FIRSTENERGY CORP
Form 4/A
March 04, 2005

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
SNYDER CAROLE B

(Last) (First) (Middle)

76 SOUTH MAIN STREET

(Street)

AKRON, OH 44308

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
FIRSTENERGY CORP [FE]

3. Date of Earliest Transaction (Month/Day/Year)
02/25/2005

4. If Amendment, Date Original Filed(Month/Day/Year)
03/01/2005

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Senior Vice President

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock								1,089	D	
Common Stock								759.5303	I	by Savings Plan

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount Underlying Securitie (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amoun Numbe Shares
Phantom 3/05D	$ 1 (1)	02/25/2005		A		1,526.033 (2)		02/25/2005	03/01/2008	Common Stock	1,526 (3

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
SNYDER CAROLE B 76 SOUTH MAIN STREET AKRON, OH 44308			Senior Vice President	

Signatures

David W. Whitehead, POA	03/04/2005
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) 1 for 1

(2) 1,271.694 shares are vested (i.e. non-forfeited) immediately. 254.339 shares become vested (i.e. non-forfeited) on 3/1/2008.

(3) This is being filed to correct the number of shares previously reported. The new numbers match the shares reported by our outside record keeper received after March 1, 2005.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. t;font-size:10pt;">
2.69
%
$
9,273

3.18
%

Mortgage-backed securities - residential

Within 1 year
$
0

0.00
%
$
0

0.00
%
Over 1 to 5 years
1,577

4.52
%
0

0.00
%
Over 5 to 10 years
184,968

2.17
%
0

0.00
%
Over 10 years
594,937

2.46
%
0

0.00
%

$
781,482

2.40
%

$
0

0.00
%

Other securities

Over 10 years
$
2,500

5.61
%
$
0

0.00
%

$
2,500

5.61
%
$
0

0.00
%

Total securities

Within 1 year
$
78,160

Explanation of Responses:

1.82
%
$
8,850

3.09
%
Over 1 to 5 years
357,076

2.05
%
86,520

2.33
%
Over 5 to 10 years
324,528

2.46
%
45,209

2.72
%
Over 10 years
604,138

2.49
%
0

0.00
%

$
1,363,902

2.33
%
$
140,579

2.50
%

[1] Balances of available-for-sale securities are shown at amortized cost.
[2] Interest income includes the tax effects of taxable-equivalent adjustments using a combined New York State and Federal effective income tax rate of 24.5% to increase tax exempt interest income to taxable-equivalent basis.

The average taxable-equivalent yield on the securities portfolio was 2.24% in 2018, 2.19% in 2017 and 2.13% in 2016.

At December 31, 2018, there were no holdings of any one issuer, other than the U.S. Government sponsored entities, in an amount greater than 10% of the Company’s shareholders’ equity.

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Loans and Leases

Table 4 - Composition of Loan and Lease Portfolio

Originated Loans and Leases	As of December 31,				
(in thousands)	2018	2017	2016	2015	2014
Commercial and industrial					
Agriculture	$107,494	$108,608	$118,247	$88,299	$78,507
Commercial and industrial other	926,429	932,067	847,055	768,024	688,529
Subtotal commercial and industrial	1,033,923	1,040,675	965,302	856,323	767,036
Commercial real estate					
Construction	164,285	202,486	135,834	103,037	72,427
Agriculture	170,005	129,712	102,509	86,935	58,994
Commercial real estate other	1,827,279	1,660,782	1,431,690	1,167,250	979,621
Subtotal commercial real estate	2,161,569	1,992,980	1,670,033	1,357,222	1,111,042
Residential real estate					
Home equity	208,459	212,812	209,277	202,578	186,957
Mortgages	1,083,802	1,039,040	947,378	823,841	710,904
Subtotal residential real estate	1,292,261	1,251,852	1,156,655	1,026,419	897,861
Consumer and other					
Indirect	12,663	12,144	14,835	17,829	18,298
Consumer and other	57,565	50,214	44,393	40,904	35,874
Subtotal consumer and other	70,228	62,358	59,228	58,733	54,172
Leases	14,556	14,467	16,650	14,861	12,251
Total loans and leases	4,572,537	4,362,332	3,867,868	3,313,558	2,842,362
Less: unearned income and deferred costs and fees	(3,796)	(3,789)	(3,946)	(2,790)	(2,388)
Total originated loans and leases, net of unearned income and deferred costs and fees	$4,568,741	$4,358,543	$3,863,922	$3,310,768	$2,839,974
Acquired Loans					
Commercial and industrial					
Commercial and industrial other	$43,712	$50,976	$79,317	$84,810	$97,034
Subtotal commercial and industrial	43,712	50,976	79,317	84,810	97,034
Commercial real estate					
Construction	1,384	1,480	8,936	4,892	35,906
Agriculture	224	247	267	2,095	3,182
Commercial real estate other	177,484	206,020	241,605	284,952	308,488
Subtotal commercial real estate	179,092	207,747	250,808	291,939	347,576
Residential real estate					
Home equity	21,149	28,444	37,737	42,092	56,008
Mortgages	20,484	22,645	25,423	27,491	32,282
Subtotal residential real estate	41,633	51,089	63,160	69,583	88,290
Consumer and other					
Indirect	0	0	0	0	0
Consumer and other	761	765	826	911	1,095
Subtotal consumer and other	761	765	826	911	1,095
Covered loans	0	0	0	14,031	19,319
Total acquired loans and leases	$265,198	$310,577	$394,111	$461,274	$553,314

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Total loans and leases of $4.8 billion at December 31, 2018 were up $164.8 million or 3.5% from December 31, 2017. The growth was mainly due to organic loan growth. On August 1, 2012, the Company acquired $889.3 million of loans in the VIST Financial acquisition. These loans are shown in the table under the acquired loan heading. All other loans, including loans originated by VIST Bank since the acquisition date of August 1, 2012, are considered originated loans. Originated loan balances at December 31, 2018 were up 4.8% over year-end 2017. The increase in originated loans, over prior year-end, was in all loan categories except commercial and industrial, which was relatively flat compared to prior year-end. As of December 31, 2018, total loans and leases represented 71.5% of total assets compared to 70.2% of total assets at December 31, 2017.

Residential real estate loans of $1.3 billion at December 31, 2018, including home equity loans, increased by $31.0 million or 2.4% from $1.3 billion at year-end 2017, and comprised 27.6% of total loans and leases at December 31, 2018. Growth in residential loan balances is impacted by the Company’s decision to retain these loans or sell them in the secondary market due to interest rate considerations. The Company’s Asset/Liability Committee meets regularly and establishes standards for selling and retaining residential real estate mortgage originations.

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

Over the past several years, the Company has retained the vast majority of residential real estate loan originations. However, the amount of residential real estate loans sold in the secondary market in 2018 was up over 2017. During 2018, 2017, and 2016, the Company sold residential mortgage loans totaling $27.7 million, $4.6 million, and $3.9 million, respectively, and realized net gains on these sales of $458,000, $50,000, and $95,000, respectively. When residential mortgage loans are sold to FHLMC or SONYMA, the Company typically retains all servicing rights, which provides the Company with a source of fee income. In connection with the sales in 2018, 2017, and 2016, the Company recorded mortgage-servicing assets of $207,000, $38,000, and $21,000, respectively.

The Company originates fixed rate and adjustable rate residential mortgage loans, including loans that have characteristics of both, such as a 7/1 adjustable rate mortgage, which has a fixed rate for the first seven years and then adjusts annually thereafter. The majority of residential mortgage loans originated over the last several years have been fixed rate given the low interest rate environment. Adjustable rate residential real estate loans may be underwritten based upon an initial rate which is below the fully indexed rate; however, the initial rate is generally less than 100 basis points below the fully indexed rate. As such, the Company does not believe that this practice creates any significant credit risk.

Commercial real estate loans totaled $2.3 billion at December 31, 2018; an increase of $139.9 million compared to December 31, 2017, and represented 48.4% of total loans and leases at December 31, 2018, compared to 47.1% at December 31, 2017.

Commercial and industrial loans totaled $1.1 billion at December 31, 2018, which is a decrease of $14.0 million from December 31, 2017. Commercial and industrial loans represented 22.3% of total loans at December 31, 2018 compared to 23.4% at December 31, 2017.

As of December 31, 2018, agriculturally-related loans totaled $277.7 million or 5.7% of total loans and leases compared to $238.6 million or 5.1% of total loans and leases at December 31, 2017. Agriculturally-related loans include loans to dairy farms and cash and vegetable crop farms. Agriculturally related loans are primarily made based on identified cash flows of the borrower with consideration given to underlying collateral, personal guarantees, and government related guarantees. Agriculturally-related loans are generally secured by the assets or property being financed or other business assets such as accounts receivable, livestock, equipment or commodities/crops.

The consumer loan portfolio includes personal installment loans, indirect automobile financing, and overdraft lines of credit. Consumer and other loans were $71.0 million at December 31, 2018, compared to $63.1 million at December 31, 2017.

The lease portfolio increased by 0.6% to $14.6 million at December 31, 2018 from $14.5 million at December 31, 2017. As of December 31, 2018, commercial leases and municipal leases represented 100.0% of total leases.

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

The carrying value of loans acquired from VIST and accounted for in accordance with ASC Subtopic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality," was $11.0 million at December 31, 2018, compared to $12.0 million at December 31, 2017 due to normal loan run off. Under ASC Subtopic 310-30, loans may be aggregated and accounted for as pools of loans if the loans being aggregated have common risk characteristics. The Company elected to account for the loans with evidence of credit deterioration individually rather than aggregate them into pools. The difference between the undiscounted cash flows expected at acquisition and the investment in the acquired loans, or the "accretable yield," is recognized as interest income utilizing the level-yield method over the life of each loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "non-accretable difference," are not recognized as a yield adjustment, as a loss accrual or as a valuation allowance.

Increases in expected cash flows subsequent to the acquisition are recognized prospectively through an adjustment of the yield on the loans over the remaining life, while decreases in expected cash flows are recognized as impairment through a loss provision and an increase in the allowance for loan losses. Valuation allowances (recognized in the allowance for loan losses) on these impaired loans reflect only losses incurred after the acquisition (representing all cash flows that were expected at acquisition but currently are not expected to be received).

The carrying value of loans not exhibiting evidence of credit impairment at the time of the acquisition (i.e. loans outside of the scope of ASC 310-30) was $254.2 million at December 31, 2018 as compared to $298.6 million at December 31, 2017 due to normal loan run off. The fair value of the acquired loans not exhibiting evidence of credit impairment was determined by projecting contractual cash flows discounted at risk-adjusted interest rates.

The carrying value of the acquired loans reflects management's best estimate of the amount to be realized from the acquired loan and lease portfolios. However, the amounts the Company actually realizes on these loans could differ materially from the carrying value reflected in these financial statements, based upon the timing of collections on the acquired loans in future periods, underlying collateral values and the ability of borrowers to continue to make payments.

Purchased performing loans were recorded at fair value, including a credit discount. Credit losses on acquired performing loans are estimated based on analysis of the performing portfolio. Such estimated credit losses are recorded as an accretable discount in a manner similar to purchased impaired loans. The fair value discount other than for credit loss is accreted as an adjustment to yield over the estimated lives of the loans. Interest is accrued daily on the outstanding principal balances of purchased performing loans. Fair value adjustments are also accreted into income over the estimated lives of the loans on a level yield basis.

The Company has adopted comprehensive lending policies, underwriting standards and loan review procedures. There were no significant changes to the Company's existing policies, underwriting standards and loan review during 2018. The Company's Board of Directors approves the lending policies at least annually. The Company recognizes that exceptions to policy guidelines may occasionally occur and has established procedures for approving exceptions to these policy guidelines. Management has also implemented reporting systems to monitor loan originations, loan quality, concentrations of credit, loan delinquencies and nonperforming loans and potential problem loans.

