TOMPKINS FINANCIAL CORP
Form 10-K
March 17, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended **December 31, 2013**

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

For the transition period from ____________ to ____________

Commission File Number 1-12709

Tompkins Financial Corporation

(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code: **(607) 273-3210**

Securities registered pursuant to Section 12(b) of the Act:

Common Stock ($.10 Par Value Per Share)	**NYSE MKT LLC**
(Title of class)	(Name of exchange on which traded)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of Securities Act. Yes No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No .

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (S232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a nonaccelerated filer, or a smaller reporting company.

Large Accelerated Filer Accelerated Filer Nonaccelerated Filer Smaller Reporting Company

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

The aggregate market value of the registrant's common stock held by non-affiliates was $568,312,000 on June 28, 2013, based on the closing sales price of a share of the registrant's common stock, $.10 par value (the "Common Stock"), as reported on the NYSE MKT LLC, on such date.

The number of shares of the registrant's Common Stock outstanding as of March 6, 2014, was 14,811,411 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to its 2014 Annual Meeting of stockholders, to be held on May 12, 2014, are incorporated by reference into Part III of this Form 10-K where indicated.

TOMPKINS FINANCIAL CORPORATION

Annual Report on Form 10-K

For the Fiscal Year Ended December 31, 2013

Table of Contents

PART I

Item 1. Business

The disclosures set forth in this Item1. Business are qualified by the section captioned "Forward-Looking Statements" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Report and other cautionary statements set forth elsewhere in this Report.

General

Tompkins Financial Corporation ("Tompkins" or the "Company") is headquartered in Ithaca, New York and is registered as a Financial Holding Company with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended. The Company is a community-based financial services organization that offers a full array of products and services, including commercial and consumer banking, leasing, trust and investment management, financial planning and wealth management, insurance, and brokerage services. At December 31, 2013, the Company's subsidiaries included: four wholly-owned banking subsidiaries, Tompkins Trust Company (the "Trust Company"), The Bank of Castile, Mahopac Bank ("formerly known as Mahopac National Bank"), and VIST Bank; a wholly owned registered investment advisor, TFA Management, Inc. ("TFA Management", formerly known as AM&M Financial Services, Inc.); and a wholly-owned insurance agency subsidiary, Tompkins Insurance Agencies, Inc. ("Tompkins Insurance"). TFA Management and the trust division of the Trust Company provide a full array of investment services under the trade name of Tompkins Financial Advisors, including investment management, trust and estate, financial and tax planning as well as life, disability and long-term care insurance services. The Company's principal offices are located at The Commons, Ithaca, New York, 14851, and its telephone number is (607) 273-3210. The Company's common stock is traded on the NYSE MKT LLC under the Symbol "TMP."

Tompkins was organized in 1995, under the laws of the State of New York, as a bank holding company for the Trust Company, a commercial bank that has operated in Ithaca, New York and surrounding communities since 1836. Information relating to revenues, profit and loss, and total assets for the Company's three business segments - banking, insurance, and wealth management - is incorporated herein by reference to Part II, Item 8. of this Report.

The Company's strategic initiatives include diversification within its markets, growth of its fee-based businesses, and growth internally and through acquisitions of financial institutions, branches, and financial services businesses. As such, the Company from time to time considers acquiring banks, thrift institutions, branch offices of banks or thrift institutions, or other businesses within markets currently served by the Company or in other locations that would complement the Company's business or its geographic reach. The Company generally targets merger or acquisition partners that are culturally similar and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale and expanded services. The Company has pursued acquisition opportunities in the past, and continues to review new opportunities.

In the second quarter of 2012, the Company completed a capital raise through a registered public offering of shares of its common stock. The Company believes that this capital raise helped position the Company for future growth, including its 2012 acquisition of VIST Financial Corp. (“VIST Financial”), described below. After transaction costs, net proceeds from the capital raise were approximately $38.0 million, and resulted in the issuance of 1,006,250 shares of Tompkins common stock on April 3, 2012.

On August 1, 2012, Tompkins completed its acquisition of VIST Financial, a financial holding company headquartered in Wyomissing, Pennsylvania, and parent to VIST Bank, VIST Insurance, LLC (“VIST Insurance”), and VIST Capital Management, LLC (“VIST Capital Management”). On the acquisition date, VIST Financial had $1.4 billion in total assets, $889.3 million in loans, and $1.2 billion in deposits. Following its merger with a wholly-owned subsidiary of Tompkins, VIST Financial was merged into Tompkins. VIST Bank, a Pennsylvania state-chartered commercial bank, became a wholly-owned subsidiary of Tompkins and operates as a separate subsidiary bank of Tompkins. VIST Insurance was merged into Tompkins Insurance Agencies, Inc., and VIST Capital Management became part of Tompkins Financial Advisors. The acquisition expanded the Company’s presence into the southeastern region of Pennsylvania.

