Section 1: 10-Q (10-Q)

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

FORM 10-Q

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

For the quarterly period ended September 30, 2019

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.)

118 E. Seneca Street, P.O. Box 460, Ithaca, NY
(Address of principal executive offices)
14851
(Zip Code)

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

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

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

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common Stock, $0.10 par value	TMP	NYSE American, LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐.

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

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

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

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

Indicate the number of shares of the Registrant's Common Stock outstanding as of the latest practicable date: 14,940,236 shares as of October 31, 2019.

TOMPKINS FINANCIAL CORPORATION

FORM 10-Q

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PART I -FINANCIAL INFORMATION

TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share and per share data) ASSETS	As of 9/30/2019 (unaudited)	As of 12/31/2018 (audited)
Cash and noninterest bearing balances due from banks	$ 124,939	$ 78,524
Interest bearing balances due from banks	2,488	1,865
Cash and Cash Equivalents	**127,427**	**80,389**
Available-for-sale securities, at fair value (amortized cost of $1,140,086 at September 30, 2019 and $1,363,902 at December 31, 2018)	1,142,452	1,332,658
Held-to-maturity securities, at amortized cost (fair value of $142,583 at September 30, 2019 and $139,377 at December 31, 2018)	138,657	140,579
Equity securities, at fair value (amortized cost $1,000 at September 30, 2019 and $1,000 at December 31, 2018)	917	887
Originated loans and leases, net of unearned income and deferred costs and fees	4,628,616	4,568,741
Acquired loans	228,457	265,198
Less: Allowance for loan and lease losses	41,371	43,410
Net Loans and Leases	**4,815,702**	**4,790,529**
Federal Home Loan Bank and other stock	24,881	52,262
Bank premises and equipment, net	94,861	97,202
Corporate owned life insurance	82,516	81,928
Goodwill	92,447	92,283
Other intangible assets, net	6,647	7,628
Accrued interest and other assets	101,475	82,091
Total Assets	**$ 6,627,982**	**$ 6,758,436**
LIABILITIES		
Deposits:		
Interest bearing:		
Checking, savings and money market	3,165,622	2,853,190
Time	701,444	637,295
Noninterest bearing	1,502,924	1,398,474
Total Deposits	**5,369,990**	**4,888,959**
Federal funds purchased and securities sold under agreements to repurchase	50,541	81,842
Other borrowings	429,000	1,076,075
Trust preferred debentures	16,992	16,863
Other liabilities	101,594	73,826
Total Liabilities	**$ 5,968,117**	**$ 6,137,565**
EQUITY		
Tompkins Financial Corporation shareholders' equity:		
Common Stock - par value $.10 per share: Authorized 25,000,000 shares; Issued: 15,011,660 at September 30, 2019; and 15,348,287 at December 31, 2018	1,501	1,535
Additional paid-in capital	341,654	366,595
Retained earnings	357,165	319,396
Accumulated other comprehensive loss	(36,851)	(63,165)
Treasury stock, at cost – 121,880 shares at September 30, 2019, and 122,227 shares at December 31, 2018	(5,111)	(4,902)
Total Tompkins Financial Corporation Shareholders’ Equity	**658,358**	**619,459**
Noncontrolling interests	1,507	1,412

Total Equity	$	**659,865**	$	**620,871**
Total Liabilities and Equity	$	**6,627,982**	$	**6,758,436**

See notes to unaudited condensed consolidated financial statements.

TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data) (Unaudited)	Three Months Ended 9/30/2019	Three Months Ended 9/30/2018	Nine Months Ended 9/30/2019	Nine Months Ended 9/30/2018
INTEREST AND DIVIDEND INCOME				
Loans	$ 57,621	$ 54,769	$ 169,685	$ 158,419
Due from banks	11	8	31	22
Available-for-sale securities	6,511	7,448	22,055	22,821
Held-to-maturity securities	862	860	2,583	2,572
Federal Home Loan Bank and other stock	770	899	2,442	2,433
Total Interest and Dividend Income	**65,775**	**63,984**	**196,796**	**186,267**
INTEREST EXPENSE				
Time certificates of deposits of $250,000 or more	823	563	2,184	1,088
Other deposits	7,583	3,830	20,409	9,699
Federal funds purchased and securities sold under agreements to repurchase	34	35	110	115
Trust preferred debentures	317	318	974	904
Other borrowings	3,862	6,075	15,731	15,897
Total Interest Expense	**12,619**	**10,821**	**39,408**	**27,703**
Net Interest Income	**53,156**	**53,163**	**157,388**	**158,564**
Less: Provision for loan and lease losses	1,320	272	2,366	1,884
Net Interest Income After Provision for Loan and Lease Losses	**51,836**	**52,891**	**155,022**	**156,680**
NONINTEREST INCOME				
Insurance commissions and fees	8,517	7,903	24,314	22,684
Investment services income	4,175	4,097	12,166	12,365
Service charges on deposit accounts	2,191	2,088	6,210	6,300
Card services income	2,550	2,442	8,090	7,209
Other income	1,963	2,057	6,247	8,743
Net gain on securities transactions	138	16	434	290
Total Noninterest Income	**19,534**	**18,603**	**57,461**	**57,591**
NONINTEREST EXPENSE				
Salaries and wages	22,960	22,029	66,149	64,404
Other employee benefits	5,821	5,300	17,094	15,859
Net occupancy expense of premises	3,236	3,057	10,095	9,873
Furniture and fixture expense	1,919	1,814	5,894	5,461
Amortization of intangible assets	421	440	1,251	1,334
Other operating expense	11,298	12,493	35,451	36,908
Total Noninterest Expenses	**45,655**	**45,133**	**135,934**	**133,839**
Income Before Income Tax Expense	**25,715**	**26,361**	**76,549**	**80,432**
Income Tax Expense	5,478	5,427	15,816	16,939
Net Income Attributable to Noncontrolling Interests and Tompkins Financial Corporation	**20,237**	**20,934**	**60,733**	**63,493**
Less: Net Income Attributable to Noncontrolling Interests	31	32	95	96
Net Income Attributable to Tompkins Financial Corporation	**$ 20,206**	**$ 20,902**	**$ 60,638**	**$ 63,397**
Basic Earnings Per Share	**$ 1.34**	**$ 1.37**	**$ 3.99**	**$ 4.15**
Diluted Earnings Per Share	**$ 1.34**	**$ 1.36**	**$ 3.97**	**$ 4.12**

See notes to unaudited condensed consolidated financial statements.

TOMPKINS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended	
(In thousands) (Unaudited)	**9/30/2019**	**9/30/2018**
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	**$ 20,237**	$ 20,934
Other comprehensive income (loss), net of tax:		
Available-for-sale securities:		
Change in net unrealized gain/(loss) during the period	**3,111**	(5,806)
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	**(101)**	(23)
Employee benefit plans:		
Amortization of net retirement plan actuarial loss	**310**	325
Amortization of net retirement plan prior service cost	**3**	3
Other comprehensive income (loss)	**3,323**	(5,501)
Subtotal comprehensive income attributable to noncontrolling interests and Tompkins Financial Corporation	**23,560**	15,433
Less: Net income attributable to noncontrolling interests	**(31)**	(32)
Total comprehensive income attributable to Tompkins Financial Corporation	**$ 23,529**	$ 15,401

	Nine Months Ended	
(In thousands) (Unaudited)	**9/30/2019**	**9/30/2018**
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	**$ 60,733**	$ 63,493
Other comprehensive (loss) income, net of tax:		
Available-for-sale securities:		
Change in net unrealized gain/loss during the period	**25,681**	(24,443)
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	**(305)**	(245)
Employee benefit plans:		
Amortization of net retirement plan actuarial loss	**930**	973
Amortization of net retirement plan prior service cost	**8**	9
Other comprehensive income (loss)	**26,314**	(23,706)
Subtotal comprehensive income attributable to noncontrolling interests and Tompkins Financial Corporation	**87,047**	39,787
Less: Net income attributable to noncontrolling interests	**(95)**	(96)
Total comprehensive income attributable to Tompkins Financial Corporation	**$ 86,952**	$ 39,691

See notes to unaudited condensed consolidated financial statements.

TOMPKINS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
(In thousands) (Unaudited)	**9/30/2019**	**9/30/2018**
OPERATING ACTIVITIES		
Net income attributable to Tompkins Financial Corporation	$ 60,638	$ 63,397
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	2,366	1,884
Depreciation and amortization of premises, equipment, and software	7,495	6,937
Amortization of intangible assets	1,251	1,334
Earnings from corporate owned life insurance	(1,612)	(1,519)
Net amortization on securities	5,425	6,775
Amortization/accretion related to purchase accounting	(1,091)	(1,603)
Net gain on securities transactions	(434)	(290)
Net gain on sale of loans originated for sale	(139)	(295)
Proceeds from sale of loans originated for sale	11,532	15,585
Loans originated for sale	(9,961)	(16,970)
Net gain on sale of bank premises and equipment	(110)	(2,946)
Net excess tax benefit from stock based compensation	574	496
Stock-based compensation expense	3,009	2,511
Increase in accrued interest receivable	(488)	(2,989)
(Decrease) increase in accrued interest payable	(114)	112
Other, net	(4,132)	(4,829)
Net Cash Provided by Operating Activities	**74,209**	**67,590**
INVESTING ACTIVITIES		
Proceeds from maturities, calls and principal paydowns of available-for-sale securities	232,792	105,220
Proceeds from sales of available-for-sale securities	176,249	60,888
Proceeds from maturities, calls and principal paydowns of held-to-maturity securities	9,205	5,791
Purchases of available-for-sale securities	(189,940)	(123,772)
Purchases of held-to-maturity securities	(7,589)	(8,110)
Net increase in loans	(28,395)	(131,513)
Net decrease in Federal Home Loan Bank stock	27,381	2,042
Proceeds from sale of bank premises and equipment	449	3,274
Purchases of bank premises, equipment and software	(4,049)	(14,380)
Net cash used in acquisition	(436)	0
Other, net	4,887	132
Net Cash Provided by (Used in) Investing Activities	**220,554**	**(100,428)**
FINANCING ACTIVITIES		
Net increase in demand, money market, and savings deposits	416,882	295,423
Net increase (decrease) in time deposits	64,831	(107,071)
Net decrease in Federal funds purchased and securities sold under agreements to repurchase	(31,301)	(22,302)
Increase in other borrowings	252,753	415,932
Repayment of other borrowings	(899,828)	(499,159)
Cash dividends	(22,869)	(21,998)
Repurchase of common stock	(26,992)	(1,206)
Shares issued for employee stock ownership plan	0	3,073
Net shares issued related to restricted stock awards	(385)	(494)
Net proceeds from exercise of stock options	(816)	(501)
Net Cash (Used in) Provided by Financing Activities	**(247,725)**	**61,697**
Net Increase in Cash and Cash Equivalents	**47,038**	**28,859**
Cash and cash equivalents at beginning of period	80,389	84,303
Total Cash and Cash Equivalents at End of Period	**$ 127,427**	**$ 113,162**

See notes to unaudited condensed consolidated financial statements.

TOMPKINS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
(In thousands) (Unaudited)	**9/30/2019**	**9/30/2018**
Supplemental Information:		
Cash paid during the year for - Interest	**$ 40,204**	$ 28,668
Cash paid during the year for - Taxes	**11,241**	14,963
Transfer of loans to other real estate owned	**774**	242

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 July 1, 2018	**$ 1,532**	**$ 367,121**	**$ 294,553**	**$ (69,436)**	**$ (4,597)**	**$ 1,476**	**$ 590,649**
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			20,902			32	20,934
Other comprehensive (loss)				(5,501)			(5,501)
Total Comprehensive Income							15,433
Cash dividends ($0.48 per share)			(7,334)				(7,334)
Net exercise of stock options (5,293 shares)	1	(288)					(287)
Common stock repurchased and returned to unissued status	(1)						(1)
Stock-based compensation expense		815					815
Directors deferred compensation plan (1,967 shares)		151			(151)		0
Restricted stock activity ((10,078) shares)	(1)	(130)					(131)
Balances at September 30, 2018	**$ 1,531**	**$ 367,669**	**$ 308,121**	**$ (74,937)**	**$ (4,748)**	**$ 1,508**	**$ 599,144**
Balances at July 1, 2019	**$ 1,520**	**$ 355,284**	**$ 344,513**	**$ (40,174)**	**$ (4,942)**	**$ 1,476**	**$ 657,677**
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			20,206			31	20,237
Other comprehensive income				3,323			3,323
Total Comprehensive Income							23,560
Cash dividends ($0.50 per share)			(7,554)				(7,554)
Net exercise of stock options (2,902 shares)	0	(106)					(106)
Common stock repurchased and returned to unissued status (185,107 shares)	(18)	(14,690)					(14,708)
Stock-based compensation expense		997					997
Directors deferred compensation plan (2,027 shares)		169			(169)		0
Restricted stock activity ((2,764) shares)	(1)	0					(1)
Balances at September 30, 2019	**$ 1,501**	**$ 341,654**	**$ 357,165**	**$ (36,851)**	**$ (5,111)**	**$ 1,507**	**$ 659,865**

(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, 2018	**$ 1,530**	**$ 364,031**	**$ 265,007**	**$ (51,296)**	**$ (4,492)**	**$ 1,422**	**$ 576,202**
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			63,397			96	63,493
Other comprehensive (loss)				(23,706)			(23,706)
Total Comprehensive Income							39,787
Cash dividends ($1.44 per share)			(21,998)				(21,998)
Net exercise of stock options (10,136 shares)	1	(502)					(501)
Common stock repurchased and returned to unissued status (15,500 shares)	(2)	(1,204)					(1,206)
Stock-based compensation expense		2,511					2,511
Shares issued for employee stock ownership plan (38,883 shares)	4	3,069					3,073
Directors deferred compensation plan ((527) shares)		256			(256)		0
Restricted stock activity ((21,218) shares)	(2)	(492)					(494)
Adoption of Accounting Guidance ASU 2016-01			(65)	65			0
Adoption of Accounting Guidance ASU 2014-09			1,780				1,780
Partial repurchase of noncontrolling interest						(10)	(10)
Balances at September 30, 2018	**$ 1,531**	**$ 367,669**	**$ 308,121**	**$ (74,937)**	**$ (4,748)**	**$ 1,508**	**$ 599,144**
Balances at January 1, 2019	**$ 1,535**	**$ 366,595**	**$ 319,396**	**$ (63,165)**	**$ (4,902)**	**$ 1,412**	**$ 620,871**
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			60,638			95	60,733
Other comprehensive income				26,314			26,314
Total Comprehensive Income							87,047
Cash dividends ($1.50 per share)			(22,869)				(22,869)
Net exercise of stock options (15,201 shares)	1	(817)					(816)
Common stock repurchased and returned to unissued status (340,200 shares)	(34)	(26,958)					(26,992)
Stock-based compensation expense		3,009					3,009
Directors deferred compensation plan ((347) shares)		209			(209)		0
Restricted stock activity ((11,628) shares)	(1)	(384)					(385)
Balances at September 30, 2019	**$ 1,501**	**$ 341,654**	**$ 357,165**	**$ (36,851)**	**$ (5,111)**	**$ 1,507**	**$ 659,865**

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 September 30, 2019, 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 (DBA Tompkins Mahopac Bank), VIST Bank (DBA Tompkins VIST Bank); and a wholly-owned insurance agency subsidiary, Tompkins Insurance Agencies, Inc. ("Tompkins Insurance"). The trust division of the Trust Company provides a full array of investment services, including investment management, trust and estate, financial and tax planning as well as life, disability and long-term care insurance services. The Company's principal offices are located at 118 E. Seneca Street, Ithaca, New York, 14850, 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, 2019. 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, 2018. There have been no significant changes to the Company's accounting policies from those presented in the 2018 Annual Report on Form 10-K. Refer to Note 3 - "Accounting Standards Updates" of this Report for a discussion of recently issued accounting guidelines.

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

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

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

3. Accounting Standards Updates

Newly Adopted Accounting Standards

In February 2016, the FASB issued ASU No. 2016-02, "*Leases.*" Under the new guidance, lessees are required to recognize the following for all leases: 1) a lease liability, which is the present value of a lessee's obligation to make lease payments, and 2) 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. Lessor accounting under the new guidance remains largely unchanged as it is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. Leveraged leases have been eliminated, although lessors can continue to account for existing leveraged leases using the current accounting guidance. Other limited changes were made to align lessor accounting with the lessee accounting model and the new revenue recognition standard. All entities will classify leases to determine how to recognize lease-related revenue and expense. Quantitative and qualitative disclosures are required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The intention is to require enough information to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity's leasing activities. ASU No. 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018. All entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. As the Company elected the transition option provided in ASU No. 2018-11 (see below), the modified retrospective approach was applied on January 1, 2019 (as opposed to January 1, 2017). The Company also elected certain relief options offered in ASU 2016-02 including the package of practical expedients, however the Company has chosen to continue to separate lease and non-lease components instead of accounting for them as a single lease component. The Company did not elect the hindsight practical expedient, which allows entities to use hindsight when determining lease term and impairment of right-of-use assets. The Company has several lease agreements, such as leases for branch locations, which are considered operating leases, and therefore, were not previously recognized on the Company's consolidated statements of condition. The new guidance requires these lease agreements to be recognized on the consolidated statements of condition as a right-of-use asset and a corresponding lease liability. The new guidance did not have a material impact on the consolidated statements of income or the consolidated statements of cash flows. See Note 15 - "Leases" for more information.

In July 2018, the FASB issued ASU No. 2018-11, "*Leases - Targeted Improvements*" to provide entities with relief from the costs of implementing certain aspects of the new leasing standard, ASU No. 2016-02. Specifically, under the amendments in ASU 2018-11: (1) entities may elect not to recast the comparative periods presented when transitioning to the new leasing standard, and (2) lessors may elect not to separate lease and non-lease components when certain conditions are met. The amendments have the same effective date as ASU 2016-02 (January 1, 2019 for the Company). The Company adopted ASU 2018-11 on its required effective date of January 1, 2019 and elected both transition options mentioned above. ASU 2018-11 did not have a material impact on the Company's Consolidated Financial Statements.

In December 2018, the FASB issued ASU No. 2018-20, "*Narrow-Scope Improvements for Lessors.*" This ASU (1) allows lessors to make an accounting policy election of presenting sales taxes and other similar taxes collected from lessees on a net basis, (2) requires a lessor to exclude lessor costs paid directly by a lessee to third parties on the lessor's behalf and include lessor costs that are paid by the lessor and reimbursed by the lessee in the measurement of variable lease revenue and the associated expense, and (3) clarifies that when lessors allocate variable payments to lease and non-lease components they are required to follow the recognition guidance in the new leases standard for the lease component and other applicable guidance, such as the new revenue standard, for the non-lease component. The Company adopted ASU 2018-20 on its required effective date of January 1, 2019 and its adoption did not have a material impact on the Company's Consolidated Financial Statements.

In March 2019, the FASB issued ASU No. 2019-01, “*Leases: Codification Improvements.”* This ASU (1) states that for lessors that are not manufacturers or dealers, the fair value of the underlying asset is its cost, less any volume or trade discounts, as long as there is not a significant amount of time between acquisition of the asset and lease commencement; (2) clarifies that lessors in the scope of ASC 942 (such as the Company) must classify principal payments received from sales-type and direct financing leases in investing activities in the statement of cash flows; and (3) clarifies the transition guidance related to certain interim disclosures provided in the year of adoption. To coincide with the adoption of ASU No. 2016-02, the Company elected to early adopt ASU 2019-01 on January 1, 2019. The adoption of this ASU did not have a material impact on the Company’s Consolidated Financial Statements.

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 became effective for us on January 1, 2019 and did not have a significant impact on the Company's Consolidated Financial Statements.

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 2018 Form 10-K for additional information related to previously issued accounting standards updates.

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. The Company has been evaluating the guidance through a cross-functional committee with members from Finance, Accounting, Risk Management, Internal Audit, and Credit Administration, along with the engagement of a third party. The Company continues to evaluate model output with respect to modeling assumptions, including the impact of forecasted economic conditions. The Company will continue to develop accounting policies and procedures and continue the validation of models. The Company does not expect a significant impact to capital through the adoption of 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.

4. Securities

Available-for-Sales Securities

The following table summarizes available-for-sale securities held by the Company at September 30, 2019:

	Available-for-Sale Securities			
September 30, 2019	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
(In thousands)				
U.S. Treasuries	$ 1,356	$ 0	$ 0	$ 1,356
Obligations of U.S. Government sponsored entities	314,740	2,039	63	316,716
Obligations of U.S. states and political subdivisions	84,744	1,152	60	85,836
Mortgage-backed securities – residential, issued by				
U.S. Government agencies	176,737	1,429	1,319	176,847
U.S. Government sponsored entities	560,009	2,920	3,664	559,265
U.S. corporate debt securities	2,500	0	68	2,432
Total available-for-sale securities	**$ 1,140,086**	**$ 7,540**	**$ 5,174**	**$ 1,142,452**

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

	Available-for-Sale Securities			
December 31, 2018	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
(In thousands)				
U.S. Treasuries	$ 289	$ 0	$ 0	$ 289
Obligations of U.S. Government sponsored entities	493,371	80	7,553	485,898
Obligations of U.S. states and political subdivisions	86,260	113	933	85,440
Mortgage-backed securities – residential, issued by				
U.S. Government agencies	131,831	168	3,732	128,267
U.S. Government sponsored entities	649,620	537	19,599	630,558
Non-U.S. Government agencies or sponsored entities	31	0	0	31
U.S. corporate debt securities	2,500	0	325	2,175
Total available-for-sale securities	**$ 1,363,902**	**$ 898**	**$ 32,142**	**$ 1,332,658**

Held-to-Maturity Securities

The following table summarizes held-to-maturity securities held by the Company at September 30, 2019:

	Held-to-Maturity Securities			
September 30, 2019	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
(In thousands)				
Obligations of U.S. Government sponsored entities	$ 131,001	$ 3,882	$ 0	$ 134,883
Obligations of U.S. states and political subdivisions	7,656	44	0	7,700
Total held-to-maturity debt securities	**$ 138,657**	**$ 3,926**	**$ 0**	**$ 142,583**

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

December 31, 2018	Held-to-Maturity Securities Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
Obligations of U.S. Government sponsored entities	$ 131,306	$ 0	$ 1,198	$ 130,108
Obligations of U.S. states and political subdivisions	9,273	20	24	9,269
Total held-to-maturity debt securities	**$ 140,579**	**$ 20**	**$ 1,222**	**$ 139,377**

The Company may from time to time sell investment securities from its available-for-sale portfolio. The available-for-sale portfolio also includes callable securities that may be called by the issuer prior to maturity. Realized gains on available-for-sale securities were $133,000 and $999,000 for the three and nine months ended September 30, 2019 and $30,000 and $327,000 for the same periods during 2018. Realized losses on available-for-sale securities were $0 and $595,000 for the three and nine months ended September 30, 2019 and $0 and $3,000 for the same periods during 2018. The sales of available-for-sale investment securities were the result of general investment portfolio and interest rate risk management. The Company also recognized net gains of $5,000 and $30,000 for the three and nine months ended September 30, 2019, on equity securities, reflecting the change in fair value. The Company recognized net losses of $14,000 and $34,000 for the three and nine months ended September 30, 2018, on equity securities, reflecting the change in fair value.

The following table summarizes available-for-sale securities that had unrealized losses at September 30, 2019:

	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	$ 9,451	$ 49	$ 8,540	$ 14	$ 17,991	$ 63
Obligations of U.S. states and political subdivisions	5,761	45	2,295	15	8,056	60
Mortgage-backed securities – residential, issued by						
U.S. Government agencies	57,136	336	49,624	983	106,760	1,319
U.S. Government sponsored entities	42,056	276	296,532	3,388	338,588	3,664
U.S. corporate debt securities	0	0	2,432	68	2,432	68
Total available-for-sale securities	**$ 114,404**	**$ 706**	**$ 359,423**	**$ 4,468**	**$ 473,827**	**$ 5,174**

The following table summarizes available-for-sale securities that had unrealized losses at December 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	$ 21,660	$ 183	$ 449,141	$ 7,370	$ 470,801	$ 7,553
Obligations of U.S. states and political subdivisions	11,971	19	49,756	914	61,727	933
Mortgage-backed securities – residential, issued by						
U.S. Government agencies	16,854	22	96,247	3,710	113,101	3,732
U.S. Government sponsored entities	61,163	662	512,216	18,937	573,379	19,599
U.S. corporate debt securities	0	0	2,175	325	2,175	325
Total available-for-sale securities	**$ 111,648**	**$ 886**	**$ 1,109,535**	**$ 31,256**	**$ 1,221,183**	**$ 32,142**

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

There were no held-to-maturity securities with unrealized losses at September 30, 2019.

The following table summarizes held-to-maturity securities that had unrealized losses at December 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	$ 4,980	$ 9	$ 125,128	$ 1,189	$ 130,108	$ 1,198
Obligations of U.S. states and political subdivisions	8,127	24	0	0	8,127	24
Total held-to-maturity securities	**$ 13,107**	**$ 33**	**$ 125,128**	**$ 1,189**	**$ 138,235**	**$ 1,222**

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

The Company does not intend to sell other-than-temporarily impaired investment securities that are in an unrealized loss position until recovery of unrealized losses (which may be until maturity), and it is not more-likely-than not that the Company will be required to sell the investment securities, before recovery of their amortized cost basis, which may be at maturity. Accordingly, as of September 30, 2019, and December 31, 2018, management has determined that the unrealized losses detailed in the tables above are not other-than-temporary.

Ongoing Assessment of Other-Than-Temporary Impairment

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

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, over collateralization, protective triggers;
- Changes in the near term prospects of the issuer or underlying collateral of a security, such as changes in default rates, loss severities given default and significant changes in prepayment assumptions;
- The level of excess cash flow generated from the underlying collateral supporting the principal and interest payments of the debt securities; and
- Any adverse change to the credit conditions of the issuer or the security such as credit downgrades by the rating agencies.

As a result of the other-than-temporarily impairment review process, the Company does not consider any investment security held at September 30, 2019 to be other-than-temporarily impaired.