The Company’s loan and lease customers are located primarily in the New York and Pennsylvania communities served by its 4 subsidiary banks. Although operating in numerous communities in New York State and Pennsylvania, the Company is still dependent on the general economic conditions of these states. Other than geographic and general economic risks, management is not aware of any material concentrations of credit risk to any industry or individual borrower.

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Analysis of Past Due and Nonperforming Loans

	As of December 31,				
(in thousands)	2018	2017	2016	2015	2014
Loans 90 days past due and accruing*					
Commercial real estate	$0	$0	$0	$0	$0
Residential real estate	0	0	0	58	106
Consumer and other	0	44	0	0	0
Total loans 90 days past due and accruing	0	44	0	58	106
Nonaccrual loans					
Commercial and industrial	1,883	2,852	738	1,738	2,116
Commercial real estate	8,007	5,948	9,076	6,054	7,520
Residential real estate	12,072	10,363	9,061	9,863	9,043
Consumer and other	234	354	166	182	349
Leases	0	0	0	0	0
Total nonaccrual loans and leases	22,196	19,517	19,041	17,837	19,028
Troubled debt restructurings not included above	4,395	3,449	2,631	3,915	3,444
Total nonperforming loans and leases	26,591	23,010	21,672	21,810	22,578
Other real estate owned	1,595	2,047	908	2,692	5,683
Total nonperforming assets	$28,186	$25,057	$22,580	$24,502	$28,261
Total nonperforming loans and leases as a percentage of total loans and leases	0.55 %	0.49 %	0.51 %	0.58 %	0.67 %
Total nonperforming assets as a percentage of total assets	0.42 %	0.38 %	0.36 %	0.43 %	0.54 %
Allowance as a percentage of nonperforming loans and leases	163.25 %	172.84 %	164.98 %	146.74 %	128.43 %

* The 2018, 2017, 2016, 2015 and 2014 columns in the above table exclude $1.3 million, $1.1 million, $2.6 million, $2.5 million, and $3.5 million, respectively, of acquired loans that are 90 days past due and accruing interest. These loans were originally recorded at fair value on the acquisition date of August 1, 2012. These loans are considered to be accruing as the Company can reasonably estimate future cash flows on these acquired loans and the Company expects to fully collect the carrying value of these loans. Therefore, the Company is accreting the difference between the carrying value of these loans and their expected cash flows into interest income.

The level of nonperforming assets at the past five year-ends is illustrated in the table above. The ratio of nonperforming loans to total loans improved between 2014 and 2017, but was up slightly at year-end 2018. The Company's total nonperforming assets as a percentage of total assets was 0.42% at December 31, 2018, up from 0.38% at December 31, 2017, but continues to compare favorably to its peer group's most recent ratio of 0.61% at September 30, 2018. The peer data is from the Federal Reserve Board and represents banks or bank holding companies with assets between $3.0 billion and $10.0 billion.

A breakdown of nonperforming loans by portfolio segment is shown above. Nonperforming loans at December 31, 2018 were up 15.6% from December 31, 2017. Nonperforming loans represented 0.55% of total loans at December 31, 2018, compared to 0.49% of total loans at December 31, 2017, and 0.51% of total loans at December 31, 2016. The increase in nonperforming loans at year-end 2018 compared to year-end 2017 was mainly in commercial real estate and residential real estate loans, and partially offset by a decrease in commercial and industrial loans. The increase in commercial real estate nonaccrual loans was mainly due to the addition of one relationship loan totaling $4.8 million. The decrease in commercial and industrial nonaccrual loans reflects paydowns and loans returned to accruing status due to improved performance. At December 31, 2018, other real estate owned was down $452,000 from prior year-end and represented 5.7% of total nonperforming assets, down from 8.2% at December 31, 2017. The decrease in other real estate owned was mainly due to the write-down of one commercial real estate property during

2018.

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Loans are considered modified in a troubled debt restructuring ("TDR") when, due to a borrower's financial difficulties, the Company makes a concession(s) to the borrower that the Company would not otherwise consider. When modifications are provided for reasons other than as a result of the financial distress of the borrower, these loans are not classified as TDRs or impaired. These modifications may include, among others, an extension of the term of the loan, and granting a period when interest-only payments can be made, with the principal payments made over the remaining term of the loan or at maturity. TDRs are included in the above table within the following categories: "loans 90 days past due and accruing", "nonaccrual loans", or "troubled debt restructurings not included above". Loans in the latter category include loans that meet the definition of a TDR but are performing in accordance with the modified terms and have shown a satisfactory period of repayment (generally six consecutive months) and where full collection of all is reasonably assured. At December 31, 2018, the Company had $6.9 million in TDR balances, which are included in the above table; $4.4 million are included in the line captioned "Troubled debt restructurings not included above" and the remainder within nonaccrual loans.

In general, the Company places a loan on nonaccrual status if principal or interest payments become 90 days or more past due and/or management deems the collectability of the principal and/or interest to be in question, as well as when called for by regulatory requirements. Although in nonaccrual status, the Company may continue to receive payments on these loans. These payments are generally recorded as a reduction to principal and interest income is recorded only after principal recovery is reasonably assured. For additional financial information on the difference between the interest income that would have been recorded if these loans and leases had been paid in accordance with their original terms and the interest income that was recorded, refer to "Note 3 – Loans and Leases" in the Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

The Company's recorded investment in originated loans and leases that are considered impaired totaled $14.2 million at December 31, 2018, and $12.1million at December 31, 2017. 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 loans that are 90 days or more past due. 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.

At December 31, 2018, there was a specific reserve of $3.8 million on seven commercial loans in the originated loan portfolio, compared to a $441,000 reserve on seven commercial real estate loans at December 31, 2017. The increase in the specific reserve was mainly due to the addition of a $3.0 million specific reserve added to one loan in the fourth quarter of 2018. The majority of the remaining 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 or the loans have been written down to fair value. 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. There was no interest income recognized on impaired loans and leases for 2018, 2017 and 2016.

The ratio of the allowance to nonperforming loans (loans past due 90 days and accruing, nonaccrual loans and restructured troubled debt) was 163.25% at December 31, 2018, compared to 172.84% at December 31, 2017. The Company's nonperforming loans are mostly made up of collateral dependent impaired loans requiring little to no specific allowance due to the level of collateral available with respect to these loans and/or previous charge-offs.

Management reviews the loan portfolio for evidence of potential problem loans and leases. Potential problem loans and leases are loans and leases that are currently performing in accordance with contractual terms, but where known information about possible credit problems of the related borrowers causes management to have doubt as to the ability of such borrowers to comply with the present loan payment terms and may result in such loans and leases becoming nonperforming at some time in the future. Management considers loans and leases classified as Substandard, which continue to accrue interest, to be potential problem loans and leases. The Company, through its credit administration function, identified 29 commercial relationships from the originated portfolio and 6 commercial relationships from the acquired portfolio totaling $33.7 million and $1.2 million, respectively at December 31, 2018 that were potential problem loans. At December 31, 2017, there were 28 relationships totaling $11.2 million in the originated portfolio and 10 relationships totaling $3.6 million in the acquired portfolio that were considered potential problem loans.

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Of the 29 commercial relationships from the originated portfolio that were classified as potential problem loans at December 31, 2018, there were 11 relationships that equaled or exceeded $1.0 million, which in aggregate totaled $30.1 million. Of the 6 commercial relationships from the acquired loan portfolio, there were no relationships that equaled or exceeded $1.0 million. The potential problem loans remain in a performing status due to a variety of factors, including payment history, the value of collateral supporting the credits, and personal or government guarantees. These factors, when considered in the aggregate, give management reason to believe that the current risk exposure on these loans does not warrant accounting for these loans as nonperforming. However, these loans do exhibit certain risk factors, which have the potential to cause them to become nonperforming. Accordingly, management's attention is focused on these credits, which are reviewed on at least a quarterly basis.

The Allowance for Loan and Lease Losses

Originated loans and leases

The methodology for determining the allowance is considered by management to be a critical accounting policy due to the high degree of judgment involved, the subjectivity of the assumptions utilized and the potential for changes in the economic environment that could result in changes to the amount of the allowance. Management's determination of the adequacy of the allowance is based on periodic evaluations of the loan portfolio and of current economic conditions.

Tompkins' model has been designed with certain key concepts in mind, including:

1. An acknowledgment that arriving at an appropriate allowance requires a high degree of management judgment.
2. The allowance should be maintained at a level appropriate to cover estimated losses on loans individually evaluated for impairment, as well as estimated credit losses inherent in the remainder of the portfolio.
3. Estimates of credit losses should consider all significant factors that affect the collectability of the portfolio as of the evaluation date.
4. Loss emergence period is a critical assumption in the allowance estimate, which represents the average amount of time between when loss events occur for specific loan types and when such problem loans are identified and the related loss amounts are confirmed through charge-offs.
5. The allowance should be based on a comprehensive, well-documented, and consistently applied analysis of the loan portfolio.

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

1. Impaired Loans - Management considers a loan to be impaired if, based on current information, it is probable that the Company will be unable to collect all scheduled payments of principal or interest when due, according to the contractual terms of the loan agreement. When a loan is considered to be impaired, the amount of the impairment is measured based on the present value of expected future cash flows discounted at the effective interest rate of the loan or, as a practical expedient, at the observable market price or the fair value of collateral (less costs to sell) if the loan is collateral dependent. Management excludes large groups of smaller balance homogeneous loans such as residential mortgages, consumer loans, and leases, which are collectively evaluated.
2. Criticized and Classified Credits – For loans that are not impaired, but are rated special mention or worse, management evaluates credits based on elevated risk characteristics and assigns reserves based upon analysis of historical loss experience of loans with similar risk characteristics.
3.

Historical Loss Experience - For loans that are not impaired, or reviewed individually, management assigns a reserve based upon historical loss experience over a designated look-back period. Management has evaluated a variety of look-back periods and has determined that an eight year look back period is appropriate to capture a full range of economic cycles.

4. Qualitative/Subjective Analysis – The model also includes an analysis of a variety of subjective factors to support the reserve estimate. These subjective factors may include reserve allocations for risks that may not otherwise be fully recognized in other components of the model. Among the subjective factors that are routinely considered as part of this analysis are: growth trends in the portfolio, changes in management and/or polices related to lending activities, trends in classified or past due/nonaccrual loans, concentrations of credit, local and national economic trends, and industry trends.

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Periodically, management conducts an analysis to estimate the loss emergence period for various loan categories based on samples of historical charge-offs. Model output by loan category is reviewed to evaluate the reasonableness of the reserve levels in comparison to the estimated loss emergence period applied to historical loss experience.

In addition to the components discussed above, management reviews the model output for reasonableness by analyzing the results in comparisons to recent trends in the loan/lease portfolio, through back-testing of results from prior models in comparison to actual loss history, and by comparing our reserves and loss history to industry peer results.

The model results are reviewed by management at the Corporate Credit Policy Committee and at the Audit Committee of the Board of Directors. Additionally, on an annual basis, management conducts a validation process of the model. This validation includes reviewing the appropriateness of model calculations, back testing of model results and appropriateness of key assumptions used in the model.

Although we believe our process for determining the allowance adequately considers all of the factors that would likely result in credit losses, this evaluation is inherently subjective as it requires material estimates, including expected default probabilities, loss emergence periods, the amounts and timing of expected future cash flows on impaired loans, and estimated losses based on historical loss experience and current economic conditions. All of these factors may be susceptible to significant change. To the extent that actual results differ from management estimates, additional loan loss provisions may be required that would adversely impact earnings for future periods. Based on its evaluation of the allowance as of December 31, 2018, management considers the allowance to be appropriate. Under adversely or positively different conditions or assumptions, the Company would need to increase or decrease the allowance.