The VIST acquisition was a stock transaction. Under the terms of the merger agreement, each share of VIST Financial common stock was cancelled and converted into the right to receive 0.3127 shares of Tompkins common stock, with any fractional share entitlement paid in cash, resulting in the Company issuing 2,093,689 shares at a fair value of $82.2 million. The Company also paid $1.2 million to retire outstanding VIST Financial employee stock options; while other VIST Financial employee stock options were converted into options to purchase Tompkins’ common stock, with an aggregate fair value of $1.1 million, as of the acquisition date. In addition, immediately prior to the completion of the merger, Tompkins purchased from the United States Department of the Treasury the issued and outstanding shares of VIST Financial Fixed Rate Cumulative Perpetual Preferred Stock, Series A, as well as the warrant to purchase shares of VIST Financial common stock issued in connection with the issuance of the preferred stock (the “TARP Purchase”) plus the accrued and unpaid dividends therein, for an aggregate purchase price of $26.5 million. The securities purchased in the TARP Purchase were cancelled in connection with the consummation of the VIST Acquisition.

The VIST acquisition was accounted for under the acquisition method of accounting and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at their estimated fair values as of acquisition date. VIST Financial's assets and liabilities were recorded at their preliminary estimated fair values as of August 1, 2012, the acquisition date, and VIST Financial's results of operations have been included in the Company's Consolidated Statements of Income since that date.

In June 2011, Tompkins Insurance acquired all of the outstanding shares of Olver & Associates, Inc., ("Olver"), a property and casualty insurance agency located in Ithaca, New York. The two principal officers and staff continued with Tompkins Insurance Agencies after the acquisition. The acquisition-date fair value of the consideration paid was $3.2 million and included $250,000 of cash and 75,188 shares of Tompkins' common stock. As a result of pursuing an available tax election under Internal Revenue Code section 338(h)(10), it was determined that the acquisition qualified for beneficial tax treatment that would enable the tax deductible amortization of the purchase premium, including goodwill. To compensate the Olver shareholders for their consent to make this election, additional consideration of $755,000 and $238,000 were recorded as additional goodwill during the first and second quarters of 2012, respectively.

Additional information on acquisitions is provided in "Note 2 Mergers and Acquisitions" in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

Although Tompkins is a corporate entity, legally separate and distinct from its affiliates, bank holding companies such as Tompkins are generally required to act as a source of financial strength for their banking subsidiaries. Tompkins' principal source of income is dividends from its subsidiaries. There are certain regulatory restrictions on the extent to which these subsidiaries can pay dividends or otherwise supply funds to Tompkins. See the section "Supervision and Regulation" for further details.

Narrative Description of Business

Information about the Company's business segments are included in "Note 23 Segment and Related Information" in the Notes to Consolidated Financial Statements in Part II, Item 8. of this Report. The Company has identified three business segments, consisting of banking, insurance and wealth management. The number of reportable segments was increased from two to three segments in the third quarter of 2012. At that time, the Company determined that a change in its reportable business segments was warranted due to the VIST acquisition, on August 1, 2012. The acquisition included VIST Insurance which nearly doubled annual insurance revenues of Tompkins Insurance when compared to pre-acquisition results. Consequently, insurance revenues exceeded the quantitative thresholds set forth in ASC 280-10-50-12 for identifying reportable segments. As such, management determined that it was appropriate to report Insurance and Wealth Management as separate business segments. Previously, these two reportable business segments were reported as a single Financial Services segment. The prior year information contained within this report has been restated to reflect the change from two to three reportable business segments. The sum of the Insurance and Wealth

Management segments is equal to the historic Financial Services segment. Wealth management consists of the results of the Company's trust, financial planning, wealth management services, and broker-dealer services offered through Tompkins Financial Advisors. The insurance segment reflects the results of Tompkins Insurance. All other activities are considered banking.

Banking services consist primarily of attracting deposits from the areas served by the Company's four banking subsidiaries' 66 banking offices, (46 offices in New York and 20 offices in Pennsylvania) and using those deposits to originate a variety of commercial loans, agricultural loans, consumer loans, real estate loans, and leases in those same areas. The Company's lending function is managed within the guidelines of a comprehensive Board-approved lending policy. Policies and procedures are reviewed on a regular basis. Reporting systems are in place to provide management with ongoing information related to loan production, loan quality, concentrations of credit, loan delinquencies and nonperforming and potential problem loans. The Company has an independent third party loan review process that reviews and validates the risk identification and assessment made by the lenders and credit personnel. The results of these reviews are presented to the Board of Directors of each of the Company's banking subsidiaries, and the Company's Audit Committee.

The Company maintains a portfolio of securities such as obligations of U.S. government agencies and U.S. government sponsored entities, obligations of states and political subdivisions thereof, and equity securities. Management typically invests in securities with short to intermediate average lives in order to better match the interest rate sensitivities of its assets and liabilities. Investment decisions are made within policy guidelines established by the Company's Board of Directors. The investment policy is based on the asset/liability management goals of the Company, and is monitored by the Company's Asset/Liability Management Committee. The intent of the policy is to establish a portfolio of high quality diversified securities, which optimizes net interest income within safety and liquidity limits deemed acceptable by the Asset/Liability Management Committee.

Insurance services include property and casualty insurance, employee benefit consulting, and life, long-term care and disability insurance. Tompkins Insurance is headquartered in Batavia, New York. Over the past twelve years, Tompkins Insurance has acquired smaller insurance agencies in the market areas serviced by the Company's banking subsidiaries and successfully consolidated them into Tompkins Insurance. The VIST Financial acquisition, which included VIST Insurance, nearly doubled the Company's annual insurance revenues. Tompkins Insurance offers services to customers of the Company's banking subsidiaries by sharing offices with The Bank of Castile, Trust Company, and VIST Bank. In addition to these shared offices, Tompkins Insurance has five stand-alone offices in Western New York, two stand-alone offices in Tompkins County, New York and one stand-alone office in Montgomery County, Pennsylvania.