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

September 30, 2019

(In thousands)	**Amortized Cost**	**Fair Value**
Available-for-sale securities:		
Due in one year or less	$ 91,952	$ 92,005
Due after one year through five years	225,410	227,476
Due after five years through ten years	75,180	75,930
Due after ten years	10,798	10,929
Total	403,340	406,340
Mortgage-backed securities	736,746	736,112
Total available-for-sale debt securities	**$ 1,140,086**	**$ 1,142,452**

December 31, 2018

(In thousands)	**Amortized Cost**	**Fair Value**
Available-for-sale securities:		
Due in one year or less	$ 78,160	$ 77,930
Due after one year through five years	355,499	350,470
Due after five years through ten years	139,560	136,734
Due after ten years	9,201	8,668
Total	582,420	573,802
Mortgage-backed securities	781,482	758,856
Total available-for-sale debt securities	**$ 1,363,902**	**$ 1,332,658**

September 30, 2019 *(In thousands)*	**Amortized Cost**	**Fair Value**
Held-to-maturity securities:		
Due in one year or less	$ 17,696	$ 17,744
Due after one year through five years	95,979	98,494
Due after five years through ten years	24,982	26,345
Total held-to-maturity debt securities	**$ 138,657**	**$ 142,583**

December 31, 2018 *(In thousands)*	**Amortized Cost**	**Fair Value**
Held-to-maturity securities:		
Due in one year or less	$ 8,850	$ 8,832
Due after one year through five years	86,520	85,645
Due after five years through ten years	45,209	44,900
Total held-to-maturity debt securities	**$ 140,579**	**$ 139,377**

The Company also holds non-marketable Federal Home Loan Bank New York ("FHLBNY") stock, non-marketable Federal Home Loan Bank Pittsburgh ("FHLBPITT") stock and non-marketable Atlantic Community Bankers Bank ("ACBB") stock, all of which are required to be held for regulatory purposes and for borrowing availability. The required investment in FHLB stock is tied to the Company's borrowing levels with the FHLB. Holdings of FHLBNY stock, FHLBPITT stock, and ACBB stock totaled $13.6 million, $11.2 million and $95,000 at September 30, 2019, 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 September 30, 2019, we have determined that no impairment write-downs are currently required.

5. Loans and Leases
Loans and Leases at September 30, 2019 and December 31, 2018 were as follows:

	9/30/2019			12/31/2018		
(In thousands)	**Originated**	**Acquired**	**Total Loans and Leases**	**Originated**	**Acquired**	**Total Loans and Leases**
Commercial and industrial						
Agriculture	**$ 94,302**	**$ 0**	**$ 94,302**	$ 107,494	$ 0	$ 107,494
Commercial and industrial other	**860,432**	**39,771**	**900,203**	926,429	43,712	970,141
Subtotal commercial and industrial	**954,734**	**39,771**	**994,505**	1,033,923	43,712	1,077,635
Commercial real estate						
Construction	**190,657**	**1,358**	**192,015**	164,285	1,384	165,669
Agriculture	**180,385**	**208**	**180,593**	170,005	224	170,229
Commercial real estate other	**1,902,939**	**151,223**	**2,054,162**	1,827,279	177,484	2,004,763
Subtotal commercial real estate	**2,273,981**	**152,789**	**2,426,770**	2,161,569	179,092	2,340,661
Residential real estate						
Home equity	**205,050**	**16,488**	**221,538**	208,459	21,149	229,608
Mortgages	**1,107,147**	**18,635**	**1,125,782**	1,083,802	20,484	1,104,286
Subtotal residential real estate	**1,312,197**	**35,123**	**1,347,320**	1,292,261	41,633	1,333,894
Consumer and other						
Indirect	**13,611**	**0**	**13,611**	12,663	0	12,663
Consumer and other	**60,789**	**774**	**61,563**	57,565	761	58,326
Subtotal consumer and other	**74,400**	**774**	**75,174**	70,228	761	70,989
Leases	**17,129**	**0**	**17,129**	14,556	0	14,556
Total loans and leases	**4,632,441**	**228,457**	**4,860,898**	4,572,537	265,198	4,837,735
Less: unearned income and deferred costs and fees	**(3,825)**	**0**	**(3,825)**	(3,796)	0	(3,796)
Total loans and leases, net of unearned income and deferred costs and fees	**$ 4,628,616**	**$ 228,457**	**$ 4,857,073**	$ 4,568,741	$ 265,198	$ 4,833,939

The outstanding principal balance and the related carrying amount of the Company’s loans acquired in the VIST Bank acquisition are as follows at September 30, 2019 and December 31, 2018:

(In thousands)	**09/30/2019**	**12/31/2018**
Acquired Credit Impaired Loans		
Outstanding principal balance	**$ 11,267**	$ 12,822
Carrying amount	**9,651**	11,036
Acquired Non-Credit Impaired Loans		
Outstanding principal balance	**220,563**	256,265
Carrying amount	**218,806**	254,162
Total Acquired Loans		
Outstanding principal balance	**$ 231,830**	$ 269,087
Carrying amount	**$ 228,457**	$ 265,198

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, 2018. There have been no significant changes in these policies and guidelines since the date of that report. As such, these policies are reflective of new originations as well as those balances held at September 30, 2019. 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 September 30, 2019 and December 31, 2018.

September 30, 2019

(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	$ 94,302	$ 94,302	$ 0	$ 0
Commercial and industrial other	200	1,037	859,195	860,432	0	1,707
Subtotal commercial and industrial	200	1,037	953,497	954,734	0	1,707
Commercial real estate						
Construction	210	0	190,447	190,657	0	0
Agriculture	216	0	180,169	180,385	0	0
Commercial real estate other	0	4,635	1,898,304	1,902,939	0	10,329
Subtotal commercial real estate	426	4,635	2,268,920	2,273,981	0	10,329
Residential real estate						
Home equity	725	1,226	203,099	205,050	0	1,859
Mortgages	1,614	4,164	1,101,369	1,107,147	0	7,260
Subtotal residential real estate	2,339	5,390	1,304,468	1,312,197	0	9,119
Consumer and other						
Indirect	222	96	13,293	13,611	0	145
Consumer and other	100	76	60,613	60,789	0	104
Subtotal consumer and other	322	172	73,906	74,400	0	249
Leases	0	0	17,129	17,129	0	0
Total loans and leases	3,287	11,234	4,617,920	4,632,441	0	21,404
Less: unearned income and deferred costs and fees	0	0	(3,825)	(3,825)	0	0
Total originated loans and leases, net of unearned income and deferred costs and fees	**$ 3,287**	**$ 11,234**	**$ 4,614,095**	**$ 4,628,616**	**$ 0**	**$ 21,404**
Acquired Loans and Leases						
Commercial and industrial						
Commercial and industrial other	0	2	39,769	39,771	2	45
Subtotal commercial and industrial	0	2	39,769	39,771	2	45
Commercial real estate						
Construction	0	0	1,358	1,358	0	0
Agriculture	0	0	208	208	0	0
Commercial real estate other	0	720	150,503	151,223	564	289
Subtotal commercial real estate	0	720	152,069	152,789	564	289
Residential real estate						
Home equity	212	271	16,005	16,488	57	923
Mortgages	20	1,125	17,490	18,635	596	907
Subtotal residential real estate	232	1,396	33,495	35,123	653	1,830
Consumer and other						
Consumer and other	0	0	774	774	0	0
Subtotal consumer and other	0	0	774	774	0	0
Total acquired loans and leases, net of unearned income and deferred costs and fees	**$ 232**	**$ 2,118**	**$ 226,107**	**$ 228,457**	**$ 1,219**	**$ 2,164**

December 31, 2018

(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	$ 107,494	$ 107,494	$ 0	$ 0
Commercial and industrial other	2,367	1,659	922,403	926,429	0	1,861
Subtotal commercial and industrial	2,367	1,659	1,029,897	1,033,923	0	1,861
Commercial real estate						
Construction	0	0	164,285	164,285	0	0
Agriculture	71	0	169,934	170,005	0	0
Commercial real estate other	1,201	1,856	1,824,222	1,827,279	0	7,691
Subtotal commercial real estate	1,272	1,856	2,158,441	2,161,569	0	7,691
Residential real estate						
Home equity	986	1,026	206,447	208,459	0	1,784
Mortgages	2,693	4,027	1,077,082	1,083,802	0	7,770
Subtotal residential real estate	3,679	5,053	1,283,529	1,292,261	0	9,554
Consumer and other						
Indirect	333	59	12,271	12,663	0	155
Consumer and other	187	24	57,354	57,565	0	79
Subtotal consumer and other	520	83	69,625	70,228	0	234
Leases	0	0	14,556	14,556	0	0
Total loans and leases	7,838	8,651	4,556,048	4,572,537	0	19,340
Less: unearned income and deferred costs and fees	0	0	(3,796)	(3,796)	0	0
Total originated loans and leases, net of unearned income and deferred costs and fees	**$ 7,838**	**$ 8,651**	**$ 4,552,252**	**$ 4,568,741**	**$ 0**	**$ 19,340**
Acquired loans and leases						
Commercial and industrial						
Commercial and industrial other	0	10	43,702	43,712	10	22
Subtotal commercial and industrial	0	10	43,702	43,712	10	22
Commercial real estate						
Construction	0	0	1,384	1,384	0	0
Agriculture	0	0	224	224	0	0
Commercial real estate other	0	839	176,645	177,484	525	316
Subtotal commercial real estate	0	839	178,253	179,092	525	316
Residential real estate						
Home equity	46	803	20,300	21,149	59	1,414
Mortgages	18	969	19,497	20,484	722	1,104
Subtotal residential real estate	64	1,772	39,797	41,633	781	2,518
Consumer and other						
Consumer and other	3	0	758	761	0	0
Subtotal consumer and other	3	0	758	761	0	0
Total acquired loans and leases, net of unearned income and deferred costs and fees	**$ 67**	**$ 2,621**	**$ 262,510**	**$ 265,198**	**$ 1,316**	**$ 2,856**

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

6. Allowance for Loan and Lease Losses

Originated Loans and Leases

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

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

Since the methodology is based upon historical experience and trends as well as management's judgment, factors may arise that result in different estimates. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the local area, concentration of risk, changes in interest rates, and declines in local property values. While management's evaluation of the allowance as of September 30, 2019, considers the allowance to be appropriate, under adversely different conditions or assumptions, the Company would need to increase or decrease the allowance.

Acquired Loans and Leases

Acquired loans accounted for under ASC 310-30

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

Acquired loans accounted for under ASC 310-20

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

The following tables detail activity in the allowance for loan and lease losses segregated by originated and acquired loan and lease portfolios and by portfolio segment for the three and nine months ended September 30, 2019 and 2018. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

Three Months Ended September 30, 2019

(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	$ 11,543	$ 20,954	$ 6,853	$ 1,339	$ 0	$ 40,689
Charge-offs	(2)	(551)	(39)	(190)	0	(782)
Recoveries	10	2	2	65	0	79
Provision (credit)	(292)	2,137	(769)	169	0	1,245
Ending Balance	**$ 11,259**	**$ 22,542**	**$ 6,047**	**$ 1,383**	**$ 0**	**$ 41,231**

Three Months Ended September 30, 2019

(In thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for acquired loans						
Beginning balance	$ 0	$ 51	$ 44	$ 6	$ 0	$ 101
Charge-offs	(4)	0	(48)	0	0	(52)
Recoveries	0	0	13	3	0	16
Provision (credit)	36	6	36	(3)	0	75
Ending Balance	**$ 32**	**$ 57**	**$ 45**	**$ 6**	**$ 0**	**$ 140**

Three Months Ended September 30, 2018

(In thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for originated loans and leases						
Beginning balance	$ 12,866	$ 20,770	$ 6,147	$ 1,328	$ 0	$ 41,111
Charge-offs	(118)	0	(2)	(224)	0	(344)
Recoveries	8	203	96	7	0	314
Provision (credit)	(335)	199	204	140	0	208
Ending Balance	**$ 12,421**	**$ 21,172**	**$ 6,445**	**$ 1,251**	**$ 0**	**$ 41,289**

Three Months Ended September 30, 2018

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

Nine Months Ended September 30, 2019

(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	$ 11,217	$ 23,483	$ 7,317	$ 1,304	$ 0	$ 43,321
Charge-offs	(482)	(3,949)	(60)	(568)	0	(5,059)
Recoveries	59	97	284	214	0	654
Provision (credit)	465	2,911	(1,494)	433		2,315
Ending Balance	**$ 11,259**	**$ 22,542**	**$ 6,047**	**$ 1,383**	**$ 0**	**$ 41,231**

Nine Months Ended September 30, 2019

(In thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for acquired loans						
Beginning balance	$ 55	$ 0	$ 28	$ 6	$ 0	$ 89
Charge-offs	(7)	0	(71)	(3)	0	(81)
Recoveries	33	10	35	3	0	81
Provision (credit)	(49)	47	53	0	0	51
Ending Balance	**$ 32**	**$ 57**	**$ 45**	**$ 6**	**$ 0**	**$ 140**

Nine Months Ended September 30, 2018

(In thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for originated loans and leases						
Beginning balance	$ 11,812	$ 20,412	$ 6,161	$ 1,301	$ 0	$ 39,686
Charge-offs	(224)	(60)	(208)	(1,166)	0	(1,658)
Recoveries	16	549	232	613	0	1,410
Provision (credit)	817	271	260	503	0	1,851
Ending Balance	**$ 12,421**	**$ 21,172**	**$ 6,445**	**$ 1,251**	**$ 0**	**$ 41,289**

Nine Months Ended September 30, 2018

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

At September 30, 2019 and December 31, 2018, the allocation of the allowance for loan and lease losses summarized on the basis of the Company's impairment methodology was as follows:

(In thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for originated loans and leases						
September 30, 2019						
Individually evaluated for impairment	$ 317	$ 657	$ 0	$ 0	$ 0	$ 974
Collectively evaluated for impairment	10,942	21,885	6,047	1,383	0	40,257
Ending balance	**$ 11,259**	**$ 22,542**	**$ 6,047**	**$ 1,383**	**$ 0**	**$ 41,231**

(In thousands)		Commercial and Industrial		Commercial Real Estate		Residential Real Estate		Consumer and Other		Finance Leases		Total
Allowance for acquired loans												
September 30, 2019												
Individually evaluated for impairment	$	0	$	0	$	0	$	0	$	0	$	0
Collectively evaluated for impairment		32		57		45		6		0		140
Ending balance	**$**	**32**	**$**	**57**	**$**	**45**	**$**	**6**	**$**	**0**	**$**	**140**

(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, 2018												
Individually evaluated for impairment	$	397	$	3,365	$	0	$	0	$	0	$	3,762
Collectively evaluated for impairment		10,820		20,118		7,317		1,304		0		39,559
Ending balance	**$**	**11,217**	**$**	**23,483**	**$**	**7,317**	**$**	**1,304**	**$**	**0**	**$**	**43,321**

(In thousands)		Commercial and Industrial		Commercial Real Estate		Residential Real Estate		Consumer and Other		Finance Leases		Total
Allowance for acquired loans												
December 31, 2018												
Individually evaluated for impairment	$	0	$	0	$	0	$	0	$	0	$	0
Collectively evaluated for impairment		55		0		28		6		0		89
Ending balance	**$**	**55**	**$**	**0**	**$**	**28**	**$**	**6**	**$**	**0**	**$**	**89**

The recorded investment in loans and leases summarized on the basis of the Company’s impairment methodology as of September 30, 2019 and December 31, 2018 was as follows:

(In thousands)		Commercial and Industrial		Commercial Real Estate		Residential Real Estate		Consumer and Other		Finance Leases		Total
Originated loans and leases												
September 30, 2019												
Individually evaluated for impairment	$	1,563	$	12,461	$	3,956	$	0	$	0	$	17,980
Collectively evaluated for impairment		953,171		2,261,520		1,308,241		74,400		17,129		4,614,461
Total	**$**	**954,734**	**$**	**2,273,981**	**$**	**1,312,197**	**$**	**74,400**	**$**	**17,129**	**$**	**4,632,441**

(In thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Acquired loans						
September 30, 2019						
Individually evaluated for impairment	$ 47	$ 853	$ 2,539	$ 0	$ 0	$ 3,439
Loans acquired with deteriorated credit quality	114	7,096	2,441	0	0	9,651
Collectively evaluated for impairment	39,610	144,840	30,143	774	0	215,367
Total	**$ 39,771**	**$ 152,789**	**$ 35,123**	**$ 774**	**$ 0**	**$ 228,457**

(In thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Originated loans and leases						
December 31, 2018						
Individually evaluated for impairment	$ 1,864	$ 8,388	$ 3,915	$ 0	$ 0	$ 14,167
Collectively evaluated for impairment	1,032,059	2,153,181	1,288,346	70,228	14,556	4,558,370
Total	**$ 1,033,923**	**$ 2,161,569**	**$ 1,292,261**	**$ 70,228**	**$ 14,556**	**$ 4,572,537**

(In thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Acquired loans						
December 31, 2018						
Individually evaluated for impairment	$ 32	$ 842	$ 2,564	$ 0	$ 0	$ 3,438
Loans acquired with deteriorated credit quality	153	5,852	5,031	0	0	11,036
Collectively evaluated for impairment	43,527	172,398	34,038	761	0	250,724
Total	**$ 43,712**	**$ 179,092**	**$ 41,633**	**$ 761**	**$ 0**	**$ 265,198**

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:

	September 30, 2019			December 31, 2018		
(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	$ 1,195	$ 1,295	$ 0	$ 183	$ 271	$ 0
Commercial real estate						
Commercial real estate other	9,170	9,920	0	3,205	3,405	0
Residential real estate						
Home equity	3,956	4,169	0	3,915	4,168	0
Subtotal	$ 14,321	$ 15,384	$ 0	$ 7,303	$ 7,844	$ 0
Originated loans and leases with related allowance						
Commercial and industrial						
Commercial and industrial other	368	368	317	5,183	5,183	3,365
Commercial real estate						
Commercial real estate other	3,291	3,291	657	1,681	1,681	397
Subtotal	$ 3,659	$ 3,659	$ 974	$ 6,864	$ 6,864	$ 3,762
Total	**$ 17,980**	**$ 19,043**	**$ 974**	**$ 14,167**	**$ 14,708**	**$ 3,762**

	September 30, 2019			December 31, 2018		
(In thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
Acquired loans with no related allowance						
Commercial and industrial						
Commercial and industrial other	$ 47	$ 47	$ 0	$ 32	$ 32	$ 0
Commercial real estate						
Commercial real estate other	853	935	0	842	924	0
Residential real estate						
Home equity	2,539	2,641	0	2,564	2,696	0
Total	**$ 3,439**	**$ 3,623**	**$ 0**	**$ 3,438**	**$ 3,652**	**$ 0**

The average recorded investment and interest income recognized on impaired loans for the three months ended September 30, 2019 and 2018 was as follows:

	Three Months Ended September 30, 2019		Three Months Ended September 30, 2018	
(In thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Originated loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	$ 1,505	$ 0	$ 2,963	$ 0
Commercial real estate				
Commercial real estate other	7,380	0	5,705	0
Residential real estate				
Home equity	3,963	0	4,023	0
Subtotal	$ 12,848	$ 0	$ 12,691	$ 0
Originated loans and leases with related allowance				
Commercial and industrial				
Commercial and industrial other	273	0	1,200	0
Commercial real estate				
Commercial real estate other	1,708	0	44	0
Subtotal	$ 1,981	$ 0	$ 1,244	$ 0
Total	**$ 14,829**	**$ 0**	**$ 13,935**	**$ 0**

	Three Months Ended September 30, 2019		Three Months Ended September 30, 2018	
(In thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Acquired loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	$ 29	$ 0	$ 289	$ 0
Commercial real estate				
Commercial real estate other	857	0	1,504	0
Residential real estate				
Home equity	2,585	0	1,779	0
Total	**$ 3,471**	**$ 0**	**$ 3,572**	**$ 0**

The average recorded investment and interest income recognized on impaired loans for the nine months ended September 30, 2019 and 2018 was as follows:

(In thousands)	Nine Months Ended September 30, 2019 Average Recorded Investment	Nine Months Ended September 30, 2019 Interest Income Recognized	Nine Months Ended September 30, 2018 Average Recorded Investment	Nine Months Ended September 30, 2018 Interest Income Recognized
Originated loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	$ 2,123	$ 0	$ 2,370	$ 0
Commercial real estate				
Commercial real estate other	6,509	0	6,006	0
Residential real estate				
Home equity	3,978	0	3,862	0
Subtotal	$ 12,610	$ 0	$ 12,238	$ 0
Originated loans and leases with related allowance				
Commercial and industrial				
Commercial and industrial other	154	0	955	0
Commercial real estate				
Commercial real estate other	757	0	22	0
Subtotal	$ 911	$ 0	$ 977	$ 0
Total	**$ 13,521**	**$ 0**	**$ 13,215**	**$ 0**

(In thousands)	Nine Months Ended September 30, 2019 Average Recorded Investment	Nine Months Ended September 30, 2019 Interest Income Recognized	Nine Months Ended September 30, 2018 Average Recorded Investment	Nine Months Ended September 30, 2018 Interest Income Recognized
Acquired loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	$ 28	$ 0	$ 235	$ 0
Commercial real estate				
Construction	0	0	0	0
Commercial real estate other	834	0	1,613	0
Residential real estate				
Home equity	2,606	0	2,135	0
Total	**$ 3,468**	**$ 0**	**$ 3,983**	**$ 0**

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

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

September 30, 2019	Three Months Ended			Defaulted TDRs[3]	
(In thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Post-Modification Outstanding Recorded Investment
Commercial and Industrial					
Commercial and industrial other[1]	1	$ 9	$ 9	0	$ 0
Commercial real estate					
Commercial real estate other[2]	1	1,577	1,577	0	0
Residential real estate					
Home equity	0	0	0	1	93
Total	**2**	**$ 1,586**	**$ 1,586**	**1**	**$ 93**

[1] *Represents the following concessions: extension of term and reduction of rate.*
[2] *Represents the following concessions: extension of term and reduction of rate.*
[3] *TDRs that defaulted during the three months ended September 30, 2019 that were restructured in the prior twelve months.*

September 30, 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]	2	$ 115	$ 115	0	$ 0
Total	**2**	**$ 115**	**$ 115**	**0**	**$ 0**

[1] *Represents the following concessions: extension of term and reduction of rate.*
[2] *TDRs that defaulted during the three months ended September 30, 2018 that were restructured in the prior twelve months.*

September 30, 2019	Nine Months Ended			Defaulted TDRs[4]	
(In thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Post-Modification Outstanding Recorded Investment
Commercial and industrial					
Commercial and industrial other[1]	2	$ 604	$ 604	0	$ 0
Commercial real estate					
Commercial real estate other[2]	1	1,577	1,577	0	0
Residential real estate					
Home equity[3]	1	168	168	1	93
Total	**4**	**$ 2,349**	**$ 2,349**	**1**	**$ 93**

[1] *Represents the following concessions: extension of term and reduction of rate.*
[2] *Represents the following concessions: extension of term and reduction of rate.*
[3] *Represents the following concessions: extension of term and reduction of rate.*
[4] *TDRs that defaulted during the nine months ended September 30, 2019 that had been restructured in the prior twelve months.*

September 30, 2018	Nine 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]	4	$ 227	$ 227	0	$ 0
Total	**4**	**$ 227**	**$ 227**	**0**	**$ 0**

[1] *Represents the following concessions: extension of term and reduction of rate.*
[2] *TDRs that defaulted during the nine months ended September 30, 2018 that had been restructured in the prior twelve months.*

The following tables present credit quality indicators (internal risk grade) by class of commercial and industrial loans and commercial real estate loans as of September 30, 2019 and December 31, 2018.

September 30, 2019

(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	$ 844,309	$ 77,175	$ 1,853,220	$ 163,167	$ 190,657	$ 3,128,528
Special Mention	11,875	1,703	25,631	2,105	0	41,314
Substandard	4,248	15,424	24,088	15,113	0	58,873
Total	**$ 860,432**	**$ 94,302**	**$ 1,902,939**	**$ 180,385**	**$ 190,657**	**$ 3,228,715**

September 30, 2019

(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	$ 39,521	$ 0	$ 148,403	$ 208	$ 1,358	$ 189,490
Special Mention	0	0	261	0	0	261
Substandard	250	0	2,559	0	0	2,809
Total	**$ 39,771**	**$ 0**	**$ 151,223**	**$ 208**	**$ 1,358**	**$ 192,560**

December 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
Originated Loans and Leases						
Internal risk grade:						
Pass	$ 910,476	$ 93,939	$ 1,797,599	$ 157,156	$ 164,285	$ 3,123,455
Special Mention	8,675	4,951	9,484	4,964	0	28,074
Substandard	7,278	8,604	20,196	7,885	0	43,963
Total	**$ 926,429**	**$ 107,494**	**$ 1,827,279**	**$ 170,005**	**$ 164,285**	**$ 3,195,492**

December 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	$ 43,447	$ 0	$ 174,383	$ 224	$ 1,384	$ 219,438
Special Mention	0	0	452	0	0	452
Substandard	265	0	2,649	0	0	2,914
Total	**$ 43,712**	**$ 0**	**$ 177,484**	**$ 224**	**$ 1,384**	**$ 222,804**

The following tables present credit quality indicators by class of residential real estate loans and by class of consumer loans. Nonperforming loans include nonaccrual, impaired, and loans 90 days past due and accruing interest. All other loans are considered performing as of September 30, 2019 and December 31, 2018. For purposes of this footnote, acquired loans that were recorded at fair value at the acquisition date and are 90 days or greater past due are considered performing.