Acquired Loans and Leases
As part of our determination of the fair value of our acquired loans at the time of acquisition, the Company established a credit mark to provide for expected losses in our acquired loan portfolio. There was no allowance for loan losses carried over from the acquired company. To the extent that credit quality deteriorates subsequent to acquisition, such deterioration would result in the establishment of an allowance for the acquired loan portfolio.

Acquired loans accounted for under ASC 310-30

Acquired loans were accounted for under ASC 310-30, and 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.

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The allocation of the Company’s allowance as of December 31, 2018, and each of the previous four years is illustrated in Table 5- Allocation of the Allowance for Loan and Lease Losses, below.

Table 5 - Allocation of the Allowance for Originated and Acquired Loan and Lease Losses

	As of December 31,									
(in thousands)	2018		2017		2016		2015		2014	
Originated loans outstanding at end of year	$4,568,741		$4,358,543		$3,863,922		$3,310,768		$2,839,974	
Allocation of the originated allowance by originated loan type:										
Commercial and industrial	$11,217		$11,812		$9,389		$10,495		$9,157	
Commercial real estate	23,483		20,412		19,836		15,479		12,069	
Residential real estate	7,317		6,161		5,149		4,070		5,030	
Consumer and other	1,304		1,301		1,224		1,268		1,900	
Total	$43,321		$39,686		$35,598		$31,312		$28,156	
Allocation of the originated allowance as a percentage of total originated allowance:										
Commercial and industrial	26	%	30	%	27	%	34	%	32	%
Commercial real estate	54	%	51	%	56	%	49	%	43	%
Residential real estate	17	%	16	%	14	%	13	%	18	%
Consumer and other	3	%	3	%	3	%	4	%	7	%
Total	100	%	100	%	100	%	100	%	100	%
Loan and lease types as a percentage of total originated loans and leases:										
Commercial and industrial	23	%	24	%	25	%	26	%	27	%
Commercial real estate	47	%	46	%	43	%	41	%	39	%
Residential real estate	28	%	29	%	30	%	31	%	32	%
Consumer and other	2	%	1	%	2	%	2	%	2	%
Total	100	%	100	%	100	%	100	%	100	%

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	As of December 31,				
(in thousands)	2018	2017	2016	2015	2014
Acquired loans outstanding at end of year	$265,198	$310,577	$394,111	$461,274	$553,314
Allocation of the acquired allowance by acquired loan type:					
Commercial and industrial	$55	$25	$0	$433	$431
Commercial real estate	0	0	97	61	337
Residential real estate	28	54	54	198	51
Consumer and other	6	6	6	0	22
Total	$89	$85	$157	$692	$841
Allocation of the acquired allowance as a percentage of total acquired allowance:					
Commercial and industrial	62 %	29 %	0 %	62 %	51 %
Commercial real estate	0 %	0 %	62 %	9 %	40 %
Residential real estate	31 %	64 %	34 %	29 %	6 %
Consumer and other	7 %	7 %	4 %	0 %	3 %
Total	100 %	100 %	100 %	100 %	100 %
Loan and lease types as a percentage of total acquired loans and leases:					
Commercial and industrial	16 %	16 %	20 %	18 %	18 %
Commercial real estate	68 %	67 %	64 %	64 %	63 %
Residential real estate	16 %	17 %	16 %	15 %	16 %
Consumer and other	0 %	0 %	0 %	0 %	0 %
Covered	0 %	0 %	0 %	3 %	3 %
Total	100 %	100 %	100 %	100 %	100 %

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

The five year trend in the allowance is shown above. Over the five year period, the originated allowance has steadily increased driven in large part by growth in originated loans, while the acquired portfolio has steadily decreased, reflecting run-off of the acquired portfolio, improving asset quality metrics in the acquired portfolio, and net charge-offs. As of December 31, 2018, the total allowance for loan and lease losses was $43.4 million, which was up $3.6 million or 9.2% from year-end 2017. The year-end allowance for originated loans and leases was up $3.6 million compared to prior year end, and the allowance for acquired loans was up $4,000 from year-end 2017. At December 31, 2018, the total allowance was 163.25% of total nonperforming loans compared to 172.84% at December 31, 2017.

The Company’s allowance for originated loan and lease losses totaled $43.3 million at December 31, 2018, which represented 0.95% of total originated loans, compared to 0.91% reported at December 31, 2017. The $3.6 million or 9.2% increase in the allowance for originated loans in 2018 over 2017 was mainly due to the 4.8% growth in the originated loan portfolio over 2017, and an impairment reserve related to the downgrade of a single commercial real estate relationship in the fourth quarter of 2018. The latter contributed to the increase in the allocation for commercial real estate loans shown in the originated allowance table above. Asset quality metrics in the originated portfolio remain favorable at December 31, 2018 but did show some deterioration from December 31, 2017. Originated loans internally-classified as Special Mention and Substandard totaled $72.0 million at December 31, 2018, up from $66.7 million at year-end 2017. Loans classified as Substandard increased by $23.4 million over December 31, 2017, while loans classified as Special Mention were down by $16.3 million. Nonaccrual originated loans were $19.3 million as of December 31, 2018, up $3.1 million from year-end 2017. Net charge-offs of originated loans were $262,000 or 0.1%

of average originated loans in 2018 compared to net charge-offs of $140,000 or 0.0% of average originated loans in 2017.

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The allowance for acquired loans and leases was $89,000 at December 31, 2018, up 4.7% over prior year end. The amount of acquired loans internally-classified as Special Mention and Substandard at December 31, 2018 was down $4.3 million or 55.8% compared to December 31, 2017, reflecting successful workouts and related paydowns and charge-offs during 2018. Net charge-offs of acquired loans totaled $41,000 in 2018 compared to net charge-offs of $5,000 in 2017. Acquired nonaccrual loans totaled $2.9 million at December 31, 2018, compared to $3.3 million at December 31, 2017.

The level of future charge-offs is dependent upon a variety of factors such as national and local economic conditions, trends in, various industries, underwriting characteristics, and conditions unique to each borrower. Given uncertainties surrounding these factors, it is difficult to estimate future losses.

Table 6 - Analysis of the Allowance for Originated and Acquired Loan and Lease Losses

	December 31,				
(in thousands)	2018	2017	2016	2015	2014
Average originated loans outstanding during year	$4,472,682	$4,051,298	$3,525,649	$3,023,456	$2,624,282
Balance of allowance at beginning of year	39,686	35,598	31,312	28,156	26,700
Originated loans charged-off:					
Commercial and industrial	293	291	878	221	470
Commercial real estate	60	21	12	363	639
Residential real estate	424	584	263	338	512
Consumer and other	1,350	960	521	1,074	1,308
Leases	0	0	0	0	0
Total loans charged-off	$2,127	$1,856	$1,674	$1,996	$2,929
Recoveries of originated loans previously charged-off:					
Commercial and industrial	50	119	576	809	636
Commercial real estate	812	980	859	1,277	1,832
Residential real estate	324	212	63	112	88
Consumer and other	679	405	325	487	536
Total loan recoveries	$1,865	$1,716	$1,823	$2,685	$3,092
Net loan charge-offs and (recoveries)	262	140	(149)	(689)	(163)
Additions to allowance charged to operations	3,897	4,228	4,137	2,467	1,293
Balance of originated allowance at end of year	$43,321	$39,686	$35,598	$31,312	$28,156
Originated allowance as a percentage of originated loans and leases outstanding	0.95%	0.91%	0.92%	0.95%	0.99%
Net (recoveries) charge-offs as a percentage of average originated loans and leases outstanding during the year	0.01%	0.00%	0.00%	(0.02)%	(0.01)%

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	December 31,				
(in thousands)	2018	2017	2016	2015	2014
Average acquired loans outstanding during year	$284,901	$349,915	$431,572	$508,490	$614,740
Balance of allowance at beginning of year	85	157	692	841	1,270
Acquired loans charged-off:					
Commercial and industrial	41	74	698	77	293
Commercial real estate	82	159	181	400	631
Residential real estate	190	483	35	302	484
Consumer and other	0	2	121	6	51
Total loans charged-off	$313	$718	$1,035	$785	$1,459
Recoveries of acquired loans previously charged-off:					
Commercial and industrial	106	24	20	7	0
Commercial real estate	31	637	268	142	0
Residential real estate	135	44	0	9	0
Consumer and other	0	8	28	0	17
Total loan recoveries	$272	$713	$316	$158	$17
Net loans charged-off	41	5	719	627	1,442
Additions (reductions) to allowance charged to operations	45	(67)	184	478	1,013
Balance of acquired allowance at end of year	$89	$85	$157	$692	$841
Acquired allowance as a percentage of acquired loans outstanding	0.03 %	0.02 %	0.04 %	0.14 %	0.14 %
Net charge-offs as a percentage of average acquired loans and leases outstanding during the year	0.01 %	0.00 %	0.17 %	0.12 %	0.23 %
Total net charge-offs as a percentage of average total loans and leases outstanding during the year	0.01 %	0.00 %	0.00 %	0.00 %	0.04 %

The provision for loan and lease losses represents management’s estimate of the expense necessary to maintain the allowance for loan and lease losses at an appropriate level. The above table generally shows an increase in provision expense for the originated portfolio and a decrease in provision expense for the acquired portfolio over the period from 2014 to 2018. The increase in provision expense for the originated portfolio largely reflects the growth in the originated portfolio over that period. Asset quality has been generally favorable over the period. The provision expense for originated loans over the past five years benefited from significant recoveries on two commercial/commercial real estate relationships that resulted in net loan recoveries on originated loans in 2016, 2015, and 2014 and smaller net charge-offs in 2018 and 2017. Provision expense for the acquired portfolio showed an increase from 2017, but showed decreases from 2014 through 2017. Asset quality trends for the acquired portfolio continue to show improvement as evidenced by low net charge-offs and lower Special Mention and Substandard loans.

The ratio of the allowance for originated loan and lease losses as a percentage of total originated loans was 0.95% at year-end 2018 compared to 0.91% at year-end 2017. The allowance coverage to nonperforming loans and leases was 163.25% at December 31, 2018 compared to 172.84% at December 31, 2017. Management believes that, based upon its evaluation as of December 31, 2018, the allowance is appropriate.

Deposits and Other Liabilities

Total deposits were $4.9 billion at December 31, 2018, an increase of $51.2 million or 1.1% compared to year-end 2017. The increase from year-end 2017 consisted of savings and money market balances (up $201.6 million), which is partially offset by noninterest bearing deposits (down $39.5 million) and time deposits (down $111.0 million).

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The most significant source of funding for the Company is core deposits. The Company defines core deposits as total deposits less time deposits of $250,000 or more, brokered deposits and municipal money market deposits. Core deposits increased by $113.4 million or 2.8% to $4.1 billion at year-end 2018 from $4.0 billion at year-end 2017. Core deposits represented 84.0% of total deposits at December 31, 2018, compared to 82.6% of total deposits at December 31, 2017.

Municipal money market accounts totaled $577.6 million at year-end 2018, which was an increase of 5.8% over year-end 2017. In general, there is a seasonal pattern to municipal deposits starting with a low point during July and August. Account balances tend to increase throughout the fall and into the winter months from tax deposits and receive an additional inflow at the end of March from the electronic deposit of state funds.

