TOMPKINS FINANCIAL CORP
Form 10-Q
August 11, 2014

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 June 30, 2014

OR

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

For the transition period from __________ to __________

Commission File Number **1-12709**

Tompkins Financial Corporation

(Exact name of registrant as specified in its charter)

New York	**16-1482357**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
The Commons, P.O. Box 460, Ithaca, NY	**14851**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

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

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

Class	Outstanding as of July 31, 2014
Common Stock, $0.10 par value	14,853,439 shares

TOMPKINS FINANCIAL CORPORATION

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PART I -FINANCIAL INFORMATION

TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share and per share data) (Unaudited) ASSETS	**As of 06/30/2014**	**As of 12/31/2013**
Cash and noninterest bearing balances due from banks	$82,640	$82,163
Interest bearing balances due from banks	779	721
Cash and Cash Equivalents	83,419	82,884
Trading securities, at fair value	10,009	10,991
Available-for-sale securities, at fair value (amortized cost of $1,373,243 at June 30, 2014 and $1,368,736 at December 31, 2013)	1,379,254	1,354,811
Held-to-maturity securities, at amortized cost (fair value of $31,629 at June 30, 2014, and $19,625 at December 31, 2013)	30,963	18,980
Originated loans and leases, net of unearned income and deferred costs and fees	2,610,289	2,527,244
Acquired loans and leases, covered	22,165	25,868
Acquired loans and leases, non-covered	596,514	641,172
Less: Allowance for loan and lease losses	27,517	27,970
Net Loans and Leases	3,201,451	3,166,314
FDIC Indemnification Asset	3,490	4,790
Federal Home Loan Bank stock	21,028	25,041
Bank premises and equipment, net	58,808	55,932
Corporate owned life insurance	72,812	69,335
Goodwill	92,243	92,140
Other intangible assets, net	15,485	16,298
Accrued interest and other assets	88,859	105,523
Total Assets	$5,057,821	$5,003,039
LIABILITIES		
Deposits:		
Interest bearing:		
Checking, savings and money market	2,239,259	2,190,616
Time	901,650	865,702
Noninterest bearing	903,480	890,898
Total Deposits	4,044,389	3,947,216
Federal funds purchased and securities sold under agreements to repurchase	144,796	167,724
Other borrowings, including certain amounts at fair value of $11,164 at June 30, 2014 and $11,292 at December 31, 2013	287,158	331,531
Trust preferred debentures	37,254	37,169
Other liabilities	54,987	61,460
Total Liabilities	$4,568,584	$4,545,100
EQUITY		
Tompkins Financial Corporation shareholders' equity:		
	1,489	1,479

Common Stock - par value $.10 per share: Authorized 25,000,000 shares; Issued: 14,889,349 at June 30, 2014; and 14,785,007 at December 31, 2013		
Additional paid-in capital	351,324	346,096
Retained earnings	150,893	137,102
Accumulated other comprehensive loss	(12,835)	(25,119)
Treasury stock, at cost – 106,129 shares at June 30, 2014, and 105,449 shares at December 31, 2013	(3,151)	(3,071)
Total Tompkins Financial Corporation Shareholders’ Equity	487,720	456,487
Noncontrolling interests	1,517	1,452
Total Equity	$489,237	$457,939
Total Liabilities and Equity	$5,057,821	$5,003,039

See notes to consolidated financial statements

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TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Six Months Ended	
(In thousands, except per share data) (Unaudited)	06/30/2014	06/30/2013	06/30/2014	06/30/2013
INTEREST AND DIVIDEND INCOME				
Loans	$37,348	$ 37,550	$74,302	$ 73,979
Due from banks	0	1	1	8
Trading securities	107	160	219	325
Available-for-sale securities	7,984	7,912	15,920	15,392
Held-to-maturity securities	186	177	338	368
Federal Home Loan Bank stock and Federal Reserve Bank stock	194	160	404	345
Total Interest and Dividend Income	45,819	45,960	91,184	90,417
INTEREST EXPENSE				
Time certificates of deposits of $100,000 or more	951	1,239	1,903	2,443
Other deposits	1,826	2,016	3,616	4,198
Federal funds purchased and securities sold under agreements to repurchase	763	966	1,580	1,976
Trust preferred debentures	571	690	1,141	1,377
Other borrowings	1,192	1,223	2,401	2,391
Total Interest Expense	5,303	6,134	10,641	12,385
Net Interest Income	40,516	39,826	80,543	78,032
Less: Provision for loan and lease losses	67	2,489	810	3,527
Net Interest Income After Provision for Loan and Lease Losses	40,449	37,337	79,733	74,505
NONINTEREST INCOME				
Insurance commissions and fees	7,046	7,167	14,303	14,428
Investment services income	3,902	3,698	7,912	7,486
Service charges on deposit accounts	2,388	2,024	4,504	3,932
Card services income	1,920	1,690	4,032	3,428
Mark-to-market loss on trading securities	(34)	(270)	(93)	(385)
Mark-to-market gain on liabilities held at fair value	63	347	128	424
Other income	2,400	1,810	4,239	4,176
Net gain on securities transactions	35	75	129	442
Total Noninterest Income	17,720	16,541	35,154	33,931
NONINTEREST EXPENSES				
Salaries and wages	17,660	16,291	34,306	31,863
Pension and other employee benefits	4,978	5,338	11,023	11,408
Net occupancy expense of premises	3,066	2,954	6,326	6,015
Furniture and fixture expense	1,459	1,462	2,796	2,919
FDIC insurance	735	821	1,546	1,593
Amortization of intangible assets	525	547	1,052	1,104
Merger related expenses	0	37	0	233
Other operating expense	10,505	10,327	20,089	20,163
Total Noninterest Expenses	38,928	37,777	77,138	75,298
Income Before Income Tax Expense	19,241	16,101	37,749	33,138
Income Tax Expense	6,148	5,061	12,054	10,557
Net Income attributable to Noncontrolling Interests and Tompkins Financial Corporation	13,093	11,040	25,695	22,581
Less: Net income attributable to noncontrolling interests	32	33	65	65

Net Income Attributable to Tompkins Financial Corporation	$13,061	$ 11,007	$25,630	$ 22,516
Basic Earnings Per Share	$0.88	$ 0.76	$1.73	$ 1.55
Diluted Earnings Per Share	$0.87	$ 0.75	$1.72	$ 1.55

See notes to consolidated financial statements

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Consolidated Statements of Comprehensive Income

	Three Months Ended	
(in thousands) (Unaudited)	**06/30/2014**	06/30/2013
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	$13,093	$ 11,040
Other comprehensive income, net of tax:		
Available-for-sale securities:		
Change in net unrealized gain (loss) during the period	6,751	(22,824)
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(22)	(45)
Employee benefit plans:		
Amortization of net retirement plan actuarial loss	128	381
Amortization of net retirement plan prior service cost	(7)	8
Amortization of net retirement plan transition liability	0	8
Other comprehensive income (loss)	6,850	(22,472)
Subtotal comprehensive income (loss) attributable to noncontrolling interests and Tompkins Financial Corporation	19,943	(11,432)
Less: Net income attributable to noncontrolling interests	(32)	(33)
Total comprehensive income (loss) attributable to Tompkins Financial Corporation	$19,911	$ (11,465)

See notes to unaudited condensed consolidated financial statements.