September 30, 2019

(In thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Originated Loans and Leases					
Performing	$ 203,191	$ 1,099,887	$ 13,466	$ 60,685	$ 1,377,229
Nonperforming	1,859	7,260	145	104	9,368
Total	**$ 205,050**	**$ 1,107,147**	**$ 13,611**	**$ 60,789**	**$ 1,386,597**

September 30, 2019

(In thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Acquired Loans and Leases					
Performing	$ 15,565	$ 17,728	$ 0	$ 774	$ 34,067
Nonperforming	923	907	0	0	1,830
Total	**$ 16,488**	**$ 18,635**	**$ 0**	**$ 774**	**$ 35,897**

December 31, 2018

(In thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Originated Loans and Leases					
Performing	$ 206,675	$ 1,076,032	$ 12,508	$ 57,486	$ 1,352,701
Nonperforming	1,784	7,770	155	79	9,788
Total	**$ 208,459**	**$ 1,083,802**	**$ 12,663**	**$ 57,565**	**$ 1,362,489**

December 31, 2018

(In thousands)	Residential Home Equity		Residential Mortgages		Consumer Indirect		Consumer Other		Total
Acquired Loans and Leases									
Performing	$	19,735	$	19,380	$	0	$	761	$	39,876
Nonperforming		1,414		1,104		0		0		2,518
Total	**$**	**21,149**	**$**	**20,484**	**$**	**0**	**$**	**761**	**$**	**42,394**

7. Earnings Per Share

Earnings per share in the table below, for the three and nine month periods ended September 30, 2019 and 2018 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.

	Three Months Ended			
(In thousands, except share and per share data)		**9/30/2019**		**9/30/2018**
Basic				
Net income available to common shareholders	**$**	**20,206**	$	20,902
Less: income attributable to unvested stock-based compensation awards		**(317)**		(318)
Net earnings allocated to common shareholders		**19,889**		20,584
Weighted average shares outstanding, including unvested stock-based compensation awards		**15,063,202**		15,278,661
Less: unvested stock-based compensation awards		**(236,088)**		(231,256)
Weighted average shares outstanding - Basic		**14,827,114**		15,047,405
Diluted				
Net earnings allocated to common shareholders		**19,889**		20,584
Weighted average shares outstanding - Basic		**14,827,114**		15,047,405
Plus: incremental shares from assumed conversion of stock-based compensation awards		**60,512**		97,086
Weighted average shares outstanding - Diluted		**14,887,626**		15,144,491
Basic EPS	**$**	**1.34**	$	1.37
Diluted EPS		**1.34**		1.36

Stock-based compensation awards representing 17,956 and 246 of common shares during the three months ended September 30, 2019 and 2018, respectively, were not included in the computations of diluted earnings per common share because the effect on those periods would have been anti-dilutive.

(In thousands, except share and per share data)	Nine Months Ended 9/30/2019	9/30/2018
Basic		
Net income available to common shareholders	**$ 60,638**	$ 63,397
Less: income attributable to unvested stock-based compensation awards	**(972)**	(1,024)
Net earnings allocated to common shareholders	**59,666**	62,373
Weighted average shares outstanding, including unvested stock-based compensation awards	**15,204,170**	15,277,026
Less: unvested stock-based compensation awards	**(236,088)**	(244,020)
Weighted average shares outstanding - Basic	**14,968,082**	15,033,006
Diluted		
Net earnings allocated to common shareholders	**59,666**	62,373
Weighted average shares outstanding - Basic	**14,968,082**	15,033,006
Plus: incremental shares from assumed conversion of stock-based compensation awards	**67,698**	98,012
Weighted average shares outstanding - Diluted	**15,035,780**	15,131,018
Basic EPS	**$ 3.99**	$ 4.15
Diluted EPS	**3.97**	4.12

Stock-based compensation awards representing approximately 18,396 and 13,387 of common shares during the nine months ended September 30, 2019 and 2018, respectively were not included in the computations of diluted earnings per common share because the effect on those periods would have been anti-dilutive.

8. Other Comprehensive Income (Loss)

The following tables present reclassifications out of the accumulated other comprehensive income (loss) for the three and nine month periods ended September 30, 2019 and 2018.

	Three Months Ended September 30, 2019		
(In thousands)	**Before-Tax Amount**	**Tax (Expense) Benefit**	**Net of Tax**
Available-for-sale securities:			
Change in net unrealized gain/loss during the period	$ 4,122	$ (1,011)	$ 3,111
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(133)	32	(101)
Net unrealized gains/losses	3,989	(979)	3,010
Employee benefit plans:			
Amortization of net retirement plan actuarial gain	411	(101)	310
Amortization of net retirement plan prior service cost	4	(1)	3
Employee benefit plans	415	(102)	313
Other comprehensive income	**$ 4,404**	**$ (1,081)**	**$ 3,323**

	Three Months Ended September 30, 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	$ (7,691)	$ 1,885	$ (5,806)
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(30)	7	(23)
Net unrealized gains/losses	(7,721)	1,892	(5,829)
Employee benefit plans:			
Amortization of net retirement plan actuarial gain	430	(105)	325
Amortization of net retirement plan prior service cost	4	(1)	3
Employee benefit plans	434	(106)	328
Other comprehensive loss	**$ (7,287)**	**$ 1,786**	**$ (5,501)**

(In thousands)	Nine Months Ended September 30, 2019 Before-Tax Amount	Tax (Expense) Benefit	Net of Tax
Available-for-sale securities:			
Change in net unrealized gain/loss during the period	$ 34,014	$ (8,333)	$ 25,681
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(404)	99	(305)
Net unrealized gains/losses	33,610	(8,234)	25,376
Employee benefit plans:			
Amortization of net retirement plan actuarial loss	1,232	(302)	930
Amortization of net retirement plan prior service cost	11	(3)	8
Employee benefit plans	1,243	(305)	938
Other comprehensive income	**$ 34,853**	**$ (8,539)**	**$ 26,314**

(In thousands)	Nine Months Ended September 30, 2018 Before-Tax Amount	Tax (Expense) Benefit	Net of Tax
Available-for-sale securities:			
Change in net unrealized gain/loss during the period	$ (32,375)	$ 7,932	$ (24,443)
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(324)	79	(245)
Net unrealized gains/losses	(32,699)	8,011	(24,688)
Employee benefit plans:			
Amortization of net retirement plan actuarial loss	1,289	(316)	973
Amortization of net retirement plan prior service cost	12	(3)	9
Employee benefit plans	1,301	(319)	982
Other comprehensive loss	**$ (31,398)**	**$ 7,692**	**$ (23,706)**

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 July 1, 2019	$	(1,223)	$	(38,951)	$	(40,174)
Other comprehensive income (loss) before reclassifications		3,111		0		3,111
Amounts reclassified from accumulated other comprehensive (loss) income		(101)		313		212
Net current-period other comprehensive income		3,010		313		3,323
Balance at September 30, 2019	**$**	**1,787**	**$**	**(38,638)**	**$**	**(36,851)**
Balance at January 1, 2019	$	(23,589)	$	(39,576)	$	(63,165)
Other comprehensive income (loss) before reclassifications		25,681		0		25,681
Amounts reclassified from accumulated other comprehensive (loss) income		(305)		938		633
Net current-period other comprehensive income		25,376		938		26,314
Balance at September 30, 2019	**$**	**1,787**	**$**	**(38,638)**	**$**	**(36,851)**

(In thousands)		Available-for-Sale Securities		Employee Benefit Plans		Accumulated Other Comprehensive (Loss) Income
Balance at July 1, 2018	$	(31,800)	$	(37,636)	$	(69,436)
Other comprehensive income (loss) before reclassifications		(5,806)		0		(5,806)
Amounts reclassified from accumulated other comprehensive (loss) income		(23)		328		305
Net current-period other comprehensive loss		(5,829)		328		(5,501)
Balance at September 30, 2018	**$**	**(37,629)**	**$**	**(37,308)**	**$**	**(74,937)**
Balance at January 1, 2018	$	(13,005)	$	(38,291)	$	(51,296)
Other comprehensive income (loss) before reclassifications		(24,444)		0		(24,444)
Amounts reclassified from accumulated other comprehensive (loss) income		(245)		983		738
Net current-period other comprehensive loss		(24,689)		983		(23,706)
Adoption of ASU 2016-01		65		0		65
Balance at September 30, 2018	**$**	**(37,629)**	**$**	**(37,308)**	**$**	**(74,937)**

The following tables present the amounts reclassified out of each component of accumulated other comprehensive (loss) income for the three and nine months ended September 30, 2019 and 2018.

Three Months Ended September 30, 2019

Details about Accumulated other Comprehensive Income (Loss) 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	$	133	Net gain on securities transactions
		(32)	Tax expense
		101	Net of tax
Employee benefit plans:			
Amortization of the following [2]			
Net retirement plan actuarial loss		(411)	Other operating expense
Net retirement plan prior service cost		(4)	Other operating expense
		(415)	Total before tax
		102	Tax benefit
	$	**(313)**	Net of tax

Three Months Ended September 30, 2018

Details about Accumulated other Comprehensive Income (Loss) 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	$	30	Net gain on securities transactions
		(7)	Tax expense
		23	Net of tax
Employee benefit plans:			
Amortization of the following[2]			
Net retirement plan actuarial loss		(430)	Other operating expense
Net retirement plan prior service cost		(4)	Other operating expense
		(434)	Total before tax
		106	Tax benefit
	$	**(328)**	Net of tax

Nine Months Ended September 30, 2019

Details about Accumulated other Comprehensive Income (Loss) 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	$	404	Net gain on securities transactions
		(99)	Tax expense
		305	Net of tax
Employee benefit plans:			
Amortization of the following[2]			
Net retirement plan actuarial loss		(1,232)	Other operating expense
Net retirement plan prior service cost		(11)	Other operating expense
		(1,243)	Total before tax
		305	Tax benefit
	$	**(938)**	Net of tax

Nine Months Ended September 30, 2018

Details about Accumulated other Comprehensive Income (Loss) 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	$	324	Net gain on securities transactions
		(79)	Tax expense
		245	Net of tax
Employee benefit plans:			
Amortization of the following[2]			
Net retirement plan actuarial loss		(1,289)	Other operating expense
Net retirement plan prior service cost		(12)	Other operating expense
		(1,301)	Total before tax
		319	Tax benefit
	$	**(982)**	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 Plans

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

Components of Net Periodic Benefit Cost

	Pension Benefits Three Months Ended		Life and Health Three Months Ended		SERP Benefits Three Months Ended	
(In thousands)	**9/30/2019**	**9/30/2018**	**9/30/2019**	**9/30/2018**	**9/30/2019**	**9/30/2018**
Service cost	**$ 0**	$ 0	**$ 40**	$ 53	**$ 38**	$ 40
Interest cost	**734**	627	**72**	68	**228**	208
Expected return on plan assets	**(1,233)**	(1,412)	**0**	0	**0**	0
Amortization of net retirement plan actuarial loss	**333**	280	**0**	16	**78**	135
Amortization of net retirement plan prior service (credit) cost	**(3)**	(3)	**(15)**	(15)	**22**	22
Net periodic benefit (income) cost	**$ (169)**	$ (508)	**$ 97**	$ 122	**$ 366**	$ 405

	Pension Benefits Nine Months Ended		Life and Health Nine Months Ended		SERP Benefits Nine Months Ended	
(In thousands)	**9/30/2019**	**9/30/2018**	**9/30/2019**	**9/30/2018**	**9/30/2019**	**9/30/2018**
Service cost	**$ 0**	$ 0	**$ 120**	$ 159	**$ 115**	$ 120
Interest cost	**2,202**	1,881	**217**	203	**684**	625
Expected return on plan assets	**(3,699)**	(4,236)	**0**	0	**0**	0
Amortization of net retirement plan actuarial loss	**1,000**	839	**0**	47	**232**	404
Amortization of net retirement plan prior service cost (credit)	**(8)**	(8)	**(46)**	(47)	**65**	65
Net periodic benefit (income) cost	**$ (505)**	$ (1,524)	**$ 291**	$ 362	**$ 1,096**	$ 1,214

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 $938,000 and $982,000, net of tax, as amortization of amounts previously recognized in accumulated other comprehensive (loss) income, for the nine months ended September 30, 2019 and 2018, respectively.

The Company is not required to contribute to the pension plan in 2019, but it may make voluntary contributions. The Company did not contribute to the pension plan in the first nine months of 2019 and 2018.

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.

	Three Months Ended		Nine Months Ended	
(In thousands)	**9/30/2019**	**9/30/2018**	**9/30/2019**	**9/30/2018**
Noninterest Income				
Other service charges	**$ 809**	$ 836	**$ 2,405**	$ 2,366
Increase in cash surrender value of corporate owned life insurance	**425**	499	**1,612**	1,519
Net gain (loss) on sale of fixed assets	**117**	(11)	**109**	2,954
Other income	**612**	733	**2,121**	1,904
Total other income	**$ 1,963**	$ 2,057	**$ 6,247**	$ 8,743
Noninterest Expenses				
Marketing expense	**$ 899**	$ 1,246	**$ 3,706**	$ 3,801
Professional fees	**2,426**	1,901	**7,169**	5,490
Legal fees	**347**	341	**788**	841
Software, license, and maintenance	**1,695**	1,796	**4,893**	4,647
Cardholder expense	**811**	909	**2,372**	2,351
FDIC insurance	**(586)**	712	**518**	2,083
Other expenses	**5,706**	5,588	**16,005**	17,695
Total other operating expense	**$ 11,298**	$ 12,493	**$ 35,451**	$ 36,908

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 - "Accounting Standards Updates - *Newly Adopted 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.

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 and nine months ended September 30, 2019 and 2018.

	Three Months Ended	
(In thousands)	**09/30/2019**	**09/30/2018**
Noninterest Income		
In-scope of Topic 606:		
Commissions and Fees	**$ 7,918**	$ 7,388
Installment Billing	**150**	210
Refund of Commissions	**(51)**	(50)
Contract Liabilities/Deferred Revenue	**0**	(1)
Contingent Commissions	**500**	356
Subtotal Insurance Revenues	**8,517**	7,903
Trust and Asset Management	**2,920**	2,744
Mutual Fund & Investment Income	**1,255**	1,353
Subtotal Investment Service Income	**4,175**	4,097
Service Charges on Deposit Accounts	**2,191**	2,088
Card Services Income	**2,550**	2,442
Other	**306**	289
Noninterest Income (in-scope of ASC 606)	**17,739**	16,819
Noninterest Income (out-of-scope of ASC 606)	**1,795**	1,784
Total Noninterest Income	**$ 19,534**	$ 18,603

(In thousands)	Nine Months Ended 09/30/2019	09/30/2018
Noninterest Income		
In-scope of Topic 606:		
Commissions and Fees	**$ 21,984**	$ 21,128
Installment Billing	**58**	99
Refund of Commissions	**(31)**	(67)
Contract Liabilities/Deferred Revenue	**(188)**	(175)
Contingent Commissions	**2,491**	1,699
Subtotal Insurance Revenues	**24,314**	22,684
Trust and Asset Management	**8,417**	8,139
Mutual Fund & Investment Income	**3,749**	4,226
Subtotal Investment Service Income	**12,166**	12,365
Service Charges on Deposit Accounts	**6,210**	6,300
Card Services Income	**8,090**	7,209
Other	**878**	888
Noninterest Income (in-scope of ASC 606)	**51,658**	49,446
Noninterest Income (out-of-scope of ASC 606)[1]	**5,803**	8,145
Total Noninterest Income	**$ 57,461**	$ 57,591

[1] *The period ending September 30, 2018 includes approximately $2.9 million related to gain on sale of fixed assets.*

Contract Balances

Receivables primarily consist of amounts due for insurance and wealth management services performed for which the Company's performance obligations have been fully satisfied. Receivables amounted to $5.7 million and $1.9 million, respectively, at September 30, 2019, compared to $4.3 million and $1.8 million, respectively, at December 31, 2018 and are included in other assets in the accompanying unaudited Consolidated Condensed 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 September 30, 2019 and December 31, 2018, 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 Statements of Condition based on the timing of when the Company expects to recognize revenue. As of September 30, 2019 and December 31, 2018, contract liabilities were $559,000 and $1.8 million, respectively, and are included within accrued expenses in the accompanying unaudited Consolidated Condensed Statements of Condition. The liabilities include premiums due to insurance carriers in addition to unearned commission revenue.

The decrease in the contract liability balance during the nine-month period ended September 30, 2019 is primarily a result of timing differences in the recognition of revenue related to contract effective dates along with accompanying cash payments received in advance of satisfying performance obligations. 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 September 30, 2019, the Company's maximum potential obligation under standby letters of credit was $28.2 million compared to $21.7 million at December 31, 2018. 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 eighteen 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 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.

Wealth Management

The Wealth Management segment is generally organized under the Tompkins Financial Advisors brand. Tompkins Financial Advisors offers a comprehensive suite of financial services to customers, including trust and estate services, investment management and financial and insurance planning for individuals, corporate executives, small business owners and high net worth individuals. Tompkins Financial Advisors has offices in each of the Company's four subsidiary banks.

Summarized financial information concerning the Company's reportable segments and the reconciliation to the Company's consolidated results is shown in the following table. Investment in subsidiaries is netted out of the presentations below. The "Intercompany" column identifies the intercompany activities of revenues, expenses and other assets between the banking, insurance and wealth management services segments. The Company accounts for intercompany fees and services at an estimated fair value according to regulatory requirements for the services provided. Intercompany items relate primarily to the use of human resources, information systems, accounting and marketing services provided by any of the banks and the holding company. All other accounting policies are the same as those described in the summary of significant accounting policies in the 2018 Annual Report on Form 10-K.

As of and for the three months ended September 30, 2019

(In thousands)	Banking	Insurance	Wealth Management	Intercompany	Consolidated
Interest income	$ 65,775	$ 1	$ 0	$ (1)	$ 65,775
Interest expense	12,620	0	0	(1)	12,619
Net interest income	53,155	1	0	0	53,156
Provision for loan and lease losses	1,320	0	0	0	1,320
Noninterest income	7,134	8,620	4,310	(530)	19,534
Noninterest expense	36,309	6,672	3,204	(530)	45,655
Income before income tax expense	22,660	1,949	1,106	0	25,715
Income tax expense	4,669	526	283	0	5,478
Net Income attributable to noncontrolling interests and Tompkins Financial Corporation	17,991	1,423	823	0	20,237
Less: Net income attributable to noncontrolling interests	31	0	0	0	31
Net Income attributable to Tompkins Financial Corporation	$ 17,960	$ 1,423	$ 823	$ 0	$ 20,206
Depreciation and amortization	$ 2,483	$ 56	$ 10	$ 0	$ 2,549
Assets	6,575,073	42,753	23,497	(13,341)	6,627,982
Goodwill	64,370	19,866	8,211	0	92,447
Other intangibles, net	3,472	3,011	164	0	6,647
Net loans and leases	4,815,702	0	0	0	4,815,702
Deposits	5,382,174	0	0	(12,184)	5,369,990
Total Equity	605,572	33,116	21,177	0	659,865

As of and for the three months ended September 30, 2018					
(In thousands)	**Banking**	**Insurance**	**Wealth Management**	**Intercompany**	**Consolidated**
Interest income	$ 63,984	$ 1	$ 0	$ (1)	$ 63,984
Interest expense	10,822	0	0	(1)	10,821
Net interest income	53,162	1	0	0	53,163
Provision for loan and lease losses	272	0	0	0	272
Noninterest income	6,777	7,998	4,345	(517)	18,603
Noninterest expense	36,077	6,397	3,176	(517)	45,133
Income before income tax expense	23,590	1,602	1,169	0	26,361
Income tax expense	4,737	422	268	0	5,427
Net Income attributable to noncontrolling interests and Tompkins Financial Corporation	18,853	1,180	901	0	20,934
Less: Net income attributable to noncontrolling interests	32	0	0	0	32
Net Income attributable to Tompkins Financial Corporation	$ 18,821	$ 1,180	$ 901	$ 0	$ 20,902
Depreciation and amortization	$ 2,252	$ 56	$ 11	$ 0	$ 2,319
Assets	6,697,701	41,910	19,703	(12,354)	6,746,960
Goodwill	64,370	19,702	8,211	0	92,283
Other intangibles, net	4,415	3,345	229	0	7,989
Net loans and leases	4,761,351	0	0	0	4,761,351
Deposits	5,036,934	0	0	(11,852)	5,025,082
Total Equity	548,330	33,248	17,566	0	599,144

Nine months ended September 30, 2019					
(In thousands)	**Banking**	**Insurance**	**Wealth Management**	**Intercompany**	**Consolidated**
Interest income	$ 196,797	$ 2	$ 0	$ (3)	$ 196,796
Interest expense	39,410	0	0	(2)	39,408
Net interest income	157,387	2	0	(1)	157,388
Provision for loan and lease losses	2,366	0	0	0	2,366
Noninterest income	21,852	24,621	12,567	(1,579)	57,461
Noninterest expense	108,704	19,279	9,529	(1,578)	135,934
Income before income tax expense	68,169	5,344	3,038	(2)	76,549
Income tax expense	13,650	1,418	748	0	15,816
Net Income attributable to noncontrolling interests and Tompkins Financial Corporation	54,519	3,926	2,290	(2)	60,733
Less: Net income attributable to noncontrolling interests	95	0	0	0	95
Net Income attributable to Tompkins Financial Corporation	$ 54,424	$ 3,926	$ 2,290	$ (2)	$ 60,638
Depreciation and amortization	$ 7,296	$ 168	$ 31	$ 0	$ 7,495

Nine months ended September 30, 2018					
(In thousands)	**Banking**	**Insurance**	**Wealth Management**	**Intercompany**	**Consolidated**
Interest income	$ 186,267	$ 2	$ 0	$ (2)	$ 186,267
Interest expense	27,705	0	0	(2)	27,703
Net interest income	158,562	2	0	0	$ 158,564
Provision for loan and lease losses	1,884	0	0	0	1,884
Noninterest income	23,131	22,974	12,960	(1,474)	57,591
Noninterest expense	107,120	18,918	9,275	(1,474)	133,839
Income before income tax expense	72,689	4,058	3,685	0	$ 80,432
Income tax expense	15,040	1,046	853	0	16,939
Net Income attributable to noncontrolling interests and Tompkins Financial Corporation	57,649	3,012	2,832	0	$ 63,493
Less: Net income attributable to noncontrolling interests	96	0	0	0	96
Net Income attributable to Tompkins Financial Corporation	$ 57,553	$ 3,012	$ 2,832	$ 0	$ 63,397
Depreciation and amortization	$ 6,727	$ 174	$ 36	$ 0	$ 6,937

14. Fair Value

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

The three levels of the fair value hierarchy under FASB ASC Topic 820 are:

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

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

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

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of September 30, 2019 and December 31, 2018, segregated by the level of valuation inputs within the fair value hierarchy used to measure fair value.

Recurring Fair Value Measurements
September 30, 2019

(In thousands)	Total	(Level 1)	(Level 2)	(Level 3)
Available-for-sale securities				
U.S. Treasuries	$ 1,356	$ 0	$ 1,356	$ 0
Obligations of U.S. Government sponsored entities	316,716	0	316,716	0
Obligations of U.S. states and political subdivisions	85,836	0	85,836	0
Mortgage-backed securities – residential, issued by:				
U.S. Government agencies	176,847	0	176,847	0
U.S. Government sponsored entities	559,265	0	559,265	0
U.S. corporate debt securities	2,432	0	2,432	0
Total Available-for-sale securities	**$ 1,142,452**	**$ 0**	**$ 1,142,452**	**$ 0**
Equity securities, at fair value	**$ 917**	**$ 0**	**$ 0**	**$ 917**

Recurring Fair Value Measurements
December 31, 2018

(In thousands)	Total	(Level 1)	(Level 2)	(Level 3)
Available-for-sale securities				
U.S. Treasuries	$ 289	$ 0	$ 289	$ 0
Obligations of U.S. Government sponsored entities	485,898	0	485,898	0
Obligations of U.S. states and political subdivisions	85,440	0	85,440	0
Mortgage-backed securities – residential, issued by:				
U.S. Government agencies	128,267	0	128,267	0
U.S. Government sponsored entities	630,558	0	630,558	0
Non-U.S. Government agencies or sponsored entities	31	0	31	0
U.S. corporate debt securities	2,175	0	2,175	0
Total Available-for-sale securities	**$ 1,332,658**	**$ 0**	**$ 1,332,658**	**$ 0**
Equity securities, at fair value	**$ 887**	**$ 0**	**$ 0**	**$ 887**

The change in the fair value of equity securities, at fair value, valued using significant unobservable inputs (level 3), between January 1, 2018 and December 31, 2018, was immaterial.

There were no transfers between Levels 1, 2 and 3 for the nine months ended September 30, 2019.

The Company determines fair value for its available-for-sale securities using an independent bond pricing service for identical assets or very similar securities. The Company has reviewed the pricing sources, including methodologies used, and finds them to be fairly stated.

Fair values of borrowings are estimated using Level 2 inputs based upon observable market data. The Company determines fair value for its borrowings using a discounted cash flow technique based upon expected cash flows and current spreads on FHLB advances with the same structure and terms. The Company also receives pricing information from third parties, including the FHLB. The pricing obtained is considered representative of the transfer price if the liabilities were assumed by a third party.

Certain assets are measured at fair value on a nonrecurring basis. For the Company, these include loans held for sale, collateral dependent impaired loans, and other real estate owned ("OREO"). During the third quarter and first nine months of 2019, certain collateral dependent impaired loans were remeasured and reported at fair value through a specific valuation allowance and/or partial charge-offs for loan and lease losses based upon the fair value of the underlying collateral. Collateral values are estimated using Level 2 inputs based upon observable market data. In addition to collateral dependent impaired loans, certain other real estate owned were remeasured and reported at fair value based upon the fair value of the underlying collateral. The fair values of other real estate owned are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. In general, the fair values of other real estate owned are based upon appraisals, with discounts made to reflect estimated costs to sell the real estate. Upon initial recognition, fair value write-downs on other real estate owned are taken through a charge-off to the allowance for loan and lease losses. Subsequent fair value write-downs on other real estate owned are reported in other noninterest expense.

