through five years	348,958	344,236
Due after five years through ten years	189,435	184,497
Due after ten years	17,544	16,876
Total	592,767	582,370
Mortgage-backed securities	814,698	788,399
Total available-for-sale debt securities	$1,407,465	$1,370,769

December 31, 2017

(in thousands)	Amortized Cost	Fair Value
Available-for-sale securities:		
Due in one year or less	$51,909	$51,932
Due after one year through five years	368,846	367,377
Due after five years through ten years	162,061	160,374
Due after ten years	18,591	18,191
Total	601,407	597,874
Mortgage-backed securities	807,589	793,988
Total available-for-sale debt securities	$1,408,996	$1,391,862

March 31, 2018

(in thousands)	Amortized Cost	Fair Value
Held-to-maturity securities:		
Due in one year or less	$6,636	$6,638
Due after one year through five years	62,088	61,519
Due after five years through ten years	70,407	69,686
Total held-to-maturity debt securities	$139,131	$137,843

December 31, 2017

(in thousands)	Amortized Cost	Fair Value
Held-to-maturity securities:		
Due in one year or less	$5,980	$5,979
Due after one year through five years	51,936	52,227
Due after five years through ten years	81,300	82,109
Due after ten years	0	0
Total held-to-maturity debt securities	$139,216	$140,315

The Company also holds non-marketable Federal Home Loan Bank New York ("FHLBNY") stock, non-marketable Federal Home Loan Bank Pittsburgh ("FHLBPITT") stock and non-marketable Atlantic Community Bankers Bank stock, all of which are required to be held for regulatory purposes and for borrowing availability. The required investment in FHLB stock is tied to the Company's borrowing levels with the FHLB. Holdings of FHLBNY stock, FHLBPITT stock, and ACBB stock totaled $29.9 million, $17.0 million and $95,000 at March 31, 2018, respectively. These securities are carried at par, which is also cost. The FHLBNY and FHLBPITT continue to pay dividends and repurchase stock. Quarterly, we evaluate our investment in the FHLB for impairment. We evaluate recent and long-term operating performance, liquidity, funding and capital positions, stock repurchase history, dividend history and impact of legislative and regulatory changes. Based on our most recent evaluation, as of March 31, 2018, we have determined that no impairment write-downs are currently required.

5. Loans and Leases

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

	3/31/2018			12/31/2017		
(in thousands)	Originated	Acquired	Total Loans and Leases	Originated	Acquired	Total Loans and Leases
Commercial and industrial						
Agriculture	$93,896	$0	$93,896	$108,608	$0	$108,608
Commercial and industrial other	916,520	50,529	967,049	932,067	50,976	983,043
Subtotal commercial and industrial	1,010,416	50,529	1,060,945	1,040,675	50,976	1,091,651
Commercial real estate						
Construction	200,185	1,456	201,641	202,486	1,480	203,966
Agriculture	135,484	241	135,725	129,712	247	129,959
Commercial real estate other	1,726,674	195,346	1,922,020	1,660,782	206,020	1,866,802
Subtotal commercial real estate	2,062,343	197,043	2,259,386	1,992,980	207,747	2,200,727
Residential real estate						
Home equity	211,444	26,084	237,528	212,812	28,444	241,256
Mortgages	1,051,711	22,204	1,073,915	1,039,040	22,645	1,061,685
Subtotal residential real estate	1,263,155	48,288	1,311,443	1,251,852	51,089	1,302,941
Consumer and other						
Indirect	11,921	0	11,921	12,144	0	12,144
Consumer and other	49,907	905	50,812	50,214	765	50,979
Subtotal consumer and other	61,828	905	62,733	62,358	765	63,123
Leases	13,818	0	13,818	14,467	0	14,467
Total loans and leases	4,411,560	296,765	4,708,325	4,362,332	310,577	4,672,909
Less: unearned income and deferred costs and fees	(3,479)	0	(3,479)	(3,789)	0	(3,789)
	$4,408,081	$296,765	$4,704,846	$4,358,543	$310,577	$4,669,120

Total loans and leases, net of unearned
income and deferred costs and fees

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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 March 31, 2018 and December 31, 2017:

(in thousands)	3/31/2018	12/31/2017
Acquired Credit Impaired Loans		
Outstanding principal balance	$ 14,013	$ 14,337
Carrying amount	11,774	11,962
Acquired Non-Credit Impaired Loans		
Outstanding principal balance	287,337	301,128
Carrying amount	284,991	298,615
Total Acquired Loans		
Outstanding principal balance	301,350	315,465
Carrying amount	296,765	310,577

The Company has adopted comprehensive lending policies, underwriting standards and loan review procedures. Management reviews these policies and procedures on a regular basis. The Company discussed its lending policies and underwriting guidelines for its various lending portfolios in Note 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, 2017. There have been no significant changes in these policies and guidelines since the date of that report. As such, these policies are reflective of new originations as well as those balances held at March 31, 2018. The Company's Board of Directors approves the lending policies at least annually. The Company recognizes that exceptions to policy guidelines may occasionally occur and has established procedures for approving exceptions to these policy guidelines. Management has also implemented reporting systems to monitor loan origination, loan quality, concentrations of credit, loan delinquencies and nonperforming loans and potential problem loans.