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

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

Tompkins provides a variety of financial services to individuals and small business customers. Some of the traditional services are detailed below.

Commercial Services

The Company's subsidiary banks provide financial services to corporations and other business clients. Lending activities include loans for a variety of business purposes, including real estate financing, construction, equipment financing, accounts receivable financing, and commercial leasing. Other commercial services include deposit and cash management services, letters of credit, sweep accounts, credit cards, purchasing cards, Internet-based account services, and remote deposit services.

Retail Services

The Company's subsidiary banks provide a variety of retail banking services including checking accounts, savings accounts, time deposits, IRA products, brokerage services, residential mortgage loans, personal loans, home equity loans, credit cards, debit cards and safe deposit services. Retail services are accessible through a variety of delivery systems including branch facilities, ATMs, voice response, Mobile banking, Internet banking, and remote deposit services.

Trust and Investment Management Services

The Company offers a comprehensive suite of financial services to customers, including investment management, trust and estate, financial and tax planning as well as life, disability and long-term care insurance services. These services are offered by TFA Management, Inc. and the trust division of Tompkins Trust Company, using the joint trade name of Tompkins Financial Advisors. Tompkins Financial Advisors has office locations at all four of the Company's subsidiary banks. The August 1, 2012 VIST acquisition included VIST Capital Management, which became part of Tompkins Financial Advisors.

Insurance Services

The Company provides property and casualty insurance, employee benefit consulting, and life, long-term care and disability insurance through Tompkins Insurance.

Subsidiaries

The Company operates four banking subsidiaries, an insurance agency subsidiary, and a financial planning, wealth management, and broker-dealer subsidiary in New York. In addition, the Company also owns 100% of the common stock of Tompkins Capital Trust I, Sleepy Hollow Capital Trust I, Leesport Capital Trust II, and Madison Statutory Trust I. The Company's banking subsidiaries operate 66 offices, including 3 limited-service offices, with 46 banking offices located in New York and 20 banking offices located in southeastern Pennsylvania. The decision to operate as four locally managed community banks reflects management's commitment to community banking as a business strategy. For Tompkins, personal delivery of high quality services, a commitment to the communities in which we operate, and the convergence of a single-source financial service provider characterize management's community banking approach. The combined resources of the Tompkins organization provides increased capacity for growth and the greater capital resources necessary to make investments in technology and services. Tompkins has a comprehensive suite of products and services that are now available in the markets served by all four banking subsidiaries. These services include trust and investment services, insurance, leasing, card services, Internet banking, and remote deposit services.

Tompkins Trust Company (the "Trust Company")

The Trust Company is a New York State-chartered commercial bank that has operated in Ithaca, New York and surrounding communities since 1836. The Trust Company operates 15 banking offices, including 2 limited-service banking offices in the counties of Tompkins, Cortland, Cayuga and Schuyler, New York. The Trust Company's largest market area is Tompkins County, which has a population of approximately 103,000. Education plays a significant role in the Tompkins County economy with Cornell University and Ithaca College being two of the county's major employers. The Trust Company has a full-service office in Cortland, New York and a full-service office in Auburn, New York. Both of these offices are located in counties contiguous to Tompkins County. As of December 31, 2013, Trust Company had total assets of $1.6 billion, total loans of $909.2 million and total deposits of $1.3 billion.

The Bank of Castile

The Bank of Castile is a New York State-chartered commercial bank and conducts its operations through its 16 banking offices, in towns situated in and around the areas commonly known as the Letchworth State Park area and the Genesee Valley region of New York State. The main business office for The Bank of Castile is located in Batavia, New York and is shared with Tompkins Insurance. The Bank of Castile serves a five-county market, much of which is rural in nature, but also includes Monroe County (population approximately 748,000), where the city of Rochester is located. The population of the counties served by The Bank of Castile, other than Monroe, is approximately 210,000. The Bank of Castile's lending portfolio includes loans to the agricultural industry. As of December 31, 2013, The Bank of Castile had total assets of $1.1 billion, total loans of $759.3 million and total deposits of $916.4 million.

Mahopac Bank (formerly known as Mahopac National Bank)

On December 31, 2013, Mahopac Bank converted its charter from a national charter to a New York State charter. Mahopac Bank is a commercial bank that operates 15 banking offices, including 1 limited-service office in counties north of New York City. The 15 banking offices include 5 full-service offices in Putnam County, New York, 3 full-service offices in Dutchess County, New York, and 6 full-service offices, and 1 limited-service office in Westchester County, New York.

Putnam County has a population of approximately 100,000 and is about 60 miles north of Manhattan. Dutchess County has a population of approximately 297,000, and Westchester County has a population of approximately 962,000. As of December 31, 2013, Mahopac Bank had total assets of $990.2 million, total loans of $645.4 million and total deposits of $776.2 million.

