

TOMPKINS FINANCIAL CORP
Form 10-Q
May 09, 2018

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

FORM 10-Q

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

For the quarterly period ended March 31, 2018

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

For the transition period from _____ to _____

Commission File Number 1-12709

Tompkins Financial Corporation
(Exact name of registrant as specified in its charter)
New York 16-1482357
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

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

Registrant's telephone number, including area code: (888) 503-5753
Former name, former address, and former fiscal year, if changed since last report: NA

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated

Edgar Filing: TOMPKINS FINANCIAL CORP - Form 10-Q

filer", "non-accelerated filer", "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

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

Emerging Growth Company

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

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

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

Class Outstanding as of April 30, 2018

Common Stock, \$0.10 par value 15,286,105 shares

TOMPKINS FINANCIAL CORPORATION

FORM 10-Q

INDEX

PART I - FINANCIAL INFORMATION

	PAGE
<u>Condensed Financial Statements</u>	
<u>Item 1 - Consolidated Statements of Condition as of March 31, 2018 (Unaudited) and December 31, 2017 (Audited)</u>	<u>3</u>
<u>Consolidated Statements of Income for the three months ended March 31, 2018 and 2017 (Unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income for the three months ended March 31, 2018 and 2017 (Unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and 2017 (Unaudited)</u>	<u>6</u>
<u>Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2018 and 2017 (Unaudited)</u>	<u>8</u>
<u>Notes to Unaudited Consolidated Condensed Financial Statements</u>	<u>9</u>
<u>Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>46</u>
<u>Item 3 - Quantitative and Qualitative Disclosures About Market Risk</u>	<u>63</u>
<u>Item 4 - Controls and Procedures</u>	<u>65</u>
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1 - Legal Proceedings</u>	<u>65</u>
<u>Item 1A - Risk Factors</u>	<u>65</u>
<u>Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>65</u>
<u>Item 3 - Defaults Upon Senior Securities</u>	<u>66</u>
<u>Item 4 - Mine Safety Disclosures</u>	<u>66</u>
<u>Item 5 - Other Information</u>	<u>66</u>

<u>Item 6</u>		
=	<u>Exhibits</u>	<u>66</u>
<u>SIGNATURES</u>		<u>67</u>
<u>EXHIBIT INDEX</u>		<u>X</u>

TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CONDITION

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

Edgar Filing: TOMPKINS FINANCIAL CORP - Form 10-Q

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

See notes to unaudited condensed consolidated financial statements.

TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

See notes to unaudited condensed consolidated financial statements.

TOMPKINS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

See notes to unaudited condensed consolidated financial statements.

TOMPKINS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

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

Edgar Filing: TOMPKINS FINANCIAL CORP - Form 10-Q

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

See notes to unaudited condensed consolidated financial statements.

6

TOMPKINS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

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

See notes to unaudited condensed consolidated financial statements.

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

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

Edgar Filing: TOMPKINS FINANCIAL CORP - Form 10-Q

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

See notes to unaudited condensed consolidated financial statements

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Business

Tompkins Financial Corporation (“Tompkins” or the “Company”) is headquartered in Ithaca, New York and is registered as a Financial Holding Company with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended. The Company is a locally oriented, community-based financial services organization that offers a full array of products and services, including commercial and consumer banking, leasing, trust and investment management, financial planning and wealth management, and insurance services. At March 31, 2018, the Company’s subsidiaries included: four wholly-owned banking subsidiaries, Tompkins Trust Company (the “Trust Company”), The Bank of Castile (DBA Tompkins Bank of Castile), Mahopac Bank (formerly known as Mahopac National Bank, DBA Tompkins Mahopac Bank), VIST Bank (DBA Tompkins VIST Bank); and a wholly-owned insurance agency subsidiary, Tompkins Insurance Agencies, Inc. (“Tompkins Insurance”). The trust division of the Trust Company provides a full array of investment services, including investment management, trust and estate, financial and tax planning as well as life, disability and long-term care insurance services. The Company’s principal offices are located at The Commons, Ithaca, New York, 14851, and its telephone number is (888) 503-5753. The Company’s common stock is traded on the NYSE American under the Symbol “TMP.”

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

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

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

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

2. Basis of Presentation

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

review of its securities portfolio for other than temporary impairment.

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

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

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

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

3. New Accounting Standards

Newly Adopted Accounting Standards

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

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

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

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." This ASU addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments by making targeted improvements to GAAP as follows: (1) require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be

measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (2) simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value; (3) eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (4) eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (5) require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (6) require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (7) require separate presentation of financial assets and financial liabilities by

measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (8) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The Company adopted ASU No. 2016-01 effective January 1, 2018, and recognized a cumulative-effect adjustment of \$65,000 for the after-tax impact of the unrealized loss on equity securities. In addition, the Company measured the fair value of its loan portfolio as of March 31, 2018 using an exit price notion. Refer to Note 14 "Fair Value".

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

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

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

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

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

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

Accounting Standards Pending Adoption

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

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

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

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

4. Securities

Available-for-Sales Securities

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

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

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

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

Held-to-Maturity Securities

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

March 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	\$131,607	\$ 0	\$ 1,327	\$130,280
Obligations of U.S. states and political subdivisions	7,524	46	7	7,563
Total held-to-maturity debt securities	\$139,131	\$ 46	\$ 1,334	\$137,843

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

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

The Company may from time to time sell investment securities from its available-for-sale portfolio. Realized gains on available-for-sale securities were \$124,000 for the three months ended March 31, 2018 and \$0 for the three months ended March 31, 2017. Realized losses on available-for-sale securities were \$0 for the three months ended March 31, 2018 and \$0 for the three months ended March 31, 2017. The sales of available-for-sale investment securities were the result of general investment portfolio and interest rate risk management.

The following table summarizes available-for-sale securities that had unrealized losses at March 31, 2018:

(in thousands)	Less than 12 Months		12 Months or Longer		Total Fair Value	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
Obligations of U.S. Government sponsored entities	\$ 409,674	\$ 7,130	\$ 53,485	\$ 1,674	\$ 463,159	\$ 8,804
Obligations of U.S. states and political subdivisions	55,531	854	11,677	527	67,208	1,381
Mortgage-backed securities – residential, issued by						
U.S. Government agencies	29,731	892	83,490	3,413	113,221	4,305
U.S. Government sponsored entities	254,886	5,999	387,360	16,878	642,246	22,877
U.S. corporate debt securities	0	0	2,175	325	2,175	325
Total available-for-sale securities	\$ 749,822	\$ 14,875	\$ 538,187	\$ 22,817	\$ 1,288,009	\$ 37,692

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

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

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

Edgar Filing: TOMPKINS FINANCIAL CORP - Form 10-Q

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