Table 1-Average Statements of Condition and Net Interest Analysis, shows the average balance and average rate paid on the Company's primary deposit categories for the years ended December 31, 2018, 2017, and 2016. Average interest-bearing deposits were flat for 2018 when compared to 2017. The average cost of interest-bearing deposits was 0.48% for 2018 and 0.35% for 2017. Average noninterest bearing deposits at December 31, 2018 were up $103.5 million or 8.1% over year-end 2017. A maturity schedule of time deposits outstanding at December 31, 2018 is included in "Note 7 Deposits" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

The Company uses both retail and wholesale repurchase agreements. Retail repurchase agreements are arrangements with local customers of the Company, in which the Company agrees to sell securities to the customer with an agreement to repurchase those securities at a specified later date. Retail repurchase agreements totaled $81.8 million at December 31, 2018, and $75.2 million at December 31, 2017. Management generally views local repurchase agreements as an alternative to large time deposits. Refer to "Note 8 Federal Funds Purchased and Securities Sold Under Agreements to Repurchase" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report for further details on the Company's repurchase agreements.

The Company's other borrowings totaled $1.1 billion at year-end 2018, which was in line with prior year. The increase was to support loan growth in excess of deposit growth. The $1.1 billion in borrowings at December 31, 2018, included $647.1 million in overnight advances from the FHLB, $425.0 million in term advances from the FHLB and a $4.0 million advance from a third party bank. Borrowings at year-end 2017 included $587.7 million in overnight advances from the FHLB, $475.0 million of FHLB term advances, and a $9.0 million advance from a bank. Of the $425.0 million of the FHLB term advances at year-end 2018, $150.0 million are due in over one year. Refer to "Note 9 Other Borrowings" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report for further details on the Company's term borrowings with the FHLB.

LIQUIDITY MANAGEMENT

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

Core deposits, discussed above under “Deposits and Other Liabilities”, are a primary and low cost funding source obtained primarily through the Company’s branch network. In addition to core deposits, the Company uses non-core funding sources to support asset growth. These non-core funding sources include time deposits of $250,000 or more, brokered time deposits, national deposit listing services, municipal money market deposits, bank borrowings, securities sold under agreements to repurchase, overnight borrowings and term advances from the FHLB and other funding sources. Rates and terms are the primary determinants of the mix of these funding sources.

Non-core funding sources totaled $1.9 billion at December 31, 2018, a decrease of $51.3 million or 2.6% from $2.0 billion at December 31, 2017. Non-core funding sources decreased year-over-year as the Company experienced sufficient growth in core deposits to fund earning asset growth. Non-core funding sources as a percentage of total liabilities decreased from 32.8% at year-end 2017 to 31.6% at year-end 2018.

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Non-core funding sources may require securities to be pledged against the underlying liability. Securities carried at $1.2 billion at December 31, 2018 and $1.3 billion at December 31, 2017, were either pledged or sold under agreements to repurchase. Pledged securities or securities sold under agreements to repurchase represented 77.8% of total securities at December 31, 2018, compared to 84.3% of total securities at December 31, 2017.

Cash and cash equivalents totaled $80.4 million as of December 31, 2018, down from $84.3 million at December 31, 2017. Short-term investments, consisting of securities due in one year or less, increased from $57.9 million at December 31, 2017, to $86.8 million at December 31, 2018.

Cash flow from the loan and investment portfolios provides a significant source of liquidity. These assets may have stated maturities in excess of one year, but they have monthly principal reductions. Total mortgage-backed securities, at fair value, were $758.9 million at December 31, 2018 compared with $794.0 million at December 31, 2017. Outstanding principal balances of residential mortgage loans, consumer loans, and leases totaled approximately $1.4 billion at December 31, 2018 as compared to $1.4 billion at December 31, 2017. Aggregate amortization from monthly payments on these assets provides significant additional cash flow to the Company.

Liquidity is enhanced by ready access to national and regional wholesale funding sources including Federal funds purchased, repurchase agreements, brokered certificates of deposit, and FHLB advances. Through its subsidiary banks, the Company has borrowing relationships with the FHLB and correspondent banks, which provide secured and unsecured borrowing capacity. At December 31, 2018, the unused borrowing capacity on established lines with the FHLB was $1.0 billion.

As members of the FHLB, the Company’s subsidiary banks can use certain unencumbered mortgage-related assets and securities to secure additional borrowings from the FHLB. At December 31, 2018, total unencumbered mortgage loans and securities of the Company were $554.3 million. Additional assets may also qualify as collateral for FHLB advances upon approval of the FHLB.

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

Table 7 - Loan Maturity

Remaining maturity of originated loans	December 31, 2018			
(in thousands)	Total	Less than 1 year	After 1 year to 5 years	After 5 years
Commercial and industrial	$1,033,923	$258,420	$301,245	$474,258
Commercial real estate	2,161,569	107,468	254,418	1,799,683
Residential real estate	1,292,261	255	14,982	1,277,024
Total	$4,487,753	$366,143	$570,645	$3,550,965

Remaining maturity of acquired loans	December 31, 2018			
(in thousands)	Total	Less than 1 year	After 1 year to 5 years	After 5 years
Commercial and industrial	$43,712	$9,392	$15,538	$18,782
Commercial real estate	179,092	13,309	84,977	80,806
Residential real estate	41,633	139	3,880	37,614
Total	$264,437	$22,840	$104,395	$137,202

Of the loan amounts shown above in Table 7 - Loan Maturity, maturing over 1 year, $1.9 billion have fixed rates and $2.4 billion have adjustable rates.

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OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business the Company is party to certain financial instruments, which in accordance with accounting principles generally accepted in the United States, are not included in its Consolidated Statements of Condition. These transactions include commitments under standby letters of credit, unused portions of lines of credit, and commitments to fund new loans and are undertaken to accommodate the financing needs of the Company's customers. Loan commitments are agreements by the Company to lend monies at a future date. These loan and letter of credit commitments are subject to the same credit policies and reviews as the Company's loans. Because most of these loan commitments expire within one year from the date of issue, the total amount of these loan commitments as of December 31, 2018, are not necessarily indicative of future cash requirements. Further information on these commitments and contingent liabilities is provided in "Note 17 Commitments and Contingent Liabilities" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

CONTRACTUAL OBLIGATIONS

The Company leases land, buildings, and equipment under operating lease arrangements extending to the year 2090. Most leases include options to renew for periods ranging from 5 to 20 years. In addition, the Company has a software contract for its core banking application through June 30, 2024 along with contracts for more specialized software programs through 2020. Further information on the Company's lease arrangements is provided in "Note 6 Premises and Equipment" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report. The Company's contractual obligations as of December 31, 2018, are shown in Table 8-Contractual Obligations and Commitments below.

Table 8 - Contractual Obligations and Commitments

Contractual cash obligations	At December 31, 2018 Payments due within				
(in thousands)	Total	1 year	1-3 years	3-5 years	After 5 years
Long-term debt	$437,366	$285,442	$151,924	$0	$0
Trust Preferred Debentures[1]	35,518	1,149	2,298	2,298	29,773
Operating leases	32,267	4,790	7,640	6,815	13,022
Software contracts	8,984	2,168	3,383	2,727	706
Total contractual cash obligations	$514,135	$293,549	$165,245	$11,840	$43,501

[1] Dollar amounts include interest payments and contractual payments due until maturity without conversion to stock or early redemption for the remainder of the Company's Trust Preferred Debentures.

RECENTLY ISSUED ACCOUNTING STANDARDS

Refer to "Note 1 Summary of Significant Accounting Policies" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Form 10-K for details of recently issued accounting pronouncements and their expected impact on the Company's financial statements.

Fourth Quarter Summary

Net income for the fourth quarter of 2018 was $18.9 million, up from $2.5 million for the same period in 2017. Diluted earnings per share of $1.23 for the fourth quarter of 2018 were up from $0.16 in the fourth quarter of 2017. Fourth quarter 2017 net income was adversely impacted by the TCJA, which reduced the Federal statutory tax rate from 35% in 2017 to 21% in 2018 and beyond. The change in the tax law created a one-time, non-cash write-down of net deferred tax assets in the amount of $14.9 million in the fourth quarter of 2017 due to the required remeasurement of the net deferred tax assets using the new lower tax rate. Removing the impact of that one-time charge from 2017 fourth quarter earnings would have resulted in diluted earnings per share of $1.15 for the fourth quarter of 2017. For the fourth quarter of 2018, adjusted diluted earnings per share of $1.23 reflected an increase of 7.0% over the $1.15 adjusted diluted earnings per share reported in same quarter last year. Please see the discussion above under “Results of Operations (Comparison of December 31, 2018 and 2017 results) Non-GAAP Disclosure” for an explanation of why management believes this non-GAAP financial measure is useful, and a reconciliation to diluted earnings per share.

Net interest income of $53.2 million for the fourth quarter of 2018 was up 2.4% over the same period in 2017. The increase reflects growth in average earning assets of $204.7 million or 3.3% over the same quarter in 2017. The growth in average earning assets

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was mainly in average loans and leases, which were up $262.6 million or 5.8% over average loans and leases for the fourth quarter of 2017. The yield on average interest earning assets of 4.10% for the fourth quarter of 2018 was up 23 basis points from 3.87% for the fourth quarter of 2017. The average cost of interest bearing liabilities for the fourth quarter of 2018 of 1.04% was up 42 basis points compared to the fourth quarter of 2017. Average deposits for the fourth quarter of 2018 increased $78.1 million, or 1.6% compared to the same period in 2017. Included in the growth of average deposits during 2018 was a $39.7 million increase in average noninterest bearing deposits, up 2.9% from the fourth quarter of 2017.

Net interest margin for the fourth quarter of 2018 was 3.34%, down from 3.42% for the fourth quarter of 2017. The decline in margin over the prior year period was largely due to increases in market interest rates, which resulted in funding costs rising at a faster pace than asset yields.

Provision for loan and lease losses was $2.1 million for the fourth quarter of 2018 compared to $2.0 million in the fourth quarter of 2017. The provision in the fourth quarter of 2018 was mainly driven by an impairment reserve related to the downgrade of a single commercial real estate relationship in the fourth quarter of 2018. The provision expense for the fourth quarter of 2017 was mainly due to the growth in the originated loan portfolio during the quarter. Growth in the originated portfolio in the fourth quarter of 2017 totaled $191.3 million or 4.6% over the third quarter of 2017, compared to growth in the fourth quarter of 2018 of $37.5 million or 0.8% over the third quarter of 2018. Net charge-offs for the fourth quarter of 2018 were $6,000 compared to net charge-offs of $281,000 in the fourth quarter of 2017.

Noninterest income was $19.9 million for the fourth quarter of 2018, up $2.5 million or 14.7% compared to the same period in 2017. Contributing to the increase in noninterest income was $2.5 million related to the collection of fees and nonaccrual interest for a credit that was charged off in 2010.

Noninterest expense was $47.2 million for the fourth quarter of 2018, up $0.9 million or 2.0% over the fourth quarter of 2017. Expenses associated with salaries and wages and employee benefits are the largest component of total noninterest expense. For the fourth quarter of 2018, these expenses increased $1.1 million or 4.0% compared to the fourth quarter of 2017. Salaries and wages increased $0.5 million or 2.4% in the fourth quarter of 2018 over the same period in the prior year, mainly as a result of annual merit-based adjustments as well as some wage increases related to tax reform initiatives. Other employee benefits increased $0.6 million or 9.8% over 2017. The increase over prior year in other employee benefit expenses was mainly in health insurance, which was up $0.6 million or 25.6% in the fourth quarter of 2018 over the fourth quarter of 2017. Other expenses for the fourth quarter of 2018 included an increase of $1.5 million in professional fees, primarily related to investments in strengthening the Company’s compliance and information security infrastructure. Other expenses for the fourth quarter of 2017 included a $2.7 million write-off of a historic tax credit investment, which was placed in service in 2017, resulting in the write-off of the investment and recognition of the $3.3 million of tax credits as a reduction of income tax expense.