Consolidated Statements of Comprehensive Income

	Six Months Ended	
(in thousands) (Unaudited)	**06/30/2014**	06/30/2013
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	$25,695	$ 22,581
Other comprehensive income, net of tax:		
Available-for-sale securities:		
Change in net unrealized gain (loss) during the period	12,041	(26,102)
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(78)	(265)
Employee benefit plans:		
Amortization of net retirement plan actuarial gain	320	774
Amortization of net retirement plan prior service cost	1	17
Amortization of net retirement plan transition liability	0	15
Other comprehensive income (loss)	12,284	(25,561)
Subtotal comprehensive income (loss) attributable to noncontrolling interests and Tompkins Financial Corporation	37,979	(2,980)

Less: Net income attributable to noncontrolling interests	(65)	(65)
Total comprehensive income (loss) attributable to Tompkins Financial Corporation	$37,914	$ (3,045)

See notes to unaudited condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)	**06/30/2014**	**06/30/2013**
OPERATING ACTIVITIES		
Net income attributable to Tompkins Financial Corporation	$25,630	$22,516
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	810	3,527
Depreciation and amortization of premises, equipment, and software	2,772	2,890
Amortization of intangible assets	1,052	1,104
Earnings from corporate owned life insurance	(975)	(1,038)
Net amortization on securities	5,180	7,597
Amortization/accretion related to purchase accounting	(3,736)	(4,510)
Mark-to-market loss on trading securities	93	385
Mark-to-market gain on liabilities held at fair value	(128)	(424)
Net gain on securities transactions	(129)	(442)
Net gain on sale of loans	(221)	(97)
Proceeds from sale of loans	8,415	1,860
Loans originated for sale	(9,102)	(2,053)
Gain on conversion of deposits	(140)	0
Net loss (gain) on sale of bank premises and equipment	15	(13)
Stock-based compensation expense	697	567
Decrease in accrued interest receivable	375	484
Decrease in accrued interest payable	(243)	(152)
Proceeds from maturities and payments of trading securities	879	1,360
Decrease in FDIC prepaid insurance	0	5,386
Other, net	2,945	11,936
Net Cash Provided by Operating Activities	34,189	50,883
INVESTING ACTIVITIES		
Proceeds from maturities, calls and principal paydowns of available-for-sale securities	121,008	146,700
Proceeds from sales of available-for-sale securities	38,688	76,454
Proceeds from maturities, calls and principal paydowns of held-to-maturity securities	7,249	8,617
Purchases of available-for-sale securities	(169,245)	(315,342)
Purchases of held-to-maturity securities	(19,231)	(4,729)
Net increase in loans	(32,818)	(102,995)
Net decrease (increase) in Federal Home Loan Bank stock	4,013	(6,651)
Proceeds from sale of bank premises and equipment	86	84
Purchases of bank premises and equipment	(5,387)	(2,792)
Purchase of corporate owned life insurance	(2,500)	0
Net cash used in acquisition	(210)	0
Other, net	386	(3,503)
Net Cash Used in Investing Activities	(57,961)	(204,157)
FINANCING ACTIVITIES		
Net increase (decrease) in demand, money market, and savings deposits	61,225	(1,151)
Net increase (decrease) in time deposits	37,067	(36,108)
Net decrease in Federal funds purchases and securities sold under agreements to repurchase	(22,362)	(42,475)
Increase in other borrowings	140,445	194,674

Repayment of other borrowings	(184,690)	(7,000)
Cash dividends	(11,839)	(11,007)
Shares issued for dividend reinvestment plan	2,186	1,941
Shares issued for employee stock ownership plan	1,528	717
Net shares issued related to restricted stock awards	115	0
Net proceeds from exercise of stock options	558	1,188
Tax benefit from stock option exercises	74	108
Net Cash Provided by Financing Activities	24,307	100,887
Net Increase (Decrease) in Cash and Cash Equivalents	535	(52,387)
Cash and cash equivalents at beginning of period	82,884	118,930
Total Cash & Cash Equivalents at End of Period	83,419	66,543

See notes to unaudited condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)	**06/30/2014**	06/30/2013
Supplemental Information:		
Cash paid during the year for - Interest	$12,344	$12,537
Cash paid during the year for - Taxes	437	697
Transfer of loans to other real estate owned	4,067	1,794

See notes to unaudited condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(in thousands except share and per share data)	**Common Stock**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive (Loss) Income**	**Treasury Stock**	**Non-controlling Interests**	**Total**
Balances at January 1, 2013	$ 1,443	$ 334,649	$ 108,709	$ (2,106)	$ (2,787)	$ 1,452	$ 441,360
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			22,516			65	22,581
Other comprehensive loss				(25,561)			(25,561)
Total Comprehensive Income							(2,980)
Cash dividends ($0.76 per share)			(11,007)				(11,007)
Net exercise of stock options and related tax benefit (38,742 shares)	4	1,292					1,296
Stock-based compensation expense		567					567
Shares issued for dividend reinvestment plan (47,019 shares)	5	1,936					1,941
Shares issued for employee stock ownership plan (17,290 shares)	2	715					717
Directors deferred compensation plan (1,001 shares)		84			(84)		0
Restricted stock activity (105,706 shares)	10	(10)					0
Balances at June 30, 2013	$ 1,464	$ 339,233	$ 120,218	$ (27,667)	$ (2,871)	$ 1,517	$ 431,894
Balances at January 1, 2014	$ 1,479	$ 346,096	$ 137,102	$ (25,119)	$ (3,071)	$ 1,452	$ 457,939
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			25,630			65	25,695
Other comprehensive income				12,284			12,284
Total Comprehensive Income							37,979
Cash dividends ($0.80 per share)			(11,839)				(11,839)
Net exercise of stock options and related tax benefit (29,485 shares)	3	629					632

Shares issued for dividend reinvestment plan (46,081 shares)	4	2,182					2,186
Stock-based compensation expense		697					697
Shares issued for employee stock ownership plan (31,192 shares)	3	1,525					1,528
Directors deferred compensation plan (680 shares)		80			(80)		0
Restricted stock activity ((2,416) shares)	0	115					115
Balances at June 30, 2014	$ 1,489	$ 351,324	$ 150,893	$ (12,835)	$ (3,151)	$ 1,517	$ 489,237

See notes to unaudited condensed consolidated financial statements

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Business

Tompkins Financial Corporation (“Tompkins” or the “Company”) is headquartered in Ithaca, New York and is registered as a Financial Holding Company with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended. The Company is a locally oriented, community-based financial services organization that offers a full array of products and services, including commercial and consumer banking, leasing, trust and investment management, financial planning and wealth management, insurance, and brokerage services. At June 30, 2014, 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”). TFA Wealth Management and the trust division of the Trust Company provide a full array of investment services under the Tompkins Financial Advisors brand, including investment management, trust and estate, financial and tax planning as well as life, disability and long-term care insurance services. The Company’s principal offices are located at The Commons, Ithaca, New York, 14851, and its telephone number is (888) 503-5753. The Company’s common stock is traded on the NYSE MKT LLC under the Symbol “TMP.”

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

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

The Company’s wealth management subsidiary is subject to examination and regulation by various regulatory agencies, including the SEC and the Financial Industry Regulatory Authority (“FINRA”). The trust division of Tompkins Trust Company is subject to examination and comprehensive regulation by the FDIC and NYSDFS.

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

2. Basis of Presentation

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

In management’s opinion, the unaudited condensed consolidated financial statements reflect all adjustments of a normal recurring nature. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year ended December 31, 2014. 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, 2013. There have been no significant changes to the Company’s accounting policies from those presented in the 2013 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. During the quarter ended March 31, 2014, the Company revised the comparative December 31, 2013 outstanding principal balance of acquired credit impaired loans from $62,146 to $70,727, and the balance of outstanding principal balance of acquired non-credit impaired loans from $666,089 to $630,600. The Company has assessed the materiality of this correction of an error and concluded, based on qualitative and quantitative considerations, that the adjustments are not material to the financial statements as a whole. All significant intercompany balances and transactions are eliminated in consolidation.

3. Accounting Standards Updates

ASU 2014-01, "*Investments (Topic 323), Accounting for Investments in Qualified Affordable Housing Projects*." The amendments in this ASU provide guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The amendments permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this ASU are effective for the Company for annual periods beginning January 1, 2015 and should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The Company does not expect the adoption of this ASU to have a material impact on the Company's consolidated financial statements.