Three months ended September 30, 2019

(In thousands)		**Fair value measurements at reporting date using:**			**Gain (losses) from fair value changes**
Assets:	As of 09/30/2019	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Three months ended 9/30/2019
Impaired loans	$ 10,096	$ 0	$ 10,096	$ 0	$ (550)
Other real estate owned	139	0	139	0	95

Three months ended September 30, 2018

(In thousands)		**Fair value measurements at reporting date using:**			**Gain (losses) from fair value changes**
Assets:	As of 09/30/2018	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Three months ended 9/30/2018
Impaired loans	$ 1,085	$ 0	$ 1,085	$ 0	$ 0
Other real estate owned	333	0	333	0	6

Nine months ended September 30, 2019

(In thousands)		**Fair value measurements at reporting date using:**			**Gain (losses) from fair value changes**
Assets:	As of 09/30/2019	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Nine months ended 9/30/2019
Impaired loans	$ 12,565	$ 0	$ 12,565	$ 0	$ (4,184)
Other real estate owned	888	0	888	0	95

Nine months ended September 30, 2018

(In thousands)		Fair value measurements at reporting date using:			Gain (losses) from fair value changes
Assets:	As of 09/30/2018	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Nine months ended 9/30/2018
Impaired loans	$ 3,783	$ 0	$ 3,783	$ 0	$ (111)
Other real estate owned	1,870	0	1,870	0	(15)

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at September 30, 2019 and December 31, 2018. The carrying amounts shown in the table are included in the Consolidated Statements of Condition under the indicated captions.

The fair value estimates, methods and assumptions set forth below for the Company's financial instruments, including those financial instruments carried at cost, are made solely to comply with disclosures required by generally accepted accounting principles in the United States and should be read in conjunction with the financial statements and notes included in this Report.

Estimated Fair Value of Financial Instruments
September 30, 2019

(In thousands)	Carrying Amount	Fair Value	(Level 1)	(Level 2)	(Level 3)
Financial Assets:					
Cash and cash equivalents	$ 127,427	$ 127,427	$ 127,427	$ 0	$ 0
Securities - held to maturity	138,657	142,583	0	142,583	0
FHLB and other stock	24,881	24,881	0	24,881	0
Accrued interest receivable	21,410	21,410	0	21,410	0
Loans/leases, net[1]	4,815,702	4,744,320	0	10,096	4,734,224
Financial Liabilities:					
Time deposits	$ 701,444	$ 702,823	$ 0	$ 702,823	$ 0
Other deposits	4,668,546	4,668,546	0	4,668,546	0
Fed funds purchased and securities sold under agreements to repurchase	50,541	50,541	0	50,541	0
Other borrowings	429,000	430,852	0	430,852	0
Trust preferred debentures	16,992	22,149	0	22,149	0
Accrued interest payable	2,294	2,294	0	2,294	0

Estimated Fair Value of Financial Instruments

December 31, 2018

(In thousands)	**Carrying Amount**	**Fair Value**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Financial Assets:					
Cash and cash equivalents	$ 80,389	$ 80,389	$ 80,389	$ 0	$ 0
Securities - held to maturity	140,579	139,377	0	139,377	0
FHLB and other stock	52,262	52,262	0	52,262	0
Accrued interest receivable	20,922	20,922	0	20,922	0
Loans/leases, net[1]	4,790,529	4,649,308	0	6,500	4,642,808
Financial Liabilities:					
Time deposits	$ 637,295	$ 631,489	$ 0	$ 631,489	$ 0
Other deposits	4,251,664	4,251,664	0	4,251,664	0
Fed funds purchased and securities sold under agreements to repurchase	81,842	81,842	0	81,842	0
Other borrowings	1,076,075	1,074,081	0	1,074,081	0
Trust preferred debentures	16,863	21,921	0	21,921	0
Accrued interest payable	2,408	2,408	0	2,408	0

[1] *Lease receivables, although excluded from the scope of ASC Topic 825, are included in the estimated fair value amounts at their carrying value.*

The following methods and assumptions were used in estimating fair value disclosures for financial instruments.

Cash and Cash Equivalents: The carrying amounts reported in the Consolidated Statements of Condition for cash, noninterest-bearing deposits, money market funds, and Federal funds sold approximate the fair value of those assets.

Securities: Fair values for U.S. Treasury securities are based on quoted market prices. Fair values for obligations of U.S. government sponsored entities, mortgage-backed securities-residential, obligations of U.S. states and political subdivisions, and U.S. corporate debt securities are based on quoted market prices, where available, as provided by third party pricing vendors. If quoted market prices were not available, fair values are based on quoted market prices of comparable instruments in active markets and/or based upon matrix pricing methodology, which uses comprehensive interest rate tables to determine market price, movement and yield relationships. These securities are reviewed periodically to determine if there are any events or changes in circumstances that would adversely affect their value.

Loans and Leases: Fair value for loans are calculated using an exit price notion. The Company's valuation methodology takes into account factors such as estimated cash flows, including contractual cash flow and assumptions for prepayments; liquidity risk; and credit risk. The fair values of residential loans were estimated using discounted cash flow analyses, based upon available market benchmarks for rates and prepayment assumptions. The fair values of commercial and consumer loans were estimated using discounted cash flow analyses, based upon interest rates currently offered for loans and leases with similar terms and credit quality. The fair values of loans held for sale were determined based upon contractual prices for loans with similar characteristics.

FHLB Stock: The carrying amount of FHLB stock approximates fair value. If the stock is redeemed, the Company will receive an amount equal to the par value of the stock. For miscellaneous equity securities, carrying value is cost.

Accrued Interest Receivable and Accrued Interest Payable: The carrying amount of these short term instruments approximate fair value.

Deposits: The fair values disclosed for noninterest bearing accounts and accounts with no stated maturities are equal to the amount payable on demand at the reporting date. The fair value of time deposits is based upon discounted cash flow analyses using rates offered for FHLB advances, which is the Company’s primary alternative source of funds.

Securities Sold Under Agreements to Repurchase: The carrying amounts of repurchase agreements and other short-term borrowings approximate their fair values. Fair values of long-term borrowings are estimated using a discounted cash flow approach, based on current market rates for similar borrowings. For securities sold under agreements to repurchase where the Company has elected the fair value option, the Company also receives pricing information from third parties, including the FHLB.

Other Borrowings: The fair values of other borrowings are estimated using discounted cash flow analysis, discounted at the Company's current incremental borrowing rate for similar borrowing arrangements. For other borrowings where the Company has elected the fair value option, the Company also receives pricing information from third parties, including the FHLB.

Trust Preferred Debentures: The fair value of the trust preferred debentures has been estimated using a discounted cash flow analysis which uses a discount factor of a market spread over current interest rates for similar instruments.

15. Leasing

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," and subsequent amendments, which replaced existing lease guidance in GAAP and requires lessees to recognize right-of-use (ROU) assets and lease liabilities on the Consolidated Statement of Condition for leases greater than twelve months and disclose key information about leasing arrangements. We adopted the standard on January 1, 2019 using the modified retrospective method and used the effective date as our date of initial application. Financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019. There were no adjustments to "Retained earnings" on adoption. The new standard provides a number of optional practical expedients for transition. We elected the package of practical expedients under the transition guidance which permitted us not to reassess under the new standard our prior conclusions for lease identification and lease classification on expired or existing contracts and whether initial direct costs previously capitalized would qualify for capitalization under FASB Accounting Standards Codification (ASC) 842. We did not elect the hindsight practical expedient to determine the reasonably certain lease term for existing leases.

The new standard also provides practical expedients and recognition exemptions for an entity's ongoing accounting policy elections. We are committed under short and long-term lease agreements for branch and ATM locations. Some of these agreements contain variable payment provisions that depend on an index or rate, initially measured using the index or rate at the lease commencement date, and are therefore not included in our future minimum lease payments. These variable lease agreements include usage-based payments for utilities, taxes, janitorial services and building maintenance. Our long-term lease agreements do not contain any material restrictive covenants.

Our property leases have remaining terms of less than 1 to 23 years. Some of these leases may include options to extend the leases for up to 29 years, and some may include options to terminate the leases within 30 days. The Company's lease agreements often include one or more options to renew at the Company's discretion. If at lease inception, the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability.

Operating lease amounts included in the Consolidated Statement of Condition are as follows:

(In thousands)			September 30, 2019
Assets	**Classification**		
ROU assets	Other assets	$	33,755
Liabilities			
Current lease liabilities	Other liabilities		3,319
Non-current lease liabilities	Other liabilities		32,873
Total lease liabilities		$	36,192

The components of operating lease expense, primarily included in "Net occupancy expense of premises," were as follows:

(In thousands)		Three Months Ended September 30, 2019
Lease Costs		
Operating lease cost	$	1,207
Variable lease cost		144
Short-term lease cost		0
Sublease income		(9)
Total lease cost	$	1,342

(In thousands)		Nine Months Ended September 30, 2019
Lease Costs		
Operating lease cost	$	3,522
Variable lease cost		334
Short-term lease cost		1
Sublease income		(26)
Total lease cost	$	3,831

At September 30, 2019, we did not have any material finance lease assets or liabilities.

Other information related to operating leases was as follows:

(In thousands)	Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$3,501
Weighted-average remaining lease term on operating leases	14.04
Weighted-average discount rates on operating leases	3.53%
ROU assets obtained in exchange for lease liabilities	$38,925

Future minimum lease payments under operating leases were as follows:

(In thousands)		Operating Leases
Three Months 2019	$	1,169
2020		4,365
2021		4,014
2022		3,971
2023		3,724
2024 and subsequent years		30,001
Total lease payments	$	47,244
Less: Interest		(11,052)
Present value of lease liabilities	$	36,192

At December 31, 2018, operating lease commitments under lessee arrangements were $4.8 million, $4.0 million, $3.6 million, $3.4 million, and $3.4 million for 2019 through 2023, respectively, and $13.0 million in aggregate for all years thereafter. These amounts include lease options to renew ranging from 5 to 20 years.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

BUSINESS

Corporate Overview and Strategic Initiatives
Tompkins Financial Corporation ("Tompkins" or the "Company") is headquartered in Ithaca, New York and is registered as a Financial Holding Company with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended. The Company is a locally oriented, community-based financial services organization that offers a full array of products and services, including commercial and consumer banking, leasing, trust and investment management, financial planning and wealth management, and insurance services. At September 30, 2019, 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 (DBA Tompkins Mahopac Bank), VIST Bank (DBA Tompkins VIST Bank); and a wholly-owned insurance agency subsidiary, Tompkins Insurance Agencies, Inc. ("Tompkins Insurance"). The trust division of the Trust Company provides a full array of investment services, including investment management, trust and estate, financial and tax planning as well as life, disability and long-term care insurance services. The Company's principal offices are located at 118 E. Seneca Street, Ithaca, New York, 14851, and its telephone number is (888) 503-5753. The Company's common stock is traded on the NYSE American under the symbol "TMP."

The Tompkins strategy centers around our core values and a commitment to delivering long-term value to our clients, communities, and shareholders. To achieve this the Company has developed a variety of strategic initiatives focused on delivering high quality products and services; a continual focus on improving operational effectiveness, investing in our people through talent management and development, maintaining appropriate risk management programs, and delivering profitable growth across all of our business lines. The Company's growth strategy includes initiatives to grow organically through our current businesses, as well as through possible acquisitions of financial institutions, branches, and financial services businesses. As such, the Company has acquired, and from time to time considers acquiring, banks, thrift institutions, branch offices of banks or thrift institutions, or other businesses that would complement the Company's business or its geographic reach. The Company generally targets merger or acquisition partners that are culturally similar and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale and expanded services.

Business Segments
Banking services consist primarily of attracting deposits from the areas served by the Company's four banking subsidiaries' 66 banking offices (46 offices in New York and 20 offices in Pennsylvania) and using those deposits to originate a variety of commercial loans, consumer loans, real estate loans (including commercial loans collateralized by real estate), and leases. The Company's lending function is managed within the guidelines of a comprehensive Board-approved lending policy. Reporting systems are in place to provide management with ongoing information related to loan production, loan quality, concentrations of credit, loan delinquencies, and nonperforming and potential problem loans. Banking services also include a full suite of products such as debit cards, credit cards, remote deposit, electronic banking, mobile banking, cash management, and safe deposit services.

Wealth management services consist of investment management, trust and estate, financial and tax planning as well as life, disability and long-term care insurance services. Wealth management services are provided by the Trust Company under the trade name Tompkins Financial Advisors. Tompkins Financial Advisors has office locations, and services are available, at all four of the Company's subsidiary banks.

Insurance services include property and casualty insurance, employee benefit consulting, and life, long-term care and disability insurance. Tompkins Insurance is headquartered in Batavia, New York. Over the years, Tompkins Insurance has acquired smaller insurance agencies in the market areas serviced by the Company's banking subsidiaries and successfully consolidated them into Tompkins Insurance. In the second quarter of 2019, Tompkins Insurance acquired the Cali Agency, Inc., an insurance agency located in western New York, in a cash transaction. The Company recorded the following intangible assets as a result of the acquisition: goodwill ($0.2 million), customer related intangible ($0.2 million) and a covenant-not-to-compete ($0.1 million). The values of the customer related intangible and covenant-not-to-compete are being amortized over 15 years and 5 years, respectively. The goodwill is not being amortized but will be evaluated at least annually for impairment. Tompkins Insurance offers services to customers of the Company's banking subsidiaries by sharing offices with The Bank of Castile, Trust Company, and VIST Bank. In addition to these shared offices, Tompkins Insurance has five stand-alone offices in Western New York, and one stand-alone office in Tompkins County, New York.

The Company's principal expenses are interest on deposits, interest on borrowings, and operating and general administrative expenses, as well as provisions for loan and lease losses. Funding sources, other than deposits, include borrowings, securities sold under agreements to repurchase, and cash flow from lending and investing activities.

Competition
Competition for commercial banking and other financial services is strong in the Company's market areas. In one or more aspects of its businesses, the Company's subsidiaries compete with other commercial banks, savings and loan associations, credit unions, finance companies, Internet-based financial services companies, mutual funds, insurance companies, brokerage and investment banking companies, and other financial intermediaries. Some of these competitors have substantially greater resources and lending capabilities and may offer services that the Company does not currently provide. In addition, many of the Company's non-bank competitors are not subject to the same extensive Federal regulations that govern financial holding companies and Federally-insured banks.

Competition among financial institutions is based upon interest rates offered on deposit accounts, interest rates charged on loans and other credit and service charges, the quality and scope of the services rendered, the convenience of facilities and services, and, in the case of loans to commercial borrowers, relative lending limits. Management believes that a community-based financial organization is better positioned to establish personalized financial relationships with both commercial customers and individual households. The Company's community commitment and involvement in its primary market areas, as well as its commitment to quality and personalized financial services, are factors that contribute to the Company's competitiveness. Management believes that each of the Company's subsidiary banks can compete successfully in its primary market areas by making prudent lending decisions quickly and more efficiently than its competitors, without compromising asset quality or profitability. In addition, the Company focuses on providing unparalleled customer service, which includes offering a strong suite of products and services. Although management feels that this business model has caused the Company to grow its customer base in recent years and allows it to compete effectively in the markets it serves, we cannot assure you that such factors will result in future success.

Regulation
Banking, insurance services and wealth management are highly regulated. As a financial holding company with four community banks, a registered investment advisor, and an insurance agency subsidiary, the Company and its subsidiaries are subject to examination and regulation by the Federal Reserve Board ("FRB"), Securities and Exchange Commission ("SEC"), the Federal Deposit Insurance Corporation ("FDIC"), the New York State Department of Financial Services, Pennsylvania Department of Banking and Securities, the Financial Industry Regulatory Authority, and the Pennsylvania Insurance Department.

OTHER IMPORTANT INFORMATION

The following discussion is intended to provide an understanding of the consolidated financial condition and results of operations of the Company for the three and nine months ended September 30, 2019. It should be read in conjunction with the Company's Audited Consolidated Financial Statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, and the Unaudited Consolidated Financial Statements and notes thereto included in Part I of this Quarterly Report on Form 10-Q.

In this Report, there are comparisons of the Company's performance to that of a peer group, which is comprised of the group of 146 domestic bank holding companies with $3 billion to $10 billion in total assets as defined in the Federal Reserve's "Bank Holding Company Performance Report" for June 30, 2019 (the most recent report available). Although the peer group data is presented based upon financial information that is one fiscal quarter behind the financial information included in this report, the Company believes that it is relevant to include certain peer group information for comparison to current quarter numbers.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The statements contained in this Report that are not statements of historical fact may include forward-looking statements that involve a number of risks and uncertainties. Forward-looking statements may be identified by use of such words as "may", "will", "estimate", "intend", "continue", "believe", "expect", "plan", or "anticipate", and other similar words. Examples of forward-looking statements may include statements regarding the asset quality of the Company's loan portfolios; the level of the Company's allowance for loan losses; the sufficiency of liquidity sources; the Company's exposure to changes in interest rates; the impact of changes in accounting standards; and trends, plans, prospects, growth and strategies. Forward-looking statements are made based on management’s expectations and beliefs concerning future events impacting the Company and are subject to certain uncertainties and factors relating to the Company’s operations and economic environment, all of which are difficult to predict and many of which are beyond the control of the Company, that could cause actual results of the Company to differ materially from those expressed and/or implied by forward-looking statements. The following factors, in addition to those listed as Risk Factors in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018, are among those that could cause actual results to differ materially from the forward-looking statements: changes in general economic, market and regulatory conditions; the development of an interest rate environment that may adversely affect the Company’s interest rate spread, other income or cash flow anticipated from the Company’s operations, investment and/or lending activities; changes in laws and regulations affecting banks, bank holding companies and/or financial holding companies, such as the Dodd-Frank Act and Basel III; technological developments and changes; the ability to continue to introduce competitive new products and services on a timely, cost-effective basis; governmental and public policy changes, including environmental regulation; reliance on large customers; and financial resources in the amounts, at the times and on the terms required to support the Company’s future businesses.

Critical Accounting Policies

The accounting and reporting policies followed by the Company conform, in all material respects, to accounting principles generally accepted in the United States and to general practices within the financial services industry. In the course of normal business activity, management must select and apply many accounting policies and methodologies and make estimates and assumptions that lead to the financial results presented in the Company’s consolidated financial statements and accompanying notes. There are uncertainties inherent in making these estimates and assumptions, which could materially affect the Company’s results of operations and financial position.

Management considers accounting estimates to be critical to reported financial results if (i) the accounting estimates require management to make assumptions about matters that are highly uncertain, and (ii) different estimates that management reasonably could have used for the accounting estimate in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on the Company’s financial statements. Management considers the accounting policies relating to the allowance for loan and lease losses (“allowance”), and the review of the securities portfolio for other-than-temporary impairment to be critical accounting policies because of the uncertainty and subjectivity involved in these policies and the material effect that estimates related to these areas can have on the Company’s results of operations.

For additional information on critical accounting policies and to gain a greater understanding of how the Company’s financial performance is reported, refer to Note 1 – “Summary of Significant Accounting Policies” in the Notes to Consolidated Financial Statements, and the section captioned “Critical Accounting Policies” in Management’s Discussion and Analysis of Financial Condition and Results of Operations, contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018. There have been no significant changes in the Company’s application of critical accounting policies since December 31, 2018. Refer to Note 3 – “Accounting Standards Updates” in the Notes to Unaudited Consolidated Financial Statements included in Part I of this Quarterly Report on Form 10-Q for a discussion of recent accounting updates.

RESULTS OF OPERATION

Performance Summary

Net income for the third quarter of 2019 was $20.2 million or $1.34 diluted earnings per share, compared to $20.9 million or $1.36 diluted earnings per share for the same period in 2018. Net income for the first nine months of 2019 was $60.6 million or $3.97 diluted earnings per share compared to $63.4 million or $4.12 diluted earnings per share for the first nine months of 2018.

Return on average assets (“ROA”) for the quarter ended September 30, 2019 was 1.21%, compared to 1.23% for the quarter ended September 30, 2018. Return on average shareholders’ equity (“ROE”) for the third quarter of 2019 was 12.15%, compared to 13.89% for the same period in 2018. For the year-to-date period ended September 30, 2019, ROA and ROE totaled 1.21% and 12.53%, respectively, compared to 1.27% and 14.47%, reported for the same period in 2018. Tompkins’ ROA and ROE compare to the most recent peer average ratios of 1.15% and 10.26%, respectively, ranking Tompkins’ ROA in the 55th percentile and ROE in the 78th percentile of the peer group.

Segment Reporting

The Company operates in the following three business segments, banking, insurance, and wealth management. Insurance is comprised of property and casualty insurance services and employee benefit consulting operated under the Tompkins Insurance Agencies, Inc. subsidiary. Wealth management activities include the results of the Company’s trust, financial planning, and wealth management services, organized under the Tompkins Financial Advisors brand. All other activities are considered banking.

Banking Segment

The banking segment reported net income of $18.0 million for the third quarter of 2019, down $861,000 or 4.6% from net income of $18.8 million for the same period in 2018. For the nine months ended September 30, 2019, the banking segment reported net income of $54.4 million, down $3.1 million or 5.4% from the same period in 2018.

Net interest income of $53.2 million for the third quarter of 2019 was in line with the same period in 2018. For the nine months ended September 30, 2019, net interest income of $157.4 million was down $1.2 million or 0.7% compared to the first nine months of 2018.

The provision for loan and lease losses was $1.3 million for the three months ended September 30, 2019, which was up $1.0 million or 385.3% compared to the same period in 2018. Provision expense was up 25.6% for the nine months ended September 30, 2019 to $2.4 million from $1.9 million for the first nine months of 2018. Factors contributing to the increase in provision expense in 2019 over prior periods include increases in criticized and classified loans, and net charge-offs which included a $3.1 million write-down of one relationship in the commercial real estate portfolio in the first quarter of 2019. For additional information see the section titled "The Allowance for Loan and Lease Losses" below.

Noninterest income of $7.1 million for the three months ended September 30, 2019 was up $357,000 or 5.3% compared to the same period in 2018. The quarter-over-quarter increase in noninterest income includes increases in fees associated with service charges on deposit accounts and card service fees as well as higher gains on securities transactions. For the nine months ended September 30, 2019, noninterest income of $21.9 million was down $1.3 million or 5.5% compared to the nine months ended September 30, 2018. The decrease in the nine month results compared to the same period in the prior year were mainly due to the $2.9 million gain on the sale of two properties in 2018 related to the completion and move to the Company's new headquarters building. This was partially offset by the $500,000 one-time incentive payment, received by the Company, related to the Company's merchant card business in the first quarter of 2019.

Noninterest expense of $36.3 million for the third quarter of 2019, and $108.7 million for the nine months ended September 30, 2019, was up $232,000 or 0.6% and up $1.6 million or 1.5%, respectively, from the same periods in 2018. The increases were mainly attributed to increases in salary and wages and employee benefits reflecting normal annual merit and incentive adjustments over the comparable periods in the prior year. For the third quarter of 2019, the increase in noninterest expense was partially offset by deposit insurance credits received from the FDIC, which included $1.2 million that were applied during the third quarter of 2019.

Insurance Segment

The insurance segment reported net income of $1.4 million for the three months ended September 30, 2019, which was up $243,000 or 20.6% compared to the third quarter of 2018. Total commissions and fees income was up $622,000 or 7.8% for the third quarter of 2019 compared to the same quarter prior year. Base commission revenue increased by $485,000 or 6.5% while the Company's acquisition of Cali Agency, Inc., effective May 1, 2019 added $47,000. Contingency revenue was $144,000 or 40.5% greater than the third quarter of 2018. For the nine months ended September 30, 2019, net income was up $914,000 or 30.3% compared to the same period in the prior year.

For the nine months ended September 30, 2019, commissions and fees income was up $1.6 million or 7.2% compared to the same period in 2018. Base commission revenue increased by $775,000 or 3.7% while the acquisition effective May 1, 2019 added $75,000. Contingency revenue was up $793,000 or 48% for the nine months ended September 30, 2019 compared to the same period in 2018. Noninterest expenses for the three and nine months ended September 30, 2019 were up $275,000 or 4.3% and up $361,000 or 1.9% compared to the three and nine months ended September 30, 2018. The increase in noninterest expense for the third quarter and the nine months ended September 30, 2019 is mainly the result of an increase in salaries and wages and employee benefits. In addition, for the third quarter of 2019, commission expenses increased as a result of the increase in base commission revenue described above.

Wealth Management Segment

The wealth management segment reported net income of $823,000 for the three months ended September 30, 2019, which was down $78,000 or 8.7% compared to the third quarter of 2018. The overall decline was mainly due to lower revenue from brokerage services and higher salary and wages in the third quarter of 2019. For the nine months ended September 30, 2019, net income of $2.3 million was down $542,000 or 19.1% compared to the prior year, due to the same factors that impacted the quarterly decline as well as higher estate settlement fees recognized in 2018.

Non-GAAP Disclosure

The following table summarizes the Company's results of operations on a GAAP basis and on an operating (non-GAAP) basis for the periods indicated. The non-GAAP financial measures adjust GAAP measures to exclude the effects of non-operating items, such as acquisition related intangible amortization expense, and significant nonrecurring income or expense on earnings, equity, and capital. In 2018, the Company had nonrecurring gains on the sales of real estate and write-downs of impaired leases related to the completion of the Company's new headquarters building in the second quarter of 2018. The Company believes the non-GAAP measures provide meaningful comparisons of our underlying operational performance and facilitate management's and investors' assessments of business and performance trends in comparison to others in the financial services industry. These non-GAAP financial measures should not be considered in isolation or as a measure of the Company's profitability or liquidity; they are in addition to, and are not a substitute for, financial measures under GAAP. The non-GAAP financial measures presented herein may be different from non-GAAP financial measures used by other companies, and may not be comparable to similarly titled measures reported by other companies. Further, the Company may utilize other measures to illustrate performance in the future. Non-GAAP financial measures have limitations since they do not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP.