Income tax expense for the fourth quarter of 2018 was $4.6 million compared to $18.5 million for the fourth quarter of 2017. The decrease is a direct result of the change in the Federal statutory rate from 35% in 2017 to 21% in 2018 as a result of the Tax Cuts and Jobs Act of 2017. In addition, the change in the tax rate also resulted in a $14.9 million non-cash write-down of net deferred tax assets recorded in the fourth quarter of 2017, which was partially offset by the $3.3 million historic tax credit recognized in the fourth quarter of 2017.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

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

The Company’s Board of Directors has set a policy that interest rate risk exposure will remain within a range whereby net interest income will not decline by more than 10% in one year as a result of a 100 basis point parallel change in rates. Based upon the simulation analysis performed as of November 30, 2018, a 200 basis point parallel upward change in interest rates over a one-year time frame would result in a one-year decrease in net interest income of approximately 3.7% from the base case, while a 200 basis

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point parallel decline in interest rates over a one-year period would result in a one-year increase in net interest income of approximately 0.9% from the base case. The simulation assumes no balance sheet growth and no management action to address balance sheet mismatches.

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

The exposure in the 200 basis point decline scenario results from the Company's assets repricing downward to a greater degree than the rates on the Company's interest-bearing liabilities, mainly deposits. Rates on savings and money market accounts have recently experienced slight increases compared with the historically low interest rate environment experienced in prior years; allowing for some interest expense relief in the first year of the declining rate scenario. In addition, the model assumes that prepayments accelerate in the down interest rate environment resulting in additional pressure on asset yields as proceeds are reinvested at lower rates.

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

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

In addition to the simulation analysis, management uses an interest rate gap measure. Table 9-Interest Rate Risk Analysis below is a Condensed Static Gap Report, which illustrates the anticipated repricing intervals of assets and liabilities as of December 31, 2018. The Company's one-year interest rate gap was a negative $897.7 million or 13.28% of total assets at December 31, 2018, compared with a negative $762.6 million or 11.47% of total assets at December 31, 2017. A negative gap position exists when the amount of interest-bearing liabilities maturing or repricing exceeds the amount of interest-earning assets maturing or repricing within a particular time period. This analysis suggests that the Company's net interest income is more vulnerable to an increasing rate environment than it is to a prolonged declining interest rate environment. An interest rate gap measure could be significantly affected by external factors such as a rise or decline in interest rates, loan or securities prepayments, and deposit withdrawals.

Table 9 - Interest Rate Risk Analysis

Condensed Static Gap - December 31, 2018	Repricing Interval				
(in thousands)	Total	0-3 months	3-6 months	6-12 months	12 months
Interest-earning assets*	$6,393,434	$1,210,120	$290,091	$513,464	$2,013,675
Interest-bearing liabilities	4,665,265	2,408,280	168,420	334,711	2,911,411
Net gap position		(1,198,160)	121,671	178,753	(897,736)
Net gap position as a percentage of total assets		(17.73)%	1.80%	2.64%	(13.28)%

*Balances of available-for-sale securities are shown at amortized cost.

The Company anticipates that, if the recent trend of rising short-term interest rates continues, the trajectory of net interest income will depend significantly on the Company's ability to manage deposit pricing, quantity and retention in a competitive market considering that the cost of deposits significantly influences our net interest income. Throughout 2018, the cost of interest-bearing deposits increased 13 basis points over the prior year through four increases in the federal funds rate. The Company will continue to focus on increasing earning assets and funding growth through lower cost funding sources, including working to stabilize our deposit pricing.

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Item 8. Financial Statements and Supplementary Data

Financial Statements and Supplementary Data consist of the consolidated financial statements as indexed and presented below and the Unaudited Quarterly Financial Data presented in Part II, Item 8. of this Report.

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Management’s Statement of Responsibility

Management is responsible for preparation of the consolidated financial statements and related financial information contained in all sections of this annual report, including the determination of amounts that must necessarily be based on judgments and estimates. It is the belief of management that the consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

Management establishes and monitors the Company’s system of internal accounting controls to meet its responsibility for reliable financial statements. The system is designed to provide reasonable assurance that assets are safeguarded, and that transactions are executed in accordance with management’s authorization and are properly recorded.

The Audit/Examining Committee of the board of directors, composed solely of outside directors, meets periodically and privately with management, internal auditors, and the independent registered public accounting firm, KPMG LLP, to review matters relating to the quality of financial reporting, internal accounting control, and the nature, extent, and results of audit efforts. The independent registered public accounting firm and internal auditors have unlimited access to the Audit/Examining Committee to discuss all such matters. The consolidated financial statements have been audited by KPMG LLP for the purpose of expressing an opinion on the consolidated financial statements. In addition, KPMG LLP has audited internal control over financial reporting, as of December 31, 2018.

/s/ Stephen S. Romaine	/s/ Francis M. Fetsko	Date:	March 1, 2019
Stephen S. Romaine	Francis M. Fetsko		
Chief Executive Officer	Chief Financial Officer		
	Chief Operating Officer		

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Report of Independent Registered Public Accounting Firm

To the shareholders and board of directors
Tompkins Financial Corporation:

Opinion on Internal Control Over Financial Reporting

We have audited Tompkins Financial Corporation and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of condition of the Company as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the "consolidated financial statements"), and our report dated March 1, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP
Albany, New York
March 1, 2019

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Report of Independent Registered Public Accounting Firm

To the shareholders and board of directors
Tompkins Financial Corporation:

Opinion on the Consolidated Financial Statements
We have audited the accompanying consolidated statements of condition of Tompkins Financial Corporation and subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders’ equity for each of the years in the three year period ended December 31, 2018, and the related notes (collectively, the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 1, 2019 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.
Basis for Opinion
These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.
We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as
the Company's
auditor since 1995.

Albany, New York
March 1, 2019

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TOMPKINS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share and per share data) ASSETS	As of 12/31/2018	As of 12/31/2017
Cash and noninterest bearing balances due from banks	$78,524	$77,688
Interest bearing balances due from banks	1,865	6,615
Cash and Cash Equivalents	80,389	84,303
Available-for-sale securities, at fair value (amortized cost of $1,363,902 at December 31, 2018 and $1,408,996 at December 31, 2017)	1,332,658	1,391,862
Held-to-maturity securities, at amortized cost (fair value of $139,377 at December 31, 2018 and $140,315 at December 31, 2017)	140,579	139,216
Equity securities, at fair value (amortized cost $1,000 at December 31, 2018 and $1,000 at December 31, 2017)	887	913
Originated loans and leases, net of unearned income and deferred costs and fees	4,568,741	4,358,543
Acquired loans	265,198	310,577
Less: Allowance for loan and lease losses	43,410	39,771
Net Loans and Leases	4,790,529	4,629,349
Federal Home Loan Bank and other stock	52,262	50,498
Bank premises and equipment, net	97,202	86,995
Corporate owned life insurance	81,928	80,106
Goodwill	92,283	92,291
Other intangible assets, net	7,628	9,263
Accrued interest and other assets	82,091	83,494
Total Assets	6,758,436	6,648,290
LIABILITIES		
Deposits:		
Interest bearing:		
Checking, savings and money market	2,853,190	2,651,632
Time	637,295	748,250
Noninterest bearing	1,398,474	1,437,925
Total Deposits	4,888,959	4,837,807
Federal funds purchased and securities sold under agreements to repurchase	81,842	75,177
Other borrowings	1,076,075	1,071,742
Trust preferred debentures	16,863	16,691
Other liabilities	73,826	70,671
Total Liabilities	6,137,565	6,072,088
EQUITY		
Tompkins Financial Corporation shareholders' equity:		
Common Stock - par value $.10 per share: Authorized 25,000,000 shares; Issued: 15,348,287 at December 31, 2018; and 15,301,524 at December 31, 2017	1,535	1,530
Additional paid-in capital	366,595	364,031
Retained earnings	319,396	265,007
Accumulated other comprehensive loss	(63,165)	(51,296)
Treasury stock, at cost – 122,227 shares at December 31, 2018, and 120,805 shares at December 31, 2017	(4,902)	(4,492)

Total Tompkins Financial Corporation Shareholders’ Equity	619,459	574,780
Noncontrolling interests	1,412	1,422
Total Equity	$620,871	$576,202
Total Liabilities and Equity	$6,758,436	$6,648,290

See notes to consolidated financial statements.

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TOMPKINS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,		
(in thousands, except per share data)	2018	2017	2016
INTEREST AND DIVIDEND INCOME			
Loans	$214,370	$191,410	$169,630
Due from banks	31	37	6
Trading securities	0	0	220
Available-for-sale securities	30,377	29,721	27,846
Held-to-maturity securities	3,437	3,475	3,603
Federal Home Loan Bank stock and Federal Reserve Bank stock	3,377	2,121	1,434
Total Interest and Dividend Income	251,592	226,764	202,739
INTEREST EXPENSE			
Time certificates of deposits of $250,000 or more	1,712	1,880	1,654
Other deposits	14,883	10,253	9,059
Federal funds purchased and securities sold under agreements to repurchase	152	235	2,228
Trust preferred debentures	1,227	1,158	2,390
Other borrowings	21,818	11,934	6,772
Total Interest Expense	39,792	25,460	22,103
Net Interest Income	211,800	201,304	180,636
Less: Provision for loan and lease losses	3,942	4,161	4,321
Net Interest Income After Provision for Loan and Lease Losses	207,858	197,143	176,315
NONINTEREST INCOME			
Insurance commissions and fees	29,369	28,778	29,492
Investment services income	17,288	15,665	15,203
Service charges on deposit accounts	8,435	8,437	8,793
Card services income	9,693	9,100	8,058
Mark-to-market loss on trading securities	0	0	(182)
Mark-to-market gain on liabilities held at fair value	0	0	227
Other income	13,130	7,631	6,291
Net (loss) gain on securities transactions	(466)	(407)	926
Total Noninterest Income	77,449	69,204	68,808
NONINTEREST EXPENSES			
Salaries and wages	85,625	81,948	77,379
Other employee benefits	22,090	21,458	19,909
Net occupancy expense of premises	13,309	13,214	12,521
Furniture and fixture expense	7,351	7,028	6,450
FDIC insurance	2,618	2,527	3,024
Amortization of intangible assets	1,771	1,932	2,090
Other operating expenses	48,303	42,998	37,234
Total Noninterest Expenses	181,067	171,105	158,607
Income Before Income Tax Expense	104,240	95,242	86,516
Income Tax Expense	21,805	42,620	27,045
Net Income Attributable to Noncontrolling Interests and Tompkins Financial Corporation	82,435	52,622	59,471
Less: Net income attributable to noncontrolling interests	127	128	131
Net Income Attributable to Tompkins Financial Corporation	$82,308	$52,494	$59,340
Basic Earnings Per Share	$5.39	$3.46	$3.94
Diluted Earnings Per Share	$5.35	$3.43	$3.91

See notes to consolidated financial statements.