ASU 2014-04, "*Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40")*, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure." This new guidance clarifies when an in substance repossession or foreclosure occurs, and requires all creditors who obtain physical possession (resulting from an in substance repossession or foreclosure) of residential real estate property collateralizing a consumer mortgage loan in satisfaction of a receivable to reclassify the collateralized mortgage loan such that the loan should be derecognized and the collateral asset recognized. This guidance is effective prospectively for the Company for annual and interim periods beginning after December 15, 2014. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

ASU 2014-12 *"Compensation—Stock Compensation" (Topic 718"):* Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period, a consensus of the FASB Emerging Issues Task Force (ASU 2014-12). ASU 2014-12 requires that a performance target that affects vesting of share-based payment awards and that could be achieved after the requisite service period be treated as a performance condition. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. ASU 2014-12 is effective for all entities for interim and annual periods beginning after December 15, 2015, with early adoption permitted. An entity may apply the amendments in ASU 2014-12 either (i) prospectively to all awards granted or modified after the effective date or (ii) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The adoption of ASU 2014-12 is not expected to have a material impact on the Company's consolidated financial condition or results of operations.

4. Securities

Available-for-Sale Securities

The following table summarizes available-for-sale securities held by the Company at June 30, 2014:

June 30, 2014	Available-for-Sale Securities Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. Government sponsored entities	$553,105	$7,945	$1,967	$559,083
Obligations of U.S. states and political subdivisions	65,862	1,226	543	66,545
Mortgage-backed securities – residential, issued by				
U.S. Government agencies	132,754	2,808	1,430	134,132
U.S. Government sponsored entities	617,258	8,793	10,402	615,649
Non-U.S. Government agencies or sponsored entities	289	5	0	294
U.S. corporate debt securities	2,500	0	375	2,125
Total debt securities	1,371,768	20,777	14,717	1,377,828
Equity securities	1,475	0	49	1,426
Total available-for-sale securities	$1,373,243	$20,777	$14,766	$1,379,254

The following table summarizes available-for-sale securities held by the Company at December 31, 2013:

December 31, 2013	**Available-for-Sale Securities Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
(in thousands)				
Obligations of U.S. Government sponsored entities	$558,130	$7,720	$9,505	$556,345
Obligations of U.S. states and political subdivisions	68,216	1,193	1,447	67,962
Mortgage-backed securities – residential, issued by				
U.S. Government agencies	147,766	2,554	3,642	146,678
U.S. Government sponsored entities	587,843	8,122	18,493	577,472
Non-U.S. Government agencies or sponsored entities	306	5	0	311
U.S. corporate debt securities	5,000	8	375	4,633
Total debt securities	1,367,261	19,602	33,462	1,353,401
Equity securities	1,475	0	65	1,410
Total available-for-sale securities	$1,368,736	$19,602	$33,527	$1,354,811

Held-to-Maturity Securities

The following table summarizes held-to-maturity securities held by the Company at June 30, 2014:

	Held-to-Maturity Securities			
June 30, 2014	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
(in thousands)				
Obligations of U.S. Government sponsored entities	$14,793	$32	$0	$14,825
Obligations of U.S. states and political subdivisions	$16,170	$635	$1	$16,804
Total held-to-maturity debt securities	$30,963	$667	$1	$31,629

The following table summarizes held-to-maturity securities held by the Company at December 31, 2013:

December 31, 2013	**Held-to-Maturity Securities** **Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
(in thousands)				
Obligations of U.S. states and political subdivisions	$18,980	$645	$0	$19,625
Total held-to-maturity debt securities	$18,980	$645	$0	$19,625

The Company may from time to time sell investment securities from its available-for-sale portfolio. Realized gains on available-for-sale securities sold were $35,000 and $166,000 in the second quarter and six months ending June 30, 2014, respectively, and $138,000 and $505,000 in the same periods of 2013. Realized losses on available-for-sale securities sold were $0 and $78,000 in the second quarter and six months ending June 30, 2014, respectively, and $63,000 in the second quarter and six months ending June 30, 2013, respectively.

The following table summarizes available-for-sale securities that had unrealized losses at June 30, 2014:

	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	$44,229	$ 119	$125,746	$ 1,848	$169,975	$ 1,967
Obligations of U.S. states and political subdivisions	10,295	106	12,973	437	23,268	543
Mortgage-backed securities – issued by						
U.S. Government agencies	1,952	8	44,453	1,422	46,405	1,430
U.S. Government sponsored entities	101,997	421	284,857	9,981	386,854	10,402
U.S. corporate debt securities	0	0	2,125	375	2,125	375
Equity securities	0	0	951	49	951	49
Total available-for-sale securities	$158,473	$ 654	$471,105	$ 14,112	$629,578	$ 14,766

The following table summarizes held-to-maturity securities that had unrealized losses at June 30, 2014.

	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. states and political subdivisions	$1,791	$ 1	$0	$ 0	$1,791	$ 1
Total held-to-maturity securities	$1,791	$ 1	$0	$ 0	$1,791	$ 1

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The following table summarizes available-for-sale securities that had unrealized losses at December 31, 2013:

(in thousands)	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or Longer Fair Value	12 Months or Longer Unrealized Losses	Total Fair Value	Total Unrealized Losses
Obligations of U.S. Government sponsored entities	$337,967	$ 9,467	$1,761	$ 38	$339,728	$ 9,505
Obligations of U.S. states and political subdivisions	21,821	821	6,173	626	27,994	1,447
Mortgage-backed securities – residential, issued by						
U.S. Government agencies	70,052	2,701	14,874	941	84,926	3,642
U.S. Government sponsored entities	293,945	14,061	76,070	4,432	370,015	18,493
U.S. corporate debt securities	0	0	2,125	375	2,125	375
Equity securities	0	0	935	65	935	65
Total available-for-sale securities	$723,785	$ 27,050	$101,938	$ 6,477	$825,723	$ 33,527

There were no unrealized losses on held-to-maturity securities at December 31, 2013.

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 June 30, 2014, and December 31, 2013, management has determined that the unrealized losses detailed in the tables above are not other-than-temporary.

Ongoing Assessment of Other-Than-Temporary Impairment

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

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

- The length of time and the extent to which the fair value has been less than the amortized cost basis;
- The level of credit enhancement provided by the structure which includes, but is not limited to, credit subordination positions, excess spreads, overcollateralization, protective triggers;
- Changes in the near term prospects of the issuer or underlying collateral of a security, such as changes in default rates, loss severities given default and significant changes in prepayment assumptions;
- The level of excess cash flow generated from the underlying collateral supporting the principal and interest payments of the debt securities; and

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

As a result of the other-than-temporarily impairment review process, the Company does not consider any investment security held at June 30, 2014 to be other-than-temporarily impaired.

The following table summarizes the roll-forward of credit losses on debt securities held by the Company for which a portion of an other-than-temporary impairment is recognized in other comprehensive income:

	Three Months Ended		Six Months Ended	
(in thousands)	06/30/2014	06/30/2013	06/30/2014	06/30/2013
Credit losses at beginning of the period	$ 0	$ 0	$ 0	$ 441
Sales of securities for which an other-than-temporary impairment was previously recognized	0	0	0	(441)
Ending balance of credit losses on debt securities held for which a portion of another-than temporary impairment was recognized in other comprehensive income	$ 0	$ 0	$ 0	$ 0

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.