Reconciliation of Net Income/Diluted Earnings Per Share (GAAP) to Net Operating Income/Adjusted Diluted Earnings Per Share (Non-GAAP) and Adjusted Operating Return on Average Tangible Common Equity (Non-GAAP)

	Nine Months Ended September 30,	
(In thousands, except per share data)	**2019**	**2018**
Net income attributable to Tompkins Financial Corporation	$60,638	$63,397
Less: dividends and undistributed earnings allocated to unvested stock awards	(972)	(1,024)
Net income available to common shareholders (GAAP)	59,666	62,373
Diluted earnings per share (GAAP)	$3.97	$4.12
Adjustments for non-operating income and expense:		
Gain on sale of real estate	0	(2,950)
Write-down of impaired leases	0	2,536
Total adjustments	0	(414)
Tax expense	0	(102)
Total adjustments, net of tax	0	(312)
Net operating income available to common shareholders (Non-GAAP)	$59,666	$62,061
Adjusted diluted earnings per share (Non-GAAP)	$3.97	$4.10
Net operating income available to common shareholders (Non-GAAP)	59,666	62,061
Amortization of intangibles, net of tax	941	1,007
Adjusted net income available to common shareholders (Non-GAAP)	60,607	63,068
Average Tompkins Financial Corporation shareholders' common equity	645,466	584,331
Average goodwill and intangibles[1]	98,733	92,846
Average Tompkins Financial Corporation shareholders' tangible common equity (Non-GAAP)	546,733	491,485
Adjusted operating return on average shareholders' tangible common equity (Non-GAAP)	14.82%	17.16%

[1] *Average goodwill and intangibles excludes mortgage servicing rights.*

Reconciliation of Shareholders' Common Equity/Common Equity Per Share (GAAP) to Tangible Common Equity/Tangible Common Equity Per Share (Non-GAAP)

	Nine Months Ended September 30,	
(In thousands, except per share data)	**2019**	**2018**
Tompkins Financial Corporation Shareholders' common equity (GAAP)	**$658,358**	$597,636
Goodwill and intangibles[1]	**98,277**	99,543
Tangible common equity (Non-GAAP)	**$560,081**	$498,093
Common equity per share	**$43.96**	$39.12
Tangible common equity per share (Non-GAAP)	**$37.40**	$32.60

[1] *Goodwill and intangibles excludes mortgage servicing rights.*

Net Interest Income

The following tables show average interest-earning assets and interest-bearing liabilities, and the corresponding yield or cost associated with each for the three and nine month periods ended September 30, 2019 and 2018.

Average Consolidated Statements of Condition and Net Interest Analysis (Unaudited)

	Quarter Ended September 30, 2019			Quarter Ended September 30, 2018		
(Dollar amounts in thousands)	Average Balance (QTD)	Interest	Average Yield/Rate	Average Balance (QTD)	Interest	Average Yield/Rate
ASSETS						
Interest-earning assets						
Interest-bearing balances due from banks	$ 2,908	$ 11	1.50%	$ 2,513	$ 8	1.26%
Securities (1)						
U.S. Government securities	1,219,318	6,822	2.22%	1,418,742	7,766	2.17%
State and municipal (2)	91,675	639	2.76%	95,758	627	2.60%
Other securities (2)	3,419	39	4.52%	3,435	39	4.50%
Total securities	1,314,412	7,500	2.26%	1,517,935	8,432	2.20%
FHLBNY and FRB stock	33,359	770	9.16%	54,871	899	6.50%
Total loans and leases, net of unearned income (2)(3)	4,852,399	57,904	4.73%	4,781,462	55,095	4.57%
Total interest-earning assets	**6,203,078**	**66,185**	**4.23%**	**6,356,781**	**64,434**	**4.02%**
Other assets	418,334			359,671		
Total assets	**6,621,412**			**6,716,452**		
LIABILITIES & EQUITY						
Deposits						
Interest-bearing deposits						
Interest bearing checking, savings, & money market	2,998,574	5,424	0.72%	2,789,432	2,532	0.36%
Time deposits	694,822	2,982	1.70%	637,426	1,861	1.16%
Total interest-bearing deposits	3,693,396	8,406	0.90%	3,426,858	4,393	0.51%
Federal funds purchased & securities sold under agreements to repurchase	57,607	34	0.23%	59,626	35	0.23%
Other borrowings	647,112	3,862	2.37%	1,141,257	6,075	2.11%
Trust preferred debentures	16,964	317	7.41%	16,792	318	7.51%
Total interest-bearing liabilities	**4,415,079**	**12,619**	**1.13%**	**4,644,533**	**10,821**	**0.92%**
Noninterest bearing deposits	1,445,051			1,409,401		
Accrued expenses and other liabilities	101,632			65,307		
Total liabilities	5,961,762			6,119,241		
Tompkins Financial Corporation Shareholders' equity	658,159			595,721		
Noncontrolling interest	1,491			1,490		
Total equity	**659,650**			**597,211**		
Total liabilities and equity	**$ 6,621,412**			**$ 6,716,452**		
Interest rate spread			**3.10%**			**3.10%**
Net interest income/margin on earning assets		**53,566**	**3.43%**		**53,613**	**3.35%**
Tax Equivalent Adjustment		**(410)**			**(450)**	
Net interest income per consolidated financial statements		**$ 53,156**			**$ 53,163**	

Average Consolidated Statements of Condition and Net Interest Analysis (Unaudited)

	Year to Date Period Ended September 30, 2019			Year to Date Period Ended September 30, 2018		
(Dollar amounts in thousands)	Average Balance (YTD)	Interest	Average Yield/Rate	Average Balance (YTD)	Interest	Average Yield/Rate
ASSETS						
Interest-earning assets						
Interest-bearing balances due from banks	$ 2,460	$ 31	1.68%	$ 2,121	$ 22	1.39%
Securities (1)						
U.S. Government securities	1,338,807	22,990	2.30%	1,438,322	23,763	2.21%
State and municipal (2)	93,131	1,903	2.73%	97,556	1,898	2.60%
Other securities (2)	3,417	120	4.70%	3,516	113	4.30%
Total securities	1,435,355	25,013	2.33%	1,539,394	25,774	2.24%
FHLBNY and FRB stock	42,634	2,442	7.66%	52,802	2,433	6.16%
Total loans and leases, net of unearned income (2)(3)	4,816,140	170,540	4.73%	4,740,257	159,398	4.50%
Total interest-earning assets	**6,296,589**	**198,026**	**4.21%**	**6,334,574**	**187,627**	**3.96%**
Other assets	405,358			351,949		
Total assets	**6,701,947**			**6,686,523**		
LIABILITIES & EQUITY						
Deposits						
Interest-bearing deposits						
Interest bearing checking, savings, & money market	2,962,236	14,865	0.67%	2,806,119	6,118	0.29%
Time deposits	670,570	7,728	1.54%	671,888	4,669	0.93%
Total interest-bearing deposits	3,632,806	22,593	0.83%	3,478,007	10,787	0.41%
Federal funds purchased & securities sold under agreements to repurchase	61,482	110	0.24%	62,956	115	0.24%
Other borrowings	861,930	15,731	2.44%	1,113,120	15,897	1.91%
Trust preferred debentures	16,921	974	7.70%	16,749	904	7.22%
Total interest-bearing liabilities	**4,573,139**	**39,408**	**1.15%**	**4,670,832**	**27,703**	**0.79%**
Noninterest bearing deposits	1,380,399			1,366,219		
Accrued expenses and other liabilities	101,483			63,682		
Total liabilities	6,055,021			6,100,733		
Tompkins Financial Corporation Shareholders' equity	645,466			584,331		
Noncontrolling interest	1,460			1,459		
Total equity	**646,926**			**585,790**		
Total liabilities and equity	**$ 6,701,947**			**$ 6,686,523**		
Interest rate spread			**3.05%**			**3.17%**
Net interest income/margin on earning assets		**158,618**	**3.37%**		**159,924**	**3.38%**
Tax Equivalent Adjustment		**(1,230)**			**(1,360)**	
Net interest income per consolidated financial statements		**$ 157,388**			**$ 158,564**	

[1] *Average balances and yields on available-for-sale securities are based on historical amortized cost*

[2] *Interest income includes the tax effects of taxable-equivalent adjustments using an effective income tax rate of 21% in 2019 and 2018 to increase tax exempt interest income to taxable-equivalent basis.*

[3] *Nonaccrual loans are included in the average asset totals presented above. Payments received on nonaccrual loans have been recognized as disclosed in Note 1 of the Company's consolidated financial statements included in Part 1 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.*

Net Interest Income

Net interest income is the Company's largest source of revenue, representing 73.1% and 73.3%, respectively, of total revenues for the three and nine months ended September 30, 2019, compared to 74.1% and 73.4% for the same periods in 2018. Net interest income is dependent on the volume and composition of interest earning assets and interest-bearing liabilities and the level of market interest rates. The above table shows average interest-earning assets and interest-bearing liabilities, and the corresponding yield or cost associated with each.

Taxable-equivalent net interest income for the three months ended September 30, 2019, was in line with the same period in the prior year. Taxable-equivalent net interest income for the nine month period ending September 30, 2019 increased by $1.2 million or 0.74% over the nine months ending September 30, 2018. For the three and nine months ended September 30, 2019, average loans represented 78.2% and 76.5% of average earning assets compared to 75.2% and 74.8% for the same periods in 2018. Deposit growth during the third quarter of 2019 exceeded loan growth resulting in a lower volume of borrowings. Net interest margin for the three and nine months ended September 30, 2019 was 3.43% and 3.37% compared to 3.35% and 3.38% for the same periods in 2018.

Taxable-equivalent interest income for the three and nine months ended September 30, 2019, was $66.2 million and $198.0 million, respectively, up 2.7% and 5.5%, respectively, compared to the same periods in 2018. The increase in taxable-equivalent interest income was mainly the result of an increase in average loans, as well as higher yields on average loans. Average loan balances for the three and nine months ended September 30, 2019, were up $70.9 million or 1.5% and $75.9 million or 1.6%, respectively, while the average yield on loans increased 16 basis points in the third quarter of 2019 compared to the third quarter of 2018, and was up 23 basis points for the first nine months of 2019 compared to the first nine months of 2018. Average securities balances for the three and nine months ended September 30, 2019, were down $203.5 million or 13.4% and $104.0 million or 6.8%, respectively, and the average yield on securities was up 6 basis points and up 9 basis points, respectively, compared to the same periods in 2018. The decrease in average securities was mainly due to the sale of approximately $152.1 million of available-for-sale securities in the second quarter of 2019.

Interest expense for the three and nine months ended September 30, 2019, increased by $1.8 million or 16.6% and $11.7 million or 42.3%, respectively, compared to the same periods in 2018, driven by higher interest rates and higher average interest-bearing deposits. The average cost of interest-bearing deposits during the three and nine months ended September 30, 2019 was 0.90% and 0.83%, respectively, up from 0.51% and 0.41%, for the same periods in 2018. Interest expense for the first nine months of 2019 and 2018 was positively impacted by $276,000 and $502,000, respectively, of accelerated accretion of purchase accounting deposit discounts from certain deposits acquired in the Company's acquisition of VIST Financial Corp in 2012. Average interest-bearing deposits for the third quarter of 2019 were up $266.5 million or 7.8% compared to the same period in 2018, while year-to-date average interest-bearing deposits were up $154.8 million or 4.5% compared to the same period in 2018. Average noninterest bearing deposits were up $35.7 million or 2.5% for the three months ended September 30, 2019 when compared to the third quarter of 2018, and for the nine months ended September 30, 2019 were in line with the same period in 2018. Average other borrowings for the three and nine months ended September 30, 2019 were down $494.1 million or 43.3% and $251.2 million or 22.6% compared to the same periods in 2018; mainly due to decreases in overnight borrowings with the FHLB. The decrease in borrowings was due to strong deposit growth during the third quarter of 2019 as well as pay downs resulting from proceeds from sales of $152.1 million of available-for-sale securities in the second quarter of 2019.

Provision for Loan and Lease Losses

The provision for loan and lease losses represents management's estimate of the amount necessary to maintain the allowance for loan and lease losses at an appropriate level. The provision for loan and lease losses for the three and nine months ended September 30, 2019 was $1.3 million and $2.4 million, respectively, which was up compared to $272,000 and $1.9 million, respectively, for the same periods in 2018. Factors contributing to the increase in provision expense in 2019 over prior periods include increases in criticized and classified loans, and net charge-offs which included a $3.1 million write-down of one relationship in the commercial real estate portfolio in the first quarter of 2019. The section captioned "Financial Condition – The Allowance for Loan and Lease Losses" below has further details on the allowance for loan and lease losses and asset quality metrics.

Noninterest Income

Noninterest income was $19.5 million for the third quarter of 2019, which was up 5.0% compared to the third quarter of 2018, and $57.5 million for the first nine months of 2019, which was in line with the same period prior year. Noninterest income represented 26.9% of total revenue for the third quarter of 2019 and 26.7% for the nine months ended September 30, 2019, compared to 25.9% and 26.6% for the same periods in 2018.

Insurance commissions and fees, the largest component of noninterest income, were $8.5 million for the third quarter of 2019, an increase of 7.8% from the same period prior year. For the first nine months of 2019, insurance commissions and fees were up$1.6 million or 7.2% compared to the same period in 2018. The increase in insurance revenues in the third quarter and first nine months of 2019 compared to the same periods in 2018 reflects growth in contingency revenues as well as growth in commercial and personal business lines over prior year.

Investment services income of $4.2 million in the third quarter of 2019 was up $78,000 or 1.9% compared to the third quarter of 2018. For the first nine months of 2019, investment services income was down $199,000 or 1.6% compared to the same period in 2018. Investment services income includes trust services, financial planning, wealth management services, and brokerage related services. With fees largely based on the market value and the mix of assets managed, the general direction of the stock market can have a considerable impact on fee income. The fair value of assets managed by, or in custody of, Tompkins was $3.9 billion at September 30, 2019, which was down $103.4 million or 2.6% from September 30, 2018. The fair value of assets in custody at September 30, 2019 includes $899.4 million of Company-owned securities where Tompkins Trust Company is custodian.

Card services income for the three and nine months ended September 30, 2019, was up $108,000 or 4.4% and $881,000 or 12.2%, respectively, compared to the same periods in 2018. Debit card income, the largest component of card services income, was up $97,000 or 5.9% over the same quarter prior year, and up $134,000 or 2.6% over the first nine months of 2018. Card services income for the first nine months of 2019 included a one-time incentive payment of $500,000 related to the Company's merchant card business.

The Company recognized net gains on securities transactions of $138,000 and $434,000, respectively, for the three and nine months ended September 30, 2019 compared to net gains of $16,000 and $290,000 for the same periods in 2018. The gains are primarily related to the sales of available-for-sale securities which are generally the result of general portfolio maintenance and interest rate risk management. In the second quarter of 2019, the Company sold about $152.1 million of low yielding and short average life securities and recognized a net gain of $271,000.

Other income of $2.0 million in the third quarter of 2019 was down $94,000 or 4.6% compared to the same period in 2018. For the first nine months of 2019, other income of $6.2 million was down $2.5 million or 28.5% compared to the same period in 2018. The decrease for the first nine months of 2019 compared to the same period of 2018 was the result of approximately $2.9 million of gains on the sale of two properties related to the completion and move to the Company's new headquarters building in 2018.

Noninterest Expense

Noninterest expense was $45.7 million for the third quarter of 2019 and $135.9 million for the first nine months of 2019, up 1.2% and 1.6%, respectively, compared to the same periods in 2018.

Expenses associated with compensation and benefits comprise the largest component of noninterest expense, representing 63.0% and 61.2% of total noninterest expense for the three and nine months ended September 30, 2019. Salaries and wages expense for the three and nine months ended September 30, 2019 increased by $931,000 or 4.2% and $1.7 million or 2.7%, respectively, compared to the same periods in 2018. The increases were mainly due to normal merit adjustments and increase in average full time equivalent employees. Employee benefits for the three and nine months ended September 30, 2019, increased by $521,000 or 9.8% and $1.2 million or 7.8% over the same periods in 2018, mainly as a result of higher healthcare expenses.

Other expense categories, not related to compensation and benefits, for the three and nine months ended September 30, 2019 were down $929,000 or 5.2% and $885,000 or 1.7%, respectively, compared to the same periods in 2018. Expenses for the third quarter and year to date period ended September 30, 2019, included increases in professional fees and technology related expenses, which combined were up $0.6 million or 12.6% and $2.3 million or 17.4%, respectively, over the same periods in 2018, as well as $470,000 of write-downs related to closures of two banking offices in the third quarter of 2019. These expenses were partially offset by deposit insurance credits received from the FDIC, which included $1.2 million that were applied during the third quarter of 2019. Expenses for the three and nine months ended September 30, 2018, included approximately $0.5 million and $2.5 million, respectively, of write-downs related to two leases on space vacated as a result of completion of new headquarters building in 2018.

Income Tax Expense

The provision for income taxes was $5.5 million for an effective rate of 21.3% for the third quarter of 2019, compared to tax expense of $5.4 million and an effective rate of 20.6% for the same quarter in 2018. For the first nine months of 2019, the provision for income taxes was $15.8 million for an effective rate of 20.7% compared to tax expense of $16.9 million and an effective rate of 21.1% for the same period in 2018. The effective rates differ from the U.S. statutory rate primarily due to the effect of tax-exempt income from loans, securities and life insurance assets, and the income tax effects associated with stock based compensation.

FINANCIAL CONDITION

Total assets were $6.6 billion at September 30, 2019, down $130.5 million or 1.9% from December 31, 2018. The decrease in total assets was mainly in the securities portfolio and reflects the sale of about $152.1 million of low yielding and short average life securities in June 2019. The securities sold had an average yield of 1.68% and an average life of 2.9 years. The proceeds were used to reduce overnight borrowings with the FHLB. Total originated loan balances were $4.6 billion at September 30, 2019, up $59.9 million or 1.3% compared to the $4.6 billion reported at year-end 2018. Total acquired loans of $228.5 million were down $36.7 million or 13.9% from December 31, 2018, due to expected run-off in the acquired portfolio. Total deposits were up $481.0 million or 9.8% from December 31, 2018. Other borrowings decreased $647.1 million or 60.1% from December 31, 2018, as a result of the securities sales discussed above as well as deposit growth exceeding loan growth during the period.

Securities

As of September 30, 2019, the Company's securities portfolio was $1.3 billion or 19.3% of total assets, compared to $1.5 billion or 21.8% of total assets at year end 2018. The decrease is mainly due to the sale of $152.1 million of available-for-sale securities in June 2019, described above. The following table details the composition of available-for-sale and held-to-maturity securities.

Available-for-Sale Securities

	September 30, 2019		December 31, 2018	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasuries	**$ 1,356**	**$ 1,356**	$ 289	$ 289
Obligations of U.S. Government sponsored entities	**314,740**	**316,716**	493,371	$ 485,898
Obligations of U.S. states and political subdivisions	**84,744**	**85,836**	86,260	85,440
Mortgage-backed securities - residential, issued by				
U.S. Government agencies	**176,737**	**176,847**	131,831	128,267
U.S. Government sponsored entities	**560,009**	**559,265**	649,620	630,558
Non-U.S. Government agencies or sponsored entities	**0**	**0**	31	31
U.S. corporate debt securities	**2,500**	**2,432**	2,500	2,175
Total available-for-sale securities	**$ 1,140,086**	**$ 1,142,452**	$ 1,363,902	$ 1,332,658

Held-to-Maturity Securities

	September 30, 2019		December 31, 2018	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of U.S. Government sponsored entities	**$ 131,001**	**$ 134,883**	$ 131,306	$ 130,108
Obligations of U.S. states and political subdivisions	**7,656**	**7,700**	9,273	9,269
Total held-to-maturity debt securities	**$ 138,657**	**$ 142,583**	**$ 140,579**	**$ 139,377**

As of September 30, 2019, the available-for-sale securities portfolio had net unrealized gains of $2.4 million compared to net unrealized losses of $31.2 million at December 31, 2018. The decrease in unrealized losses, which reflects the amount that amortized cost exceeds fair value, related to the available-for-sale securities portfolio was due primarily to changes in market interest rates during the first nine months of 2019. Management's policy is to purchase investment grade securities that on average have relatively short duration, which helps mitigate interest rate risk and provides sources of liquidity without significant risk to capital.

Quarterly, the Company evaluates all investment securities with a fair value less than amortized cost to identify any other-than-temporary impairment as defined under generally accepted accounting principles. As a result of the other-than-temporary impairment review process, the Company does not consider any investment security held at September 30, 2019 to be other-than-temporarily impaired. Future changes in interest rates or the credit quality and credit support of the underlying issuers may reduce the market value of these and other securities. If such decline is determined to be other than temporary, the Company will record the necessary charge to earnings and/or accumulated other comprehensive income to reduce the securities to their then current fair value.

Loans and Leases

Loans and leases as of the end of the third quarter and prior year-end periods were as follows:

	September 30, 2019			December 31, 2018		
(In thousands)	**Originated**	**Acquired**	**Total Loans and Leases**	Originated	Acquired	Total Loans and Leases
Commercial and industrial						
Agriculture	**$ 94,302**	**$ 0**	**$ 94,302**	$ 107,494	$ 0	$ 107,494
Commercial and industrial other	**860,432**	**39,771**	**900,203**	926,429	43,712	970,141
Subtotal commercial and industrial	**954,734**	**39,771**	**994,505**	1,033,923	43,712	1,077,635
Commercial real estate						
Construction	**190,657**	**1,358**	**192,015**	164,285	1,384	165,669
Agriculture	**180,385**	**208**	**180,593**	170,005	224	170,229
Commercial real estate other	**1,902,939**	**151,223**	**2,054,162**	1,827,279	177,484	2,004,763
Subtotal commercial real estate	**2,273,981**	**152,789**	**2,426,770**	2,161,569	179,092	2,340,661
Residential real estate						
Home equity	**205,050**	**16,488**	**221,538**	208,459	21,149	229,608
Mortgages	**1,107,147**	**18,635**	**1,125,782**	1,083,802	20,484	1,104,286
Subtotal residential real estate	**1,312,197**	**35,123**	**1,347,320**	1,292,261	41,633	1,333,894
Consumer and other						
Indirect	**13,611**	**0**	**13,611**	12,663	0	12,663
Consumer and other	**60,789**	**774**	**61,563**	57,565	761	58,326
Subtotal consumer and other	**74,400**	**774**	**75,174**	70,228	761	70,989
Leases	**17,129**	**0**	**17,129**	14,556	0	14,556
Total loans and leases	**4,632,441**	**228,457**	**4,860,898**	4,572,537	265,198	4,837,735
Less: unearned income and deferred costs and fees	**(3,825)**	**0**	**(3,825)**	(3,796)	0	(3,796)
Total loans and leases, net of unearned income and deferred costs and fees	**$ 4,628,616**	**$ 228,457**	**$ 4,857,073**	$ 4,568,741	$ 265,198	$ 4,833,939

Total loans and leases of $4.9 billion at September 30, 2019 were up $23.1 million or 0.5% from December 31, 2018. Originated loan balances at September 30, 2019 were up $59.9 million or 1.3% from year-end 2018. As of September 30, 2019, total loans and leases represented 73.3% of total assets compared to 71.5% of total assets at December 31, 2018.

Residential real estate loans, including home equity loans were $1.3 billion at September 30, 2019, up $13.4 million or 1.0% compared to December 31, 2018, and comprised 27.7% of total loans and leases at September 30, 2019. Changes in residential loan balances are impacted by the Company's decision to retain these loans or sell them in the secondary market due to interest rate considerations. The Company's Asset/Liability Committee meets regularly and establishes standards for selling and retaining residential real estate mortgage originations.

The Company may sell residential real estate loans in the secondary market based on interest rate considerations. These residential real estate loans are generally sold to Federal Home Loan Mortgage Corporation ("FHLMC") or State of New York Mortgage Agency ("SONYMA") without recourse in accordance with standard secondary market loan sale agreements. These residential real estate loans also are subject to customary representations and warranties made by the Company, including representations and warranties related to gross incompetence and fraud. The Company has not had to repurchase any loans as a result of these representations and warranties.

During the first nine months of 2019 and 2018, the Company retained the vast majority of residential mortgage loans originated, selling $11.4 million and $15.3 million, respectively, recognizing gains on these sales of $139,000 and $295,000, respectively. These residential real estate loans were sold without recourse in accordance with standard secondary market loan sale agreements. When residential mortgage loans are sold, the Company typically retains all servicing rights, which provides the Company with a source of fee income. Mortgage servicing rights totaled $817,000 at September 30, 2019 and $805,000 at December 31, 2018.

Commercial real estate loans and commercial and industrial loans totaled $2.4 billion and $1.0 billion, respectively, and represented 50.0% and 20.5%, respectively of total loans as of September 30, 2019. The commercial real estate portfolio was up 3.7% over year-end 2018, while commercial and industrial loans were down 7.7%. As of September 30, 2019, agriculturally-related loans totaled $274.9 million or 5.7% of total loans and leases, compared to $277.7 million or 5.7% of total loans and leases at December 31, 2018. Agriculturally-related loans include loans to dairy farms and crop farms. Agriculturally-related loans are primarily made based on identified cash flows of the borrower with consideration given to underlying collateral, personal guarantees, and government related guarantees. Agriculturally-related loans are generally secured by the assets or property being financed or other business assets such as accounts receivable, livestock, equipment or commodities/crops.

The acquired loans in the above table reflect loans acquired in the acquisition of VIST Financial Corp. during the third quarter of 2012. The acquired loans were recorded at fair value pursuant to the purchase accounting guidelines in FASB ASC 805 – "Fair Value Measurements and Disclosures" (as determined by the present value of expected future cash flows) with no valuation allowance (i.e., the allowance for loan losses). Upon acquisition, the Company evaluated whether each acquired loan (regardless of size) was within the scope of ASC 310-30, "Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality".

The carrying value of acquired loans accounted for in accordance with this guidance was $9.7 million at September 30, 2019 as compared to $11.0 million at December 31, 2018. The carrying value of loans not exhibiting evidence of credit impairment at the time of the acquisition (i.e. loans outside of the scope of ASC 310-30) was $218.8 million at September 30, 2019, compared to $254.2 million at December 31, 2018.

The Company has adopted comprehensive lending policies, underwriting standards and loan review procedures. Management reviews these policies and procedures on a regular basis. The Company discussed its lending policies and underwriting guidelines for its various lending portfolios in Note 5 – "Loans and Leases" in the Notes to Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2018. There have been no significant changes in these policies and guidelines since the date of that report. Therefore, both new originations as well as those balances held at September 30, 2019, reflect these policies and guidelines. The Company's Board of Directors approves the lending policies at least annually. The Company recognizes that exceptions to policy guidelines may occasionally occur and has established procedures for approving exceptions to these policy guidelines. Management has also implemented reporting systems to monitor loan originations, loan quality, concentrations of credit, loan delinquencies and nonperforming loans and potential problem loans.

The Company's loan and lease customers are located primarily in the New York and Pennsylvania communities served by its four subsidiary banks. Although operating in numerous communities in New York State and Pennsylvania, the Company is still dependent on the general economic conditions of these states and the local economic conditions of the communities within those states in which the Company does business. Other than geographic and general economic risks, management is not aware of any material concentrations of credit risk to any industry or individual borrower.