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TOMPKINS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
(in thousands)	2018	2017	2016
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	$82,435	$52,622	$59,471
Other comprehensive income (loss), net of tax:			
Available-for-sale securities:			
Change in net unrealized gain/loss during the period	(10,981)	(2,681)	(4,615)
Reclassification adjustment for net realized loss (gain) on sale included in available-for-sale securities	332	244	(556)
Employee benefit plans:			
Net retirement plan loss	(2,594)	(3,434)	(1,673)
Net retirement plan prior service (credit) cost	0	728	(113)
Amortization of net retirement plan actuarial gain	1,298	905	803
Amortization of net retirement plan prior service cost (credit)	11	9	46
Other comprehensive loss	(11,934)	(4,229)	(6,108)
Subtotal comprehensive income attributable to noncontrolling interests and Tompkins Financial Corporation	70,501	48,393	53,363
Less: Total comprehensive income attributable to noncontrolling interests	(127)	(128)	(131)
Total comprehensive income attributable to Tompkins Financial Corporation	$70,374	$48,265	$53,232

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
(in thousands)	2018	2017	2016
OPERATING ACTIVITIES			
Net income attributable to Tompkins Financial Corporation	$82,308	$52,494	$59,340
Adjustments to reconcile net income, attributable to Tompkins Financial Corporation, to net cash provided by operating activities:			
Provision for loan and lease losses	3,942	4,161	4,321
Depreciation and amortization of premises, equipment, and software	9,554	8,269	6,829
Accretion related to purchase accounting	(1,948)	(2,978)	(3,324)
Amortization of intangible assets	1,771	1,932	2,090
Earnings from corporate owned life insurance, net	(1,818)	(2,196)	(2,106)
Net amortization on securities	8,816	10,483	11,623
Mark-to-market loss on trading securities	0	0	182
Mark-to-market loss on liabilities held at fair value	0	0	(227)
Deferred income tax expense	2,354	14,598	1,859
Net loss (gain) on sale of securities transactions	466	407	(926)
Net gain on sale of loans	(458)	(50)	(95)
Proceeds from sale of loans	28,195	4,601	4,001
Loans originated for sale	(30,151)	(4,831)	(3,360)
Net (gain) loss on sale of bank premises and equipment	(2,946)	(30)	7
Net excess tax benefit from stock based compensation	680	1,635	1,433
Stock-based compensation expense	3,477	2,956	2,270
Decrease in interest receivable	(800)	(2,731)	(957)
Increase (decrease) in accrued interest payable	355	152	(71)
Proceeds from maturities, calls and principal paydowns of trading securities	0	0	5,781
Proceeds from sales of trading securities	0	0	1,397
Contribution to pension plan	0	(1,750)	(1,300)
Other, net	3,468	(1,057)	2,093
Net Cash Provided by Operating Activities	107,265	86,065	90,860
INVESTING ACTIVITIES			
Proceeds from maturities, calls and principal paydowns of available-for-sale securities	151,053	166,625	244,456
Proceeds from sales of available-for-sale securities	70,652	64,106	97,296
Proceeds from maturities, calls and principal paydowns of held-to-maturity securities	6,729	8,068	11,776
Purchases of available-for-sale securities	(185,467)	(208,502)	(404,528)
Purchases of held-to-maturity securities	(8,492)	(5,556)	(8,207)
Net increase in loans and leases	(161,760)	(411,770)	(485,067)
Net increase in Federal Home Loan Bank stock	(1,764)	(7,365)	(13,164)
Proceeds from sale of bank premises and equipment	3,317	157	100
Purchases of bank premises, equipment and software	(18,084)	(35,290)	(16,274)
Other, net	216	2,576	119
Net Cash Used in Investing Activities	(143,600)	(426,951)	(573,493)
FINANCING ACTIVITIES			
Net increase in demand, money market, and savings deposits	162,107	335,207	214,178
Net (decrease) increase in time deposits	(109,732)	(121,459)	16,946
Net increase (decrease) in securities sold under agreements to repurchase and Federal funds purchased	6,665	6,115	(67,279)
Increase in other borrowings	524,492	750,918	761,001
Redemption of trust preferred debentures	0	(21,161)	0

Repayment of other borrowings	(520,159)	(563,991)	(412,245)
Net shares issued related to restricted stock awards	(1,403)	(1,294)	(835)
Cash dividends	(29,634)	(27,627)	(26,603)
Repurchase of common stock	(2,448)	0	(1,166)
Shares issued for dividend reinvestment plan	0	2,872	3,201
Shares issued for employee stock ownership plan	3,073	2,296	1,938
Net proceeds from exercise of stock options	(540)	(641)	(806)
Net Cash Provided by Financing Activities	32,421	361,235	488,330
Net (Decrease) Increase Cash and Cash Equivalents	(3,914)	20,349	5,697
Cash and cash equivalents at beginning of year	84,303	63,954	58,257
Total Cash & Cash Equivalents at End of Year	$80,389	$84,303	$63,954

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CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Supplemental Cash Flow Information

	Year ended December 31,		
(in thousands)	2018	2017	2016
Cash paid during the year for - Interest	$40,660	$26,387	$23,465
Cash paid, net of refunds, during the year for - Income taxes	16,949	31,011	24,665
Non-cash investing and financing activities:			
Transfer of loans to other real estate owned	518	2,886	1,179

See notes to consolidated financial statements.

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TOMPKINS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(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 December 31, 2015	$1,502	$350,823	$197,445	$ (31,001)	$(3,755)	$ 1,452	$516,466
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			59,340			131	59,471
Other comprehensive loss				(6,108)			(6,108)
Total Comprehensive Income							53,363
Cash dividends ($1.77 per share)			(26,603)				(26,603)
Net exercise of stock options (39,931 shares, net)	4	(810)					(806)
Common stock repurchased and returned to unissued status (22,356 shares)	(2)	(1,164)					(1,166)
Stock-based compensation expense		2,270					2,270
Shares issued for dividend reinvestment plan (45,148 shares)	4	3,197					3,201
Shares issued for employee stock ownership plan (31,435 shares)	3	1,935					1,938
Directors deferred compensation plan (1,871 shares)		296			(296)		0
Restricted stock activity (29,511 shares)	3	(838)					(835)
Shares issued for purchase acquisition (32,553 shares)	3	1,705					1,708
Dividend to noncontrolling interests						(131)	(131)
Balances at December 31, 2016	$1,517	$357,414	$230,182	$ (37,109)	$(4,051)	$ 1,452	$549,405
Reclassification due to the adoption of ASU No. 2018-02			9,958	(9,958)			0
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			52,494			128	52,622
Other comprehensive loss				(4,229)			(4,229)
Total Comprehensive Income							48,393
Cash dividends ($1.82 per share)			(27,627)				(27,627)
Net exercise of stock options (22,277 shares, net)	2	(643)					(641)
Stock-based compensation expense		2,956					2,956
Shares issued for dividend reinvestment plan (34,750 shares)	4	2,868					2,872
Shares issued for employee stock ownership plan (27,412 shares)	3	2,293					2,296
Directors deferred compensation plan (2,808 shares)		441			(441)		0
	4	(1,298)					(1,294)

Restricted stock activity (45,269 shares)							
Partial repurchase of noncontrolling interest						(30)	(30)
Dividend to noncontrolling interests						(128)	(128)
Balances at December 31, 2017	$1,530	$364,031	$265,007	$(51,296)	$(4,492)	$1,422	$576,202

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

(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 December 31, 2017	$1,530	$364,031	$265,007	$ (51,296)	$(4,492)	$ 1,422	$576,202
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			82,308			127	82,435
Other comprehensive loss				(11,934)			(11,934)
Total Comprehensive Income							70,501
Cash dividends ($1.94 per share)			(29,634)				(29,634)
Net exercise of stock options (10,786 shares)	1	(541)					(540)
Common stock repurchased and returned to unissued status (32,483 shares)	(3)	(2,445)					(2,448)
Stock-based compensation expense		3,477					3,477
Shares issued for employee stock ownership plan (38,883 shares)	4	3,069					3,073
Directors deferred compensation plan (1,422 shares)	0	410			(410)		0
Restricted stock activity (29,577 shares)	3	(1,406)					(1,403)
Adoption of Accounting Guidance ASU 2016-01			(65)	65			0
Adoption of Accounting Guidance ASU 2014-09			1,780				1,780
Partial repurchase of noncontrolling interest						(10)	(10)
Dividend to noncontrolling interests						(127)	(127)
Balances at December 31, 2018	$1,535	$366,595	$319,396	$ (63,165)	$(4,902)	$ 1,412	$620,871

See notes to consolidated financial statements.

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Note 1 Summary of Significant Accounting Policies

Basis Of Presentation
Tompkins Financial Corporation ("Tompkins" or "the Company") is a registered Financial Holding Company with the Federal Reserve Board pursuant to the Bank Holding Company Act of 1956, as amended, organized under the laws of New York State, and is the parent company of Tompkins Trust Company (the "Trust Company"), The Bank of Castile, Mahopac Bank, VIST Bank, and Tompkins Insurance Agencies, Inc. ("Tompkins Insurance"). The Trust Company provides a full array of trust and investment services under the Tompkins Financial Advisors brand. Unless the context otherwise requires, the term "Company" refers to Tompkins Financial Corporation and its subsidiaries.

The consolidated financial information included herein combines the results of operations, the assets, liabilities, and shareholders' equity (including comprehensive income or loss) of the Company and all entities in which the Company has a controlling financial interest. All significant intercompany balances and transactions are eliminated in consolidation.

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity under U.S. accounting principles generally accepted. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. The Company consolidates voting interest entities in which it has all, or at least a majority of, the voting interest. As defined in applicable accounting standards, variable interest entities (VIEs) are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE is present when the Company has both the power and ability to direct the activities of the VIE that most significantly impact the VIE's economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The Company's wholly owned subsidiaries, Sleepy Hollow Capital Trust I, Leesport Capital Trust II, and Madison Statutory Trust I are VIE's for which the Company is not the primary beneficiary. Accordingly, the accounts of these entities are not included in the Company's consolidated financial statements.

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclose contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the allowance for loan and lease losses, valuation of goodwill and intangible assets, deferred income tax assets, other-than-temporary impairment on investments, and obligations related to employee benefits. Amounts in the prior years' consolidated financial statements are reclassified when necessary to conform to the current year's presentation.

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.

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

Cash and Cash Equivalents
Cash and cash equivalents in the Consolidated Statements of Cash Flows include cash and noninterest bearing balances due from banks, interest-bearing balances due from banks, Federal funds sold, 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. Each bank subsidiary is required to maintain reserve balances by the Federal Reserve Bank of New York. At December 31, 2018, and December 31, 2017, the reserve requirements for the Company’s banking subsidiaries totaled $6.6 million and $6.6 million, respectively.

Securities

Management determines the appropriate classification of debt and equity securities at the time of purchase. Securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost. Debt securities not classified as held-to-maturity and marketable equity securities are classified as either available-for-sale or trading. Available-for-sale securities are stated at fair value with the unrealized gains and losses, net of tax, excluded from earnings and reported as a separate component of accumulated comprehensive income or loss, in shareholders’ equity. Trading securities are stated at fair value, with unrealized gains or losses included in earnings.

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Beginning January 1, 2018, upon adoption of ASU 2016-01, equity securities with readily determinable fair values are stated at fair value with realized and unrealized gains and losses reported in income. For periods prior to January 1, 2018, equity securities were classified as available-for-sale and stated at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income, net of tax. Securities with limited marketability or restricted equity securities, such as Federal Home Loan Bank stock and Federal Reserve Bank stock, are carried at cost, less any impairment, if any.

Premiums and discounts are amortized or accreted over the expected life of the related security as an adjustment to yield using the interest method. Dividend and interest income are recognized when earned. Realized gains and losses on the sale of securities are included in net gain (loss) on securities transactions. The cost of securities sold is based on the specific identification method.

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

Loans and Leases
Loans are reported at their principal outstanding balance, net of deferred loan origination fees and costs, and unearned income. The Company has the ability and intent to hold its loans for the foreseeable future, except for certain residential real estate loans held-for-sale. The Company provides motor vehicle and equipment financing to its customers through direct financing leases. These leases are carried at the aggregate of lease payments receivable, plus estimated residual values, less unearned income. Unearned income on direct financing leases is amortized over the lease terms, resulting in a level rate of return.

Residential real estate loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated fair value. Fair value is determined on the basis of the rates quoted in the secondary market. Net unrealized losses attributable to changes in market interest rates are recognized through a valuation allowance by charges to income. Loans are generally sold on a non-recourse basis with servicing retained. Any gain or loss on the sale of loans is recognized at the time of sale as the difference between the recorded basis in the loan and the net proceeds from the sale. The Company may use commitments at the time loans are originated or identified for sale to mitigate interest rate risk. The commitments to sell loans and the commitments to originate loans held-for-sale at a set interest rate, if originated, are considered derivatives under ASC Topic 815. The impact of the estimated fair value adjustment was not significant to the consolidated financial statements.