June 30, 2014

(in thousands)	**Amortized Cost**	Fair Value
Available-for-sale securities:		
Due in one year or less	$42,831	$43,495
Due after one year through five years	374,291	382,028
Due after five years through ten years	183,655	182,298
Due after ten years	20,690	19,932
Total	621,467	627,753
Mortgage-backed securities	750,301	750,075

Total available-for-sale debt securities	$1,371,768	$1,377,828

December 31, 2013

(in thousands)	**Amortized Cost**	Fair Value
Available-for-sale securities:		
Due in one year or less	$25,596	$26,017
Due after one year through five years	263,553	271,303
Due after five years through ten years	313,245	304,414
Due after ten years	28,952	27,206
Total	631,346	628,940
Mortgage-backed securities	735,915	724,461
Total available-for-sale debt securities	$1,367,261	$1,353,401

June 30, 2014

(in thousands)	Amortized Cost	Fair Value
Held-to-maturity securities:		
Due in one year or less	$ 10,621	$10,731
Due after one year through five years	3,850	4,150
Due after five years through ten years	16,108	16,311
Due after ten years	384	437
Total held-to-maturity debt securities	$ 30,963	$31,629

December 31, 2013

(in thousands)	Amortized Cost	Fair Value
Held-to-maturity securities:		
Due in one year or less	$ 10,952	$11,021
Due after one year through five years	5,636	6,004
Due after five years through ten years	1,878	2,051
Due after ten years	514	549
Total held-to-maturity debt securities	$ 18,980	$19,625

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 Central Bankers Bank stock, all of which are required to be held for regulatory purposes and for borrowing availability. The required investment in FHLB stock is tied to the Company's borrowing levels with the FHLB. Holdings of FHLBNY stock, FHLBPITT stock and ACBB stock totaled $12.7 million, $8.3 million and $95,000 at June 30, 2014, respectively. These securities are carried at par, which is also cost. The FHLBNY and FHLBPITT continue to pay dividends and repurchase stock. As such, the Company has not recognized any impairment on its holdings of FHLBNY and FHLBPITT stock. Quarterly, we evaluate our investment in the FHLB for impairment. We evaluate recent and long-term operating performance, liquidity, funding and capital positions, stock repurchase history, dividend history and impact of legislative and regulatory changes. Based on our most recent evaluation, we have determined that no impairment write-downs are currently required.

Trading Securities

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

(in thousands)	06/30/2014	12/31/2013
Obligations of U.S. Government sponsored entities	$ 7,875	$ 8,275
Mortgage-backed securities – residential, issued by U.S. Government sponsored entities	2,134	2,716
Total	$ 10,009	$ 10,991

The decrease in trading securities reflects principal repayments and maturities received during the quarter ended June 30, 2014. The pre-tax mark-to-market losses on trading securities totaled $34,000 and $93,000 for the second quarter and six months ending June 30, 2014, respectively, and $270,000 and $385,000 for the second quarter and six months ending June 30, 2013, respectively.

The Company pledges securities as collateral for public deposits and other borrowings, and sells securities under agreements to repurchase. Securities carried of $1.1 billion and $1.0 billion at June 30, 2014, and December 31, 2013, respectively, were either pledged or sold under agreements to repurchase.

5. Loans and Leases

Loans and Leases at June 30, 2014 and December 31, 2013 were as follows:

	06/30/2014			12/31/2013		
(in thousands)	Originated	Acquired	Total Loans and Leases	Originated	Acquired	Total Loans and Leases
Commercial and industrial						
Agriculture	$46,677	$0	$46,677	$74,788	$0	$74,788
Commercial and industrial other	608,596	120,316	728,912	562,439	128,503	690,942
Subtotal commercial and industrial	655,273	120,316	775,589	637,227	128,503	765,730
Commercial real estate						
Construction	46,082	44,557	90,639	46,441	39,353	85,794
Agriculture	63,419	3,173	66,592	52,627	3,135	55,762
Commercial real estate other	940,626	331,642	1,272,268	903,320	366,438	1,269,758
Subtotal commercial real estate	1,050,127	379,372	1,429,499	1,002,388	408,926	1,411,314
Residential real estate						
Home equity	178,433	61,564	239,997	171,809	67,183	238,992
Mortgages	668,643	34,145	702,788	658,966	35,336	694,302
Subtotal residential real estate	847,076	95,709	942,785	830,775	102,519	933,294
Consumer and other						
Indirect	19,385	0	19,385	21,202	5	21,207
Consumer and other	33,502	1,117	34,619	32,312	1,219	33,531
Subtotal consumer and other	52,887	1,117	54,004	53,514	1,224	54,738
Leases	6,574	0	6,574	5,563	0	5,563
Covered loans	0	22,165	22,165	0	25,868	25,868
Total loans and leases	2,611,937	618,679	3,230,616	2,529,467	667,040	3,196,507
Less: unearned income and deferred costs and fees	(1,648)	0	(1,648)	(2,223)	0	(2,223)
Total loans and leases, net of unearned income and deferred costs and fees	$2,610,289	$618,679	$3,228,968	$2,527,244	$667,040	$3,194,284

The outstanding principal balance and the related carrying amount of the Company’s loans acquired in the VIST Bank acquisition are as follows at June 30, 2014 and December 31, 2013:

(in thousands)	**06/30/2014**	12/31/2013
Acquired Credit Impaired Loans		
Outstanding principal balance	$51,962	$62,146
Carrying amount	40,037	46,809
Acquired Non-Credit Impaired Loans		
Outstanding principal balance	585,958	630,600
Carrying amount	578,642	620,231
Total Acquired Loans		
Outstanding principal balance	637,920	692,746
Carrying amount	618,679	667,040

The following tables present changes in accretable yield on loans acquired from VIST Bank that were considered credit impaired.

(in thousands)	
Balance at January 1, 2013	$7,337
Accretion	(8,896)
Disposals (loans paid in full)	(212)
Reclassifications to/from nonaccretable difference[1]	7,933
Other changes in expected cash flows[2]	4,792
Balance at December 31, 2013	$10,954

(in thousands)	
Balance at January 1, 2014	$10,954
Accretion	(2,525)
Disposals (loans paid in full)	(250)
Reclassifications to/from nonaccretable difference[1]	1,024
Other changes in expected cash flows[2]	0
Balance at June 30, 2014	$9,203

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

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

At June 30, 2014, acquired loans included $22.2 million of covered loans. VIST Bank had previously acquired these loans in an FDIC assisted transaction in the fourth quarter of 2010. In accordance with a loss sharing agreement with the FDIC, certain losses and expenses relating to covered loans may be reimbursed by the FDIC at 70% or, if net losses exceed certain levels specified in the loss sharing agreements, 80%. See Note 7 – "FDIC Indemnification Asset Related to Covered Loans" for further discussion of the loss sharing agreements and related FDIC indemnification assets.

The Company has adopted comprehensive lending policies, underwriting standards and loan review procedures. Management reviews these policies and procedures on a regular basis. The Company discussed its lending policies and underwriting guidelines for its various lending portfolios in Note 4 – "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, 2013. There have been no significant changes in these policies and guidelines. As such, these policies are reflective of new originations as well as those balances held at June 30, 2014. The Company's Board of Directors approves the lending policies at least annually. The Company recognizes that exceptions to policy guidelines may occasionally occur and has established procedures for approving exceptions to these policy guidelines. Management has also implemented reporting systems to monitor loan origination, loan quality, concentrations of credit, loan delinquencies and nonperforming loans and potential problem loans.

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

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

The below table is an age analysis of past due loans, segregated by originated and acquired loan and lease portfolios, and by class of loans, as of June 30, 2014 and December 31, 2013.

June 30, 2014

(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	$46,677	$46,677	$ 0	$ 0
Commercial and industrial other	1,113	669	606,814	608,596	0	644
Subtotal commercial and industrial	1,113	669	653,491	655,273	0	644
Commercial real estate						
Construction	213	0	45,869	46,082	0	2,109
Agriculture	0	0	63,419	63,419	0	137
Commercial real estate other	1,277	5,446	933,903	940,626	1	4,729
Subtotal commercial real estate	1,490	5,446	1,043,191	1,050,127	1	6,975
Residential real estate						
Home equity	218	2,566	175,649	178,433	61	1,842
Mortgages	1,701	7,666	659,276	668,643	481	6,888
Subtotal residential real estate	1,919	10,232	834,925	847,076	542	8,730
Consumer and other						
Indirect	610	267	18,508	19,385	0	128
Consumer and other	89	0	33,413	33,502	0	441
Subtotal consumer and other	699	267	51,921	52,887	0	569
Leases	0	0	6,574	6,574	0	0
Total loans and leases	5,221	16,614	2,590,102	2,611,937	543	16,918
Less: unearned income and deferred costs and fees	0	0	0	(1,648)	0	0
Total originated loans and leases, net of unearned income and deferred costs and fees	$5,221	$16,614	$2,590,102	$2,610,289	$ 543	$ 16,918
Acquired Loans and Leases						
Commercial and industrial						
Commercial and industrial other	19	820	119,477	120,316	656	1,114
Subtotal commercial and industrial	19	820	119,477	120,316	656	1,114
Commercial real estate						
Construction	0	1,962	42,595	44,557	1,700	467
Agriculture	0	0	3,173	3,173	0	0
Commercial real estate other	943	2,182	328,517	331,642	84	2,566
Subtotal commercial real estate	943	4,144	374,285	379,372	1,784	3,033
Residential real estate						
Home equity	359	810	60,395	61,564	105	798
Mortgages	296	596	33,253	34,145	503	962
Subtotal residential real estate	655	1,406	93,648	95,709	608	1,760
Consumer and other						
Consumer and other	3	0	1,114	1,117	0	0
Subtotal consumer and other	3	0	1,114	1,117	0	0
Covered loans	0	904	21,261	22,165	904	0
Total acquired loans and leases, net of unearned income and deferred costs and fees	$1,620	$7,274	$609,785	$618,679	$ 3,952	$ 5,907