VIST Bank

VIST Bank is a full service Pennsylvania State-charted commercial bank that was acquired as part of the VIST acquisition in August 2012. VIST Bank operates 20 banking offices in Pennsylvania, including 12 offices in Berks County, 5 offices in Montgomery County, 1 office in Philadelphia County, 1 office in Delaware County and 1 office in Schuylkill County. The population of the counties served by VIST Bank is Philadelphia 1.5 million, Montgomery 808,000, Delaware 561,000, Berks 413,000 and Schuykill 147,000. The main office is located in Wyomissing, Pennsylvania. As of December 31, 2013, VIST Bank had total assets of $1.3 billion, total loans of $880.4 million and total deposits of $991.5 billion.

Tompkins Insurance Agencies, Inc. ("Tompkins Insurance")

Tompkins Insurance is headquartered in Batavia, New York. Insurance services include property and casualty insurance, employee benefit consulting, and life, long-term care and disability insurance. Over the past twelve years, Tompkins Insurance has acquired smaller insurance agencies in the market areas serviced by the Company's banking subsidiaries and successfully consolidated them into Tompkins Insurance. In June 2011, Tompkins Insurance acquired all the outstanding shares of Olver & Associates, Inc., ("Olver"), a property and casualty insurance agency located in Ithaca, New York. The August 1, 2012 VIST Financial acquisition, which included VIST Insurance (now merged with and into Tompkins Insurance), nearly doubled the Company's annual insurance revenues. Tompkins Insurance offers services to customers of the Company's banking subsidiaries by sharing offices with The Bank of Castile, Trust Company, and VIST Bank. In addition to these shared offices, Tompkins Insurance has five stand-alone offices in Western New York and two stand-alone offices in Tompkins County, New York and one stand-alone office in Montgomery County, Pennsylvania.

TFA Management, Inc. ("TFA Management" formerly known as AM&M Financial Services, Inc. ("AM&M"))

TFA Management is headquartered in Pittsford, New York and offers financial services through three operating companies: (1) TFA Wealth Management, Inc. (formerly known as AM&M Planners, Inc.), which provides fee based financial planning and wealth management services for corporate executives, small business owners and high net worth individuals; (2) Ensemble Financial Services, Inc., an independent broker-dealer and outsourcing company for financial planners and investment advisors; and (3) Tompkins Risk Solutions, Inc. (formerly known as Ensemble Risk Solutions, Inc.), which creates customized risk management plans using life, disability and long-term care insurance products.

Tompkins Capital Trust I

Tompkins Capital Trust I is a Delaware statutory business trust formed in 2009. In 2009, Tompkins Capital Trust I issued $20.5 million of trust preferred securities and lent the proceeds to the Company to support business growth and for general corporate purposes. The Company guarantees, on a subordinated basis, payments of distributions on the trust preferred securities and payments on the redemption of the trust preferred securities. In accordance with the applicable accounting standards related to variable interest entities, the accounts of Tompkins Capital Trust I are not included in the Company's consolidated financial statements. However, the $20.5 million of fixed rate (7%) trust preferred securities issued by Tompkins Capital Trust I are included in the Tier 1 capital of the Company for regulatory capital purposes pursuant to regulatory guidelines.

Sleepy Hollow Capital Trust I

Sleepy Hollow Capital Trust I, a Delaware statutory business trust, was formed in August 2003 and issued $4.0 million of floating rate (three-month LIBOR plus 305 basis points) trust preferred securities. The Company acquired Sleepy Hollow Capital Trust I through the acquisition of Sleepy Hollow Bancorp, Inc. in May 2008.

Leesport Capital Trust II

Leesport Capital Trust II, a Delaware statutory business trust, was formed on September 26, 2002 and issued $10.0 million of mandatory redeemable capital securities carrying a floating interest rate of three month LIBOR plus 3.45%. The Company assumed the rights and obligations of VIST Financial pertaining to the Leesport Capital Trust II through the Company's acquisition of VIST Financial in August 2012. On September 8, 2013, the Company redeemed all of these securities, and the trust was subsequently dissolved.

Madison Statutory Trust I

Madison Statutory Trust I, a Connecticut statutory business trust was formed on June 26, 2003, issued $5.0 million of mandatory redeemable capital securities carrying a floating interest rate of three month LIBOR plus 3.10%. VIST Financial assumed Madison Statutory Trust I pursuant to the purchase of Madison Bancshares Group, Ltd on October 1, 2004. The Company assumed the rights and obligations of VIST Financial pertaining to the Madison Statutory Trust I through the Company's acquisition of VIST Financial in August 2012.

For additional details on the above capital trusts refer to "Note 12 - Trust Preferred Debentures" in the Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

Competition

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

Competition among financial institutions is based upon interest rates offered on deposit accounts, interest rates charged on loans and other credit and service charges, the quality and scope of the services rendered, the convenience of facilities and, in the case of loans to commercial borrowers, relative lending limits. Management believes that a community based financial organization is better positioned to establish personalized financial relationships with both commercial customers and individual households. The Company’s community commitment and involvement in its primary market areas, as well as its commitment to quality and personalized financial services, are factors that contribute to the Company’s competitiveness. Management believes that each of the Company’s subsidiary banks can compete successfully in its primary market areas by making prudent lending decisions quickly and more efficiently than its competitors, without compromising asset quality or profitability, although no assurances can be given that such factors will assure success.