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

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

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, 2018 and December 31, 2017.

March 31, 2018

(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	$93,896	$93,896	$ 0	$ 0
Commercial and industrial other	736	719	915,065	916,520	0	4,668
Subtotal commercial and industrial	736	719	1,008,961	1,010,416	0	4,668
Commercial real estate						
Construction	0	0	200,185	200,185	0	0
Agriculture	163	0	135,321	135,484	0	0
Commercial real estate other	2,641	961	1,723,072	1,726,674	0	5,192
Subtotal commercial real estate	2,804	961	2,058,578	2,062,343	0	5,192
Residential real estate						
Home equity	670	431	210,343	211,444	0	1,504
Mortgages	1,852	2,643	1,047,216	1,051,711	0	6,825
Subtotal residential real estate	2,522	3,074	1,257,559	1,263,155	0	8,329
Consumer and other						
Indirect	296	52	11,573	11,921	0	164
Consumer and other	155	15	49,737	49,907	0	76
Subtotal consumer and other	451	67	61,310	61,828	0	240
Leases	0	0	13,818	13,818	0	0
Total loans and leases	6,513	4,821	4,400,226	4,411,560	0	18,429
Less: unearned income and deferred costs and fees	0	0	(3,479)	(3,479)	0	0
Total originated loans and leases, net of unearned income and deferred costs and fees	$6,513	$4,821	$4,396,747	$4,408,081	$ 0	$ 18,429
Acquired Loans and Leases						
Commercial and industrial						
Commercial and industrial other	12	60	50,457	50,529	60	13
Subtotal commercial and industrial	12	60	50,457	50,529	60	13
Commercial real estate						
Construction	0	0	1,456	1,456	0	0
Agriculture	0	0	241	241	0	0
Commercial real estate other	67	1,544	193,735	195,346	502	528
Subtotal commercial real estate	67	1,544	195,432	197,043	502	528
Residential real estate						
Home equity	210	395	25,479	26,084	62	1,693
Mortgages	534	650	21,020	22,204	453	1,118
Subtotal residential real estate	744	1,045	46,499	48,288	515	2,811
Consumer and other						
Consumer and other	0	0	905	905	0	0
Subtotal consumer and other	0	0	905	905	0	0
Total acquired loans and leases, net of unearned income and deferred costs and fees	$823	$2,649	$293,293	$296,765	$ 1,077	$ 3,352

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December 31, 2017

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

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

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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, 2018, considers the allowance to be appropriate, under adversely different conditions or assumptions, the Company would need to increase or decrease the allowance.

Acquired Loans and Leases

Acquired loans accounted for under ASC 310-30

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

Acquired loans accounted for under ASC 310-20

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

The following tables detail activity in the allowance for loan and lease losses segregated by originated and acquired loan and lease portfolios and by portfolio segment for the three months ended March 31, 2018 and 2017. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

Three months ended March 31, 2018

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for originated loans and leases						
Beginning balance	$ 11,812	$ 20,412	$ 6,161	$ 1,301	$ 0	$ 39,686
Charge-offs	(3)	0	(185)	(292)	0	(480)
Recoveries	6	170	42	75	0	293
Provision (credit)	616	(180)	(46)	218	0	608
Ending Balance	$ 12,431	$ 20,402	$ 5,972	$ 1,302	$ 0	$ 40,107

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Three months ended March 31, 2018

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for acquired loans						
Beginning balance	$ 25	$ 0	$ 54	$ 6	$ 0	$ 85
Charge-offs	(1)	0	0	0	0	(1)
Recoveries	20	8	33	0	0	61
Provision (credit)	(19)	(8)	(14)	0	0	(41)
Ending Balance	$ 25	$ 0	$ 73	$ 6	$ 0	$ 104

Three months ended March 31, 2017

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for originated loans and leases						
Beginning balance	$ 9,389	$ 19,836	$ 5,149	$ 1,224	$ 0	$ 35,598
Charge-offs	(75)	(21)	(374)	(280)	0	(750)
Recoveries	76	235	27	127	0	465
Provision (credit)	883	(936)	584	71		602
Ending Balance	$ 10,273	$ 19,114	$ 5,386	$ 1,142	$ 0	$ 35,915