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

December 31, 2013

(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	$74,788	$74,788	$ 0	$ 0
Commercial and industrial other	211	1,187	561,041	562,439	0	1,260
Subtotal commercial and industrial	211	1,187	635,829	637,227	0	1,260
Commercial real estate						
Construction	216	7,657	38,568	46,441	0	9,873
Agriculture	180	0	52,447	52,627	0	46
Commercial real estate other	1,104	6,976	895,240	903,320	161	9,522
Subtotal commercial real estate	1,500	14,633	986,255	1,002,388	161	19,441
Residential real estate						
Home equity	784	1,248	169,777	171,809	62	1,477
Mortgages	2,439	5,946	650,581	658,966	384	7,443
Subtotal residential real estate	3,223	7,194	820,358	830,775	446	8,920
Consumer and other						
Indirect	768	152	20,282	21,202	0	216
Consumer and other	60	0	32,252	32,312	0	38
Subtotal consumer and other	828	152	52,534	53,514	0	254
Leases	0	0	5,563	5,563	0	0
Total loans and leases	5,762	23,166	2,500,539	2,529,467	607	29,875
Less: unearned income and deferred costs and fees	0	0	0	(2,223)	0	0
Total originated loans and leases, net of unearned income and deferred costs and fees	$5,762	$23,166	$2,500,539	$2,527,244	$ 607	$ 29,875
Acquired loans and leases						
Commercial and industrial						
Commercial and industrial other	554	1,651	126,298	128,503	1,231	419
Subtotal commercial and industrial	554	1,651	126,298	128,503	1,231	419
Commercial real estate						
Construction	0	2,148	37,205	39,353	1,676	473
Agriculture	0	0	3,135	3,135	0	0
Commercial real estate other	403	3,585	362,450	366,438	709	3,450
Subtotal commercial real estate	403	5,733	402,790	408,926	2,385	3,923
Residential real estate						
Home equity	213	934	66,036	67,183	347	1,844
Mortgages	345	1,264	33,727	35,336	594	2,322
Subtotal residential real estate	558	2,198	99,763	102,519	941	4,166
Consumer and other						
Indirect	0	0	5	5	0	0
Consumer and other	17	0	1,202	1,219	0	0

Subtotal consumer and other	17	0	1,207	1,224	0	0
Covered loans	0	2,416	23,452	25,868	2,416	0
Total acquired loans and leases, net of unearned income and deferred costs and fees	$1,532	$11,998	$653,510	$667,040	$ 6,973	$ 8,508

[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 Company’s methodology for determining and allocating the allowance for loan and lease losses focuses on ongoing reviews of larger individual loans and leases, historical net charge-offs, delinquencies in the loan and lease portfolio, the level of impaired and nonperforming loans, values of underlying loan and lease collateral, the overall risk characteristics of the portfolios, changes in character or size of the portfolios, geographic location, current economic conditions, changes in capabilities and experience of lending management and staff, and other relevant factors. The various factors used in the methodologies are reviewed on a regular basis.

At least annually, management reviews all commercial and commercial real estate loans exceeding a certain threshold and assigns a risk rating. The Company uses an internal loan rating system of pass credits, special mention loans, substandard loans, doubtful loans, and loss loans (which are fully charged off). The definitions of “special mention”, “substandard”, “doubtful” and “loss” are consistent with banking regulatory definitions. Factors considered in assigning loan ratings include: the customer’s ability to repay based upon customer’s expected future cash flow, operating results, and financial condition; the underlying collateral, if any; and the economic environment and industry in which the customer operates. Special mention loans have potential weaknesses that if left uncorrected may result in deterioration of the repayment prospects and a downgrade to a more severe risk rating. A substandard loan credit has a well-defined weakness which makes payment default or principal exposure likely, but not yet certain. There is a possibility that the Company will sustain some loss if the deficiencies are not corrected. A doubtful loan has a high possibility of loss, but the extent of the loss is difficult to quantify because of certain important and reasonably specific pending factors.

At least quarterly, management reviews all commercial and commercial real estate loans and leases and agriculturally related loans with an outstanding principal balance of over $500,000 that are internally risk rated special mention or worse, giving consideration to payment history, debt service payment capacity, collateral support, strength of guarantors, local market trends, industry trends, and other factors relevant to the particular borrowing relationship. Through this process, management identifies impaired loans. For loans and leases considered impaired, estimated exposure amounts are based upon collateral values or present value of expected future cash flows discounted at the original effective interest rate of each loan. For commercial loans, commercial mortgage loans, and agricultural loans not specifically reviewed, and for homogenous loan portfolios such as residential mortgage loans and consumer loans, estimated exposure amounts are assigned based upon historical net loss experience and current charge-off trends, past due status, and management's judgment of the effects of current economic conditions on portfolio performance. In determining and assigning historical loss factors to the various homogeneous portfolios, the Company calculates average net losses over a period of time and compares this average to current levels and trends to ensure that the calculated average loss factors are reasonable.

Since the methodology is based upon historical experience and trends as well as management's judgment, factors may arise that result in different estimates. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the local area, concentration of risk, changes in interest rates, and declines in local property values. While management's evaluation of the allowance as of June 30, 2014, considers the allowance to be appropriate, under adversely different conditions or assumptions, the Company would need to increase or decrease the allowance.

Acquired Loans and Leases

Acquired loans accounted for under ASC 310-30

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

Acquired loans accounted for under ASC 310-20

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

The following tables detail activity in the allowance for loan and lease losses segregated by originated and acquired loan and lease portfolios and by portfolio segment for the three months ended June 30, 2014 and 2013. 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 June 30, 2014

(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	$ 8,769	$ 10,415	$ 5,368	$ 2,109	$ 0	$26,661
Charge-offs	(133)	(433)	(74)	(414)	0	(1,054)
Recoveries	424	560	74	143	0	1,201
Provision (credit)	(498)	(153)	77	518		(56)
Ending Balance	$ 8,562	$ 10,389	$ 5,445	$ 2,356	$ 0	$26,752
Allowance for acquired loans						
Beginning balance	$ 298	$ 819	$ 70	$ 166	$ 0	$1,353
Charge-offs	(6)	(526)	(178)	(1)	0	(711)
Recoveries	0	0	0	0	0	0
Provision (credit)	(133)	167	157	(68)	0	123
Ending Balance	$ 159	$ 460	$ 49	$ 97	$ 0	$765

Three months ended June 30, 2013

(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	$ 7,037	$ 10,644	$ 5,036	$ 1,879	$ 2	$24,598
Charge-offs	(42)	(144)	(147)	(198)	0	(531)
Recoveries	1,282	358	27	113	0	1,780
Provision (credit)	(1,322)	(449)	357	401	19	(994)
Ending Balance	$ 6,955	$ 10,409	$ 5,273	$ 2,195	$ 21	$24,853

Three months ended June 30, 2013

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Allowance for acquired loans						
Beginning balance	$ 0	$ 63	$ 0	$ 0	$ 0	$63
Charge-offs	(2,906)	(32)	(3)	0	0	(2,941)
Recoveries	0	0	0	0	0	0
Provision (credit)	2,970	350	129	34	0	3,483
Ending Balance	$ 64	$ 381	$ 126	$ 34	$ 0	$605