Supervision and Regulation

Regulatory Agencies

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

The Company's banking subsidiaries are subject to examination and comprehensive regulation by various regulatory authorities, including the Federal Deposit Insurance Corporation ("FDIC"), the New York State Department of Financial Services ("NYSDFS"), and the Pennsylvania Department of Banking and Securities ("PDBS"). Each of these agencies issues regulations and requires the filing of reports describing the activities and financial condition of the entities under its jurisdiction. Likewise, such agencies conduct examinations on a recurring basis to evaluate the safety and soundness of the institutions, and to test compliance with various regulatory requirements, including: consumer protection, privacy, fair lending, the Community Reinvestment Act, the Bank Secrecy Act, sales of non-deposit investments, electronic data processing, and trust department activities. Prior to December 31, 2013, the Company's banking subsidiary, Mahopac Bank, had the Office of the Comptroller of the Currency ("OCC") as its primary regulator and was thus subject to examination by the OCC. On December 31, 2013, Mahopac Bank became a New York State chartered bank. As a result, all four of the Company's banking subsidiaries are now state chartered banks. The NYSDFS and the FDIC are now the primary regulators of Mahopac Bank and Mahopac Bank will no longer be regulated by the OCC.

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

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

Regulatory Reform

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which was enacted in July 2010, significantly restructures the financial regulatory regime in the United States. Many of the Dodd-Frank Act's provisions are subject to final rulemaking by the U.S. financial regulatory agencies, and the implications of the Dodd-Frank Act for the Company's businesses will depend to a large extent on how such rules are adopted and implemented by the primary U.S. financial regulatory agencies. The Company continues to analyze the impact of rules adopted under the Dodd-Frank Act, on the Company's businesses. However, the full impact will not be known until the rules, and other regulatory initiatives that overlap with the rules are finalized and their combined impacts can be understood. Because the Company has total consolidated assets of less than $50 billion, the Company will be exempt from certain provisions of the Dodd-Frank Act which pertain only to larger institutions.

The Dodd-Frank Act broadened the base for FDIC insurance assessments. Beginning in the second quarter of 2011, assessments are based on average consolidated total assets less average Tier 1 capital and certain allowable deductions of a financial institution. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor retroactive to January 1, 2009. The legislation also requires that publicly traded companies give shareholders a non-binding vote on executive compensation and "golden parachute" payments, and authorizes the SEC to promulgate rules that would allow shareholders to nominate their own candidates using a company's proxy materials. The Dodd-Frank Act also directs the FRB to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded. The Dodd-Frank Act established a new Bureau of Consumer Financial Protection ("CFPB") with broad powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets.

In addition, the Dodd-Frank Act, among other things:

- weakened the federal preemption rules that have been applicable for national banks and gives state attorneys general the ability to enforce federal consumer protection laws;
- amended the Electronic Fund Transfer Act ("EFTA") which resulted in, among other things, the Federal Reserve Board issuing rules aimed at limiting debit-card interchange fees;
- applied the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies;
- provided for an increase in the FDIC assessment for depository institutions with assets of $10 billion or more and increased the minimum reserve ratio for the deposit insurance fund from 1.15% to 1.35%;
- imposed comprehensive regulation of the over-the-counter derivatives market, which would include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institution itself;
- repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;

6

- provided mortgage reform provisions regarding a customer's ability to repay, restricting variable-rate lending by requiring the ability to repay to be determined for variable-rate loans by using the maximum rate that will apply during the first five years of a variable-rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions; and
- created the Financial Stability Oversight Council, which will recommend to the FRB rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity.

The Dodd-Frank Act requires the federal financial regulatory agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). The statutory provision is commonly called the "Volcker Rule." On December 10, 2013, the federal banking regulators and the SEC adopted final rules to implement the Volcker Rule. Although the Volcker Rule became effective on July 21, 2012 and the final rules are effective April 1, 2014, in connection with the adoption of the final rules on December 10, 2013 by the responsible agencies, the Federal Reserve issued an order extending the period during which institutions have to conform their activities and investments to the requirements of the Volcker Rule to July 21, 2015. The Company does not currently anticipate that the Volker Rule will have a material effect on the Company because it does not engage in the prohibited activities.

Bank Holding Company Regulation

In general, the BHC Act limits the business of bank holding companies to banking, managing or controlling banks and other activities that the FRB has determined to be so closely related to banking as to be a proper incident thereto. In addition, bank holding companies that qualify and elect to be financial holding companies may engage in any activity, or acquire and retain the shares of a company engaged in any activity, that is either (i) financial in nature or incidental to such financial activity (as determined by the FRB in consultation with the Secretary of the Treasury) or (ii) complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally (as solely determined by the Federal Reserve Board), without prior approval of the FRB. Activities that are financial in nature include securities underwriting and dealing, insurance underwriting and making merchant banking investments.

To maintain financial holding company status, a financial holding company and all of its depository institution subsidiaries must be "well capitalized" and "well managed." A depository institution subsidiary is considered to be "well capitalized" if it satisfies the requirements for this status discussed in the section captioned "Capital Adequacy and Prompt Corrective Action," included elsewhere in this item. A depository institution subsidiary is considered "well managed" if it received a composite rating and management rating of at least "satisfactory" in its most recent examination. A financial holding company's status will also depend upon it maintaining its status as "well capitalized" and "well managed' under applicable FRB regulations. If a financial holding company ceases to meet these capital and management requirements, the FRB's regulations provide that the financial holding company must enter into an agreement with the FRB to comply with all applicable capital and management requirements. Until the financial holding company returns to compliance, the FRB may impose limitations or conditions on the conduct of its activities, and the company may not commence any of the broader financial activities permissible for financial holding companies or acquire a company engaged in such financial activities without prior approval of the FRB. If the company does not return to compliance within 180 days, the FRB may require divestiture of the holding company's depository institutions. Bank holding companies and banks must also be both well capitalized and well managed in order to acquire banks located outside their home state.