Three months ended March 31, 2017

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Allowance for acquired loans						
Beginning balance	$ 0	$ 97	$ 54	$ 6	$ 0	$ 157
Charge-offs	(9)	(74)	0	0	0	(83)
Recoveries	0	10	0	0	0	10
Provision (credit)	9	43	115	0	0	167
Ending Balance	$ 0	$ 76	$ 169	$ 6	$ 0	$ 251

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

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for originated loans and leases						
March 31, 2018						
Individually evaluated for impairment	$ 446	$ 25	$ 0	$ 0	$ 0	$ 471
Collectively evaluated for impairment	11,985	20,377	5,972	1,302	0	39,636

Ending balance	$ 12,431	$ 20,402	$ 5,972	$ 1,302	$ 0	$40,107

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(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Allowance for acquired loans						
March 31, 2018						
Individually evaluated for impairment	$ 25	$ 0	$ 0	$ 0	$ 0	$25
Collectively evaluated for impairment	0	0	73	6	0	79
Ending balance	$ 25	$ 0	$ 73	$ 6	$ 0	$104

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for originated loans and leases						
December 31, 2017						
Individually evaluated for impairment	$ 441	$ 0	$ 0	$ 0	$ 0	$441
Collectively evaluated for impairment	11,371	20,412	6,161	1,301	0	39,245
Ending balance	$ 11,812	$ 20,412	$ 6,161	$ 1,301	$ 0	$39,686

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

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

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Originated loans and leases						
March 31, 2018						
Individually evaluated for impairment	$4,430	$6,481	$3,996	$ 0	$0	$14,907
Collectively evaluated for impairment	1,005,986	2,055,862	1,259,159	61,828	13,818	4,396,653
Total	$1,010,416	$2,062,343	$1,263,155	$ 61,828	$13,818	$4,411,560

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired loans						
March 31, 2018						
Individually evaluated for impairment	$ 306	$ 1,588	$ 1,793	$ 0	$ 0	$3,687
Loans acquired with deteriorated credit quality	261	6,133	5,380	0	0	11,774
Collectively evaluated for impairment	49,962	189,322	41,115	905	0	281,304
Total	$ 50,529	$ 197,043	$ 48,288	$ 905	$ 0	$296,765

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

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

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

	3/31/2018			12/31/2017		
(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	$ 3,078	$ 3,078	$ 0	$ 1,246	$ 1,250	$ 0
Commercial real estate						
Commercial real estate other	6,456	6,656	0	6,626	6,626	0
Residential real estate						
Home equity	3,996	4,171	0	3,965	4,049	0
Subtotal	$ 13,530	$ 13,905	$ 0	$ 11,837	$ 11,925	$ 0
Originated loans and leases with related allowance						
Commercial and industrial						
Commercial and industrial other	1,352	1,352	446	513	532	441
Commercial real estate						
Commercial real estate other	25	25	25	0	0	0
Subtotal	$ 1,377	$ 1,377	$ 471	$ 513	$ 532	$ 441
Total	$ 14,907	$ 15,282	$ 471	$ 12,350	$ 12,457	$ 441

	3/31/2018			12/31/2017		
(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	$ 281	$ 373	$ 0	$ 226	$ 226	$ 0
Commercial real estate						
Commercial real estate other	1,588	1,598	0	1,372	1,474	0
Residential real estate						
Home equity	1,793	1,824	0	1,823	1,854	0
Subtotal	$ 3,662	$ 3,795	$ 0	$ 3,421	$ 3,554	$ 0
Acquired loans and leases with related allowance						
Commercial and industrial						
Commercial and industrial other	25	25	25	50	50	25
Subtotal	$ 25	$ 25	$ 25	$ 50	$ 50	$ 25
Total	$ 3,687	$ 3,820	$ 25	$ 3,471	$ 3,604	$ 25

The average recorded investment and interest income recognized on impaired loans for the three months ended March 31, 2018 and 2017 was as follows:

(in thousands)	Three Months Ended 03/31/2018 Average Recorded Investment	Three Months Ended 03/31/2018 Interest Income Recognized	Three Months Ended 03/31/17 Average Recorded Investment	Three Months Ended 03/31/17 Interest Income Recognized
Originated loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	2,399	0	280	0
Commercial real estate				
Commercial real estate other	6,373	0	8,162	0
Residential real estate				
Home equity	3,980	0	3,488	0
Subtotal	$12,752	$ 0	$11,930	$ 0
Originated loans and leases with related allowance				
Commercial and industrial				
Commercial and industrial other	864	0	155	0
Commercial real estate				
Commercial real estate other	13	0	597	0
Subtotal	$877	$ 0	$752	$ 0
Total	$13,629	$ 0	$12,682	$ 0