Six months ended June 30, 2014

(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	$ 8,406	$ 10,459	$ 5,771	$ 2,059	$ 5	$26,700
Charge-offs	(254)	(613)	(267)	(666)	0	(1,800)
Recoveries	489	562	86	260	0	1,397
Provision (credit)	(79)	(19)	(145)	703	(5)	455
Ending Balance	$ 8,562	$ 10,389	$ 5,445	$ 2,356	$ 0	$26,752

Six months ended June 30, 2014

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Allowance for acquired loans						
Beginning balance	$ 168	$ 770	$ 274	$ 58	$ 0	$1,270
Charge-offs	(25)	(551)	(277)	(7)	0	(860)
Recoveries	0	0	0	0	0	0
Provision (credit)	16	241	52	46	0	355
Ending Balance	$ 159	$ 460	$ 49	$ 97	$ 0	$765

Six months ended June 30, 2013

(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	$ 7,533	$ 10,184	$ 4,981	$ 1,940	$ 5	$24,643
Charge-offs	(432)	(490)	(339)	(462)	0	(1,723)
Recoveries	1,442	436	29	200	0	2,107
Provision (credit)	(1,588)	279	602	517	16	(174)
Ending Balance	$ 6,955	$ 10,409	$ 5,273	$ 2,195	$ 21	$24,853

Six months ended June 30, 2013

(in thousands)	Commercial and	Commercial Real Estate	Residential Real	Consumer and Other	Covered Loans	Total

	Industrial		Estate			
Allowance for acquired loans						
Beginning balance	$ 0	$ 0	$ 0	$ 0	$ 0	$0
Charge-offs	(2,929)	(32)	(110)	(25)	0	(3,096)
Recoveries	0	0	0	0	0	0
Provision (credit)	2,993	413	236	59	0	3,701
Ending Balance	$ 64	$ 381	$ 126	$ 34	$ 0	$605

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At June 30, 2014 and December 31, 2013, 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						
June 30, 2014						
Individually evaluated for impairment	$ 0	$ 0	$ 0	$ 0	$ 0	$0
Collectively evaluated for impairment	8,562	10,389	5,445	2,356	0	26,752
Ending balance	$ 8,562	$ 10,389	$ 5,445	$ 2,356	$ 0	$26,752
Allowance for acquired loans						
June 30, 2014						
Individually evaluated for impairment	$ 0	$ 250	$ 0	$ 0	$ 0	$250
Collectively evaluated for impairment	159	210	49	97	0	515
Ending balance	$ 159	$ 460	$ 49	$ 97	$ 0	$765

(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, 2013						
Individually evaluated for impairment	$ 0	$ 0	$ 0	$ 0	$ 0	$0
Collectively evaluated for impairment	8,406	10,459	5,771	2,059	5	26,700
Ending balance	$ 8,406	$ 10,459	$ 5,771	$ 2,059	$ 5	$26,700
Allowance for acquired loans						
December 31, 2013						
Individually evaluated for impairment	$ 0	$ 250	$ 0	$ 0	$ 0	$250
Collectively evaluated for impairment	168	520	274	58	0	1,020
Ending balance	$ 168	$ 770	$ 274	$ 58	$ 0	$1,270

The recorded investment in loans and leases summarized on the basis of the Company's impairment methodology as of June 30, 2014 and December 31, 2013 was as follows:

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Originated loans and leases						
June 30, 2014						

Individually evaluated for impairment	$ 375	$ 8,975	$ 1,132	$ 0	$ 0	$ 10,482
Collectively evaluated for impairment	654,898	1,041,152	845,944	52,887	6,574	2,601,455
Total	$ 655,273	$ 1,050,127	$ 847,076	$ 52,887	$ 6,574	$ 2,611,937

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired loans						
June 30, 2014						
Individually evaluated for impairment	$ 1,063	$ 5,976	$ 0	$ 0	$0	$7,039
Loans acquired with deteriorated credit quality	$ 1,236	$ 8,452	$ 8,184	$ 0	$22,165	$40,037
Collectively evaluated for impairment	118,017	364,944	87,525	1,117	0	571,603
Total	$ 120,316	$ 379,372	$ 95,709	$ 1,117	$22,165	$618,679

(in thousands)	**Commercial and Industrial**	**Commercial Real Estate**	**Residential Real Estate**	**Consumer and Other**	**Finance Leases**	**Total**
Originated loans and leases						
December 31, 2013						
Individually evaluated for impairment	$4,664	16,269	$1,223	$0	$0	$22,156
Collectively evaluated for impairment	632,563	986,119	829,552	53,514	5,563	2,507,311
Total	$637,227	$1,002,388	$830,775	$53,514	$5,563	$2,529,467

(in thousands)	**Commercial and Industrial**	**Commercial Real Estate**	**Residential Real Estate**	**Consumer and Other**	**Covered Loans**	**Total**
Acquired loans						
December 31, 2013						
Individually evaluated for impairment	$2,231	2,429	$73	$0	$0	$4,733
Loans acquired with deteriorated credit quality	2,558	10,263	9,355	0	24,633	46,809
Collectively evaluated for impairment	123,714	396,234	93,091	1,224	1,235	615,498
Total	$128,503	$408,926	$102,519	$1,224	$25,868	$667,040

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.

(in thousands)	06/30/2014 Recorded Investment	06/30/2014 Unpaid Principal Balance	06/30/2014 Related Allowance	12/31/2013 Recorded Investment	12/31/2013 Unpaid Principal Balance	12/31/2013 Related Allowance
Originated loans and leases with no related allowance						
Commercial and industrial						
Commercial and industrial other	$375	$375	$ 0	$4,664	$5,069	$ 0
Commercial real estate						
Construction	0	0	0	6,073	11,683	0
Commercial real estate other	8,975	9,655	0	10,196	13,518	0
Residential real estate						
Residential real estate other	1,132	1,202	0	1,223	1,299	0
Total	$10,482	$11,232	$ 0	$22,156	$31,569	$ 0

(in thousands)	06/30/2014 Recorded Investment	06/30/2014 Unpaid Principal Balance	06/30/2014 Related Allowance	12/31/2013 Recorded Investment	12/31/2013 Unpaid Principal Balance	12/31/2013 Related Allowance
Acquired loans and leases with no related allowance						
Commercial and industrial						
Commercial and industrial other	$1,063	$ 1,063	$ 0	$2,231	$ 5,081	$ 0
Commercial real estate						
Construction	2,043	2,043	0	0	0	0
Commercial real estate other	3,680	3,680	0	1,960	1,960	0
Residential real estate						
Residential real estate other	0	0	0	73	73	0
Subtotal	$6,786	$ 6,786	$ 0	$4,264	$ 7,114	$ 0
Acquired loans and leases with related allowance						
Commercial real estate						
Commercial real estate other	253	253	250	469	719	250
Subtotal	$253	$ 253	$ 250	$469	$ 719	$ 250
Total	$7,039	$ 7,039	$ 250	$4,733	$ 7,833	$ 250

The average recorded investment and interest income recognized on impaired loans for the three months ended June 30, 2014 and 2013 was as follows:

(in thousands)	Three Months Ended 06/30/2014 Average Recorded Investment	Three Months Ended 06/30/2014 Interest Income Recognized	Three Months Ended 06/30/2013 Average Recorded Investment	Three Months Ended 06/30/2013 Interest Income Recognized
Originated loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	376	0	4,397	0
Commercial real estate				
Construction	0	0	6,311	0
Commercial real estate other	10,465	0	15,012	0
Residential real estate				
Residential real estate other	1,144	0	447	0
Subtotal	$11,985	$ 0	$26,167	$ 0
Originated loans and leases with related allowance				
Commercial and industrial				
Commercial and industrial other	0	0	416	0
Subtotal	$0	$ 0	$416	$ 0
Total	$11,985	$ 0	$26,583	$ 0