Interest income on loans is accrued and credited to income based upon the principal amount outstanding. Loan origination fees and costs are deferred and recognized over the life of the loan as an adjustment to yield. Loans are considered past due if the required principal and interest payments have not been received as of the date such payments are due. Loans and leases, including impaired loans, are generally classified as nonaccrual if they are past due as to maturity or payment of principal or interest for a period of more than 90 days, unless such loans are well secured and in the process of collection. Loans that are past due less than 90 days may also be classified as nonaccrual if repayment in full of principal or interest is in doubt.

Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within an acceptable time period, and there is a sustained period (generally six consecutive months) of repayment performance by the borrower in accordance with the contractual terms of the loan agreement. 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.

The Company applies the provisions of ASC Topic 310-10-35, Loan Impairment, to all impaired commercial and commercial real estate loans over $250,000 and to all loans restructured in a troubled debt restructuring. Allowances for loan losses for the remaining loans are recognized in accordance with ASC Topic 450, Contingencies (“ASC Topic 450”). Management considers a loan to be impaired if, based on current information, it is probable that the Company will be unable to collect all scheduled payments of principal or interest when due, according to the contractual terms of the loan agreement. When a loan is considered to be impaired, the amount of the impairment is measured based on the present value of expected future cash flows discounted at the effective interest rate of the loan or, as a practical expedient, at the observable market price or the fair value of collateral (less costs to sell) if the loan is collateral dependent. Management excludes large groups of smaller balance homogeneous loans such as residential mortgages, consumer loans, and leases, which are collectively evaluated.

Loans are considered modified in a troubled debt restructuring (“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 and interest caught up over the remaining term of the loan or at maturity. Generally, a nonaccrual loan that has been modified in a TDR remains on non-accrual status for a period of six months to demonstrate that the borrower is able to meet the terms of the modified loan. However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period. If the borrower’s ability to meet the revised payment schedule is uncertain, the loan remains on nonaccrual status.

In general, the principal balance of a loan is charged off in full or in part when management concludes, based on the available facts and circumstances, that collection of principal in full is not probable. For commercial and commercial real estate loans, this conclusion is generally based upon a review of the borrower’s financial condition and cash flow, payment history, economic conditions, and the conditions in the various markets in which the collateral, if any, may be liquidated. In general, consumer loans are charged-off in accordance with regulatory guidelines which provide that such loans be charged-off when the Company becomes aware of the loss, such as from a triggering event that may include new information about a borrower’s intent/ability to repay the loan, bankruptcy, fraud or death, among other things, but in no case will the charge-off exceed specified delinquency timeframes. Such delinquency timeframes state that closed-end retail loans (loans with pre-defined maturity dates, such as real estate mortgages, home equity loans and consumer installment loans) that become past due 120 cumulative days and open-end retail loans (loans that roll-over at the end of each term, such as home equity lines of credit) that become past due 180 cumulative days should be classified as a loss and charged-off. For residential real estate loans, charge-off decisions are based upon past due status, current assessment of collateral value, and general market conditions in the areas where the properties are located.

Acquired Loans and Leases

Loans acquired in acquisitions, subsequent to the effective date of ASC Topic 805, Business Combination, are recorded at fair value and subsequently accounted for in accordance with ASC Topic 310, and there is no carryover of the related allowance for loan and lease losses. Loans acquired with evidence of credit impairment are accounted for under ASC Subtopic 310-30. These loans may be aggregated and accounted for as pools of loans if the loans being aggregated have common risk characteristics. In the VIST acquisition, the Company elected to account for the loans with evidence of credit deterioration individually rather than aggregate them into pools. The difference between the undiscounted cash flows expected at acquisition and the investment in the acquired loans, or the “accretable yield,” is recognized as interest income utilizing the level-yield method over the life of each loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the “non-accretable difference,” are not recognized as a yield adjustment, as a loss accrual or as a valuation allowance.

Increases in expected cash flows subsequent to the acquisition are recognized prospectively through an adjustment of the yield on the loans over the remaining life, while decreases in expected cash flows are recognized as impairment through a loss provision and an increase in the allowance for loan losses. Valuation allowances (recognized in the allowance for loan losses) on these impaired loans reflect only losses incurred after the acquisition (representing all cash flows that were expected at acquisition but currently are not expected to be received).

Acquired loans not exhibiting evidence of credit impairment at the time of acquisition are accounted for under ASC Subtopic 310-20. The Company amortizes/accretes into interest income the premium/discount determined at the date of purchase over the life of the loan on a level yield basis. Subsequent to the acquisition date, the methods used to estimate the appropriate allowance for loan losses are similar to originated loans. These loans are placed on nonaccrual status in accordance with the Company’s policy for originated loans.

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Acquired loans that met the criteria for nonaccrual of interest prior to the acquisition may be considered performing upon 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. The Company determined at acquisition that it could reasonably estimate future cash flows on acquired loans that were past due 90 days or more and on which the Company expects to fully collect the carrying value of the loans net of the allowance for acquired loan losses. As such, the Company does not consider these loans to be nonaccrual or nonperforming.

Allowance For Loan and Lease Losses

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 allowance allocations are calculated in accordance with ASC Topic 310, Receivables and ASC Topic 450, Contingencies. The model is comprised of four major components that management has deemed appropriate in evaluating the appropriateness of the allowance for loan and lease losses. While none of these components, when used independently, is effective in arriving at a reserve level that appropriately measures the risk inherent in the portfolio, management believes that using them collectively, provides reasonable measurement of the loss exposure in the portfolio. The components include: impaired loans; criticized and classified credits; historical loss experience; and qualitative or subjective analysis. For impaired loans, an allowance is recognized if the fair value of the loan is less than the recorded investment in the loan (recorded investment in the loan is the principal balance plus any accrued interest, net of deferred loan fees or costs and unamortized premium or discount). A loan's fair value reflects the present value of expected future cash flows discounted at the loan's effective interest rate, or if the loan is collateral dependent, the fair value of the collateral, less estimated disposal costs. If the loan is collateral dependent, the principal balance of the loan is charged-off in an amount equal to the impairment measurement. The fair value of collateral dependent loans is derived primarily from collateral appraisals performed by independent third-party appraisers. For loans that are not impaired, but are rated special mention or worse, management evaluates credits based on elevated risk characteristics and assigns reserves based upon analysis of historical loss experience of loans with similar risk characteristics. For loans that are not impaired or reviewed individually, management assigns a reserve based upon historical loss experience over a designated look-back period. Management has evaluated a variety of look-back periods and has determined that an eight year look back period is appropriate to capture a full range of economic cycles. Management has also evaluated a variety of statistical methods in analyzing loss history, including averages, weighted averages and loss emergence periods and has determined that by applying a loss emergence period analysis to historical losses over a full economic cycle has resulted in a reasonable estimate of losses inherent in the loan portfolio. The model also includes an analysis of a variety of subjective factors to support the reserve estimate. These subjective factors may include allowance allocations for risks that may not otherwise be fully recognized in other components of the model. Among the subjective factors that are routinely considered as part of this analysis are: growth trends in the portfolio, changes in management and/or polices related to lending activities, trends in classified or nonaccrual loans, concentrations of credit, local and national economic trends, and industry trends.

Periodically, management conducts an analysis to estimate the loss emergence period for various loan categories based on samples of historical charge-offs. Model output by loan category is reviewed to evaluate the reasonableness of the reserve levels in comparison to the estimated loss emergence period applied to historical loss experience.

In addition to the components discussed above, management reviews the model output for reasonableness by analyzing the results in comparisons to recent trends in the loan/lease portfolio, through back-testing of results from prior models in comparison to actual loss history, and by comparing our reserves and loss history to industry peer results.

The model results are reviewed by management at the Corporate Credit Policy Committee and presented to the Board of Directors. Additionally, on an annual basis, management conducts a validation process of the model. This validation includes reviewing the appropriateness of model calculations, back testing of model results and appropriateness of key assumptions used in the model. In addition, various Federal and State regulatory agencies, as part of their examination process, review the Company's allowance and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

For acquired credit impaired loans accounted for under FASB ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, ("ASC Topic 310-30"), the Company's allowance for loan and lease 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.

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For acquired non-credit impaired loans accounted for under FASB ASC Topic 310-20, Nonrefundable Fees and Other Costs, (“ASC Topic 310-20”), the Company’s allowance for loan and lease losses is maintained through provisions for loan 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.

Additionally, in June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"), which replaces the current "incurred loss" model for recognizing credit losses with an "expected loss" model referred to as the Current Expected Credit Loss ("CECL") model. ASU 2016-13 will become effective for the Company for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years. Under the CECL model, we will be required to present certain financial assets carried at amortized cost at the net amount expected to be collected. Accordingly, the Company’s management anticipates that this significant accounting rule adjustment will materially affect how we determine our allowance for loan and lease losses as well as our accounting for investment securities.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost, less allowances for depreciation. The provision for depreciation for financial reporting purposes is computed generally by the straight-line method at rates sufficient to write-off the cost of such assets over their estimated useful lives. Buildings are amortized over a period of 10-39 years, and furniture, fixtures, and equipment are amortized over a period of 2-20 years. Leasehold improvements are generally depreciated over the lesser of the lease term or the estimated lives of the improvements. Maintenance and repairs are charged to expense as incurred. Gains or losses on disposition are reflected in earnings.

Other Real Estate Owned

Other real estate owned consists of properties formerly pledged as collateral to loans, which have been acquired by the Company through foreclosure proceedings or acceptance of a deed in lieu of foreclosure. Upon transfer of a loan to foreclosure status, an appraisal is generally obtained and any excess of the loan balance over the fair value, less estimated costs to sell, is charged against the allowance for loan/lease losses. Expenses and subsequent adjustments to the fair value are treated as other operating expense.

Goodwill

Goodwill represents the excess of purchase price over the fair value of assets acquired in a transaction using purchase accounting. Goodwill has an indefinite useful life and is not amortized, but is tested for impairment. Goodwill impairment tests are performed on an annual basis or when events or circumstances dictate. The Company tests goodwill annually as of December 31st. The Company has the option to perform a qualitative assessment of goodwill, which considers company-specific and economic characteristics that might impact its carrying value. If based on this qualitative assessment, it is more likely than not that the fair value of the reporting unit is less than its carrying amount, then a quantitative test (Step 1) is performed, which compares the fair value of the reporting unit to the carrying amount of the reporting unit in order to identify potential impairment. If the estimated fair value of a reporting unit exceeds its carrying amount, the goodwill of the reporting unit is not considered impaired. However, if the carrying amount of the reporting unit were to exceed its estimated fair value, a second step (Step 2) would be performed that would compare the implied fair value of the reporting unit’s goodwill with the carrying amount of the goodwill for the reporting unit. The implied fair value of goodwill is determined in the same manner as goodwill that is recognized in a business combination. Significant judgment and estimates are involved in estimating the fair value of the assets and liabilities of the reporting units.

Other Intangible Assets

Other intangible assets include core deposit intangibles, customer related intangibles, covenants not to compete, and mortgage servicing rights. Core deposit intangibles represent a premium paid to acquire a base of stable, low cost deposits in the acquisition of a bank, or a bank branch, using purchase accounting. The amortization period for core deposit intangible ranges from 5 to 10 years, using an accelerated method. The covenants not to compete are amortized on a straight-line basis over 3 to 6 years, while customer related intangibles are amortized on an accelerated basis over a range of 6 to 15 years. The amortization period is monitored to determine if circumstances require such periods to be revised. The Company periodically reviews its intangible assets for changes in circumstances that may indicate the carrying amount of the asset is impaired. The Company tests its intangible assets for impairment on an annual basis or more frequently if conditions indicate that an impairment loss has more likely than not been incurred.