(in thousands)	Three Months Ended 03/31/2018 Average Recorded Investment	Three Months Ended 03/31/2018 Interest Income Recognized	Three Months Ended 03/31/2017 Average Recorded Investment	Three Months Ended 03/31/2017 Interest Income Recognized
Acquired loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	265	0	165	0
Commercial real estate				
Commercial real estate other	1,469	0	2,746	0
Residential real estate				
Home equity	1,808	0	1,411	0
Subtotal	$ 3,542	$ 0	$ 4,322	$ 0
Acquired loans and leases with related allowance				
Commercial and industrial				
Commercial and industrial other	37	0	0	0
Commercial real estate				
Commercial real estate other	0	0	77	0
Residential real estate				
Home equity	0	0	60	
Subtotal	$ 37	$ 0	$ 137	$ 0
Total	$ 3,579	$ 0	$ 4,459	$ 0

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

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

March 31, 2018	Three Months Ended			Defaulted TDRs[2]	
(in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Post-Modification Outstanding Recorded Investment
Residential real estate					
Home equity[1]	1	63	63	0	0
Total	1	$ 63	$ 63	0	$ 0

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

2 TDRs that defaulted during the three months ended March 31, 2018 that were restructured in the prior twelve months.

March 31, 2017	Three Months Ended			Defaulted TDRs[2]	
(in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Post-Modification Outstanding Recorded Investment
Residential real estate					
Home equity[1]	1	73	73	1	55
Total	1	$ 73	$ 73	1	$ 55

1 Represents the following concessions: extension of term and reduction of rate.
2 TDRs that defaulted during the three months ended March 31, 2017 that had been restructured in the prior twelve months.

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

March 31, 2018						
(in thousands)	Commercial and Industrial Other	Commercial and Industrial Agriculture	CommercialReal Estate Other	CommercialReal Estate Agriculture	CommercialReal Estate Construction	Total
Originated Loans and Leases						
Internal risk grade:						
Pass	$ 897,768	$ 84,257	$ 1,695,690	$ 124,567	$ 200,185	$3,002,467
Special Mention	8,899	4,520	15,624	5,503	0	34,546
Substandard	9,853	5,119	15,360	5,414	0	35,746
Total	$ 916,520	$ 93,896	$ 1,726,674	$ 135,484	$ 200,185	$3,072,759

March 31, 2018						
(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	$ 50,251	$ 0	$ 191,680	$ 241	$ 1,456	$243,628
Special Mention	0	0	476	0	0	476
Substandard	278	0	3,190	0	0	3,468
Total	$ 50,529	$ 0	$ 195,346	$ 241	$ 1,456	$247,572

December 31, 2017

(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	$ 919,214	$ 100,470	$ 1,627,713	$ 119,392	$ 201,948	$ 2,968,737
Special Mention	6,680	8,068	19,068	9,980	538	44,334
Substandard	6,173	70	14,001	340	0	20,584
Total	$ 932,067	$ 108,608	$ 1,660,782	$ 129,712	$ 202,486	$ 3,033,655

December 31, 2017

(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	$ 50,554	$ 0	$ 198,822	$ 247	$ 1,480	$ 251,103
Special Mention	0	0	2,265	0	0	2,265
Substandard	422	0	4,933	0	0	5,355
Total	$ 50,976	$ 0	$ 206,020	$ 247	$ 1,480	$ 258,723

The following tables present credit quality indicators by class of residential real estate loans and by class of consumer loans. Nonperforming loans include nonaccrual, impaired, and loans 90 days past due and accruing interest. All other loans are considered performing as of March 31, 2018 and December 31, 2017. 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.

March 31, 2018

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Originated Loans and Leases					
Performing	$ 209,940	$ 1,044,886	$ 11,757	$ 49,831	$ 1,316,414
Nonperforming	1,504	6,825	164	76	8,569
Total	$ 211,444	$ 1,051,711	$ 11,921	$ 49,907	$ 1,324,983

March 31, 2018

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Acquired Loans and Leases					
Performing	$ 24,329	$ 20,633	$ 0	$ 905	$ 45,867
Nonperforming	1,755	1,571	0	0	3,326
Total	$ 26,084	$ 22,204	$ 0	$ 905	$ 49,193

December 31, 2017

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Originated Loans and Leases					
Performing	$ 211,275	$ 1,032,932	$ 11,866	$ 50,138	$ 1,306,211
Nonperforming	1,537	6,108	278	76	7,999
Total	$ 212,812	$ 1,039,040	$ 12,144	$ 50,214	$ 1,314,210

December 31, 2017

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Acquired Loans and Leases					
Performing	$ 26,840	$ 21,531	$ 0	$ 765	$ 49,136
Nonperforming	1,604	1,114	0	0	2,718
Total	$ 28,444	$ 22,645	$ 0	$ 765	$ 51,854

7. Earnings Per Share

Earnings per share in the table below, for the three month periods ended March 31, 2018 and 2017 are calculated under the two-class method as required by ASC Topic 260, Earnings Per Share. ASC 260 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The Company has issued restricted stock awards that contain such rights and are therefore considered participating securities. Basic earnings per common share are calculated by dividing net income allocable to common stock by the weighted average number of common shares, excluding participating securities, during the period. Diluted earnings per common share include the dilutive effect of participating securities.