In order for a financial holding company to commence any new activity permitted by the BHC Act or to acquire a company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least “satisfactory” in its most recent examination under the Community Reinvestment Act (“CRA”). See the section captioned “Community Reinvestment Act” included elsewhere in this item.

The FRB has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the FRB has reasonable grounds to believe that continuation of such activity or such ownership or control constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

Share Repurchases and Dividends

Under FRB regulations, the Company may not, without providing prior notice to the FRB, purchase or redeem its own common stock if the gross consideration for the purchase or redemption, combined with the net consideration paid for all such purchases or redemptions during the preceding twelve months, is equal to ten percent or more of the Company’s consolidated net worth.

FRB regulations provide that dividends shall not be paid except out of current earnings and unless the prospective rate of earnings retention by the Company appears consistent with its capital needs, asset quality, and overall financial condition. Tompkins’ primary source of funds to pay dividends on its common stock is dividends from its subsidiary banks. The subsidiary banks are subject to regulations that restrict the dividends that they may pay to Tompkins.

Transactions with Affiliates and Other Related Parties

There are Federal laws and regulations that govern transactions between the Company's non-bank subsidiaries and its banking subsidiaries. These laws establish certain quantitative limits and other prudent requirements for loans, purchases of assets, and certain other transactions between a member bank and its affiliates. In general, transactions between the banking subsidiaries and its non-bank subsidiaries must be on terms and conditions, including credit standards, that are substantially the same or at least as favorable to the banking subsidiaries as those prevailing at the time for comparable transactions involving non-affiliated companies. The Dodd-Frank Act significantly expands the coverage and scope of the limitations on affiliate transactions within a banking organization.

The Company's authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons, is governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O as promulgated by the FRB. Among other things, these provisions require that extensions of credit to insiders (i) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and (ii) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank's capital. In addition, extensions of credit in excess of certain limits must be approved by the Bank's board of directors.

Mergers and Acquisitions

The BHC Act, the Bank Merger Act and other federal and state statutes regulate acquisitions of commercial banks. The BHC Act requires the prior approval of the FRB for the direct or indirect acquisition by a bank holding company of more than 5.0% of the voting shares of a commercial bank or its parent holding company. Under the Bank Merger Act, the prior approval of the FRB or other appropriate bank regulatory authority is required for a member bank to merge with another bank or purchase the assets or assume the deposits of another bank. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant's performance record under the CRA (see the section captioned "Community Reinvestment Act" included elsewhere in this item) and fair housing laws and the effectiveness of the subject organizations in combating money laundering activities.

Support of Subsidiary Banks

The Dodd-Frank Act codifies the FRB's longstanding policy of requiring bank holding companies to act as a source of financial and managerial strength to their subsidiary banks, as a statutory requirement. Under this requirement, Tompkins is expected to commit resources to support its banking subsidiaries, including at times when it may not be advantageous for Tompkins to do so. Any capital loans by a bank holding company to any of its subsidiary banks are subordinated in right of payment to deposits and to certain other indebtedness of such subsidiary banks. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Liability of Commonly Controlled Institutions

FDIC-insured depository institutions can be held liable for any loss incurred, or reasonably expected to be incurred, by the FDIC due to the default of an FDIC-insured depository institution controlled by the same bank holding company, or for any assistance provided by the FDIC to an FDIC-insured depository institution controlled by the same bank holding company that is in danger of default. "Default" means generally the appointment of a conservator or receiver. "In danger of default" means generally the existence of certain conditions indicating that default is likely to occur in the absence of regulatory assistance.

Capital Adequacy

The FRB and the FDIC have substantially similar risk-based capital ratio and leverage ratio guidelines for banking institutions. The guidelines are intended to ensure that banking organizations have adequate capital given the risk levels of assets and off-balance sheet financial instruments. Under the guidelines, banking organizations are required to maintain minimum ratios for Tier I capital and total capital to risk-weighted assets. For purposes of calculating the ratios, a banking organization's assets and some of its specified off-balance sheet commitments and obligations are assigned to various risk categories. A depository institution's or holding company's capital, in turn, is classified in one of three tiers, depending upon type:

Core Capital (Tier 1). Tier 1 capital includes common equity, retained earnings, qualifying non-cumulative preferred stock, a limited amount of qualifying cumulative preferred stock at the holding company level, minority interests in equity accounts of consolidated subsidiaries, qualifying trust preferred securities, less goodwill, most intangible assets and certain other assets.

8

Supplementary Capital (Tier 2). Tier 2 capital includes, among other things, perpetual preferred stock and trust preferred securities not meeting the Tier 1 definition, qualifying mandatory convertible debt securities, qualifying subordinated debt, and allowances for possible loan losses, subject to limitations.