(in thousands)	Three Months Ended 06/30/2014 Average Recorded Investment	Three Months Ended 06/30/2014 Interest Income Recognized	Three Months Ended 06/30/2013 Average Recorded Investment	Three Months Ended 06/30/2013 Interest Income Recognized
Acquired loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	1,071	0	2,517	0
Commercial real estate				
Construction	2,039	0	0	0
Commercial real estate other	3,708	0	2,481	5
Subtotal	$6,818	$ 0	$4,998	$ 5
Acquired loans and leases with related allowance				
Commercial real estate				
Commercial real estate other	251	0	212	0
Subtotal	$251	$ 0	$212	$ 0
Total	$7,069	$ 0	$5,210	$ 5

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(in thousands)	Six Months Ended 06/30/2014 Average Recorded Investment	Six Months Ended 06/30/2014 Interest Income Recognized	Six Months Ended 06/30/2013 Average Recorded Investment	Six Months Ended 06/30/2013 Interest Income Recognized
Originated loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	386	0	5,085	0
Commercial real estate				
Construction	0	0	6,529	0
Commercial real estate other	10,618	0	13,867	0
Residential real estate				
Residential real estate other	1,132	0	447	0
Subtotal	$12,136	$ 0	$25,928	$ 0
Originated loans and leases with related allowance				
Commercial and industrial				
Commercial and industrial other	0	0	417	0
Subtotal	$0	$ 0	$417	$ 0
Total	$12,136	$ 0	$26,345	$ 0

(in thousands)	Six Months Ended 06/30/2014 Average Recorded Investment	Six Months Ended 06/30/2014 Interest Income Recognized	Six Months Ended 06/30/2013 Average Recorded Investment	Six Months Ended 06/30/2013 Interest Income Recognized
Acquired loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	1,093	0	3,017	5
Commercial real estate				
Construction	2,298	0	0	0
Commercial real estate other	3,460	0	2,492	31
Subtotal	$6,851	$ 0	$5,509	$ 36
Acquired loans and leases with related allowance				
Commercial real estate				
Commercial real estate other	248	0	0	0
Residential real estate				
Residential real estate other	0	0	214	4
Subtotal	$248	$ 0	$214	$ 4
Total	$7,099	$ 0	$5,723	$ 40

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

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

June 30, 2014	**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	$88	88	0	$0
Commercial real estate					
Commercial real estate other[2]	1	480	480	0	0
Total	2	$568	568	0	$0

[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 last three months that were restructured in the prior twelve months.*

June 30, 2013	**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**
Commercial and industrial					
Commercial and industrial other[1]	1	$47	$47	0	$0
Total	1	$47	$47	0	$0

[1] *Represents the following concessions: extension of term*

[2] *TDRs that defaulted in the current quarter that were restructured in the prior twelve months.*

June 30, 2014	**Six 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	$88	$88	0	$0
Commercial Real Estate					
Commercial real estate other*[2]*	1	$480	$480	1	$63
Residential Real Estate					
Residential real estate other*[3]*	0	0	0	1	195
Total	2	$568	$568	2	$258

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 last nine months that were restructured in the prior twelve months.

June 30, 2013	**Six 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]*	2	$139	$139	0	$0
Commercial real estate					
Commercial real estate other[2]	3	371	371	0	0

Total	5	$510	$510	0	$0

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

2 Represents the following concessions: extension of term (1 loan:$129,000) and extended term and lowered rate (2 loans: $242,000)

3 TDRs that defaulted during the last six months that were restructured in the prior twelve months.

The following tables present credit quality indicators (internal risk grade) by class of commercial and industrial loans and commercial real estate loans as of June 30, 2014 and December 31, 2013.

June 30, 2014

(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	$ 586,788	$ 46,286	$ 910,507	$ 62,827	$ 42,255	$ 1,648,663
Special Mention	13,522	143	17,801	191	3,827	35,484
Substandard	8,286	248	12,318	401	0	21,253
Total	$ 608,596	$ 46,677	$ 940,626	$ 63,419	$ 46,082	$ 1,705,400

June 30, 2014

(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	$ 112,199	$ 0	$ 299,843	$ 3,173	$ 42,076	$457,291
Special Mention	4,600	0	7,524	0	0	12,124
Substandard	3,517	0	24,275	0	2,481	30,273
Total	$ 120,316	$ 0	$ 331,642	$ 3,173	$ 44,557	$499,688

December 31, 2013

(in thousands)	Commercial and Industrial Other	Commercial and Industrial Agriculture	Commercial Real Estate Other	Commercial Real Estate Agriculture	Commercial Real Estate Construction	**Total**
Originated Loans and Leases						
Internal risk grade:						
Pass	$ 531,293	$ 72,997	$ 869,488	$ 52,054	$ 36,396	$1,562,228
Special Mention	20,688	100	17,536	123	3,918	42,365
Substandard	10,458	1,691	16,296	450	6,127	35,022
Total	$ 562,439	$ 74,788	$ 903,320	$ 52,627	$ 46,441	$1,639,615

December 31, 2013

(in thousands)	Commercial and Industrial Other	Commercial and Industrial Agriculture	Commercial Real Estate Other	Commercial Real Estate Agriculture	Commercial Real Estate Construction	**Total**
Acquired Loans and Leases						
Internal risk grade:						
Pass	$ 116,160	$ 0	$ 363,427	$ 1,150	$ 5,809	$486,546
Special Mention	3,821	0	11,516	1,985	0	17,322
Substandard	8,522	0	22,028	0	3,011	33,561
Total	$ 128,503	$ 0	$ 396,971	$ 3,135	$ 8,820	$537,429

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 June 30, 2014 and December 31, 2013. 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.

June 30, 2014

(in thousands)	Total

	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	
Originated Loans and Leases					
Performing	$ 176,530	$ 661,274	$ 19,257	$ 33,061	$ 890,122
Nonperforming	1,903	7,369	128	441	9,841
Total	$ 178,433	$ 668,643	$ 19,385	$ 33,502	$ 899,963

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June 30, 2014

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Acquired Loans and Leases					
Performing	$ 60,661	$ 32,680	$ 0	$ 1,117	$94,458
Nonperforming	903	1,465	0	0	2,368
Total	$ 61,564	$ 34,145	$ 0	$ 1,117	$96,826

December 31, 2013

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Originated Loans and Leases					
Performing	$170,270	$651,139	$20,986	$32,274	$874,669
Nonperforming	1,539	7,827	216	38	9,620
Total	$171,809	$658,966	$21,202	$32,312	$884,289

December 31, 2013

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Acquired Loans and Leases					
Performing	$ 65,339	$ 33,014	$ 5	$ 1,219	$99,577
Nonperforming	1,844	2,322	0	0	4,166
Total	$ 67,183	$ 35,336	$ 5	$ 1,219	$103,743

7. FDIC Indemnification Asset Related to Covered Loans

Certain loans acquired in the VIST Financial acquisition were covered loans with loss share agreements with the FDIC. Under the terms of loss sharing agreements, the FDIC will reimburse the Company for 70 percent of net losses on covered single family assets up to $4.0 million, and 70 percent of net losses incurred on covered commercial assets up to $12.0 million. The FDIC will increase its reimbursement of net losses to 80 percent if net losses exceed the $4.0 million and $12 million thresholds, respectively. The term for loss sharing on residential real estate loans is ten years, while the term for loss sharing on non-residential real estate loans is five years in respect to losses and eight years in respect to loss recoveries.

The receivable arising from the loss sharing agreements (referred to as the “FDIC indemnification asset” on our consolidated statements of financial condition) is measured separately from covered loans because the agreements are not contractually part of the covered loans and are not transferable should the Company choose to dispose of the covered loans. As of the acquisition date with VIST Financial, the Company recorded an aggregate FDIC indemnification asset of $4.4 million, consisting of the present value of the expected future cash flows the Company expected to receive from the FDIC under loss sharing agreements. The FDIC indemnification asset is reduced as loss sharing payments are received from the FDIC for losses realized on covered loans. Actual or expected losses in excess of the acquisition date estimates and accretion of the acquisition date present value discount will result in an increase in the FDIC indemnification asset and the immediate recognition of non-interest income in our financial statements.