(in thousands, except share and per share data)	Three Months Ended 3/31/2018	3/31/2017
Basic		
Net income available to common shareholders	$ 20,436	$ 15,717
Less: Income attributable to unvested stock-based compensation awards	(347)	(261)
Net earnings allocated to common shareholders	20,089	15,456
Weighted average shares outstanding, including unvested stock-based compensation awards	15,271,930	15,151,521
Less: unvested stock-based compensation awards	(258,452)	(250,583)
Weighted average shares outstanding - Basic	15,013,478	14,900,938
Diluted		
Net earnings allocated to common shareholders	20,089	15,456
Weighted average shares outstanding - Basic	15,013,478	14,900,938
Plus: incremental shares from assumed conversion of stock--based compensation awards	99,040	141,676
Weighted average shares outstanding - Diluted	15,112,518	15,042,614
Basic EPS	1.34	1.04
Diluted EPS	1.33	1.03

Stock-based compensation awards representing 20,242 and 48,515 of common shares during the three months ended March 31, 2018 and 2017, respectively, were not included in the computations of diluted earnings per common share because the effect on those periods would have been antidilutive.

8. Other Comprehensive Income (Loss)

The following tables present reclassifications out of the accumulated other comprehensive income (loss) for the three month periods ended March 31, 2018 and 2017.

	Three Months Ended March 31, 2018		
(in thousands)	Before-Tax Amount	Tax (Expense) Benefit	Net of Tax
Available-for-sale securities:			
Change in net unrealized gain/loss during the period	$(19,351)	$ 4,741	$(14,610)
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(124)	30	(94)
Net unrealized loss	(19,475)	4,771	(14,704)
Employee benefit plans:			
Amortization of net retirement plan actuarial gain	417	(102)	315
Amortization of net retirement plan prior service cost	4	(1)	3
Employee benefit plans	421	(103)	318
Other comprehensive loss	$(19,054)	$ 4,668	$(14,386)

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(in thousands)	Three Months Ended March 31, 2017 Before-Tax Amount	Tax (Expense) Benefit	Net of Tax
Available-for-sale securities:			
Change in net unrealized gain/loss during the period	$1,995	$ (798)	$1,197
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	0	0	0
Net unrealized gains	1,995	(798)	1,197
Employee benefit plans:			
Amortization of net retirement plan actuarial gain	357	(143)	214
Amortization of net retirement plan prior service cost	23	(9)	14
Employee benefit plans	380	(152)	228
Other comprehensive income	$2,375	$ (950)	$1,425

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

(in thousands)	Available-for-Sale Securities	Employee Benefit Plans	Accumulated Other Comprehensive (Loss) Income
Balance at January 1, 2018	$ (13,005)	$(38,291)	$ (51,296)
Other comprehensive loss before reclassifications	(14,610)	0	(14,610)
Amounts reclassified from accumulated other comprehensive (loss) income	(94)	318	224
Net current-period other comprehensive loss	(14,704)	318	(14,386)
Adoption of ASU 2016-01	65	$0	65
Balance at March 31, 2018	$ (27,644)	$(37,973)	$ (65,617)
Balance at January 1, 2017	$ (7,915)	$(29,194)	$ (37,109)
Other comprehensive income before reclassifications	1,197	0	1,197
Amounts reclassified from accumulated other comprehensive (loss) income	0	228	228
Net current-period other comprehensive income	1,197	228	1,425
Balance at March 31, 2017	$ (6,718)	$(28,966)	$ (35,684)

The following tables present the amounts reclassified out of each component of accumulated other comprehensive (loss) income for the three months ended March 31, 2018 and 2017.