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Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred taxes are reviewed quarterly and reduced by a valuation allowance if, based upon the information available, it is more likely than not that some or all of the deferred tax assets will not be realized. Realization of deferred tax assets is dependent upon the generation of a sufficient level of future taxable income and recoverable taxes paid in prior years. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets will be realized. The Company’s policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the Consolidated Statements of Income.

Tax Credit Investments

The Company accounts for its investments in qualified affordable housing projects using the proportional amortization method. Under that method, the Company 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. As of December 31, 2018 and 2017, the Company's remaining investment in qualified affordable housing projects, net of amortization totaled $1.0 million and $1.4 million, respectively.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase (repurchase agreements) are agreements in which the Company transfers the underlying securities to a third-party custodian’s account that explicitly recognizes the Company’s interest in the securities. The agreements are accounted for as secured financing transactions provided the Company maintains effective control over the transferred securities and meets other criteria as specified in FASB ASC Topic 860, Transfers and Servicing (“ASC Topic 860”). The Company’s agreements are accounted for as secured financings; accordingly, the transaction proceeds are reflected as liabilities and the securities underlying the agreements continue to be carried in the Company’s securities portfolio.

Treasury Stock

The cost of treasury stock is shown on the Consolidated Statements of Condition as a separate component of shareholders’ equity, and is a reduction to total shareholders’ equity. Shares are released from treasury at fair value, identified on an average cost basis.

Trust and Investment Services

Assets held in fiduciary or agency capacities for customers are not included in the accompanying Consolidated Statements of Condition, since such items are not assets of the Company. Fees associated with providing trust and investment services are included in noninterest income.

Earnings Per Share

Basic earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of shares outstanding during the year, exclusive of shares represented by the unvested portion of restricted stock and restricted stock units. Diluted earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of shares outstanding during the year plus the dilutive effect of the unvested portion of restricted stock and restricted stock units and stock issuable upon conversion of common stock equivalents (primarily stock options) or certain other contingencies. The Company currently uses authoritative accounting guidance under ASC Topic 260, Earnings Per Share, which provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The Company issues stock-based compensation awards that included restricted stock awards that contain such rights.

Segment Reporting

The Company manages its operations through three reportable business segments in accordance with the standards set forth in FASB ASC Topic 280, “Segment Reporting”. The three segments are: (i) banking (“Banking”), (ii) insurance (“Tompkins Insurance Agencies, Inc.”) and (iii) wealth management (“Tompkins Financial Advisors”). The Company’s insurance services and wealth management services are managed separately from the Bank. Additional information on the segments is presented in Note 22- “Segment and Related Information.”

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Comprehensive Income (Loss)

For the Company, comprehensive income (loss) represents net income plus the net change in unrealized gains or losses on securities available-for-sale for the period (net of taxes), and the actuarial gain or loss and amortization of unrealized amounts in the Company’s defined-benefit retirement and pension plan, supplemental employee retirement plan, and post-retirement life and healthcare benefit plan (net of taxes), and is presented in the Consolidated Statements of Comprehensive Income (Loss) and Consolidated Statements of Changes in Shareholders’ Equity. Accumulated other comprehensive income (loss) represents the net unrealized gains or losses on securities available-for-sale (net of tax) and unrecognized net actuarial gain or loss, unrecognized prior service costs, and unrecognized net initial obligation (net of tax) in the Company’s defined-benefit retirement and pension plan, supplemental employee retirement plan, and post-retirement life and healthcare benefit plan.

Pension and Other Employee Benefits

The Company maintains noncontributory defined-benefit and defined contribution plans, which cover substantially all employees of the Company. In addition, the Company also maintains supplemental employee retirement plans for certain executives and a post-retirement life and healthcare plan. These plans are discussed in detail in Note 11 “Employee Benefit Plans”. The Company incurs certain employment-related expenses associated with these plans. In order to measure the expense associated with these plans, various assumptions are made including the discount rate used to value certain liabilities, expected return on plan assets, anticipated mortality rates, and expected future healthcare costs. The assumptions are based on historical experience as well as current facts and circumstances. A third-party actuarial firm is used to assist management in measuring the expense and liability associated with the plans. The Company uses a December 31 measurement date for its plans. As of the measurement date, plan assets are determined based on fair value, generally representing observable market prices. The projected benefit obligation is primarily determined based on the present value of projected benefit distributions at an assumed discount rate.

The expenses associated with these plans are charged to current operating expenses. The Company recognizes an asset for a plan’s overfunded status or a liability for a plan’s underfunded status in the Company’s consolidated statements of condition, and recognizes changes in the funded status of these plans in comprehensive income, net of applicable taxes, in the year in which the change occurred.

Fair Value Measurements

The Company accounts for the provisions of FASB ASC Topic 820, Fair Value Measurements and Disclosures (“ASC Topic 820”), for financial assets and financial liabilities. ASC Topic 820 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. See Note 19 “Fair Value Measurements”.

In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company’s creditworthiness, among others.

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Revenue Recognition

Tompkins adopted Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606) as of January 1, 2018, the impact of which is discussed below. Under ASU 2014-09, the Company adopted new policies related to revenue recognition. In general, for revenue not associated with financial instruments, guarantees and lease contracts, the Company applies the following steps when recognizing revenue from contracts with customers: (i) identify the contract, (ii) identify the performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations and (v) recognize revenue when a performance obligation is satisfied. Tompkins' contracts with customers are generally short term in nature, typically due within one year or less or cancellable by the Company or the Company's customer upon a short notice period. Performance obligations for the Company's customer contracts are generally satisfied at a single point in time, typically when the transaction is complete, or over time. For performance obligations satisfied over time, Tompkins primarily uses the output method, directly measuring the value of the products/services transferred to the customer, to determine when performance obligations have been satisfied. The Company typically receives payment from customers and recognizes revenue concurrent with the satisfaction of the Company's performance obligations. In most cases, this occurs within a single financial reporting period. For payments received in advance of the satisfaction of performance obligations, revenue recognition is deferred until such time as the performance obligations have been satisfied. In cases where the Company has not received payment despite satisfaction of the Company's performance obligations, the Company accrues an estimate of the amount due in the period the Company's performance obligations have been satisfied. For contracts with variable components, only amounts for which collection is probable are accrued. The Company generally acts in a principal capacity, on the Company's own behalf, in most of the Company's contracts with customers. In such transactions, Tompkins recognizes revenue and the related costs to provide the services on a gross basis in the Company's financial statements. In some cases, Tompkins acts in an agent capacity, deriving revenue through assisting other entities in transactions with the Company's customers. In such transactions, Tompkins recognizes revenue and the related costs to provide the services on a net basis in the Company's financial statements. These transactions recognized on a net basis primarily relate to insurance and brokerage commissions and fees derived from the Company's customers' use of various interchange and ATM/debit card networks.

Accounting Standards Updates

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 on 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 twelve months ended December 31, 2018 and, as a result, comparisons of revenues and operating profit performance between periods are not significantly affected by the adoption of this ASU. Refer to Note 14 "Revenue Recognition" 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

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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 December 31, 2018 using an exit price notion. Refer to Note 19 - "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 February 2017, the FASB issued ASU 2017-05, “Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20) - Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets.” ASU 2017-05 clarifies the scope of Subtopic 610-20 and adds guidance for partial sales of nonfinancial assets, including partial sales of real estate. Historically, U.S. GAAP contained several different accounting models to evaluate whether the transfer of certain assets qualified for sale treatment. ASU 2017-05 reduces the number of potential accounting models that might apply and clarifies which model does apply in various circumstances. The Company adopted ASU No. 2017-05 on January 1, 2018. ASU No. 2017-15 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 of 2017. See Note 15 - "Income Taxes".

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 statement of condition. Tompkins has prepared an inventory of its leases and evaluated 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 statement of condition.

ASU 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 has formed a cross-functional committee that is assessing our data and system needs and developing a CECL compliant model while gathering the requisite data. 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.

The guidance of ASU 2016-13 was recently amended by ASU 2018-19, “Codification Improvements to Topic 326, Financial Instruments - Credit Losses,” which changed the effective date for non-public companies and clarified that operating lease receivables are not within the scope of the standard.

ASU 2017-04, “Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment.” ASU 2017-04 eliminates Step 2 from the goodwill impairment test which required entities to compute the implied fair value of goodwill. Under ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 will be effective for us on January 1, 2020, with early adoption permitted for interim or annual impairment tests beginning in 2017. Tompkins is currently evaluating the potential impact of ASU 2017-04 on our consolidated financial statements.

ASU 2017-08 “Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20) - Premium Amortization on Purchased Callable Debt Securities.” ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium to require such premiums to be amortized to the earliest call date unless applicable guidance related to certain pools of securities is applied to consider estimated prepayments. Under prior guidance, entities were generally required to amortize premiums on individual, non-pooled callable debt securities as a yield adjustment over the contractual life of the security. ASU 2017-08 does

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not change the accounting for callable debt securities held at a discount. ASU 2017-08 became effective for us on January 1, 2019 and is not expected to have a significant impact on our consolidated financial statements.

ASU 2017-12, “Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities.” ASU 2017-12 amends the hedge accounting recognition and presentation requirements in ASC 815 to improve the transparency and understandability of information conveyed to financial statement users about an entity’s risk management activities to better align the entity’s financial reporting for hedging relationships with those risk management activities and to reduce the complexity of and simplify the application of hedge accounting.
ASU 2017-12 became effective for us on January 1, 2019 and is not expected to have a significant impact on our consolidated financial statements.

ASU 2018-13, “Fair Value Measurement (Topic 820) - Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement.” ASU 2018-13 modifies the disclosure requirements on fair value measurements in Topic 820. The amendments in this update remove disclosures that no longer are considered cost beneficial, modify/clarify the specific requirements of certain disclosures, and add disclosure requirements identified as relevant. ASU 2018-13 will be effective for us on January 1, 2020, with early adoption permitted, and is not expected to have a significant impact on our consolidated financial statements.

ASU 2018-14, “Compensation - Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20).” ASU 2018-14 amends and modifies the disclosure requirements for employers that sponsor defined benefit pension or other post-retirement plans. The amendments in this update remove disclosures that no longer are considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. ASU 2018-14 will be effective for us on January 1, 2021, with early adoption permitted, and is not expected to have a significant impact on our consolidated financial statements.

ASU 2018-15, “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) - Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.” ASU 2018-15 clarifies certain aspects of ASU 2015-05, “Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement,” which was issued in April 2015. Specifically, ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). ASU 2018-15 does not affect the accounting for the service element of a hosting arrangement that is a service contract. ASU 2018-15 will be effective for us on January 1, 2020, with early adoption permitted. Tompkins is currently evaluating the potential impact of ASU 2018-15 on our consolidated financial statements.

ASU 2018-16, “Derivatives and Hedging (Topic 815) - Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes.” The amendments in this update permit use of the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815 in addition to the interest rates on direct U.S. Treasury obligations, the LIBOR swap rate, the OIS rate based on the Fed Funds Effective Rate and the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Rate. ASU 2018-16 became effective for us on January 1, 2019 and is not expected to have a significant impact on our consolidated financial statements.

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Note 2 Securities

Available-for-Sale Securities
The following tables summarize available-for-sale securities held by the Company at December 31, 2018 and 2017:

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

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

Held-to-Maturity Securities
The following tables summarize held-to-maturity securities held by the Company at December 31, 2018 and 2017:

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

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Held-to-Maturity Securities

	Held-to-Maturity Securities			
December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. Government sponsored entities	$ 131,707			