Market Risk Capital (Tier 3). Tier 3 capital includes qualifying unsecured subordinated debt.

The regulators have established minimum capital ratios for bank holding companies, including financial holding companies, and depository institutions. Tompkins, like other bank holding companies, is required to maintain Tier 1 capital and “total capital” (the sum of Tier 1, Tier 2 and Tier 3 capital) equal to at least 4.0% and 8.0%, respectively, of its total risk-weighted assets. The bank subsidiaries, like other depository institutions, are required to maintain similar capital levels under capital adequacy guidelines. For a depository institution to be “well capitalized” under the regulatory framework for prompt corrective action, its Tier 1 and total capital ratios must be at least 6.0% and 10.0% on a risk-adjusted basis, respectively.

Bank holding companies and banks are also required to comply with minimum leverage ratio requirements. The leverage ratio is the ratio of a banking organization’s Tier 1 capital to its total adjusted quarterly average assets. The minimum permissible leverage ratio is 3.0% for financial holding companies and banks that either have the highest supervisory rating or have implemented the appropriate federal regulatory authority’s risk-adjusted measure for market risk. All other financial holding companies and banks are required to maintain a minimum leverage ratio of 4.0%, unless a different minimum is specified by an appropriate regulatory authority. For a depository institution to be considered “well capitalized” under the regulatory framework for prompt corrective action, its leverage ratio must be at least 5.0%.

In July 2013, the FRB approved and published the final Basel III Capital Rules establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee’s December 2010 framework known as “Basel III” for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, including Tompkins, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions’ regulatory capital ratios. The Basel III Capital Rules also address risk weights and other issues affecting the denominator in banking institutions’ regulatory capital ratios and replace the existing risk-weighting approach, which was derived from the Basel I capital accords of the Basel Committee, with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee’s 2004 “Basel II” capital accords. The Basel III Capital Rules also implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies’ rules. The Basel III Capital Rules are effective for Tompkins on January 1, 2015 (subject to a phase-in period).

The Basel III Capital Rules, among other things, (i) introduce a new capital measure called “Common Equity Tier 1” (“CET1”), (ii) specify that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations.

Under the Basel III Capital Rules, the initial minimum capital ratios as of January 1, 2015 will be as follows:

· 4.5% CET1 to risk-weighted assets;
· 6.0% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets;
· 8.0% Total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets; and

When fully phased in on January 1, 2019, the Basel III Capital Rules will require Tompkins to maintain (i) a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% “capital conservation buffer” (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7% upon full implementation), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of Total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average assets.

The Basel III Capital Rules also provides for a “countercyclical capital buffer” that is applicable to only certain covered institutions and is not expected to have any current applicability to Tompkins.

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The Basel III Capital Rules impose stricter regulatory capital deductions from and adjustments to capital, with most deductions and adjustments taken against CET1 capital. These include, for example, the requirement that (i) mortgage servicing assets, net of associated deferred tax liabilities; (ii) deferred tax assets, which cannot be realized through net operating loss carrybacks, net of any relative valuation allowances and net of deferred tax liabilities; and (iii) significant investments (i.e. 10% or more ownership) in unconsolidated financial institutions be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% to CET1. Under the Basel III Capital Rule, the effect of certain accumulated other comprehensive items are not excluded, which could result in significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of the Company’s securities portfolio. Based on the Company’s asset size, we have a one-time option of deciding in the first quarter of 2015 whether to permanently opt-out of the inclusion of accumulated other comprehensive income in our capital calculations.

The Basel III Proposal also requires the phase-out of certain hybrid securities, such as trust preferred securities, as Tier 1 capital of bank holding companies in equal installments between 2013 and 2016. Trust preferred securities no longer included in Tier 1 capital may nonetheless be included as a component of Tier 2 capital. However, because the trust preferred securities of Tompkins Capital Trust I were issued prior to May 19, 2010, and because Tompkins’ total consolidated assets were less than $15.0 billion as of December 31, 2009, our trust preferred securities are permanently grandfathered under the final rule and may continue to be included as Tier 1 capital.

Implementation of the deductions and other adjustments to CET1 will begin on January 1, 2015 and will be phased-in over a four-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter ending on January 1, 2018). The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

In addition, the Basel III Capital Rules provide more advantageous risk weights for derivatives and repurchase-style transactions cleared through a qualifying central counterparty and increase the scope of eligible guarantors and eligible collateral for purposes of credit risk mitigation.

The Standardized Approach Proposal would expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories, including many residential mortgages and certain commercial real estate. Specifics include, among other things:

– Applying a 150% risk weight instead of a 100% risk weight for certain high volatility commercial real estate acquisition, development and construction loans.

– For residential mortgage exposures, the current approach of a 50% risk weight for high-quality seasoned mortgages and a 100% risk-weight for all other mortgages is replaced with a risk weight of between 35% and 200% depending upon the mortgage's loan-to-value ratio and whether the mortgage is a "category 1" or "category 2" residential mortgage exposure (based on eight criteria that include the term, use of negative amortization, balloon payments and certain rate increases).

– Assigning a 150% risk weight to exposures (other than residential mortgage exposures) that are 90 days past due.

– Providing for a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (currently set at 0%).

– Providing for a risk weight, generally not less than 20% with certain exceptions, for securities lending transactions based on the risk weight category of the underlying collateral securing the transaction.