A decrease in expected losses would generally result in a corresponding decline in the FDIC indemnification asset and the non-accretable difference. Reductions in the FDIC indemnification asset due to actual or expected losses that are less than the acquisition date estimates are recognized prospectively over the shorter of (i) the estimated life of the applicable covered loans or (ii) the term of the loss sharing agreements with the FDIC.

Changes in the FDIC indemnification asset during the six months ended June 30, 2014 are shown below. The Company acquired the FDIC indemnification asset as part of the VIST acquisition on August 1, 2012.

Six months ended June 30, 2014

(in thousands)	Three Months Ended
Balance, beginning of the period	$4,790
Discount accretion of the present value at the acquisition date	28
Prospective adjustment for additional cash flows	(862)
Increase due to impairment on covered loans	0
Reimbursements from the FDIC	(466)
Balance, end of period	$3,490

8. Earnings Per Share

Earnings per share in the table below, for the three and six month periods ending June 30, 2014 and 2013 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 additional potential shares from stock compensations awards.

	Three Months Ended	
(in thousands, except share and per share data)	06/30/2014	06/30/2013
Basic		
Net income available to common shareholders	$13,061	$11,007
Less: dividends and undistributed earnings allocated to unvested restricted stock awards	(118)	(112)
Net earnings allocated to common shareholders	12,943	10,895
Weighted average shares outstanding, including participating securities	14,844,279	14,541,222
Less: average participating securities	(134,398)	(113,384)
Weighted average shares outstanding - Basic	14,709,881	14,427,838
Diluted		
Net earnings allocated to common shareholders	12,943	10,895
Weighted average shares outstanding - Basic	14,709,881	14,427,838
Dilutive effect of common stock options or restricted stock awards	111,310	69,021
Weighted average shares outstanding - Diluted	14,821,191	14,496,859

Basic EPS	0.88	0.76
Diluted EPS	0.87	0.75

The dilutive effect of common stock options or restricted awards calculation for the three months ended June 30, 2014 and 2013 excludes stock options, stock appreciation rights and restricted stock awards covering an aggregate of 68,404 and 341,206 shares, respectively, because the exercise prices were greater than the average market price during these periods.

(in thousands, except share and per share data)	Six Months Ended 06/30/2014	06/30/2013
Basic		
Net income available to common shareholders	$25,630	$22,516
Less: dividends and undistributed earnings allocated to unvested restricted stock awards	(234)	(147)
Net earnings allocated to common shareholders	25,396	22,369
Weighted average shares outstanding, including participating securities	14,813,010	14,482,584
Less: average participating securities	(135,622)	(78,190)
Weighted average shares outstanding - Basic	14,677,388	14,404,394
Diluted		
Net earnings allocated to common shareholders	25,396	22,369
Weighted average shares outstanding - Basic	14,677,388	14,404,394
Dilutive effect of common stock options or restricted stock awards	121,074	67,542
Weighted average shares outstanding - Diluted	14,798,462	14,471,936
Basic EPS	1.73	1.55
Diluted EPS	1.72	1.55

The dilutive effect of common stock options or restricted awards calculation for the six months ended June 30, 2014 and 2013 excludes stock options, stock appreciation rights and restricted stock awards covering an aggregate of 69,868 and 315,340 shares, respectively, because the exercise prices were greater than the average market price during these periods.

9. Other Comprehensive Income (Loss)

The following table presents reclassifications out of the accumulated other comprehensive income for the three month periods ended June 30, 2014 and 2013.

	Three months ended June 30, 2014		
(in thousands)	Before-Tax Amount	Tax (Expense) Benefit	Net of Tax
Available-for-sale securities:			

Change in net unrealized gain/loss during the period	$11,250	$ (4,499)	$6,751
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(35)	13	(22)
Net unrealized gains	11,215	(4,486)	6,729
Employee benefit plans:			
Amortization of net retirement plan actuarial gain	213	(85)	128
Amortization of net retirement plan prior service cost	(12)	5	(7)
Employee benefit plans	201	(80)	121
Other comprehensive income (loss)	$11,416	$ (4,566)	$6,850

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	Three months ended June 30, 2013		
(in thousands)	Before-Tax Amount	Tax (Expense) Benefit	Net of Tax
Available-for-sale securities:			
Change in net unrealized gain/loss during the period	$(38,033)	$15,209	$(22,824)
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(75)	30	(45)
Reclassification adjustment for credit impairment on available-for-sale			
Net unrealized losses	(38,108)	15,239	(22,869)
Employee benefit plans:			
Amortization of net retirement plan actuarial loss	636	(255)	381
Amortization of net retirement plan prior service cost	14	(6)	8
Amortization of net retirement plan transition liability	13	(5)	8
Employee benefit plans	663	(266)	397
Other comprehensive (loss) income	$(37,445)	$14,973	$(22,472)

	Six months ended June 30, 2014		
(in thousands)	Before-Tax Amount	Tax (Expense) Benefit	Net of Tax
Available-for-sale securities:			
Change in net unrealized gain/loss during the period	$20,065	$(8,024)	$12,041
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(129)	51	(78)
Net unrealized losses	19,936	(7,973)	11,963
Employee benefit plans:			
Amortization of net retirement plan actuarial gain	532	(212)	320
Amortization of net retirement plan prior service cost	2	(1)	1
Employee benefit plans	534	(213)	321
Other comprehensive income (loss)	$20,470	$(8,186)	$12,284

	Six months ended June 30, 2013		
(in thousands)	Before-Tax Amount	Tax (Expense) Benefit	Net of Tax
Available-for-sale securities:			
Change in net unrealized gain/loss during the period	$(43,496)	$17,394	$(26,102)
Reclassification adjustment for net realized gain on sale of available-for-sale securities included in net income	(442)	177	(265)
Reclassification adjustment for credit impairment on available-for-sale			
Net unrealized losses	(43,938)	17,571	(26,367)
Employee benefit plans:			
Amortization of net retirement plan actuarial loss	1,291	(517)	774
Amortization of net retirement plan prior service cost	29	(12)	17
Amortization of net retirement plan transition liability	25	(10)	15
Employee benefit plans	1,345	(539)	806
Other comprehensive (loss) income	$(42,593)	$17,032	$(25,561)

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

(in thousands)	Available-for-Sale Securities	Employee Benefit Plans	Accumulated Other Comprehensive Income
Balance at March 31, 2014	$ (3,123)	$(16,562)	$ (19,685)
Other comprehensive income (loss) before reclassifications	6,751	0	6,751
Amounts reclassified from accumulated other comprehensive income	(22)	121	99
Net current-period other comprehensive income	6,729	121	6,850
Balance at June 30, 2014	$ 3,606	$(16,441)	$ (12,835)
Balance at January 1, 2014	$ (8,357)	$(16,762)	$ (25,119)
Other comprehensive income (loss) before reclassifications	12,041	0	12,041
Amounts reclassified from accumulated other comprehensive (loss) income	(78)	321	243
Net current-period other comprehensive income	11,963	321	12,284
Balance at June 30, 2014	$ 3,606	$(16,441)	$ (12,835)

(in thousands)	Available-for-Sale Securities	Employee Benefit Plans	Accumulated Other Comprehensive Income

Balance at March 31, 2013	$ 22,858	$(28,053)	$ (5,195)
Other comprehensive (loss) income before reclassifications	(22,824)	0	(22,824)
Amounts reclassified from accumulated other comprehensive (loss) income	(45)	397	352
Net current-period other comprehensive (loss) income	(22,869)	397	(22,472)
Balance at June 30, 2013	$ (11)	$(27,656)	$ (27,667)
Balance at January 1, 2013	$ 26,356	$(28,462)	$ (2,106)
Other comprehensive (loss) income before reclassifications	(26,102)	0	(26,102)
Amounts reclassified from accumulated other comprehensive (loss) income	(265)	806	541
Net current-period other comprehensive (loss) income	(26,367)	806	(25,561)
Balance at June 30, 2013	$ (11)	$(27,656)	$ (27,667