Three months ended March 31, 2018

Details about Accumulated other Comprehensive Income Components (in thousands)	Amount Reclassified from Accumulated Other Comprehensive (Loss) Income[1]		Affected Line Item in the Statement Where Net Income is Presented
Available-for-sale securities:			
Unrealized gains and losses on available-for-sale securities	$ 124		Net gain on securities transactions
	(30	)	Tax expense
	94		Net of tax
Employee benefit plans:			
Amortization of the following [2]			
Net retirement plan actuarial gain	(417	)	Other operating expense
Net retirement plan prior service cost	(4	)	Other operating expense
	(421	)	Total before tax
	103		Tax benefit
	(318	)	Net of tax

Three Months Ended March 31, 2017

Details about Accumulated other Comprehensive Income Components (in thousands)	Amount Reclassified from Accumulated Other Comprehensive (Loss) Income[1]		Affected Line Item in the Statement Where Net Income is Presented
Available-for-sale securities:			
Unrealized gains and losses on available-for-sale securities	$ 0		Net gain on securities transactions
	0		Tax expense
	0		Net of tax
Employee benefit plans:			
Amortization of the following [2]			
Net retirement plan actuarial gain	(357	)	Other operating expense
Net retirement plan prior service credit	(23	)	Other operating expense
	(380	)	Total before tax
	152		Tax benefit
	(228	)	Net of tax

1 Amounts in parentheses indicated debits in income statement.

2 The accumulated other comprehensive (loss) income components are included in the computation of net periodic benefit cost (See Note 9 - “Employee Benefit Plan”).

9. Employee Benefit Plan

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

Components of Net Periodic Benefit (Income) Cost

	Pension Benefits Three Months Ended		Life and Health Three Months Ended		SERP Benefits Three Months Ended	
(in thousands)	3/31/2018	3/31/2017	3/31/2018	3/31/2017	3/31/2018	3/31/2017
Service cost	$0	$ 0	$53	$ 68	$45	$ 54
Interest cost	591	607	65	71	206	209
Expected return on plan assets	(1,417)	(1,267)	0	0	0	0
Amortization of net retirement plan actuarial loss	267	252	15	4	135	101
Amortization of net retirement plan prior service (credit) cost	(3)	(3)	(15)	4	22	22
Net periodic benefit (income) cost	$(562)	$ (411)	$118	$ 147	$408	$ 386

The service component of net periodic benefit cost for the Company's benefit plans is recorded as a part of salaries and wages in the consolidated statements of income. All other components are recorded as part of other operating expenses in the consolidated statements of income.

The Company realized approximately $318,000 and $228,000, net of tax, as amortization of amounts previously recognized in accumulated other comprehensive (loss) income, for the three months ended March 31, 2018 and 2017, respectively.

The Company is not required to contribute to the pension plan in 2018, but it may make voluntary contributions. The Company did not contribute to the pension plan in the first three months of 2018 and 2017.

10. Other Income and Operating Expense

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

(in thousands)	Three Months Ended 3/31/2018	3/31/2017
Noninterest Income		
Other service charges	$808	$ 820
Increase in cash surrender value of corporate owned life insurance	517	630
Net gain on sale of loans	21	13
Other income	442	692
Total other income	$1,788	$ 2,155
Noninterest Expenses		
Marketing expense	$1,141	$ 1,174
Professional fees	1,877	1,362
Legal fees	207	264
Technology expense	2,400	1,891
Cardholder expense	632	1,182
Other expenses	4,351	4,087
Total other operating expense	$10,608	$ 9,960

Note 11. Revenue Recognition
On January 1, 2018, the Company adopted ASU No. 2014-09 “Revenue from Contracts with Customers” (ASC 606) and all subsequent ASUs that modified ASC 606. As stated in Note 3 - "New Accounting Standards," results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under ASC 605. The Company recorded a net increase to beginning retained earnings of $1.8 million as of January 1, 2018 due to the cumulative impact of adopting ASC 606. The impact to beginning retained earnings was primarily driven by the recognition of contingency income related to our insurance business segment.

Under ASC 606, the Company made any necessary revisions to its policies related to the new revenue recognition guidance. In general, for revenue not associated with financial instruments, guarantees and lease contracts, we apply the following steps when recognizing revenue from contracts with customers: (i) identify the contract, (ii) identify the performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations and (v) recognize revenue when performance obligation is satisfied. Our contracts with customers are generally short term in nature, typically due within one year or less or cancellable by us or our customer upon a short notice period. Performance obligations for our customer contracts are generally satisfied at a single point in time, typically when the transaction is complete, or over time. For performance obligations satisfied over time, we primarily use the output method, directly measuring the value of the products/services transferred to the customer, to determine when performance obligations have been satisfied. We typically receive payment from customers and recognize revenue concurrent with the satisfaction of our performance obligations. In most cases, this occurs within a single financial reporting period. For payments received in advance of the satisfaction of performance obligations, revenue recognition is deferred until such time the performance obligations have been satisfied. In cases where we have not received payment despite satisfaction of our performance obligations, we accrue an estimate of the amount due in the period our performance obligations have been satisfied. For contracts with variable components, only amounts for which collection is probable are accrued. We generally act in a principal capacity, on our own behalf, in most of our contracts with customers. In such transactions, we recognize revenue and the related costs to provide our services on a gross basis in our financial statements. In some cases, we act in an agent capacity, deriving revenue through assisting other entities in transactions with our customers. In such transactions, we recognized revenue and the related costs to provide our services on a net basis in our financial statements. These transactions primarily relate to insurance and brokerage commissions, and fees derived from our customers' use of various interchange and ATM/debit card networks.