– Providing for a 100% risk weight for claims on securities firms.

– Eliminating the current 50% cap on the risk weight for OTC derivatives.

10

The Company has conducted a pro forma analysis of the application of these new capital requirements as of December 31, 2013 and determined that the Company and its banking subsidiaries meet all these new requirements, including the full capital conservation buffer, and would remain well-capitalized if these new requirements had been in effect on that date.

During the first quarter of 2010, the OCC notified the Company that it was requiring Mahopac National Bank, to maintain certain minimum capital ratios at levels higher than those otherwise required by applicable regulations. Mahopac exceeded these minimum requirements through December 2012 and was notified in the first quarter of 2013, by the OCC, that it was no longer requiring Mahopac to maintain the higher capital ratios agreed to in 2010.

For further information concerning the regulatory capital requirements, actual capital amounts and the ratios of Tompkins and its bank subsidiaries, see the discussion in “Note 21 - Regulations and Supervision” in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

Liquidity Requirements

The Basel III provisions on liquidity include complex criteria establishing a liquidity coverage ratio (“LCR”) and a net stable funding ratio (“NSFR”). The purpose of the LCR is to ensure that banks and their holding companies maintain adequate unencumbered, high quality liquid assets to meet liquidity needs for 30 days under a severe liquidity stress scenario. The purpose of the NSFR is to promote more medium and long-term funding of assets and activities, using a one-year horizon. Although Basel III is described as a “final text,” it is subject to the resolution of certain issues and to further guidance and modification, as well as to adoption by United States banking regulators, including decisions as to whether and to what extent it will apply to United States banks that are not large, internationally active banks. In June 2011, the federal banking agencies adopted a rule applicable to only large, internationally active banks requiring their risk-based capital to meet the higher of the minimum requirements under the advanced approaches or under the risk-based capital rules generally applicable to United States banks. In November 2013, the United States banking agencies published proposed rules establishing various liquidity requirements for entities with total consolidated assets of $50 billion or more.

Deposit Insurance

Substantially all of the deposits of the Company banking subsidiaries are insured up to applicable limits by the Deposit Insurance Fund (“DIF”) of the FDIC and are subject to deposit insurance assessments to maintain the DIF. The Dodd-Frank Act permanently increased the maximum amount of deposit insurance to $250,000 per deposit category, per depositor, per institution retroactive to January 1, 2008.

The Company’s banking subsidiaries pay deposit insurance premiums to the FDIC based on assessment rates established by the FDIC. The assessment rates are based upon the risk the institution poses to the Deposit Insurance

Fund, or DIF. Under this assessment system, risk is defined and measured using an institution's supervisory ratings with other risk measures, including financial ratios. The current total base assessment rates on an annualized basis range from 2.5 basis points for certain "well-capitalized," "well-managed" banks, with the highest ratings, to 45 basis points for institutions posing the most risk to the DIF. The FDIC may raise or lower these assessment rates on a quarterly basis based on various factors to achieve a reserve ratio, which the Dodd-Frank Act has mandated to be no less than 1.35 percent of insured deposits. In 2011, the FDIC redefined the deposit insurance assessment base to equal average consolidated total assets minus average tangible equity as required by the Dodd-Frank Act.

FDIC insurance expense totaled $3.2 million, $2.7 million and $2.5 million in 2013, 2012 and 2011, respectively. The increase in 2012 from 2011 was due to the VIST acquisition. FDIC insurance expense includes deposit insurance assessments, assessments related to participation in the Temporary Liquidity Guaranty Program ("TLGP") program, and Financing Corporation ("FICO") assessments related to outstanding FICO bonds. FICO is a mixed-ownership government corporation established by the Competitive Equality Banking Act of 1987 whose sole purpose was to function as a financing vehicle for the now defunct Federal Savings & Loan Insurance Corporation. The Company paid FICO assessments of $286,000 in 2013, $251,000 in 2012 and $230,000 in 2011.

Depositor Preference

The Federal Deposit Insurance Act provides that, in the event of the "liquidation or other resolution" of an insured depository, the claims of depositors of the institution, including the claims of the FDIC, as subrogee of the insured depositors, and certain claims for administrative expenses of the FDIC as receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institutions.

Community Reinvestment Act

The Company’s subsidiary banks are subject to the Community Reinvestment Act (“CRA”) and to certain fair lending and reporting requirements that relate to home mortgage lending. The CRA requires the federal banking regulators to assess the record of a financial institution in meeting the credit needs of the local communities, including low-and moderate-income neighborhoods, consistent with the safe and sound operation of the bank. The federal agencies consider an institution’s performance under the CRA in evaluating applications for mergers and acquisitions, and new offices. The ratings assigned by the federal agencies are publicly disclosed. As of December 31, 2013 the Company’s subsidiary banks all had ratings of satisfactory or better.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 implemented a broad range of corporate governance, accounting and reporting requirements for companies that have securities registered under the Securities Exchange Act of 1934. These requirements include: (1) requirements for audit committees, including independence and financial expertise; (2) certification of financial statements by the chief executive officer and chief financial officer of the reporting company; (3) standards for auditors and regulation of audits; (4) disclosure and reporting requirements for the reporting company and directors and executive officers; and (5) a range of civil and criminal penalties for fraud and other violations of securities laws.