The Allowance for Loan and Lease Losses

The tables below provide, as of the dates indicated, an allocation of the allowance for probable and inherent loan losses by type. The allocation is neither indicative of the specific amounts or the loan categories in which future charge-offs may occur, nor is it an indicator of future loss trends. The allocation of the allowance to each category does not restrict the use of the allowance to absorb losses in any category.

(In thousands)	9/30/2019	12/31/2018	9/30/2018
Allowance for originated loans and leases			
Commercial and industrial	$ 11,259	$ 11,217	$ 12,421
Commercial real estate	22,542	23,483	21,172
Residential real estate	6,047	7,317	6,445
Consumer and other	1,383	1,304	1,251
Total	**$ 41,231**	**$ 43,321**	**$ 41,289**

(In thousands)	9/30/2019	12/31/2018	9/30/2018
Allowance for acquired loans			
Commercial and industrial	$ 32	$ 55	$ 0
Commercial real estate	57	0	0
Residential real estate	45	28	64
Consumer and other	6	6	5
Total	**$ 140**	**$ 89**	**$ 69**

As of September 30, 2019, the total allowance for loan and lease losses was $41.4 million, which decreased by $2.0 million or 4.7% from year-end 2018. The decrease in the allowance compared to year-end 2018 was mainly due to a $3.1 million write-down of a single commercial real estate relationship in the first quarter of 2019. This relationship was downgraded in the fourth quarter of 2018 and an impairment reserve was established at that time, which contributed to the increase in the allocation for commercial real estate loans in the originated allowance. Asset quality remained strong at September 30, 2019, although there was an increase in nonperforming loans and loans internally-classified Special Mention or Substandard over 2018 year end. Loans internally-classified Special Mention or Substandard were up from year end 2018 by $27.9 million or 36.9%. The increase was mainly a result of five large credits that were downgraded in the second and third quarters of 2019 totaling $17.0 million, two in the commercial real estate loan portfolio, two in the commercial and industrial loan portfolio, and one in the agricultural loan portfolio. Of the $103.3 million in loans classified as Special Mention and Substandard, approximately 92.1% are current or less than 30 days past due on payments. Nonperforming loans and leases were up $3.5 million or 13.2% from year end 2018 and represent 0.62% of total loans at September 30, 2019 compared to 0.55% at December 31, 2018. The allowance for loan and lease losses covered 137.46% of nonperforming loans and leases as of September 30, 2019, compared to 163.25% at December 31, 2018.

The Company's allowance for originated loan and lease losses totaled $41.2 million at September 30, 2019, which represented 0.89% of total originated loans, compared to 0.95% at December 31, 2018, and 0.91% at September 30, 2018. The slight decrease in the originated allowance at September 30, 2019, compared to year end 2018 was mainly due to the $3.1 million write-down on the commercial real estate relationship mentioned above. Stable asset quality, slower loan growth and favorable qualitative factors contributed to the slight decrease in the percentage the originated allowance represents of total originated loans at September 30, 2019, compared to year-end 2018. Nonaccrual originated loans were $21.4 million as of September 30, 2019 compared to $19.3 million at year end 2018, and $17.5 million at September 30, 2018.

The allowance for acquired loans at September 30, 2019 was $140,000, compared to $89,000 at year end 2018, and $69,000 at September 30, 2018. As part of the determination of the fair value of acquired loans at the time of acquisition, the Company established a credit mark to provide for future credit losses in the acquired portfolio. To the extent that credit quality deteriorates subsequent to acquisition, such deterioration will result in the establishment of an allowance for the acquired portfolio. Nonaccrual acquired loans were $2.2 million as of September 30, 2019 compared to $2.9 million at year-end 2018, and $2.7 million at September 30, 2018.

Activity in the Company’s allowance for loan and lease losses during the first nine months of 2019 and 2018 is illustrated in the table below.

Analysis of the Allowance for Originated Loan and Lease Losses *(In thousands)*	9/30/2019	9/30/2018
Average originated loans outstanding during period	**$ 4,566,102**	$ 4,449,627
Balance of originated allowance at beginning of year	**43,321**	39,686
ORIGINATED LOANS CHARGED-OFF:		
Commercial and industrial	**482**	224
Commercial real estate	**3,949**	60
Residential real estate	**60**	208
Consumer and other	**568**	1,166
Total loans charged-off	**$ 5,059**	$ 1,658
RECOVERIES OF ORIGINATED LOANS PREVIOUSLY CHARGED-OFF:		
Commercial and industrial	**59**	16
Commercial real estate	**97**	549
Residential real estate	**284**	232
Consumer and other	**214**	613
Total loans recoveries	**$ 654**	$ 1,410
Net loans charged-off	**4,405**	248
Additions to originated allowance charged to operations	**2,315**	1,851
Balance of originated allowance at end of period	**$ 41,231**	$ 41,289
Allowance for originated loans and leases as a percentage of originated loans and leases	**0.89%**	0.91%
Annualized net charge-offs on originated loans to average total originated loans and leases during the period	**0.13%**	0.01%

Analysis of the Allowance for Acquired Loan Losses

(In thousands)		**9/30/2019**		9/30/2018
Average acquired loans outstanding during period	**$**	**250,038**	$	290,630
Balance of acquired allowance at beginning of year		**89**		85
ACQUIRED LOANS CHARGED-OFF:				
Commercial and industrial		**7**		43
Commercial real estate		**0**		81
Residential real estate		**71**		148
Consumer and other		**3**		0
Total loans charged-off	**$**	**81**	$	272
Commercial and industrial		**33**		88
Commercial real estate		**10**		27
Residential real estate		**35**		106
Consumer and other		**3**		2
Total loans recovered	**$**	**81**	$	223
Net loans (recovered) charged-off		**0**		49
Additions to acquired allowance charged to operations		**51**		33
Balance of acquired allowance at end of period	**$**	**140**	$	69
Allowance for acquired loans as a percentage of acquired loans outstanding acquired loans and leases		**0.06%**		0.02%
Annualized net (recoveries) charge-offs on acquired loans as a percentage of average acquired loans and leases outstanding during the period		**0.00%**		0.03%
Annualized total net charge-offs as a percentage of average loans and leases outstanding during the period		**0.12%**		0.01%

Net loan and lease charge-offs totaled $4.4 million for the nine months ended September 30, 2019, compared to net charge-offs of $297,000 for the same period in 2018. The year-over-year increase was mainly due to the $3.1 million write-down of one relationship in the commercial real estate portfolio. This relationship was downgraded in the fourth quarter of 2018 and an impairment reserve was established at that time. Annualized net chargeoffs were 0.12% of average total loans and leases, compared to 0.01% for the same period in 2018. The most recent peer percentage is 0.07%.

The provision for loan and lease losses was $1.3 million and $2.4 million for the three and nine months ended September 30, 2019, compared to $272,000 and $1.9 million for the same periods in 2018. The provision for loan and lease losses is based upon the Company's quarterly evaluation of the appropriateness of the allowance for loan and lease losses. Increases in criticized and classified loans and net charge-offs, which included a $3.1 million write-down in the first quarter of 2019, contributed to the increase in the provision for loan and lease losses for the three and nine months ended September 30, 2019 compared to the same periods of 2018.

Analysis of Past Due and Nonperforming Loans

(In thousands)		**9/30/2019**		12/31/2018		9/30/2018
Nonaccrual loans						
Commercial and industrial	**$**	**1,752**	$	1,883	$	3,934
Commercial real estate		**10,618**		8,007		3,972
Residential real estate		**10,949**		12,072		12,018
Consumer and other		**249**		234		253
Total nonaccrual loans	**$**	**23,568**	$	22,196	$	20,177
Troubled debt restructurings not included above		**6,528**		4,395		4,295
Total nonperforming loans and leases	**$**	**30,096**	$	26,591	$	24,472
Other real estate owned		**888**		1,595		1,870
Total nonperforming assets	**$**	**30,984**	$	28,186	$	26,342
Allowance as a percentage of nonperforming loans and leases		**137.46%**		163.25%		169.00%
Total nonperforming loans and leases as percentage of total loans and leases		**0.62%**		0.55%		0.51%
Total nonperforming assets as percentage of total assets		**0.47%**		0.42%		0.39%

[1] *The September 30, 2019, December 31, 2018, and September 30, 2018 columns in the above table exclude $1.2 million, $1.3 million, and $1.1 million, respectively, of acquired loans that are 90 days past due and accruing interest. These loans were originally recorded at fair value on the acquisition date of August 1, 2012. These loans are considered to be accruing as we can reasonably estimate future cash flows on these acquired loans and we expect to fully collect the carrying value of these loans. Therefore, we are accreting the difference between the carrying value of these loans and their expected cash flows into interest income.*

Nonperforming assets include nonaccrual loans, troubled debt restructurings ("TDR"), and foreclosed real estate/other real estate owned. Total nonperforming assets of $31.0 million at September 30, 2019 were up $2.8 million or 9.9% compared to December 31, 2018, and $4.6 million or 17.6% compared to September 30, 2018. Nonperforming assets represented 0.47% of total assets at September 30, 2019, up compared to 0.42% at December 31, 2018, and 0.39% at September 30, 2018. The Company's ratio of nonperforming assets to total assets continues to compare favorably to our peer group's most recent ratio of 0.60% at June 30, 2019. Total nonperforming loans and leases of $30.1 million were up $3.5 million or 13.2% from year-end 2018, and $5.6 million or 23.0% from September 30, 2018. The increase in nonperforming loans over year-end 2018 was mainly due to the addition of one agriculture commercial mortgage relationship totaling $1.6 million to troubled debt restructuring and two commercial mortgage relationships totaling $5.7 million to nonaccrual. These additions were partially offset by the $3.1 million write-down of a single commercial real estate relationship during the first quarter of 2019. This relationship had been downgraded and placed on nonaccrual status during the fourth quarter of 2018. A breakdown of nonperforming loans and leases by portfolio segment is above.

Loans are considered modified in a TDR when, due to a borrower's financial difficulties, the Company makes a concession(s) to the borrower that it would not otherwise consider and the borrower could not obtain elsewhere. These modifications may include, among others, an extension of 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. TDRs are included in the above table within the following categories: "loans 90 days past due and accruing", "nonaccrual loans", or "troubled debt restructurings not included above". Loans in the latter category include loans that meet the definition of a TDR but are performing in accordance with the modified terms and therefore classified as accruing loans. At September 30, 2019, the Company had $8.8 million in TDRs, and of that total $2.3 million were reported as nonaccrual and $6.5 million were considered performing and included in the table above.

In general, the Company places a loan 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 applicable regulations. Although in nonaccrual status, the Company may continue to receive payments on these loans. These payments are generally recorded as a reduction to principal, and interest income is recorded only after principal recovery is reasonably assured.

The Company’s recorded investment in loans and leases that are considered impaired totaled $21.4 million at September 30, 2019, compared to $17.6 million at December 31, 2018 and $16.5 million at September 30, 2018. 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 TDRs. 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 year to date average recorded investment in impaired loans and leases was $17.0 million at September 30, 2019, compared to $17.2 million at September 30, 2018. At September 30, 2019 and December 31, 2018, there was a specific reserve of $974,000 and $3.8 million, respectively, on impaired loans. The specific reserve of $974,000 at September 30, 2019 was for impaired loans in the originated portfolio; there were no specific reserves for impaired loans in the acquired portfolio. The majority of impaired loans were collateral dependent impaired loans that have limited exposure or require limited specific reserve 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.

The ratio of the allowance to nonperforming loans and leases (loans past due 90 days and accruing, nonaccrual loans and restructured troubled debt) was 137.46% at September 30, 2019, compared to 163.25% at December 31, 2018, and 169.00% at September 30, 2018. The Company’s nonperforming loans and leases are mostly made up of collateral dependent impaired loans with limited exposure or loans that require limited specific reserve due to the level of collateral available with respect to these loans and/or previous charge-offs.

Management reviews the loan portfolio continuously for evidence of potential problem loans and leases. Potential problem loans and leases are loans and leases that are currently performing in accordance with contractual terms, but where known information about possible credit problems of the related borrowers causes management to have doubt as to the ability of such borrowers to comply with the present loan payment terms and may result in such loans and leases becoming nonperforming at some time in the future. Management considers loans and leases classified as Substandard, which continue to accrue interest, to be potential problem loans and leases. The Company, through its internal loan review function, identified 33 commercial relationships from the originated portfolio and 6 commercial relationships from the acquired portfolio totaling $45.4 million and $1.2 million, respectively, at September 30, 2019, that were potential problem loans. At December 31, 2018, the Company had identified 29 relationships totaling $33.7 million in the originated portfolio and 6 relationships totaling $1.2 million in the acquired portfolio that were potential problem loans. Of the 33 commercial relationships in the originated portfolio at September 30, 2019, that were Substandard, there were 15 relationships that equaled or exceeded $1.0 million, which in aggregate totaled $42.0 million, the largest of which was a $8.8 million. Of the 6 commercial relationships from the acquired loan portfolio at September 30, 2019, that were Substandard, there were no relationships that equaled or exceeded $1.0 million. The increase in potential problem loans in the originated portfolio over year-end 2018 includes 17 relationships totaling $21.5 million in loans newly classified as Substandard. The largest relationship totaled $5.2 million and was in the Company's agriculture portfolio. The Company continues to monitor these potential problem relationships; however, management cannot predict the extent to which continued weak economic conditions or other factors may further impact borrowers. These loans remain in a performing status due to a variety of factors, including payment history, the value of collateral supporting the credits, and personal or government guarantees. These factors, when considered in the aggregate, give management reason to believe that the current risk exposure on these loans does not warrant accounting for these loans as nonperforming. However, these loans do exhibit certain risk factors, which have the potential to cause them to become nonperforming. Accordingly, management’s attention is focused on these credits, which are reviewed on at least a quarterly basis.

Capital

Total equity was $659.9 million at September 30, 2019, an increase of $39.0 million or 6.3% from December 31, 2018. The increase reflects growth in retained earnings and a decrease in accumulated other comprehensive losses, partially offset by a decrease in additional paid-in capital resulting primarily from share repurchases.

Additional paid-in capital decreased by $24.9 million, from $366.6 million at December 31, 2018, to $341.7 million at September 30, 2019. The decrease was primarily attributable to the Company's repurchase of 340,200 shares of its common stock with an aggregate purchase price of $27.0 million pursuant to the Company's stock repurchase plan, and $1.2 million related to the exercise of stock options and restricted stock activity. This was partially offset by $3.0 million attributed to stock-based compensation. Retained earnings increased by $37.8 million from $319.4 million at December 31, 2018, to $357.2 million at September 30, 2019, mainly reflecting net income of $60.6 million less dividends paid of $22.9 million. Accumulated other comprehensive loss decreased from a net loss of $63.2 million at December 31, 2018, to a net loss of $36.9 million at September 30, 2019, reflecting a $25.4 million increase in unrealized gains on available-for-sale securities mainly due to changes in market rates and a $0.9 million decrease related to post-retirement benefit plans.

In connection with the effectiveness of the Basel III Capital Rules on January 1, 2015, the Company elected to opt-out of the requirement to include most components of other comprehensive income in regulatory capital. Accordingly, amounts reported as accumulated other comprehensive income/loss related to net unrealized gain or loss on available-for-sale securities and the funded status of the Company’s defined benefit post-retirement benefit plans do not increase or reduce regulatory capital and are not included in the calculation of risk-based capital and leverage ratios.

Cash dividends paid in the nine months of 2019 totaled approximately $22.9 million, representing 37.7% of year to date 2019 earnings. Cash dividends of $1.50 per common share paid in the first nine months of 2019 were up 4.2% over cash dividends of $1.44 per common share paid in the first nine months of 2018.

The Company and its subsidiary banks are subject to various regulatory capital requirements administered by Federal bank regulatory agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on the Company’s business, results of operation and financial condition. Under capital adequacy guidelines and the regulatory framework for prompt corrective action (PCA), banks must meet specific guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classifications of the Company and its subsidiary banks are also subject to qualitative judgments by regulators concerning components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the maintenance of minimum amounts and ratios of common equity Tier 1 capital, Total capital and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes that the Company and its subsidiary banks meet all capital adequacy requirements to which they are subject.

In addition to setting higher minimum capital ratios, the Basel III Capital Rules introduced a capital conservation buffer, which must be added to each of the minimum capital ratios and is designed to absorb losses during periods of economic stress. The capital conservation buffer was phased-in over a three year period that began on January 1, 2016, and was fully phased-in on January 1, 2019 at 2.5%.

The following table provides a summary of the Company’s capital ratios as of September 30, 2019.

REGULATORY CAPITAL ANALYSIS

September 30, 2019	**Actual**		**Minimum Capital Required - Basel III Fully Phased-In**		**Well Capitalized Requirement**	
(dollar amounts in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total Capital (to risk weighted assets)	$ 657,218	13.36%	$ 516,421	10.50%	$ 491,830	10.00%
Tier 1 Capital (to risk weighted assets)	$ 613,863	12.48%	$ 418,055	8.50%	$ 393,464	8.00%
Tier 1 Common Equity (to risk weighted assets)	$ 596,871	12.14%	$ 344,281	7.00%	$ 319,689	6.50%
Tier 1 Capital (to average assets)	$ 613,863	9.43%	$ 260,421	4.00%	$ 325,526	5.00%

As of September 30, 2019, the Company’s capital ratios exceeded the minimum required capital ratios plus the fully phased-in capital conservation buffer, and the minimum required capital ratios for well capitalized institutions. The capital levels required to be considered well capitalized, presented in the above table, are based upon prompt corrective action regulations, as amended to reflect the changes under Basel III Capital Rules.

Total capital as a percent of risk weighted assets increased to 13.4% at September 30, 2019, compared with 13.1% as of December 31, 2018. Tier 1 capital as a percent of risk weighted assets increased from 12.2% at the end of 2018 to 12.5% as of September 30, 2019. Tier 1 capital as a percent of average assets was 9.4% at September 30, 2019, which is up from 9.1% at December 31, 2018. Common equity tier 1 capital was 12.1% at the end of the third quarter of 2019, up from 11.8% at the end of 2018.

On July 19, 2018, the Company’s Board of Directors authorized a stock repurchase plan (the "2018 Repurchase Plan") for the Company to repurchase up to 400,000 shares of the Company’s common stock. Purchases may be made over the 24 months following adoption of the plan. The repurchase program may be suspended, modified or terminated by the Board of Directors at any time for any reason. During the first nine months of 2019, the Company repurchased 340,200 shares at an average price of $79.34. As of September 30, 2019, a total of 357,183 shares had been repurchased under the 2018 Repurchase Plan, at an average price of $79.05.

As of September 30, 2019, the capital ratios for the Company’s subsidiary banks also exceeded the minimum required capital ratios plus the required conservation buffer, the minimum required capital ratios plus the fully phased-in capital conservation buffer, and the minimum required capital ratios for well capitalized institutions.

Deposits and Other Liabilities

Total deposits of $5.4 billion at September 30, 2019 were up $481.0 million or 9.8% from December 31, 2018. The increase from year-end 2018 was in non-interest bearing deposits, money market and savings balances and time deposits, which were up $104.5 million or 7.5%, $312.4 million or 11.0% and $64.1 million or 10.1% respectively from year-end 2018.

The most significant source of funding for the Company is core deposits. The Company defines core deposits as total deposits less time deposits of $250,000 or more, brokered deposits, municipal money market deposits, and reciprocal deposit relationships with municipalities. Core deposits grew by $272.7 million to $4.4 billion at September 30, 2019, from year-end 2018. Core deposits represented 81.6% of total deposits at September 30, 2019, compared to 84.0% of total deposits at December 31, 2018.

The Company uses both retail and wholesale repurchase agreements. Retail repurchase agreements are arrangements with local customers of the Company, in which the Company agrees to sell securities to the customer with an agreement to repurchase those securities at a specified later date. Retail repurchase agreements totaled $50.5 million at September 30, 2019, and $81.7 million at December 31, 2018. Management generally views local repurchase agreements as an alternative to large time deposits.

The Company’s other borrowings totaled $429.0 million at September 30, 2019, down $647.1 million or 60.1% from $1.1 billion at December 31, 2018. The decrease in borrowings was due to the seasonal growth in public deposits over the year-to-date period and the sale of $152.1 million in available-for-sale securities in the second quarter of 2019, as described above. Borrowings at September 30, 2019 included $425.0 million of FHLB term advances, and a $4.0 million advance from a bank. Borrowings at year-end 2018 included $647.1 million in overnight advances from FHLB, $425.0 million of FHLB term advances, and a $4.0 million advance from a bank. Of the $425.0 million in FHLB term advances at September 30, 2019, $230.0 million is due in over one year.

Liquidity

The objective of liquidity management is to ensure the availability of adequate funding sources to satisfy the demand for credit, deposit withdrawals, and business investment opportunities. The Company’s large, stable core deposit base and strong capital position are the foundation for the Company’s liquidity position. The Company uses a variety of resources to meet its liquidity needs, which include deposits, cash and cash equivalents, short-term investments, cash flow from lending and investing activities, repurchase agreements, and borrowings. The Company’s Asset/Liability Management Committee monitors asset and liability positions of the Company’s subsidiary banks individually and on a combined basis. The Committee reviews periodic reports on liquidity and interest rate sensitivity positions. Comparisons with industry and peer groups are also monitored. The Company’s strong reputation in the communities it serves, along with its strong financial condition, provides access to numerous sources of liquidity as described below. Management believes these diverse liquidity sources provide sufficient means to meet all demands on the Company’s liquidity that are reasonably likely to occur.

Core deposits, discussed above under “Deposits and Other Liabilities”, are a primary and low cost funding source obtained primarily through the Company’s branch network. In addition to core deposits, the Company uses non-core funding sources to support asset growth. These non-core funding sources include time deposits of $250,000 or more, brokered time deposits, municipal money market deposits, reciprocal deposit, bank borrowings, securities sold under agreements to repurchase and overnight and term advances from the FHLB. Rates and terms are the primary determinants of the mix of these funding sources. Non-core funding sources of $1.5 billion at September 30, 2019 decreased $470.0 million or 24.2% as compared to year-end 2018. The decrease in non-core funding sources reflects mainly a decrease in overnight borrowings with the FHLB. Strong deposit growth in the third quarter of 2019 and the pay down of borrowings at the end of the second quarter of 2019 with proceeds from the sale of $152.1 million of available-for-sale securities, contributed to the decrease in borrowings at the end of the third quarter of 2019 compared to year-end 2018. Non-core funding sources, as a percentage of total liabilities, were 24.6% at September 30, 2019, compared to 31.6% at December 31, 2018.

Non-core funding sources may require securities to be pledged against the underlying liability. Securities carried at $1.2 billion at September 30, 2019 and December 31, 2018, were either pledged or sold under agreements to repurchase. Pledged securities represented 90.7% of total securities at September 30, 2019, compared to 77.8% of total securities at December 31, 2018.

Cash and cash equivalents totaled $127.4 million as of September 30, 2019 which increased from $80.4 million at December 31, 2018. Short-term investments, consisting of securities due in one year or less, increased from $86.8 million at December 31, 2018, to $109.7 million on September 30, 2019.

Cash flow from the loan and investment portfolios provides a significant source of liquidity. These assets may have stated maturities in excess of one year, but have monthly principal reductions. Total mortgage-backed securities, at fair value, were $736.1 million at September 30, 2019 compared with $758.9 million at December 31, 2018. Outstanding principal balances of residential mortgage loans, consumer loans, and leases totaled approximately $1.4 billion at September 30, 2019, up $20.2 million or 1.4% compared with year-end 2018. Aggregate amortization from monthly payments on these assets provides significant additional cash flow to the Company.

The Company's liquidity is enhanced by ready access to national and regional wholesale funding sources including Federal funds purchased, repurchase agreements, brokered certificates of deposit, and FHLB advances. Through its subsidiary banks, the Company has borrowing relationships with the FHLB and correspondent banks, which provide secured and unsecured borrowing capacity. At September 30, 2019, the unused borrowing capacity on established lines with the FHLB was $1.6 billion.

As members of the FHLB, the Company’s subsidiary banks can use certain unencumbered mortgage-related assets and securities to secure additional borrowings from the FHLB. At September 30, 2019, total unencumbered residential mortgage loans and securities were $1.1 billion. Additional assets may also qualify as collateral for FHLB advances upon approval of the FHLB.

The Company has not identified any trends or circumstances that are reasonably likely to result in material increases or decreases in liquidity in the near term.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Interest rate risk is the primary market risk category associated with the Company's operations. Interest rate risk refers to the volatility of earnings caused by changes in interest rates. The Company manages interest rate risk using income simulation to measure interest rate risk inherent in its on-balance sheet and off-balance sheet financial instruments at a given point in time. The simulation models are used to estimate the potential effect of interest rate shifts on net interest income for future periods. Each quarter, the Company's Asset/Liability Management Committee reviews the simulation results to determine whether the exposure of net interest income to changes in interest rates remains within levels approved by the Company's Board of Directors. The Committee also considers strategies to manage this exposure and incorporates these strategies into the investment and funding decisions of the Company. The Company does not currently use derivatives, such as interest rate swaps, to manage its interest rate risk exposure, but may consider such instruments in the future.

The Company's Board of Directors has set a policy that interest rate risk exposure will remain within a range whereby net interest income will not decline by more than 10% in one year as a result of a 100 or 200 basis point parallel change in rates. Based upon the simulation analysis performed as of August 31, 2019, a 200 basis point parallel upward change in interest rates over a one-year time frame would result in a one-year decrease in net interest income from the base case of approximately 2.9%, while a 100 basis point parallel decline in interest rates over a one-year period would result in an increase in one-year net interest income from the base case of 0.05%. The simulation assumes no balance sheet growth and no management action to address balance sheet mismatches.

The decrease in net interest income in the rising rate scenario is a result of the balance sheet showing a more liability sensitive position over a one year time horizon. As such, in the short-term net interest income is expected to trend slightly below the base assumption, as upward adjustments to rate sensitive deposits and short-term funding outpace increases to asset yields which are concentrated in intermediate to longer-term products. As intermediate and longer-term assets continue to reprice/adjust into higher rate environment and funding costs stabilize, net interest income is expected to trend upwards.