ASC 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives, and certain credit card fees are also not in scope of the new guidance. ASC 606 is applicable to noninterest revenue streams such as trust and asset management income, deposit related fees, interchange fees, merchant income, and annuity and insurance commissions. However, the recognition of these revenue streams did not change significantly upon adoption of ASC 606.

Insurance Commissions and Fees

Fees are earned upon the effective date of bound coverage, as no significant performance obligation remains after coverage is bound. As the Company has historically recognized revenue in this manner, with the noted exception related to installment billing discussed below, the adoption of ASC 606 will not significantly impact the revenue from this source on a quarterly or annual basis.

Installment billing - Agency Bill

Prior to the adoption of ASC 606, commission revenue on policies billed in installments were recognized on the latter of the policy effective date or the date that the premium was billed to the client. As a result of the adoption of ASC 606, revenue associated with the issuance of policies will be recognized upon the effective date of the associated policy regardless of the billing method, meaning that commission revenues billed on an installment basis will be now recognized earlier than they had been previously. Revenue will be accrued based upon the completion of the performance obligation creating a current asset for the unbilled revenue until such time as an invoice is generated, typically not to exceed twelve months. The Company does not expect the overall impact of these changes to be significant, but it will result in slight variances from quarter to quarter.

Contingent commissions

Prior to the adoption of ASC 606, revenue that was not fixed and determinable because a contingency exists was not recognized until the contingency was resolved. Under ASC 606, the Company must use its judgment to estimate the amount of consideration that will be received such that a significant reversal of revenue is not probable. Contingent commissions represent a form of variable consideration associated with the same performance obligation, which is the placement of coverage, for which we earn core commissions. In connection with the new standard, contingent commissions will be estimated with an appropriate constraint applied and accrued relative to the recognition of the corresponding core commissions. The resulting effect on the timing of recognition of contingent commissions will more closely follow a similar pattern as our core commissions with true-ups recognized when payments are received or as additional information that affects the estimate becomes available.

Refund of commissions

The contract with the insurance carrier dictates commissions paid to the Company shall be refunded to the carrier upon cancellation by the policyholder. As a result, the Company has established a liability for the estimated amount of commission for which the Company does not expect to be entitled, and corresponding reduction to the gross commission received or receivable. The refund liability will be updated at the end of each reporting period for changes in circumstances.

Trust & Asset Management

Trust and asset management income is primarily comprised of fees earned from the management and administration of trusts and other customer assets. The Company's performance obligation is generally satisfied over time and the resulting fees are recognized monthly, based upon the month-end market value of the assets under management and the applicable fee rate. Payment is generally received a few days after month end through a direct charge to customers' accounts. The Company does not earn performance-based incentives. Optional services such as real estate sales and tax return preparation services are also available to existing trust and asset management customers. The Company's performance obligation for these transactional-based services is generally satisfied, and related revenue recognized, at a point in time (i.e., as incurred). Payment is received shortly after services are rendered.

Mutual Fund & Investment Income

Mutual fund and investment income consists of other recurring revenue streams such as commissions from sales of mutual funds and other investments, investment advisory fees from the Company's Strategic Asset Management Services (SAM) wealth management product. Commissions from the sale of mutual funds and other investments are recognized on trade date, which is when the Company has satisfied its performance obligation. The Company also receives periodic service fees (i.e., trailers) from mutual fund companies typically based on a percentage of net asset value. Trailer revenue is recorded over time, usually monthly or quarterly, as net asset value is determined. Investment advisor fees from the wealth management product is earned over time and based on an annual percentage rate of the net asset value. The investment advisor fees are charged to the customer's account in advance on the first month of the quarter, and the revenue is recognized over the following three-month period. The Company does engage a third party, LPL Financial LLC (LPL), to satisfy part of this performance obligation, and therefore this income is reported net of any corresponding expenses paid to LPL.

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Card Services Income

Fees, exchange, and other service charges are primarily comprised of debit and credit card income, ATM fees, merchant services income, and other service charges. Debit and credit card income is primarily comprised of interchange fees earned whenever the Company’s debit and credit cards are processed through card payment networks such as Mastercard. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. The Company’s performance obligation for fees and exchange are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Other

Other service charges include revenue from processing wire and ACH transfers, lock box service and safe deposit box rental. Both wire transfer fees and lock box services are charged on per item basis. Wire and ACH transfer fees are charged at the time of transfer and charged directly to the customer account. Lock box customers are billed monthly and payments are received in the following month through a direct charge to customers' accounts. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of ASC 606, for the three months ended March 31, 2018 and 2017.