The down 100 basis point scenario increases net income slightly in the first year as a result of the Company's assets repricing downward to a lesser degree than the rates on the Company's interest bearing liabilities, mainly deposits and overnight borrowings. Rates on savings and money market accounts have moved up slightly from historically low levels, allowing for some interest expense relief in the first year of a declining rate scenario. In addition, the model assumes that prepayments accelerate in the down interest rate environment resulting in additional pressure on asset yields as proceeds are reinvested at lower rates.

The most recent simulation of a base case scenario, which assumes interest rates remain unchanged from the date of the simulation, reflects a net interest margin that is stable over the next 12 to 18 months.

Although the simulation model is useful in identifying potential exposure to interest rate movements, actual results may differ from those modeled as the repricing, maturity, and prepayment characteristics of financial instruments may change to a different degree than modeled. In addition, the model does not reflect actions that management may employ to manage the Company's interest rate risk exposure. The Company's current liquidity profile, capital position, and growth prospects, offer a level of flexibility for management to take actions that could offset some of the negative effects of unfavorable movements in interest rates. Management believes the current exposure to changes in interest rates is not significant in relation to the earnings and capital strength of the Company.

In addition to the simulation analysis, management uses an interest rate gap measure. The table below is a Condensed Static Gap Report, which illustrates the anticipated repricing intervals of assets and liabilities as of September 30, 2019. The Company's one-year net interest rate gap was a negative $50.3 million or 0.76% of total assets at September 30, 2019, compared with a negative $897.7 million or 13.3% of total assets at December 31, 2018. The change from year-end 2018 reflects a decrease in interest-bearing liabilities over the repricing intervals shown below, which mainly resulted from the pay down of short-term borrowings with deposit growth and the proceeds from the sale of $152.1 million in available-for-sale securities in the second quarter of 2019, as described above. A negative gap position exists when the amount of interest-bearing liabilities maturing or repricing exceeds the amount of interest-earning assets maturing or repricing within a particular time period. This analysis suggests that the Company's net interest income is more vulnerable to an increasing rate environment than it is to a prolonged declining interest rate environment. An interest rate gap measure could be significantly affected by external factors such as a rise or decline in interest rates, loan or securities prepayments, and deposit withdrawals.

Condensed Static Gap - September 30, 2019

(In thousands)	Total	Repricing Interval 0-3 months	3-6 months	6-12 months	Cumulative 12 months
Interest-earning assets[1]	$ 6,163,185	$ 1,226,509	$ 329,991	$ 622,902	$ 2,179,402
Interest-bearing liabilities	4,363,600	1,742,883	199,595	287,203	2,229,681
Net gap position		(516,374)	130,396	335,699	(50,279)
Net gap position as a percentage of total assets		(7.79)%	1.97%	5.06%	(0.76)%

[1] *Balances of available securities are shown at amortized cost*

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company’s management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of September 30, 2019. Based upon that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Report on Form 10-Q, the Company’s disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company’s internal control over financial reporting that occurred during the quarter ended September 30, 2019, that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Due to the nature of the Company’s business, the Company is party to a certain amount of litigation arising out of the ordinary course of the Company’s business. In the opinion of management, there are no pending claims which, if determined adversely, would have a material effect on the Company’s results of operations or financial condition.

Item 1A. Risk Factors

There have been no material changes in the risk factors previously disclosed under Item 1A. of the Company’s Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

	Total Number of Shares Purchased (a)	Average Price Paid Per Share (b)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (c)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (d)
July 1, 2019 through July 31, 2019	64,984	$ 80.24	63,441	164,483
August 1, 2019 through August 31, 2019	78,753	77.96	78,200	86,283
September 1, 2019 through September 30, 2019	43,466	81.08	43,466	42,817
Total	**187,203**	**$ 79.48**	**185,107**	**42,817**

Included in the table above are 1,543 shares purchased in July 2019, at an average cost of $82.14, and 553 shares purchased in August 2019, at an average cost of $77.29, by the trustee of the rabbi trust established by the Company under the Company’s Stock Retainer Plan For Eligible Directors of Tompkins Financial Corporation and Participating Subsidiaries, which were part of the director deferred compensation under that plan.

On July 19, 2018, the Company's Board of Directors authorized a stock repurchase plan for the Company to repurchase up to 400,000 shares of the Company's common stock. Purchases may be made over the 24 months following adoption of the plan. The repurchase program may be suspended, modified or terminated by the Board of Directors at any time for any reason. As of September 30, 2019, 357,183 shares had been repurchased under the 2018 plan at an average price of $79.05.

Recent Sales of Unregistered Securities

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

On November 8, 2019, the Compensation Committee (the "Committee") of the Board of Directors (the "Board") of Tompkins Financial Corporation (the "Company") and the full Board approved certain modifications to the compensation payable to Stephen S. Romaine, the Company's President and Chief Executive Officer, and Francis M. Fetsko, the Company's Executive Vice President, Chief Operating Officer, Chief Financial Officer and Treasurer. In recognition of the fact that, in 2019, Messrs. Romaine and Fetsko became fully vested in the value of the accrued benefits under the Supplemental Executive Retirement Agreement (the "SERP") in place between each of them and the Company, the Committee and the Board approved certain changes in order to ensure appropriate mechanisms are in place for the retention of the Company's most senior executives and the continued stability of the Company's senior management team. The actions were taken based on the results of a compensation survey conducted by Pearl Meyer and Partners, LLC, an outside independent consultant retained by the Committee, and were selected for their anticipated retentive impact. As described in more detail below, the changes approved by the Committee and the Board included grants of performance-based restricted stock awards to Messrs. Romaine and Fetsko, an amendment to Mr. Romaine's Senior Executive Retirement Agreement, and an increase in Mr. Romaine's base salary.

Performance Share Awards

For both Mr. Romaine and Mr. Fetsko, the Committee approved grants of performance-based restricted stock, which promote focus on achieving long-term relative performance goals that create shareholder value and are earned only if the specified financial goal is achieved at the end of the performance period. The performance share awards were granted effective November 12, 2019, under the Company's 2019 Equity Plan (the "Equity Plan"), as part of the Committee's existing annual equity grant program. The terms of the performance share awards granted to Messrs. Romaine and Fetsko are as follows:

For Mr. Romaine, the Committee determined that 50% of the value of Mr. Romaine's 2019 long-term equity incentive award should be performance-based (with the remaining 50% awarded as time-based restricted stock, as described in further detail below). Toward that end, Mr. Romaine received a performance share award of shares of restricted stock in an amount equal to the number of shares obtained by dividing $215,000 by the closing price of the Company's Common Stock on November 12, 2019, rounded to the nearest five whole shares. The award will remain subject to forfeiture unless and until the Committee determines, in its discretion, that the performance goal set forth in his award agreement has been met. In order for the performance goal to be met, the Company's return on average shareholders' equity over the period beginning on January 1, 2020 and ending on December 31, 2022 must be at or above the 50th percentile of the return on average shareholders' equity for the Company's peer group, consisting of the group of companies included in the Federal Reserve Board's "BHCPR Peer Group Average Report", Peer Group 2, which covers banks and bank holding companies with assets between $3.0 billion and $10.0 billion. If the Committee determines that the performance goal has been attained, then Mr. Romaine's award will vest in full. The entire award will lapse and be deemed to have been forfeited if the Committee determines that the performance goal has not been attained. Mr. Romaine's award agreement provides that, so long as he meets certain eligibility criteria set forth in the agreement and agrees not to compete with the Company for a period of three years after his retirement, and subject to certain additional limitations set forth in the award agreement, if he retires prior to the expiration of the performance period, he will remain eligible to receive the shares covered by his award so long as the performance goal is attained.

Mr. Fetsko received a performance share award of shares of restricted stock in an amount equal to the number of shares obtained by dividing $200,000 by the closing price of the Company's Common Stock on November 12, 2019, rounded to the nearest five whole shares (in addition to his regular annual award of time-based restricted stock, as described in further detail below). The performance goal and performance period applicable to Mr. Fetsko's performance share award are the same as those applicable to Mr. Romaine's performance share award. In addition to satisfaction of the performance goal, however, in order to increase its retentive effect, Mr. Fetsko's award is also subject to time-based vesting. If the Committee determines that the performance goal as described above has been attained, then Mr. Fetsko's award will vest, and the restrictions thereon will lapse, in accordance with the following schedule: 20% will vest on November 12, 2024, 30% will vest on November 12, 2025, and the remaining 50% will vest on November 12, 2026, provided that Mr. Fetsko's continuous service with the Company continues through such dates. Notwithstanding this vesting schedule, the entire award will lapse and be deemed to have been forfeited if the Committee determines that the performance goal has not been attained. Because Mr. Fetsko's award is subject to the additional time-based vesting requirements described above, his award agreement does not contain any provision for continued eligibility in the event he retires prior to the end of the performance period.

Each of the awards was granted under the Equity Plan pursuant to a performance share award agreement. A copy of the form of performance share award agreement is filed with this Quarterly Report as Exhibit 10.1. Pursuant to the terms of the Equity Plan, the recipients of performance shares do not have any right to vote the shares covered by the award or to receive dividends thereon prior to the completion of the relevant performance period and the Committee's determination that the performance goal has been attained.

As indicated above, the Committee granted the performance share awards to Messrs. Romaine and Fetsko in conjunction with its regular annual equity grant cycle. Consistent with prior practice, effective November 12, 2019, the Committee granted awards of time-based restricted stock to a number of employees and senior executives, including Messrs. Romaine and Fetsko and the other individuals identified as "Named Executive Officers" in the Company's Definitive Proxy Statement filed on March 29, 2019. The number of shares covered by each award is equal to the number of shares obtained by dividing the dollar amount awarded by the Committee by the closing price of the Company's common stock on November 12, 2019, rounded to the nearest five shares. Mr. Romaine received a time-based restricted stock grant with a dollar value of $215,000. Time-based restricted stock grants with a dollar value of $111,330 were awarded to Mr. Fetsko and to each of the Company's other Named Executive Officers (Scott L. Gruber, President and Chief Executive Officer of Tompkins VIST Bank; David S. Boyce, President and Chief Executive Officer of Tompkins Insurance Agencies; and Gregory J. Hartz, President and Chief Executive Officer of Tompkins Trust Company). All such awards were granted under the Equity Plan and provide for zero percent vesting in year one, and 25% vesting in years two through five. A copy of the form of restricted stock award agreement covering time-based awards granted under the Equity Plan is filed with this Quarterly Report as Exhibit 10.2.

Amendment to Senior Executive Retirement Agreement

In order to better align the scope of compensation included in Mr. Romaine's retirement benefits with chief executive compensation in a manner that is more consistent with market practice, the Committee approved and recommended to the full Board for approval, and the Board approved, an amendment to Mr. Romaine's SERP dated as of November 9, 2016 (the "Agreement"). The amendment increases the compensation to be included in the benefit calculation under the Agreement, and is reflected in Amendment No. 1 to the Senior Executive Retirement Agreement, effective November 12, 2019, by and between the Company and Mr. Romaine (the "Amendment"). Pursuant to the Amendment, for each year beginning on and after January 1, 2019, Mr. Romaine's "Earnings" for purposes of the Agreement will include, in addition to his annual base salary, 50% of any annual cash bonus paid to him on or before December 31 of that year. A copy of the Amendment is filed with this Quarterly Report as Exhibit 10.3.

Increase in Base Salary

In order to adjust Mr. Romaine's base salary to the market median of similarly-sized financial institutions, consistent with the Company's compensation philosophy, the Committee approved and recommended to the full Board for approval, and the Board approved, an increase in Mr. Romaine's annual base salary from $665,000 to $719,000. The increase is payable effective as of November 12, 2019.

Item 6. Exhibits

EXHIBIT INDEX

Exhibit Number	Description	Pages
10.1	Form of Performance Share Award Agreement under Tompkins Financial Corporation 2019 Equity Plan	
10.2	Form of Award Agreement (Time-Based Restricted Stock) under Tompkins Financial Corporation 2019 Equity Plan	
10.3	Amendment No. 1 to Supplemental Executive Retirement Agreement by and between the Company and Stephen S. Romaine, effective November 12, 2019	
10.4	Form of Supplemental Executive Retirement Agreement, dated November 12, 2019, between the Company and Brian Howard	
31.1	Certification of Principal Executive Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.	
31.2	Certification of Principal Financial Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.	
32.1	Certification of Principal Executive Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, 18 U.S.C. Section 1350	
32.2	Certification of Principal Financial Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, 18 U.S.C. Section 1350	
101 INS**	The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document	
101 SCH**	Inline XBRL Taxonomy Extension Schema Document	
101 CAL**	Inline XBRL Taxonomy Extension Calculation Linkbase Document	
101 DEF**	Inline XBRL Taxonomy Extension Definition Linkbase Document	
101 LAB**	Inline XBRL Taxonomy Extension Label Linkbase Document	
101 PRE**	Inline XBRL Taxonomy Extension Presentation Linkbase Document	
104	Cover Page Interactive Data File - the cover page interactive data file does not appear in the interactive date file because its XBRL tags are embedded with the inline XBRL document.	

** Attached as Exhibit 101 to this report are the following formatted in Inline XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Condition as of September 30, 2019 and December 31, 2018; (ii) Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2019 and 2018; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2019 and 2018; (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2019 and 2018; (v) Condensed Consolidated Statements of Changes in Shareholders' Equity for the nine months ended September 30, 2019 and 2018; and (vi Notes to Unaudited Condensed Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 12, 2019

TOMPKINS FINANCIAL CORPORATION

By: /s/ Stephen S. Romaine
Stephen S. Romaine
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Francis M. Fetsko
Francis M. Fetsko
Executive Vice President, Chief Financial Officer, and Chief Operating Officer
(Principal Financial Officer)
(Principal Accounting Officer)

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Section 2: EX-10.1 (EXHIBIT 10.1)

Exhibit 10.1

TOMPKINS FINANCIAL CORPORATION
2019 EQUITY PLAN
PERFORMANCE SHARE AWARD AGREEMENT

###GRANT_DATE###

###PARTICIPANT_NAME###
###HOME_ADDRESS###

Dear ###PARTICIPANT_NAME###,

1) Tompkins Financial Corporation (the "Company") hereby grants to ###PARTICIPANT_NAME### (the "Participant") the award(s) summarized below (the "Grant"), pursuant to the terms and conditions of the Company's 2019 Equity Plan, as it may be amended from time to time (the "Plan"). The terms, conditions and restrictions of your award are set forth in this Award Agreement, which is governed by the terms of the Plan. Capitalized terms used but not defined in this Award Agreement have the meanings given to them in the Plan. For the award to be effective, you must sign below and return this Award Agreement to the Company, acknowledging that you have received and read the Prospectus dated May 13, 2019 and any applicable prospectus supplements (together, the "Prospectus"), and agree to the terms of this Award Agreement and the Plan.

2) Award Summary:

Performance Share Award Summary	
Award Date:	###GRANT_DATE###
Number of Restricted Stock Shares:	###TOTAL_AWARDS###
Performance Period:	
Performance Goals:	
Additional Vesting Requirements (if any):	

3) Explanation of Performance Goals and Additional Vesting Requirements (if any):

Performance Goals: The entire Grant covered by this Award Agreement shall remain subject to forfeiture unless and until the Committee determines, in accordance with the Plan, that the Performance Goal has been attained.

Additional Vesting Requirements (if any):

4) Subject to any additional conditions or restrictions set forth above under "Additional Vesting Requirements", and provided the Participant (a) is an Eligible Retiree as defined below, and (b) agrees in writing not to compete with the Company during the three-year period following the date of the Participant's retirement, then, in the event of the Participant's Retirement prior to the expiration of the Performance Period, the Participant shall remain eligible to receive the shares covered by the Grant, so long as the Performance Goal is attained at the end of the Performance Period. The Performance Period will not be shortened, nor shall the Performance Goal be altered, as a result of the Participant's Retirement during the Performance Period. If, upon Retirement, the Participant is not an Eligible Retiree, then the entire Grant shall be deemed to have been forfeited by the Participant upon Retirement, and shall not vest, whether or not the Performance Goal is thereafter attained. For purposes of this Agreement, an "Eligible Retiree" means a Participant who, upon Retirement, (x) is at least 55 years old, (y) has at least 10 years of service with the Company (including, to the extent approved by the Committee, service with a prior employer acquired by the Company through merger or other acquisition), and (z) has an age plus years of service totaling at least 75.

Notwithstanding the foregoing, to the extent that the Participant's continued eligibility following Retirement as set forth above would cause the Company to issue shares of Company Stock under the Plan in excess of the limitation set forth in Section 4.7 of the Plan, the number of shares of Company Stock covered by the Grant and subject to such continued eligibility shall be reduced by such number (and may be reduced to zero) as is necessary to cause such limitation not to be exceeded.

5) By my signature below, I hereby acknowledge receipt of this Grant on the date shown above on the terms stated herein, which has been issued to me under the terms and conditions of the Plan. I further acknowledge receipt of a copy of the Plan and the Prospectus and agree to be bound by all of the terms and conditions of the Plan as if they were set out in full in this Award Agreement. I agree to accept as binding, conclusive and final all decisions or interpretations of the Committee or the Board, as the case may be, upon any questions relating to the Plan or this Grant.

I understand that in the event the Committee determines, in its sole discretion, that I engaged in any activity contrary or harmful to the interests of the Company or its customers, including without limitation, any violation of Company policy or procedures, any unvested awards I hold shall immediately be forfeited and any rights thereunder shall terminate.

Signature: ____________________________ Date: _###ACCEPTANCE_DATE###
###PARTICIPANT_NAME###

TOMPKINS FINANCIAL CORPORATION
By:
Signature: ____________________________ Date: _###GRANT DATE###_______
Name:
Title:

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Section 3: EX-10.2 (EXHIBIT 10.2)

Exhibit 10.2

TOMPKINS FINANCIAL CORPORATION
2019 EQUITY PLAN
AWARD AGREEMENT

###GRANT_DATE###

###PARTICIPANT_NAME###
###HOME_ADDRESS###

Dear ###PARTICIPANT_NAME###,

1) Tompkins Financial Corporation (the “Company”) hereby grants to ###PARTICIPANT_NAME### the award(s) summarized below (the “Grant”), pursuant to the terms and conditions of the Company’s 2019 Equity Plan, as it may be amended from time to time (the “Plan”). The terms, conditions and restrictions of your award are set forth in this Award Agreement, which is governed by the terms of the Plan. Awards shall be exercised in the manner set forth in the Plan. Without limiting the foregoing, you may elect to have stock withheld to pay any purchase price or cost associated with the exercise. For the award to be effective, you

must sign below and return this Award Agreement to the Company, acknowledging that you have received and read the Prospectus dated May 13, 2019 and any applicable prospectus supplements (together, the "Prospectus"), and agree to the terms of this Award Agreement and the Plan.

2) Award Summary:

Restricted Stock Award Summary	
Award Date:	###GRANT_DATE###
Number of Restricted Stock Shares:	###TOTAL_AWARDS###
Vesting Schedule:	5 Year
Percentage	**Date**
0%	
25%	
25%	
25%	
25%	

By my signature below, I hereby acknowledge receipt of this Grant on the date shown above on the terms stated herein, which has been issued to me under the terms and conditions of the Plan. I further acknowledge receipt of a copy of the Plan and the Prospectus and agree to be bound by all of the terms and conditions of the Plan as if they were set out in full in this Award Agreement. I agree to accept as binding, conclusive and final all decisions or interpretations of the Committee or the Board, as the case may be, upon any questions relating to the Plan or this Grant.

I understand that in the event the Committee determines, in its sole discretion, that I engaged in any activity contrary or harmful to the interests of the Company or its customers, including without limitation, any violation of Company policy or procedures, any unvested awards I hold shall immediately be forfeited and any rights thereunder shall terminate.

Signature: ______________________________ Date: _###ACCEPTANCE_DATE###

###PARTICIPANT_NAME###

Signature: ______________________________ Date: _###GRANT DATE###________

Christopher Chinici
Vice President, Actuary
Tompkins Financial Corporation

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Section 4: EX-10.3 (EXHIBIT 10.3)

Exhibit 10.3

AMENDMENT NO. 1
TO THE
SUPPLEMENTAL EXECUTIVE RETIREMENT AGREEMENT
BETWEEN TOMPKINS FINANCIAL CORPORATION AND
STEPHEN S. ROMAINE

This Amendment No. 1 to the Supplemental Executive Retirement Agreement (the "Agreement") between Tompkins Financial Corporation (the “Company”) and Stephen S. Romaine (the “Executive”) is hereby adopted as of this 12th day of November, 2019.

WITNESSES:

WHEREAS, the Company desires to retain the services of the Executive and is aware that it would suffer financial loss should the Executive enter the employment of a competitor; and

WHEREAS, the Company wishes to offer an inducement to the Executive to remain in its employ by agreeing to increase the compensation to be included in the benefit calculation under the Agreement.

NOW THEREFORE, in consideration of the services heretofore rendered and to be rendered by the Executive, the Agreement is hereby amended as follows:

1. Effective as of November 12, 2019, Section 1.10 of the Agreement is hereby amended by the addition of a new sentence at the end thereof, as follows:

> Notwithstanding the foregoing, for years beginning on and after January 1, 2019, the Executive’s Earnings shall also include fifty percent (50%) of any annual Senior Incentive Bonus paid on or before December 31.

2. In all other respects the provisions of the Agreement continue in full force and effect.

Executed the day and year first entered above.

TOMPKINS FINANCIAL CORPORATION

By: /s/ Thomas R. Rochon

Name: Thomas R. Rochon

ATTEST: Bonita N. Lindberg Title: Chairman of the Board

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Section 5: EX-10.4 (EXHIBIT 10.4)

Exhibit 10.4

SUPPLEMENTAL EXECUTIVE RETIREMENT AGREEMENT

This Supplemental Executive Retirement Agreement (the "Agreement") is entered into effective November 12, 2019 by Tompkins Financial Corporation, with offices at 118 E. Seneca St., Ithaca, New York 14850, and **Brian A. Howard**, residing at 4438 Silkweed Cir., Manlius, NY 13104 (the "Executive").

PREAMBLE

The principal objective of this Agreement is to ensure the payment of competitive levels of retirement income to the Executive, who has been determined to be a key executive of Tompkins Financial Corporation and its subsidiaries, in order to retain and motivate such Executive, on the terms and conditions described herein. Therefore, for good and valuable consideration, including without limitation the supplementary benefits under this Agreement, the receipt and sufficiency of which is acknowledged, the parties desire to enter into this Agreement.

SECTION I. DEFINITIONS

1.1. "Board of Directors" means the Board of Directors of Tompkins Financial Corporation.

1.2. "Cause" means (a) the conviction of the Executive by a court of competent jurisdiction of a crime which constitutes a felony under any state or federal law, (b) an act by the Executive which in the reasonable opinion of the Board of Directors constitutes an intentional theft of property of the Company or its subsidiaries, (c) the willful and continued failure or refusal of the Executive to perform his duties, or (d) gross negligence or willful misconduct on the part of the Executive that is materially and demonstrably detrimental to the Company or its subsidiaries (as determined by the Board of Directors in its reasonable discretion)..

1.3. **"**Code**"** means the Internal Revenue Code of 1986, as amended

1.4. "Committee" means the Compensation Committee of the Board of Directors, which has been given authority by the Board of Directors to administer this Agreement.

1.5. "Company" means Tompkins Financial Corporation.

1.6. "Compensation" has the meaning set forth in Section 7.1(b).

1.7. "Disabled" means that by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, the Executive is unable to engage in any substantial gainful activity.

1.8. [Intentionally Omitted.]

1.9. "Earnings" means the Executive's annual base salary (which excludes, among other things, any bonuses/incentive payments, profit sharing, benefits, fringe or other supplemental income)

1.10. "Excise Tax" has the meaning set forth in Section 7.1(c).

1.11. "Good Reason" exists in the event of (i) a material diminution in the Executive's base compensation, authority, duties or responsibilities; (ii) a material change in the geographic location at which the Executive is required to perform the duties of the Executive's position; or (iii) a material breach of this Agreement by the Company or its successor, or of any other agreement pursuant to which the Executive provides services for the Company or its successor, provided the Executive gives written notice to the Company or its successor, as applicable, within ninety (90) days of the initial existence of the condition described in (i), (ii) or (iii), above, and the Company or its successor fails to remedy such condition within thirty (30) days after receipt of such notice.

1.12. "Interest Rate" means the Prime Rate as published in The Wall Street Journal on the first business day of the calendar year in which the interest is accrued; in the event that The Wall Street Journal does not publish a Prime Rate, the Committee is authorized to select a comparable rate or method of interest calculation, which rate or method shall be adopted by the Committee in its sole discretion..

1.13. "Prohibited Activity" is an activity in which the Executive, directly or indirectly (a) comes to own, manage, operate, control, provide services to, be employed by or participate in the ownership, management, operation or control of, or be connected in any other manner with, any financial services business (but which shall exclude executive's ownership of less than 1% of any class of equity or debt security of a publicly-traded financial services business), (b) solicits customers of the Company or any of its subsidiaries to reduce or stop doing business with the Company or any of its subsidiaries, or initiates any customer contact, for any reason, except for social contact with customers with whom Executive has a long-standing social or familial relationship, and such contact leads to the Company/subsidiary's loss of business or business opportunities, or (c) solicits employees of the Company or any of its subsidiaries to leave such employment, or offers employment to employees of the Company or any of its subsidiaries, or initiates any employee contact, for any reason, except for social contact with employees with whom Executive has a long-standing social or familial relationship, and such contact leads to the Company/subsidiary's loss of such employee's services.

1.14. "Qualifying Disability" has the meaning set forth in Section 6.1.

1.15. "Qualifying Termination" has the meaning set forth in Section 4.2.

1.16. "Release" has the meaning set forth in Section 8.11.

1.17. "Release Date" has the meaning set forth in Section 8.11.

1.18. "Restricted Area" means located within, or actively directing marketing efforts within, twenty-five (25) miles of any location of the Company or any of its subsidiaries.

1.19. "Retirement Age" has the meaning set forth in Section 2.2.

1.20. "Retirement Benefit Freeze" has the meaning set forth in Section 2.1.

1.21. "Retirement Date" has the meaning set forth in Section 2.2.