	Three Months Ended	
(in thousands)	03/31/2018	03/31/2017
Noninterest Income		
In-scope of ASC 606:		
Commissions and Fees	$6,878	$ 6,741
Installment Billing	(71)	0
Refund of Commissions	(23)	0
Contract Liabilities/Deferred Revenue	0	(273)
Contingent commissions	610	650
Subtotal Insurance Revenues	7,394	7,118
Trust and Asset Management	2,814	2,444
Mutual Fund & Investment Income	1,432	1,347
Subtotal Investment Service Income	4,246	3,791
Service Charges on Deposit Accounts	2,132	2,167
Card Services Income	2,146	2,009
Other	314	305
Noninterest Income (in-scope of ASC 606)	16,232	15,390
Noninterest Income (out-of-scope of ASC 606)	1,598	1,850
Total Noninterest Income	$17,830	$ 17,240

Contract Balances

Receivables primarily consist of amounts due from customers for insurance and wealth management services performed for which the Company's performance obligations have been fully satisfied. Receivables amounted to $3.5 million and $1.9 million, respectively, at March 31, 2018, compared to $4.0 million and $1.9 million, respectively, at December 31, 2017 and were included in other assets in the audited Consolidated Statements of Condition.

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). The Company's noninterest revenue streams, excluding some insurance commissions and fees, are largely based on transactional activity, or standard month-end revenue accruals such as asset management fees based on month-end market values. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of March 31, 2018 and December 31, 2017, the Company did not have any significant contract balances.

A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company often receives cash payments from customers in advance of the Company's performance resulting in contract liabilities. These contract liabilities are classified current or long-term in the Consolidated Condensed Balance Sheet based on the timing of when the Company expects to recognize revenue. As of March 31, 2018 and at the date of adoption of ASC 606, contract liabilities were $600,000 and $1.7 million, respectively, and are included within accrued expenses in the accompanying Consolidated Condensed Statements of Condition. The liabilities include premiums due to insurance carriers in addition to unearned commission revenue.

The increase/decrease in the contract liability balance during the three-month period ended March 31, 2018 is primarily as a result of billings and cash payments received in advance of satisfying performance obligations, offset by insurance premiums and revenue recognized during the period that was included in the contract liability balance at the date of adoption. The adoption of ASC 606 did not create a change in accounting for insurance commissions and fees as they relate to contract liabilities, however the company did eliminate the practice of deferring revenue on its larger accounts over the course of the policy period.

Contract Acquisition Costs

In connection with the adoption of ASC 606, an entity is required to capitalize, and subsequently amortize into expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, sales commission). The Company utilizes the practical expedient which allows entities to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. Upon adoption of ASC 606, the Company did not capitalize any contract acquisition costs.

12. Financial Guarantees

The Company currently does not issue any guarantees that would require liability recognition or disclosure, other than standby letters of credit. The Company extends standby letters of credit to its customers in the normal course of business. The standby letters of credit are generally short-term. As of March 31, 2018, the Company’s maximum potential obligation under standby letters of credit was $29.5 million compared to $27.8 million at December 31, 2017. Management uses the same credit policies to extend standby letters of credit that it uses for on-balance sheet lending decisions and may require collateral to support standby letters of credit based upon its evaluation of the counterparty. Management does not anticipate any significant losses as a result of these transactions, and has determined that the fair value of standby letters of credit is not significant.

13. Segment and Related Information

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

Banking

The Banking segment is primarily comprised of the Company’s four banking subsidiaries: Tompkins Trust Company, a commercial bank with fourteen banking offices located in Ithaca, NY and surrounding communities; The Bank of Castile (DBA Tompkins Bank of Castile), a commercial bank with seventeen banking offices located in the Genesee Valley region of New York State as well as Monroe County; Mahopac Bank (DBA Tompkins Mahopac Bank), a commercial bank with fourteen full-service banking offices located in the counties north of New York City; and VIST Bank (DBA Tompkins VIST Bank), a banking organization with twenty-one banking offices headquartered and operating in the areas surrounding southeastern Pennsylvania.

Insurance

The Company provides property and casualty insurance services and employee benefits consulting through Tompkins Insurance Agencies, Inc., a 100% wholly-owned subsidiary of the Company, headquartered in Batavia, New York.

Tompkins Insurance is an independent insurance agency, representing many major insurance carriers and provides employee benefit consulting to employers in Western and Central New York and Southeastern Pennsylvania, assisting them with their medical, group life insurance and group disability insurance. Tompkins Insurance has five stand-alone offices in Western New York, one stand-alone office in Tompkins County, New York and