1.22. "SERP Account" or the "Account" means an account maintained under this Agreement on or after the effective date.

1.23. "Vested" means the Executive is eligible to receive a retirement benefit hereunder because he has attained age 63 while still under the employment of the Company.

SECTION II. ELIGIBILITY FOR BENEFITS

2.1 Eligibility. The Executive is eligible to participate in this Agreement by designation of the Board of Directors, in its sole discretion. The Board of Directors may determine, in its sole discretion, that the Executive should cease to continue accruing retirement benefits under this Agreement (a "Retirement Benefit Freeze") and in such event the Board of Directors shall notify the Executive in writing of such determination. Such determination shall not reduce the then accrued retirement benefit of the Executive under this Agreement, as follows. The Executive will remain entitled to receive, in accordance with Section 3.1, the balance of his SERP Account, determined as of the date of the Retirement Benefit Freeze, which shall continue to be credited with the addition of interest until the date the balance of his SERP Account has been completely distributed. .A Retirement Benefit Freeze will not impair Executive's rights under Section 7 (Change in Control) except as expressly set forth herein.

2.2 Retirement Date. The Executive is eligible to retire under this Agreement and receive a benefit under Section 3.1 beginning on his "Retirement Date" which is the later of: (a) the first day of the month following the month in which the Executive becomes Vested and reaches age sixty-three (63) (which age is referred to as the "Retirement Age" herein), or (b) the first day of the month following the month in which the Executive terminates employment with the Company, so long as he is Vested on such date; for clarity, failure to satisfy the Vesting requirement means that no "Retirement Date" shall have occurred hereunder and Executive shall not be entitled to a retirement benefit hereunder, unless the Qualifying Termination provisions of Section 4.2 or the Qualifying Disability provisions of Section 6.1 apply.

2.3 Termination; Prohibited Activity.

(a) *Involuntary Termination*. Anything herein to the contrary notwithstanding, (i) if within two (2) years after involuntary termination (including resignation with Good Reason), the Executive engages in a Prohibited Activity in the Restricted Area (without prior authorization given by the Committee in writing), or (ii) if the Executive is discharged by the Company or its subsidiaries for Cause, then in either case payments otherwise payable under this Agreement to the Executive or the Executive's beneficiary or beneficiaries will, in the sole discretion of the Committee, be forfeited and the Company will have no further obligation under this Agreement to the Executive or the Executive's beneficiary or beneficiaries.

(b) *Voluntary Termination*. Anything herein to the contrary notwithstanding, no benefits are payable under this Agreement if the Executive engages in a Prohibited Activity at any time before, during or after his voluntary resignation (unless otherwise expressly authorized by the Committee in writing, and except in the case of Prohibited Activity that begins more than two (2) years after a resignation with Good Reason).

(c) *Executive Choice*. Executive acknowledges and agrees that following his termination, he has a choice of either:

- Engaging in a Prohibited Activity and forfeiting the post-employment benefits payable under this Agreement; or,
- Accepting the post-employment benefits payable under this Agreement and not engaging in Prohibited Activities.

Executive further agrees that as a key senior leader of the Company, Executive provides services to the Company which are unique, special, or extraordinary; and that Company makes strategic business decisions, as well as decisions regarding business succession planning and recruitment, in reliance on Executive's commitment to provide his services exclusively to Company. In light of all of these factors, Executive agrees that the restrictions (and associated forfeiture provisions) of this Section 2.3 are reasonable and justified to protect the Company's business interests. (For clarity, no post-employment benefits are payable following termination for Cause, nor following involuntary termination without Cause before Executive attains the age of fifty-eight (58); therefore, this Agreement does not restrict Executive's ability to engage in Prohibited Activities following such events.)

SECTION III. AMOUNT AND FORM OF RETIREMENT BENEFIT

3.1 Retirement Benefit. Annual contributions under this Agreement will equal 17% of Earnings as of the annual contribution date.

The annual contribution date will occur on each March 5th that the Executive remains a member of the Senior Leadership Team of Tompkins Financial Corporation (or is otherwise determined to be a key executive by the Committee in its sole discretion) and will be credited to the Executive's SERP Account as a cash amount in United States dollars. Executive will be notified in writing by the Committee if it makes a determination that the Executive has not satisfied the above-referenced "key executive" standard in a given year, and no contributions will be made after the Executive has attained age 65.

The SERP Account will be credited with the addition of interest, to be accrued during each quarter and to be credited to such Account on the first business day following the end of such quarter, on the basis of the day weighted average balance in such Account during each quarter, at a rate equal to the Interest Rate on the annual contribution date of each calendar year.

Any amounts payable to Executive under this Agreement will be deducted from the SERP Account and shall be paid in annual installments by the Company on the first day of each calendar year following the Executive's Retirement Date. Such payments shall be paid, pursuant to the Executive's election, in at least five (5) annual installments, but no more than twenty (20) annual installments (election must be in whole years only). The Executive's election shall be made in writing upon execution of this Agreement, and such election is irrevocable. In the absence of a duly executed and delivered written election by the Executive at the time of execution of this Agreement, payments of the SERP Account shall be made in five (5) annual installments. The amount of each payment shall be determined by dividing the value of the SERP Account immediately prior to such payment by the number of payments remaining to be paid. The final installment payment shall be equal to the balance of the SERP Account on such date. Notwithstanding the above, in the event the Executive is determined to be a specified employee" as such term is defined in Treasury Regulations §1.409A-1(i), then any benefit otherwise payable on or before the date which is six (6) months after the Executive's termination of employment date shall be delayed until the earlier of the Executive's date of death or the date which is six (6) months after the Executive's termination of employment date; provided, however, that such delay is only required for benefits constituting nonqualified deferred compensation under Code Section 409A, and the delay will apply only to those benefits that are not exempt from Code Section 409A. Payments thereafter will be made as scheduled in accordance with this Section 3.1 assuming there had been no 6 month delay.

3.2 Death Benefit.

Upon the death of the Executive after the commencement of the Executive's retirement benefit (that is, the first date on which the Executive receives a payment hereunder), the Executive's named beneficiary or beneficiaries shall be paid the remaining value of the SERP Account in one single lump sum.

If an Executive is Vested at the time of his death, then upon the death of the Executive prior to the commencement of the Executive's retirement benefit (that is, the first date on which the Executive receives a payment hereunder), the Executive’s named beneficiary or beneficiaries shall be paid the remaining value of the SERP Account in one single lump sum. No such payment shall be made if the Executive is not Vested at the time of his death.

If the named beneficiary or beneficiaries have predeceased Executive, the benefit under this Section 3.2 will be paid to the Executive’s estate.

SECTION IV. PAYMENT OF RETIREMENT BENEFITS

4.2 Termination. Notwithstanding any contrary provision herein, if (i) the Executive terminates employment voluntarily (which shall not include resignation with Good Reason) before becoming Vested, or (ii) the Executive is terminated by the Company without Cause before Executive attains the age of fifty-eight (58), or (iii) if Executive is terminated by the Company for Cause at any time, then in any such case, the Company shall have no obligation to pay, and the Executive shall have no right to receive, any retirement benefit under this Agreement whatsoever.

In the event of the Executive’s involuntary termination of employment (other than for Cause) on or after the attainment of age fifty-eight (58), or resignation with Good Reason on or after the attainment of age fifty-eight (58) (each, a “**Qualifying Termination**”), the benefit payable to the Executive shall be determined as set forth in Section 3.1 (but discounted as set forth below), and payments shall commence on the first day of the year following such Qualifying Termination. Immediately prior to the first payment following a Qualifying Termination, the value of Executive’s SERP Account shall recalculated by multiplying the balance by an adjustment factor according to the following schedule:

Attained Age at Time of Qualifying Termination	Adjustment Factor
58	25%
59	25%
60	50%
61	50%
62	50%
63 and later	100%

.

4.3 Health-Related Leave of Absence. Provided there is a reasonable expectation that the Executive will return to perform services for the Company (an "Expected Return"), the Committee may determine that the Executive has not separated from service for purposes of this Agreement during a leave of absence of up to twenty-nine (29) months, if such leave of absence is due to any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than six months, and such impairment causes the Executive to be unable to perform the duties of his position or any substantially similar position (a "Qualified Impairment"). For clarity, even if a Qualified Impairment and Expected Return exist, the Committee is not obligated to defer the Employee's separation from service during this period, and (subject to applicable federal and state law pertaining to medical leaves of absence) the Committee may instead elect to involuntarily terminate the Executive's employment (other than for Cause) under Section 4.2 during this period. The determination as to the existence or absence of such Qualified Impairment and such Expected Return will be made by an independent physician identified by the Company. If, due to a Qualified Impairment, the Executive cannot return to perform the duties of his position or a substantially similar position for the Company by the end of such period, the Executive will be deemed to have incurred an involuntary termination of employment (other than for Cause) under Section 4.2 as of the first date following the end of such period.

SECTION V. DEATH BENEFITS PAYABLE

5.1 Death Benefit. Other than the death benefit under Section 3.2, no death benefits are payable under this Agreement.

SECTION VI. DISABILITY BENEFITS PAYABLE

6.1 Disability Benefit. In the event that the Executive becomes Disabled, as determined by an independent physician identified by the Company (other than at a time when facts and circumstances exist under which the Company could, and does, terminate the Executive's employment for Cause) before attaining age fifty-eight (58), the Company shall have no obligation to pay, and the Executive shall have no right to receive, any retirement benefit under this Agreement whatsoever.

In the event that the Executive becomes Disabled, as determined by an independent physician identified by the Company (other than at a time when facts and circumstances exist under which the Company could, and does, terminate the Executive's employment for Cause) at any time on or after the attainment of age fifty-eight (58) (a "**Qualifying Disability**"), the Executive shall be entitled to the benefit payable to the Executive as set forth in Section 3.1 (but discounted as set forth below), and payments shall commence on the first day of the year following the year in which the Executive attains Social Security normal retirement age. The value of Executive's SERP Account shall recalculated as of the date the Qualifying Disability began by multiplying the balance on such date by an adjustment factor according to the following schedule:

Attained Age at first day of Qualifying Disability	Adjustment Factor
58	25%
59	25%
60	50%
61	50%
62	50%
63 and later	100%

SECTION VII. CHANGE IN CONTROL

7.1 Change in Control.

(a) In the event of a Change in Control, as defined in Section 7.2, of the Company, the Executive shall be deemed to have completed service to age 63 and shall be 100 percent Vested in the benefit under this Agreement, and the retirement benefit described in Section 3.1 shall commence at the Executive's Retirement Date. The executive shall not be entitled to the accelerated service completion set forth in this subsection following a Retirement Benefit Freeze, unless the effective date of such Retirement Benefit Freeze occurs within the two-year period immediately prior to announcement of the Change in Control and, in such event, the executive shall remain so entitled.

(b) In the event of a Change in Control of the Company, if the employment of the Executive is thereafter involuntarily terminated without Cause, or if the Executive voluntarily terminates employment for Good Reason (i) within two (2) years after a Change in Control, or (ii) in anticipation of a Change in Control which then occurs within two (2) years, then the Executive shall receive a benefit, in addition to any benefit under Section 3 of this Agreement, under this Section 7.1(b). The benefit under this Section 7.1(b) shall be the continuation of the Executive's Compensation, as defined below, for a period of three (3) years (payable in accordance with the Company's or its successor's regular payroll procedures for executive employees, but in any event not less frequently than monthly), plus continuation of all employee welfare benefits that the Executive was participating in (health insurance, disability insurance, life insurance and the like) immediately prior to the Change in Control (or cash in an amount equal to the value of the Company’s or its successor’s contributions for such welfare benefits to the extent that the Executive is no longer eligible to participate in such programs); provided, however, that, for purposes of this Section 7.1(b), the amount of the Executive's Compensation taken into account shall be reduced by (20%) if the Executive has attained age sixty-one (61), by 40% if the Executive has attained age sixty-two (62), by 60% if the Executive has attained age sixty-three (63), by 80% if the Executive has attained age sixty-four (64), and by 100% if the Executive has attained age sixty-five (65), with all such age determinations made as of the date of the Executive's termination of employment. The continuation of the Executive's employee welfare benefits under this Section 7.1(b) shall be on the same terms and conditions (subject to the aforementioned substitution of cash in lieu of benefit plan participation to the extent the Executive is ineligible therefor) as such employee welfare benefits are offered to other executive employees of the Company or of its successor, as applicable, and such continuation shall be for a three-year period even if there is no continuation payment of the Executive's Compensation because of the 100% reduction under the preceding sentence. For purposes of this Section VII only, the term "Compensation" shall mean the Executive's base pay (at the rate in effect immediately prior to the Change in Control) plus the Executive's bonus and profit sharing compensation (which for this purpose shall be the average of the Executive's bonus and profit sharing compensation earned for the two (2) most recently completed fiscal years of the Company immediately preceding the Change in Control).

(c) In the event it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise) would be subject to the excise tax imposed by Section 4999 of the Code, including any successor to such statute of like import (the "Excise Tax"), then the amount of the benefit otherwise payable under Section 7.1(b), if any, shall be reduced, but not below zero, to the maximum amount upon which no such Excise Tax is imposed.

(d) For purposes of this Section 7.1, the proper amounts, if any, of the Excise Tax and the adjustment under Section 7.1 (c) to eliminate the Excise Tax shall be determined in the first instance by the Company. Within forty-five (45) days of being provided with written notice of any such determination, the Executive may provide written notice to the Committee of any disagreement, in which event the amounts, if any, of the Excise Tax and any adjustment under Section 7.1(c) shall be determined by independent tax counsel selected by the Company’s independent auditors. The determination of the Company (or, in the event of disagreement, the tax counsel selected) shall be final.

7.2 For purposes of this Section VII, a Change in Control shall be deemed to have occurred upon the earliest of the following: (i) the date of acquisition by any one person, or more than one person acting as a group (as defined in Treasury Regulations §1.409A-3(i)(5)(v)(B)), of stock of the Company that, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of the Company; provided, however, that if any one person, or more than one person acting as a group, is considered to own more than fifty percent (50%) of the total fair market value or total voting power of the stock of the Company, the acquisition of additional stock by the same person or persons shall not be deemed to result in a Change in Control; (ii) the date a majority of members of the Company's Board of Directors is replaced during any twelve-month period by directors whose appointment or election is not endorsed by a majority of the members of the Company's board of directors before the date of the appointment or election; or (iii) the date that any one person, or more than one person acting as a group, acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value of more than seventy percent (70%) of the total gross fair market value of all of the assets of the Company immediately before such acquisition or acquisitions; provided, however, that transfers of assets of the Company of any value to a related person or entity as described in Treasury Regulations §1.409A-3(i)(5)(vii)(B) shall not be deemed to result in a Change in Control.

SECTION VIII. MISCELLANEOUS

8.1 Termination, Amendment and Subsequent Deferrals. The Committee may, in its sole discretion, terminate, suspend or amend this Agreement at any time or from time to time, in whole or in part; provided, however, that no termination, suspension or amendment of this Agreement will, without the written consent of the Executive or the Executive's beneficiary or beneficiaries (if the Executive is not then living), reduce the Executive's right or the right of the Executive's beneficiary or beneficiaries to receive or continue receiving a benefit accrued at the time of the termination, suspension or amendment in accordance with this Agreement. The Parties agree that a Retirement Benefit Freeze, as described in Section 2.1, shall not be deemed a reduction of rights requiring consent hereunder. A termination or suspension of this Agreement shall not result in the acceleration of any benefit provided pursuant to this Agreement except as permitted in connection with a plan termination satisfying the conditions set forth in Treasury Regulations §1.409A-3(j)(ix), where the Committee decides to accelerate such benefit in accordance with the requirements of such regulation. The provisions of this Section 8.1 shall be subordinate to the provisions of Sections 2.3, 3.2, 4.1, 4.2, 8.11and 8.13 concerning the forfeiture of benefits. The definition of "Retirement Date" in Section 2.2 provides for the designated time of the retirement benefit hereunder, and the Executive may only make a subsequent deferral if the change complies with Treasury

Regulations § 1.409A-2(b)(1) (the “**Subsequent Deferral Rules**”). In the event that an Executive wishes to elect to defer payment commencement beyond his Retirement Date, he must provide written notice thereof to the Company (the “**Deferral Notice**”) at least one (1) year prior to his Retirement Date, or such longer notice period as may then be required under the Subsequent Deferral Rules. The Deferral Notice shall specify the date on which the Executive wishes to begin receiving his retirement benefit hereunder, and such deferred payment date must be at least five (5) years later than the date the payment otherwise would have been made, or such other period as may then be required under the Subsequent Deferral Rules. Partial deferrals will not be permitted and the Company may refuse to honor the Deferral Notice if, in the reasonable opinion of the Company’s external legal counsel, the Deferral Notice does not comply with the Subsequent Deferral Rules, or is otherwise reasonably likely to adversely affect the Company under the Subsequent Deferral Rules.

8.2 No Employment Agreement; Entire Agreement. Nothing contained herein will confer upon the Executive the right to be retained in the service of the Company or its subsidiaries, nor will it interfere with the right of the Company or its subsidiaries to discharge or otherwise deal with the Executive without regard to the existence of this Agreement. This Agreement (which expressly includes the Preamble), together with those certain agreements expressly referred to herein, constitute the sole and entire agreement of the Parties with respect to the subject matter of this Agreement, and supersedes all prior and contemporaneous understandings, agreements, representations and warranties, both written and oral, with respect to the subject matter.

8.3 Unfunded Arrangement. The benefits under this Agreement are unfunded, and the Company will make benefit payments solely on a current disbursement basis from the Company’s general assets. Notwithstanding anything herein to the contrary, the Executive and the Executive’s beneficiary or beneficiaries shall have the status of general unsecured creditors of the Company.

8.4 Assignment. To the maximum extent permitted by law, no benefit under this Agreement shall be assignable or made subject by Executive in any manner to alienation, sale, transfer, claims of Executive’s creditors, pledge, attachment or encumbrances of any kind.

8.5 Rules. The Committee may adopt rules and regulations to assist it in the administration of this Agreement. This Agreement shall be administered and construed entirely in the discretion of the Committee and the Board of Directors, as applicable.

8.6 Information. The Executive shall receive a copy of this Agreement and the Committee will make available for inspection by the Executive a copy of any rules and regulations used by the Committee in administering this Agreement.

8.7 Construction. The masculine gender, where appearing in this Agreement, will be deemed to include the feminine gender, and the singular may include the plural, unless the context clearly indicates the contrary. For purposes of complying with Code Section 409A, or any successor to such statute of like import, it is acknowledged that no benefit payments may be made under this Agreement prior to the Executive's termination of employment with the Company, that the payment of benefits pursuant to this Agreement may not be accelerated by the Company or the Executive, and that there are no elections provided under the Agreement to defer compensation or to delay a payment of benefits other than in the case of an election made pursuant to the Subsequent Deferral Rules, as described in Section 8.1.

8.8 Controlling Law. This Agreement is established under and will be construed according to the laws of the State of New York, without regard for principles of conflicts of law. Notwithstanding the foregoing, this Agreement shall be construed consistent with the requirements of Code Section 409A, the regulations promulgated thereunder and other official guidance relating thereto such that the operation or terms of this Agreement do not result in the inclusion in income of any amount under such Code provision. For purposes of this Agreement, any term hereunder relating to the Executive's termination of employment, the Executive terminating employment, the Executive being terminated or similar expression shall be deemed to refer to a separation from service, as defined in Treasury Regulations §1.409A-1(h). If an amount is to be paid under this Agreement in two or more installments, each installment shall be treated as a separate payment for purposes of Code Section 409A.

8.9 Legal Expenses. The Company shall pay, upon request and documentation thereof (and not later than ninety (90) days after receipt of such request and documentation), all reasonable legal fees and expenses which the Executive/Executive's beneficiary or beneficiaries may incur as a result of the Company contesting the validity or enforceability of any provision of this Agreement or any claim by the Executive/Executive's beneficiary or beneficiaries under this Agreement; provided, however, that such request is made and supporting documentation provided to the Company by the Executive/Executive's beneficiary or beneficiaries within ninety (90) days after incurring the expense, and provided further, the Company shall be entitled to be reimbursed by the Executive/ Executive's beneficiary or beneficiaries for such amount previously paid to such Executive/ Executive's beneficiary or beneficiaries if it is finally judicially determined that such Executive/Executive's beneficiary or beneficiaries e's claims under this Agreement are frivolous.

8.10 Disputes & Severability. In the event of any dispute after the occurrence of a Change in Control (as defined in Section 7.2) between the Company and the Executive with respect to the Executive's rights to any payment under this Agreement, the Company shall pay all disputed amounts to the Executive in the time and manner otherwise specified by this Agreement, and, if it is finally judicially determined that the Executive was not entitled to all or a portion of such disputed amounts, the Executive shall repay to the Company the amount to which the Executive was not entitled, together with interest thereon at the judgment rate of interest then applicable in New York State. If any term or provision of this Agreement is invalid, illegal or unenforceable in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other term or provision of this Agreement or invalidate or render unenforceable such term or provision in any other jurisdiction. Upon a determination that any term or provision is invalid, illegal or unenforceable, the court may modify this Agreement to effect the original intent of the parties as closely as possible in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

8.11 Release. In connection with Executive's receipt of the retirement benefit described in Section 3.1, the Executive shall execute (and not revoke) a standard, customary form of release agreement (the "**Release**"), including without limitation the following terms. If Executive is continuously incapacitated through the Release Date, this requirement is waived. The Release must be given no more than ninety (90) days following the Executive's employment termination, with sufficient time to allow applicable revocation period(s) to expire before the end of such ninety- (90-) day period (the final day of such 90-day period to be the "**Release Date**"). Pursuant to the Release, the Executive, on behalf of himself and his heirs, shall agree to waive any and all claims he or they have, had, or may have had, in each case as of the date the Executive signs the Release, in connection with his employment by the Company or its affiliates, as against the Company, its affiliates, and its and their directors and employees, other than claims arising out of the Company's breach of its obligations under this Agreement. The Release will not prohibit or restrict the Executive (or Executive's attorney) from initiating communications directly with, or responding to any inquiry from, or providing testimony before, any self-regulatory organization or any state or federal regulatory authority regarding the Company or the facts or circumstances of Executive's employment with the Company. Should the Executive fail to return to the Company the executed Release on or before the Release Date, the Executive will forfeit all benefits then unpaid that otherwise would have been payable to the Executive pursuant to this Agreement.

8.12 Post-Employment Consulting. Following the Executive's termination, if the Company requests, and Executive agrees, that Executive provide occasional services not exceeding 20% of the amount of services provided by Executive prior to his termination, the provision of such limited services shall not extend the date of the Executive's termination for purposes of this Agreement.

8.13 Non-Disparagement. The Executive agrees and covenants that he will not at any time make, publish or communicate to any person or entity or in any public forum any defamatory or disparaging remarks, comments, or statements concerning the Company or its businesses, or any of its employees or directors. This section does not, in any way, restrict or impede the Executive from exercising protected rights to the extent that such rights cannot be waived by agreement or from complying with any applicable law or regulation or a valid order of a court of competent jurisdiction or an authorized government agency. This section does not prohibit or restrict the Executive (or Executive's attorney) from initiating communications directly with, or responding to any inquiry from, or providing testimony before, any self-regulatory organization or any state or federal regulatory authority regarding the Company or the facts or circumstances of Executive's employment with the Company. The Company agrees and covenants that it shall cause its officers and directors to refrain from making any defamatory or disparaging remarks, comments, or statements concerning the Executive to any third parties. In the event of the Executive's violation, at any time, of his commitment under this Section 8.13, the Executive will, in the discretion of the Committee, forfeit all benefits then unpaid that otherwise would have been payable to the Executive pursuant to this Agreement.

IN WITNESS WHEREOF, this Agreement has been executed this 12th day of November, 2019.

TOMPKINS FINANCIAL CORPORATION

By: /s/ Stephen S. Romaine

Name: Stephen S. Romaine

ATTEST: Bonita N. Lindberg Title: President & Chief Executive Officer

/s/ Brian A. Howard
Brian A. Howard, Individually

ATTEST: Bonita N. Lindberg

SUPPLEMENTAL EXECUTIVE RETIREMENT AGREEMENT

Form of Benefit and Beneficiary Designation Form

As an Executive participating in a Supplemental Executive Retirement Agreement with Tompkins Financial Corporation, I hereby elect the following form of benefit payment for any and all retirement benefits due pursuant to this Agreement:

Payment in _____ annual installments (minimum of 5 installments, maximum of 20 installments, no partial installments).

As an Executive participating in a Supplemental Executive Retirement Agreement with Tompkins Financial Corporation, I hereby designate the following beneficiary/beneficiaries to receive my death benefits due under the Agreement.

Beneficiary: __

Name: __

Relationship to Executive: __

Social Security Number: __

Date of Birth: __

Home Address: __

Executive’s Signature: __

Witness’ Signature: __

Spouse’s Signature (if waiving right to benefits under this Agreement):

__

Date: __

Witness’ Signature: __

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Section 6: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

CERTIFICATION

I, Stephen S. Romaine, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tompkins Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:	November 12, 2019

/s/ Stephen S. Romaine
Stephen S. Romaine
President and Chief Executive Officer
(Principal Executive Officer)

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Section 7: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATION

I, Francis M. Fetsko, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tompkins Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2019

/s/ Francis M. Fetsko

Francis M. Fetsko
Executive Vice President, Chief Financial Officer, and Chief Operating Officer
(Principal Financial Officer)
(Principal Accounting Officer)

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Section 8: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

CERTIFICATION

In connection with the filing of the Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2019 (the "Report") by Tompkins Financial Corporation (the "Company"), the undersigned, as the Chief Executive Officer of the Company, hereby certifies pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

The Report fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 12, 2019

/s/ Stephen S. Romaine

Stephen S. Romaine
President and Chief Executive Officer
(Principal Executive Officer)

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Section 9: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

CERTIFICATION

In connection with the filing of the Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2019 (the "Report") by Tompkins Financial Corporation (the "Company"), the undersigned, as the Chief Financial Officer of the Company, hereby certifies pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

The Report fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 12, 2019

/s/ Francis M. Fetsko
Francis M. Fetsko
Executive Vice President,
Chief Financial Officer, and Chief Operating Officer
(Principal Financial Officer)
(Principal Accounting Officer)

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